

### Introduction

The *en banc* Federal Circuit issued its long-pending decision in *In re Bilski* Thursday, October 30. The ruling addressed which technologies are, or are not, eligible for patent protection. More specifically, the case was the first effort by the full Federal Circuit to address the patentability of so-called business method patents under Section 101 of the Patent Act. The court's answer: such inventions might be or might not be patentable (as may certain software and medical method claims, by extension). In particular, if an invention relates to a "pure" business method that is not limited to performance on a computer and produces only abstract results such as manipulation of documents, information, or data, it is not patentable subject matter. If, however, the method is performed on a computer and is limited to operations on particular types of data, it can be patentable – if the patent claims are drafted correctly. This alert briefly addresses the most important points in the opinion, and then discusses ways that clients can address the opinion moving forward.

### The Majority Opinion - the "machine-or-transformation" test

Chief Judge Michel authored the majority opinion, and was joined by eight of the remaining eleven judges. The most important point in the majority opinion is its adoption of a "machine-or-transformation" test for patentability, pulled from the Supreme Court's decisions in Diamond v. Diehr, 450 U.S. 175 (1981) and Gottschalk v. Benson, 409 U.S. 63 (1972). Under the test, a process will be patentable if: "(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." Underlying this test is a general concern, again pulled from Supreme Court decisions, that patents should not "pre-empt substantially all uses of a fundamental principle." The majority also noted that a patentee cannot save an otherwise unpatentable claim by limiting it to a particular field-of-use, because it would still preempt all uses in that particular field. It is not entirely clear how the court would distinguish between a claim that merely preempts some uses in a general field (and thus would be patentable), and a claim that preempts all uses in a sub-field of the broad field (and thus would not be patentable).

The majority also distanced itself from other suggested standards, including some that it had previously used. For example, it dismissed its own *Freeman/Walter/Abele* test as "inadequate." The court also rejected a proposed "technological arts" test because it was unclear, and refused to adopt any categorical exceptions to patentability. Moreover, the majority noted that a method claim will not be patentable merely because it recites "physical steps." And it demoted the 'concrete, useful, and tangible (CUT) result' standard of *State Street Bank* from being the test for patentability, to being nothing more than a "useful indication" of patentability.

### Bilski's Claims

Bilski's claim was essentially directed to a method of hedging against particular investment risks, and Bilski admitted that the claim was not limited to performance on a computer or any other sort of machine:

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 court reasoned that this process did not transform any article to a different state of thing: “Purported transformations or manipulations simply of public or private legal obligations or relationships, business risks, or other such abstractions cannot meet the test because they are not physical objects or substances, and they are not representative of physical objects or substances.”

Finally, although the majority borrowed the language for its “machine-or-transformation” test verbatim from Supreme Court opinions, it seemed to recognize that the test might not be the only test or the complete test – at least not in all cases. It thus explicitly noted that the Supreme Court or the Federal Circuit itself might one day (soon?) modify or expand the test.

### **Effect on Software and Medical Methods**

Although the majority suggested that its was not addressing issues that were not presented, it clearly tried to provide some guidance – though very limited guidance – indirectly. First, with respect to medical diagnostic and similar methods that are performed largely inside a physician’s head, like those addressed by three Justices in *Lab Corp. v. Metabolite Labs.*, 126 S. Ct. 2921 (2006), the majority noted in footnote 26: “Of course, a claimed process wherein all of the process steps may be performed entirely in the human mind is obviously not tied to any machine and does not transform any article into a different state or thing. As a result, it would not be patent-eligible under § 101.” This comment appears to be in line with the concerns stated by Justice Breyer in *Lab Corp.*, and could spell trouble for certain diagnostic claims. Two similar cases are currently pending in the Federal Circuit: *Classen Immunotherapies v. Biogen, Idec.* (D. Md.) and *Prometheus Labs v. Mayo Medical Labs.* (S.D.Cal.)

The court gave similar indirect guidance for software inventions by reviewing the facts from *In re Abele*. There, a claim was invalidated where it “did not specify any particular type or nature of data ... [or] specify how or from where the data was obtained or what the data represented.” In contrast, a dependent claim was held valid where it recited certain data as being a certain type of X-ray attenuation data. Likewise, an electronic transformation of the data was sufficient for patentability, and an actual transformation of the physical object represented by the data was not required: “So long as the 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 pre-empt all uses of the principle.” However, merely adding a data-gathering step or “insignificant post-solution activity” to an algorithm will not make a claim patentable.

### **The Additional Opinions**

Four judges – Dyk, Newman, Rader, and Mayer – wrote separately. Although only Judge Dyk called his opinion a concurrence, it seems that every opinion except Judge Newman’s was actually a concurrence.

Judge Dyk (with Judge Linn joining) wrote at length to address points made by Judge Newman in her dissent. In the main, he provided a historical review (all the way back to England) of the concepts at play in Section 101 to explain why the term “process” could properly be limited beyond its seemingly expansive ordinary meaning.

Judge Newman’s dissent provided a similar historical review, and emphasized the broad wording of “process” throughout the history of Section 101, and the Supreme Court’s broad treatment of Section 101. She also emphasized the importance of *stare decisis* and public reliance.

Judge Mayer termed his concurrence a dissent, likely because he really disliked Bilski’s claims: “The patent system is intended to protect and promote advances in science and technology, not ideas about how to structure commercial transactions. . . . Affording patent protection to business methods lacks constitutional and statutory support, serves to hinder rather than promote innovation and usurps that which rightfully belongs in the public domain.” He felt that the majority’s test would “do little to stem the growth of patents on non-technological methods and ideas.”

Judge Rader felt that the majority made things too complicated – he believed it was enough to classify Bilski’s invention as a mere abstract idea, and thus rank it as unpatentable. He believed that the majority’s test was built by taking, out of context, Supreme Court dicta from cases covering old technologies.

### **Looking Forward**

The Federal Circuit purposefully left many points open in its opinion, such as the meaning of “physical” transformation, what it means for a machine to impose “meaningful limits” on the scope of a process, what it means for a transformation to be “central to the purpose of the claimed process,” and what is or is not “insignificant post-solution activity,” “mere data gathering,” and “nominal recitation of structure.” The effect of this decision may likely be muted by two main points: (1) the Patent Office has not been issuing many (if any) “pure” business method claims for a long time; and (2) the Federal Circuit was careful to cabin the reach of its holding even if the words it chose or its tests are not the clearest in the world.

Clients with issued software patents, medical method patents, and other similar patents may want to run a “Bilski test” on the claims of those patents, particularly if there is a likelihood that the patents will be asserted in the future. If those patents raise any concerns, it may be advisable to correct potential problems or insure against them (e.g., by adding new, more-patentable claims) via reissue proceedings or continuation practice. However, clients should understand that amendments made in a reissue proceeding can provide competitors with additional defenses

against a patent. As for patent applications that are still pending, applicants should develop strategies for adding the sorts of elements identified by the Federal Circuit to the claims – in most cases, we expect this can be done without significantly affecting the strength of the claims. For patents currently in litigation, defendants should re-check their defenses, but should be careful not to over-read *Bilski*, and plaintiffs may really want to look into correcting suspect patents.

If you have any questions about these summaries or Fish & Richardson's appellate practice, please contact John Dragseth ([dragseth@fr.com](mailto:dragseth@fr.com)) in our Twin Cities office or Christian Chu ([chu@fr.com](mailto:chu@fr.com)) in our Washington, D.C. office. They both have extensive experience representing parties as appellant and appellee on appeals to the Federal Circuit.

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