In re Bilski Decision Changes the Landscape for "Business Method" Patents

On October 30, 2008, the United States Court of Appeals for the Federal Circuit issued its long-awaited en banc decision (including one concurrence and three dissents) in *In re Bilski*. Although *Bilski* is generally viewed as a "business methods" case, the court addressed the question of patent subject-matter eligibility under 35 U.S.C. § 101 of methods generally. Accordingly, patents in technologies as diverse as software and medical devices will be subject to the same test for patent eligibility.

That eligibility test, dubbed the "machine-or-transformation" test by the Federal Circuit, does not rule out the patentability of business methods or indeed any kind of process. It may, however, raise the patentability bar for some of them, depending on how courts apply it in the future. While the Federal Circuit left for future cases the "precise contours" of the application of the test, the method claims in *Bilski*, which were directed to methods for hedging against risks in commodities trading, did not survive it. In rejecting those claims, the Federal Circuit held that "purported transformations or manipulations simply of public or private legal obligations or relationships, business risks, or other such abstractions" do not meet the "transformation" prong of the test.

The Federal Circuit found authority for its across-the-board subject-matter eligibility test in a 1972 opinion from the United States Supreme Court, *Gottschalk v. Benson*. Under that test, a method invention is eligible for patenting 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 Federal Circuit repeatedly stressed that this test is the only test for the subject-matter eligibility of method inventions. The Federal Circuit also suggested, however, that the Supreme Court "may ultimately decide to alter or perhaps even set aside this test to accommodate emerging technologies."

The Federal Circuit also explicitly rejected a number of alternative formulations of the subject-matter eligibility test. For example, it rejected the "technological arts" test and explicitly admonished both the Patent and Trademark Office and the district courts to avoid using "technological arts" as a shortcut for a "machine-or-transformation" inquiry.

The Federal Circuit did not explicitly overrule its decision in *State St. Bank & Trust Co. v. Signature Fin. Group*, which is generally regarded as having opened the door for "business method" patents. However, it noted that to the extent State Street and subsequent decisions rely on the "useful, concrete and tangible result" test rather than the "machine-or-transformation" test, those portions of those decisions "should no longer be relied on."

Because the *Bilski* claims at issue did not contain any "machine" limitations, the Federal Circuit's consideration was limited to an application of the "transformation" prong of the test, concluding that Bilski's "manipulations ... of public or private legal obligations or relationships, business risks, or other such abstractions" did not constitute a patent-eligible "transformation." It further noted that a transformation that merely involved "insignificant postsolution activity" or "extra-solution activity" would not be a sufficient transformation, citing the Supreme Court's opinions in *Diamond v. Diehr* and *Parker v. Flook*. The Federal Circuit did not address what would constitute a sufficient "tie" to a machine or apparatus under the "machine" prong of the test, and explicitly declined to address whether mere recitation of a computer would be sufficient.

The decision included one concurrence and three dissents. Of the three dissenting opinions, only Judge Newman's dissent advocated a different result. Judge Mayer dissented because he felt the majority did not go far enough and should have overruled *State Street* and *AT&T Corp. v. Excel Communications, Inc.* and established a per se ban on "business method" patents. Judge Rader, on the other hand, felt that the majority went further than it had to when it could have simply affirmed the rejection of the *Bilski* claims as being directed to a patent-ineligible "abstract idea."

To find out how the the Federal Circuit's return to a stricter reliance on the "machine-or-transformation" test for subject-matter eligibility affects your interests in method inventions, please contact Jeffrey Ingerman, James Myers, or James DeGraw.