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US Federal Circuit Court Rules on Subject Matter Patentability in *In Re Bilski*

Areas of Interest

Intellectual Property
United States

On October 30, 2008, the Federal Circuit affirmed the final rejection by the Board of Patent Appeals and Interferences (BPAI) of a claimed method for hedging risks in commodities trading in *In re Bilski*. The BPAI had rejected the claimed method on the ground that, because the method did not require the use of a computer or other machine, it was not directed to patentable subject matter as it failed to constitute a statutory "process" under Section 101 of the Patent Act. The Federal Circuit affirmed the BPAI's rejection in an *en banc* opinion written by Chief Judge Michel for nine judges. Two judges (Dyk and Linn) joined the majority but filed a concurring opinion to take issue with the dissenters. Three judges filed separate dissents (Newman, Mayer and Rader).

Relying on the Supreme Court decision in *Diamond v. Diehr*, 450 U.S. 175 (1981), the Federal Circuit stated that "[t]he true issue before us then is whether Applicants are seeking to claim a fundamental principle (such as an abstract idea) or mental process." The Federal Circuit relied on *Diehr* for the "distinction between those claims that 'seek to pre-empt the use of' a fundamental principle, on the one hand, and claims that seek only to foreclose others from using a particular 'application' of that fundamental principle, on the other." (emphasis in original) The former is not patentable while the latter is patentable. The Federal Circuit held that this standard means that if the claim would "pre-empt substantially all uses of that fundamental principle…[it] is not drawn to patent-eligible subject matter." To apply this standard, the Federal Circuit adopted the "machine or transformation test" that was referenced in *Diehr* as the exclusive test for patentability: a method (or process) claim must either require the use of a machine or result in the transformation of an article to be patentable subject matter.

The Federal Circuit went on to cite *Diehr* for the proposition that "the [Supreme] Court has held that whether a claimed process is novel or non-obvious is irrelevant to the § 101 analysis." Thus, a claim may be non-patentable even though it is new and non-obvious. And the Federal Circuit made it clear that a claim might be patentable subject matter even though particular steps or limitations, by themselves, would not be patentable subject matter.

The Federal Circuit expressly repudiated two earlier tests for patentability of processes. First, it repudiated the "*Freeman-Walter-Abele*" test for patentability (named for three CCPA decisions), namely (i) whether a claim recites an "algorithm" and (ii) whether that algorithm "is applied in any matter to physical elements or process steps." Second, it repudiated the "useful, concrete and tangible result" test from the Federal Circuit's own decision in *State Street Bank*. It also declined to adopt a "technological arts test" proposed by some amici. All alternative tests were rejected in favor of the "machine-or-transformation test," which requires that "the transformation of an article must impose meaningful limits on the claim's scope to impart patent-eligibility" and that the "machine or transformation in the claimed process must not merely be insignificant extra-solution activity." This latter requirement may bar a significant number of business method claims that seek to achieve patentability by essentially grafting the use of a computer (or the Internet) onto an otherwise unpatentable method.

Importantly, the Federal Circuit also affirmed its holding in *State Street Bank* that there is no categorical

exclusion for business method patents, holding that they are subject to the same test for patentability as other method patents. Furthermore, the Federal Circuit characterized its decision in *Comiskey* (affirming rejection of a claim for a method of arbitrating disputes) as based on the claims at issue failing the "machine-or-transformation test" rather than as a rejection of the claimed methods for reciting a mental process that lacked significant physical steps.

As to Bilski's claim, the Federal Circuit held that, as in *Comiskey*, the claim was directed to mental processes: here, "the mental and mathematical process of identifying transactions that would hedge risk." Because "claim 1 would effectively pre-empt any application of the fundamental concept of hedging and mathematical calculations inherent in hedging," it failed the "machine-or-transformation test" and was therefore not directed to patentable subject matter.

Judge Newman dissented, arguing "that a process invention that is not clearly a 'fundamental truth, law of nature, or abstract idea' is eligible for examination for patentability," i.e., that it is patentable subject matter. She would have held claim 1 patent eligible.

Judge Rader agreed with the court that claim 1 was not patent eligible, but he dissented because the court's approach was, in his view, needlessly circuitous. He would have resolved the appeal in a single sentence: "Because Bilski claims merely an abstract idea, this court affirms the Board's rejection."

Judge Mayer also dissented, but on an entirely different ground. He would affirm the rejection of Bilski's claim 1 on the ground that it is a business method claim. In his view, *State Street Bank* should be overruled and business method claims should not be patentable subject matter.

If you have any questions about this case, please contact Ian N. Feinberg at +1 650 331 2055, Joseph Melnik at +1 650 331 2085, or the Mayer Brown attorney with whom you normally communicate.

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