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IP FRONTIERS

Business method patents alive and well

The U.S. Supreme Court recently decided *Bilski v. Kappos*, involving a business method patent.

Back in 2008, the U.S. Court of Appeals for the Federal Circuit decided *In re Bilski*, which affirmed a rejection of patent application claims to a method for managing or hedging risk. The court affirmed, but disagreed with the Federal Circuit on how to determine what constitutes patentable subject matter.

The Federal Circuit had affirmed the prior rejection of the claims as non-statutory, since they did not pass the court's new test for statutory subject matter in process claims: A process is statutory patent subject matter if either "(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing."

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The Federal Circuit held the claims were broad enough to be practiced without a machine or other apparatus; in other words, a manipulation of abstract ideas. The test became known as the "machine-or-transformation test."

In a bit of foreshadowing, the Federal Circuit recognized that future technological advances may present challenges for the machine-or-transformation test, and that the Supreme Court may decide to refine or augment the test in light of those advances.

Inventions eligible for patent protection must fall within one of the four statutory classes: "whomever 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 therefore, subject to the conditions and requirements of this title."

Of the four classes, a business method would fall under the class of processes.

Supreme Court precedent further refines what is eligible, to exclude laws of nature, physical phenomena and abstract ideas; however, whether an invention falls into one of the four statutory classes is a threshold question for patentability. An invention must also be novel, nonobvious and be adequately described.

The justices of Supreme Court unanimously affirmed the Federal Circuit in rejecting the *Bilski* patent claims as unpatentable for being an abstract idea. Although the Court praised the quality of the Federal Circuit's decision, the majority squarely rejected the machine-or-transformation test as the only way to determine whether patent claims constitute statutory subject matter. The test was seen as "a useful and important clue, an investigative tool, for determining whether some claimed inventions are [statutory] processes[,]" but one that "does not define what is (and is not) a patentable process."

In considering the test, and the ordinary meaning of process, the Court was "unaware of any ordinary, contemporary, common meaning of 'process' that would require it to be tied to a machine or transformation of an article."

The Court also noted the numerous *amicus* briefs arguing the test would create uncertainty in technologies such as software and advanced diagnostic medicine techniques.

While clearly rejecting it as the sole test, the Supreme Court offered no insight beyond the test concerning to how to determine whether a particular invention constitutes statutory subject matter. The Court also declined to define what a statutory process is, beyond what exists in the Patent Laws and in the Court's prior decisions.

In determining that the Patent Laws preclude a categorical exclusion of business method from the term "process," the Supreme Court points to two sections of the U.S. Patent Act.

Section 100(b) of the Patent Act defines "process," in the context of the four statutory classes, as a "process, art, or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material." Of course, that definition is somewhat cyclical, but it does include a "method," therefore methods fall under the statutory definition of "process."

The Supreme Court also pointed to Section 273 of the Patent Act, which provides a defense for patent infringement of a method under certain circumstances. The key point, however, is the definition in Section 273 given to the term "method" as meaning "a method of doing or conducting business."

The Court reasoned that since business methods were not specifically excluded as statutory subject matter, and a defense in the Patent Act mentions business methods, then at least some business methods must be contemplated by the Patent Act. In short, a business method is simply one possible type of method

Continued ...

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Continued ...

that qualifies as statutory subject matter. The Court added that while Section 273 "appears to leave open the possibility of some business method patents, it does not suggest broad patentability of such claimed inventions."

In coming to its decision, the Supreme Court also relied on three of it's prior cases as "guideposts:" *Benson*, *Flook* and *Dier*.

Benson involved an algorithm for converting binary-coded decimal numerals into a pure binary code. In determining that the invention was an unpatentable abstract idea, the Court reasoned that allowing such a patent would preempt the mathematical formula.

Flook followed *Benson* and also involved an algorithm, signaling dangers in operating a catalytic converter in the petrochemical and oil refining industries. The lesson of *Flook* was that "limiting an abstract idea to one field of use or adding token postsolution components did not make the concept patentable."

In *Dier*, claims were presented to a method of molding rubber in which some steps utilized a mathematical formula executed on a computer. The *Dier* Court recognized that while a mathematical formula could not be patented, "an application of a … mathematical formula to a known … process may well be deserving of patent protection."

In finding the claim to be statutory subject matter, the *Dier* Court frowned on the practice of dissecting the claims into old and new elements, and ignoring the old, noting that the claim as a whole must be considered.

The Court referred to *Benson*, *Flook* and *Dier* in pointing out that both the method of hedging risk and the application of that method to commodities and energy markets were an attempt to patent abstract ideas. Reference to those cases and the Patent Laws does little to help inventors or the Patent Office in handling business method patents.

Post-*Bilski* we are left knowing that business methods are not categorically excluded from patentability as nonstatutory. We also know that the machine-or-transformation test, while possibly useful as a clue, is not the only test for statutory subject matter. What is left unknown is what other test to use. It also remains to be seen how the Patent Office ultimately will implement *Bilski* on a practical basis.

At the end of July, the Patent Office issued interim guidelines for examiners regarding business method patents in light of the decision. They remind examiners that whether a claim constitutes statutory subject matter is only one aspect of patentability to consider, and that all other aspects should be addressed in most cases. That actually is a positive step, as some business method applications were receiving rejections based solely on statutory subject matter, without addressing the other areas of patentability. In a related document, the Patent Office created a somewhat vague list for examiners to use that actually can be read to focus on the machine-or-transformation test, without actually saying so. That may foreshadow continued reliance on the test, but time will tell.

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