

# LEGAL UPDATE

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## BUSINESS METHOD PATENTS – WHAT DOES BILSKI STAND FOR?

On June 28, 2010, the US Supreme Court issued its much anticipated *Bilski v. Kappos* decision concerning the patentability of inventions claimed in US patent applications directed to business methods. The case stands for the following: **business method patents are not automatically excluded from potential patent protection; each case will be determined on its merits.** There is no single test for determining patentable subject matter; however, it is clear that phenomena of nature and general abstract ideas are not patentable. All nine Justices determined that the Bilski claims were not patentable subject matter in that those claims sought patent protection for mere abstract ideas.

The Bilski claims of the patent application had been rejected by the Court of Appeals for the Federal Circuit because that Court determined that the claims did not satisfy the bright-line standard it had previously articulated for determining patentable subject matter of process claims. That standard had required the claims to be either “tied” to a machine (like a computer) or “transformational” i.e. the claimed process or method must have effected a change of a particular article to another state or thing. In *Bilski*, even though the Supreme Court agreed with the Federal Circuit’s outcome (i.e., that the *Bilski* claims did not fall within any category of patentable subject matter) it rejected the Federal Circuit’s reasoning. Specifically, it held that claims for business methods must be reviewed on a case-by-case basis; the Federal Circuit’s “machine or transformation” test could not be used as the sole test for determining patentable subject matter although it is an important clue to the ultimate determination.

Bottom line: business method patents are alive!

### PROCEDURAL BACKGROUND

Bilski had presented his method of hedging risks in commodity transactions in a US Patent application. First the Patent Office (both the Examiner and the Board of Patent Appeals) and then the Court of Appeals for the Federal Circuit in an *en banc* decision rejected Bilski’s claims. The CAFC had affirmed the denial of the claims because of the claims’ failure to satisfy its “machine or transformation” test. Satisfaction of that test would have shoehorned the claimed business method into the statutory category of patentable subject matter defined as a “process,” at least according to prior case law of the CAFC.

In the absence of either tying the claim to a machine or a transformation of an article to another state or thing, the claims were determined not to be a patentable “process” and thus not within any of the four categories of statutory and patentable subject matter, i.e., not a machine, an article of manufacture, a composition of matter nor a process. The question presented to the US Supreme Court was not whether the disclosed invention of the Bilski application was novel and unobvious in comparison to the prior inventions and teachings of others but, rather, whether the claimed method or procedure of instructing buyers and sellers of a commodity (like electricity) how to protect against or hedge against the risk of price changes was patentable subject matter, i.e., was this business method a patentable “process?”

### SUPREME COURT DECISION

The US Supreme Court unanimously held that Bilski’s claims were not patentable subject matter in that they were mere abstract concepts. More importantly, a majority of the Court determined that business methods, in general, are within the definition of a “process” and thus *could* be patentable. All of the Justices agreed that the bright line test -- “tied to a machine or transformational”-- is not the exclusive test

to determine if an invention is a patentable process but, rather, they took the view that the “machine-transformation” test can be a clue to determining the presence of a patentable process. Therefore, future patent applications directed to business methods must be determined on a case by case basis with, however, it being understood that laws or principles of nature, physical phenomena and mere abstract ideas are clearly not patentable subject matter.

Justice Kennedy delivered the Court’s Opinion (with Justices Roberts, Thomas and Alito concurring and Justice Scalia concurring in part) which held that business method patents were not excluded from the term “process” as that term is used in the definition of patentable subject matter in the US Patent statutes. Justice Stevens, in a separate opinion joined by Ginsberg; Breyer and Sotomayor, concluded that business method claims ought never be patentable subject matter, as the invention defined by the claims cannot fall within any of the categories of patentable subject matter-- including a “process.”

Justice Breyer, joined by Justice Scalia in yet a third opinion, concurred on the judgment denying Bilski’s right to a patent. In seeking to reconcile the various views, all of which denied patent protection to Bilski’s claimed method of doing business, Justice Breyer’s opinion indicates that all Justices of the Court agreed:

1. Phenomena of nature, mental processes, and abstract intellectual concepts are not patentable;
2. The “transformation and reduction of an article to a different state or thing is [a] clue to the patentability of a process claim that does not include particular machines;”
3. The “machine or transformation” test is not the sole test for determining the presence of a patentable process; and
4. Merely because something produces a “useful, concrete and tangible result” (a prior judicial “test” employed by the CAFC to determine the presence of patentable subject matter) does not make the invention patentable.

Of course, for the claimed invention to ultimately issue as a US Patent it still must also satisfy the other requirements of the statute, including novelty and non-obviousness, and a clear and complete

description of the invention and its best mode must be provided.

## CONCLUSION

The Court agreed that the Bilski invention was unpatentable subject matter. The Court determined that the CAFC’s bright line machine-transformation test for business methods cannot be the sole basis for determining patentable subject matter or presence of a patentable “process” but, rather, that test is a clue to the determination. The Court reinforced the notion that claims in a patent application directed to laws of nature, physical phenomena and mere abstract ideas are still not patentable.

Thus, software, business methods and methods of medical testing and diagnosis (to the extent not mere abstract ideas) are still potentially patentable and will be determined on a case by case basis to ensure that they do not seek to protect mere abstract ideas.<sup>1</sup>

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*The foregoing is intended to summarize business method patents, and does not constitute legal advice. Please contact the Pryor Cashman attorney with whom you work with any questions you may have. If you would like to learn more about this topic or how Pryor Cashman LLP can serve your legal needs, please contact Andrew S. Langsam (212) 326-0180.*

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<sup>1</sup> Methods of medical diagnostic testing are also still potentially patentable. After Bilski was decided, the US Supreme Court granted certiorari to two cases from the CAFC (*Prometheus Laboratories, Inc. v. Mayo Collaborative Services and Classen Immunotherapies, Inc. v. Biogen Idec*) involving such methods. The cases were then remanded for reconsideration in view of *Bilski*. The claims of those cases will be reviewed to ensure that they are not directed to the discovery of laws of nature, even laws of human nature, and if the claims of the invention are transformational, that will be a clue in the determination of the presence of patentable subject matter. Nevertheless, it remains the case that including active, technology-dependent steps in method claims is likely to be determinative and that claims should be written to minimize the likelihood that the invention will be characterized as merely an “abstract idea.”

## ABOUT THE AUTHOR



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Andrew S. Langsam has been practicing intellectual property law, specifically, patent, trademark and copyright law for over 30 years. Immediately prior to coming to Pryor Cashman, Andy was a partner in a boutique firm for 18 years handling and providing advice on a wide variety of patent, trademark and copyright matters, including patent prosecution (obtaining issued US and foreign patents for clients), trademark clearance and prosecution, obtaining copyrights, providing opinions on the issue of infringement of intellectual property rights, negotiating licenses, and, of course, extensive litigation in connection with intellectual property rights, both representing clients as the rights holders and as defendants.

Andy's credentials include a B.S. in Metallurgical and Materials Science Engineering, 1973 from Carnegie-Mellon University and a J.D. 1976 from The George Washington University's National Law Center. He clerked for the U.S. Court of Claims (77-78) in the trial division for the judge who exclusively handled cases brought against the U.S. for patent infringement. Andy is a Registered Patent Attorney (Reg. No. 28,556).

Among the areas of technology involved on behalf of clients relating to patent matters over the years:

- Catheter insertion device for neonates
- Fiber-optic dental hand-pieces
- Magnetic extra-corporeal nerve stimulators
- Medical products, including stents
- Single use syringes
- One-at-time pill dispensers
- Orthopedic bone implants
- Urinary incontinent-treating implantable devices and chair operating by magnetic nerve stimulation

Among consumer products, the technology spanned:

- Balloon weights (world's largest manufacturer of helium-fillable balloons)
- Bleeding costume masks
- Cassette tape adapter for playing CD through car radio
- Children slide-projector easels
- Diamond cuts and ring mountings
- Helium-fillable and "singing" balloons
- Instant quick-drying enamel manicure (recent Avon product launch)
- Integrated muscular chest piece for children's costumes (world's largest costume manufacturer)
- Novelty items
- Toy trains and tracks for toy trains
- Watch face which changes as phase of moon changes

Among high tech related technologies, Andy has been involved with:

- Keyboard format and software for Blackberry-like devices with software for predicting likely words imputed
- Magnetic levitation and propulsion of commuter trains
- Mass spectrometers (technology won Nobel Prize for Chemistry)
- Software for credit card and identity fraud detection by use of Internet
- Software for integrating publicly available facts, *e.g.*, income, home values, mortgage, etc. into mass mailings of insurance proposals
- Time and management software/hardware for remote verification of nursing care
- Transportation networks and systems for controlling traffic

Some of Andy's victories include:

- Represented Cross-Appellant in *Lieb v. Topstone* before the U.S. Court of Appeals, Third Circuit, establishing equal basis for successful defendant to seek attorney's fees as prevailing party in copyright case
- Represented Cross-Appellant in *Whimsicality v. Rubie's Costume* before the U.S. Court of Appeals, Second Circuit, and obtained dismissal of complaint based on fraudulent procurement of copyright
- Enforced U.S. Patents and obtained licenses and multiple six-figure damage recoveries for small portfolio of U.S. Patents on illuminated dental handpieces against dental manufacturing industry
- Defeated preliminary injunction in patent case relating to bleeding costume mask
- Enforced client's patent in U.K. and U.S. on costume element
- Participated in successful enforcement of portfolio of U.S. patents for which inventor went on to win Nobel Prize for Chemistry
- Settled copyright and trademark case brought by Robert Pavlica, Ph.D., against Research Foundation of SUNY and N.Y. Academy of Sciences