Change is in the Wind for Business Method, Internet Process and Software Patents

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Traditionally, business methods, internet processes and software often have been considered unpatentable subject matter under 35 U.S.C. §101 because they are viewed as mathematical algorithms or abstract ideas not tied to any physical media or a "useful, concrete and tangible result." However, in 1998, the Federal Circuit Court of Appeals dramatically changed this landscape in *State Street Bank.*[1] Citing *Diamond v Diehr*[2], the Federal Circuit stated that the Supreme Court has indicated that "anything under the sun that is made by man" is intended to be patentable under §101, and held that business methods were not *per se* unpatentable. Since *State Street Bank*, obtaining patents in these areas has been easier, and many companies devoted considerable resources to developing or expanding patent portfolios in business methods, as well as internet processes and software. This all may change.

On February 15, 2008, the Federal Circuit announced that it will perform an *en banc* review of *In re Bilski*[3] to revisit §101 patentability and whether *State Street Bank* should be overruled in any respect. The Court will address (i) what standard should govern in determining whether a process is §101 patent-eligible subject matter (as opposed to an unpatentable abstract idea or mental process), (ii) whether a method or process must result in a physical transformation of an article or be tied to a machine to be §101 patent-eligible, and (iii) whether a patent claim that contains both mental and physical steps is patentable. Interestingly, this *en banc* order came after the panel heard oral argument in the case. Rather than issuing an opinion, the Court convened and voted for an *en banc* review, setting the stage for a potential complete overhaul of this area of patent law.

The patent in *In re Bilski* pertains to a method of managing consumption risk costs through commodities trading. In addition to the §101 issues, the patent claims may have other patentability problems, such as being obvious over what was already known. The Federal Circuit quite possibly chose this case to revisit §101 to make it easier to diminish, disable or eliminate §101 coverage for business methods, internet processes and software because the claims appear problematic on multiple fronts and appear to be "general" business method claims, which the Court has recently disfavored.

Generally, the Supreme Court has recognized that a method patent claim reciting a mathematical algorithm or other abstract concept is patentable under §101 only if it has a practical application so as to produce a useful, concrete and tangible result, and is tied to an apparatus or acts to change materials to a different state or thing. Accordingly, for software claims, patent practitioners have often tied algorithm related claims to an article of manufacture (such as a storage medium, computer disk, memory) to meet this requirement. Hence, software instructions have been patentable under §101 so long as

[1] *State Street Bank v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998).
[2] *Diamond v. Diehr*, 480 U.S. 175, 182 (1981).
[3] *In re Bilski*, slip copy, 2008 WL 417680 (Fed. Cir. 2008).

the patent claims are drafted to tie them to a computer/machine and the method has a practical application. Yet at its core, the novel idea being patented is not the concept of a computer disk or machine, but rather the otherwise abstract mathematical algorithms that alone would not be patentable. Depending upon how the claims are drafted, the outcome of *Bilski* could include change to allowability of these so called "Beauregard" patent claims and alter protection available for software.

Recent Federal Circuit actions possibly foreshadow that a change will impact software patents. On February 11, the Federal Circuit denied *en banc* review of another case dealing with §101 patentability, *In re Nuijten*[4], which involves a patent claiming a "signal" with an embedded digital watermark. The Federal Circuit held that a "signal" is not statutory subject matter. The Court said that although a signal is physical, it is transitory and fleeting, and thus did not qualify as a manufacture. Judge Linn's dissent recognized that the issue was bigger than the patent in this case, and pointed out the difficulty in reconciling cutting-edge technology with statutory language dating back to the beginning of the Republic against a backdrop of the ongoing controversy regarding the wisdom of patenting software and *State Street Bank*.[5] Judge Linn also dissented from the *en banc* denial, stating that it made no practical sense that in another claim in the patent, the "signal" was patentable merely because it was stored on a computer storage medium.

Further, in September 2007, in *In re Comiskey*[6], the Federal Circuit held that a method for arbitration, which Chief Judge Michel classified as being within a "general" category of business methods, did not meet §101 criteria because it was a mental process. The Federal Circuit stated that despite apparent public misconception, *State Street Bank* did not stand for the general proposition that business methods were *per se* patentable. Rather, *State Street Bank* had merely put the so-called "business method exception" to patentability to rest (a business method is not *per se* unpatentable by virtue of being a business method). The Court reiterated that business methods were patentable only if they met statutory patentability criteria. Yet, the Federal Circuit apparently has decided that change is needed in addition to clarification since it plans to revisit this issue in *Bilski*.

Modifications also may be on the horizon due to pressure from the Supreme Court. In 2006, the Supreme Court granted certiorari in *Metabolite*[7] to address §101 patentability issues, then dismissed the writ as improvidently granted. Many believe that the Supreme Court intended to change the law in this area, but decided that this case was not the right vehicle to do so. And based upon the Supreme Court's recent track record of stepping in over Federal Circuit decisions, it appears that the Federal Circuit may have decided to be proactive and take action to redress perceived problems with §101.

The *Bilski* hearing is scheduled for May 8. Regardless of whether your company has been building a business method, internet process or software patent portfolio, or finding

[4] *In re Nuijten*, ___ F.3d ___ (Fed. Cir. 2008).
[5] *In re Nuijten*, 500 F.3d 1346, 1358 (Fed. Cir. 2007).
[6] *In re Comiskey*, 499 F.3d 1365 (Fed. Cir. 2007).
[7] *Lab. Corp. v. Metabolite*, 548 U.S. 124 (2006).

itself defending patent infringement lawsuits in this area, we expect *Bilski* to provide direction and clarification of the validity of these patents, and cause patent practitioners to consider different and creative techniques in claim drafting.