

Giving Bilski the Business: Business Method Patents Called Into Question by Federal Circuit

Legal Alert
November 19, 2008

Garvey Schubert Barer Legal Update, November 19, 2008.

The United States Patent and Trademark Office (PTO) has been trying to reign in so-called “business method” patents for the last few years. Finally, they have their marching orders after the Federal Circuit issued its decision October 30, 2008 in *In re Bernard L. Bilski*. To get a sense of how important and closely watched this case was, the list of lawyers participating in the case eats up a full four pages, and the Court, on its own motion, ordered reargument before the entire panel of judges. After *Bilski*, the PTO will examine “process” patent applications far more closely and reject those having less to do with machines and inventions and more to do with organizing human activity.

Bilinski had filed a patent application for a method to hedge risk in commodities transactions by introducing a middleman who would buy and sell at agreed to prices based on the risk tolerance of the market. This would eliminate wild fluctuations in both the supply and demand price changes. The PTO examiner rejected the claims in the application, and Bilski appealed first to the Board of Patent Appeals in the PTO, and then to the Federal Circuit, which has jurisdiction over such cases.

The *Bilski* court ended years of speculation on the future of business method patents by adopting what at first appears to be very clear standard: A claimed process is patent-eligible only if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing. The remainder of the majority opinion, as well as a concurrence and three separate dissenting opinions, wrangled over the definition of “process,” “machine,” “transform,” “article,” and “state.” The court was most troubled by the fact that in the “Information Age,” data creation and manipulation is crucial. How should such things be protected under the patent laws, if at all? The Court was left to ponder: The raw materials of many information-age processes, however, are electronic signals and electronically-manipulated data. And some so-called business methods, such as that claimed in the present case, involve the manipulation of even more abstract constructs such as legal obligations, organizational relationships, and business risks. Which, if any, of these processes qualify as a transformation or reduction of an article into a different state or thing constituting patent-eligible subject matter?

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After more than 130 pages of the various opinions, the reader is left with a sense that this is not the last we'll hear on this subject. All we do know is that Mr. Bilski doesn't get his patent, unless he continues his fight to the Supreme Court, which may well be the case.