



---

Portfolio Media, Inc. | 648 Broadway, Suite 200 | New York, NY 10012 | [www.law360.com](http://www.law360.com)  
Phone: +1 212 537 6331 | Fax: +1 212 537 6371 | [customerservice@portfoliomedia.com](mailto:customerservice@portfoliomedia.com)

---

## The Future Of Business Method Patents After Bilski

*Law360, New York (September 24, 2008)* -- Presently pending before the Court of Appeals for the Federal Circuit is an en banc decision in *In re Bilski*, a case of monumental importance to the patentability of processes in general, and business methods in particular.

There have been many amicus briefs filed and the ultimate decision of the court could have large ramifications on the strength of patents in the area of not only methods of doing business, but also on software implemented inventions.

*Bilski* is an appeal from the Board of Patent Appeals and Interferences. The board had affirmed an examiner's rejections of the appellants' method claims for failing to qualify as patentable subject matter under 35 U.S.C. § 101.

The *Bilski* invention is directed to a method for a commodity provider to manage consumption risks associated with selling a commodity at a fixed price. Consumption risk includes, for example, the need to use more or less energy than planned due to weather.

The claimed invention manages consumption risk by: (a) initiating transactions between the commodity provider and consumers who purchase the commodity at a fixed rate that corresponds to a risk position of the consumers; (b) identifying market participants having a counter-risk position to the consumers; and (c) initiating transactions between the commodity provider and market participants at a second fixed rate that balances the risk position such that the market participant transactions balance the risk position of the consumer transactions.

The appellants concede that the claimed method can be implemented without any physical device, e.g., a computer.

On Feb. 15, 2008, the court issued an order to the parties to file briefs answering the following five questions:

(1) Whether claim 1 of the 08/833,892 patent application claims patent-eligible subject matter under 35 U.S.C. § 101?

(2) What standard should govern in determining whether a process is patent-eligible subject matter under section 101?

(3) Whether the claimed subject matter is not patent-eligible because it constitutes an abstract idea or mental process; when does a claim that contains both mental and physical steps create patent-eligible subject matter?

(4) Whether a method or process must result in a physical transformation of an article or be tied to a machine to be patent-eligible subject matter under section 101?

(5) Whether it is appropriate to reconsider *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed.Cir.1998), and *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352 (Fed.Cir.1999), in this case and, if so, whether those cases should be overruled in any respect?

In order to answer these five questions, the court's imminent decision in *Bilski* will address a fundamental question in patent law, namely, what is a patentable process?

Although the patent statute states unambiguously that one may obtain a patent covering a "new and useful process," 35 U.S.C. § 101, the United States Supreme Court in *Diamond v. Diehr* declared that processes (and other inventions) which are (1) laws of nature, (2) natural phenomena and (3) abstract ideas, are not patentable.

In 1998, the Federal Circuit held in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, that business methods are not per se unpatentable. The court upheld the patentability of a claim directed to a computerized accounting system used to manage mutual fund investment structures.

The following year, in *AT&T Corp. v. Excel Communications Inc.*, the Court of Appeals for the Federal Circuit upheld a business method patent covering a method of indicating a telephone call recipient's primary interexchange carrier as a data field in a standard message record.

In effect, *State Street* and *AT&T* gave non-traditional patent applicants, such as those in the financial services or e-commerce industries, the green light to seek patent protection for their methods of doing business.

And indeed, the U.S. Patent and Trademark Office (USPTO) has been flooded with applications for business method patents over the past decade.

Patent attorneys, the USPTO and judges often struggle with applying current legal principles to determine whether certain business methods are, in fact, patentable processes on the one hand, or unpatentable abstract ideas on the other. The struggle

becomes even more difficult when the method is not machine-implemented and/or does not result in physical transformation of an article.

Whereas the patented methods in both *State Street* and *AT&T* were machine implemented, the method in *Bilski* is neither machine-implemented, nor does it physically transform an article. The claims at issue in *Bilski* are directed to a method of managing consumption risk costs of a commodity.

The issues relevant to the claims at issue in *Bilski*, which will be analyzed by the court is whether or not the *Bilski* method produces a “useful, concrete and tangible result,” or whether the method is merely an unpatentable abstract idea. Even if the *Bilski* method produces a “useful, concrete and tangible result,” the court will have to determine if it is patentable if it does not require implementation by a machine, i.e., a programmed microprocessor.

Argued on May 8, 2008, a decision is expected any day. Regardless of how the Federal Circuit decides, those issues are of such far reaching importance and the current applicable principles are so varied, that *In re Bilski* may ultimately merit review by the Supreme Court.

The question is, should the *Bilski* method be held to be patentable subject matter? To hold the *Bilski* method patentable, the Federal Circuit would be broadly interpreting the meaning of the statutory term “process” and broadly applying the “useful, concrete and tangible result” test.

This approach is supported by prior Federal Circuit precedent, including *State Street* and *AT&T*. In this respect, the Supreme Court has espoused a broad interpretation of the categories of patentable subject matter set forth in 35 U.S.C. § 101.

For example, citing the committee reports accompanying the 1952 Patent Act, the Supreme Court in *Diamond v. Chakrabarty* acknowledged that Congress intended the scope of patentable subject matter to extend to “anything under the sun that is made by man.”

Thus, the Federal Circuit in *State Street* observed that, “it is improper to read limitations into § 101 on the subject matter that may be patented where the legislative history indicates that Congress clearly did not intend such limitations.”

In *AT&T*, the court explained that past technological revolutions had led it (and its predecessor court) to announce more expansive principles regarding what constitutes patentable subject matter.

The court made clear that a physical transformation, “is not an invariable requirement,” for a process to be patentable, but is rather merely one example of how a process can bring about a useful application.

If neither physical transformation nor machine implementation is absolutely required for a process to be patentable, it would seem that “useful, concrete and tangible” is not necessarily limited to something physical.

In the 1879 case of *Baker v. Seldon*, the Supreme Court made it clear that useful systems were not the province of copyright but rather protectable, if at all, by patent.

Today, numerous industries specializing in the exchange and manipulation of information are seeking to obtain patents for their business methods. Although one cannot touch and hold information, it is no less real or useful than physical items.

The question remains, however, whether non-machine implemented methods involving the exchange and/or manipulation of information are too “abstract” to be patentable. This question should be answered to resolve the widespread uncertainty that has plagued attorneys, the USPTO and the judiciary alike.

Arguably, “useful, concrete and tangible” can apply to non-physical method steps or results. That is, nonphysical items, e.g., information, can certainly be “useful.” The term “concrete” can refer to something which is objectively definable, without necessarily being physical. For example, plans, ideas and suggestions can be “concrete,” or “abstract,” depending on what they are.

A plan to meet at a particular café at 17th and Market St. at 3:00 p.m. next Tuesday is a concrete plan because it is objectively definable. A plan to become a better person, although virtuous, is not “concrete.” Likewise, although the term “tangible” often has physical connotations, it can also mean “real” or “definite,” as opposed to vague – qualities which can certainly apply to non-physical items.

Alternatively, something may be “tangible” if it represents something having a physical or “real-world” manifestation, e.g., a particular price. To that end, the AT&T court remarked that the claim at issue in *State Street* covered patentable subject matter because it was directed to a system that modified “data representing discrete dollar amounts through a series of mathematical calculations to determine a final share price - a useful, concrete and tangible result.”

A final share price is not physical, nonetheless the court considered it to be useful, concrete and tangible. Therefore, it may be concluded by the Court of Appeals that the “useful, concrete and tangible result” test does not require that the steps and/or result of a method be physical.

The AT&T case has already described how you can determine whether a nonphysical process is one which produces a “useful, concrete and tangible result.” The AT&T court explained that process claims employing mathematical algorithms should be examined “to see if the claimed subject matter as a whole is a disembodied mathematical concept representing nothing more than a ‘law of nature’ or an abstract idea,’ or if the

mathematical concept has been reduced to some practical application rendering it ‘useful.’”

This “reduced to some practical application” test provides guidance as to how the “useful, concrete and tangible result” test may be applied to processes involving non-physical steps and/or results, regardless of whether a mathematical concept is involved.

This approach, set forth in AT&T, may be used by the Court of Appeals in deciding *Bilski*. The *Bilski* process produces a “useful” result in that it manages consumption risks.

The result is “concrete” because it is objectively definable – the managing of consumption risks by balancing risk positions of consumers with those of market participants. The result is tangible, not because it is physical, but because it has a “real-world” manifestation, i.e., it is “reduced to some practical application.” Again, here, the practical application is the managing of consumption risks, as set forth above.

A broad application of the “useful, concrete and tangible result” test would potentially open up the door to the granting and upholding of many patents that were previously of suspect validity.

Also, the test in AT&T provides more clarity and precedent than does a narrow interpretation of “process.” Qualifying an invention as patentable subject matter merely lets it in the door. An invention to be patentable still must meet several other statutory requirements, including, *inter alia*, novelty, nonobviousness and definiteness.

The definiteness requirement of 35 U.S.C. § 112 ¶2 is well suited for weeding out those claims which are truly directed to abstract ideas.

It is possible that the Federal Circuit will follow the precedents of *Chakrabarty*, *Main Street* and AT&T, and use them to make clear that any process that meets the statutory requirements is patentable.

Until the Court of Appeals for the Federal Circuit rules, however, the state of the law concerning the patentability of non-machine implemented and non-physically transformative processes is not clear. With so much riding on this case, the law may not be cleared up until the Supreme Court rules.

--By Manny Pokotilow and David Gornish, Caesar, Rivise, Bernstein, Cohen & Pokotilow Ltd.

*Managing partner of intellectual property law firm Caesar, Rivise, Bernstein, Cohen & Pokotilow in Philadelphia, Manny Pokotilow (pictured) focuses his practice on all aspects of intellectual property law, particularly litigation, involving the enforcement of patents, trademarks, copyrights and trade secrets. David Gornish, an associate at the*

*firm, concentrates on patent litigation and has experience prosecuting patents primarily focused on mechanical inventions.*