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Business Method Patents (Barely) Alive in the United States

The United States Supreme Court issued its long-awaited decision yesterday in *Bilski v. Kappos* (<http://www.supremecourt.gov/opinions/09pdf/08-964.pdf>). Bilski had applied for a patent with claims to a process for hedging against risk of price changes in the energy market.

EXECUTIVE SUMMARY

Business method patents reached their high-water mark in 1998, when the Court of Appeals for the Federal Circuit (CAFC) issued its decision in the *State Street Bank* case, which held that an invention is patentable if it involves some practical application and “it produces a useful, concrete and tangible result.” Since then, the courts and United States Patent and Trademark Office (USPTO) have struggled to deal with a flood of patent applications for business methods and software. *Bilski* is an appeal from a judgement of the CAFC that upheld a USPTO rejection of the patent claims for failing to define a process that is implemented by a particular machine or that transforms an article from one thing or state to another (the “machine-or-transformation” test). While affirming the CAFC judgement in *Bilski*, the Supreme Court stressed that the “machine-or-transformation” test is not the sole test for determining patent eligibility of a process. Instead, the Court held the Bilski claims to be unpatentable because they pre-empt an abstract idea.

DETAILED ANALYSIS

All nine judges affirmed the earlier judgement of the CAFC holding the claims to be unpatentable for being directed to non-statutory subject matter. However, the Supreme Court was sharply divided in its reasons.

The majority opinion found that the United States patent statute does not preclude business method patents, and noted that while the ‘machine-or-transformation’ test developed by the CAFC is a helpful and useful tool to assess patent eligibility of process claims, it is not the *sole* test. The Court resolved the case by looking to the definition of “process” in the statute and applying its earlier decisions in *Benson*, *Flook* and *Diehr* to hold that the concept of hedging set forth in Bilski’s claims is an unpatentable abstract idea. In so doing, the majority opinion refused to define further what constitutes a patentable process.

A first concurring opinion agreed with the majority that the ‘machine-or-transformation’ test is not the exclusive test for assessing patent-eligible processes, but was sharply critical of the view held by the majority that any series of steps for conducting a business, that is not itself an abstract idea or law of nature, may constitute a patentable process. The judges who joined in the first concurring opinion would have upheld the rejection of the Bilski claims because a claim to a business method is not a patentable “process”.

A second concurring opinion agreed with the first concurring opinion “that a ‘general method of engaging in business transactions’ is not a patentable ‘process’ within the meaning of [Section 101]”, but took a more conciliatory note in also identifying four points that represented common ground between the majority opinion and first concurring opinion: (1) “[A]lthough the text of [Section] 101 is broad, it is not without limit”; (2) the machine-or-transformation test has been helpful to the Court in the past; (3) that test has been a “useful and important clue,” but not the “sole test”; and (4) the test “by no means indicates that anything which produces a ‘useful, concrete, and tangible result’ [citing *State Street Bank*] is patentable.”

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The majority opinion was delivered by Justice Kennedy and was joined in full by Justices Roberts, Thomas and Alito. Justice Scalia joined in the majority opinion except for a section noting that inventions not contemplated by Congress should not automatically be excluded protection and that “new technologies may call for new inquiries”, and a section that encouraged the CAFC to define a narrower category or class of business method patent applications as unpatentable attempts to patent abstract ideas in accordance with the *Benson*, *Flook* and *Diehr* precedents.

The first concurring opinion was delivered by Justice Stevens and was joined in full by Justices Ginsburg, Breyer and Sotomayer.

The second concurring opinion was authored by Justice Breyer with Justice Scalia joining in the portion of the opinion that identified the four points of commonality between the majority opinion and first concurring opinion.

WHAT DOES THIS MEAN FOR THE USPTO?

As to how the decision will direct prosecution of patent applications before the USPTO, the following post-Bilski notice to examiners provides a clue:

Examiners should continue to examine patent applications for compliance with section 101 using the existing guidance concerning the machine-or-transformation test as a tool for determining whether the claimed invention is a process under section 101. If a claimed method meets the machine-or-transformation test, the method is likely patent eligible under section 101 unless there is a clear indication that the method is directed to an abstract idea. If a claimed method does not meet the machine-or-transformation test, the examiner should reject the claim under section 101 unless there is a clear indication that the method is not directed to an abstract idea. If a claim is rejected under section 101 on the basis that it is drawn to an abstract idea, the applicant then has the opportunity to explain why the claimed method is not drawn to an abstract idea.

WHAT DOES THIS MEAN FOR THE PATENTS IN CANADA?

Meanwhile, in Canada, a decision from the Federal Court is anxiously awaited on the famous *Amazon* ‘one-click’ patent, which is an appeal from a refusal of the Canadian Intellectual Property Office (CIPO) to issue a patent for a method and a system for allowing a purchaser to place an order for an item over the Internet with a single-action (“one-click ordering”). The *Amazon* case is expected to deal with a number of issues that are similar to those addressed by *Bilski*. Specifically, the Canadian Federal Court will be considering three grounds on which CIPO rejected the *Amazon* claims, as follows: (1) The substance of the claimed invention is not an act performed by some physical agent upon some physical object and producing in such object some change either of character or condition; (2) the claims define a business method which falls within a defined class of non-statutory subject matter; and (3) the claims define subject matter that, in both form and substance, is “not technological.”

If you wish to discuss these matters, please contact: Stephen Perry at 416.920.8170 x107 (perry@perry-currier.com) or Andrew Currier at 416.920.8170 x109 (currier@perry-currier.com).

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