

## The Idea's the Thing

**Federal Circuit shouldn't limit business method patents because they don't get physical.**

BY MICHAEL V. RISCH

**B**ernard Bilski and Rand Warsaw say they came up with a method for minimizing the risk when trading in commodities. The Patent Office decided their invention didn't merit the protection of patent law based solely on the type of invention, not on the merits of the invention. So the bigger worry now isn't frost; it's that Bilski and Warsaw sought a patent that may maximize the risk to all business method patents.

On May 8, the U.S. Court of Appeals for the Federal Circuit heard oral argument *en banc* in *In re Bilski*. The specific issue before the court is whether methods of doing business can be patented and, if so, whether they must be tied to something "physical."

If the Federal Circuit rules against the inventors on this subject-matter question, it could rule out not just one weak application, but some—or even all—business method patents, seriously undermining incentives for inventors, entrepreneurs, and investors.

At the heart of the dispute is the business method patent, which, according to the definition of Patent Class 705, is a patent on "apparatus and corresponding methods for performing data processing operations, in which there is a significant change in the data, or for performing calculation operations wherein the apparatus or method is uniquely designed for or utilized in the practice, administration, or management of an enterprise, or in the processing of financial data." In short, the prototypical business method is a process of manipulating data.

Section 101 of the Patent Act, read literally, allows patents on "any new and useful process." And in the 1998 case of *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, the Federal Circuit made clear that business methods in particular are patentable processes—at least so long as the method includes "physical" components, such as computers.

The following year Congress acquiesced to the existence of business method patents when it immunized defendants facing infringement suits over business methods if they could show that they had used the method before the patent application was filed.

No sooner did the applications start pouring in than critics began looking for ways to cut back on these patents.

### MIND OVER MATTER

*In re Bilski* concerns an application for a process to minimize the risk of financial loss caused by weather in commodities trading. The primary claim, which is not limited to weather, sets forth a method of entering into multiple transactions with buyers and sellers of commodities who have different risk profiles. This is called hedging, and it is a well-known way to minimize investment risk. The application appears to cover more general hedging as well as any specific hedging process that Bilski and Warsaw might have developed.

As such, the proposed patent likely fails several of the requirements for patentability: It is not new, it is not nonobvious, and it claims more than the inventor may have invented.

Those requirements, however, are not the issue before the Federal Circuit. The only issue being considered now is whether the invention falls into a category of subject matter that should not be patentable, no matter how inventive, valuable, or costly to develop the innovation is.

Moreover, while the Federal Circuit is theoretically considering whether any business method should be patentable, the primary and more specific objection to the Bilski application is that this particular risk-minimization process does not "physically transform" anything.

The Bilski method requires no computer, adding machine, or other technology. Though it would be highly impractical to do so, the claimed calculations and other steps could be performed by the human mind and the human mind alone. The question before the court, then, is whether a process

that performs no physical transformation should be shut out of patent protection, no matter how inventive it might be.

### STEP GENTLY

Many patent experts rightly agree that such intangible business methods are and should remain patentable—as long as they pass muster under the other patentability rules. But others would like to see patents on intangible business methods blocked at the starting gate. Still others would use this case as the tip of a wedge that would eventually bar all business method and software patents, including those that require the use of computers.

What should the Federal Circuit do? The fear here is that the flaws of the *Bilski* application will tempt the court into making more sweeping pronouncements against business method patents.

But this is not the case in which to make a major decision. Policy that would categorically exclude a large subset of inventive activity from intellectual property protection should not be made by weighing a weak patent.

The wiser course is to affirm that the *Bilski* application properly claims a process as provided for in the Patent Act, but to send the matter back to the Patent Office to consider and, if necessary, reject the patent based on its failure to meet one or more of the other patentability criteria.

More generally, courts should not be in the business of limiting the types of allowable patents. Even if *In re Bilski* presented a technologically perfect case for limiting the protection of intangible business methods, the Federal Circuit should resist.

### NEXT GREAT IDEA

First, and most importantly, banning all intangible methods would cut too wide a swath through protectable innovations. Even now, people are developing new treatments for disease, new uses for drugs, new methods for growing food, and new ways of reducing costs of production in which the key innovative step is intangible. We should not be limiting the incentives for these kinds of inventions just because the methods would be performed chiefly by the human brain, not by a machine.

Moreover, intangible business methods frequently lead to physical, tangible acts. For example, computers could (and almost certainly would) be used to perform the risk-reducing commodities trades indicated by the *Bilski* method. What level of technological activity, what degree of technological interconnectedness would be required to move the process into the patentable realm?

Drawing that line would be extremely difficult. Inventors, patent examiners, and courts would surely struggle with the problem, and the resulting uncertainty would increase the risk in any inventive enterprise. Making patent protection for business methods less certain—much less ending it altogether—could thus lead to a significant decline in research and development.

Second, setting new limits on patents would surely inspire inventors and their lawyers to engage in ever more clever, more tortured patent drafting to bypass those limits. To add a physical transformation, *Bilski* and *Warsaw* could claim the use of a computer and even reclassify their invention as a type of financial calculator.

But such efforts to game the system would make it more difficult for patent examiners to understand the true nature of the inventions they were evaluating. Examiners should be focusing on the real problems with some business methods: their obviousness and lack of novelty.

Third is the problem of buried prior art. Every patent serves the additional purpose of blocking future patents for the same invention. Proper classification of applications helps examiners identify those essential similarities.

Driving applicants to falsely classify methods as machines based on some extrinsic physical step would push like inventions into unlike categories, making them more difficult to find and use as prior art to invalidate later applications. A method of hedging should be categorized as such, and not as a financial calculator, because the latter label hides what the real innovation is.

Further, because business methods were generally considered unpatentable before 1998, inventors of such methods went underground—that is, they protected their inventions as trade secrets. All those secret inventions cannot be used to block business method patents today because examiners don't know about them. Ironically, the problem of a lack of prior art to block business method patents—one of the chief complaints raised against them—has been caused by the earlier perceived prohibition against such patents.

We should not repeat that mistake. The better approach is to encourage disclosure of such inventions by permitting patentability of business methods unhampered by arbitrary line-drawing. Even applications that were rejected as obvious would then build up the prior art to block future patents.

### COURT WITH CARE

Fourth, the Federal Circuit does not need to save the patent system from the scourge of business method patents. The harms anticipated by opponents have not materialized. One study shows that only 4 percent of business method applications mature into patents, and other dubious business method patents have been invalidated in litigation. In short, patentability factors other than subject matter are proving sufficient to weed out bad applications and invalidate bad patents.

There may well be areas where patent protection should be limited in the interests of other policy goals or where intellectual property incentives for research are unnecessary. Determining which industries to single out, however, is a complex calculation. The *Bilski* case is not the right vehicle and the Federal Circuit is not the right forum for such deliberation and debate.

If a patent for a business method or anything else is neither new nor non-obvious, of course it should be rejected. The challenge before the Federal Circuit is to exercise the patience to reject the wrong patents for the right reasons rather than vice versa.

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