Keywords: **patentable subject matter, machine or transformation, patent-eligible subject matter, business methods**

General: **The Federal Circuit finds claims to a "paradigm" and various methods to be directed to non-statutory subject matter.**

In re Ferguson
90 U.S.P.Q.2d 1035 (Fed. Cir. 2009)
Decided March 6, 2009

I. Facts

Applicants filed a patent application (the '823 application) directed to ways to bring products, particularly software, to market. The application included two types of claims: 1) claims to a method of marketing a product and 2) claims to a paradigm for marketing software. Claim 1, which is representative of the method claims, reads:

> A method of marketing a product, comprising:
> developing a shared marketing force, said shared marketing force including at least marketing channels, which enable marketing a number of related products;
> using said shared marketing force to market a plurality of different products that are made by a plurality of different autonomous producing company, so that different autonomous companies, having different ownerships, respectively produce said related products;
> obtaining a share of total profits from each of said plurality of different autonomous producing companies in return for said using; and
> obtaining an exclusive right to market each of said plurality of products in return for said using.

Claim 24, which is representative of the paradigm claims, is directed to a "paradigm for marketing software, comprising: a marketing company that markets software . . . and carries out and pays for operations associated with marketing of software . . . in return for a contingent share of a total income stream . . . ."

During prosecution, the Examiner rejected each of the claims under 35 U.S.C. § 102, 103, and/or 112. On appeal, the Board reversed the Examiner's decision, but rejected the claims under 35 U.S.C. § 101 because the claims did not require "performance of any of the steps by a machine, such as a general purpose digital computer." In response to Applicants' request for rehearing, the Board issued a superseding rejection under 35 U.S.C. § 101 applying the newly promulgated U.S. Patent and Trademark Office's *Interim Guidelines for Examination of Patent Applications for Patent Subject Matter Eligibility* (the "Guidelines"). Under the Guidelines, the Board found that the method claims, although considered a process, were directed to an "abstract idea." The Board found that the paradigm claims were non-statutory subject matter because they did not fall within one of the four recognized categories of process, machine, manufacture, or composition of matter specified in 35 U.S.C. § 101.

Applicants subsequently appealed to the United States Court of Appeals for the Federal Circuit, and, prior to the appeal, the court decided *In re Bilksi*. *In re Bernard L. Bilski and Rand A. Warsaw*, 545 F.3d 943 (Fed. Cir. 2008) (en banc).

II. Issues

A. Are the method claims patentable subject matter?

B. Are the paradigm claims patentable subject matter?

III. Discussion

A. No. The court re-iterated that under *Bilski* a claimed process is patent-eligible if "(1) it is tied to a particular machine or apparatus, *or* (2) it transforms a particular article into a different state or thing." *In re Bilski*, 545 F.3d at 954. The court also stated that the origin of the machine or transformation test is based on the idea that a process claim should be "tailored narrowly enough to encompass only a particular application of a fundamental principle [law of nature, natural phenomena, or abstract idea] rather than to pre-empt the principle itself." *Id.*

Under the first prong of the machine or transformation test, the court rejected Applicants' arguments that a shared marketing force was a machine or apparatus. Specifically, the court applied the definition of a machine set forth in *In re Nuijten* that a machine is a "concrete thing, consisting of parts, or of certain devices and combination of devices." *In re Nuijten*, 500 F.3d 1346 (Fed. Cir. 2007). The court found that a marketing force is not tied to any concrete parts, devices, or combination of devices, and therefore is not a machine.

Under the second prong, the court found that the claims were directed to organizing business or legal relationships in the structuring of a sales force. The court, citing *Bilski*, reiterated that "[p]urported transformations or manipulations simply of public or private legal obligations or relationships, business risks, or other such abstractions cannot meet the test because they are not physical objects or substances, and they are not representative of physical objects or substances." *In re Bilski*, 545 F.3d at 963.

The court further clarified that under *Bilski* the "useful, concrete, and tangible result" test is no longer valid because it focuses on the "result of the invention rather than the invention itself." The court also rejected a new test proposed by Applicants. The proposed test was "Does the claimed subject matter require that the product or process has more than a scintilla of interaction with the real world in a specific way?" *In re Ferguson*, 90 U.S.P.Q.2d at 1039. The court found the new test ambiguous and in conflict with *Bilski*.

B. No. The court rejected Applicants' assertion that a company is a physical thing, which is analogous to a machine. Specifically, the court applied the "concrete thing" machine definition set forth in *In re Nuijten* and reasoned that a business model for an intangible marketing company was an abstract idea. The court held that because a paradigm is not a machine, process, manufacture, or composition of matter, the claims are not directed to statutory subject matter.

IV. Concurring Opinion

Justice Newman states that the court goes too far in finding that the method claims are an abstract idea. Justice Newman would determine whether a claim is abstract based on whether it pre-empts all uses of a fundamental principle in any field to a particular use or specific application. Justice Newman points to the economic and societal value of business method claims, stating that they have "enhanced human capabilities, blurring the traditional line between machine and human," but concurs in the decision based on the grounds that the claims are obvious under 35 U.S.C. § 103.

V. Conclusion

The test for patent-eligible subject matter is the machine or transformation test set forth in *Bilski*. Further, under the machine or transformation test, a machine is a concrete thing that can be touched. Accordingly, a paradigm, company, or legal obligation is not a machine or article that can be transformed.