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U.S. Supreme Court Decides *Bilski*

Court affirms rejection of patent application – and rejects exclusive use of “machine-or-transformation test”

by James A. Joyce

The U.S. Supreme Court on June 28, 2010 finally rendered its long-awaited decision in the *Bilski* case. As widely anticipated, the particular holding of the Federal Circuit Court of Appeals in *In re Bilski* (545 F. 3d 943 (CA Fed. 2008) (en banc)) rejecting the *Bilski* patent application was affirmed. At the same time, the Supreme Court specifically rejected the “machine-or-transformation test” articulated by the Federal Circuit as the exclusive test for determining the patent-eligibility of a “process” under 35 U.S.C. §101 and refrained from pronouncing any new test in this regard. Further, the Supreme Court refrained from declaring business methods to be categorically unpatentable, and thus business method inventions as well as software inventions more generally still remain potentially eligible for patent protection in view of the court’s decision.

Regarding the *Bilski* patent application at issue, the claims of this patent application described a series of steps instructing how to hedge risk. Prior to this case being appealed to the Supreme Court, the lower (Federal Circuit) court rejected the *Bilski* patent application by exclusively analyzing the patent application’s claims in view of the “machine-or-transformation” test. Under the “machine-or-transformation” test, as articulated by the Federal Circuit, a claimed “process” would only be patentable subject matter under 35 U.S.C. §101 if (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing. Among other things, this “machine-or-

transformation” test represented a considerably narrower approach to determining patentability than what was articulated by the Federal Circuit in its earlier *State Street*¹ holding in 1998.

Even though the Supreme Court affirmed the Federal Circuit court’s rejection of the *Bilski* patent application, the Supreme Court declined to follow the Federal Circuit’s reasoning in that regard. In particular, rather than apply the “machine-or-transformation” test, the

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Supreme Court instead held unanimously that the *Bilski* claims were not patentable subject matter on the ground that these claims are directed to an abstract idea². In rendering this judgment, rather than relying upon the Federal Circuit court’s holdings, the Supreme Court instead looked to its own precedential case law, including the *Chakrabarty*³ case. While concluding that the “machine-or-transformation” test is a “useful and important

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clue” for determining whether some process inventions are patent-eligible under 35 U.S.C. §101, the Supreme Court based upon its prior holdings in *Benson*⁴ and *Flook*⁵ (which held that a failure to satisfy the machine-or-transformation test does not explicitly bar patentability), made clear that this test does not constitute the sole test for determining whether an invention is a patent-eligible “process.”

Although the Supreme Court affirmed the rejection of the Bilski patent application in particular, the court also refrained from making any broad pronouncement that the law categorically excludes business method inventions as being patent-eligible. In reaching this conclusion, the court considered a number of issues and, interestingly, particularly turned to certain provisions

of the First Inventor Defense Act enacted by Congress in 1999 (largely as a reaction to the aforementioned *State Street* holding) as evidence in support of the contention that at least some business method inventions are patent-eligible. At the same time, while leaving open the possibility of some business method patents, the court provided considerable commentary indicating an ongoing skepticism of the court toward such patents, including a comment that the First Inventor Defense Act provisions did not provide any suggestion of broad patentability for business methods.

Indeed, the overall tenor of the Supreme Court’s decision does suggest that the court’s decision to leave open the possibility of business methods being patent-eligible subject matter should not be interpreted as a wholehearted endorsement by the Supreme Court of business method patents. The decision by the Supreme Court was highly fragmented in terms of how the various justices lined up. Of the nine justices in total, only a bare majority (five) of them agreed that business method patents should not be categorically excluded from the realm of patentable subject matter, while the remaining four justices opined to the contrary. That fact, combined with much of the additional commentary found in the court’s decision, suggests that the Supreme

Court, as well as the Federal Circuit court and the U.S. Patent and Trademark Office following the Supreme Court’s lead, may continue to closely scrutinize business method inventions in the future.

Whyte Hirschboeck Dudek has provided this update to apprise our valued clients of the Supreme Court’s decision concerning this highly anticipated case. In a short time, a more in-depth analysis will be provided along with some suggested practice guidelines as to how to proceed in view of the holdings in this case.

For more information, please contact James Joyce at (608) 234-6117 or jjoyce@whdlaw.com, or another member of the Intellectual Property Practice Group.

Endnotes

1. *State Street Bank v. Signature Financial Group*, 149 F. 3d 1368
2. To confirm, it should be understood that even if the claims in Bilski had been found to contain patent-eligible subject matter, those claims would then be evaluated for utility, anticipation, and non-obviousness and could thus be found to be unpatentable even if patent-eligible.
3. *Diamond v. Chakrabarty*, 447 U. S. 303
4. *Gottschalk v. Benson*, 409 U. S. 63
5. *Parker v. Flook*, 437 U. S. 584



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