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Everything Under the Sun but...

Business Method Patents Take a Blow
by Kory Christensen

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When Judge Pauline Newman wrote, "Uncertainty is the enemy of innovation. These new uncertainties not only diminish the incentives available to new enterprise, but disrupt the settled expectations of those who relied on the law as it existed," it was in biting dissent, as her fellow judges dealt what some believe to be a death blow to business method patents.

On Oct. 30, 2008, the Court of Appeals for the Federal Circuit (CAFC) put an end to Bernard Bilski's quest for a patent on a method for hedging risk in commodities transactions. Barring action by the U.S. Supreme Court, which is unlikely, Bilski's patent application is dead, and potentially thousands of granted patents on business methods are worthless. Most people outside of the patent world have probably never heard of Bernard Bilski, the chief operating officer of WeatherWise USA, a small Pittsburgh-based company.

However, anyone who owns or in-tends to pursue software or business method patents should quickly become acquainted with the court case that bears his name. The issue with Bilski's case was not whether his invention was new, useful and non-obvious—the traditional standards of patentability. Bilski's patent application had languished in the Patent Office for more than 11 years without being examined for inventiveness. The central issue in the case was whether Bilski's invention was the type of thing that can be patented.

Bilski believed that he was on strong legal ground in appealing the Patent Office's refusal to grant his patent. In 1996, the CAFC found in State Street Bank v. Signature Financial Group that business methods are patent eligible if they satisfied the other requirements of the Patent Act. The court quoted the legislative history of the Patent Act, which stated that Congress intended patents to "include everything under the sun that is made by man." The only articulated exceptions were laws of nature, physical phenomena and abstract ideas. Furthermore, section 101 of the Patent Act states that patent eligibility extends to "any new and useful process, machine, manufacture or composition of matter." Bilski's idea was claimed as a "process," and it was "made by man," so it should have been patentable—or so he thought.

A New Test

In rejecting Bilksi's appeal, the court announced a new test for determining patent eligibility. To leave no room for doubt, the court said that it was "the governing test," an unequivocal, if not unusual, position for the court to take. The U.S. Supreme Court in earlier cases had specifically refused to close the door on new categories of innovation that were not at issue.

Under the court's new test, a process claim must either (1) be tied to a particular machine or apparatus or (2) transform a particular article to a different state or thing. The practical effect of the test is to require that processes must be tied to another statutory class in order to be patent eligible. In other words, processes must be embodied in, operate on, transform or otherwise involve a "machine, manufacture or composition of matter."

Although In re Bilksi dealt with a "pure" business method claim that did not require a computer implementation, it is not hard to see how future courts may invalidate software patents on similar grounds. Although software has been patentable since the 1980s, the CAFC recently held that simply programming a general purpose computer to perform an otherwise unpatentable business method does not make it patentable. Under In re Bilski, courts are now encouraged to decide whether certain process steps constitute "insignificant extra-solution activity" and whether a machine's implementations impose "meaningful limits" on an in-vention's scope.

Judge Newman and others have commented that such vague phrases give judges and patent examiners a "blank slate" to invalidate claims. Thus, the In re Bilski decision actually raises more questions than it answers. This uncertainty is, as Judge Newman wrote, the "enemy of innovation," because companies will have less incentive to invest money in developing new ideas if they are unsure whether the product of that investment can be protected.

What Next?

What should companies do that either own or wish to pursue software and business method patents? For patent owners, we recommend an immediate review of issued patents for compliance with In re Bilski. If problems are found, a procedure at the Patent Office called "reissue" may allow patent claims to be corrected. This review should be done quickly, because a two-year time limit may apply where the corrections are deemed to broaden the scope of the patent.

The good news for companies desiring patent protection is that it is still possible to craft claims, even to business methods, that will satisfy In re Bilski. This requires great care in order to avoid unduly narrowing the scope of the claims when inserting physical components and/or transformative language. Companies should ask their patent counsel about their plans for complying with In re Bilski in new and pending applications.

While In re Bilski probably does not equate with ban-on-business method patents, it may be a sign that the pendulum is swinging back to the more restrictive practice of past decades. As Judge Randall Rader of the CAFC said of the decision, "because this court ... links patent eligibility to the age of iron and steel at a time of subatomic particles and terabytes, I must respectfully dissent." Hopefully, future decisions will restore some clarity and fairness to the patent process before innovation suffers as a result of this questionable decision by the CAFC."

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