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LEGAL ALERT

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In re Bilski: The "Machine-or-Transformation Test" is the Proper Test to Determine Patentable Subject Matter for Process Claims

In a highly anticipated opinion following en banc review of *In re Bilski* (Civil Action No. 2007-1130), the U.S. Court of Appeals for the Federal Circuit held on October 30, 2008, that the proper test for determining patentable subject matter of process claims under 35 U.S.C. § 101 is the "machine-or-transformation test." More specifically, the court states that the "machine-or-transformation test is a two-branched inquiry; an applicant may show that a process claim satisfies § 101 either by showing that his claim is tied to a particular machine, or by showing that his claim transforms an article," as originally provided by the U.S. Supreme Court in *Gottschalk v. Benson*, 409 U.S. 63, 70 (1972).

In the underlying case, the Applicants—Bernard Bilski and Rand Warsaw—appealed a final decision by the U.S. Patent and Trademark Office Board of Patent Appeals and Interferences (BPAI) that all claims of U.S. Patent Application No. 08/833,892 were unpatentable subject matter. *See Ex parte Bilski*, No. 2002-2257 (BPAI 2006). The claims at issue were generally directed toward a method for hedging risk when trading commodities.

The court's majority opinion was authored by Chief Judge Michel with Judges Lourie, Schall, Bryson, Gajarsa, Linn, Dyk, Prost, and Moore joining. To rationalize that the "machine-or-transformation test" is the proper test, the court concluded that a claim reciting a "fundamental principle" not tied to a particular machine or apparatus, or that does not transform an article into a different state or thing, effectively preempts all applications of the recited fundamental principle, relying on an analysis applied in *Diamond v. Diehr*, 450 U.S. 175, 187 (1981). Accordingly, the court firmly stated in multiple instances that the proper test for determining patentable subject matter of process claims under § 101 is the "machine-or-transformation test" as provided for in *Benson* and applied in many subsequent Supreme Court and Federal Circuit decisions.

Providing specific guidance for applying the test, the court stated that an additional recitation or transformation may not constitute insignificant "extra-solution" activity—presumably simple, additional steps in an attempt to satisfy the requirement. Examples given include: applying a common mathematical formula to an existing technique, and recording or gathering data as part of a claimed process. Moreover, the court confirmed that it is irrelevant that an individual step of a process may be unpatentable under § 101, but the entire process must be scrutinized as a whole.

The court additionally clarified that at least three previously applied tests and one oft-called-for exception are no longer applicable. First, the court overruled the Freeman-Walter-Abele test, which included the steps of determining whether a claim recites an algorithm and then whether that algorithm alone is applied to physical elements or process steps. Second, the "useful, concrete, tangible result" test of *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) and *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994), which may be useful when determining whether a fundamental principle is applied, was rejected as insufficient for determining patentable subject matter of a process claim. Third, the "technological arts" test also was expressly rejected as being improper. In response to numerous amici curiae, the court refused to acknowledge any "business method exception" that would exclude business method claims from patentable subject matter, stating that they are subject to the same legal principles as any other claim. Moreover, the court states in footnote 23 that *Bilski* is not a software claim and thus the facts of the case will not prove helpful to determine patentable subject matter of software-focused claims.

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When applying the “machine-or-transformation test” to the Applicants’ claims, the court only needed to apply the facts to the “transformation” branch of the test because the Applicants conceded that the claims at issue were not tied to any specific machine or apparatus. Accordingly, *Bilski* provides little guidance regarding applying the “machine” branch to questionable process claims under § 101. Moreover, the court specifically states that they will “leave to future cases” the answers many have been seeking, including whether tying a process to a computer would be sufficient to satisfy § 101.

In applying the “transformation” branch of the test, the court states that a process is directed toward patentable subject matter “if it transforms an article into a different state or thing,” but that the “transformation must be central to the purpose of the claimed process.” Using the example of *In re Abele*, 684 F.2d 902 (CCPA 1982), the court clarified that operation on or “transformation” of data that is representative of a physical object, such as processing x-ray attenuation data, may also suffice under the “transformation” inquiry. Another example of sufficient “transformation” is illustrated by the claim upheld in *Diehr,* which recited a computerized rubber curing apparatus that operates to “transform” uncured rubber into molded, cured rubber. However, the *Bilski* court found the Applicants’ claims are not directed to transformation of physical objects or representations of physical objects, thereby dismissing “legal obligations, risks, and relationships” as “abstract constructs” for which no transformation occurs. Failing the “transformation” branch, the court affirmed the BPAI’s decision that the Applicants’ claims failed to meet the “machine-or-transformation” test for patentable subject matter of process claims under § 101.

Judge Dyk filed a concurring opinion joined by Judge Linn, taking issue with dissenters’ claims that the majority usurps the legislative process. Judge Dyk provides a historical analysis and statutory interpretation in support of the majority’s analysis and ultimate holding.

Judges Newman, Mayer, and Rader each filed dissenting opinions. Judge Newman’s 41-page dissent argues that the majority’s construction is contrary to the statute and usurps legislative authority. Judge Rader’s dissent alleges that the majority takes dicta from the earlier Supreme Court opinions out of context and applies them during a technological age when they may no longer be relevant.

Judge Mayer, however, argues that business methods should not be provided protection at all, and that the decision did not go far enough to constrain such protection.

The Federal Circuit has thus decided that the only rule by which patentable subject matter under § 101 for process claims should be analyzed is the “machine-or-transformation test.” Accordingly, taking the few clues provided by the decision, process claims that recite any "fundamental principles" should, at the very least, apply the "fundamental principles" to or by a particular machine or apparatus, or specifically “transform” an article or other matter as a result of the "fundamental principles," to satisfy the “machine-or-transformation test” as provided by the en banc decision in *Bilski.*

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