Full Federal Circuit to review business method patents

Patents for intangible mental processes to be evaluated

On February 15, 2008, the U.S. Court of Appeals for the Federal Circuit issued an order that calls into question the continued viability of "business method" patents, and indeed invites new scrutiny as to what constitutes patentable subject matter in general. The order granted a hearing en banc for potential reconsideration of its controversial 1998 decision in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, which opened the door -- or, as some would say, kept the door open -- to business method patents.

In 2006, Justice Kennedy of the U.S. Supreme Court cast aspersions on business method patents when he commented in *eBay Inc. v. MercExchange, L.L.C.* that some of them were of "potential vagueness and suspect validity." Justice Stephen Breyer, in his dissent in *Laboratory Corporation of America Holdings v. Metabolite Laboratories, Inc.,* wrote: "That case [*State Street*] does say that a process is patentable if it produces a 'useful, concrete, and tangible result.' ... But this [Supreme] Court has never made such a statement and, if taken literally, the statement would cover instances where this court has held the contrary."

Very rarely does the Federal Circuit take action on its own initiative for all of its judges to reconsider fundamental precepts of patent law. Thus, this announcement of the Federal Circuit suggests that a major shift in these patent law principles is possible in 2008. A new set of standards from the Federal Circuit could have a material impact on some businesses.

The *State Street* decision declared that there was no exception in the patent laws preventing patents from issuing on novel business methods. In the ensuing 10 years, many so-called "business method" patents have been issued and have become the subject of high-stakes patent litigation. Businesses that had never experienced significant patent litigation – such as banks, securities traders and insurance companies – have confronted the risk of permanent injunctions and damage awards. As industries in general have become increasingly computerized, they have sometimes faced patents considered to be merely automation of manual procedures. In response to the changes in the patent landscape that began to accelerate in 1998, some companies invested heavily in acquiring patents for both defensive and offensive purposes. Other companies decided not to change their business strategies.

The Patent Office has been criticized for issuing many low-quality "business method" patents and has even issued some patents that, many allege, cover purely mental processes. The impact of these changes in patent doctrine was exacerbated by the fact that the Patent Office had neither databases of relevant prior art nor examiners trained in business. As a consequence, the Patent Office developed a more intensive review of business method patent applications.

In Re Bernard L. Bilski and Rand A. Warsaw, in which the patent claims at issue cover a "method for managing the consumption risk costs of a commodity sold by a commodity provider," is arguably exemplary of the kind of patent claims seen since *State Street*. In this case, however, the Patent Office refused to grant the patent. The Board of Patent Appeals

and Interferences (BPAI) declared that Bilski's patent application was not patentable because it addressed an abstract idea without specifying tangible steps or technology for implementing the claimed idea. The BAPI rejected the patent claims based "on the lack of a physical transformation and the lack of a practical application of the 'abstract idea' of risk management in the claims as a whole…. It is hard to define the line between a patentable 'practical application' (or 'real world effect') and an unpatentable 'abstract idea.' In this case, the fact that the claims are so broad that they cover ('preempt') any and every way to perform the steps indicates that what is being claimed is the 'abstract idea' itself. That is, the claims read as if they are describing the concept without saying how any of the steps would be specifically implemented to produce a 'real world effect.' In our opinion, the transformation of physical subject matter test is a more objective way to perform the § 101 analysis for non-machine-implemented method claims."

The appeal of the BPAI's decision in *Bilski* was originally argued at the Federal Circuit on October 1, 2007. In its February 15, 2008 order, the Federal Circuit has identified a fundamental set of questions to be addressed by the parties to the appeal and amicus briefs:

(1) Whether the Bilski patent application claims patent-eligible subject matter under 35 U.S.C. § 101.

(2) What standard should govern in determining whether a process is patent-eligible subject matter under section 101?

(3) Whether the claimed subject matter is not patent-eligible because it constitutes an abstract idea or mental process; when does a claim that contains both mental and physical steps create patent-eligible subject matter?

(4) Whether a method or process must result in a physical transformation of an article or be tied to a machine to be patent-eligible subject matter under section 101.

(5) Whether it is appropriate to reconsider *State Street* and *AT&T Corp. v. Excel Communications, Inc.* in this case and, if so, whether those cases should be overruled in any respect.

Supplemental briefs are to be filed by the parties to the appeal on March 6, 2008. Amicus briefs are due April 7, 2008, and oral argument at the Federal Circuit will be on May 8, 2008.

Contact Information

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