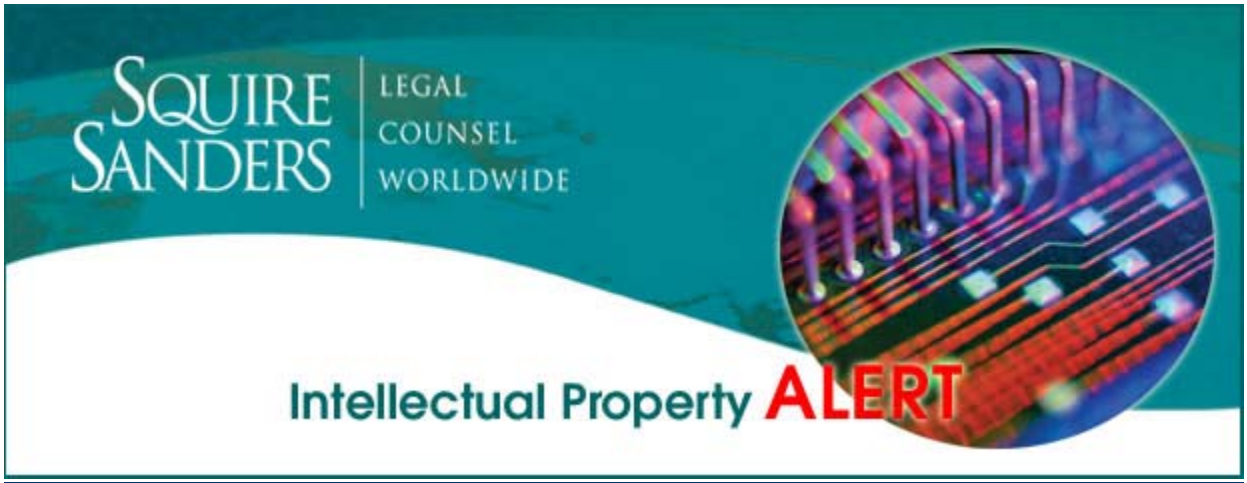

June 2010 www.ssd.com

US Supreme Court Decides *Bilski v. Kappos* – No Patent for Bilski and No Clear Standard for Business Method Patents

On June 28, 2010 the United States Supreme Court issued its long-awaited decision in *Bilski v. Kappos* . The Court agreed with the United States Court of Appeals that Bilski was not entitled to a patent, but disagreed with the lower court's rationale. By a slim 5-4 majority, the Court, in an opinion by Justice Kennedy, refused to hold that business methods could never be granted patent protection. The Court also refused to endorse the bright line "machine–or–transformation test" that had been established by an *en banc* decision of the Federal Circuit in the decision appealed from. See our October 2008 Intellectual Property Alert for details on that decision. Although the Court's decision establishes that some business methods may be patentable, its net effect is a return to the pre-*Bilski* era of substantial uncertainty about which business methods are patentable and which are not.

Bilski had sought patent protection for a claimed invention explaining how buyers and sellers of commodities in the energy market can protect, or hedge, against the risk of price changes. Both the patent examiner originally considering the application and the Board of Patent Appeals and Interferences rejected Bilski's application on the grounds that the application involved only mental steps that did not transform physical matter and were not to be implemented on a specific apparatus. The Federal

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Circuit affirmed, determining that a claimed process would be patent eligible under 35 USC §101 if it were tied to a particular machine or apparatus or if it transformed a particular article into a different state or thing – the so-called machine-or-transformation test. The Federal Circuit concluded that the machine-or-transformation test was the only test applicable to determine patent eligibility of a process under Section 101 of the Patent Act.

The Supreme Court held that the Federal Circuit's adoption of the machine-or-transformation test deviated from the ordinary meaning of the term "process" as used in Section 101 and Section 100(b). Section 101 provides:

> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

Section 100(b) defines process as "process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material." The Court observed that "the machine-or-transformation test is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under §101. The machine-or-transformation test is not the sole test for deciding whether an invention is a patent-eligible 'process'." Slip Op. at 8. The Court further rejected the view that business methods are not patentable under any circumstances. *Id.* at 9-10.

The Court's rejection of the machine-or-transformation test did not, however, give Bilski his hoped-for patent. Rather, the Court determined that Bilski's application was properly rejected because it attempted to patent abstract ideas – a conclusion with which all members of the Court agreed.

The majority opinion provides the Federal Circuit and the US Patent and Trademark Office with very little guidance about how to evaluate business method patents. Indeed, the Court specifically stated, "[N] othing 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." The Court went on to say, however, that "[i]n disapproving an exclusive machine-or-transformation test, 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." Slip Op. at

16. In other words, none of the Federal Circuit's prior tests is approved, and the door is apparently open for further experimentation in the evaluation of business method patents.

In a lengthy concurring opinion, Justice Stevens, writing one of his last opinions as a Supreme Court justice, evaluated in detail the historical scope of patent protection in the United States. As a result of that analysis, Justice Stevens, joined by three other justices, concluded that business methods are not patentable subject matter. This view failed, however, to win majority support.

In a final concurring opinion by Justice Bryer (who had agreed with Justice Stevens), joined by Justice Scalia (who had agreed with the majority), the two concurring justices identified four points of agreement by all members of the Court:

1. "Although the text of section 101 is broad, it is not without limit."
2. "[I]n a series of cases that extend back over a century, the Court has stated that '[t]ransformation and reduction of an article to a different state or a thing is the clue to the patentability of a process claim that does not include particular machines.'"
3. "[W]hile the machine-or-transformation test has always been a 'useful and important clue,' it has never been the 'sole test' for determining patentability."
4. "[A]lthough the machine-or-transformation test is not the only test for patentability, this by no means indicates that anything that produces a 'useful, concrete, and tangible result'... is patentable."

Slip Op. (Breyer) at 2-3.

While some parties will express dismay that business methods remain potentially subject to patent protection and others will express relief at the prospect, the Supreme Court's decision in *Bilski* essentially returns to the Patent Office and the Federal Circuit the responsibility for determining what test or tests should be applied in evaluating the patentability of processes including business methods in particular. Indeed, the Court has wiped the slate clean by expressly refusing to endorse not only the machine-or-transformation test as the sole test for patentability of process claims, but also all other interpretations of Section 101 previously used

by the Federal Circuit. While process claims, including business method claims, will continue to be rejected if they are directed to abstract ideas and will probably be deemed patentable if they meet the machine-or-transformation test (subject, of course, to the novelty, utility and other requirements of the Patent Act), business method patents will continue to engender debate and litigation until Congress, the Federal Circuit or the Supreme Court establishes a clear standard for their patentability.

If you have questions about the implications of this case or require any assistance with patent disputes, please contact your primary Squire Sanders lawyer or one of the individuals listed in this Alert.