PUBLICATION

Software and Business Method Patents Take a Hit

October 31, 2008

Faced with a deluge of software and business method patent applications in the last decade, the U.S. Patent and Trademark Office recently has been trying to curtail the flood by narrowing the interpretation of what constitutes patentable subject matter. This week, it received some support from the Federal Circuit. On October 30th, the Federal Circuit released its opinion in *In Re Bilski* ("*Bilski*"), holding that process claims must either be tied to a particular machine or apparatus, or transform an article. This "machine-or-transformation" test represents a substantial hurdle for many pending business method and software patent applications, and casts doubt upon the enforceability of many issued patents.

The scope, and, consequently, the value of the rights granted with each patent are determined principally by the language of the individual patent claims. Under U.S. law, each patent claim must be drawn to a "new and useful process, machine, manufacture, or composition of matter." Although determining whether a claimed invention is a "machine, manufacture, or composition of matter" under the patent statutes is relatively straightforward, establishing the standards applicable to determining whether a claimed invention constitutes a statutory "process" has proved difficult. This has become an issue of increasing importance because software and business methods fall within the realm of "processes."

The Supreme Court has held that a claim cannot be a patent-eligible "process" if it claims a fundamental principle—such as a law of nature, a natural phenomenon, or an abstract idea—in such a way that it would preclude substantially all uses of that fundamental principle, if allowed. According to the Federal Circuit in *Bilski*, the test to use to make this determination is whether the "process" is either 1) tied to a particular machine or apparatus; or 2) it transforms a particular article into a different state or thing.

The *Bilski* claims failed this test, and thus the Federal Circuit affirmed the PTO's rejection. The claims were drawn to a method of hedging risk in the field of commodities trading, and they encompassed transactions involving the exchange of options. The invention was not tied to a machine or apparatus in any way (no mention was made of a computer), thus leaving only the question of transformation. The court noted that patent-eligible subject matter includes such transformative processes as the chemical or physical transformation of physical objects or substances, and the transformation of raw numerical data into visual descriptions of a physical object on a display. The claims of *Bilski* failed because "transactions" are not physical objects or substances, and they do not represent physical objects or substances.

The Federal Circuit rejected a general attack on business method applications, noting that business methods were still patentable. However, they must meet the "machine-or-transformation" test. Any pending patent applications, issued patents, or patent licenses involving business method or software inventions should be evaluated carefully to determine whether they are affected by this ruling.