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Client Alert

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In re Bilski: Federal Circuit Affirms Patent Office in Narrowing Scope of Patentable Subject Matter

In a much anticipated *en banc* decision in *In re Bilski*, the Federal Circuit has affirmed the Board of Patent Appeals and Interferences in rejecting all pending claims of a patent application directed to a method of hedging risk in the field of commodities trading.

The issue presented on appeal was whether the "process" claimed in the Bilski patent application constituted patent-eligible subject matter under the U.S. patent laws (specifically, Section 101 of Title 35 of the U.S. Code). Section 101 provides that "any new and useful process, machine, manufacture, or composition of matter" is eligible for patent protection. This section has been interpreted to exclude patenting fundamental laws of nature or abstract ideas.

The Federal Circuit ruled in *Bilski* that a process claim constitutes eligible subject matter only if it is tied to a particular machine, or transforms a particular article into a different state or thing (the "machine or transformation" test). Conversely, a process claim that is not tied to a particular machine and does not operate to transform an article is too abstract or too close to a fundamental law or principle to constitute a statutory "process" eligible for patent protection.

The Decision

The Bilski patent application was directed to a method for managing risk. In its broadest claim, it sought to cover a method of "initiating a series of transactions" between groups of parties in such a way that one of the parties was hedged against fluctuations in the supply or demand of a particular commodity. The claim was not limited to being implemented on a computer or with particular software or hardware – the transactions could be "initiated" in any way.

The Court formulated the key question as whether the "claim recites a fundamental principle and, if so, whether it would pre-empt substantially all uses of that fundamental principle if allowed." In making its decision the Court reviewed a number of Supreme Court cases which had considered the issue of whether a process claim was drawn to patent-eligible subject matter. Among the patent claims held ineligible by the Supreme Court was a claim made by Samuel Morse, the inventor of the telegraph, that would have covered any use of electromagnetic signals to transmit information. More recently, another ineligible claim would have covered any implementation of a mathematical formula in a computer to convert decimal numbers to binary. By contrast, the Supreme Court found claims that solved mathematical equations in order to achieve a specific result – e.g., curing rubber, or displaying medical images – to be eligible for patent protection. Interpolating between these groups of cases, the Federal Circuit determined that the machine-or-transformation test accomplished the twin goals of preventing a patent applicant from having a monopoly over a law of nature, and allowing inventors to protect inventions that relied on such laws of nature but for a specific application.

Then, turning to the Bilksi claim, the Court noted first that the claims were not tied or otherwise limited to a machine. Moreover, the Court found that simply transacting business is not a "transformation" within the meaning of the machine or transformation test. At best, the transactions are transformations of "legal obligations or relationships, business risks, or other abstractions," which do not qualify "because they are not physical objects or substances, and they are not representative of physical objects or substances." To hold otherwise would present a "danger that the scope of [a] claim would wholly pre-empt all uses" of a fundamental principle or abstract idea.

In adopting the "machine-or-transformation" test, the Court rejected various other tests for determining the eligibility of a process claim for patent protection, for example, tests that turn on whether the claim produces a "useful, concrete, and tangible result"; whether the claim recites subject matter in a particular category, such as a method of doing business; or whether the claim recites "physical steps."

The Dissents

There were three distinct – and vigorous – dissents from Judges Newman, Rader and Mayer. Judge Newman disagreed with the conclusion that the Bilski claim did not constitute patent-eligible subject matter, and would have further evaluated the claim to determine whether it met the other statutory requirements for patentability. She also disagreed with the majority's adoption of the machine or transformation test as unsupported by statute or Supreme Court precedent, and expressed concern about the overall effect the decision would have on innovation: "For inventors, investors, competitors, and the public, the most grievous consequence is the effect on inventions not made or not developed because of uncertainty as to patent protection."

Judge Rader similarly disagreed with the machine or transformation test, but would have decided against Bilski on the ground that the Bilski claim amounted to no more than an abstract idea. Judge Mayer, by contrast, would have decided against Bilski on the ground that all business methods are ineligible for patent protection.

Key Points

- The court did not illuminate the "machine" prong of the machine-or-transformation test. In particular, it did not address "whether or when recitation of a computer suffices to tie a process claim to a particular machine," since the Bilski invention did not afford an opportunity to do so.
- To fall within the "transformation" prong of the subject-matter test, the transformation must be "central to the purpose of the claimed process." A clear example of sufficient transformation noted by the Federal Circuit involves claims in which chemical reactions occur, thereby producing a new chemical composition.
- The Federal Circuit provided additional guidance on the contours of the machine-or-transformation test, by way of the following examples:
  - Electronic transformation of data into a visual depiction is sufficient for patent eligibility, "[s]o long as the claimed process is limited to a practical application of a fundamental principle to transform specific data, and the claim is limited to a visual depiction that represents specific physical objects or substances…."
  - Merely reciting a step of gathering data is insufficient (by itself) to produce a transformation that renders an otherwise ineligible method eligible.
  - In an otherwise ineligible method for mathematical optimization, reciting a step of recording certain data (e.g., on paper or on a computer) is insufficient to render the method patent-eligible if such recordation is not central to the purpose of the claim.
  - Transformations of "legal obligations or relationships, business risks, or other such abstractions" are insufficient to render an otherwise ineligible method eligible, "because they are not physical objects or substances, and they are not representative of physical objects or substances."

What's Next?

As of the publication of this Client Alert, it is not known whether Bilski will seek Supreme Court review. In the interim, it will be important to craft applications involving business methods with *In re Bilski* in mind, highlighting, where possible, either the transformative nature of the invention or the relation to computers or other machines. Moreover, for clients with business method patent applications now pending or recently issued, it would be useful to consult patent counsel to evaluate the potential for making strategic amendments or revisions to those applications or patents.

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