

Is Your Intellectual Property in Jeopardy? The Impact of *In re Bilski* on Patent Strategies for Innovative Business Methods

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Unless a higher court steps in to reverse its holding, a surprising number of previously issued patents may be invalidated as a result of a recent case that has changed the landscape for patents of innovative business methods. On October 30, 2008, the U.S. Federal Circuit Court of Appeals rendered its decision in a highly anticipated case concerning limits upon the patentability of new business methods. The case, *In re Bilski*, involved an application for U.S. Letters Patent for a new method of managing risk in commodities trading. In its broadest sense, the claimed invention was not required to be implemented using any particular machine or computer system. In a split decision (9-3), the Federal Circuit panel upheld the United State Patent Office's determination that the subject matter claimed by *Bilski* was not patent-eligible [1].

In its decision, the court held that a new and non-obvious process (including, e.g., a business-related method) for which a patent is sought in the United States must meet an additional and exclusive two-pronged test. The enunciated test requires that a patentable new and non-obvious process must also either:

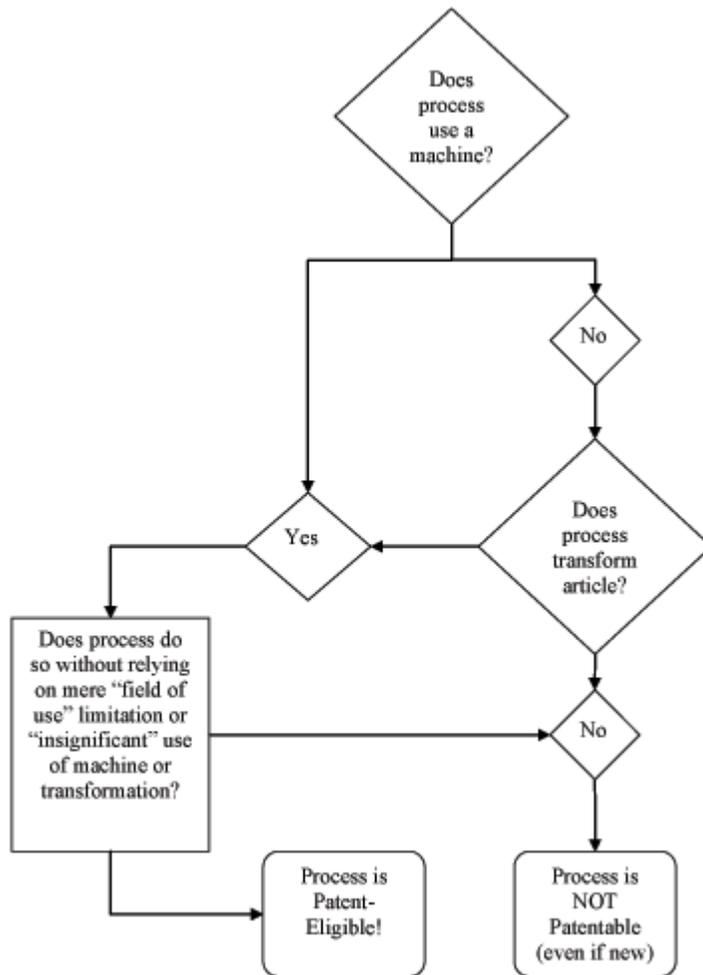
1. be tied to a particular machine or apparatus, or
2. transform a particular article into a different state or thing.

The court further elaborated upon two caveats to this test. In particular, the above test cannot be met merely by:

1. adding a "field-of-use" limitation to the claimed process, or
2. adding conventional or obvious "insignificant" machine implementation or transformational activity to the claimed process.

Some examples of "insignificant" activity were identified by the court to include, e.g., pre-solution activity in the nature of data-gathering, or an insignificant step in the middle of the process such as recording a result. Presumably post-solution activity which might be considered conventional or obvious would also fail to satisfy the test for a process either tied to a machine or apparatus, or causing a transformation of an article to a different state or thing. In essence, the court held that one would have to do more than A or B, in order to meet

either alternative 1 or 2. Unfortunately, the court provided little additional guidance, leaving for another day the contours of what it meant by “insignificant” activity, and when a specified feature of a process would be viewed merely as a “field-of-use” limitation. The accompanying illustration diagrams the logic under the In re Bilski test for the patentability of novel processes.



On January 29, 2009, a petition was filed with the U.S. Supreme Court requesting that it review the *In re Bilski* decision. Unless the petition is granted and the case is reversed by the Supreme Court, this decision is expected to have the effect of making many previously issued U.S. patents regarding business-related processes invalid. Moreover, the decision has the potential to change the way businesses protect innovative business processes which are not dependent upon implementation via machine and which do not necessarily transform an article, composition or other tangible subject matter.

Businesses engaged in process innovation must take into account these potential limits on the scope of available patent coverage when considering the pros and cons of seeking patent versus relying on trade secret protection. Patent strategy has always required a weighing of the potential costs of disclosure of the inventive subject matter and of the loss of the information's trade secret status, versus the potential benefits of a grant of patent rights covering that subject matter. Prior decisions of the Federal Circuit suggesting that processes could be

patented regardless of whether the process involved transformation of matter or employed a machine have now been set aside in favor of a test which places emphasis upon a physical, transformational effect or the use of a “machine” in carrying out the process. For those processes which are easily carried out without the use of a computer or other machine, and which do not transform a physical object or other tangible matter, principles of trade secret law and contractual mechanisms may now be the only viable way to control third party use of such processes. Yet, for those processes which are likely to be carried out using a machine when put to commercial use, carefully prepared patent applications may still provide viable patent coverage, as long as the process is claimed with adequate emphasis on the use of a machine to carry out the process.

[1] In re Bilski, — F.3d —, 88 U.S.P.Q.2d 1385 (2008).