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## RAISING THE BAR OF PATENTABILITY

Anticipated court ruling has the potential to affect a number of types of patents

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Ten years ago, in *State Street Bank & Trust Co. v. Signature Fin. Group*, the Court of Appeals for the Federal Circuit explicitly

and require the use of a computer. A substantial number do not require a computer or other machine, however, and are often referred to as “pure” business method patents. These typically cover financial services such as insurance, investment and tax strategy. In the upcoming *In re Bilski* decision, the Federal

“process” is patentable, however. Under longstanding Supreme Court precedent, abstract ideas (along with laws of nature and physical phenomena) are not patentable subject matter. Because process claims often involve intangible subject matter, e.g., a method for obtaining for favorable tax consequences by transferring stock options to younger generations, there is a tension between the abstract idea exclusion and process claims.

*In re Bilski* involves a decade-old patent application for a hedging method for commodity traders that does not require a computer or other machine for its implementation. During prosecution, the examiner concluded that the hedging method was merely an abstract idea and consequently rejected the application. In a 70-page decision, a split Board of Patent Appeals and Interferences upheld the rejection and practically begged the Federal Circuit to provide its examiners with guidance as to the subject matter patentability of process claims. In the pending appeal to the Federal Circuit, *Bilski* has argued that *State Street Bank* and *AT&T* established a “useful, concrete, and tangible result” test for determining whether a process claim constitutes patentable subject matter. Under this test, a process claim could be patentable even if claimed method could be performed entirely inside human minds, so long as a useful, concrete and tangible end result was produced. The Patent Office, on the other hand, has taken the position that *State Street Bank* and *AT&T* test is only applicable to inventions that are tied to specific machines, as were the inventions in those cases, and is not a general test for subject matter patentability. Instead, the Patent Office contends that Supreme Court precedent requires that a process claim must either (1) transform an article to a different



declared that methods of doing business could constitute patentable subject matter. *State Street Bank*, which was affirmed the following year in *AT&T Corp. v. Excel Communs., Inc.*, opened the floodgates for business method patents: In 1998, 1,425 applications were filed and 306 were issued; in 2007, the numbers had grown to 11,378 and 1,330, respectively. Many of the business method patents issued since *State Street Bank*, such as Amazon.com’s One-Click patent and Priceline.com’s reverse auction patent, involve methods of doing business on the Internet

Circuit now appears set to reverse the trend started by *State Street Bank* and restrict the scope of patentable subject matter. While the highly anticipated ruling has the potential to affect a number of types of patents, including software patents, it will likely have the most immediate impact on business method patents. In addition to raising the bar for the patentability of business method patents in general, *In re Bilski* may spell the end for pure business method patents.

The patent statute provides that subject matter is patentable if it falls into one of the categories of “process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” Business methods fall in the category of “process” but not every

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state or thing or (2) be tied to particular machine or apparatus in some significant manner to be patentable.

After briefing was concluded and a hearing before a three-judge panel had been held, the Federal Circuit took the highly unusual step of sua sponte granting en banc review. In addition, the Federal Circuit requested supplemental briefs on a number of questions concerning the standard for subject matter eligibility of process claims and the status of State Street Bank and AT&T as precedents. Thus, while it is possible that the Federal Circuit will confine itself to merely deciding the case on the facts, it is more likely that it will use the case as a vehicle to set out the standard for the patentability of process claims such as business methods.

If the Federal Circuit decides to issue a more expansive ruling, it appears likely that it will opt for a restrictive subject matter standard. This is certainly suggested by its recent ruling in *In re Comiskey*. In *Comiskey*, the Federal Circuit reviewed the rejection of all 59 claims of a patent application for a method and system for mandatory arbitration involving legal documents such as wills and contracts. Some of the claims did not require a machine while others recited the use of “modules”—which the court found could require the use of a computer—or the use of communications devices such as the

Internet or a telephone. The court held that the claims that did not require a machine were not patentable, stating that “mental processes—or processes of human thinking—standing alone are not patentable even if they have practical application.” This appears to repudiate the “useful, concrete, and tangible result” test as a general test for patentable subject matter and likely invalidates pure business method patents.

The current Supreme Court’s practice of handing down opinions that generally disfavor patentees and overturn long-standing Federal Circuit precedent also point to a restrictive ruling in *Bilski*. In addition, individual Justices have not been shy about expressing dissatisfaction with business method patents. In the concurrence to the famous eBay decision, Justices Kennedy, Stevens, Souter and Breyer declared that some of “the burgeoning number of patents over business methods” suffer from “potential vagueness” and are of “suspect validity.” In a dissent, Justices Breyer, Stevens and Souter criticized the “useful, concrete and tangible result” test and said that “this Court has never made such a statement and, if taken literally, . . . would cover instances where this Court has held the contrary.” Not eager to have yet another Supreme Court decision overturn its precedents, the Federal Circuit may seek to pre-

empt what it sees as the Supreme Court’s imminent and inevitable circumscription of the patentability of business methods.

Unless the Federal Circuit takes an unexpected tack, it will probably side with the Patent Office and declare that the “useful, concrete, and tangible result” test is not a general test for subject matter patentability of process claims and adopt the position that a process claim must either (1) transform an article to a different state or thing or (2) be tied to particular machine or apparatus in some significant manner to be patentable. If so, the challenge for prospective business method patentees will be to ensure that the claims incorporate a computer or other machine to a sufficient degree. The Federal Circuit has already declared that merely using a computer to collect the data necessary to apply the mental process is not enough and the Supreme Court has stated that insignificant postsolution activity will not transform an unpatentable principle into a patentable process. This was, however, one of the questions the Federal Circuit posed for additional briefing and it would therefore not be surprising if the court provides further guidance as to how intrinsic a computer or machine has to be to the claim for an otherwise unpatentable process to constitute patentable subject matter.

*Bilski* will be argued *en banc* before the Federal Circuit at 2 p.m. on May 8. ■