

## Federal Circuit Clarifies Subject Matter Patentability Test

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*The en banc U.S. Court of Appeals for the Federal Circuit has clarified the proper test for determining whether a method constitutes a patent-eligible “process” under 35 U.S.C. § 101. The court held that the Supreme Court’s “machine or transformation” test is the exclusive test for determining whether a process is patentable under § 101. However, the Federal Circuit reaffirmed its prior holding that there is no categorical exclusion of business method patents and that such claims should be judged using the same standards applied to any process or method. The court also reaffirmed that “field of use” limitations and “insignificant extra-solution activity” are insufficient to make an otherwise ineligible process or method patentable.*

The decision was in *In re: Bilski*, No. 2007-1130 (Fed. Cir. Oct. 30, 2008). The court affirmed a rejection of patent claims directed to a method of hedging risks in commodities trading through use of an intermediary “commodity provider.” Under this method, the “provider” would engage in a series of transactions with both the buyers and sellers of a commodity in order to hedge the risk of price fluctuations.

The patent examiner rejected all of the patent claims under § 101 because the invention was not directed to the “technological arts.” On appeal, the Board of Patent Appeals and Interferences held that the examiner erred in relying on the “technological arts” test. Even so, the board concluded that the applicants’ method was not patentable because it was not implemented on a specific apparatus nor did it involve the “transformation of physical subject matter from one state to another.” The applicants appealed to the Federal Circuit, which ordered *en banc* review *sua sponte*.

Writing for a nine-judge majority, Chief Judge Michel explained that § 101 provides for four categories of patent-eligible subject matter: processes, machines, manufactures, and compositions of matter. Only the first category was at issue in *Bilski*. While the term “process” ordinarily has a broad meaning, the Supreme Court has held that a process claim is not patent-eligible if it claims “laws of nature, natural phenomena, [or] abstract ideas.” *Diamond v. Diehr*, 450 U.S. 175, 185 (1981). Nor can “mental processes” or “abstract

intellectual concepts” be patented. See *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972). Thus, 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 a mental process.”

Relying on *Diehr* and *Benson*, the Federal Circuit drew a distinction between claims that “seek to pre-empt the use” of a fundamental principle, such as a law of nature or mathematical formula, and those claims that only seek to foreclose use of a particular “application” of that principle. For instance, a process using a mathematical formula as part of a series of steps may be patentable while claims pre-empting all uses of the formula would not be patentable. In applying this standard, the Federal Circuit concluded that the Supreme Court’s “machine or transformation” test is the exclusive test for patentability of a process under § 101. Under this test, a process is 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.”

While leaving open the possibility that its test might be modified by the Supreme Court in the future to accommodate new technologies, the Federal Circuit concluded that the “machine or transformation” test is now the exclusive test for determining patentability of a process under § 101. The court specifically rejected two of its own prior tests. The Freeman-Walter-Abele test, named for three decisions of its predecessor court, required: “(1) determining whether the claim recites an ‘algorithm’ within the meaning of *Benson*” and then, “(2) determining whether that algorithm is applied in any manner to physical elements or process steps.” The Federal Circuit rejected this test as “inadequate.” Likewise, it rejected the “useful, concrete, and tangible result” test from its decision in *State Street Bank & Trust Co. v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998). The court also refused to adopt a “technological arts” test.

In explaining the “machine or transformation” test, the Federal Circuit pointed out that, under *Diehr*, mere “field of use” limitations were insufficient to render an ineligible process patentable. The court also noted that “insignificant extra-solution activity,” such as data gathering, cannot make an otherwise ineligible process patentable. However, the court reaffirmed its holding in *State Street* that there is no categorical exclusion for business method patents. Rather, business method patents should be judged by the same standards of patentability that are applied to any process or method.

Similarly, despite the urging of several *amici*, the court declined to adopt a broad exclusion over software or any other subject matter. The Federal Circuit also declined to impose a requirement that a patent-eligible process or method contain “physical steps,” a test it had criticized in *AT&T Corp. v. Excel Comm’ns, Inc.*, 172 F.3d 1352, 1359 (Fed. Cir. 1998). Because the applicants’ claimed method did not involve the use of any specific machine or apparatus, the Federal Circuit focused on the “transformation” prong of the test. After reviewing its precedent, the court concluded that the applicants’ process did not meet the transformation requirement. The court explained that “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.” At most, the applicants’ process involved transformations of legal rights or relationships. Further, the applicants’ claims were directed to “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,” the method was not patentable.

Three judges filed dissenting opinions, while two judges filed separate concurring opinions to answer the arguments raised by the dissenting judges.

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