

Patents

Supreme Court Invalidates Patent on Hedging Risk But Leaves Door Open for Less “Abstract” Business Method

By Mark Scarsi and Blake Reese, Milbank, Tweed, Hadley & McCloy LLP

On June 28, 2010, the U.S. Supreme Court held a patent directed to a series of steps for hedging risk in commodities trading invalid as not being drawn to statutory subject matter. While the Supreme Court affirmed the Federal Circuit Court of Appeals’ decision that the patent was invalid, the Supreme Court did instruct the Federal Circuit to fashion additional tests for patentable subject matter based on the Supreme Court’s broad and somewhat antiquated principles.

Prior Law and USPTO Practice

Before the Supreme Court’s June 28 decision in *Bilski v. Kappos*, if a financial services company wanted a patent on a so-called “business method” it had to make sure the patent’s claims were “tied” to a “particular” machine or performed a physical or chemical “transformation.” The U.S. Patent and Trademark Office (USPTO) would typically allow a general purpose computer to satisfy the “particular machine” requirement of the “machine-or-transformation” test (“MorT test”). In addition, when a method could be expressed as steps conducted by a software program on a disc, patent attorneys could get around the machine-or-transformation test by structuring the claim in that fashion (the argument being that a disc is a machine, so one could claim a disc *a/k/a* “computer-readable medium” with novel code on it).

Prior Law at the Trial Courts

On the other hand, if a financial services company was sued for infringing another’s so-called “business method” patent, many of the federal district courts were not so kind to these patents. Many of these district courts were not convinced of the legal fiction that a general purpose computer becomes a “particular machine” when a novel program is performed by it. Going further, some courts looked beyond the form of the claim and used the MorT test to invalidate machine claims that were written as, for example, general purpose computers that performed novel processes or novel processes stored in a computer-readable medium, such as a disc drive or memory. (For further discussion, see Blake Reese, [Judicially Re\(De\)Financing Software Patent Eligibility: A Survey of Post-Bilski Jurisprudence](#) (April 6, 2010).) Nonetheless, other district courts followed the status quo that as long as a method claim had some computer hardware in the claims, or if the claim was written as a machine claim that it was eligible for a patent. Of course, just because an invention is eligible subject matter for a patent does not mean that a patent should issue. The claim still has many other hurdles to overcome, like whether it is new and nonobvious. Meanwhile, the Federal Circuit Court of Appeals had about a half-dozen or so of these district court cases on appeal and the major players in all industries were waiting to see how the Federal Circuit would clarify the MorT test. In other words, which district courts would it say were getting “it” right.

The Supreme Court's Important Statements

In *Bilski v. Kappos*, the Supreme Court held that the MorT test is merely a “useful and important clue,” but is “not the sole test for deciding whether” a claimed process is patent eligible. Instead, the Court focused on its own prior precedent and concluded that the claims-at-issue were within what had been previously characterized as an unpatentable abstract idea. In its opinion, the Court did not define what would constitute a patentable “process.” As a result, the Supreme Court deferred to the Federal Circuit to develop “other limiting criteria” for assessing whether claimed processes, including certain business methods, may be patented.

Bilski v. Kappos Implemented at the USPTO

From a practical standpoint, the USPTO will now look at a financial services company's patent application in virtually the same way as it did before the Supreme Court issued its opinion. Last week, as previously stated, the USPTO exclusively applied the MorT test to process claims. Under the USPTO's Interim Guidelines that were released on June 28 after the Supreme Court's decision, the USPTO stated that it will still apply the MorT test. If a patent applicant's claims fail that test, the applicant now has an additional argument that, despite its failing to satisfy the MorT test, the claims are not “abstract.” Abstraction law is confusing and archaic; it is not a child of the information age. The appellate board at the USPTO (a/k/a the Board of Patent Appeals and Interferences) will almost certainly come out with its own new tests for determining what is “abstract” which will be, in theory, based on these older abstraction cases and subject to tweaks and rewrites by the Federal Circuit's own development of abstraction law. Importantly, the USPTO, at least, is limiting *Bilski v. Kappos* to process claims, so machine claims are largely unaffected – a strategy of which financial services companies and the entities that go after them will be aware.

No Mention About the Elephant in the Room

Practitioners and industry stakeholders still do not have a definitive answer as to whether a general purpose computer can be a “particular machine” under the MorT test. As a result, financial services companies will continue to file so-called “business method” applications and absent any significant changes, those applications will issue as patents despite their relying solely on a general purpose computer as the claims' “particular machine” or being written as a general purpose computer, computer readable-medium or the like.

Watching the Next Two Quarters

In the next several months, the Federal Circuit will be deciding cases that will likely give teeth to the principles in the Supreme Court's decision. These Federal Circuit opinions and the interpretations of them by the USPTO will likely have more of an impact on these companies' applications. In the interim, expect plaintiffs to assert those patents that were collecting dust because they lacked sufficient hardware to be considered a “machine” or tied to a “particular machine.” Also, expect defendants to claim the software or business method patents that are asserted against them are invalid for being “abstract.”

In short, unfortunately, more wait-and-see in industries that often lack the virtue of patience.

Mark Scarsi is a Partner, and Blake Reese is an Associate, in the Intellectual Property Litigation & Technology Department of Milbank, Tweed, Hadley & McCloy LLP. Messrs. Scarsi and Reese represent large technology companies, all types of financial services companies, and start-ups. The views expressed in this article are solely those of the author and may not be attributed to Milbank or its clients.