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CLIENT ALERT

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Federal Circuit Turns Back The Clock on Patent Eligibility

Introduction

The Court of Appeals for the Federal Circuit ("Federal Circuit") yesterday rendered its highly anticipated *en banc* decision in *In re Bilski*, No. 2007-1130, slip op. (Fed. Cir. Oct. 30, 2008). Applicants Bernard Bilski and Rand Warsaw sought to patent claims drawn to a method for hedging risk in commodities trading. The examiner rejected the claims as ineligible subject matter under 35 U.S.C. § 101, asserting that they were not directed to the "technological arts." Bilski appealed the examiner's final rejection to the Board of Patent Appeals and Interferences ("BPAI"). The BPAI overruled the examiner's "technological arts" test, but affirmed the rejection of Bilski's claims, relying on the "machine-or-transformation" test as articulated by the Supreme Court in *Gottschalk v. Benson*, 409 U.S. 63 (1972). The Federal Circuit's *en banc* decision affirms the BPAI's ruling, concluding that Bilski's claims are not directed to patent-eligible subject matter. *Bilski* at 2.

What claims are patent-eligible?

Under 35 U.S.C. § 101, a "process" qualifies as patent-eligible subject matter. The Federal Circuit's opinion focused on interpreting that term. *See id.* at 5 ("Thus, the issue before us involves what the term 'process' in § 101 means…"). The Federal Circuit filtered its analysis through a determination of whether the claims are directed to a "fundamental principle." *See id.* at 7 ("The true issue before us then is whether Applicants are seeking to claim a fundamental principle (such as an abstract idea) or a mental process"). More specifically, the Federal Circuit drew a line between claims that seek to *preempt* the use of a fundamental principle on the one hand, and claims that seek only to foreclose others from using a *particular application* of that fundamental principle on the other hand. *Id.* at 8. Even though a fundamental principle may itself not be patent-eligible, a process incorporating such a principle might be. *Id*. at 18. Thus, the question becomes: "How does one determine whether a given claim would pre-empt all uses of a fundamental principle?" *Id*. at 10.

The Federal Circuit held that the "definitive test" for whether a claimed process complies with § 101 is the *Benson* "machine-or-transformation" test. *Id.* at 10. "A claimed process is patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, *or* (2) it transforms a particular article into a different state or thing." *Id*. The two prongs are disjunctive; satisfying either suffices to put the claims at issue within the purview of § 101.

Before fleshing out some of the test's parameters, the Federal Circuit noted two corollaries. First, "mere field-of-use limitations are generally insufficient to render an otherwise ineligible process claim patent-eligible." *Id.* at 15. Thus, limiting use of a fundamental principle to a particular technological environment would likely not result in patent-eligible claims. Second, "insignificant post-solution activity will not transform an unpatentable principle into a patentable process." *Id.* at 16 (quoting *Diamond v. Diehr*, 450 U.S. 175 (1981)). Such an approach would, according to the Federal Circuit, exalt "form over substance." *Id*. (quoting *Parker v. Flook*, 437 U.S. 584 (1978)).

The Federal Circuit offered little guidance about the "machine" test. While the Federal Circuit stated that use of a specific machine "must impose meaningful limits on the claim's scope" and "must not merely be insignificant extra-solution activity," *id.* at 24, the Federal Circuit did not explain how the machine test should be applied in practice. "We leave it 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." *Id*.

The Federal Circuit noted that the machine test was difficult to apply to the facts of *Benson* itself. Even though the *Benson* claims were directed to a process that operated on a digital computer, the claims were unpatentable because "the limitations tying the process to a computer were not actually limiting because the fundamental principle at issue, a particular algorithm, had no utility other than operating on a digital computer." *Id.* at 13. The Federal Circuit appears to mean that the sole utility of certain fundamental principles lies in their computer implementation. Consequently, claims directed to computer implementation of such fundamental principles would be completely preemptive. Folding this analysis into the machine test, for patent eligibility, the claims must be "tied to a particular computer" to avoid preemption of a fundamental principle, and the fundamental principle must have utility outside of operation on a digital computer.

The Federal Circuit offered slightly more guidance on the "transformation" test. Specifically, the transformation "must be central to the purpose of the claimed process." *Id*. at 24. The Federal Circuit focused its analysis of the transformation test on "what sort of things constitute 'articles' " under § 101. *Id*. The electronic "transformation of data itself into a visual depiction" would be sufficient. *Id*. at 26. The gathering of data would be insufficient. *Id*. at 26-27. Additionally, "[p]urported transformations or manipulations simply of *public or private legal obligations or relationships, business risks*, or other such abstractions cannot meet the test…" *Id.* at 28 (emphasis added).

Lastly, the Federal Circuit took the opportunity to kill off several well-worn tests. *State Street*'s "useful, concrete and tangible result" test was "inadequate" and is now supplanted by the "machine-or-transformation test." *Id*. at 20; *cf. State St. Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368 (Fed. Cir. 1998). The Federal Circuit also affirmed that there is no "technological arts" test. *Id*. at 21. It found "inadequate" the so-called *Freeman-Walther-Abele* test of whether claims recite algorithms that are applied to physical elements or process steps. *Id*. at 19. Finally, the Federal Circuit stated that a test of whether the claims recite "physical steps" would be improper, noting that "the mere fact that a claimed invention involves inputting numbers, calculating numbers, outputting numbers, and storing numbers, in and of itself, would not render it nonstatutory subject matter." *Id*. at 23 (quoting *State Street*, 149 F.3d at 1374).

What Does *Bilski* Mean For Business Method Patents?

The good news is that the Federal Circuit did not categorically exclude business methods from patentability. However, by leaving open the question of "whether or when recitation of a computer suffices to tie a process claim to a particular machine," the Federal Circuit did not foreclose future restrictions on subject matter eligibility for claims that recite computer-implemented methods. Until the Federal Circuit (or the Supreme Court) definitively answers this question, patents and pending applications that claim computer-implemented methods might be clouded by questionable patent eligibility. Clients should review their pending applications to ensure that they include claims that satisfy the machine-or-transformation test.

Stay Tuned…

In its decision, the Federal Circuit effectively invited review by the Supreme Court. The Federal Circuit wrote:

[W]e believe our reliance on the Supreme Court's machine-or-transformation test as the applicable test for § 101 analyses of process claims is sound. Nevertheless, we agree that future developments in technology and

the sciences may present difficult challenges to the machine-or-transformation test, just as widespread use of computers and the advent of the Internet has begun to challenge it in the past decade. Thus, we recognize that *the Supreme Court may ultimately decide to alter or perhaps even set aside this test to accommodate emerging technologies*. And we certainly do not rule out the possibility that this court may in the future refine or augment the test or how it is applied.

Bilski at 14-15 (emphasis added). Because the Federal Circuit relies on the "machine-or-transformation" test, which was framed in view of 1970s technology, the Supreme Court may yet weigh in with a better approach for determining patent eligibility of present-day patent claims.