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## Is *In re Bilski* a *Déjà Vu*?

STEFANIA FUSCO \*

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¶1 On October 30, 2008, the United States Court of Appeals for the Federal Circuit (“Federal Circuit”) issued a decision that has potentially significant implications for innovation in many fields, but particularly in the online commerce and the software industry. Indeed, with the issuance of *In re Bilski*,<sup>1</sup> the Federal Circuit has substantially changed its position regarding the criteria for the patentability of a claim to a process and, thus, has reconsidered its own precedent, *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*<sup>2</sup>

¶2 Under *State Street*, claims to a process were eligible for patent protection as long as they produced a “useful, concrete and tangible result.”<sup>3</sup> Now, the Federal Circuit considers “that inquiry . . . insufficient to determine whether a claim is patent-eligible under §101,”<sup>4</sup> and has adopted the “machine-or-transformation test.”<sup>5</sup> Therefore, today, an inventor wishing to acquire a patent on a new process needs to ensure that her innovation is either connected to a specific machine or transforms an article.

¶3 The *Bilski* court left the discussion of the machine prong of this test to future cases.<sup>6</sup> At the moment, it is therefore unclear whether tying a process to a general purpose computer is sufficient to pass the machine-or-transformation test. Nevertheless, since publication, the *Bilski* decision has produced some effects at the Board of Patents Appeals and Interferences (BPAI) level. Indeed, the BPAI has already issued a handful of decisions that, based on *In re Bilski*, found the claims under consideration ineligible for patent protection. Of particular interest is *Ex parte Halligan*.<sup>7</sup> In this case, the BPAI panel affirmed the Examiner’s rejection and concluded that, under *In re Bilski*, the mere recitation of a general purpose computer is not sufficient to fulfill the requirement that process claims need to be tied to a particular machine to become patentable.<sup>8</sup> The panel admitted that the *Bilski* decision leaves the issue of the recitation of a general purpose computer substantially

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<sup>1</sup> *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008).

<sup>2</sup> *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999).

<sup>3</sup> *Id.* at 1373.

<sup>4</sup> *In re Bilski*, 545 F.3d at 960.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.* at 963.

<sup>7</sup> *Ex parte Halligan*, B.P.A.I. Appeal 2008-1588 (2008).

<sup>8</sup> *Id.* at 27.

unresolved, but also noted that the Federal Circuit provided “some guidance [to deal with this problem] when it explained that the use of a specific machine must impose meaningful limits on the claim’s scope to impart patent-eligibility.”<sup>9</sup> In *Halligan*, the claims recited “a method [to account for trade secrets] performed on a programmed computer.”<sup>10</sup> The panel explained that this recitation did not limit the claims’ scope because it added “nothing more than a general purpose computer that has been programmed in an unspecified manner to implement the functional steps recited in the claims.”<sup>11</sup> Thus, such a recitation cannot impart patent eligibility to the contested claims.<sup>12</sup>

¶4

Regarding the second part of the test, the Federal Circuit explained that the required transformation “must be central to the purpose of the claimed process”<sup>13</sup> and must concern certain articles.<sup>14</sup> Specifically, it appears that the transformation of articles consisting of physical objects or substances would most certainly render a process patent eligible, whereas the transformation of electronic signals, legal obligations and relationships, business risk, and other abstractions might be less effective.<sup>15</sup> The Federal Circuit referred to the *Abele* case<sup>16</sup> as guidance on this point and highlighted that, in *Abele*, the claims that passed the court’s scrutiny were those in which the transformed data were specified and “clearly represented physical and tangible objects.”<sup>17</sup> Moreover, when confronted with the precise analysis of *Bilski*’s claimed process, the Federal Circuit stated:

Purported transformations or manipulations simply of public or private legal obligations or relationships, business risks, or other such abstractions cannot meet the [machine-or-transformation] test because they are not *physical objects or substances*, and they are not representative of physical objects or substances.<sup>18</sup>

¶5

The conceptual gap between *State Street* and *In re Bilski* is evident and significant. The “physical element” so strongly emphasized by the Federal Circuit in *Bilski* is absent in *State Street*, and, as highlighted in Judge Newman’s dissent, has the potential to remove from the system of incentives provided by patent protection “inventions that apply today’s electronic and photonic technologies, as well as other processes that handle data and information in a novel way.”<sup>19</sup> Furthermore, Judge Rader expressed concerns about *Bilski*’s majority and concurring opinions, stating that “today’s software transforms our lives *without physical anchors*”<sup>20</sup> and that the machine-or-transformation test “not only risks hobbling these advances, but precluding patent protection for tomorrow’s technologies.”<sup>21</sup>

¶6

*In re Bilski* is consistent with the general trend recently expressed in a number of decisions, both of the Supreme Court of the United States<sup>22</sup> and the Federal Circuit.<sup>23</sup> This trend represents an attempt by these courts to reduce patent rights and counteract the effects of the more liberal approach toward the boundaries of the patents system that was prominent during the 1980s.<sup>24</sup> It is beyond the scope of this short Commentary to discuss the possible reasons for this shift of position

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<sup>9</sup> *Id.* at 26-27.

<sup>10</sup> *Id.* at 27.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *In re Bilski*, 545 F.3d 943, 963 (Fed. Cir. 2008).

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> *In re Abele*, 684 F.2d 902 (C.C.P.A. 1982).

<sup>17</sup> *In re Bilski*, 545 F.3d at 964.

<sup>18</sup> *Id.* (emphasis added).

<sup>19</sup> *Id.* at 977.

<sup>20</sup> *Id.* at 1016 (emphasis added).

<sup>21</sup> *Id.*

<sup>22</sup> See *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.* 548 U.S. 124, 138 (2006) (Breyer, J., dissenting from decision that certiorari was improvidently granted); see also *KSR Int’l Co. v. Teleflex, Inc.*, 550 U.S. 398, 727 (2007); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006).

<sup>23</sup> See, e.g., *In re Comiskey*, 2009 U.S. App. LEXIS 913 (Fed. Cir. 2009); *In re Nuijten*, 500 F.3d 1346, 1357 (Fed. Cir. 2007).

<sup>24</sup> Emblematic in this regard is *Diamond v. Chakerabarty*, 447 U.S. 303, 309 (1980), in which the Supreme Court cited a Congressional Committee report stating that “anything under the sun that is made by man” is patentable.

with respect to the patent system. However, a few additional considerations on the issuance of *In re Bilski* are appropriate.

¶7 A first issue relates to the concerns expressed by Judges Newman and Rader in their dissents. Their concern with the majority decision rests primarily on the transformation prong of the machine-or-transformation test, and particularly with the requirement that such a transformation needs to involve something having a close enough relationship with a physical object or substance. Indeed, as they argue, this requirement has the potential to become a serious obstacle to the patentability of innovations in the newest technologies, for which it is not always simple to determine the real nature (physical/non-physical) of a new invention. It is therefore almost automatic to wonder whether with *In re Bilski* the court is ultimately saying that today's patent protection is not optimal in fostering innovation in these new fields of endeavor and that absent a significant reform of the system, the incentives to innovate in these areas should be found elsewhere.

¶8 A second issue relates to the machine prong of the test. Although the Federal Circuit has not yet discussed this point, a few scholars have already highlighted the possibility that the machine prong could result in a resurrection of what Cohen and Lemley in 2001 referred to as "the doctrine of the magic words."<sup>25</sup> According to these scholars, during the 1980s and 1990s, when, based on the *Diamond v. Diehr* decision,<sup>26</sup> a more favorable approach to software patents prevailed as compared to the past,<sup>27</sup> applicants were able to obtain patents on almost any software innovation. Patentability hinged only on using the right words in the patent applications and purporting to patent something completely different from software.<sup>28</sup> Indeed, at that time, "knowledgeable patent attorneys did exactly that, claiming software inventions as hardware devices, pizza ovens, and other 'machines.'"<sup>29</sup> It will now be of interest to see whether *In re Bilski* will lead to a similar scenario, in which abstractions including mathematical algorithms become patentable subject matter by simply adding physical elements and steps or connecting them to a machine that contributes nothing to the novelty of the invention. Similarly, it will be interesting to observe whether the same scenario could apply to the transformation part of the machine-or-transformation test. In this context, the issue will arise particularly in the case of the transformation of data, and it will revolve around the ability of skilled patent attorneys to develop multifarious ways to make the data under consideration appear as representative as possible of the physical reality.

¶9 Furthermore, whether, subsequent to *In re Bilski*, the Supreme Court will grant certiorari on a 35 U.S.C. § 101 case is significant. The Federal Circuit has discussed this possibility when confronted with the problem of rendering the patent system more receptive to the needs of future still undiscovered technologies. However, it will also be of great interest to see what consideration, if any, the Supreme Court will accord to the rights of those who for ten years relied on *State Street* and now find themselves with patent rights of uncertain value. Indeed, these individuals, who are retroactively affected by the *Bilski* decision, are not even in the position of having their expectations saved by the development of a patent practice directed to draft around the newly established limitations. Depending on how strictly the courts implement the machine-or-transformation test and how creative patent attorneys become, the *circumvention* of these new requirements might instead represent an escape for those who, relying on *State Street*, already undertook the investment required to enter certain businesses, but did not yet obtain patents on their innovations. Judge Newman in her dissent highlighted the problem of those who obtained patents rights under *State Street*, which is of great importance for a significant part of the U.S. business world. Specifically, she noted that the public has relied on *State Street*<sup>30</sup> and that "stable law . . . is a foundation of commercial advances into new

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<sup>25</sup> Julie E. Cohen & Mark A. Lemley, *Patent Scope and Innovation in the Software Industry*, 89 CAL. L. REV. 1,9 (2001),

<sup>26</sup> 450 U.S. 175 (1981).

<sup>27</sup> ROBERT PATRICK MERGES & JOHN FITZGERALD DUFFY, *PATENT LAW AND POLICY: CASES AND MATERIALS* 155 (3d. ed. 2002).

<sup>28</sup> See Cohen & Lemley, *supra* note 25 at 9.

<sup>29</sup> *Id.*

<sup>30</sup> *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008).

products and processes.”<sup>31</sup> She underlined that up until *In re Bilski*, “statutes and precedents have provided stability in the rapidly moving and commercially vibrant fields of the Information Age”<sup>32</sup> and that now “not only past expectations, but future hopes, are disrupted by uncertainty as to application of the new restrictions on patent eligibility.”<sup>33</sup> Nevertheless, the *Bilski*’s majority and concurring opinion did not address this issue.

¶10 In conclusion, reading *In re Bilski* for the most part induces the feeling of *déjà vu*. It appears that we have experienced this same situation before. However, despite the fact that this time it is quite possible that such an interpretation is not merely a figment of our imaginations and indeed there is a good chance that we have been in similar circumstances during the pre-*State Street* era, a few questions still remain open. Specifically, it is still unclear what the Federal Circuit has learned about effective means of inducing innovation in the ten years after *State Street* and what role, if any, such findings have played in deciding *In re Bilski*. Future investigations are necessary to shed some light on these latter points.

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<sup>31</sup> *Id.* at 993.

<sup>32</sup> *Id.* at 994.

<sup>33</sup> *Id.* at 995.