

Business Method Patents Live to See Another Day

The U.S. Supreme Court decision in *Bilski et al. v. Kappos* (the *Bilski* decision), June 28, 2010, has the potential to greatly narrow the scope of patent eligible subject matter. The *Bilski* decision may also affect business method patents, and potentially software patents, in industries such as e-commerce, insurance, banking, finance, tax and life sciences.

The Background

The claims of the *Bilski* patent application are directed to methods of hedging risk. Initially, the U.S. Patent Examiner rejected all the patent claims of *Bilski*'s patent application under section 101 as being directed to non-patentable subject matter, based on the failure of the claimed process to be either tied to a machine or to result in the transformation of an article (the machine-or-transformation test, or short, the MOT test). The U.S. Patent and Trademark Office (USPTO) Board of Patent Appeals and Interferences affirmed the Examiner's decision. *Bilski* then appealed to the Court of Appeals for the Federal Circuit, which affirmed the USPTO's rejection of *Bilski*'s patent claims. Finally, the Supreme Court reviewed the Federal Circuit's decision and held that *Bilski*'s patent claims were directed to an abstract idea and are not patent eligible subject matter.

The Decision

Justice Kennedy's partial majority opinion was based on the definition of "process" and three prior Supreme Court cases on patentability, namely, *Benson* (1972), *Flook* (1978), and *Diehr* (1981). In *Benson*, the Supreme Court held "the mathematical formula involved here has no substantial practical application except in connection with a digital computer, which means that if the [invention were patented], the patent would wholly pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself." The Supreme Court did not want to preclude others from using the mathematical algorithm, and it argued that issuing a patent in this case would have done that.

In *Flook*, the Supreme Court held that simply limiting the algorithm to a particular industry or adding post-solution activity did not make the use of a mathematical algorithm patentable, since the algorithm "is treated as though it were a familiar part of the prior art." However, the Supreme Court also added that a "process is not unpatentable simply because it contains a law of nature or mathematical algorithm," and "while a scientific truth, or the mathematical expression of it, is not patentable invention, a novel and useful structure created with the aid of knowledge of scientific truth may be."

In *Diehr*, the Supreme Court held that the claims at issue covered patentable subject matter, as they were a process for molding rubber products which happened to incorporate a mathematical formula, rather than an improper attempt to patent a mathematical formula *per se*.

In the parts of Justice Kennedy's opinion that were concurred with by the majority of justices, it is held that: (1) the only three exceptions to the expansive patent eligibility principles are: laws of nature, physical phenomena and abstract ideas; (2) *Bilski*'s patent claims were non-statutory subject matter because the claims were directed to an abstract idea, as were the algorithms at issue in *Benson* and *Flook*; (3) no statutory basis



exists for construing the term “process” as tied to a machine-or-transformation of an article; (4) MOT test is *not* the sole test for patent eligibility as set forth by the Federal Circuit; (5) the MOT test is a useful and important clue, an investigative tool, for determining whether some claimed inventions are patentable processes; and (6) business method patents are not categorically excluded.

The Court explicitly rejected the prevailing “useful, concrete and tangible result” test set forth in the Federal Circuit’s decision in *State Street* (1998), stating “nothing in today’s opinion should be read as endorsing interpretations of §101 that the...Federal Circuit has used in the past”. Justice Kennedy continued, “In disapproving of an exclusive machine-or-transformation test, we by no means foreclose the Federal Circuit’s development of other limiting criteria”. Thus, the Supreme Court implies that the Federal Circuit should not revert to the *State Street* test, and instead should seek to establish new criteria to consider *along with* the MOT test.

Abstract Ideas and Basic Concepts

As to the specific claims in *Bilski*’s patent application, the Court stated that they merely “explain the basic concept of hedging,” and continued, “The concept of hedging, described in claim 1 and reduced to a mathematical formula in claim 4, is an unpatentable abstract idea.... Allowing petitioners to patent risk hedging would preempt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea.” While Justice Kennedy does not define an abstract idea, the opinion indicates that a basic concept reduced to a mathematical formula is an unpatentable abstract idea.

Post-Bilski USPTO Memorandum

Now that the Court has issued its decision, it is up to the Patent Office to implement guidelines under this new framework. A post-*Bilski* USPTO memorandum to the examiners sets forth that, once a process fails to satisfy the MOT test, the decisive determination for patentable subject matter is whether or not the process is merely an abstract idea. While this basis for rejection has existed all along, we believe that examiners will begin to use this more frequently when examining business method-type claims, and that such claims will face greater scrutiny than in the recent past.

Looking Forward

In view of the *Bilski* decision and the USPTO memorandum to the patent examiners, it appears the outcome of the *Bilski* decision may be best stated as “business as usual”. However, the *Bilski* decision has provided the USPTO with another basis, abstract ideas, for rejecting patent claims for lack of patent eligible subject matter. Justice Kennedy’s opinion and the previous Supreme Court decisions in *Benson*, *Flook* and *Diehr* set forth that patentable subject matter does not include basic concepts, such as, risk hedging or abstract ideas where a basic concept is reduced to a mathematical formula which would in turn preempt use of the basic concept or formula in multiple fields. Moreover, based on the five-justice majority opinion, the scope of patent eligible subject matter may have been narrowed from its previous broader scope as set forth in Justice Breyer’s opinion that suggested that a closer connection to a machine embodiment may now be required of patent claims.

In view of the foregoing, it is clear that patent claims should not be drafted so broadly and abstractly to cover an entire basic concept or mathematical formula or to completely pre-empt use of an entire basic concept or mathematical formula. Instead, patent claims should be drafted, if possible, to satisfy the MOT test which requires the claimed process to be tied to a particular machine or apparatus, or to transform a particular article into a different state or thing. Additionally, patent applications should be drafted to



include an adequate and enabling disclosure so that the patent claims may also be drafted to satisfy the MOT test without failing to comply with enablement and written description requirements. Moreover, the patent claims should have various scopes whereby some claims satisfy the MOT test with other claims being broader in scope. Finally, patent claims directed to a process should include tying the process steps to a computer system and associated hardware to help reduce any possibilities of being considered an abstract idea or basic concept.

This *Intellectual Property Law Alert* was written by **Brian Anscomb**, associate of Norris McLaughlin & Marcus, P.A. If you have any questions regarding the information in this alert or any other related matters, please feel free to contact Brian by email at bcanscomb@nmmlaw.com.

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Our Intellectual Property Attorneys

William R. Robinson
wrrobinson@nmmlaw.com

Theodore Margolis
tmargolis@nmmlaw.com

Joseph J. Fleischman
jfleischman@nmmlaw.com

Kurt G. Briscoe
kgbriscoe@nmmlaw.com

William C. Gerstenzang
wgerstenzang@nmmlaw.com

Bruce S. Londa
bslonda@nmmlaw.com

David R. Strickler
drstrickler@nmmlaw.com

Robert Mahoney
rmahoney@nmmlaw.com

Andrew N. Parfomak
anparfomak@nmmlaw.com

Christa Hildebrand
childebrand@nmmlaw.com

Jeanne Hamburg
jhamburg@nmmlaw.com

Serle Ian Mosoff
simosoff@nmmlaw.com

Pádraig P. Flanagan
ppflanagan@nmmlaw.com

Christopher S. Casieri
cscasieri@nmmlaw.com

Mark D. Marin
mdmarin@nmmlaw.com

Brian C. Anscomb
bcanscomb@nmmlaw.com

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NJ: 721 Route 202-206 P.O. Box 5933 Bridgewater, NJ 08807-5933 • P: (908) 722-0700 • F: (908) 722-0755

NY: 875 Third Avenue, 8th Floor New York, NY 10022 • P: (212) 808-0700 • F: (212) 808-0844

PA: The Paragon Centre, Suite 300 1611 Pond Road Allentown, PA 18104-2258 • P: (610) 391-1800 • F: (610) 391-1805

www.nmmlaw.com E: info@nmmlaw.com