

CLIENT ALERT

Federal Circuit Preserves—with Modifications—Patentability of Business Methods and Software-Implemented Methods

November 5, 2008

Summary

On October 30, 2008, in a much-awaited case called *In re Bilski*, the United States Court of Appeals for the Federal Circuit (“Federal Circuit”) rejected arguments that software-implemented and business methods should be barred from the patent system and modified the test for determining when a method claim in a patent application is eligible for patent protection. Much attention has been focused on the case because the court had asked interested parties to argue whether it should overrule prior cases that allow patent protection for software-implemented and business method claims.

Some commentators expected the Federal Circuit to exclude business method patents and overrule a 1998 decision, *State Street Bank & Trust v. Signature Financial Group* (Wolf Greenfield represented prevailing party Signature), in which the Federal Circuit held business method claims to be eligible for patent protection.

The court, however, rejected the idea of a business method or software exclusion and expressly reaffirmed the principle from *State Street* that business method claims are eligible for patent protection. As well, it cited with approval certain instances of software-implemented inventions that had been patented in the past. At the same time, however, the court reverted to a standard previously enunciated by the Supreme Court for patent eligibility of all processes, including software-implemented processes (such as business methods implemented in software). Under that standard, as articulated (and somewhat reformulated) in *Bilski*, a process is eligible for patent protection *only* if it either: (1) is tied to a particular machine or apparatus; or (2) transforms a particular article into a different state or thing. While somewhat narrower than the prior Federal Circuit standard, it is not drastically so.

This standard leaves many important questions open for consideration in future cases, such as whether the recitation of a general-purpose computer with a programmed processor is sufficient to tie a process to a particular machine or apparatus, and what types of transformations are sufficient to be considered to have transformed a particular article into a different state or thing.

Of critical importance to many of our clients, the eligibility of *systems* used to implement processes, be they business processes or otherwise, has not been changed.

***Bilski's* Impact**

Over the past decade, the Patent and Trademark Office (PTO) has been issuing patents related to business methods in information technology, financial services, and other fields. The *Bilski* decision is likely to have some, but not necessarily major, impact on the overall numbers of eligible applications.

The vast majority of business method patent claims are computer-implemented or perform some transformation of data inside a computer, and the data represents a real-world physical quantity such as money or numbers of articles in inventory or the like. Thus, under the test articulated in *Bilski*, most claims to such business method inventions will likely continue to be considered patent-eligible. Some will not, but they will be of a more abstract nature.

The court expressly rejected the arguments of those who advocated that business methods, financial inventions, and software-implemented inventions not be allowed patent protection. Future cases will more clearly articulate how the PTO and the Federal Circuit will draw the line between the eligible and the ineligible, consistent with this broad position statement.

The *Bilski* decision applies not only to applications currently pending in the PTO and future applications, but also to already issued patents. Thus, the standard set forth in *Bilski* may present new grounds on which to challenge the validity of process claims in issued patents.

Detailed Discussion of *Bilski*

United States patent law grants eligibility for patent protection to any new and useful process. Legal precedent has narrowed the definition of the term “process” to exclude a number of so-called judicial exceptions (i.e., laws of nature, natural phenomena, and abstract ideas), but has held that process claims directed to a *practical application* of one these judicial exceptions are eligible for patent protection.

Prior to *Bilski*, Federal Circuit precedent held that if a claimed process produced a “useful, concrete, and tangible result,” the process was considered to be directed to a practical application of a judicial exception, rather than the judicial exception itself.

At issue in *Bilski* was a patent claim directed to a process for hedging a certain variety of risk in commodities trading. The claimed process related to using an intermediary commodity provider that sells a commodity to a buyer at one fixed price and buys the same commodity from a seller at another fixed price to isolate the buyer and the seller from the risk of fluctuations in the amount of the commodity actually purchased. The PTO rejected this claim, concluding that it was directed to an abstract idea ineligible for patent protection.

The court upheld the PTO’s rejection of *Bilski*’s claim, and essentially adopted the PTO’s analysis and the Supreme Court’s “machine-or-transformation” test under which a process is directed to a practical application of a judicial exception only if it either: (1) is tied to a particular machine or apparatus; or (2) transforms a particular “article” into a different state or thing.

The decision declined to elaborate on the “machine or apparatus” branch of the test and specifically indicated it was not saying whether a programmed general purpose computer would satisfy the requirement for use of a particular machine or apparatus. As earlier Federal Circuit cases had answered this question in the affirmative, it is unclear why the court reintroduced uncertainty by expressly dodging the issue in this case.

Some limited additional insight was provided on the transformation branch of the test. In particular, the court held that the transformation must be central to the purpose of the claimed process, and provided additional guidance on what types of things constitute “articles” whose transformation is sufficient to impart patent-eligibility. But the court stated it saw no need to elaborate on prior cases dealing with the transformation issue, some of which go all the way back to Supreme Court decisions of the 1800’s.

According to the ruling, a process for the chemical or physical transformation of physical objects or substances is patent-eligible subject matter, as is a process for the transformation of data that represents physical and tangible objects. However, processes for the transformation of things such as legal obligations, organizational relationships, and business risks are not eligible for patent protection.

The invention in *Bilski* was found not to satisfy the machine-or-transformation test, as the process was not tied to a particular machine or apparatus, and did not transform any articles to a different state or thing. The claimed process transformed only legal obligations, but transformation of these legal obligations did not satisfy the test because legal obligations are not physical objects or representative of physical objects.

Conclusion

Initial indications are that this analysis would apply only to a quite limited class of process inventions, including those *not* relying on computers or other apparatus. Even some of those inventions would not necessarily be excluded.

Use this [link](#) to access the complete decision (note: link is to a PDF document - please allow time for Adobe Acrobat to open).