

Advisory

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Business method patents survive Supreme Court scrutiny, but without new guidance

On June 28, 2010, the Supreme Court delivered its opinion in *Bilski v. Kappos*, the most eagerly-awaited patent law decision in at least twenty years. Many observers were hoping for new, clear guidance on whether “Information Age” inventions for the business world (focusing on human activities for collecting or responding to information) are eligible for patenting. For them, the opinion was disappointing. Although the established “Industrial Age” test for patentability was found to be not the exclusive test, no new test to supplement it was enunciated. Other observers feared that the Court would strike down entire categories of patents, including software and business processes. For them, the opinion gave a signal that inventions in these fields are still within the realm of patentable subject matter.

BACKGROUND

Bilski applied for a patent claiming a method for hedging risk in the field of commodities trading; Bilski’s claims are commonly referred to as “business method” claims. In a landmark 1998 decision by the Federal Circuit (*State Street Bank & Trust Co. v. Signature Financial Group, Inc.*), business methods were recognized as being within the scope of potentially patentable processes that passed muster under 35 U.S.C. § 101. In that case, the court held that a process is patentable subject matter under § 101 if it provides a “useful, concrete and tangible result.” In 2008, however, the Federal Circuit (in *In re Bilski*) rejected the patentability of Bilski’s claims and held that in order to be patentable subject matter, a process must be tied to a machine or transform an article into a different state or thing (the “machine-or-transformation” test). Furthermore, the Federal Circuit held that the machine-or-transformation test should

be the only test for determining whether a process is patentable subject matter under § 101.

OPINION OF THE COURT

The Court decided that Bilski’s claims were not patentable subject matter under § 101, while rejecting the machine-or-transformation test as the sole test for patentable subject matter under that section. Notably, the Court did not establish any new test regarding patentability for processes, and neither endorsed nor excepted business methods from the purview of § 101.

In an opinion authored by Justice Kennedy and joined by Justice Alito, Justice Thomas and the Chief Justice (and by Justice Scalia in all but two sections), the Court resolved the case narrowly, holding that Bilski’s claims were not patentable because they merely embodied an abstract idea. In fact, all members of the Court agreed that Bilski’s claims fell outside the § 101 scope of patentable processes. In reaching this conclusion, the Court relied heavily on patentability tests from the 1970s and 1980s – tests that predated the widespread patenting of business methods. The members of the Court also agreed that “although the machine-or-transformation test is reliable in most cases, it is not the exclusive test.”

The Court explicitly disapproved of the “machine-or-transformation test” as an exclusive test for § 101 patentability, and implicitly also rejected the “useful/concrete/tangible result” test devised by the Federal Circuit in the 1998 *State Street* case. Beyond that, however, the Court offered little guidance other than pointing to three older cases emphasizing that patent claims directed

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to laws of nature, physical phenomena, and abstract ideas are not patentable subject matter.

The Court refused to exclude business method claims reciting more than an abstract idea from being potentially patentable subject matter, pointing to a statute enacted in 1999 (35 U.S.C. § 273) that specifically mentions business method patents as demonstrating a Congressional mandate in favor of such claims. Based on the acknowledgment in § 273, the Court held that “a business method is simply one kind of ‘method’ that is, at least in some circumstances, eligible for patenting under § 101.”

CONCURRING OPINIONS

Since the case was decided on narrow grounds, the issue of how business methods should be treated remained unresolved. Indeed, the Justices had disparate views on this issue. Justice Kennedy wrote in the majority opinion: “Technology and other innovations progress in unexpected ways” and “[T]he Patent Act leaves open the possibility that there are ... business methods that are within patentable subject matter under § 101.” Justice Stevens wrote to concur in the judgment, and was joined by Justices Ginsburg, Breyer and Sotomayor. Justice Stevens agreed that the machine-or-transformation test should not be the exclusive test, but then continued: “I would restore patent law to its historical and constitutional moorings” and “[P]etitioner’s method ... describes only a general method of engaging in business transactions—and business methods are not patentable.” Justice Breyer, concurring in the judgment, wrote separately to highlight the Justices’ agreement that “the text of § 101 is broad” in defining the scope of patentable subject matter, and that the machine-or-transformation test is not an exclusive test but is “an important example of how a court can determine patentability under § 101”.

BEST PRACTICES

Patent applicants and counsel should review the proposed claims and work together to ensure that claims to a method do not merely recite an abstract idea, a law of nature or a physical phenomenon. The claims should be directed to applications of algorithms, ideas, or mathematical techniques—as opposed to the techniques themselves.

Claims for a novel business method, involving organized human activities, should emphasize directing, causing, or performing activities in accordance with some information—in order to avoid having the claims construed as simply reciting “mental steps” whereby information sufficient to carry out the claimed method can be processed in one’s head. For example, steps of “observing”, “evaluating”, “comparing”, or “determining” could be construed as purely mental steps, while terms such as “causing”, “reporting”, or “producing” tend to indicate activity that is not a purely mental step. Where possible, the claims should be tied to tools or machines, which may be computing devices.

It may be helpful to present claims from different points of view; for example, steps performed by the director of some task and steps performed by someone carrying out that task. If the method involves software, some claims should specify that the software executes on a machine. These claims may be turned into system claims or machine claims, where a machine is configured to perform a specified task.

If a patent has recently issued, the patent owner may review the claims and discuss with counsel the possibility of obtaining a reissue patent with revised claim language tailored to accommodate the *Bilski* decision.

This publication is a summary of legal principles. Nothing in this article constitutes legal advice, which can only be obtained as a result of a personal consultation with an attorney. The information published here is believed accurate at the time of publication, but is subject to change and does not purport to be a complete statement of all relevant issues.