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CLIENT ALERT

Synopsis of Patentable Subject Matter Issues Raised by In re Bilski

Can a method for hedging risks in commodities trading be patented? That is the question that was before the United States Court of Appeals for the Federal Circuit when it convened *en banc* to decide the matter of *In Re Bilski*. ___ F.3d ___ (Fed. Cir. 2008). When the Federal Circuit handed down its opinion on October 30, 2008, it held, in a 10-2 decision, that it cannot, at least not as presented to the Court. The Federal Circuit's opinion, including the majority, concurring and dissenting opinions, spanned 132 pages. However, what makes *Bilski* noteworthy is that, through this case, the Federal Circuit took the opportunity to carry out a sweeping review of its precedent relating to the patentability of processes generally, and business methods in particular, under 35 U.S.C. § 101, which governs the types of inventions that may qualify for patent protection. Many commentators had feared – or welcomed – that *Bilski* might spell the end of patent protection for business processes, even those carried out on a machine, such as a computer. So the question is, *did it?*

In short answer is, “no, not really.” *Bilski* confirms that processes, including business methods, may appropriately be protected under the current U.S. patent laws so long as the process is tied to a machine or transforms an article from one state to another. But, as Judge Newman ominously warned in her dissent, the majority opinion leaves a large swath of uncertainty regarding the patentability of processes generally. Also left unclear is the impact of this decision on issued patents and pending patent applications directed to business methods.

Section 101 recites a “process” as one of the areas of patentable subject matter. Since the term is broad and by its literal meaning can cover virtually any set of acts, even, for example, “a method of entertaining a cat with a laser pointer,” the Federal Circuit first undertook the question of what it takes for a process to constitute patentable subject matter. The majority said that a process, including a business method, only qualifies as patentable subject matter if: 1) the process is tied to a particular machine or 2) it transforms a particular article into a different state or thing. This test has come to be known as the “machine-or-transformation test.”

Bilski's patent claims did not recite the use of a computer, or any other machine, to carry out his risk assessment method. The Federal Circuit therefore turned its attention to whether his claims resulted in a change of state, quality, or characteristic of something physical, or something tied to the physical world. In addressing this prong of the machine-or-transformation test, the majority noted that “transformations or manipulations simply of public or private legal obligations or relationships, business risks, or other such abstractions cannot meet the test because they are not physical objects or substances, and they are not representative of physical objects or substances.”

To get to this point, the Federal Circuit had to confront much of its own precedent, which, until *Bilski*, seemed to give the green light to patenting business methods, even those disembodied from a machine, or having no physical attributes – or at least the Patent Office had believed so. One major case that the Court had to address was *State Street Bank*, which held that patent claims directed to an investment method constituted patentable subject matter. *State Street Bank* was itself regarded as a watershed case when it was issued by the Federal



Circuit in 1998. *State Street Bank* is widely considered as opening the flood gates for business method patent applications, and, ultimately, to a back lash, and hence, *Bilski*. The Federal Circuit stopped short of overturning *State Street Bank*, but did put to rest the so called “useful, concrete, and tangible” test that had grown out of that case. The “useful, concrete, and tangible” test had been employed by the Patent Office to justify the issuance of business method patents, and the test stated that if a patent claim produced a “useful, concrete and tangible result,” that alone was sufficient to pass Section 101 patentable subject matter muster.

The Court also put to rest the so-called *Freeman-Walter-Abele* test that had been employed by the Federal Circuit (and its predecessor courts) in its early years. This test involved first determining if a mathematical formula was recited by a patent claim and then determining whether the algorithm was applied in any manner to physical elements or process steps. The Federal Circuit regarded the *Freeman-Walter-Abele* test as inadequate to assess the patentability of business methods, primarily because the *Freeman-Walter-Abele* test had been developed to assess the patentability of patent claims reciting mathematical algorithms. In essence, *Freeman-Walter-Abele* was a check to make certain that the patent claim did not pre-empt all uses of a mathematical algorithm and that it was limited to a particular application and environment.

The Court further rejected efforts by the Patent Office to impose a “technological arts” test which would require an invention to be in the “technological arts” before it could be evaluated for patentability. This test, if adopted, would presumably prevent consideration of business methods in the social sciences, financial sector, and the like. The Court noted that such a test has never been adopted by the Supreme Court or the Federal Circuit, and that the meaning of “technological arts” and “technology” is “ambiguous and ever-changing.”

Ultimately, the majority retreated to Supreme Court precedent predating the Federal Circuit’s 1982 creation. Quoting from *Gottschalk v. Benson*, a 1972 Supreme Court case involving the patentability of a method of shifting data in a shift register (and which held the method to be unpatentable), the Federal Circuit said the “transformation and reduction of an article ‘to a different state or thing’ is the clue to the patentability of a claim that does not include particular machines.” The *Bilski* majority made it clear, though, that “transformation” is not just a “clue”, but that it is the “governing test.” The Court provided an example of a sufficient transformation - a visual depiction on a screen of a physical object, where data is rendered to provide the image.

While acknowledging that “future developments in technology and the sciences may present difficult challenges,” to this test, the Court left such challenges to future cases. Thus, as many commentators have noted, *Bilski* seems to have created more questions than it answers.

Although the new test has been dubbed “the machine-or-transformation test,” the Federal Circuit made only passing reference to the “machine” aspect of the test. Other than stating that a business method must be tied to a machine, the Court did not elaborate upon the depth or nature of the tie to a machine, for example, whether it is sufficient that the business method merely be carried out on a computer. However, the Patent Office has already weighed in. In *Ex parte Langemyr*, the Board of Patent Appeals and Interferences held that a “general purpose computer is not a particular machine, and thus innovative software processes are unpatentable if they are tied only to a general purpose computer.” Further clarification will be required in subsequent decisions.



It remains to be seen how the courts will apply the machine-or-transformation test. It appears that business method patent claims that are tied to an external agent, such as software, that is, in turn, tied to a machine, or results in the transformation of an article, or data representing an article, remains patentable. A software program that facilitates data transmission via the internet also appears to remain patentable, particularly if claimed in the context of a computer, or if it transforms information representative of something physical, *e.g.*, money, into data. However, *Bilski* makes it clear that business processes directed to manipulations of “abstract constructs” such as “public or private legal obligations or relationships, business risks, or other such abstractions” will not satisfy the machine-or-transformation test. *Bilski* also makes it clear that mere recitation of a machine or transformation in the claim must be more than “insignificant extra-solution activity.” So, a token reference to a computer, machine or transformation may not be sufficient to bring the claim within the ambit of section 101 – the inclusion of the computer, machine or transformation must be significant.

Though *Bilski* leaves many questions unanswered, this much is clear - software methods can still be patented and business method patents can still be patented, so long as the methods satisfy the machine-or-transformation test. With that said, patent applicants and patent owners may wish to review their pending patent applications and issued patents in light of the new test.

If you have any questions about this developing case law and how it affects your intellectual property assets, please contact a member of your Woodcock Washburn client service team. Further questions may also be directed to Steve Rocci (rocci@woodcock.com) or Mike Dunnam (dunnam@Woodcock.com).

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