

KENYON & KENYON LLP



Supreme Court Rules “Machine or Transformation” is Not the Exclusive Test for Patentable Processes

By Brian S. Mudge

June 28, 2010

Brian S. Mudge, a partner in the firm’s Washington, DC office, has experience in a variety of intellectual property litigation and counseling matters concerning patents, trademarks, copyrights and trade secrets. He can be reached at 202-220-4214 or bmudge@kenyon.com.

In a long-awaited decision in *Bilski v. Kappos*, the Supreme Court today held that the “Machine or Transformation” test is *not* the exclusive test for determining whether a claimed process is eligible for patenting under Section 101 of the patent statute, 35 U.S.C. §101. The opinion effectively overrules the prior decision of the Federal Circuit, in which the appeals court had established that a claimed process was eligible for patenting only if it was tied to a particular machine or transformed an article into a different state or thing. The prior decision had generated substantial concern and confusion over the patentability of Information Age processes, including those involving software, signal processing and business methods.

Faulting the Federal Circuit’s interpretation of the patent statute, the Supreme Court explained that Section 101 of the statute broadly describes subject matter eligible for patenting. Looking to the Court’s prior case law, the opinion identified only three exceptions to the statute’s broad patent-eligibility principles: laws of nature, abstract ideas, or natural phenomena. While the Court recognized that the “Machine or Transformation” test is a useful tool for analyzing processes under Section 101, it rejected as inconsistent with the broad statutory language the Federal Circuit’s conclusion that the test is the sole or exclusive way in which to determine patent-eligibility for processes.

However, the Supreme Court affirmed the Federal Circuit’s judgment that the claims of Bilski’s patent application were not patentable subject matter under Section 101, yet did so because the claims are directed to abstract ideas. According to the Court, the Bilski application attempts to patent the concept of hedging risk, but allowing such a patent would preempt use of the risk hedging approach in all fields. Other claims in the Bilski application were similarly ruled unpatentable as being mere attempts to limit the risk hedging concept to the energy market field or to add token postsolution activity; but the limitations were deemed insufficient, in light of the Court’s precedents, to make the claims patent-eligible.

While the Court’s opinion does not definitively answer all of the questions raised by the prior Federal Circuit ruling, it may give some comfort to

those concerned that Information Age inventions would fall outside of the scope of patentable processes defined by an exclusive Machine or Transformation test. Many of the concerns as expressed in amicus briefs were directed to how the Machine or Transformation test would be applied to emerging technologies, and that potentially narrow interpretations of the test might exclude patents on inventions that otherwise appear to lie within the core purposes of the patent statute. The Court’s citation of the broad language of the statute, and its conclusion that there is no exclusive test, suggest that there will be ample room to establish that emerging Information Age inventions are within the scope of patentable subject matter. A key factor may be whether the claimed invention preempts all practical use of an idea or concept.

One aspect of the Supreme Court’s decision indicates that some controversy may continue. Rejecting the broad notion that “business methods” are excluded from patentable subject matter, the majority opinion concluded that some business methods may be patent-eligible, citing the prior use defense set forth in Section 273 of the statute. As a caution, however, the majority opinion also stated that while Section 273 contemplates the possibility of some business method patents, “it does not suggest broad patentability of such claimed inventions.”

In a lengthy concurring opinion, Justice Stevens agreed with the Court’s determination that Bilski’s claims are not patentable, but starkly disagreed as to the potential patentability of “business method” patents generally. According to Justice Stevens, whose concurring opinion was joined by three other justices, Congress and the courts understood that, when Section 101 was enacted as part of the 1952 Patent Act, methods of doing business were not patentable subject matter and, accordingly, such methods should be deemed outside of the scope of patent protection.

Given the Supreme Court’s ruling and the disagreement over patentability of business methods, it remains to be seen how the PTO and the courts will respond to inventions directed to methods of conducting business.