

# IP Alert

An informational newsletter from Goodwin Procter's Intellectual Property Group

## Long-Awaited *Bilski* Decision Restricts Patentability of Software, Business Methods

The Federal Circuit has upheld a ruling by the U.S. Patent Office denying a patent for methods of hedging in commodities trading. In doing so, the court considered earlier Supreme Court decisions and announced a new test for patentable subject matter. The Federal Circuit's ruling reflects a growing tendency among courts to subject patents to increased scrutiny. The *Bilski* decision is significant because it may affect a patentee's ability to enforce existing patents, the prospects for pending patent applications and the decision whether to file new patent applications directed to so-called "business methods" and software-related innovations. The ruling certainly makes review of existing portfolios of such patents advisable.

### **The Court's Retrenchment**

The case, *In re Bilski*, provided the court with an opportunity to revisit earlier decisions that had liberalized patent standards. These decisions, culminating in the famous *State Street* opinion, encouraged a surge in e-commerce and software applications just as Internet-based businesses were taking hold. Now, nearly 10 years later, the Federal Circuit has retrenched, limiting patentability to inventions (1) tied to a particular machine or (2) that transform an "article" into a different state or thing. The court also confirmed previous cases holding that fundamental principles of mathematics or science are not patentable.

### **The Court's "Tied to a Particular Machine" Standard**

This new standard raises many significant questions. First, because the claims in *Bilski* were not tied to particular hardware, the court did not consider the viability of patenting specific functions carried out by a general-purpose computer. A key question for the future is how the phrase "tied to a particular machine" will be applied to software patents. If interpreted narrowly – i.e., requiring the use of special-purpose hardware to receive a patent – many if not most business method and software patents may not survive. On the other hand, if read less restrictively, the status quo may largely prevail.

### **"Articles" That Can Be Transformed**

Because *Bilski*'s patent claims were not "tied to a particular machine," the court focused its attention on what sorts of things constitute "articles" that can be transformed. Unfortunately, the court offered limited guidance. Certainly any physical object or substance is an "article." Something representing a physical object or substance (e.g., a display showing an X-ray of a bone) also qualifies.

Outside these limited boundaries, however, there are few guideposts. The court struck down *Bilski*'s patent because it called for transforming business risks, and the court made it clear that these were not articles. But the gulf between tangible things and abstractions is wide and unexplored.

### ***Bilski* Applied - Examples**

Some examples may help illustrate the application of the new test announced in *Bilski*. Consider three inventions, each using a complex mathematical procedure to predict future values. The first claims the algorithm itself – the sequence of steps from input to output – without any specific application or result. The second invention uses the algorithm to simulate the mechanical behavior of an airplane wing. The third invention uses the algorithm to predict future stock prices based on historical market data.

Even before *Bilski*, the first invention could not be patented; it would cover the use of the algorithm for any purpose, effectively giving someone exclusive rights over the math itself. But under pre-*Bilski* law, the second and third inventions could be patented. In fact, many patents have been issued for such applications. It appears now, however, that only the use of special-purpose hardware can save the third invention, otherwise it would fail the “transformation” prong of the *Bilski* test because the underlying “articles” are abstract ideas.

### **Limits of the *Bilski* Framework**

Much of the innovation that has occurred in information technology over the past decade does not fall neatly within the *Bilski* framework. Applications directed to collecting, mining, retrieving and manipulating data may relate in some way to tangible physical articles (e.g., products available through an online shopping site), but because all data is ultimately generic, it can just as easily represent something abstract. Will the patentability of website spidering or search algorithms, for example, depend on what is analyzed or indexed? If so, many innovations may fall outside the patent system altogether.

Moreover, the *Bilski* court only considered process claims. The extent to which its reasoning will extend to software or business methods expressed in terms of a hardware implementation remains to be seen.

### **The Potential Impact on Pending and Future Business Method and Software Patents**

Going forward, patents directed to business methods that do not involve the use of computers or other machines are clearly at risk and likely no longer enforceable. Such patents could be placed in reissue or re-examination to recast coverage in compliance with the new “machine or transformation” test. If a continuing application is pending or can be filed, it may be used as a vehicle for new patent claims. For pending applications, it is worth reviewing the claims to determine whether they call for the involvement of a computer, the operation of a mechanical device, or the transformation of an article to a different state or thing.

The precise scope of patent protection available under *Bilski* will be determined over time, as the new standard is digested and applied by lower courts. The Federal Circuit's expected rehearing decision in *In re Comiskey* may also provide additional guidance on these issues. Until then, companies that rely on patents to protect their software or business methods should revisit their patents and patent applications with an eye toward addressing this new standard.

If you have any questions about the issues raised in this alert and their potential implications for your business, please contact:

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