On Thursday, October 30, 2008, an en banc United States Court of Appeals for the Federal Circuit ("Federal Circuit") released its much anticipated In re Bilski decision addressing the scope of patent-eligible subject matter under 35 U.S.C. § 101 ("§ 101") and deciding what many believed might be the death-knell for business method patents. In a 9-3 majority decision authored by Chief Judge Paul Michel, the Federal Circuit endeavored to realign its § 101 jurisprudence with the Supreme Court's Benson, Flook, and Diehr trilogy. Adopting the positions advocated by the Intellectual Property Organization Association ("IPO") in an amicus brief authored by Paul, Hastings, Janofsky & Walker attorneys, the Federal Circuit held that a process claim constitutes patentable subject matter only if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing. The court ultimately concluded that Bilski’s claimed method for hedging commodity risks failed to satisfy this new subject matter eligibility test and was therefore unpatentable.

Although the court declared that the machine-or-transformation test is the patent-eligibility of both business methods and software, but declared State Street Bank’s "useful, concrete and tangible" test irrelevant as a mean for determining patent-eligibility under § 101. The Bilski decision further clarified other areas of uncertainty by affirmatively rejecting alternative § 101 tests proffered by the United States Patent and Trademark Office ("PTO"), numerous amici and dissenting judges. Ultimately, the court’s decision raises new questions regarding how the machine-or-transformation test applies to information age innovation which inevitably includes electronic signals and electronically manipulated data. These questions will be resolved in future decisions, but for now the Bilski decision provides the framework under which courts will mold the patent system to 21st century innovation.

The Machine-or-Transformation Test

As long recognized by both the Supreme Court and the Federal Circuit, "fundamental principles" such as laws of nature, natural phenomena, or abstract ideas are not patentable. With this in mind, the question before the Federal Circuit was "whether the Bilski claims recited a fundamental principle and if so, whether the claims would preempt substantially all uses of the fundamental principle if allowed." Aligning itself with Supreme Court precedents, the Federal Circuit
declared the “machine-or-transformation” test as the definitive test for determining whether a process claim involves a practical application of the fundamental principle and is thus patent-eligible, or whether the claim is unpatentable because it preempts all uses of the fundamental principle.

Applying this two-branched inquiry to the *Bilski* facts, the court immediately disregarded the “machine” inquiry as not being ripe for discussion based on the absence of machine-implemented claims in *Bilski*’s appeal. The court therefore left unanswered the controversial issue of when the recitation of a computer suffices to tie a process claim to a particular apparatus.

Next, the court addressed the transformation inquiry by questioning what it means to transform an article and more specifically, what sorts of things constitute an “article” such that the transformation is sufficient to impart patent-eligibility under § 101. The Federal Circuit declared that transformation must be of a physical object or substance. Accounting for the nuances introduced by innovations of the information-age, the court went on to hold that, in cases involving electronic data, the data must constitute a representation of a physical object to be an “article” within the ambit of the transformation inquiry.

The Federal Circuit also highlighted two Supreme Court corollaries useful in determining whether a process meets the machine-or-transformation test. First, the court acknowledged that mere field-of-use limitations are insufficient to render an otherwise ineligible process claim patent eligible. Therefore, a claim must be limited to a particular application to avoid preempting all uses of a fundamental principle or all uses of the principle in a particular field. Second, following *Diehr* precedent, the court also recognized that insignificant post-solution activity will not transform an un-patentable principle into a patentable process.

**Discarded § 101 Tests**

In a direct response to the PTO’s plea for guidance, the court methodically announced the death of all other articulated § 101 tests and reinforced the “machine-or-transformation” test as the touchstone § 101 inquiry. Specifically, the court held that the U.S. Court of Customs and Patent Appeal’s Freeman-Walter-Abele test, *State Street Bank*’s “useful, concrete and tangible” test, and the PTO’s “technological arts” test, are all insufficient to determine whether a claim is patent-eligible under § 101. Additionally, the Court expressly rejected a separate test for so-called “business method patents.” Instead, the court reiterated that “business method” are subject to the same “machine-or-transformation” test as all other innovative processes. Finally, the Federal Circuit provided further guidance regarding purely mental processes holding that processes are ineligible for patent protection if all process steps can be performed in the human mind.

**A Conflicted Federal Circuit?**

The dissenting opinions in *Bilski* reveal widely divergent views on the role of the patent system in protecting information age innovation in the technology, software, and financial services sectors.

**Newman Dissent**

Only Judge Newman deemed the *Bilski* method claims patent-eligible subject matter. Viewing the majority decision as an improper restriction on process inventions, Judge Newman contended that such exclusions directly contradict the statute, the precedent, and the constitutional mandate to promote the useful arts and science. Judge Newman further argued that the new “machine-or-transformation” test upsets settled expectations, invites uncertainty and puts at risk a broad range of “computer-implemented and information-based” inventions. In her conclusion, Judge Newman warned that the
most grievous consequence of the majority’s restriction on patent-eligible subject matter will be the disincentive to innovate in light of uncertain patent protection.

Mayer Dissent

Although Judge Mayer sided with the majority regarding the ineligibility of Bilski’s method claims under § 101, his dissent advocates overruling the State Street Bank and AT&T cases and promotes reinstating the business method exception. According to Judge Mayer, “[t]he patent system is intended to protect and promote advances in science and technology, not ideas about how to structure commercial transactions” and granting patents for business methods lacks support in the Constitution and the statute. Judge Mayer further argued that State Street and its progeny changed the law, leading to a “legal tsunami, inundating the patent office” with patent applications ranging from “the somewhat ridiculous to the truly absurd.” In Judge Mayer’s view, business method patents impede rather than promote technological innovation, hurting both consumers and American competitiveness and results in needless litigation and expenditure of public resources. Judge Mayer rejected the majority’s “machine-or-transformation test” as incapable of distinguishing patentable scientific and technological advances from unpatentable non-technological methods and instead advocated a “technological arts” test that would exclude not only business methods but improvements in other fields of “liberal” arts.

Rader Dissent

Judge Rader also agreed with the majority regarding the non-statutory nature of Bilski’s method claim but embarked on a simpler path reaching his conclusion. In Judge Rader’s view, the Bilski method claim constituted nothing more than an unpatentable abstract idea. Judge Rader criticized the majority for creating a circuitous test lacking support in the statute and being based solely on “dicta from an industrial age decades removed from the bleeding edge.” According to Judge Rader, the only exclusions from patent eligible subject matter include “natural laws, natural phenomena, and abstract ideas.” As such, a more restrictive reading of § 101 is unnecessary because the remaining sections of the patent statute (e.g., novelty, non-obviousness and enabling disclosure) are sufficient to preclude the grant of patents for frivolous and useless inventions.

Dyk and Linn Concurrence

Judges Dyk and Linn submitted a concurring opinion responding to Judge Newman and Rader’s criticisms that the majority departed from the statute, thus usurping the legislative role. The concurrence traced the history of § 101 back to 1790 and to find support for limits on patentable subject matter in England’s Statute of Monopolies, which prohibited “the odious Crown practice of granting patents on particular types of businesses to crown favorites.” Citing English patents and cases before 1793 and U.S. patents and cases before 1952, the concurrence concluded that Bilski’s method is a process for organizing human activity that would not have been patentable under either the English statute or the U.S. statutes of 1790 or 1793.

Practical Tips In Light of Bilski

While waiting for the dust to settle around Bilski, we offer following tips.

(1) Creative Claim Drafting Strategies:

Bilski reaffirms that there is no “business method” or “software” exception to patentability under § 101. The court however, declined to provide detail as to when, and under what circumstances, claims to a business process implemented by a program running on a general purpose computer is sufficient to satisfy the “tied to particular machine” requirement. Nevertheless, the majority opinion provides some clues as to the Federal Circuit’s thinking in this regard. First,
the court stressed that the State Street Bank claim was in fact “drawn to a machine.” Second, the court underscored the Supreme Court’s statement in the Diehr case that “insignificant post-solution activity will not transform an unpatentable principle into a patentable process.”

So what do these clues mean? At the very least, the inclusion of hardware limitations should, at least for now, transform non-eligible processes into patent-eligible subject matter. For an indeterminate amount of time, the court is likely to continue upholding business method patents in which the claimed methods require the use of a computer. However, to satisfy the “particular machine” requirement, the computer would likely have to do more than simply function as a device to store, display and/or retrieve data. Rather, the computer should be programmed to actually implement a significant aspect of the claimed method. Moreover, it is still required that software based claims must not only meet the standards of novelty and non-obviousness under § 102 and § 103, but also the disclosure requirements under § 112 which mandate, at very least, disclosure of the key algorithms embedded in the software.

For claims not tied to a particular machine, the “transformation test” for patentability requires that claim identify a physical object (or representation thereof) being transformed. The extent to which transformation of electronic signals and electronically manipulated data that represent information age “physical objects” (e.g., currency) satisfy the machine or transformation test will be a key factor in determining whether this framework allows the patent system to adapt to information age innovation.

(2) Consider Other Forms of Intellectual Property Protection:

Judge Newman’s dissent warns of uncertainty that will result from the majority’s new test, but uncertainty as to the scope of patent eligibility for business processes has been the rule, not the exception. The best way to respond to uncertainty remains unchanged: keep options open and take advantage of all available tools for protecting innovation. Simply applying for patents has never been a complete solution to protecting innovation. The tools available for protecting innovation include not just patents, but trade secrets, employment agreements, IT asset controls and vendor contracts. The best approach to complete innovation protection remains a holistic integrated approach that makes strategic use of all available tools.

(3) Keep an Eye on In Re Ferguson:

A second case questioning the scope of § 101 is currently in the Federal Circuit’s queue and provides the court with an opportunity to apply the rules and rationale of the Bilski decision to a new fact pattern. In re Lewis Ferguson et al., Appeal No. 2007-1232 involves an appeal challenging the PTO’s holding that claims, directed to a method of marketing and selling products, fail to recite statutory subject matter. The court heard oral arguments on December 5, 2007. The Ferguson decision will likely provide insight as the court’s first application of the Bilski holding and may begin to answer the multitude of questions left open by the Bilski decision itself.

The full text of the In Re Bilski decision is available on the Federal Circuit Court’s website at: http://www.cafc.uscourts.gov/opinions/07-1130.pdf
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