

Court of Appeals for the Federal Circuit Renders Decision In *Re Bilski*

On October 30, 2008, the *en banc* Court of Appeals for the Federal Circuit (“CAFC”) rendered its long-awaited decision concerning “business method patents” in *In re Bilski* (“Bilski”). By a vote of 9 to 3, the CAFC affirmed the Patent Office Board of Patent Appeals and Interferences that rejected patent application claims for being directed to subject matter that is not patentable under 35 U.S.C. § 101 (“§ 101”). The CAFC cited to U. S. Supreme Court precedent in *Parker vs. Flook*, 437 US 584 (1978), for determining whether a process is patentable 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.” The CAFC applied the “machine-or-transformation” test defined by the Supreme Court, and the appellant's claims were held to fail that test.

The CAFC decision in *Bilski* is largely viewed as to limit the kinds of subject matter that can be claimed in U.S. patents. The court abandoned previous standards that test for subject matter that is eligible for patent protection. First, the Court examined the *Freeman-Walter-Abele* test, which determines whether a claim recites an algorithm [within the meaning of *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972)], and then whether that algorithm is “applied in any manner to physical elements or process steps.” In *Bilski*, the Court held that test to be “inadequate”, and concluded that a claim that fails that test may “nonetheless be patent-eligible.” The CAFC held that “even a claim that recites ‘physical steps’ but neither recites a particular machine or apparatus, nor transforms any article into a different state or thing, is not drawn to patent-eligible subject matter. Conversely, a claim that purportedly lacks any ‘physical steps’ but is still tied to a machine or achieves an eligible transformation passes muster under § 101.” Secondly, the Court examined a test for patent-eligible subject matter associated with the landmark *State Street* decision that determines whether the claimed invention produces a “useful, concrete, and tangible result.” In *Bilski*, the Court held that test, too, is insufficient and concluded “the machine-or-transformation test is the applicable test for patent-eligible subject matter.”

Noting that algorithms are unpatentable, *per se*, the CAFC cited to *Benson* for support that patent claims which preempt all uses of an algorithm are unpatentable. The CAFC concluded that claims preempting all uses of an algorithm, i.e., the “algorithm that has no uses other than those that are covered by the claims,” are “effectively drawn to the algorithm itself.” Alternatively, a process that “transforms a particular article to a specified different state or thing by applying a fundamental principle” does define patentable subject matter on the grounds provided the principle (i.e., the algorithm) can be used “to transform any other article, to transform the same article but in a manner not covered by the claim, or to do anything other than transform the specified article.” Accordingly, the Court adopted the “machine-or-transformation” test requiring that claims recite subject matter that “is tied to a particular machine or apparatus,” or “transforms a particular article into a different state or thing.”

Although some view the *Bilski* decision as signaling the end of business method patents and patents directed to software, it is at least questionable whether the CAFC decision in *Bilski* spells the end for such patents. For example, the Court noted that so long as a “claimed process is limited to a practical application of a fundamental 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 preempt all uses of the principle.” Further, the Court left open 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.”

Moreover, the CAFC reiterated its position in *State Street* that business method claims have no “categorical exceptions” and are “subject to the same legal requirements for patentability as applied to any other process or method.” The Court decided that when the machine-or-transformation test is met, a business method process recites subject matter that is patentable, at least under Section 101. Although the machine-or-transformation test may narrow the determination whether subject matter is eligible for patent protection, the decision does not appear to exclude inventors from enjoying patent protection for software-related inventions, including those that are drawn to business methods.

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