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U.S. Supreme Court Rejects the Federal Circuit's Test for Patentability of Method Claims

On Monday, June 28, 2010, the Supreme Court of the United States handed down its highly-anticipated opinion in *In re Bilski*.¹ The Supreme Court affirmed the Federal Circuit Court of Appeals' 2008 holding that the U.S. Patent and Trademark Office was right to refuse to grant a patent for Bernard Bilski and Rand Warsaw's invention pertaining to hedging risk in commodities trading because the claimed method does not constitute patent-eligible subject matter.

More interesting to the majority of those awaiting the Court's decision, however, was the Court's rejection of the Federal Circuit's recent announcement of a new, narrower test for method/process claims in *In re Bilski*, 545 F.3d 943, 955 (Fed. Cir. 2008)—that a process claim is patentable only if it meets the so-called “machine-or-transformation” test. By rejecting the Federal Circuit's new test as the exclusive means for evaluating patentability, the Supreme Court yet again restrained the lower court's attempt to simplify its analysis of patent-related issues.² Though the Supreme Court explicitly avoided commenting on the patentability of any particular class of invention, it made clear that recent predictions of the death of business-method patents are—at least for now—premature.

The Rise and Temporary Fall of Business Method Patents

U.S. patent law requires that all patentable inventions be new and useful, and fall within at least one of four patent-eligible categories: processes and methods, machines, manufactures, and compositions of matter. See 35 U.S.C. § 101. The Supreme Court previously held that these statutory categories necessarily preclude the patenting of laws of nature, physical phenomena, and abstract ideas. Until 1998, it was widely presumed that U.S. patent law also implicitly precludes patents for methods or processes of doing business as merely abstract ideas. In 1998, however, the Federal Circuit announced in its landmark *State Street*³ decision that a business method can constitute a patentable process if it “produces a useful, concrete and tangible result.” 149 F.3d at 1373.

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Following *State Street*, the Patent Office received unprecedented volumes of applications for business method patents. In the words of Judge Mayer in his dissent to the Federal Circuit's *Bilski* decision, "*State Street* and its progeny have generated a thundering chorus of criticism." *In re Bilski*, 545 F.3d at 1004 (Mayer, J., dissenting). Perhaps in an effort to quell some of that criticism, the Federal Circuit took the opportunity afforded by the *Bilski* case to reject the "useful, concrete and tangible result" test it articulated in *State Street*. *Id.* at 959-60 (majority opinion).

Bilski and Warsaw's Method Claims

The key patent claims at issue in *Bilski* involved a method of hedging risks in commodities trading, especially in energy markets. The Supreme Court held that this subject matter was unpatentable as seeking to obtain a patent on "abstract ideas," parting from the Federal Circuit's machine-or-transformation analysis. Slip Op. at 13. The Court described the primary claims as merely explaining the basic concept of hedging and reducing that concept to a mathematical formula. *See* Slip Op. at 15. The Court likened these hedging methods to the algorithms found to be unpatentable abstract ideas in its prior decisions *Gottschalk v. Benson*, 409 U.S. 63 (1972), and *Parker v. Flook*, 437 U.S. 584 (1978). The Court concluded that as mere abstract ideas, *Bilski* and *Warsaw's* invention was appropriately rejected as unpatentable subject matter by the U.S. Patent Office and the lower courts.

The Supreme Court Rejects the Exclusivity of the Machine-or-Transformation Test

The Court then turned its attention to the Federal Circuit's holding that only processes that meet the "machine-or-transformation" test are patent eligible. The "machine-or-transformation test" states that a process or method is patent-eligible if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing. *Id.* at 3. The Court rejected the machine-or-transformation test as the exclusive means for determining patentability of processes or methods. In doing so, however, it also expressly declined to endorse the lower court's earlier interpretations of § 101—specifically identifying the Federal Circuit's decisions in *State Street* and *AT&T Corp v. Excel Communications, Inc.*, 172 F.3d 1352 (1999). *Id.* at 16.

The Court also rejected a competing contention that business methods should not be eligible for patent protection under any circumstances, stating that such a holding would render meaningless provisions of the patent statutes that specifically refer to business methods. *Id.* at 10-12.⁴ Justice Kennedy acknowledged that the question of patent eligibility is not easy, noting, "the patent law faces a great challenge in striking the balance between protecting inventors and not granting monopolies over procedures that others would discover by independent, creative application of general principles." *Id.* at 10. He further demonstrated a sensitivity to this policy balance by stating: "If a high enough bar is not set when considering patent applications of this sort, patent examiners and courts could be flooded with claims that would put a chill on creative endeavor and dynamic change." *Id.* at 12.



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Implications

Many commentators had hypothesized that the Federal Circuit's adoption of the machine-or-transformation test meant the demise of business method patents—as well as some software claims, and diagnostic medical procedure claims. Instead, the Court's decision today reaffirms that method/process claims survive if they satisfy the express requirements of the patent statutes and the guideposts provided by earlier Supreme Court precedent, including *Benson*, *Flook*, and *Diamond v. Diehr*, 450 U.S. 175 (1981). While carefully noting that the Court was not holding that any particular technology should or should not receive patent protection, Justice Kennedy's majority opinion directly addressed anticipated public concern, stating that the machine-or-transformation test may “provide a sufficient basis for evaluating processes similar to those in the Industrial Age,” but could “create uncertainty as to the patentability of software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital signals.” *Id.* at 8-10.

Notably, the Supreme Court seemed to encourage the Federal Circuit to take a hard look at its own precedent, stating that “[n]othing in today's opinion should be read as endorsing the Federal Circuit's past interpretations of §101” and speculating that the Federal Circuit may have found the machine-or-transformation test necessary because it has failed to identify “less extreme means of restricting business method patents.” *Id.* at 16.

Thus, the latest message from the Supreme Court is that patent applicants and patent litigants should continue to rely on its precedent and—so long as claims are not directed to products of nature, natural phenomenon, or abstract ideas—business processes and methods will likely remain patentable. But patent applicants and patent litigants alike should be aware that further shifts in the law are likely, particularly in the event the Federal Circuit decides to reconsider its *State Street* decision in light of the Supreme Court's expression of ambivalence in *Bilski*. The *State Street* “useful, concrete and tangible result” test may yet see its demise at the hands of its creator court, and the future of business method patents may once again be placed in doubt.

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¹ Available on the U.S. Supreme Court's website at: www.supremecourt.gov/opinions/09pdf/08-964.pdf.

² See *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007) (rejecting the Federal Circuit's “narrow, rigid application” of the teaching-suggestion-motivation test); *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007) (rejecting the Federal Circuit's overly-simplistic approach to analyzing standing in patent-related declaratory judgment actions); *eBay Inc v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (rejecting the Federal Circuit's application of its general rule favoring presumptive issuance of permanent injunctions against patent infringement and requiring instead that courts apply traditional four-factor test); *Festo Corp.*



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v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722 (2002) (rejecting as overly-rigid the Federal Circuit’s bright-line rule limiting the application of the doctrine of equivalents in connection with patent claim elements that have been amended during prosecution).

³ *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

⁴ In his concurring opinion, joined by Justices Ginsburg, Breyer, and Sotomayor, Justice Stevens indicated that no “claim that merely describes a method of doing business” should qualify as a “process” under 35 U.S.C. § 101. Slip Op. (Stevens, J. concurring) at 2-3.