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IP FRONTIERS

Software and business method patents called into question

By **WAYNE F. REINKE**
Daily Record Columnist

The U.S. Court of Appeals for the Federal Circuit in October drastically changed its jurisprudence with respect to software- and business-method-based inventions in deciding *In re Bilski*.

A decade before, the Federal Circuit also radically changed that landscape, opening what some viewed as the floodgates for patent applications on such inventions. With recent headlines, public opinion and even some lawmakers seemingly in favor of eliminating business method patents, there certainly was no shortage of pressure to at least make it more difficult to obtain them.

State Street Bank & Trust Co. v. Signature Financial Group Inc. — decided by the Federal Circuit in 1998 — involved a patent claim on a machine for implementing a “Hub and Spoke” investment scheme, with the output being a number, used to determine outcomes such as share price. The claims were rejected by the U.S. Patent and Trademark Office under the “business methods exception,” which was a judicially created doctrine. The Federal Circuit dismissed that exception and upheld the patent as claiming statutory subject matter, since there was a “useful, concrete and tangible result” — later the test for statutory subject matter.

In the time between *State Street* and the Federal Circuit’s new jurisprudence, a number of high-profile stories developed involving business method patents. The Amazon one-click checkout patent was asserted to seemingly great public outcry. Another patent was asserted affecting Research In Motion’s Blackberry devices. When no settlement could be reached initially, fears of Blackberry outages were rampant. Such stories fueled a chorus of detractors against business method patents, and the air seemed ripe for change.

On Oct. 30, 2008, the Federal Circuit decided *In re Bilski*, an appeal from a rejection of patent application claims to a method for managing or hedging risk in commodities trading. The rejection, upheld by the Board of Patent Appeals and Interferences before arriving at the Federal Circuit, alleged the claims were not statutory subject matter, as they were broad enough to be practiced without a machine or other apparatus. In other words, the claims were rejected as the manipulation of abstract ideas, which falls outside the sphere of statutory subject matter.



Indeed, the applicant admitted in prosecution that the claims were not limited to operation on a computer. Inventions eligible for patent protection must fall within one of the four statutory classes: “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.”

Although the Federal Circuit decides most cases using three-judge panels, the entire court decided *Bilski*. Nearly 40 parties with varied interests filed briefs in the hope that the court would adopt their view.

In the end, the Federal Circuit affirmed the rejection of the claims as non-statutory, since they did not pass the court’s new test for statutory subject matter in process claims. The “useful, concrete and tangible result” test of *State Street* was replaced with a test with clearer roots in past U.S. Supreme Court decisions: A process is statutory patent subject matter if it either is “tied to a particular machine or apparatus, or ... transforms a particular article into a different state or thing.”

The Federal Circuit explained that when one of the “machine-or-transformation” test’s criteria is met, the process cannot preempt all uses of fundamental principles, such as abstract ideas and laws of nature, or mental processes.

The ultimate goal of the test, then, is to identify preemption. In that regard, the “useful, concrete and tangible result” test was rejected as an inadequate means of implementing the test. Of course, the Federal Circuit made clear that statutory subject matter, which must be determined separately, is only one ground upon which a patent claim may fail, but it recently has been the main point of contention between patent applicants and the U.S. Patent and Trademark Office for software and business method inventions.

The Federal Circuit recognized that future technological advances may present challenges for the machine-or-transformation test, and the U.S. Supreme Court may decide to refine or augment the test in light of those advances. Nonetheless, the court seemed compelled to follow the test as presently framed.

In light of *Bilski*, inventors of software and business methods are left to wonder whether room remains for patents for such inventions.

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The Federal Circuit specifically left to future cases the boundaries of machine implementation, and whether or when recitation of a computer in a claim creates statutory subject matter.

It is not surprising, then, that as with many high-profile court holdings and rules changes, doomsday predictions abounded after *Bilski*. While it probably should not be treated as “much ado about nothing,” *Bilski* also should not be seen as the death knell for software and business methods some hold it out to be. In reality, *Bilski* will require involving machines and/or transforming data, with more careful patent drafting and including more technical information about the workings of the machines or transformation of data.

The application should describe, for example, the computing environment in which the invention will function, as well as give at least one example, preferably more, of the invention's operation and how it affects the environment. Interaction with the physical environment is key; in general, the more specific, the better. Likewise, claims should include the physical environment as a central aspect. When data is being manipulated or transformed as part of the invention, what the data represents should be described, as well as how the transformed data changes or represents something physical. Those initial impressions will be augmented by Examination Guidelines expected to be issued by the U.S. Patent Office as early as late Spring, 2009.

Simply tying method claims, for example, to a general-purpose computer is unlikely to be enough to pass the machine-or-transformation test, as it does not meaningfully limit the claims. Claims directed to an operating system, however, would involve operation/control of the hardware by the software, and stand a good chance of passing the test. The *Bilski* court also indicated that the “transformation of ... raw data into a particular visual depiction of a physical object on a display” is a patentable transformation. That is true even though the underlying object is not

itself transformed.

Indeed, in finding the first claim of the *Bilski* application non-statutory, the Federal Circuit held that it “does not involve the transformation of any physical object or substance, or an electronic signal representative of any physical object or substance.”

Of importance to the retail software industry, recent post-*Bilski* board decisions make clear that computer program product claims (also known as *Beauregard* claims), which claim computer programs embodied in a computer-readable medium, survived *Bilski*. Other insufficient recitals likely include limitations on technical field of use; simple data gathering or storage, without explaining how it is done; and insignificant physical steps (e.g., “providing” something).

For issued software or business method patents unlikely to survive *Bilski*, one might consider a reissue proceeding in the U.S. Patent Office to narrow the claims to include more technical aspects. Of course, the specification would need to support the technical aspects of the narrowed claims, as new matter is not allowed. From the opposite perspective, attacking or defending against such patents may be made easier after *Bilski*.

Only time will tell exactly how the machine-or-transformation test will be applied in particular circumstances, and what form it will take in practice. It is clear from the *Bilski* opinion that it is not seen as a bright-line test, but an example of how to determine whether a general principle or algorithm is being wholly preempted by a particular claimed invention.

Wayne F. Reinke is a partner with Heslin, Rothenberg, Farley & Mesiti PC, practicing in intellectual property law, including patent, trademark, copyright, licensing, opinion work, patent and trademark appeals before the U.S. Patent and Trademark Office and pre-litigation enforcement and defense of intellectual property rights. His practice includes an emphasis on issues related to Internet-based inventions, business methods software and nanotechnology. Reinke can be reached at (585) 288-4832, or e-mail wfr@hrfmlaw.com.