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In re Bilski Federal Circuit Decision Impacts Business Method Patents

Today, the Federal Circuit issued its *en banc* opinion in *In re Bilski*, No. 2007-1130 (Fed. Cir. 2008), a case that clarifies the standards for the patentability of claims directed to “business methods.” Of the 12 judges who participated in the decision, three filed dissenting opinions, and two filed a concurring opinion (basically responding to the dissents).

The significant take-away from this decision is the Federal Circuit’s confirmation that business methods remain patentable, but are subject to the “machine-or-transformation” test adopted by the Supreme Court. This decision was intended to clarify the standard for determining whether a claimed method—such as a business method—constitutes a statutory “process” under Section 101 of the Patent Act.

Claims to business methods are categorized under the Patent Act as “process” claims: Section 101 of the Patent Act, 35 U.S.C. § 101, permits the patenting of a “new and useful process . . .” 35 U.S.C. § 101. In prior decisions, the Supreme Court has given the word “process” a restricted meaning. See *Parker v. Flook*, 437 U.S. 584, 593 (1978). Thus, the Supreme Court has held that a claim is not a patent-eligible “process” if it claims “laws of nature, natural phenomena, [or] abstract ideas.” See *Diamond v. Diehr*, 450 U.S. 175, 185 (1981) (citing *Flook*, 437 U.S. at 589, and *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972)).

In *Bilski*, applying principles set forth in *Flook*, *Benson*, and *Diehr*, the Federal Circuit held that the claim presented in the patent application was unpatentable under 35 USC § 101. The claim at issue is set forth below:

A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price comprising the steps of:

- (a) initiating a series of transactions between said commodity provider and consumers of said commodity wherein said consumers purchase said commodity at a fixed rate based upon historical averages, said fixed rate corresponding to a risk position of said consumer;
- (b) identifying market participants for said commodity having a counter-risk position to said consumers;
and
- (c) initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market participant transactions balances the risk position of said series of consumer transactions

Slip op. at 2. Note that the claim does not recite the use of a machine.

In rejecting the claim, the Federal Circuit interpreted Supreme Court precedent as requiring the “machine-or-transformation” test to determine whether a process is patentable under Section 101.

A claimed process is surely 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. See *Benson*, 409 U.S. at 70 ("Transformation and reduction of an article 'to a different state or thing' is the clue to the patentability of a process claim that does not include particular machines."); *Diehr*, 450 U.S. at 192 (holding that use of mathematical formula in process "transforming or reducing an article to a different state or thing" constitutes patent-eligible subject matter)

Slip op. at 10. In doing so, however, it noted in a footnote that the *Diehr* court's formulation of the "transformation test"—"e.g. transforming or reducing an article to a different state or thing," may indicate "the Supreme Court's recognition that the "machine-or-transformation" test may require modification in the future." Slip op. at 15, n. 12. As a corollary, it noted that under *Diehr*, "mere field of use limitations are generally insufficient to render an otherwise ineligible process claim patent-eligible." Slip op. at 15. For example, attempting to limit the use of a formula to a particular technological environment would not render an otherwise ineligible process eligible for patent protection. *Id.* Similarly, "insignificant post-solution activity will not transform an unpatentable principle into a patentable process." *Id.* at 16.

The Federal Circuit examined its own prior precedents. It concluded that its *Freeman-Walter-Abele* test¹ "is inadequate," as is the "useful, concrete, and tangible result" language associated with its prior decision in *State St. Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368, 1370 (Fed. Cir. 1998). Slip op. at 19.

It did not, however, entirely discard the essential holding of *State Street*; it reaffirmed that business method claims are "subject to the same requirements for patentability as any other process or method." Slip op. at 21. Further, it clarified that its decision in *In re Comiskey*, 499 F.3d 1365, 1371 (Fed. Cir. 2007), did not enunciate a new section 101 test. *Id.* at 22.

The Federal Circuit offered some guidance as to how the application of the "machine-or-transformation" test might be applied.

The machine-or-transformation test is a two-branched inquiry; an applicant may show that a process claim satisfies § 101 either by showing that his claim is tied to a particular machine, or by showing that his claim transforms an article. See *Benson*, 409 U.S. at 70. Certain considerations are applicable to analysis under either branch. **First**, as illustrated by *Benson* and discussed below, the **use of a specific machine or transformation of an article must impose meaningful limits** on the claim's scope to impart patent-eligibility. See *Benson*, 409 U.S. at 71-72. **Second**, the **involvement of the machine or transformation in the claimed process must not merely be insignificant extra-solution activity**. See *Flook*, 437 U.S. at 590.

Slip op. at 24 (emphasis supplied).

Because the applicants in *Bilski* had admitted that the claim did not limit any process step to a specific machine or apparatus, the Federal Circuit did not directly address the "machine" part of the test. Instead, the Federal Circuit focused the remainder of its opinion solely on what is meant by the "transformation" part of the test. *Id.* In this regard, the court noted that "the main aspect of the transformation test that requires clarification here is what sorts of things constitute 'articles' such that their transformation is sufficient to impart patent-eligibility under § 101. It is virtually self-evident that a process for a chemical or physical transformation of physical objects or substances is patent-eligible subject matter." *Id.* at 24-25. It noted that in *Abele*, it had rejected a broad process claim involving an undefined complex system and indeterminate factors drawn from unspecified "testing," but allowed a dependent claim that specified "X-ray attenuation data produced in a two-dimensional field by a computed tomography scanner. *Id.* at 26. "This data clearly represented physical and tangible objects, namely the structure of bones, organs, and other body tissues. Thus, the transformation of that raw data into a particular visual depiction of a physical object on a display was sufficient to render that more narrowly-claimed process patent-eligible." *Id.* The court noted that it had held that the electronic transformation of the data itself into a visual depiction in *Abele* was sufficient, and stated its belief that "this is faithful to the concern the Supreme Court articulated as the basis for the 'machine-or-transformation' test, namely, the prevention of pre-emption of fundamental principles." *Id.* Thus, it concluded, "[s]o long as the claimed process is limited to a practical application of a fundamental

¹ *In re Freeman*, 573 F.2d 1237 (CCPA 1978); *In re Walter*, 618 F.2d 758 (CCPA 1980); and *In re Abele*, 684 F.2d 902 (CCPA 1982).

principle to transform specific data, and the claim is limited to a visual depiction that represents specific physical objects or substances, there is no danger that the scope of the claim would wholly pre-empt all uses of the principle.”

The Federal Circuit contrasted “data gathering” with “data transformation.” Data gathering does not render a process claim patentable. *Id.* Along these lines, the Federal Circuit had previously held invalid claims directed to a method of conducting an auction of multiple items in which the winning bids were selected in a manner that maximized the total price of all the items (rather than to the highest individual bid for each item separately). *In re Schrader*, 22 F.3d 290, 291 (Fed. Cir. 1994).

Under the Supreme Court “machine-or-transformation” standard, the Federal Circuit held that the claim at issue did not limit any process step to a specific machine or apparatus. It further held that the claim did not satisfy the transformation test because the process, as claimed, does not transform any article to a different state or thing. “Purported transformations or manipulations simply of public or private legal obligations or relationships, business risks, or other such abstractions cannot meet the test because they are not physical objects or substances, and they are not representative of physical objects or substances.” Slip op. at 28.

By rejecting its own prior formulations of tests for patentability of business methods, and failing to provide any insight into the application of the “machine” part of the Supreme Court’s test, the *Bilski* decision may raise as many questions as it answered. Query whether any Federal Circuit decisions prior to *Bilski* relating to the patentability of business methods may be relied on in the future.

This case has significant implications for claim drafting and for litigation. The question to be answered in cases that follow *Bilski* is, What is necessary to meet the “transformation” test? As to business method patents currently asserted in litigation, *Bilski* may give rise to an additional defense of invalidity. Of course, the U.S. Supreme Court may decide to set forth its views on the issues raised in this important decision from the Federal Circuit.

If you have any questions about the *Bilski* decision and how it may affect your business, please contact one of the Katten Muchin Rosenman LLP intellectual property attorneys listed below.

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