

Intellectual Property

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Supreme Court Decides *Bilski*

Today, the Supreme Court issued its opinion in *Bilski v. Kappos*, ___ U.S. ___ (2010). Justice Kennedy delivered the opinion of the majority of the Court. Justice Scalia did not join in certain parts of the opinion. Justice Stevens, with whom Justices Ginsburg, Breyer and Sotomayor joined, concurred in the judgment, and Justice Breyer filed a separate concurrence. Unfortunately, this case provides little, if any, guidance for the future. The law regarding so-called business method patents and claims to non-technology-related processes is as unpredictable as ever.

This case arose from the Patent and Trademark Office (PTO) rejection of a process claim directed to hedging against the risk of price changes in the energy market. The Federal Circuit affirmed, and *en banc*, adopted the “machine or transformation test” as a measure of the patentability of a patent claim for a process or method. The Court affirmed the judgment that *Bilski*’s claim did not define patentable subject matter, but for reasons different from those given by the Federal Circuit.

In the majority opinion, Justice Kennedy rejected the “machine or transformation test” adopted by the Federal Circuit, *en banc*, as justification for upholding the PTO’s rejection of *Bilski*’s patent application. Slip op. at 7. Although the majority concluded that the test is “a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under §101,” it held that it is “not the sole test for deciding whether an invention is a patent-eligible ‘process.’” Id. at 8. Based on prior precedent, the majority held that “Section 101 similarly precludes the broad contention that the term ‘process’ categorically excludes business methods.” Id. at 10. As is discussed below, however, four justices disagreed with this conclusion. As some justification for finding that business methods are not *per se* excluded from patentability, the majority Court relied in part on Section 273(b)(1), enacted in 1999, that “contemplates the existence of at least some business method patents.” Id. at 11.

Although the Court referred to its prior precedents on the unpatentability of abstract ideas as “useful tools” as a “limiting principle” on what might otherwise be a flood of business method patents, it emphasized that “any claimed invention must be novel, §102, nonobvious, §103 and fully and particularly described, §112.” Id. at 12.

Having stated the foregoing principles, the Court affirmed the rejection of *Bilski*’s claims as being “attempts to patent abstract ideas” on the basis of the Court’s prior decisions in *Benson*, *Flook*, and *Diehr*. Id. at 13.

The Court’s opinion provides little guidance for future cases. It rejects the “machine or transformation” test, but offers nothing in its place, except for its “abstract idea” decisions, which are less than illuminating. Moreover, the Court went out of its way to reject prior Federal Circuit precedent on this issue: “nothing in today’s opinion should be read as endorsing interpretations of §101 that the Court of Appeals for the Federal Circuit has used in the past.” However, the Court noted that “we by no means foreclose the Federal Circuit’s development of other limiting criteria that further the purposes of the Patent Act and are not inconsistent with its text.” This leaves very little in the form of instructive precedent for the future development of the meaning of “process” in Section 101.

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In contrast to the majority's non-decision, Justice Stevens (with whom Justices Ginsburg, Breyer and Sotomayor joined) took issue with the rejection of the "machine or transformation" test. Justice Stevens pointed out that if the majority's definition of "process" or "method" were taken literally, "the results would be absurd: Anything that constitutes a series of steps would be patentable so long as it is novel, non-obvious and described with specificity." Concurring opinion at 7. But Justice Stevens recognized that the opinion "cannot be taken literally on this point," and concludes, with respect to the "machine or transformation test," that "the Court is merely restoring the law to its historical state of rest." *Id.*

Justice Stevens also criticized the majority's rationale for rejecting Bilski's claims:

The Court construes petitioners' claims on processes for pricing as claims on "the basic concept of hedging, or protecting against risk," ante, at 14, and thus discounts the application's discussion of what sorts of data to use, and how to analyze those data, as mere "token post solution components," ante, at 15. In other words, the Court artificially limits petitioners' claims to hedging, and then concludes that hedging is an abstract idea rather than a term that describes a category of processes including petitioners' claims. Why the Court does this is never made clear. One might think that the Court's analysis means that any process that utilizes an abstract idea is itself an unpatentable, abstract idea. But we have never suggested any such rule, which would undermine a host of patentable processes.

Id. at 8. Thus, he concluded that the majority "never provides a satisfying account of what constitutes an unpatentable abstract idea." *Id.* at 9.

Justice Stevens also took issue with the methodology adopted by the majority to define the word "process" in section 101. *Id.* at 12-14. Based on the history of the Court's decisions, and a fairly exhaustive history of patents under the English system and the adoption of Art. I, § 8, cl. 8 of the Constitution, Justice Stevens concluded that "a method of doing business is not a 'process' under §101." *Id.* at 15-33.

Justice Stevens questioned majority's reliance on the First Inventor Defense Act of 1999 (Section 273(b)(1)), characterizing it as a reaction to the Federal Circuit's *State Street* decision, and concluded that the 1999 Act "did not purport to amend the limitations in §101." *Id.* at 34. In that regard, he noted that,

When a later statute is offered as "an expression of how the . . . Congress interpreted a statute passed by another Congress . . . a half century before," "such interpretation has very little, if any, significance." *Rainwater v. United States*, 356 U. S. 590, 593 (1958).

Id. at 35. Thus, Justice Stevens concluded that "Section 273 is a red herring." *Id.* at 38.

Justice Stevens also expressed skepticism that business method patents satisfy the Constitutionally-mandated purpose of promoting the process of the useful arts. Rather, he argued that business method patents are "likely to depress the dynamism of the marketplace." *Id.* at 36-46.

Justice Breyer authored a separate concurrence, for the purpose of rationalizing the majority's opinion and Justice Stevens' concurrence. He wrote that both the majority opinion and Justice Stevens' concurrence are in agreement on four fundamental issues: (1) Section 101 is "not without limit," (2) the "machine or transformation" test is "*the clue* to the patentability of a process claim that does not include particular machines," (3) "while the machine or transformation test has always been a 'useful and important clue,' it has never been the 'sole test' for determining patentability," and (4) the machine or transformation test "by no means indicates that anything which produces a 'useful, concrete and tangible result . . . is patentable." Concurrence of Justice Breyer at 2-3. Justice Breyer's concurrence provides an apt summary, and may, in future cases, provide more guidance than the majority opinion and Justice Stevens' concurrence.

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