



# Business patent overhaul

A U.S. appeals court has issued a landmark ruling that changes the law relating to the patentability of business methods. What effect will this have on Canada, and on the worldwide knowledge economy of the future?

*By Daniel Casciato*

*Photography by Mark Stegel*

**I**n 1998, the United States Court of Appeals for the Federal Circuit (CAFC) issued a monumental ruling in a case known as *State Street Bank*, essentially green-lighting the controversial patenting of business methods. Mere weeks later, a deluge of software and business method patent applications began pouring into the U.S. Patent and Trademarks Office (USPTO), and the debate over the propriety of *State Street* was on.

Since that ruling, the USPTO has been trying to curtail the flood by narrowing the interpretation of what constitutes “patentable subject matter.” That effort received a major boost in October 2008, when the CAFC reconsidered business method patents in an *en banc* ruling called *In Re Bilski*. That case held that to be eligible for patent protection, an invention must be tied to a particular machine or apparatus, or it must transform a particular article into a different state or thing. (See sidebar, p. 37, for more details on these rulings.)

*Bilski* seems poised to have an enormous impact on 21st-century patent law, and its ramifications will even be felt in Canada. But Eugene Gierczak was not surprised by the decision.

“Business method patents in the U.S. were excluded in their definition of what was patentable for a large part of the last century,” says Gierczak, a lawyer with Toronto-based Miller Thomson LLP. But with the rise of a knowledge-based world economy over the last 20 years, the pressure grew to allow the patenting of business method concepts.

**Eugene Gierczak**, Miller Thomson LLP, Toronto

*“State Street historically reversed the common indication prior to that case whether a company can patent a business method. There was a need to bring it back to focus, and that’s why we had *Bilski*.”*

“*State Street* basically allowed business method patents as long as you’re producing some useful, concrete and tangible result,” he says. “This ruling opened a floodgate of new patents. *State Street* historically reversed the common indication prior to that case whether a company can patent a business method.”

Gierczak says that the *State Street* decision was a good start, but the test of what was patentable was too broad. “There was a need to bring it back to focus, and that’s why we had *Bilski*.”

Alistair Simpson, a Canadian- and U.S.-qualified lawyer with Smart & Biggar LLP in Toronto, notes that over the past several years, an increasingly vocal group of people has expressed the view that many aspects of the United States patent law system are broken. While reform of the U.S. patent system by legislation from the U.S. Congress has so far failed to materialize, several court decisions recently released by both the CAFC and the United States Supreme Court have attempted to address some of the criticism.

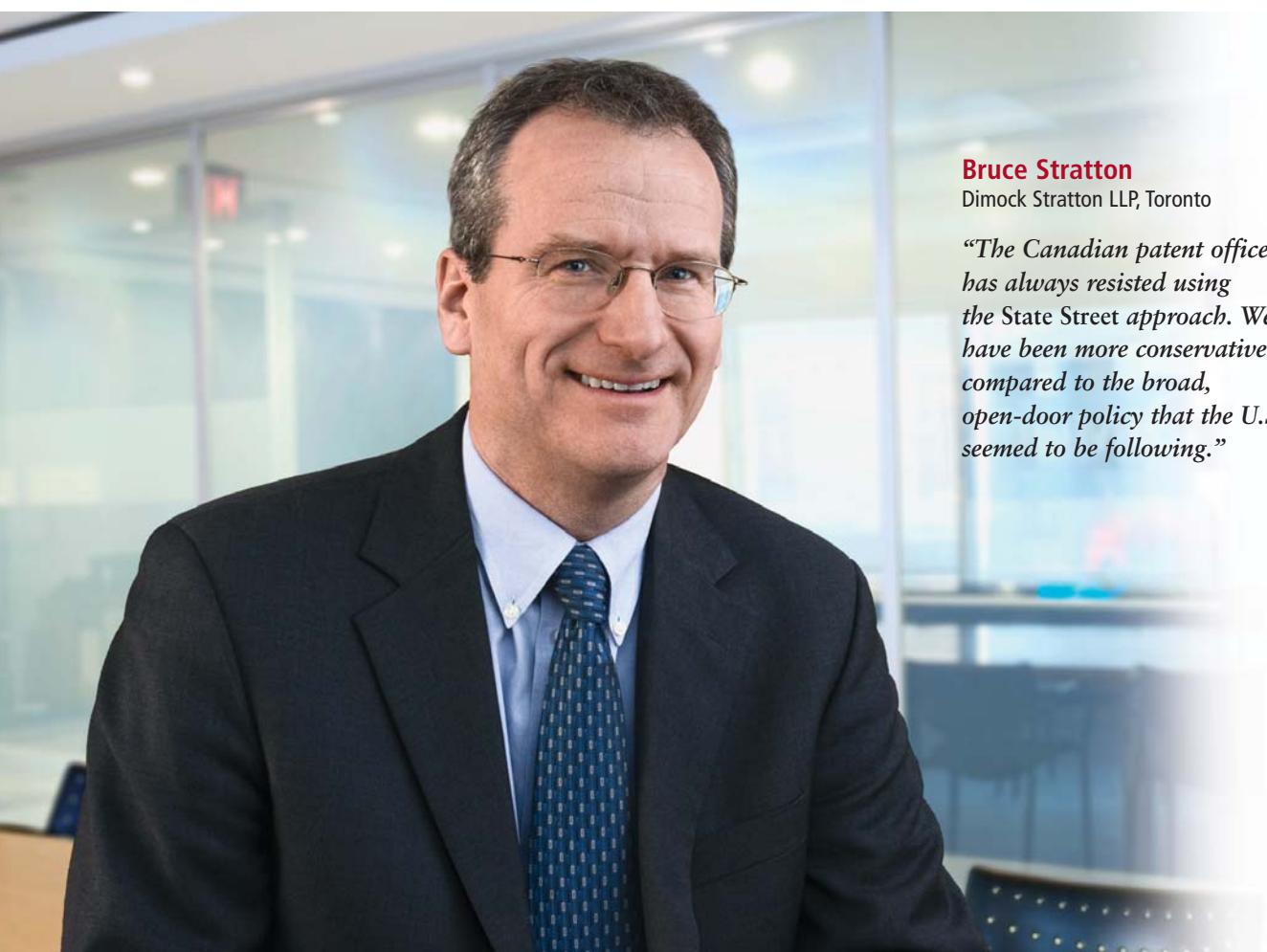
“This ruling may assist in the overall goal of improving the U.S. patent system in general,” Simpson says. “It may lead to the elimination of those types of contentious business method patents that people previously pointed to when faulting the U.S. patent system.”

### **Overly broad**

A major criticism of business method patents has been that some of those patents are very broad in their scope of protection, often affecting entire business sectors.

“When an application is filed in the USPTO, the Patent Office examiner conducts a prior art search,” Simpson says. “To do that, they have a certain set of tools they use to look for prior art, and then they make a determination, based on the prior art, whether the patent application meets the requirements of patentability.”

One of the problems for the USPTO post-*State Street* was the large influx of new applications directed to business methods. “They often didn’t have the tools that they needed to properly search for prior art business methods,” he says. “Therefore, some business patents were issued for methods



**Bruce Stratton**  
Dimock Stratton LLP, Toronto

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Smart & Biggar, Toronto

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that seemed to cover what people had been doing for a long time before the patent application was filed."

Bruce Stratton of Toronto-based Dimock Stratton LLP, a member of the Patents Subcommittee of the CBA's National IP Section, thinks *Bilski* is a return to a more complex way of looking at patentability.

"*Bilski* is clearly far more in depth and has more complexity to it than *State Street*," he says. "It's quite striking

how different the two rulings are. It's clearly seen as a benchmark decision because of the *en banc* format. The *Bilski* ruling will be considered in any kind of software or business method patent opinion in the U.S."

Courts in the United States have been trying to synthesize business method patent law and come up with a single formulation that's fundamental to looking at business methods or software process patents. "It's at least the third major test

## A brief history of business method patents

**B**usiness method patents are a class of patents that disclose and claim new methods of doing business. This includes new types of e-commerce, insurance, banking and tax compliance. Following *State Street* but before *Bilski*, business method patents were considered eligible for patent protection in the United States if they involved some practical application and "produced a useful, concrete and tangible result."

For many years, the United States Patent & Trademark Office (USPTO) took the position that "methods of doing business" were not patentable. With the emergence of patent applications on Internet or computer-enabled methods of doing commerce, however, the USPTO found it was no

longer practical to determine if a particular computer-implemented invention was a technological invention or a business invention. Consequently, it took the position that examiners would not have to determine if a claimed invention was a method of doing business or not. They would determine patentability based on the same statutory requirements as any other invention.

The subsequent allowance of patents on computer-implemented methods for doing business was challenged in the 1998 case of *State Street Bank v. Signature Financial Group*. Signature Financial Group had been granted U.S. Patent 5,193,056, "Data Processing System for Hub and Spoke Financial Services Configuration." The "spokes" were mutual funds that pooled their assets in a

central "hub." In July 1998, the Court of Appeals for the Federal Circuit affirmed the position of the USPTO and rejected the theory that a "method of doing business" was excluded subject matter.

Last fall, however, the CAFC all but reversed *State Street* in *In Re Bilski*, ruling that the patent application at issue was not tied to a machine and did not result in a transformation, and therefore was excluded from patentability. It articulated the machine-or-transformation test, according to which a claimed process is patent-eligible if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing. ■

— Extracted and condensed from Wikipedia (<http://en.wikipedia.org>)

that this particular court has tried to apply,” he notes. “So I’m hoping that the third time is lucky in getting a test that will stick.”

### What about Canada?

Neither *State Street* nor *Bilski* have any force in Canada, of course. But Stratton paid close attention to this latest case all the same.

“In Canada, we are affected by the approaches that the U.S. courts take,” he says. “Canadian patent lawyers draft

patents and look at patents with at least one eye on the U.S. There are not many current decisions in Canada from the courts on this topic. So a lot of the policy is being driven from the United States Patent and Trademark Office and the U.S. courts.”

Nonetheless, Stratton doesn’t think *Bilski* will have a large direct impact on Canadian law. “The two-part U.S. test for software and business methods is fairly close to the Canadian test our Canadian patent office has been applying,” he says.

# La révolution des brevets américains

**La Cour d’appel des Etats-Unis a rendu un jugement qui change la brevetabilité des méthodes d’affaires. Quel effet aura-t-il au Canada et ailleurs dans le monde?**

**E**n 1998, la Cour d’appel du circuit fédéral des Etats-Unis (CACF) a rendu un jugement important dans l’affaire *State Street Bank*, qui donnait le feu vert au brevetage des méthodes d’affaires. À peine quelques semaines plus tard, un déluge de demandes de brevets pour des méthodes d’affaires et des logiciels ont commencé à arriver au Bureau des brevets et des marques de commerce des Etats-Unis (BBMC).

Depuis cette décision, le BBMC a tenté de contenir le flot en limitant l’interprétation de ce que constitue un élément brevetable. L’effort a reçu un coup de pouce majeur en octobre 2008, lorsque la CACF dans *In Re Bilski* a tranché que, pour être éligible à la protection d’un brevet, une invention doit être attachée à une machine ou à un appareil, ou elle doit changer l’état d’un élément en particulier.

*Bilski* semble sur le point d’avoir un énorme impact sur le droit des brevets du 21<sup>e</sup> siècle, et ses ramifications seront perçues partout dans le monde — incluant le Canada.

« Les méthodes d’affaires aux Etats-Unis étaient exclues de ce qui est brevetable pour une bonne partie du dernier siècle, explique l’avocat à la firme de Toronto Miller Thomson. Mais avec la montée d’une économie du savoir au cours des dernières 20 années, la pression a monté pour permettre de breveter des concepts de méthodes d’affaires. »

« *State Street* permettait les brevets de méthodes d’affaires dans la mesure où celles-ci produisaient des résultats tangibles

et concrets, ajoute-t-il. Le jugement a ouvert une porte toute grande pour de nouveaux brevets. »

« Il y avait un besoin de l’encadrer davantage, et c’est pourquoi nous avons eu *Bilski* », conclut l’avocat.

### Et le Canada?

Ni *State Street* ni *Bilski* n’ont d’autorité au Canada, bien entendu. Mais Bruce Stratton, de la firme torontoise Dimock Stratton et un membre du sous-comité des brevets de la section de propriété intellectuelle de l’ABC, a tout de même suivi ces développements avec attention.

« Au Canada, nous sommes affectés par les approches qu’adoptent les cours américaines, dit-il. Les avocats spécialisés en brevets au Canada les rédigent en gardant un œil sur ce qui se fait aux États-Unis. Il n’y a pas eu beaucoup de décisions récentes au Canada sur le sujet. Ainsi, un bon nombre des politiques sont inspirées du Bureau américain des brevets des cours américaines. »

« Notre bureau des brevets a toujours résisté à l’approche de *State Street*, fait néanmoins remarquer M<sup>e</sup> Stratton. Nous avons toujours été plus conservateurs, en comparaison avec l’interprétation large que semblaient suivre les États-Unis pendant un certain temps. » Depuis *Bilski*, le régime américain des brevets en matière de logiciels et méthodes d’affaires se rapproche de celui en vigueur au Canada.

### Impact Global

Alistair Simpson, un avocat qui pratique des

deux côtés de la frontière et qui œuvre au sein du cabinet Smart & Biggar, à Toronto, souligne que les États-Unis étaient allés beaucoup plus loin que les autres juridictions pour accorder des brevets de méthodes d’affaires.

« Quand vous regardez l’Europe, il y a peut-être eu une légère libéralisation, mais en majeure partie, elle n’a pas étendu la possibilité d’obtenir ces brevets de manière significative, dit-il. Je pense que ce que vous verrez à partir de maintenant est le droit américain se déplacer davantage vers là où se situe le droit dans le reste du monde. Et à ce stade-ci, il semble très improbable que l’Europe ouvre les vannes. »

Bruce Stratton ne croit pas que *Bilski* sera le dernier développement des tribunaux américains dans le domaine. « *Bilski* n’a pas répondu à une question : si vous avez un ordinateur à usage générique qui est programmé d’une manière spécifique, est-ce que cette procédure est rattachée à une machine en particulier ou non? note-t-il. Plusieurs causes interpréteront ce que *Bilski* a dit, mais cette question importante devra trouver une réponse éventuellement. »

La Cour suprême des États-Unis viendra-t-elle mettre son grain de sel dans cette histoire? « La plupart de ces décisions d’appel ne sont pas le dernier mot sur le sujet, indique M<sup>e</sup> Stratton. De savoir si le nouveau test de la Cour d’appel incitera la Cour suprême à réviser ou à approuver son approche est une question à laquelle il est difficile de répondre. » ■

“Our patent office has always resisted using the *State Street* approach. We have been more conservative compared to the broad, open-door policy that the U.S. seemed to be following for a while. The closing of the door by the U.S. court [in *Bilski*] is making the opening for inventors to patent software and business methods more similar in both countries.”

Simpson thinks it’s difficult to determine the precise impact, if any, *Bilski* will have in Canada. “Although U.S. decisions are not the binding authority for Canadian courts, what we have seen recently, more than in the past, is that Canadian courts, when dealing with patent cases, are more frequently looking to U.S. decisions for guidance and citing them,” he says.

In fact, there have been several signs that the Canadian Patent Office had started to adopt a somewhat more liberal approach to business methods than in the past.

“Our Patent Appeal Board has, in the past few years, issued some decisions suggesting a loosening of the restrictions on the patentability of business methods in Canada,” Simpson says. “However, the impact of *Bilski* appears likely to significantly curtail at least certain types of business methods from patent protection in the U.S. This may well influence Canada to put the brakes on any further expansion in the patenting of business methods here.”

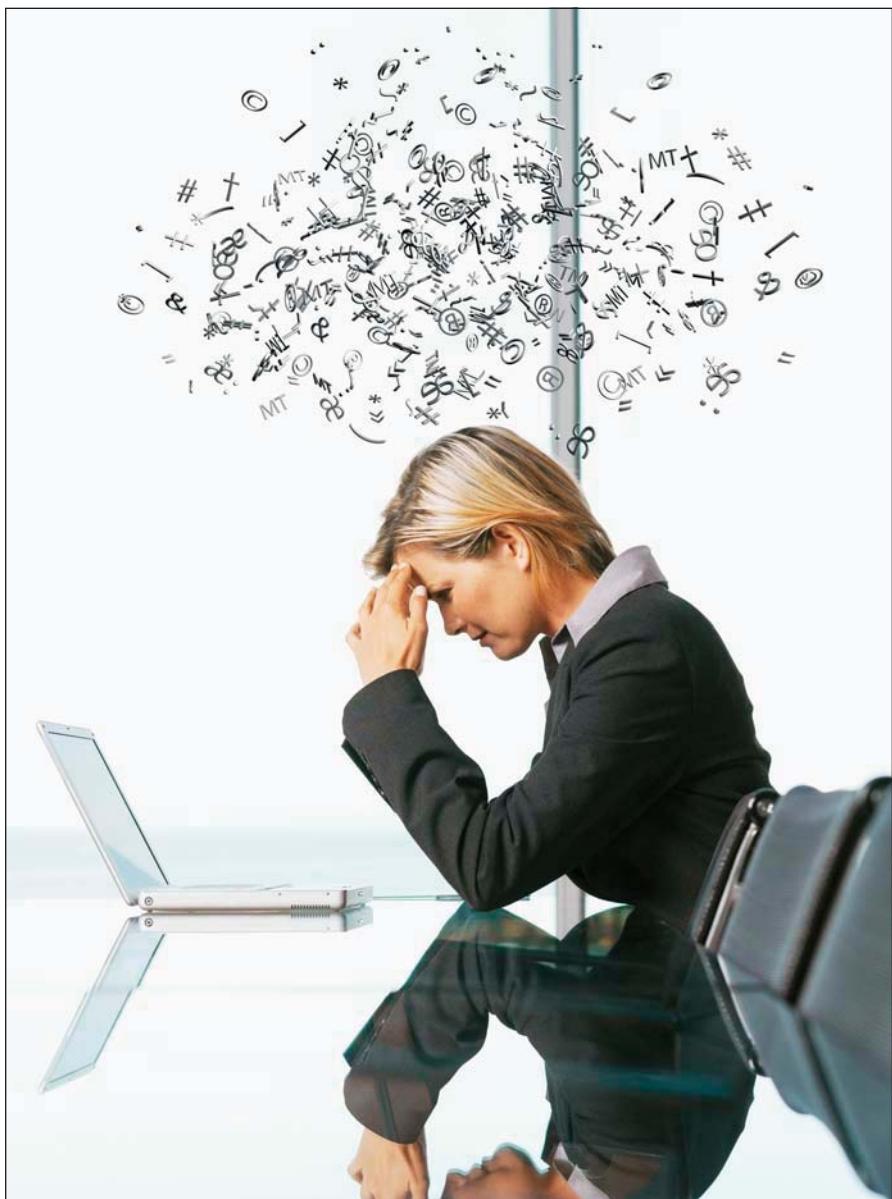
Gierczak believes that *Bilski* will have an indirect impact because a lot of companies want to make sure they are consistent with the U.S. “In Canada, inventions are defined as ‘any new and useful art process, machine manufactured or composition of matter.’ It’s a broad category. More companies will be careful in how they define their invention.”

#### Possible invalidation

Gierczak also expects the new “machine-or-transformation” test set out in *Bilski* will be a substantial hurdle for many pending business method and software patent applications, and casts doubt upon the enforceability of many issued patents.

“I think some of these patents will be invalidated as a result of this decision,” he says. “If they are poorly written, they definitely will be invalidated. In some cases, some of these business method patents were used to attract investors, and some of these investments may be in jeopardy as well.”

Robert Plotkin, a patent lawyer in



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Massachusetts and author of *The Genie in the Machine: How Computer-Automated Inventing is Revolutionizing Law and Business*, cautions that decisions such as *Bilski* need to be read very carefully to understand exactly their implications.

"Since the decision was published, many articles have been written claiming that the decision eliminates software patents, even though the claim at issue in the case said nothing about a computer and the court explicitly said that it was not deciding the question of software patentability," says Plotkin.

"I know that there's broad opposition to software patents in many circles, often based on the premise that all software patents are for trivial processes." But Plotkin says people need

to understand that many software patents cover significant technological developments in fields such as encryption, speech recognition, and image processing.

"The people who develop such technology are entitled to patent protection just as much as inventors of nuts-and-bolts machines," he says. "Even if there are some trivial software patents, we need to find ways to improve the patent system that do not involve throwing the baby out with the bathwater."

### Global impact

Simpson says the U.S. had gone much further than other jurisdictions in granting business method patents. "When you look

at Europe, there may have been some slight liberalization, but for the most part Europe has not expanded significantly the ability to patent business methods," he says. "So I think what you may be seeing now is U.S. law moving closer to where the rest of the world is positioned. And at this stage, it seems very unlikely that Europe will open the floodgates."

Simpson believes that *Bilski* might increase the degree of harmonization in patent laws between jurisdictions. "Harmonization is a hot topic, and is seen by many to be a real benefit," he says. "It makes life quite difficult for those seeking to protect their inventions internationally if the patent laws in each country are very diverse. Over the past couple of decades, we have seen various initiatives to try to move the whole international patent law system towards a more unified, harmonized approach."

Stratton doesn't believe that *Bilski* will be the last word on this subject from the U.S. courts. "The *Bilski* case didn't answer one question: if you have a general-purpose computer that is programmed in a specific way, is that process tied to a particular machine or not?" he says. Many cases will interpret what *Bilski* said, but that important unanswered question will have to be dealt with later.

Stratton adds that there's a potential invitation to the U.S. Supreme Court to revisit this area to give it its blessing — or not. "Most of these appeal cases are not usually the last words. Whether the test that the Court of Appeals has come up with here will incite the U.S. Supreme Court to revise or approve the appellate court approach, is a difficult question to answer," he says. ■



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