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FEDERAL CIRCUIT CLARIFIES 'MACHINE-OR-TRANSFORMATION' TEST AS THE PROPER INQUIRY FOR DETERMINING PATENT-ELIGIBILITY OF A PROCESS

With its recent *en banc* decision in the case of *In re Bilski*, No. 2007-1130, 88 USPQ2d 1385 (Fed. Cir. 2008), the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") has clarified the inquiry for determining patent-eligibility of a process under 35 U.S.C. §101. Revisiting Supreme Court precedent on this issue, the Federal Circuit stated as inadequate its prior inquiries for determining patent-eligibility of a process, including the "useful, concrete and tangible result" test, and held that the machine-or-transformation test outlined by the Supreme Court is the proper test to apply. *See Diamond v. Diehr*, 450 U.S. 175 (1981); *Parker v. Flook*, 437 U.S. 584 (1978); and *Gottschalk v. Benson*, 409 U.S. 63 (1972). As stated by the Federal Circuit, the machine-or-transformation test is a two-branched inquiry in which an applicant may show that a process claim recites statutorily-patentable subject matter by showing that the claim is (1) tied to a particular machine, or (2) transforms an article into a different state or thing.

In *Bilski*, the Federal Circuit considered the patent-eligibility under §101 of a claim directed to a method for hedging risk in the field of commodities trading. The court determined that the claimed process encompassed only transactions involving the exchange of legal rights (options), and was not tied to a particular machine and did not involve the transformation of any physical object or substance. Thus, the claim failed both branches of the machine-or-transformation test and was held as non-patent-eligible subject matter. The court specifically noted that because the claim recited a non-transformative process that encompassed a purely mental process of performing mathematical calculations and identification of hedging transactions without the aid of a computer or any other device, the claim pre-empted any application of the fundamental concept of hedging and mathematical calculations inherent in hedging.

The Federal Circuit further discussed two corollaries of the Supreme Court's decisions involving §101. The first is that mere field-of-use limitations are generally insufficient to render an otherwise ineligible process claim as patent-eligible. The court noted that a non-patent-eligible claim that pre-empts all uses of a fundamental principle in all fields is still non-statutory even if the claim pre-empts all uses of the principle in only one field. The second corollary is that insignificant postsolution activity will not transform an unpatentable principle into a patentable process. An example of such activity is the mere step of data gathering applied to an otherwise unpatentable algorithm. The court did confirm, however, that electronic transformation of data itself into a visual depiction may be a sufficient transformation under the machine-or-transformation test without requiring that a claim involve transformation of the underlying physical object that the data represents. The Federal Circuit went on to note two other important aspects of the Supreme Court's decisions: that whether a claimed process is novel or non-obvious is irrelevant to the §101 analysis, and that it is inappropriate to determine patent-eligibility of a claim as a whole based on whether selected limitations constitute patent eligible subject matter.

The Federal Circuit's decision in *Bilski* follows other recent decisions concerning statutorily patentable subject matter under §101. In *In re Comiskey*, 499 F.3d 1365, 84 USPQ2d 1670 (Fed. Cir. 2007), the Federal Circuit confirmed that the patent statute does not allow patents on particular systems that depend entirely on the use of mental processes, and in *In re Nuijten*, 500 F.3d 1346, 84 USPQ2d 1495 (Fed. Cir. 2007), the Federal Circuit held that a transitory, propagating signal is not a process, machine, manufacture or composition of matter and thus cannot be patentable subject matter under §101. The U.S. Patent and Trademark Office has issued, and continues to update, interim guidelines for use by Examiners in analyzing claims under §101 that reflect the recent court precedent in this matter.

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