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A Decade of Irrational Patent Exuberance Comes to an End

The year was 1998; patent eligibility for inventions had long been settled—or had it? The Federal Circuit rendered an opinion that year so unexpected that it led to an incredible influx of patent applications, the need to hire (and, one hopes, to retain) patent examiners with expertise in the financial world, and the massive build-up of search files as prior art resources. The opinion was *State Street Bank v. Signature Financial Group* (47 USPQ 2d 1596 (Fed. Cir. 1998)).

With one fell swoop, the Federal Circuit overturned generations of U.S. Patent and Trademark Office precedent holding that methods of doing business were not patentable. Although prior Supreme Court and Federal Circuit decisions expanded patent eligibility to, for example, living organisms and computer algorithms, such inventions were based on technological advances rather than abstract ideas. The Patent and Trademark Office, however, continued to follow the general guideline that patentability for a business method required production of a concrete, useful, and tangible result. In *State Street Bank*, for instance, the generation of a price for a financial product through the inventive method using a computer device was deemed sufficient to meet such a requirement. This decision thus gave rise to possible government-authorized monopolies for financially based procedures. As a result, financial institutions became invention generators, the number of filings of patent applications related to business methods skyrocketed, and the backlog in the Patent Office became larger than anyone had anticipated. It was truly a patent practitioner's dream (not to mention a source of revenue for the Patent Office itself).

On Oct. 30, 2008, all that exuberance over business method patents came crashing down to reality. The Federal Circuit's decision in *In re Bilski* (88 USPQ 2d 1385 (Fed. Cir. 2008)) appears to have settled a decade-long quandary pertaining strictly to "business method patent" jurisprudence: specifically what is a business method patent anyway and, more importantly, what is considered a patent eligible "process?" I say "appears to have settled," because the Supreme Court may consider its own certified question from the appellant and decide differently.

The only question at issue for the *Bilski* court was basically whether the inventors (Bilski et al.) had claimed an invention that passed muster under 35 U.S.C. § 101 ("Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title"). The Board of Patent Appeals and Interferences of the U.S. Patent and Trademark Office concluded that Bilski's "method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price" in three steps involving (given here in abridged form) (1) the initiation of a first series of transactions between commodity providers and consumers, (2) the identification of market participants for a commodity having a counter-risk position to the consumers, and (3) the initiation of a series of further transactions to balance the risk position of the series of consumer transactions. In essence, the board decided that such a method did not rise to the level of patent eligibility because of the lack of transformation of nonphysical financial risks and legal liabilities of the commodity provider, the consumer, and the market participants. In other words, the claim was ultimately for an abstract idea, and nothing within the invention involved an apparatus or any transformation of the abstract idea in a physical state to another physical state. On appeal, the inventors unsuccessfully argued that business method patent claims could validly encompass a process without such technological or transformational limitations.

The Federal Circuit's majority opinion basically agreed with the board's decision but also provided an in-depth analysis of the term "process" as it is applied in 35 U.S.C. § 101. The court sorted through past U.S. Supreme Court decisions concerning patent eligible processes and came to one important conclusion: the reason an abstract idea cannot be patented is that such a claim would foreclose competition on a fundamental principle rather than the application of such a fundamental principle in conjunction with a specified machine or apparatus or the utilization of such a fundamental principle for the transformation of subject matter from one state or thing to another through the method itself.

In essence, patent law was not intended to allow an inventor to claim exclusionary rights to a mental process alone—or to a principle of conducting such a process—without some type of actual integration of that mental process or principle into a specific tangible or physically transformative method. In this specific situation, the inventors had sought to claim a nontransformative process that encompassed a purely mental

process of performing requisite mathematical calculations without the aid of a computer or any other device, mentally identifying those transactions that the calculations revealed would hedge one another's risks, and performing the post-solution step of consummating those transactions. The attempt to pre-empt competition was basically for the fundamental principle of hedging risks and using mathematical calculations inherent within hedging itself. As such, without any transformative process—not to mention without the requisite need of a machine or device to make specific calculations that would enable one to practice the claimed method—there was nothing that was eligible to be patented.

This decision will most assuredly provide much-needed guidance to the Patent and Trademark Office—at least in terms of handling the influx of business method patent applications that have been filed since 1998 (it is interesting to note that Bilski et al. filed their application in 1997). Patent eligibility is now apparently a threshold question during examination of business methods, and there is strong precedent against many abstract inventions that have already been claimed and possibly already patented. Business method patents that have already been issued have proven problematic to financial institutions that were potentially subjected to infringement claims regarding previously standard business practices. The Federal Circuit has thus generated an opinion that may be considered one way of realizing that the "business methods" bandwagon that began 10 years ago required refinement. It is unknown how many of the applications for business method patents that were filed for and/or issued in the last decade will be affected by this decision. Suffice it to say that the future of such types of financial services patents does not look bright, at least from a breadth perspective. Specific incorporated devices—or at least particular limitations on the utility of such types of patent claims—will be necessary in order to meet the threshold patent eligibility issue, an abrupt departure from the attempts at patenting business methods this last decade.

Indeed, with the *State Street Bank* decision, the Federal Circuit not only gave the financial sector a gift but also created a boon in the business method patent community. With the *Bilski* ruling, it appears that the same court has now taken much of that gift away. **TFL**

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more opinions.[21] Nevertheless, if elected judges are prejudiced by the electoral process and appointed judges are not sufficiently accountable to the public to prevent them from going off on an ideological frolic of their own, perhaps there is something to the old jest about picking names at random from the telephone book. At least that system of selecting judges would spare society from the expense of elections and spare me from judges' campaign advertisements. **TFL**

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Endnotes

[1]Richard A. Posner, How Judges Think at 134.

[2]25 Pa. Cons. Stat. Ann. § 2870.

[3]Posner, op. cit., at 135–36.

[4]2008 WL 918444 (W. Va., April 3, 2008).

[5]*Caperton et al. v. A.T. Massey Coal Co., Inc.*, Case No 08-22, Statement of Questions presented (Petition for Certiorari Granted, Nov. 14, 2008).

[6]*West Virginia Dispute Goes to High Court*, Pittsburgh Post-Gazette (Nov. 15, 2008); Len Boselovic, *Are Campaign Contributors Buying Justice*, Pittsburgh Post-Gazette (Sept. 21, 2008).

[7]Lawrence Massina, *Maynard Admits Meeting, Denies Impropriety. Justice Did Not Say He Would Recuse Self, But Will Respond Later In Writing*, Charleston Daily Mail (Jan. 16, 2008); Andrew Clevenger, *West Virginia Court Before U.S. Court; Federal Justices To Hear* Harman-Massey *Case Regarding Benjamin Non-recusal*, Charleston Gazette (Nov. 15, 2008); Lawrence Massina, *Massey Energy Is Back In Court; Appeal of Ruling In Harman Case Has Faced Much Scrutiny*, Charleston Daily Mail (Mar. 13, 2008).

[8]Posner, op cit at 135–37; Frank J. Kopecky, *Should Judges Be Elected or Appointed?* available at www.lib.niv.edu/1977/ii771214.html; David Barton, *Judges: Should They Be Elected or Appointed?* available at www.wallbuilders.com/LIBprinterfriendly.asp?id=107

[9]*E.g.* Adam Liptak, *Rendering Justice, With One Eye on Reelection*, N.Y. Times (May 25, 2008).

[10]Thomas Jefferson, The Writings of Thomas Jefferson, Albert Ellery Bergh, ed. (1904), Vol. XV, p.276–77 to William Charles Jarvis (Sept. 28, 1820).

[11]*See* Posner, op. cit. at 135.

[12]*Stilp v. Commonwealth*, 588 Pa. 539, 551, fn. 4, 905 A.2d 918, 925 fn.4 (2006).

[13]*Id.* at 551, 902 A.2d at 925.

[14]*Id.* at 552–53; 905 A.2d at 926.

[15]*Id.* at 552–53; 905 A.2d at 926.

[16]Pa. Const. Art. V, § 16(a).

[17]*Stilp*, 588 Pa. 539, 905 A.2d 918.

[18]Brian O'Neill, *Here Stays Da Judge—The Voters Revolt Takes a Breather*, Pittsburgh Post Gazette (Nov. 13, 2007).

[19]*Id.*

[20]Posner, op. cit. at 137.

[21]Stephen J. Cho, C. Mitu Gulati, Eric A. Posner, Professionals or Politicians; The Uncertain Empirial Case For An Elected Rather Than Appointed Judiciary (2007).