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## **Back to Business: the *Bilski* Saga May Be Over, the Patentability of Business Methods in the US Is Not**

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### **Summary**

In a long awaited decision, the U.S. Supreme Court has decided to reject the business method claims of *Bilski's* patent application because they pertain to abstract ideas. Even though the claims were held to be non-patentable, the Supreme Court mentioned that some claimed inventions designed for the business world could be patentable. The business method claim would need to meet the *Patent Act's* requirements that the invention be novel, non-obvious and fully and particularly described, in addition to not being directed to abstract ideas.

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In a long awaited decision, the U.S. Supreme Court has decided on June 28, 2010, to reject the business method claims of US Patent Application N<sup>o</sup>08/833,892 (hereinafter '892) that were pending since 1997 before the United States Patent and Trademark Office (USPTO) because they pertain to abstract ideas (*Bilski v. Kappos*, 561 U.S. \_\_\_ (2010)). Since the US Supreme Court very rarely decides on cases relating to software and business methods, this decision is of the utmost importance. Indeed, this decision will influence how Examiners at the USPTO examine patent applications and also how patents are litigated in that jurisdiction. While strictly a U.S. decision, this case will be of great interest for Canadian companies in software, financial and high technology industries seeking patent protections for "processes" in the U.S.

The relevant claims of the '892 application define a business method in which a consumer pays a fixed fee for energy regardless of actual consumption, in peak months such as in winter in cold climate areas and in summer in hot climate areas. The consumer therefore avoids the risk of a high energy bill if the weather is particularly inclement. In order to determine the fixed fee, predictions are made based on historical data. The consumer would pay slightly more than the average predicted cost for the period of time. The supplier would receive slightly less than the average predicted cost allowing the middle-man to make a profit on each sale. The consumer would benefit from fixed-price billing for the duration of the period, thereby allowing proper budgeting and energy bills void of any surprises. The energy company would benefit from a guaranteed sale of its energy for the period and would appreciate the constant client base. The middle-man would make a profit based on the difference between the supplier rate and the consumer rate and could improve this profit by making better predictions and maximizing the difference between the average predicted cost and the consumer and supplier prices.

The claimed method may be implemented without a computer. It is therefore considered as a "pure" business method, namely a method of engaging in business transactions without necessarily requiring use of a computer. When a computer is used for carrying out at least one of the steps of a method for conducting business, the claim for protecting such a method is typically referred to as a "software claim" or a "computer-implemented method claim".

It is interesting to note that the Supreme Court has not rejected the claims because they were directed to a business method but because they were directed to abstract ideas. In fact, the Supreme Court made a point of mentioning that the term "method", which is within the definition of "process" may include at least some "claimed inventions designed for the business world". It is noted that Section 101 recites broad patent eligibility and has a wide scope and that there are three exclusions. These exclusions are abstract ideas, laws of nature and physical phenomena. An algorithm itself is therefore not patentable. Limiting the algorithm to a specified industry does not help with patentability. However, an application of a law of nature or mathematical formula to a known structure or process can be deserving of patent protection if it is new and non-obvious. This decision is based on past decisions in *Benson* (*Gottschalk v. Benson*, 409 U.S. 63 (1972)), *Diehr* (*Diamond v. Diehr*, 450 U.S. 175 (1981)) and *Flook* (*Parker v. Flook*, 437 U.S. 584 (1978)).

Unfortunately, the Supreme Court has not provided a satisfying account of what constitutes an unpatentable abstract idea. The Supreme Court has mentioned that the Applicant wanted to patent the concept of hedging risk and the application of that concept to energy markets.

The U.S. Court of Appeals for the Federal Circuit (F.C.C.A.) (see *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008)) had stated that the "*machine or transformation*" test was the only test to apply when deciding whether a method claim was patentable. In short, this test involves determining if the invention is tied to a machine or if it transforms an article into another state or thing.

The Supreme Court has ruled that the "*machine or transformation*" test is not the sole test for patent eligibility. It is simply a "*useful and important clue, an investigative tool for deciding whether a process invention satisfied Section 101*". The "*machine or transformation*" test could create uncertainty as to the patentability of software, advanced diagnostic medicine techniques and the manipulation of digital signals. It was very useful during the Industrial Age but could be too restrictive in the Information Age. The Supreme Court has not, unfortunately, provided a new test that would allow to evaluate patentability of new or unforeseen technologies. Eliminating any single test for subject matter eligibility adds a level of complexity and ambiguity to the analysis of validity of patents.

The test used by the Federal Circuit in *State Street Bank (State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (1998)), namely the "*useful, concrete, and tangible result*" test, which opened the doors to patentability of business methods, has never been endorsed by the Supreme Court as a test for business method claims even though it was widely used in recent years prior to *Bilski* by the Federal Circuit.

The Supreme Court noted that patent eligibility under Section 101 is only a threshold inquiry and that a claimed invention must also satisfy the *Patent Act's* requirements that are, in particular, to be novel, non-obvious and fully and particularly described.

This decision will potentially affect all pending patent applications in the US and all granted US patents.

According to a memo sent to all Examiners at the USPTO and published on June 28, 2010 in reaction to the Supreme Court decision, Examiners will continue to use the machine or transformation test. If they believe the claims fail that test, they will continue to issue a subject-matter rejection. They will then expect the Applicant to explain why the claimed method is not drawn to an abstract idea. Further guidance may be provided to the Examiners by USPTO officials in the next weeks.

Following this Supreme Court decision, the Federal Circuit will try the *Mayo Collaborative Services, et al. v. Prometheus Laboratories*, (case No.09-490) and *Classen Immunotherapies, Inc. v. Biogen IDEC*, (case No. 08-1509) cases again. Biotechnology and pharmaceutical cases, especially those including diagnostic and method of treatment claims, have been affected by the earlier decision in *Bilski*. Some had been able to demonstrate that their claims pass the "*machine or transformation*" test. On another note, the Supreme Court denied to hear the *Ferguson v. Patent and Trademark Office*, (case No.09-490) case in which a "*marketing paradigm*" is claimed in a rejected patent application.

In conclusion, if a method claim passes the "*machine or transformation*", it may most likely be patentable. If it does not pass that test, it may need to be drafted very carefully to ensure it is not an abstract idea. This Supreme Court decision may still facilitate the granting of pure business method patents.

### **So, what happens now?**

Inventors in industries not traditionally concerned with patents, such as banking, insurance, gaming, gambling, etc. should consider patenting their business and software related inventions in the US.

It is possible to obtain patent protection for business methods and software applications in the US, as long as the claims are clear and do not simply define "*laws of nature, physical phenomenon and abstract ideas*". Inventors should therefore consider filing patent applications for protecting such methods.

Various mechanisms exist to review the contents of pending applications and granted patents in the United States. The following are examples of strategies that could be used by patent applicants.

Pending US patent applications should also be reviewed to determine whether additional or modified claims should be added to those applications via an amendment. For example, an analysis of the relevance of narrow language added to tie the method steps to a machine or to demonstrate transformation of an article should be carried out. Continuation as well as continuation-in-part patent applications may also be filed in the United States to add claims related to an originally-filed application still pending. If software or a business method was described in the patent application but was not claimed, new claims for that aspect may be added.

Furthermore, it may still be possible to apply for a reissue of a granted patent in order to adjust the scope of protection originally claimed.

In the case of pending patent litigations or disputes, the impact of the decision will be immediate. Parties will have to re-evaluate their position on validity and as to whether or not the claims are directed to abstract ideas.

In the case where the market for an invention includes territories outside of the United States, care should be taken when deciding what to protect and how to protect it since it is likely that broader patent protection may be available in the United States versus Europe and Canada, for example. Consideration for other forms of protection, such as trade secrets and design applications may be useful.

In short, although the business method claims of *Bilski* were held to be non patentable in the United States, other business methods could be patentable if they define a new, non-obvious, useful, fully described and non-abstract method.

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