Armstrong Teasdale

Client Alert

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Bilski v. Kappos: Machine-or-Transformation Test Provides Only a Clue to the Eligibility of a Process as Patentable Subject Matter

On June 28, 2010, the United States Supreme Court ("the Court") announced a decision addressing the definition of patentable subject matter under 35 U.S.C. § 101. In *Bilski v. Kappos*, 561 U.S. ____ (2010), a unanimous Court affirmed the judgment of the Court of Appeals for the Federal Circuit ("the Federal Circuit"), ruling that Bernard Bilski's claims directed to risk hedging in the commodities markets are unpatentable under §101. However, though the opinion agreed with the result reached by the Federal Circuit, the Court corrected what it viewed as an overly narrow interpretation of the statute by the Federal Circuit.

Hearing Bilski's appeal of a patent application rejection, the Federal Circuit held that the "machine-or-transformation test" is the sole test for patentability under 35 U.S.C. § 101. According to this test, a claimed process 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."

Addressing the Federal Circuit's exclusive application of the machine-or-transformation test to process claims in patent applications, the Court directed its attention to the text of 35 U.S.C. § 101, which refers to "any new and useful process." Noting the breadth of the statutory language and previous opinions of the Court, the Court described §101 as encompassing unforeseen inventions and concluded that the statute provides no basis for establishing the machine-or-transformation test as an exclusive test of patent eligibility. Rather, the Court stated:

Some business methods and software continue to be eligible for patent protection

> This 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. (emphasis added)

Similarly, the Court declined to interpret §101 as categorically excluding "business methods," noting that such an interpretation would create inconsistencies with other statutory provisions.

The Court did, however, restate three exceptions to patentable subject matter: laws of nature, physical phenomena, and abstract ideas. Focusing primarily on abstract ideas, the Court expressed concern about allowing a patent applicant to pre-empt any use of a formula or algorithm. To avoid this result, Supreme Court precedent holds that the mere use of an algorithm, or the use of an algorithm accompanied by mere "post-solution activity," does not constitute patentable subject matter. In contrast, however, "an *application* of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection," as stated in *Diamond v. Diehr*.

Applying these principles, the Court considered the risk hedging process claimed by Bilski to be an unpatentable abstract idea. The Court thus affirmed the judgment of the Federal Circuit while rejecting the rationale underpinning that decision.

By clarifying use of the strict machine-or-transformation test as only a non-exclusive factor in determining whether subject matter is patent-eligible, the Court in *Bilski* was clearly protecting the potential patentability of new technologies including those related to "software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital signals." The flexibility afforded by this decision, however, now presents an opportunity and a challenge to the Federal Circuit and the United States Patent and Trademark Office to interpret and apply §101. Inventors, patent applicants, and patent holders with questions are invited to contact any of the members of the Armstrong Teasdale Intellectual Property Services Group or one of the following:

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