

Viewpoints on Life After *Bilski v. Kappos*

Introduction

Last week, the Supreme Court announced its much-anticipated and long-awaited decision in *Bilski v. Kappos*¹, a case centered on the scope of patent-eligibility of process claims under 35 U.S.C. § 101. Not unexpectedly, the claims at issue were found by the Supreme Court to be ineligible for patent protection. And not unexpectedly, the Supreme Court held that the Federal Circuit was in error when the lower court adopted the machine-or-transformation test as the sole test for patent-eligibility of process claims under § 101.

Following our same-day and day-after coverage of the *Bilski* decision, Snippets offers this special issue to provide more on the decision itself, a reminder of how we got there, and a collection of view points from various authors, both current MBHB attorneys and one distinguished alumnus.

While reading this issue, please keep in mind that the viewpoints expressed are those of the authors themselves, and likely not their only viewpoints on *Bilski*. We hope readers appreciate these various viewpoints for their variety and for any insight they provide.

The Supreme Court's Decision

As most know by now, the Supreme Court's decision in *Bilski* came not as one opinion but as three: Justice Kennedy's (partial) majority opinion, and Justice Stevens' and Justice Breyer's respective minority concurrences (combineable, though, into what has been deemed the "Anti-State-Street Majority,"² seemingly ending the viability of the "useful, concrete and tangible result" test enunciated by the Federal Circuit in *State Street*³).

Justice Kennedy's (Partial) Majority Opinion

In the sections of his opinion having majority support⁴, Justice Kennedy acknowledged the three well-known and long-accepted exclusions from patent-eligibility under § 101: laws of nature, physical phenomena, and abstract ideas.⁵

Justice Kennedy next turned to the machine-or-transformation test, and in particular to rejecting the Federal Circuit's adoption of that test as the sole test for patent-eligibility of process claims under § 101.⁶ Among other statements regarding this test, Justice Kennedy made the point that the words in the Patent Act are to be given their ordinary meaning, and that the meaning of "process" as used in § 101 is not to be limited by the other statutory categories (i.e., machine, manufacture, and composition of matter).⁷ Justice Kennedy concluded this section with perhaps its most important statements, that the Supreme Court's "precedents establish 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. [It] is not the sole test for deciding whether an invention is a patent-eligible 'process.'"⁸

In the next section having majority support, Justice Kennedy rejected the argument put forth by Justice Stevens in his concurrence that methods of doing business are—or at least should be—categorically ineligible

for patent protection. As support for the rejection of a categorical exclusion, Justice Kennedy relied on (1) a dictionary definition of “method” (since “method” is used in 35 U.S.C. § 100(b) as a definition in the alternative of “process”), and (2) the recognition of business method patents in 35 U.S.C. § 273 (clarifying, to use Justice Kennedy’s word “that a business method is simply one kind of ‘method’ that is, at least in some circumstances, eligible for patenting under § 101.”⁹).

Finally, after establishing that *Bilski* did not necessarily lose because of a failure to satisfy the machine-or-transformation test, and that *Bilski* did not lose because of an attempt to patent a method of doing business, Justice Kennedy (with majority support) clarified that *Bilski* did lose because the claims at issue amounted to nothing more than an attempt to patent an abstract idea, specifically “hedging.”¹⁰ Justice Kennedy reviewed the Court’s decisions in *Gottschalk v. Benson*¹¹, *Parker v. Flook*¹², and *Diamond v. Diehr*¹³ in reaching this conclusion¹⁴, which squared with—as did the bulk of Justice Kennedy’s analysis in fact—Judge Rader’s prescient dissent¹⁵ to the Federal Circuit’s *en banc* decision¹⁶ in *Bilski*.

Justice Stevens’ Concurrence

In a lengthy concurrence, which was joined by Justices Ginsburg, Breyer, and Sotomayor, Justice Stevens agreed with Justice Kennedy that the claims at issue were not patent-eligible because they were directed to no more than an abstract idea¹⁷, and further agreed that the Federal Circuit erred in adopting the machine-or-transformation test as the sole test for patent-eligibility under § 101 of process claims.¹⁸

Justice Stevens, however, criticized Justice Kennedy’s opinion with respect to its textual arguments that no exclusion from patent-eligibility of business methods was discernible in § 101.¹⁹ And he also criticized the majority with respect to what Justice Stevens called their “artificial limit[ation of *Bilski*’s] claims to [the abstract idea of] hedging,” opining that the “Court, in sum, never provide[d] a satisfying account of what constitutes an unpatentable abstract idea,” and that they tautologically “assert[ed their own] conclusion that [*Bilski*’s] application claims an abstract idea.”²⁰

In a point of further disagreement with Justice Kennedy, Justice Stevens also embarked on an extensive and detailed historical argument that methods of doing business were not and should not be—and he asserted had in fact never been—eligible for patent protection.²¹ Justice Stevens started with what he deemed the “English Backdrop,” and then progressed through “Early American Patent Law,” “Development of American Patent Law,” and “Modern American Patent Law,” even stopping to address the “anything under the sun . . . made by man” statement from the legislative history of the 1952 Patent Act, perhaps most notably quoted by the Supreme Court in their decision in *Chakrabarty*.^{22,23}

Justice Stevens wrote in summation that the “limited textual, historical, and functional clues” available for analysis “all point toward the same conclusion: that [*Bilski*’s] claim is not a ‘process’ within the meaning of § 101 because methods of doing business are not, in themselves, covered by [§ 101].”²⁴

Justice Breyer’s Concurrence

Last but certainly not least, Justice Breyer authored a concurring opinion in which only Justice Scalia joined (and only in part at that). In the section in which Justice Scalia joined (Part II), Justice Breyer identified four of what he considered to be “substantial” points of agreement among “many” of the Justices.²⁵

The first such point was that, “although the text of § 101 is broad, it is not without limit,” one such limit being the ineligibility for patent protection of “[p]henomena of nature . . . , mental processes, and abstract intellectual concepts.”²⁶ The second was the important role of the machine-or-transformation test in evaluating patent-eligibility of process claims.²⁷ The third was that that test, while important, “has never been the ‘sole test.’”²⁸ And fourth was what was essentially a vote of “no confidence” in the “useful, concrete, and tangible result” test enunciated by the Federal Circuit in *State Street*.^{29,30} This last point, when coupled with similar statements³¹ in Justice Stevens’ concurrence, would seem to establish that a majority of the Supreme Court considers that test to be no longer—and perhaps to never have been—viable.

So How Did We Get Here? (Or How Did Bilski Get There?)

Bilski’s long road to the Supreme Court began on April 10, 1997, the filing date of his application.³² Claim 1 of the application read:

A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price comprising the steps of:

(a) initiating a series of transactions between said commodity provider and consumers of said commodity wherein said consumers purchase said commodity at a fixed rate based upon historical averages, said fixed rate corresponding to a risk position of said consumer;

(b) identifying market participants for said commodity having a counter-risk position to said consumers; and

(c) initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market participant transactions balances the risk position of said series of consumer transactions.³³

The Examiner rejected claim 1 under § 101 as being directed to non-statutory subject matter because it was “not implemented on a specific apparatus,” but “merely manipulate[d an] abstract idea and solve[d] a purely mathematical problem without any limitation to a practical application.”³⁴ Thus, according to the Examiner, the claim was “not directed to the technological arts.”³⁵

The Board of Patent Appeals and Interferences (BPAI) affirmed the rejection, concluding however that the Examiner had erred by requiring the method to be tied to a specific apparatus, as a method that transforms an article “from one state to another” may still be patent-eligible even if not implemented with an apparatus.³⁶ Applying this standard, the BPAI held that Bilski’s claim 1 was not patent-eligible because it met neither prong of the machine-or-transformation test.³⁷

An *en banc* panel of the Federal Circuit affirmed the BPAI, holding that a method claim is “surely” patent-eligible if it satisfies the machine-or-transformation test.³⁸ But in addition to holding that method claims are patent-eligible *if* they satisfy the machine-or-transformation test, the panel went further and held that such claims are patent-eligible only *if* they satisfy that test, calling it the “definitive test.”³⁹

The Big Three: *Benson, Flook, and Diehr*

In adopting the machine-or-transformation test as the exclusive test for patent-eligibility of method claims, the *en banc* Federal Circuit relied on the three above-referenced Supreme Court decisions: *Gottschalk v. Benson*, *Parker v. Flook*, and *Diamond v. Diehr*, noting in particular that the Court had applied this test in each of those decisions,⁴⁰ and emphasizing that the Court in *Diehr* did not reiterate the caveat in *Benson* that a process claim could be patent-eligible even if it did not satisfy the Court's prior precedents.⁴¹ (And of course in rejecting this adoption, Justice Kennedy relied on the same three decisions.⁴²)

In *Benson*, the Court held that a method of converting binary-coded decimal (BCD) numerals into pure binary numerals was not patent-eligible subject matter,⁴³ stating that "[t]ransformation and reduction of an article 'to a different state or thing' is the clue to the patentability of a process claim that does not include particular machines."⁴⁴ The Court then offered the above-referenced caveat, affirmatively stating that they had not held that "no process patent could ever qualify if it did not meet the requirements of our prior precedents."⁴⁵

In *Flook*, the Court held that a method of updating alarm limits in a catalytic converter was not patent-eligible subject matter,⁴⁶ stating that "[t]he only difference between the conventional methods of changing alarm limits and that described in respondent's application rests in the second step—[a] mathematical algorithm or formula."⁴⁷ The Court held that the adjustment of the alarm limit according to the formula was mere "post-solution" activity that did not transform the unpatentable algorithm into a patentable method.⁴⁸

In *Diehr*, the Court held that a method of curing rubber using a particular equation known as the "Arrhenius Equation" was in fact patent-eligible subject matter,⁴⁹ stating that "[i]t could not be disputed that] respondents' claims involve the transformation of an article, in this case raw, uncured synthetic rubber, into a different state or thing"⁵⁰ The Court in *Diehr* reasoned that, although the claimed process employed an equation that, in isolation, might be unpatentable,⁵¹ that process only "foreclose[d] from others the use of that equation in conjunction with all of the other steps in [the] process."⁵²

On to the Viewpoints . . .

The Editorial Board of Snippets hopes that the above background on and summary of the Supreme Court's decision in *Bilski* has been informative and helpful, and hopes that, armed with that knowledge, our readers will enjoy the following selection of viewpoints on this much-anticipated decision.

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Endnotes

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Endnotes

- ¹ Bernard L. *Bilski and Rand A. Warsaw v. David J. Kappos, Undersecretary of Commerce for Intellectual Property and Director, Patent and Trademark Office*, U.S. Supreme Court Slip Opinion No. 08–964 (June 28, 2010), 561 U.S. ____ (2010).
- ² See Dennis Crouch's "Patently-O" patent law blog, "Bilski v. Kappos and the Anti-State-Street-Majority," posted June 28, 2010 at <http://www.patentlyo.com/patent/2010/06/bilski-v-kappos-and-the-anti-state-street-majority.html>.
- ³ *State Street Bank & Trust Co. v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998).
- ⁴ Justice Kennedy delivered the opinion of the Court, which was joined in full by Chief Justice Roberts and by Justices Thomas and Alito. **Justice** Scalia joined in all sections except **II-B-2 and II-C-2**.
- ⁵ *Bilski* Slip Opinion, Kennedy at 5.
- ⁶ *Id.* at 6-8 (Section II-B-1).
- ⁷ *Id.*
- ⁸ *Id.* at 8.
- ⁹ *Id.* at 11.
- ¹⁰ *Id.* at 13 (Section III).
- ¹¹ 409 U.S. 63 (1972).
- ¹² 437 U.S. 584 (1978).
- ¹³ 450 U.S. 175 (1981).
- ¹⁴ *Bilski* Slip Opinion, Kennedy at 13-16 (Section III).
- ¹⁵ *In re Bilski*, 545 F. 3d 943, 1011 (Fed. Cir. 2008) (en banc).
- ¹⁶ *Id.* at 943.
- ¹⁷ *Bilski* Slip Opinion, Stevens at 8.
- ¹⁸ *Id.* at 1.
- ¹⁹ *Id.* at 7, 12-14, and 34-38.
- ²⁰ *Id.* at 8-9.
- ²¹ *Id.* at 15-34 (Section IV).
- ²² *Diamond v. Chakrabarty*, 447 U. S. 303 (1980).
- ²³ *Bilski* Slip Opinion, Stevens at 15-34 (Section IV).
- ²⁴ *Id.* at 47.
- ²⁵ *Bilski* Slip Opinion, Breyer at 1-4 (Section II).
- ²⁶ *Id.* at 2.
- ²⁷ *Id.*
- ²⁸ *Id.* at 3.
- ²⁹ *State Street*, 149 F.3d at 1373.
- ³⁰ *Bilski* Slip Opinion, Breyer at 3-4.
- ³¹ *Id.*, Stevens at 2, n. 1.
- ³² *In re Bilski*, 545 F. 3d at 949.
- ³³ *Id.*
- ³⁴ *Id.* at 950.
- ³⁵ *Id.*
- ³⁶ *Id.*
- ³⁷ *Id.*
- ³⁸ *Id.* at 949, 954, and 963-966.
- ³⁹ *Id.* at 954.
- ⁴⁰ *Id.* at 955-56.
- ⁴¹ *Id.* at 956.
- ⁴² *Bilski* Slip Opinion, Kennedy at 6-8 (Section II-B-1).
- ⁴³ 409 U.S. at 68, 71-72.
- ⁴⁴ *Id.* at 70.
- ⁴⁵ *Id.* at 71.
- ⁴⁶ 437 U.S. at 590-92.
- ⁴⁷ *Id.* at 585-86.
- ⁴⁸ *Id.* at 590.
- ⁴⁹ 450 U.S. at 184.



⁵⁰ *Id.*

⁵¹ *Id.* at 188.

⁵² *Id.* at 187.