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The Changing Landscape for Software Patents

by Nicholas Landau Ph.D.

Software inventors have reason to be confused about the law these days. The old standard as to when software is eligible for patenting (and if so, to what extent) was replaced by a new, less permissive standard in last year's *In re Bilski* decision by the U.S. Court of Appeals for the Federal Circuit. In the ten months since that decision, the Patent and Trademark Office and the courts have issued decisions "all over the map" as to whether and to what extent software may be patented. In addition, the U.S. Patent and Trademark Office issued its interim guidelines on the subject on August 25, 2009. These are "interim" guidelines because the U.S. Supreme Court now plans to review the *Bilski* decision, potentially modifying or reversing the law as it exists now.

By carefully studying the fifty-four decisions addressing software patenting by the Board of Patent Appeals and Interferences ("the Board") and the three decisions on the subject issued by U.S. District Courts since *Bilski*, certain trends seem to be emerging. The Board seems to believe that claims to software can be patented, if presented properly. Although not all courts have supported this approach, we believe it is the most reliable way to seek patent protection for software at the present time.

BACKGROUND

Under the Patent Act, not all inventions may be granted patent protection. The three major requirements for patenting are those provided in 35 U.S.C. §§ 101, 102 and 103. Sections 102 and 103 prohibit the patenting of anything that is already known (anticipated) or anything that is obvious, respectively. An invention that does not meet the requirements of sections 102 and 103 is referred to as "non-patentable." Section 101 states that only certain subject matter may be patented: processes, machines, manufactures, compositions of matter, or any new and useful improvement thereof. An invention that does not fall under one of the categories of section 101 is referred to as "non-patent eligible" or simple "ineligible." Some eligible inventions are not patentable, and some ineligible inventions are otherwise patentable. Determining when an invention is an eligible "process" has proven difficult for the courts, leading to the current state of uncertainty.

THE NEW TEST

Previously, the U.S. Patent and Trademark Office ("USPTO") took an expansive view of the patent-eligibility of software so long as the whole process serves to "produce a useful, concrete and tangible result." The U.S. Court of Appeals for the Federal Circuit recently created a new standard for processes, including software processes. The court decided that the exclusive test for eligibility is whether a process is "tied to a particular machine or apparatus, or transforms a particular article into a different state or

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AUTHORS

[Nicholas Landau Ph.D.](#)
205.521.8545
nlandau@bab.com

[Mark D. Swanson](#)
256-517-5125
mwsanson@bab.com

CHAIR

[Frank M. Caprio](#)
256.517.5142
fcaprio@bab.com

VICE CHAIRS

[Michael S. Denniston](#)
205.521.8244
mdenniston@bab.com

[Christopher A. Sloan](#)
615.252.2392
csloan@bab.com

thing” (dubbed the “machine/transformation test”). It is notable that the “article” may be data, if the data represents a physical object or substance.

THE EFFECT ON SOFTWARE

The Bilski machine/transformation test has affected the approach of the USPTO and lower courts to software. As of mid-June, the Board cited Bilski in no fewer than fifty-four patent appeals in which a software-type claim was at issue. In forty of those cases, the Board found the claims to be ineligible on the basis of Bilski’s machine/transformation test.

Federal trial courts have cited Bilski in holding that software claims are ineligible. Three federal district courts have evaluated software-related claims under the machine/transformation test, and in each case found the claimed invention ineligible for patenting.

A trend in which the Board has held 40 software inventions ineligible out of 54 presented would paint a grim picture, but at least one exception to this rule is emerging. Prior to Bilski, the Board held that claims directed to computer programs embodied on a tangible medium are eligible under section 101 as a “machine” or “manufacture.” Such a device may be, for example, a CD-ROM, a floppy disk, or a hard disk. This type of claim is known among patent attorneys as a “Beauregard claim.” However, since Bilski, Beauregard claims have been interpreted as both eligible and ineligible, depending on the circumstances.

The influential U.S. District Court for the Northern District of California reversed the pre-Bilski policy of the USPTO that a tangible computer-readable medium is eligible for patenting. In *CyberSource Corp. v. Retail Decisions, Inc.* the court held that such memory storage devices are merely “printed matter,” and are not eligible for patenting. However, this contrary decision is not binding on any other court.

The Board of Patent Appeals and Interferences has visited the question of Beauregard claims in light of Bilski on many occasions, but has gone both ways on the question. The Board has upheld Beauregard claims as patent eligible under section 101 in 12 cases, but rejected them as non-patent eligible in 33 cases (one case, *Ex parte Busche*, upheld some Beauregard claims but rejected others). This might seem to show only indecisiveness and uncertainty. However, upon careful analysis of these cases decided by the Board, one will observe that Beauregard claims are rejected as ineligible when the “media” may comprise a signal. Because a mere signal is never eligible for a patent, the Board rejects any Beauregard claims unless either (1) the patent application states that the media cannot be a signal, or (2) the patent claim itself excludes a signal.

Despite the chaos caused by the relatively recent Bilski decision, the numerous decisions by the Board begin to reveal an approach to patenting software under the new regime. The approach is simple: never claim a naked computer program or a method of running a naked computer program; instead, always make at least one Beauregard claim including a “machine-readable storage device” or similar physical memory device. In addition, the body of the patent application must make clear that the memory device is not a mere signal, but is limited to the physical media. Such claims can be written without compromising patent protection.

Just days ago the USPTO issued guidelines that seem to support this approach. Although they state that a computer program itself is not eligible for patenting, the guidelines also state that “a claim to a non-transitory, tangible computer

readable storage medium per se that possesses structural limitations under the broadest reasonable interpretation standard to qualify as a manufacture would be patent-eligible subject matter. Adding additional claim limitations to the medium, such as executable instructions or stored data, to such a statutory eligible claim would not render the medium [ineligible].”

THE FUTURE

At present it is advisable that all new software patent applications be drafted to include at least one Beauregard claim excluding a signal. Any party having ownership of a pending software patent application without a Beauregard claim should consider amending the application to include one. Because the Supreme Court is going to consider the validity of the machine/transformation during the next year, amending the claims of issued patents through the reissuance process is probably premature. We will provide an update when the Supreme Court decision is available.

IP Statistics

by Mark D. Swanson

Bradley Arant Boult Cummings (BABC) prosecutes domestic and foreign patents and trademarks for many companies and individuals. The listing below shows the total number of patent applications filed and patents issued with BABC, and the total number of trademark applications filed and trademark registrations issued with BABC in 2009 to date. The prosecution of a patent and/or trademark often takes over a year, so issued patents and trademark registrations often reflect applications filed prior to 2009.

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|---------------------------------------|-----|
| USPTO* Trademark Applications Filed | 138 |
| Other Trademark Applications Filed | 82 |
| USPTO* Trademark Registrations Issued | 153 |
| Other Trademark Registrations Issued | 16 |
| USPTO* Patent Applications Filed | 56 |
| Other Patent Applications Filed | 12 |
| USPTO* Patents Issued | 14 |
| Other Patents Issued | 15 |

*United States Patent and Trademark Office

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