

BUSINESS METHOD PATENTS: THE RULES HAVE CHANGED (AGAIN)

November 13, 2008

Under US patent law, there are some types of innovations that are inherently unpatentable. For example, it has long been held that natural phenomena are not eligible for patenting. These exclusions, however, tend to evolve and are difficult to apply in practice. Two of the exclusions that have been most in flux and proven the thorniest to apply are those barring patenting of “business methods” and those barring patenting of software.

Both exclusions come into play in considering questions of the validity of so-called business method patents, which typically involve the software implementation of a business method. Such inventions were widely held to be ineligible for patenting until the 1998 decision of the U.S. Court of Appeals for the Federal Circuit in *State Street Bank v. Signature Financial Group*. In *State Street*, the Federal Circuit upheld the validity of a patent covering a computer system for managing mutual funds. The patent community perceived this as the death knell for the doctrine that computer-implemented business methods were *per se* ineligible for patenting.

In the decade since *State Street*, the U.S. Patent and Trademark Office (“USPTO”) has been inundated with a tsunami of applications for business method patents. These patents may or may not combine software with business methodology, and are not confined to what is traditionally regarded as “technology.” Business method patents have been used to protect such things as online ordering processes, Internet advertising schemes, insurance risk reduction, reduction of foreign currency trading risks, etc. Some of the resulting patents have seemed trivial and fostered disdain for the patent system. Yet some of these same patents have wrought havoc in the financial services industry, which abruptly went from an essentially patent-free regime to a regime where patents mattered. This development was coupled with a growing trend towards computer-assisted provision of financial services, and the rise of so-called patent trolls (generally, opportunistic patent plaintiffs), all of which tended to raise the stakes.

In addition, IP managers in non-technology-based business sectors such as insurance, electronic commerce, finance, healthcare, accounting and tax compliance have had to grapple with business method patents, both as potentially valuable assets or as the source of possibly costly liabilities. As an asset, a patent can be used to prevent competitors from using an advantageous business method, and can generate revenue to the extent it can be sold or licensed to others. Conversely,

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a patent owned by another can imperil a business accused of infringement. The patent owner can obtain an injunction and may also be entitled to substantial damages ranging upwards to hundreds of millions of dollars.

This has all led inevitably to the question of whether *State Street* had been properly (or providently) decided.

Now, ten years later, in its long-awaited decision in *In re Bilski*, the Federal Circuit has revisited *State Street* and pared it back. Business methods are still theoretically eligible for patenting, but only when tied to a particular machine, or when they transform an “article,” which, it seems, must be tangible.

Bilski mandates a wholesale review of business method patents issued since *State Street* to determine whether they are directed to subject matter that is still patent-eligible under *Bilski*'s narrower standards. It will be necessary to triage these patents into those that remain valid, those that are no longer valid and cannot be salvaged, and those that can potentially be reissued to refocus their claims on eligible subject matter. Our more detailed recommendations appear below.

Business Method Patenting is a Recent Phenomenon

An invention is eligible for patenting if it fits into one of the four statutory categories of eligible subject matter set forth in the patent statutes:

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. 35 U.S.C. § 101 (Emphasis added.)

As a matter of pure semantics, a business method could be considered a process, but it has long been held that not every process is a “process” as that term is used in the statute. In particular, business methods were a classic example of a non-statutory process. As early as 1908, the Second Circuit was widely understood to have banished business method patents entirely when it rejected, in *Hotel Security v. Lorraine*,¹ the patentability of a dual-receipt system to assure a restaurant waiter's honesty. The court stated in passing that “a system of transacting business disconnected from the means for carrying out the system” is not eligible for patenting.

However, a string of decisions from the U.S. Supreme Court and the Federal Circuit (and one of its predecessor courts, the Court of Customs and Patent Appeals)

¹ 160 F. 467 (2d Cir. 1908)

improved the atmosphere for the patenting of business methods. Finally, in 1998 the Federal Circuit specifically embraced the patentability of business methods, in the seminal *State Street Bank v. Signature Financial Group*,² where the court chose to recognize that “[t]he repetitive use of the expansive term ‘any’ in § 101 . . . showed Congress’s intent not to place any restrictions on the subject matter for which a patent may be obtained beyond those specifically recited.” The court found the business method in *State Street* to be patentable because it was a “practical application of a mathematical algorithm, formula, or calculation, [that] produces ‘a useful, concrete and tangible result.’” *State Street* opened the floodgates for business method patenting: total application filings in the patent classes covering business methods rose from 974 in 1997 to 3,020 in 1999, and to 11,378 in 2007.³

Business Methods Reconsidered: *In re Bilski*

State Street created problems for the USPTO and financial services institutions alike. Responding to these problems, the Federal Circuit recently decided, in a sitting *en banc*, to take another look at business method patent eligibility. As a result of the ensuing decision, IP managers should be aware that, although computer-implemented business methods are still eligible for patenting, the requirements for eligibility have been tightened, and many already-issued patents may be at risk.

In *In re Bilski*,⁴ decided on October 30, 2008, the Federal Circuit disavowed the “useful, concrete and tangible result” test for patent-eligibility and replaced it with a test more explicitly hinging on tangibility. Specifically, the court found that a method of hedging risk in the field of commodities trading by entering into offsetting contracts was not eligible for patenting. The method included three steps: 1) initiating a series of transactions between a provider and consumers of one type; 2) identifying market participants for the commodity with “a counter-risk position to said consumers”; and 3) initiating a series of off-setting transactions. No computer or any other tangible article was mentioned in the claims. In finding this method unpatentable the *Bilski* court substituted the following eligibility test for that in *State Street*:

² 149 F.3d 1368 (Fed. Cir. 1998).

³ See, e.g., Robert M. Hunt, “Business Method Patents and U.S. Financial Services,” Working Paper No. 08-10, Federal Reserve Bank of Philadelphia (May 2008), available at <http://www.philadelphiafed.org/research-and-data/publications/working-papers/2008/wp08-10.pdf>.

To assure the “quality” of business method patents the PTO initiated a unique system of dual reviews for business method patent applications. An examiner’s allowance of an application is reviewed by a group of special examiners and others, who particularly look at the scope of the allowed claims and the reasons for allowance. Partially as a result of this process, it now takes about five years for a successful application to issue as a patent.

⁴ 07-1130 (Fed. Cir., Oct. 30, 2008).

[A]n applicant may show that a process claim satisfies § 101 either by showing that his claim is tied to a particular machine, or by showing that his claim transforms an article. (Emphasis added.)

The court then found that Bilski's business method was in the class of "[p]urported transformations or manipulations simply of public or private legal obligations or relationships, business risks, or other such abstractions." But, "such abstractions cannot meet the [transformation or particular machine] test because they are not physical objects or substances, and they are not representative of physical objects or substances." (Emphasis added.) The court thus elevated tangibility as a requirement for patentability for business methods: the method must be "tied to a particular machine," or must operate on a physical object or substance, or something—including data—that is representative of a physical object or substance.

The Federal Circuit is the penultimate court for patent cases and, as noted, it decided *Bilski* en banc. Thus, the only chance that *Bilski* will be overturned or otherwise modified in the near term is if the Supreme Court grants a petition for certiorari. Whether the Supreme Court would do so is a guess at this point. The Federal Circuit hewed close to Supreme Court precedent in *Bilski* in an apparent effort to create a "certiorari-proof" opinion. Still, several respected members of the court penned vigorous dissents in *Bilski*, which may increase the chances for certiorari. Regardless, Supreme Court intervention is not so likely that *Bilski* can be ignored. Instead, *Bilski* must thus be treated as the new law of the land as regards business method patents.

Recommendations

Bilski tightens the requirements for patent eligibility. To be eligible for patenting, a claim must be tied to a particular machine, or describe the transformation of a tangible article, or a representation of a tangible article. As a consequence:

1. Companies that have amassed a portfolio of business method patents should analyze them to see if the claims meet the new, more stringent *Bilski* requirements for patent eligibility—i.e., the method delineated in the claims must transform a tangible article or its representation, or be tied to a particular machine. If not, the descriptive part of specifications of these patents should be analyzed to determine whether they will support claims which would pass muster under *Bilski*, and consideration should be given to obtaining those claims through reissue.

This memorandum is intended only as a general discussion of these issues. It is not considered to be legal advice. We would be pleased to provide additional details or advice about specific situations. For additional information on this important topic, please feel free to call upon your Dewey & LeBoeuf relationship partner.

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2. Those with active business method patent applications should similarly examine the claims and descriptions in those applications and, if necessary, amend pending claims to conform them to *Bilski*.
3. Those currently involved in litigation concerning business method patents should, if an infringement defendant, examine the patent(s) in suit for invalidity defenses suggested by *Bilski*. If a plaintiff, patent(s) in suit should be examined carefully to see whether they can withstand *Bilski*-based validity attacks, or if claims can be appropriately narrowed in reissue.
4. Business strategies involving business method patents, such as limiting competition or obtaining royalties through licenses, should be re-evaluated, because such patents may now be weaker.

Conclusions

Business method patents and patent applications should be scrutinized anew in light of *Bilski*. Patent owners and applicants need to consider reissuing patents or amending applications as necessary to avoid any issues that *Bilski* might otherwise create. Accused infringers need to be aware of this new avenue for attacking business method patents.

*For further information, or if you are interested in pursuing an amicus position in a potential application for a writ of certiorari to the Supreme Court for **In re Bilski**, please contact: Stanton J. Lovenworth at +1 212 259 6420 or slovenworth@dl.com, Anthony Shaw at +1 202 346 7880 or ashaw@dl.com, Jeffrey Frey at +1 202 346 7811 or jfrey@dl.com, or your Dewey & LeBoeuf relationship attorney.*