

## NEW LAW ON WHAT IS PATENTABLE - THE FEDERAL CIRCUIT RELEASES ITS *EN BANC IN RE BILSKI* DECISION

### *The Case*

On October 30, the Federal Circuit issued its highly anticipated decision in *In re Bilski*. *Bilski* asked the court to decide what subject matter (*e.g.*, business methods) is eligible for patent protection. This question is separate and apart from the question of whether an invention is new, useful and not obvious. If the invention is not to patent-eligible subject matter, it makes no difference if the invention is new, useful and not obvious, no valid patent can result.

In its decision, the Federal Circuit did not go so far as to reject the whole category of business method patents. Instead the court adopted a “machine-or-transformation” test. Under this test, a method or process is patent-eligible subject matter if: “(1) “it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.” Thus, whether a business method or software patent is still valid must be evaluated on a patent-by-patent basis.

The invention in *Bilski* was to a method of hedging risk in commodities trading. In abbreviated form, *Bilski* sought to claim “[a] method for managing the consumption of risk costs of a commodity...” by (a) “initiating a series of transactions ...,” (b) “identifying market participants ...,” and (c) “initiating [another] series of transactions...”<sup>1</sup>

The Board of Patent Appeals and Interferences at the U.S. Patent and Trademark Office held the *Bilski* invention to be non-patentable subject matter. *Bilski* appealed to the Federal Circuit. The Federal Circuit agreed with the Board.

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<sup>1</sup> Claim 1 reads:

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

### ***The Federal Circuit Opinion***

The Federal Circuit started its analysis by looking at 35 U.S.C. § 101 which says:

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

The Federal Circuit sought to determine the meaning of the term “process” in § 101. In an earlier case, the Supreme Court held that the statute uses the term “process” more narrowly than in ordinary use. In particular, “a claim is not a patent-eligible ‘process’ if it claims ‘laws of nature, natural phenomena [or] abstract ideas.’” The Supreme Court had also held that “[p]henomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable, as they are the basic tools of scientific and technological work.” The Federal Circuit distilled the issue before it to be “whether [Bilski is] seeking to claim a fundamental principle (such as an abstract idea) or a mental process.”

The question of whether a patent “claim is drawn only to a fundamental principle is essentially an inquiry into the scope of [that claim]; *i.e.*, whether the effect of allowing the claim would be to allow the patentee to pre-empt substantially all uses of that fundamental principle. If so, the claim is not drawn to patent-eligible subject matter.” Thus, a patent to a mathematical algorithm alone is not patent-eligible subject matter. However, a machine which, for example, cures rubber while molding a tire and which relies on a mathematical algorithm to control the process is patent-eligible subject matter. The machine does not pre-empt substantially all uses of the algorithm – just use of the algorithm in the tire molding machine. But a “process of using electromagnetism to print characters at a distance that was not transformative or tied to any particular apparatus” would not be patent-eligible subject matter. (The latter being a claim denied to Samuel F.B. Morse, of telegraph fame.)

In adopting the machine-or-transformation test, the Federal Circuit abandoned two well known tests for patent-eligibility. First, the court described as “inadequate” the *Freeman-Walter-Abele* test which required determining if the claim recited an algorithm and, if so, whether the algorithm was “applied in any manner to physical elements or process steps.” Second, the court described as “insufficient” the “useful, concrete and tangible result” test associated with *State Street Bank*. (*State Street Bank* is the 1998 Federal Circuit case that held business method patents to be patent-eligible subject matter.)

*Bilski* specifically “reject[ed] calls for categorical exclusions” such as the wholesale exclusion of business method or software patents. However, under the machine-or-transformation test, a claim is patent-eligible subject matter only if the “claim is tied to a particular machine” or the “claim transforms an article.” Additionally, “the use of a specific machine or transformation of an article must impose meaningful limits on the

claim's scope to impart patent-eligibility and "the involvement of the machine or transformation in the claimed process must not merely be insignificant extra-solution activity."

Use of the test is not optional. The Federal Circuit held that "the machine-or-transformation test is the only applicable test and must be applied...."

Bilski will likely seek review by the Supreme Court. However, the Federal Circuit went to great lengths to cite Supreme Court precedent and explain how it was following that precedent, thus seeking to minimize the chance that a petition for certiorari would be granted.

### ***What You Need To Know***

Existing business method and software patent claims should be examined under the new machine-or-transformation test. Licenses to such patents should be reviewed along with the underlying patents to determine if the licensed claims are now invalid.

*If you have any questions regarding this issue or other patent and intellectual property matters, please contact **Bruce Wieder** at **202-776-2888** or **[bwieder@dowlohnesc.com](mailto:bwieder@dowlohnesc.com)**.*

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