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Patentability of Business Methods: U.S. Court Decides *Bilski*

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On October 30, 2008, the U.S. Court of Appeals for the Federal Circuit (CAFC) released the much-anticipated decision of *In Re Bilski*,¹ a case that many thought would sound the death knell for business method patents. But the CAFC did not toll the bell. Rather, the majority of the panel narrowed the circumstances in which business methods would be patentable.

Even though the threat of frivolous business method patents has been significantly diminished by this decision, the strong minority dissenting opinions reveal a fractured view of business method patents – virtually everything from abolition to “if the system ain’t broke, don’t fix it.” For example, Judge Rader’s dissent, founded on the view that the *Bilski* case did not warrant any change to the law, commented that the majority decision “disrupts settled and wise principles of law.” Contrast that viewpoint with that of dissenting Judge Mayer who would have abolished business method patents: “[T]he patent system is intended to protect and promote advances in science and technology, not ideas about how to structure commercial transactions.”

The CAFC considered the circumstances in which a process, such as a business method, may be patentable in the United States. *Bilski* is expected to have significant impact on the examination of pending patent applications, as well as on the validity of the many patents that have already been granted for business methods, software and other innovations, particularly those relating to the operations of financial institutions.

Bilski marks a significant shift in the law in the sense that the decision “overrules” recent case law and retreats back to earlier U.S. Supreme Court precedents. This decision is likely to be further appealed to the U.S. Supreme Court, given that this decision yielded three strong and controversial dissents and that more than 40 parties and interveners participated in the appeal.

Machine or Transformation Required

The innovation at issue in the *Bilski* decision was a method for hedging the risk associated with purchasing and selling commodities. The hedging method was not associated with any particular technology. Rather, the innovation was the algorithm itself. The U.S. Patent and Trademark Office rejected this innovation as unpatentable, and the applicant appealed the rejection, ultimately to the CAFC.

The Court articulated the test to determine when a process may be patentable under U.S. law. In particular, the CAFC held that a process is patentable only if it satisfies the

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¹ Available at www.cafc.uscourts.gov/opinions/07-1130.pdf.

“machine-or-transformation” test. That is, a process (such as an algorithm) may be patentable if it is tied to a particular machine or apparatus (i.e., using an idea in a specific physical embodiment) or if it transforms a particular article into a different state or thing.

Because the algorithm in *Bilski*, which was nothing more than an abstract idea, did not fulfill the machine-or-transformation test, the CAFC upheld the patent office’s rejection. One interesting aspect of *Bilski* is that the applicant made no patent claims to a computer to perform the hedging method. Indeed, the Court specifically reserved for a future case the question whether *Bilski*’s method implemented in a computer system would be patentable.

Although almost all of the 12 judges would have rejected the *Bilski* application as unpatentable (but differed in how they would have arrived at that result), *Bilski* is a landmark case because it marks a redirection from what was thought to be accepted understanding of patentable subject matter. Over the past decade, patent applicants generally understood the earlier *State Street* decision to support patentability of a process if it resulted in a “useful, concrete and tangible result,” regardless of whether that result arose from a physical “machine” or the result itself constituted a physical “transformation.” Because of this test, *State Street* had always been thought to give broader patent scope to business methods. This was particularly true in a comparative sense, because this test historically gave broader scope to business methods in the United States than in other jurisdictions. While the majority decision in *Bilski* is cautiously drafted to avoid explicitly overruling *State Street*, the tests applied in *State Street* and other cases have been rejected. The result is that the door on business method patents has not been closed. But the test has changed. The broader scope of *State Street* has been narrowed. The *Bilski* decision does not preclude the possibility of obtaining business method patents, but it has raised the bar for those seeking patents for business methods by requiring compliance with the machine-or-transformation test, as opposed to the broader “useful, concrete and tangible result” test.

Business Methods and Software Still Patentable

Bilski does not categorically eliminate business method, software or other patents in the financial services industry from the realm of patentable subject matter. The CAFC was careful to reaffirm earlier decisions that there is no hard-and-fast rule against patenting business methods. Rather, business method patents are subject to the same legal requirements for patentability as any other process or method. Additionally, the Court made clear that issues relating to software operating on a computer (which can be analogized in many ways to algorithms) was not considered in the decision, leaving it open to assert patentability of methods performed on a computer as being within the machine-or-transformation test.

From a practical perspective, U.S. patents directed to business methods, software and other financial service innovations will remain available so long as they are crafted to meet the Court’s machine-or-transformation test. This brings the U.S. approach to patents for business methods, software and other financial service technologies much closer to other jurisdictions, including Canada. 