

Patent Alert

Federal Circuit *en banc* Clarifies the Test for Determining When Processes are Patentable

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In a long-awaited decision, on October 30, 2008, the Federal Circuit *en banc* decided *In re Bilski*, clarifying the test for determining whether a process patent claim qualifies as patentable subject matter under Section 101 of the U.S. Patent Act. Although *Bilski* brought three separate, spirited dissents, the nine prevailing judges' opinion derives its test from Supreme Court decisions separating abstract ideas and principles from patentable subject matter. In particular, *Bilski* states the "definitive test" for determining whether a process is narrowly tailored enough not to pre-empt a principle itself in this context is if it (1) is tied to a particular machine or apparatus or (2) it transforms a particular article into a different state or thing. While some *amici* had asked the Federal Circuit to adopt broad exclusions over "business methods" or software, the court declined those invitations. In affirming the rejection of Bilski's patent claims, the Federal Circuit provides one example of an unpatentable process under this test, but leaves uncertainty about how existing patents and new patent applications will fare under case-by-case application of the *Bilski* court's test.

Background

Section 101 of the Patent Act lists "any new and useful process" among the categories of patentable subject matter. Over the years, both the Supreme Court and lower courts have struggled to articulate the line separating what "processes" are patentable from abstract ideas, principles of nature, and other unpatentable subject matter. Policy concerns balanced the need to protect and encourage innovation in new areas with the desire to not allow claims which preempted all uses or applications of an idea or principle. Most recently, in its *State Street* decision, Federal Circuit stated a test that a process producing a "useful, concrete and tangible result" could be patentable in the context of a financial process invention. Many viewed the *State Street* decision as encouraging patent filings on financial and other arguably non-technological innovations. *Bilski* rejects this test, and rejects Bilski's patent application directed toward a risk-hedging process as not within patentable subject matter.

Bilski's Claim To A Method for Hedging Risk in Commodities Trading

The primary claim at issue in *Bilski* was for a "method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price." Bilski conceded that his claim was not limited to being performed by a data processing system or other computer, or even to transactions involving actual commodities. However, the claim did involve actually initiating the transactions between market participants. The PTO had rejected Bilski's claims as not directed to patent-eligible subject matter which a Federal Circuit panel previously had affirmed.

Machine-or-Transformation Test Prevails over Useful, Concrete and Tangible Result Test

The *Bilski* court scrutinized prior Supreme Court decisions to arrive at what it articulates as the "machine-or-transformation" test. At issue in its analysis was whether the criteria to be gleaned from those decisions were possible clues indicating patentable subject matter or, more strictly, the sole test governing § 101 analyses. The *Bilski* court understood the Supreme Court decisions to mean the latter:

We believe that the Supreme Court spoke of the machine-or-transformation test as the "clue" to patent-eligibility because the test is the tool used to determine whether a claim is drawn to a statutory "process"—the statute does not itself explicitly mention machine implementation or transformation. We do not consider the word "clue" to indicate that the machine-or-implementation test is optional or merely advisory. Rather, the Court described it as the clue, not merely "a" clue.

In settling on the machine-or-transformation test, the Federal Circuit expressly abandons its prior tests from *State Street* ("useful, concrete and tangible result") and other opinions. While abandoning these tests, the court took care to provide guidance to the PTO and lower courts, that it was preserving some of the jurisprudence developed in those cases. First, *Bilski* confirms that claims must be examined as a whole for patent eligibility and the fact that any individual step or limitation of a

process, by itself, would be unpatentable is irrelevant. Second, *Bilski* confirms the sometimes-controversial holding from *State Street* that there is no “business method exception” to patentable subject matter and that all process claims are to be analyzed under the same legal requirements. Third, the decision makes clear that the analysis for statutory subject matter under § 101 is separate from the novelty and non-obviousness requirements in §§ 102 and 103. Fourth, the *Bilski* decision indicates that the proper inquiry is not to focus on whether process steps are sufficiently “physical” and, in so doing, adds that “it is simply inapposite to the § 101 analysis whether process steps performed by software on a computer are sufficiently ‘physical.’” Similarly, the *Bilski* decision rejects the suggestion that the machine-or-transformation test, is equivalent to simpler test offered by some *amici* — that a process claim must be in the “technological arts.”

Applying the test to *Bilski*’s claims, since there was no claim limitation to a particular machine or apparatus, the Federal Circuit focused on whether the process entailed a transformation of “a particular article into a different state or thing.” The crux was how to define “article” to appropriately encompass the non-physical. As examples, the court noted that many “information-age processes” act on electronic data or “abstract constructs such as legal obligations, organizational relationships, and business risks.” In defining “article” under the transformation prong of the test, *Bilski* holds that a transformation must act on physical objects or substances or on items that are “representative of physical objects or substances.” Thus, transformation of raw data into a visual depiction would suffice under the test, but not *Bilski*’s transformation of options to purchase a commodity at a fixed price. Gathering, manipulation, or reporting of abstract data inputs may constitute a “process” in lay usage, but this alone is not sufficient to constitute a process under the machine-or-transformation test. The *Bilski* court was concerned that the applicants’ claim could wrongly pre-empt “any application of the fundamental concept” of hedging, were that sufficient. Regarding the steps in *Bilski*’s claims that involved physical steps and consummating the claimed transactions, the court found that the claim would nonetheless effectively pre-empt all applications of hedging, even just within the area of consumable commodities, and thus was impermissible without some kind of transformation.

What *Bilski* Has Not Resolved

Most significantly, the *Bilski* decision does not articulate specific criteria for deciding whether claims recited as computer-implemented processes will meet the “machine” prong of the test: “We leave to future cases the elaboration of the precise contours of machine implementation, as well as the answers to particular questions, such as whether or when recitation of a computer suffices to tie a process claim to a particular machine.” Similarly, it remains to be seen how the PTO and the lower courts will determine the extent of transformation of an article that is necessary for a claim to be eligible for patent. In any event, drafters will need to pay increased attention to reciting the transformation involved or the claim’s relationship to a particular machine or apparatus when presenting claims to the PTO. This is especially true where the machine or apparatus could be seen to be so broad as to cover all uses of an algorithm or idea or where a transformation could be seen to be as a gratuitous add-on aimed solely at surviving the test. As the *Bilski* decision indicates, a transformation must be “central to the purpose of the claimed process.”

Finally, the *Bilski* decision explicitly recognizes the possibility that the machine-or-transformation test may need to evolve because of “future developments in technology and the sciences . . . just as the widespread use of computers and the advent of the Internet has begun to challenge it in the past decade.” The mention of future technologies thus suggests the possibility that the machine-or-transformation test may turn out to be too restrictive, and some processes considered unpatentable today could turn out to be patentable under a test informed by time and technical progress.

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