

## REPORT

**A BUSINESS METHOD CLAIM INVOLVING ONLY MENTAL PROCESSES IS NOT PATENTABLE UNDER 35 U.S.C. §101**

October 22, 2007

**I. Summary**

The U.S. Court of Appeals for the Federal Circuit recently re-visited a fundamental question: what constitutes statutory subject matter for patents? In the case of *In re Comiskey*,<sup>1</sup> the Federal Circuit reaffirmed the principle that a business method that "depend[s] entirely on the use of mental processes" does *not* constitute statutorily patentable subject matter. More importantly, the Court clarified the patentability requirements of both 35 U.S.C. §§101 and 103 as they apply to business methods. In particular, the Court confirmed that, contrary to popular belief, the Court's earlier *State Street Bank* decision<sup>2</sup> did *not* recognize business methods per se as falling within the categories of statutory subject matter specified in 35 U.S.C. §101, but rather held that business methods are subject to the same patentability requirements applied to any other process or method. The Court also surveyed in depth the convoluted §101 law on this topic.

With regard to §103, the Court also confirmed that nonobviousness of a business method meeting the requirement of §101 cannot be established by showing that an otherwise unpatentable mental process embodied in the method was nonobvious; and that the routine addition of modern electronics such as a general purpose computer and communication devices to an invention otherwise unpatentable under §101 creates a *prima facie* case of obviousness.

<sup>1</sup> *In re Stephen W. Comiskey*, \_\_\_ F.3d \_\_\_, 2007 WL 2728361 (Fed. Cir. September 20, 2007).

<sup>2</sup> *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

**II. Background**

Stephen W. Comiskey appealed a decision by the USPTO Board of Patent Appeals and Interferences affirming the examiner's final rejection of his patent application. The claims had been twice finally rejected under 35 U.S.C. §103(a) as being unpatentable over three prior art patents. The Examiner did not reject any of the claims under §101.

After oral argument in the appeal, the Federal Circuit requested supplemental briefing on the patentability of Comiskey's claims under 35 U.S.C. §101. After disposing of Comiskey's argument that the Court lacked the power to *sua sponte* raise and decide the §101 issue because it had not been a ground of rejection below, the Court concluded that many of the claims are unpatentable under §101, but that a few claims did pass muster under §101 because they add the use of a general purpose computer or the combination of a general purpose computer and modern communications devices. The Court therefore affirmed-in-part, vacated-in-part, and remanded to the PTO to determine whether the claims patentable under §101 would have been obvious under 35 U.S.C. §103.

**III. Discussion**

The *Comiskey* Court held that independent claims 1 and 32 of Comiskey's application, and most of their dependent claims, did not recite patentable subject matter under §101. Although the application discloses an automated system and references a computer network, method claims 1 and 32 do not recite any apparatus for performing any of the claimed steps. Claim 1, for example (claim 32 is virtually identical), recites:

A method for mandatory arbitration resolution regarding one or more unilateral documents comprising the steps of:

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enrolling a person and one or more unilateral documents associated with the person in a mandatory arbitration system at a time prior to or as of the time of creation of or execution of the one or more unilateral documents;

incorporating arbitration language, that is specific to the enrolled person, in the previously enrolled unilateral document wherein the arbitration language provides that any contested issue related to the unilateral document must be presented to the mandatory arbitration system, in which the person and the one or more unilateral documents are enrolled, for binding arbitration wherein the contested issue comprises one or more of a challenge to the documents, interpretation of the documents, interpretation or application of terms of the documents and execution of the documents or terms of the documents;

requiring a complainant to submit a request for arbitration resolution to the mandatory arbitration system wherein the request is directed to the contested issue related to the unilateral document containing the arbitration language;

conducting arbitration resolution for the contested issue related to the unilateral document in response to the request for arbitration resolution;

providing support to the arbitration resolution; and

determining an award or a decision for the contested issue related to the unilateral document in accordance with the incorporated arbitration language, wherein the award or the decision is final and binding with respect to the complainant.

The Court observed that *Comiskey's* application fell within the general category of "business method" applications, and noted that in *State Street Bank*, the Federal Circuit had concluded that "patentability does 'not turn on whether the claimed subject matter does 'business' instead of something else.'" However, the Court clarified that *State Street Bank* also held that business methods are subject to the same patentability requirements applied to any other process or method. After explaining the requirements of §101 as they apply to processes and methods generally, the Court held that *Comiskey's* claims 1 and 32 "claim the mental process of resolving a legal dispute between two parties by the decision of a human arbitrator," and are therefore non-statutory.

The *Comiskey* decision is of particular interest because it surveys Supreme Court, Federal Circuit, and Court of

Customs and Patent Appeals (CCPA) precedents on this topic. The Court explained that not every process is patentable under §101, and that abstract ideas are one type of subject matter that the Supreme Court has consistently held to fall outside of §101. The prohibition against the patenting of abstract ideas has two distinct (though related) aspects. First, when an abstract idea has no claimed practical application, it is not patentable (i.e., the idea is not limited to any particular art or technology, to any particular apparatus or machinery, or to any particular end use). Second, even if an abstract idea has a practical application, it may be statutory only if it is embodied in, operates on, transforms, or otherwise involves another class of statutory subject matter (i.e., a machine, manufacture, or composition of matter). The *Comiskey* Court noted that the Supreme Court has recognized only two instances in which such a method may qualify as a §101 process – the process is either tied to a particular machine or operates to change materials to a different state or thing; and further characterized *State Street Bank* as one example of cases in which processes involving a mathematical algorithm used in computer technology were held statutory "because they claimed practical applications and were tied to specific machines."<sup>3</sup>

The *Comiskey* Court emphasized that mental processes – or processes of human thinking – standing alone are not patentable even if they have a practical application. The Court surveyed decisions that refused to find processes patentable when they merely claimed a mental process standing alone and untied to another category of statutory subject matter even when a practical application was claimed, including an early Federal Circuit decision holding unpatentable a business method – conducting auctions by allowing competitive bidding on a plurality of related items – that as claimed was not tied to use of a machine.<sup>4</sup> The *Comiskey* Court read this body of law as establishing that the application of human intelligence to the solution of practical problems, including particular business systems that depend entirely on the use of the mental processes, is not in and of itself patentable.

The Court noted that *Comiskey* had conceded that his claims 1 and 32 do not require a machine, and observed that they do not describe a process of manufacture or a process for the alteration of a composition of matter. Instead, the Court characterized *Comiskey's* claims as "claim[ing] the use

<sup>3</sup> The development of the case law in this area has been convoluted. It is not the purpose of this Special Report to address the nuances of this body of law.

<sup>4</sup> *In re Schrader*, 22 F.3d 290 (Fed. Cir. 1994).

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of mental processes to resolve a legal dispute," which was an "allegedly novel way of requiring and conducting arbitration," but was nonetheless unpatentable for claiming a mental process. Thus, Comiskey's methods claimed in claims 1 and 32 were unpatentable.

The Court's decision did not deal solely with Comiskey's independent claims 1 and 32; the Court also considered independent claims 17 and 46, and certain dependent claims. The court concluded that the "modules" and "means for selecting an arbitrator from an arbitrator database" claimed in the independent claims could encompass the use of a computer under the broadest reasonable interpretation of the claims. The dependent claims recited specific communication devices for accessing the mandatory arbitration. Although the mere use of a machine to collect data necessary for application of a mental process may not make a claim patentable subject matter, the Court concluded that all of these claims combine the use of machines with a mental process and therefore pass muster under §101.

As noted above, even though the *Comiskey* Court found these claims to satisfy §101, the Court emphasized that the routine addition of modern electronics to an otherwise unpatentable invention typically creates a *prima facie* case of obviousness, citing its *Leapfrog* decision and the Supreme Court's *KSR* decision.<sup>5</sup> The *Comiskey* Court also noted that there is no pertinent evidence of secondary considerations because the only evidence offered is of long-felt need for the unpatentable mental process itself, not long-felt need for the combination of the mental process and a modern communication device or computer.

#### IV. Conclusions/Recommendations

*In re Comiskey* establishes that the *State Street Bank* decision did not recognize business methods per se as patentable §101 subject matter, and serves as a reminder of the need for care and vigilance in the drafting of method or process claims, whether or not they are "business method" claims. Such process claims should be tied to a particular apparatus or operate to change materials to a different state or thing.

*In re Comiskey's* thorough review of the §101 and §103 law as it applies to business methods suggests that the era of

<sup>5</sup> *Leapfrog Enters. Inc. v. Fisher Price, Inc.*, 485 F.3d 1157, 1161 (Fed. Cir. 2007) and *KSR Int'l Co. v. Teleflex, Inc.*, 127 S. Ct. 1727, 1743-44 (2007). Please see our May 7, August 17 and October 10, 2007 Special Reports on obviousness under 35 U.S.C. §103.

easy sailing in obtaining business method patents is over. The Federal Circuit should provide early confirmation of this, as it is currently considering the patentability of other business methods involving human actions. *See, e.g., In re Bilski*, Appeal No. 2007-1130 (oral argument held on October 1, 2007). *Bilski* argued that his business method claims directed to financial hedging (managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price) constitute statutory subject matter because his method is not a mental process like *Comiskey's*, but rather a series of physical steps involving communication and negotiation. The USPTO argued that the *Bilski* claims were properly rejected because the claims recite an abstract idea that is not embodied in, does not operate on, and does not transform a machine, manufacture, or composition of matter. A decision by the Federal Circuit is anticipated within 2-4 months. Other cases awaiting Federal Circuit decisions include: *In re Lundgren*, Bd. Pat App. and Int. No. 2003-2088, which involves a method claim for compensating a manager in an application that does not disclose a computer or apparatus of any kind; and *In re Ferguson*, Appeal No. 2007-1232, which involves a claim directed to a marketing "paradigm."

Additionally, as will be discussed in a future Oliff & Berridge Special Report, the Federal Circuit recently decided *In re Nuijten*, in which the Court adopted a narrow reading of what constitutes a statutory "manufacture" under §101 to reject claims directed to a signal with embedded supplemental data.

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