Federal Circuit Decision in *In re Bilski* Has Far-Reaching Implications

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On October 30, 2008, the Federal Circuit clarified the applicable standard for determining whether a claimed method constitutes a statutory process under 35 U.S.C. § 101 in concluding that a patent application claiming a method for hedging risk in the field of commodities trading was properly rejected by the Patent and Trademark Office (PTO) as not directed to patent-eligible subject matter. *In re Bilski* (Fed. Cir. Dkt. No. 2007-1130). The decision, which had been heavily anticipated by the patent bar, overrules several prior panel decisions of that court, and will have far-reaching implications for patent applicants, patent holders, and the courts.

The patent application at issue claims a "method for managing the consumption risk costs of a commodity." The examiner rejected the claims under Section 101 as directed to unpatentable subject matter, and the Board of Patent Appeals and Interferences affirmed. The applicants sought review in the Federal Circuit and, after a panel heard argument on the case, but before decision, the court *sua sponte* ordered en banc review. Over 30 amici curiae filed briefs with the en banc court, including a group of financial services industry clients represented by WilmerHale. The court granted WilmerHale's motion to participate in oral argument as amici curiae, and Co-Managing Partner William F. Lee presented argument on May 8, 2008.

In the majority opinion, authored by Chief Judge Michel and joined by eight of the twelve active judges on the Federal Circuit, the court first reaffirmed that Section 101 excludes from patentability processes that claim "laws of nature, natural phenomena, [or] abstract ideas." Citing the Supreme Court's decisions in *Gottschalk v. Benson*, 409 U.S. 63 (1972), *Parker v. Flook*, 437 U.S. 584 (1978), and *Diamond v. Diehr*, 450 U.S. 175 (1981), the court indicated that whether a claim seeks to patent an abstract idea or fundamental principle is determined by considering "whether the effect of allowing the claim would be to allow the patentee to pre-empt substantially all uses of that fundamental principle." The Federal Circuit thus approved of the "definitive test" enunciated by the Supreme Court in *Diehr*, *Flook*, and *Benson* for determining the patent-eligibility of a process under Section 101, concluding that a process is "surely patent-eligible if: (1) it is tied to a particular machine or apparatus, *or* (2) it transforms a particular article into a different state or thing."

The Federal Circuit also rejected other articulations of the test for patent-eligible subject matter

under Section 101 from prior panel decisions of that court, thereby overruling the portions of its opinions in *State Street Bank & Trust Co v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998), and *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352 (Fed. Cir. 1998), that indicated that a claim is patent-eligible if it "produces a useful, concrete and tangible result."

Because the patent application at issue in *In re Bilski* did not claim any specific machine or apparatus, the Federal Circuit declined to set the outer limits of how machine implementation of a process may affect patent-eligibility and "whether or when recitation of a computer suffices to tie a process claim to a particular machine." In considering whether a process results in a transformation of an article or thing, the court reaffirmed that while in certain situations a transformation of data by a computer may be patent-eligible, the court would take a "measured approach" to determining when a process qualifies as a transformation for purposes of patent-eligibility.

The full impact of the Federal Circuit's decision remains to be seen, but it is likely to generate a great deal of commentary in the near term, and the contours of its application will be debated in the courts--including perhaps the Supreme Court--in the months and years to come.

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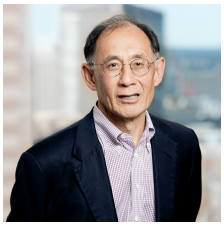

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