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# The Future Of Business Method Patents After Bilski

Law360, New York (December 16, 2008) -- The U.S. Court of Appeals for the Federal Circuit (CAFC) in the case of In re Bilski, No. 2007-1130 (Oct. 30, 2008), held that to meet the test of 35 U.S.C. § 101, patent claims must be drawn to patent eligible subject matter; that is, the claims must be tied to a particular machine or apparatus, or the claims must transform a particular article into a different state or thing.

*Background*

The Bilski decision is primarily directed to business method patents, inasmuch as the claims at issue in Bilski were directed to a method of hedging risk in the field of commodities trading. Nevertheless, it will have broader application to all process patents and particularly those directed to automated financial or management data processing.

After the now famous Supreme Court decision in State Street Bank & Trust Co. v. Signature Fin. Group Inc., 149 F. 3d 1368 (1998), which ruled that a business method may be a patentable process provided it provides "a useful concrete and tangible result," the communications and information technology groups of the United States Patent and Trademark Office (USPTO) collectively saw about 57,000 new applications in FY 1990.

The frenetic pace of new patent applications resulted in an escalating backlog, creating internal pressures and a call for more productivity. Congress demanded a reduction in backlog, while the public and patent Bar resisted accelerated examinations and called for higher quality in issued patents.

In response to the clamor from Congress and the public, the USPTO in 2000 announced a plan to improve the quality of the examination process in technologies related to electronic commerce and business methods.

The Bilski decision, to some extent, is the result of the interplay of pressures to improve the patent systems. It also may reflect the CAFC's recognition of continuing Supreme Court scrutiny of patent related decisions of the CAFC.

For example, two recent decisions of the CAFC that support this view are In Re Comiskey, No. (2006) 1986, and In Re Nuitjen, No. 2006 (1971). These decisions were handed down on the same day and both cut back on patent owners' rights.

Furthermore, a recent article by Steven Sedenberg, includes a practioner's comment that the Supreme Court is looking over the CAFC's shoulder, and it is not surprising to see the

CAFC come into closer alignment with definitions based on Supreme Court rulings. Steven Sedenberg, Patent Pushback, ABA Journal, December 2007, pp. 14-16.

In Comiskey, a unanimous three-judge panel reaffirmed the "useful, concrete and tangible result" test of State Street. However, that panel also added another twist, namely, a requirement that the process must either be implemented by a machine or change materials to a different state. In In re Nuitjen, the CAFC held that a transitory electric or electromagnetic signal is not statutory subject matter and is therefore outside the scope of 35 U.S.C. § 101.

Prior to Nuitjen, State Street was considered to support the proposition that so long as the invention had utility, "anything under the sun made by man" could be considered patentable subject matter. Indeed, State Street broadened the scope of patent eligibility to new levels when it held that software driven business methods are patent eligible subject matter.

However, Justice Gajarsa wrote in Nuitjen that mere utility is not enough and that the claimed subject matter must fall into at least one of the four categories of 35 U.S.C. § 101 that define the explicit scope and reach of patentable subject matter, namely, a process, machine, manufacture, or composition of matter.

*The Bilski Decision*

Understanding the details of the Bilski decision in the light of prior decisions will provide a better understanding of the CAFC's future direction -- which is decidedly away from the "everything is patentable" approach of State Street. The application at issue in Bilski contained eleven claims, which were argued together. Claim 1 read:

A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price comprising the steps of:

1. initiating a series of transactions between said commodity provider and consumers of said commodity wherein said consumers purchase said commodity at a fixed rate based upon historical averages, said fixed rate corresponding to a risk position of said consumer;

2. identifying market participants for said commodity having a counter-risk position to said consumers; and

3. initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market transactions balances the risk position of said series of consumer transactions.

In essence, the claim was for a method of hedging risk in the field of commodities trading. The claimed method envisioned an intermediary, the "commodity provider," that would sell a commodity such as coal, to a "consumer," such as a coal power plant.

The consumers would be averse to the risk of a spike in the demand for the commodity, which would increase the price and, consequently, their costs. Conversely, the "market participants," such as coal mining companies, would be averse to the risk of a sudden drop in demand for the commodity, which would reduce sales and drop prices.

During initial examination before the USPTO, all of the claims of the Bilski application were rejected. In particular, the patent examiner contended that the invention was not implemented on a specific apparatus, merely manipulated an abstract idea and solved a purely mathematical problem without any limitation to a practical application, and was not directed to the technological arts.

The examiner's rejection was appealed to the Board of Patent Appeals and Interferences (BPAI) which found that the examiner erred for relying on a "technological arts" analysis, but nonetheless concluded that the claims of the Bilski application were not directed to patentable subject matter, i.e. it was not a "process" contemplated under 35 U.S.C. § 101.

The BPAI's decision was in turn appealed to the CAFC. The CAFC initially heard oral arguments on Oct. 1, 2007 and, on its own accord, ordered a subsequent en banc hearing before its twelve judges.

The CAFC decision held that the method of hedging risks in commodities trading at issue does not satisfy the patentable subject matter requirements set forth by prior decisions of the Supreme Court, namely, that a patentable process must either be tied to a particular machine or apparatus, or transform an article into another state or thing.

The CAFC began its analysis with the threshold inquiry of whether the claims met the requirement of 35 U.S.C. § 101, citing Comiskey at the outset. It went on to explain that a patentable process cannot claim a fundamental principle.

The CAFC, hinting at the legal monopoly conferred by patents, sought to clarify its statement. The CAFC noted that, while a claim drawn to a fundamental principle is unpatentable, "an application of a law of nature or mathematical formula may well be deserving of a patent."

However, claims which seek to pre-empt the use of a fundamental principle would not meet the test of patent eligible subject matter.

*The Test As Enunciated By Prior Supreme Court Decisions*

The CAFC fell back on prior decisions of the Supreme Court which had enunciated a definitive test for a process eligible for patent protection under 35 U.S.C. § 101.

Under the two step test enunciated by the Supreme Court, to be patentable, a process must either:

1. be tied to a particular machine or apparatus; or

2. transform a particular article into a different state or thing.

The CAFC reasoned that "a claimed process, involving a fundamental principle that uses a particular machine or apparatus would not pre-empt uses of the principle that do not also use the specified machine or apparatus in the manner claimed.

And a claimed process that transforms a particular article to a specified different state or thing by application of a fundamental principle would not preempt the use of the principle to transform any other article; to transform the same article but in a manner not covered by the claim; or do anything other than transform the specified article."

The CAFC reviewed and rejected the State Street test that required only a "useful, concrete and tangible result," as well as the Freeman-Walter-Abele two-step "algorithm" test, emphasizing that "the machine or transformation test is the applicable test for patent-eligible subject matter."

Upon resolving the threshold issues, the Bilski court discussed the operative question of whether the process claim at issue satisfied the machine or transformation test.

The CAFC found that the claim did not limit any process step to any specific machine or apparatus, and that the commodities hedging process as claimed did not transform any item to a different state or thing. The Court went on to state that manipulation of legal obligations or organizational relationships and risks in business transactions does not meet the "transformation" test.

*What Next?*

Although the CAFC decision was just issued on Oct. 30, 2008, there is already speculation that the 9 to 3 en banc decision will prompt review by the Supreme Court, because of its level of importance and the number of patents it might affect.

However, the decision carefully and repeatedly relies on prior decisions of the Supreme Court that support the "machine or transformation" test, and was no doubt written with an awareness of the scrutiny that this case is likely to receive from the Supreme Court. Nevertheless, the decision may significantly affect the rights of business method patent holders.

The lid on the coffin for business method patents has not been closed by this decision, but companies with software patents should have the claims reviewed to determine if they meet the Bilski test, particularly if there is a likelihood that the patents will be asserted or licensed. These companies should consider whether reissue proceedings or perhaps continuation filings may be in order if the validity of the patents is now believed to be jeopardized.

Looking to the future, for new applications, patent scriveners will have to carefully develop strategies for effectively claiming business methods to provide the desired broad scope of coverage while still meeting the "machine or transformation test."

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