



## **Business Method Patents After In re Bilski: Should Your Strategy Change?**

Business method patents have provided a recent means of protecting a patent applicant's new process for performing a business operation. In late 2008, the Court of Appeals for the Federal Circuit ("CAFC") addressed the issue of whether business method patents are patentable by handing down its much anticipated decision for In re Bilski. The holding of this seminal case substantially changed the law for business method patent protection. However, future cases are needed to further clarify this area of patent law.

In previous cases, the Federal Circuit held that anything made under the sun by the hand of man is patentable. This standard was construed very broadly but typically did not include abstract ideas, laws of nature, or natural phenomena. Courts historically classified business methods as abstract ideas and often ruled that such methods were unpatentable. In 1998, however, the Federal Circuit in State Street Bank & Trust Co. v. Signature Financial Group ruled business methods to be patentable so long as the method provides a "concrete, useful, and tangible" result. In the wake of State Street Bank, applicants filed innumerable patent applications claiming a variety of business methods. These filings created a backlog at the United States Patent Office. State Street Bank further fueled a debate between patent practitioners, the United States Patent Office, and the judiciary concerning the determination of patentable and unpatentable subject matter

as well as how to classify business methods when applying the “concrete, useful, and tangible” test. A major concern was that by allowing business methods to be patented fundamental principles (i.e. abstract ideas) would be protected and effectively pre-empt all uses of that fundamental principle. This, in fact, would hinder further development and, in fact, defy the underlying purpose of patent protection.

This debate culminated in In re Bilski. On April 10, 1997, Bernard Bilski filed a patent application directed towards a method of hedging risk in the field of commodities trading. The patent examiner rejected Bilski’s patent claims declaring that this method “merely manipulates [an] abstract idea and solves purely mathematical problem[s] without any limitation to a practical application, therefore, the invention is not directed to the technological arts.” On appeal to the Board of Patent Appeals and Interferences (BPAI), the Board concluded that the patent examiner erred because he relied on a “technological arts” test. Even though the examiner erred, the Board concluded that Bilski’s claims did not involve any patent-eligible transformation, thus not claiming any patentable subject matter. Bilski subsequently appealed the case to the CAFC.

The CAFC reviewed this case *de novo* to determine whether a patent claim was drawn to patent-eligible subject matter. The CAFC stated that the issue was whether the Applicants were seeking to claim a fundamental principle (i.e. an abstract idea) or a mental process. In deciding this case, the CAFC adopted and applied a machine or transformation test previously set forth by the United States Supreme Court. Particularly, the machine or transformation test states, “[a] claimed process is . . . patent-eligible . . . if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article

into a different state or thing.” Thus, the CAFC explicitly discarded the concrete, useful, and tangible test of State Street Bank.

In its decision, the CAFC held that Bilski’s claims were not patentable. Specifically, the court reasoned that Bilski’s claims were not tied to a particular machine and were unpatentable under the first prong of the machine or transformation test. Next, the CAFC examined whether a transformation of a particular article into a different state or thing occurred. The court held that the Applicant’s process as claimed did not transform any article to a different state or thing. The court further concluded, “[p]urported 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.” The court held that Bilski’s claims were not patentable because the claims plainly fail the machine or transformation test.

Although this decision adopted a new test, many patent practitioners are unsure how courts will shape and construe this area of law. In addition, the pervasiveness of this ruling is of great concern. The validity of a significant number of business method patents is now in question. Further, practitioners remain uncertain how broadly courts will construe this precedent. For example, is this precedent strictly limited to business methods, or are diagnostic tests and other technologies which do not recite a machine or transformation in question? Additionally, can patent practitioners circumvent In re Bilski by simply placing a machine, such as a computer, within a claim? In an attempt to settle the debate regarding patentability of business methods, the CAFC simply shifted focus by adopting a new test but failed to provide much clarity.

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