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## U.S. Court of Appeals for the Federal Circuit Restricts the Scope of Statutory Subject Matter.

### SUMMARY

The U.S. Court of Appeals for the Federal Circuit (“CAFC”) has recently restricted its previous interpretation of the scope of statutory subject matter under 35 U.S.C § 101.<sup>1</sup> The CAFC provided the following guidelines to determine whether claimed subject matter falls within the scope of § 101:

- (a) the subject matter must belong to at least one of the four patentable categories specified by §101, namely - process, machine, manufacture, and composition of matter.
- (b) process patents reciting algorithms or abstract concepts may qualify under § 101 if the process:
  - (i) is tied to a particular apparatus; or
  - (ii) operates to change materials to a “different state or thing”<sup>2</sup>.

### THE ISSUES

The first step in assessing patentability of an invention is to determine whether the invention falls within a class of statutory subject matter. 35 U.S.C § 101 provides that “Whoever 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 therefor, subject to the conditions and requirements of this title” (the “Four Categories”). Earlier decisions of the courts have led to some confusion on the application of § 101. On a strict interpretation, to constitute patentable subject matter, an invention must fall within one of the Four Categories.

In the 1998 decision, *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*<sup>3</sup>, Signature Financial Group appealed to the CAFC to defend the validity of claims directed essentially to a business method. The invention related to pooling assets from a group of mutual funds to invest as a partnership. The claim in question referred to the use of storage means to store data and a computer processor to calculate the daily value of each share. The District Court interpreted the claim to be a business process rendering it unpatentable because of the business method exception to statutory subject matter. However, the CAFC interpreted the claim to be a machine that produced “a useful, concrete, and tangible result”<sup>4</sup>, that is, patentable subject matter.

Although the CAFC’s decision was not based on the issue of patentability of business methods, several statements made by the CAFC could be construed to mean that business methods are patentable subject matter. The CAFC noted that Congress did not intend to restrict patentable subject matter to the Four Categories,

1. *In re Petrus A.C.M. Nuijten*, Serial. No. 09/211,928 (Fed. Cir. Sept. 20, 2007) and *In re Stephen W. Comiskey*, Serial. No. 09/461,742 (Fed. Cir. Sept. 20, 2007).

2. *In re Stephen W. Comiskey*, Serial. No. 09/461,742 (Fed. Cir. Sept. 20, 2007) at 17.

3. , 149 F.3d 1368 (Fed. Cir. 1998).

4. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) at 5.

adding that "... the Supreme Court has acknowledged that Congress intended § 101 to extend to 'anything under the sun that is made by man'"<sup>5</sup>. In determining whether the claimed subject matter was patentable, the CAFC was not overly concerned with the subject matter falling squarely into one of the Four Categories, but was more interested in "the essential characteristics of the subject matter, in particular, its practical utility."<sup>6</sup> The business method exception to the statutory subject matter has never been invoked by the court and has now been superseded by clearer concepts. An abstract idea on its own is not patentable subject matter. However, an application of an abstract idea to produce "a useful, concrete, and tangible result"<sup>7</sup> is patentable subject matter.

Subsequent to the *State Street* decision, a wave of business method patent applications were filed with the USPTO.

Recently, the CAFC, through two decisions on the patentability of an arbitration system and an electrical signal, addressed the scope of § 101.

## THE DECISION

In the decision, *In re Stephen W. Comiskey*, the appellant appealed to the CAFC to determine the patentability of a mandatory arbitration system. The Board of Patent Appeals and Interferences ("Board") rejected the claims because of obviousness. Curiously, even though the issue before the CAFC pertained solely to obviousness and despite the appellant's objections, the CAFC cited several decisions to support its entitlement to raise and address the issue of statutory subject matter of the claims.

The CAFC explained that although they commented, in *State Street*, that Congress did not intend to restrict patentable subject matter to the Four Categories, Article I § 8 of the constitution limits the legislative power of the Congress "[t]o promote the progress of science and useful arts ...". The Supreme Court has clarified that the statement "Congress intended statutory subject matter to include anything under the sun ..." does "not ... suggest that § 101 has no limits or that it embraces every discovery."<sup>8</sup> Simply because claimed subject matter falls within one of the Four Categories, does not automatically mean that the subject matter is patentable. For example, not every process is patentable subject matter, "[t]he question is whether the method described and claimed is a 'process' within the meaning of the Patent Act."<sup>9</sup> To be patentable subject matter, an abstract idea must be coupled with one of the Four Categories.

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5. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F. 3d 1368 (Fed. Cir. 1998) at 5.

6. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F. 3d 1368 (Fed. Cir. 1998) at 6.

7. *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F. 3d 1368 (Fed. Cir. 1998) at 5.

8. *In re Stephen W. Comiskey*, Serial. No. 09/461,742 (Fed. Cir. Sept. 20, 2007) at 15.

9. *In re Stephen W. Comiskey*, Serial. No. 09/461,742 (Fed. Cir. Sept. 20, 2007) at 16.

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- (b) process patents reciting algorithms or abstract concepts may qualify under § 101 if the process:
- (i) is tied to a particular apparatus; or
  - (ii) operates to change materials to a “different state or thing”<sup>10</sup>.

Two claims in the Comiskey patent did not associate with any of the Four Categories. The CAFC ruled that the subject matter of those two claims was unpatentable because it attempted to preempt “the use of mental process to resolve a legal dispute.”<sup>11</sup> Some claims, in the Comiskey patent, referred to the use of “modules” to assist in the arbitration process. Because the dictionary meaning of “module” includes hardware and software components, the CAFC concluded that the claims referred to a mental process combined with a machine and produce useful results. Hence, the latter claims were deemed to recite patentable subject matter.

In the CAFC decision, *In re Petrus A.C.M. Nuijten*<sup>12</sup>, the main issue was whether an electrical signal is patentable subject matter. The inventor developed a method to encode watermarks into electrical signals thereby allowing the watermark to act as identification for the signal’s owner. In the patent application, the inventor claimed the modified signal. The CAFC began its analysis by explaining that their decision in *State Street* should not be construed as a proposition that “the four statutory categories are rendered irrelevant, non-limiting, or subsumed into an overarching question about patentable utility.”<sup>13</sup> To be patentable, the subject matter must still fall within one of the Four Categories. The CAFC concluded that the modified electrical signal belongs to none of the Four Categories and, therefore, unpatentable subject matter.

## PRACTICAL IMPLICATIONS

The foregoing decisions emphasize the importance of evaluating statutory subject matter when drafting patent applications for filing with the USPTO. A claim cannot ignore the categories specified by § 101. To qualify as patentable subject matter, the claim must be associated with at least one of the four categories under § 101 – namely, process, machine, manufacture, and composition of matter. However, the mere fact that a claim is associated with at least one of the four categories does not guarantee that the claim recites patentable subject matter. To be patentable, an abstract idea coupled with one of the four categories must produce “a useful, concrete, and tangible result”.

**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).**

*The foregoing does do not constitute legal or other professional advice and is only a general discussion of recent developments. Do not rely on this communication as a substitute for professional advice. If you require professional advice relative to your own circumstances, please contact us.*

10. *In re Stephen W. Comiskey*, Serial. No. 09/461,742 (Fed. Cir. Sept. 20, 2007) at 17.

11. *In re Stephen W. Comiskey*, Serial. No. 09/461,742 (Fed. Cir. Sept. 20, 2007) at 22.

12. , Serial. No. 09/211,928 (Fed. Cir. Sept. 20, 2007).

13. *In re Petrus A.C.M. Nuijten*, Serial. No. 09/211,928 (Fed. Cir. Sept. 20, 2007) at 11.