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**Federal Circuit Decision in *In re Bilski* Requires
Machine-or-Transformation for Process Claims to Qualify
as Patent-Eligible Subject Matter**

On October 30, 2008, an *en banc* panel of the Court of Appeals for the Federal Circuit (“Federal Circuit”) narrowed the scope of protection afforded by so-called business method patents. In *In re Bilski*, ___ F.3d ___, No. 2007-1130 (Fed. Cir. 2008) (“*Bilski*”), the Federal Circuit held that a claim to a method of hedging risk in commodities trading is not patent-eligible subject matter under the patent laws (35 U.S.C. § 101). The court’s opinion, however, is not limited to business methods directed to the financial services industry. Indeed, it is likely that *Bilski* will be applied by the U.S. Patent and Trademark Office and lower courts to determine the patent-eligibility for all method or process inventions for which patent protection is sought or has been previously obtained. The Federal Circuit’s holding in *Bilski* will likely impact the ability of companies across nearly all industry sectors to obtain patent protection for method or process technologies.

Though the U.S. patent laws specifically provide for protection of certain process inventions, it is often difficult to distinguish between a patent-eligible process claim and a patent-ineligible abstract idea or mental process. The patent laws, therefore, require a threshold determination as to patent-eligibility of a particular process claim under 35 U.S.C. § 101. In *Bilski*, the Federal Circuit identified the machine-or-transformation test, articulated by the Supreme Court in *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972), as the only test appropriate for making this determination. The machine-or-transformation test requires that for a claimed process to be eligible for patent protection, the process must have one of the following characteristics: (1) be tied to a particular machine or apparatus, or (2) transform a particular article into a different state or thing.

The Federal Circuit identified specific considerations for determining whether one or both of the required characteristics is present in a claimed process. First, the use of the machine or the transformation of the article “must impose meaningful limits on the [process] claim’s scope to impart patent-eligibility.” Second, the “involvement of the machine or transformation in the claimed

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process must not merely be insignificant extra-solution activity.” While the court provides some examples of “insignificant extra-solution activity” taken from prior decisions, the full scope and effect of these considerations is not immediately clear from the *Bilski* opinion.

The Federal Circuit did not analyze the machine implementation part of the test, because the patent applicant (*i.e.*, *Bilski*) admitted that the patent claim it sought did not limit the process steps to any specific machine or apparatus. Accordingly, the Federal Circuit left to future cases the appropriate analysis of the boundaries of the machine implementation characteristic, including “whether or when recitation of a computer suffices to tie a process claim to a particular machine.”

The Federal Circuit held that *Bilski*’s method claims are not patent-eligible, as they are merely mental process steps that do not transform any article. A transformed article must be a physical object or substance or representative of physical objects or substances. The Federal Circuit appears to define at least a subset of processes that it does not view as patent-eligible, namely,

[p]urported transformations or manipulations simply of public or private legal obligations or relationships, business risks, or other abstractions cannot meet the test because they are not physical objects or substances, and they are not representative of physical objects or substances.

The claimed transactions in *Bilski* involved the exchange of legal rights, but not the transformation of any physical object or substance.

The Federal Circuit took the opportunity provided by *Bilski* to clarify much of its own case law in the area, holding that the machine-or-transformation test is the only remaining test appropriate for determining the patent-eligibility of process claims. In particular, the Federal Circuit discarded the *Freeman-Walter-Abele* test, which determines whether the claim recites an algorithm and whether that algorithm is applied to physical elements or process steps. The court also held that the “useful, concrete, and tangible result” test applied in *State Street Bank & Trust v. Signature Financial Group* is inadequate, but reaffirmed *State Street*’s conclusion to reject a categorical exclusion for “business methods,” because all process claims are subject to the same requirements for patentability. The court also clarified that the test applied to mental processes in *In re Comiskey* was actually applied as the machine-or-transformation test. Similarly, the court formally discarded the “physical steps” test that had been previously rejected in *AT&T v. Excel Communications*. Finally, the Federal Circuit eliminated the Patent Office’s “technological arts test,” stating that this test is both ambiguous and ever-changing.

There were eight judges joining in Chief Judge Michel’s majority opinion, a single concurrence (Judges Dyk and Linn) and three dissenting opinions (Judge Newman, Judge Rader and Judge Mayer).

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