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Sketching an Outline for Business Method Patents

Supreme Court also weighs in on software, ambiguity and attorney fees

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The U.S. Supreme Court has issued several decisions this year that affect businesses that hold patents and are seeking patent protection on their inventions.

There are several requirements that must be satisfied in order for an invention to be eligible for patent protection. The most basic requirement is that the invention be a "new and useful process, machine, manufacture, or composition of matter, or [a] new and useful improvement thereof." See 35 U.S.C. §101.

In Alice v. CLS Bank International, the Supreme Court held that claims for a computerized scheme for mitigating settlement risk are patent-ineligible because they are drawn to an abstract idea and are a judicial exception to the "new and useful" requirement.

Although Alice did not go so far as to categorize all software or business methods as inherently patent-ineligible, it identified abstract ideas that are merely implemented on a computer as ineligible. The court provided a two-part framework for determining eligibility: first, does the claim merely cover an "abstract idea"? Second, is there an "inventive concept" that turns the idea into a patentable application of that idea?

The court provided several noneligible examples: fundamental economic practices, methods of organizing human activities, ideas themselves and mathematic formulae. Alice jeopardized a number of already-issued patents—in fact, the U.S. Patent and Trademark Office has begun pulling patent applications that

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are about to issue—and limits the coverage that may be obtained in the future.

There is a path forward, however. Businesses that rely on business method or software patents will need to carefully craft patent claims to obtain patent protection under the new standard. For example, patent claims may be drafted to include more structure of the computer machinery, or tied to an improvement to another technology or technical field.

In addition to being directed to "new and useful" subject matter, as discussed above, a patent claim must also be sufficiently "definite" by "particularly pointing out and distinctly claiming the subject matter which the inventor … regards as the invention."

Under the older standard, a patent claim was "indefinite" if it was "insolubly ambiguous." In Nautilus v. Biosig Instruments, the Supreme Court determined that the old test "[bred] lower court confusion," and changed the standard to "require that a patent's claims … inform those skilled in the art about the scope of the invention with reasonable certainty. The definiteness requirement, so understood, mandates clarity, while recognizing that absolute precision is unattainable."

Though it remains to be seen what this "reasonable certainty" standard means in practice, as most of the cases following Nautilus do not appear to have drastically departed from historical outcomes, patent holders and applicants should be aware of the new standard. From a litigation perspective, patent holders should note that indefiniteness may be asserted more often in the future.

Moreover, because the court emphasized that the test is conducted through the lens of one "skilled in the art at the time of invention," parties challenging the definiteness of a claim would be well advised to consider the use of an expert. From a patent prosecution perspective, patent applicants should be cautioned that the court also focused on patent drafters' desire to interject ambiguity into claims in order to broaden the scope, and that the court suggested that the test for indefiniteness should be the same in both litigation and patent prosecution.

A court may award attorney fees in patent litigation in "exceptional cases." Under the older standard, a case was deemed "exceptional" if the court found either sanctionable-level litigation-related misconduct or that the litigation was both "brought in subjective bad faith" and "objectively baseless."

In Octane Fitness v. ICON Health & Fitness, the Supreme Court lowered the standard to apply to those cases which merely stand out "from the others with respect to the substantive strength of a party's litigating position … or the unreasonable manner in which the case was litigated." Under the new standard, which also lowered the burden of proof from "clear and convincing" to "preponderance of the evidence," the court held that district courts should determine whether a case is exceptional "in the case-by-case exercise of their discretion, considering the totality of the circumstances."

Businesses should be aware of the lowered standard and ensure that patent litigations are run in accordance with high ethical standards. ■