July 7, 2010

Bilski: The Outer Limits of Patentability Are Still Unclear

The section of the Patent Act governing whether inventions are entitled to patent protection (35 U.S.C. § 101) permits patents to be granted for "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof. . ." Late last month, the Supreme Court unanimously affirmed the Federal Circuit's holding which rejected Bernard Bilski's patent for a method of hedging risk in the energy sector. *Bilski v. Kappos*, --- U.S. --- (June 28, 2010). While the nine justices agreed with the outcome in the court below, they offered few guidelines to determine whether a particular invention is patentable within the above definition of the Patent Act. Instead, the Court upheld the rejection of Bilski's application by reviving 25-year-old precedent and holding that Bilski's method is unpatentably abstract.

Before *Bilski* was appealed to the Supreme Court, the Federal Circuit decided that an invention is a patentable "process" under the Patent Act only if (1) "it is tied to a particular machine or apparatus," or (2) if "it transforms a particular article into a different state or thing." *In re Bilski*, 545 F.3d 943, 954 (Fed. Cir. 2008). The *en banc* panel of the Federal Circuit ruled that Bilski's method failed to meet these requirements, informally dubbed the "machine or transformation test." Because the test created a new hurdle for business method and software patent seekers, as well as those wishing to protect other various forms of intangible innovations, the Supreme Court granted *certiorari* to address the applicability and validity of the Federal Circuit's new test.

While appreciating the value of the machine or transformation test, the Supreme Court disagreed with and reversed the lower court's assertion that the test is the sole criterion to establish a "process." Rather, the majority explained that "process" is already explicitly defined in the Patent Act—Section 100(b) of the Act provides that "[t]he term 'process' means process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material"—and the only deviations from the definition's ordinary meaning are the well-established exceptions for "laws of nature, physical phenomena, and abstract ideas." In the eyes of the Court, relying solely on such a judicial test instead of the defined and plain meaning of "process" violates elementary principles of statutory interpretation. Therefore, although the machine or transformation test "is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under Section 101 . . . it is not the sole test for deciding whether an invention is a patent eligible 'process.'" The Court refused to take a position on what types of inventions are within the Patent Act's realm of patentability.

Although the justices did not agree on much more, a few useful guidelines can be extracted from the remainder of the Court's opinion. First, Section 101 does not categorically exclude business method patents. Second, software patentability seems to have been unscathed. As before, formulas and algorithms cannot be patented; however, the Court will entertain applications where "a law of nature or mathematical formula…[is applied]…to a known structure or process."

While *Bilski* represents anything but a radical narrowing of patentable subject matter, it does offer lessons at various stages of the invention process. For prospective applicants, although the "machine or transformation test" is not the sole criteria for patentability, if your invention does not fall within that characterization there is some uncertainty whether it will qualify for patent protection. For pending applications, examiners' efforts to draw the line on patentability for applications that do not meet the "machine or transformation test" will surely result in a significant number of

administrative appeals. Finally, in patent infringement litigation, the courts will have many opportunities to try to establish the boundaries of patentability that weren't defined in *Bilski.*