

Revisiting the patentability of business methods, the Court of Appeals for the Federal Circuit, in *In re Bilski*, No. 2007-1130 (Fed. Cir. Oct. 30, 2008), recently tossed out the “useful, concrete, and tangible result” test that it had used since *State Street Bank v. Signature Financial Group* to identify patent-eligible subject matter. In a 9 to 3 opinion, the majority held that the “machine-or-transformation” test used by the Supreme Court in *Diamond v. Diehr* is the proper test for making these determinations. Although the majority opinion purports to clarify the test for patent eligibility under 35 U.S.C. §101, it presents new issues for inventors seeking patent protection of processes or methods, even those that may not be characterized as business methods.

The claimed invention which Mr. Bilski sought to patent in this case was directed to a “method for managing the consumption risk costs of a commodity.” The submitted patent claim recited several steps - none of which involved a computer. In fact, Mr. Bilski conceded that the claimed method could be practiced without a computer. The Federal Circuit characterized the invention as a method for hedging risk in the commodities market.

The Federal Circuit surveyed its own case law as well as case law from the Supreme Court and the Court of Customs and Patent Appeals for guidance on the determination of patent-eligible subject matter. A common theme throughout these cases is that *fundamental principles*, such as abstract ideas, natural phenomena and mental processes, are excluded from patent protection. The court noted that the proper test for whether a claim is not directed to a fundamental principle and, thus, recites patent-eligible subject matter was set forth in *Diehr*: A claim is directed to patent-eligible subject matter (1) if “it is tied to a particular machine or apparatus” or (2) if “it transforms a particular article into a different state or thing.” A claim that fails this test is directed to a fundamental principle and, therefore, is ineligible under 35 U.S.C. §101.

The majority opinion discussed some aspects of applying the *Diehr* test, indicating in particular that field-of-use limitations and insignificant post-solution activity are not sufficient to make ineligible subject matter eligible for patent protection. Any machine or transformation of articles in the claim must be central to the thrust of the claim. Further, a transformation of data is patent-eligible subject matter only if the data represents physical and tangible objects.

Finding the first prong of the *Diehr* test inapplicable and applying the second prong of that test to the *Bilski* facts, the Federal Circuit held that Mr. Bilski’s claimed method did “not transform any article to a different state or thing.” The claim merely recited the exchange of options for hedging risk, which the court held to lack the transformation of a “physical object or substance, or an electronic signal representative of any physical object or substance.”

The Federal Circuit stopped short of overruling its earlier opinion in *State Street Bank* because the claims in that patent were directed to a particular machine.

In view of *Bilski*, inventors may have trouble protecting computer-related methods such as spell checkers, cryptographic systems, operating systems and code optimizers which transform data but in which the data does not represent something that is physical or tangible. Several other questions are also left unanswered: What is the dividing line between insignificant data gathering steps and post-solution activity on the one hand and processing that is central to the claimed process? What level of physicality is required to be represented by the data processed by the claimed method? Until these questions are resolved, attorneys and agents must carefully prepare their patent specifications and method claims to identify specific hardware used to implement the method and/or to recite the transformation of something that is “tangible” or data that represents something tangible.