

## ***In re Bilski* Federal Circuit Decision Narrows the Right to Obtain Patents on Software, Financial, or Business Method Inventions**

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In an *en banc* decision by the appeals court having exclusive appellate jurisdiction on questions of patent law, the rules governing what may be patented in the software and financial fields have been changed as follows:

- **Further Erosion of Patent Rights**

With the *Bilski* decision, the Court of Appeals for the Federal Circuit has continued a recent trend narrowing patent rights—here on the threshold question of what can be patented. The new standard for assessing the patentability of a “process” as explained by a nine-judge majority (with three dissents) requires that the patent on a process must be tied to a machine or achieve a transformation of an article into a different state or thing.

- **Continued Recognition of Financial/Business Method Patents**

The *Bilski* decision, however, is not the death of the business method patents that many had sought. In fact, it is clear that these types of patents—if properly claimed—enjoy the support of 11 of the 12 judges on the court.

- **New Test Rejects Broader *State Street* Precedent—With Many Details Left for Future Cases**

The majority panel tightened the test for eligible inventions expressed in the court’s prior *State Street* ruling, which has been blamed for the large increase in business method and financial patents issued during the last decade. While the broad contours of the new test have been revealed, many details are left to future cases. Although the threshold patentability question was rarely asserted as a litigation defense in the past, the door is now open to those accused of infringing this type of patent to more aggressively pursue a patent defense on this question. On the other hand, the narrowing of the patent eligibility test may keep both Congress and the U.S. Supreme Court on the sidelines (both have been recently active in the patent area).

### **The New Standard**

The U.S. Court of Appeals for the Federal Circuit continued a recent trend in modifying/overruling its own precedent to curb the strength of patents. On October 30, in deciding *In re Bilski*, the majority narrowed the test for patent eligibility to what they referred to as a “machine-or-transformation” test.

This involves a two-branch inquiry as to whether a process claim either (1) is tied to a particular machine, or (2) recites the transformation of an article into a different state or thing. This case has been carefully watched by many lawyers and companies, as it deals with a controversial issue that has existed since the decision in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), opened the floodgates to so-called “business method patents.” This new standard for patent eligible processes replaces the 10-year-old test, expressed in *State Street*, which more broadly focused on “a useful, concrete, and tangible result.”

Nonetheless, the majority reaffirmed the *State Street* recognition that business methods should be treated no differently than other inventions: “[I]n *State Street* [we noted] that business method claims . . . are ‘subject to the same legal requirements for patentability as applied to any other process or method.’ We reaffirm this conclusion.”

### **The Language of the Test**

The new test focuses on machine or technology requirements, which leaves many issues unresolved. The court explicitly declined to elaborate on the “machine” alternative, but suggested two considerations: First, the use of a specific machine must impose “meaningful limits” on the claim’s scope. Second, the court, tracking earlier Supreme Court decisions, requires that the machine’s involvement in the claimed process must not “merely be insignificant extra-solution activity.” The court also chose not to address the role of a general-purpose computer under the test, stating that “we leave to future cases the elaboration of the precise contours of machine implementation, as well as the answers to particular questions, such as whether or when recitation of a computer suffices to tie a process claim to a particular machine.”

Similarly, the court gives very limited guidance on which “articles” can be transformed in order to meet the alternative requirement of a “transformation.” It does, however, recognize that in at least some instances, the transformation of data (e.g., the attenuation of X-ray data to a visual image) does meet the transformation test. In contrast, the legal obligations in the *Bilski* claim at issue were insufficient to meet the “transformation” branch of the test.

### **The Inside Line**

While presenting a new test, resolving some issues, and dismissing a purported invention that lay on the very fringe of the patentable subject matter debate, the *Bilski* court avoided some tough questions, leaving many of them to future courts for consideration. It is a debate likely to get some play. In patent litigation, the earlier and now retired *State Street* precedent rendered a defense on the threshold patentability question a rarity. That is now changed and future litigants will more closely explore a possible challenge to an infringement claim with a *Bilski*-based defense.

That said, business method patents still enjoy the support of 11 of the 12 judges on the Court of Appeals for the Federal Circuit and, although given the chance, the *Bilski* court did not explicitly invalidate or overturn *State Street* or its patents. The narrowed test for eligibility provided by the *Bilski* majority may have also deflated the interest by Congress and the Supreme Court to enter into this particular debate on patent law.

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