

Business-Method Patents—Down But Not Dead

In a fractured decision, the Supreme Court's *Bilski* opinion (June 28, 2010) has ruled that patent law is available to secure the exclusive ownership of certain business methods. The Court failed to provide any clear rules for distinguishing between viable business methods for patent protection purposes and unprotectable abstract ideas.

The Court's opinion was directed to whether patents should be available for methods of doing business. In light of the negative press which patent law has experienced in recent years (some, but not all, of which was with merit), including the issue of business-method patents, it is surprising that the opinion was not more limiting in nature. It would not have been a complete surprise if the Court held that no business method is patentable. That was not the case. The patent statute continues to provide that any new process (and method) may be patentable. The majority opinion declined to read a business-method exception into the patent statute. However, in contrast, Justice Stevens's concurring opinion advocates that all business methods should be carved out from the patent statute.

The majority opinion holds that the Federal Circuit's test of whether a method or process is patentable (i.e., the machine-transformation test) is not the sole test. The majority opinion and concurring opinion lead us to believe the test is still viable, although it is not the sole test. The Federal Circuit's machine-transformation test holds that a process or method must be tied to a particular machine or apparatus, or transform a particular article into a different state or thing to be eligible for patenting. Under the machine-transformation test, most if not all pure business methods or processes would not be patentable.

Further, the majority opinion interprets

the scope of the patent statute broadly or literally, holding that the term "method" may include at least some methods of doing business. Yet, we are also warned that some business-method patents raise special problems in terms of vagueness and suspect validity.

Notwithstanding, the petitioners seeking patent protection for a pure business method did not prevail on the issue of patentability. *Bilski* claims a procedure for instructing buyers and sellers how to protect against the risk of price fluctuations in a discrete section of the economy. While the opinion suggests that additional or other tests are required to be formulated by the lower courts to decide whether a process or method is patentable, the Court relied on its earlier decisions to find the petitioners' business method was not patentable. Further, while the Court advocated against reading into the patent statute exceptions as to patentable processes, the Court relied on a previously created exception. In particular, the Court held *Bilski*'s claims related to abstract ideas and thus were not patentable.

Specifically, the Court acknowledged that its precedents provide three specific exceptions to the patent statute's broad patent-eligibility principles: "laws of nature, physical phenomena, and abstract ideas." The Court justified these exceptions as consistent with the notion that a patentable process must be "new and useful" and further that these exceptions have defined the reach of the statute as a matter of statutory *stare decisis* going back 150 years. Otherwise, the Court was unaware of any other "exceptions" carved out from the patent statute without appropriate basis for doing so. Again, Justice Stevens's concurring opinion advocated excluding all business methods as not patentable.

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What does the Latest Ruling in Viacom v. Google Mean for IP Owners?

On June 23, United States District Court for the Southern District of New York granted Google's motion for summary judgment in the dispute alleging copyright infringement against YouTube, which is owned by Google. The dispute stemmed from allegations by Viacom and others that content was posted on YouTube without permission, making Google liable based on general knowledge that the pirated material existed, its inaction to stop the infringing activity, and resultant profit from unauthorized content. The ruling is a decisive victory for Google and has positive implications for a vast number of other online service providers, as it affirms that site owners cannot be held liable for misdeeds of their users.

The crux of the decision was that YouTube had only general knowledge that pirated material existed, and therefore complied with "safe harbor" requirements under the Digital Millennium Copyright Act (D.M.C.A.), which enable service providers to avoid liability for infringement committed by their users. The D.M.C.A.

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Trade Secrets: The Penumbra Conundra

Trade secrets have a spotty reputation in the United States, with laws varying from state to state and with protection based on little more than reasonable attempts to keep business information secret. The more-glamorous cases include cloak-and-dagger misappropriations, with data files, client lists and manufacturing secrets gone missing after a key employee absconds to a close competitor. Companies sometimes invoke trade-secret laws to attempt to prevent government disclosure of regulatory information, for instance, to prevent use of clinical trial data by a competitor seeking to enter the generics market.

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generally requires copyright holders to notify a service provider when they find infringement, and obligates the provider to remove infringing material once the provider is notified and has specific knowledge of infringement. In this case, the judge found that YouTube was within the confines of safe harbor, and, despite knowledge that infringing material existed, it could not be liable without specific knowledge of exactly which material had been uploaded without permission, and which had not, despite evidence revealed in discovery that indicated YouTube welcomed pirated material in its earlier days to draw traffic to the site. Just the same, that “general” knowledge was not enough to find liability for infringement.

The decision gives assurance to online service providers that they will not be held liable for the misuse of copyrighted material by their users, unless they fail to heed a proper takedown notice or receive spe-

cific knowledge of infringement through other means and fail to take action.

For content owners who are battling unauthorized use of their works online, this decision clarifies when a service provider could be liable for another’s piracy. This ruling emphasizes that the onus falls on the content owners to police their works and to provide specific notice of believed infringements to service providers. The judge specifically noted that requiring service providers like Google to police all material themselves “would contravene the structure and operation of the D.M.C.A.” The judge noted that, when Viacom did follow the takedown provision of the D.M.C.A, its material was taken down promptly and in nearly its entirety by YouTube. Thus, while the responsibility is on copyright owners to police their materials, site operators are still obligated to respond promptly and cannot induce infringement by their users. From a technical standpoint, YouTube’s

video embedding feature also did not constitute “storage” that would bring YouTube’s activities outside the scope of the D.M.C.A. safe harbor.

Since the lawsuit was initiated, Google implemented a filtering system that is intended to detect unauthorized content. However, as this decision primarily deals with activity that occurred before the filtering program commenced, it could be construed as an affirmation that a filtering system is not mandatory for sites hosting user-generated content. On the other hand, one could expect that such sites still have the incentive to filter, as it facilitates lucrative licensing agreements with the media companies who are trying to police their works online yet still take advantage of new media.

The dispute is expected to continue, as Viacom has stated its intent to appeal the ruling to the Second Circuit Court of Appeals.

Trade Secrets (continued from page 1)
Trade secrets are undefined, often existing as a penumbra around patented subject matter or important business information. Trade secrets may be almost any type of information, including a formula, pattern, compilation, program, device, method, technique, or process. The information must be kept secret and must derive economic value from staying secret. If these conditions are met, trade secret status is automatic. Publication or independent development of the information can destroy the trade secret. This vulnerability creates a conundrum for trade secret holders: how much reliance should be placed on protection that may be unexpectedly lost?

Trade secrets may be used to protect optimizations of patented inventions. U.S. patent law requires disclosure of an inventor’s best mode of practicing an invention at the time of filing a patent

application. Once filed, no new information may be added to the application. Later developments and preferred practices need not be disclosed to the patent office after filing, but may instead be kept as a trade secret by the business. Technology license or development contracts often include clauses identifying ownership of existing trade-secret information, and information amassed throughout the contractual relationship.

Companies dealing in products that are difficult to characterize or copy sometimes rely on trade secrets rather than patents to protect their inventions. In *Quanta Computer v. LG Electronics*, 533 U.S. 617 (2008), Intel asserted its internal chip structure as a trade secret, although the chips were part of patented inventions. Because trade secrets do not expire, their usefulness may exceed the useful term of a patent. Other areas where trade secret protection is often preferred over patents

include products that are difficult to reverse engineer (ex. complicated chemical/macromolecule), products that do not appear to warrant the cost of acquiring a patent and products that do not meet patentability standards.

There have also been some eye-popping damage awards in recent trade-secret cases, such as the \$192 million in the 2008 *Mannsfeld v Ineos Phenol GmbH & Co* case, which related to a biotechnology process in the agricultural industry. Other decisions such as *Molecular Pathology v. U.S. Patent and Trademark Office* and the current proceedings in *Bilski* have created doubts as to the validity of certain biotechnology patent claims and business-method claims. These factors coupled with damages and injunctions becoming harder to come by in patent-infringement suits are causing many technology companies to take a closer look at trade secret protection.

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The majority opinion repeatedly affirmed the Court's earlier *Benson*, *Flook*, and *Diehr* decisions. The Court's 1972 *Benson* decision considered whether a patent application for an algorithm to convert binary-coded decimal numerals into pure binary code was a "process" under the patent statute. The Court held it was not a "process" but an unpatentable abstract idea. A contrary holding would wholly preempt the mathematical formula and in practical effect would allow a patent on the algorithm itself.

The Court's 1978 *Flook* decision was directed to a procedure for monitoring the conditions during the catalytic conversion process in the petrochemical and oil-refining industries. The Court held the process unpatentable as the only innovation was reliance on a mathematical algorithm and that the limitation to a particular field (petrochemical and oil-refining) did not rescue the process from being unpatentable. Thus, the proposition

that abstract ideas are not rendered patentable with the addition of insignificant post-solution activity.

The Court's 1981 *Diehr* decision was directed to an unknown method for molding raw, uncured synthetic rubber into cured precision products using a mathematical formula to complete some of its several steps by way of a computer. *Diehr* explained that while an abstract idea, law of nature, or mathematical formula could not be patented, an *application* of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection.

So what does it all mean? Reading the tea leaves, it would appear that a business method may be patentable if it is somewhere between a pure business method and one tied to a machine or which transforms a particular article.

As to computer software programs, the

opinion arguably advocates patent protection once again. Yet, it is not an unbridled position. In particular, the opinion refers to the *Diehr* decision repeatedly, noting that the majority opinion in that case held that a procedure for molding rubber that included a computer program is within patentable subject matter. Further, the *Bilski* Court noted that relying solely on the machine-transformation test would create uncertainty as to the patentability of software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital signals.

All in all, the opinion advocates patent protection yet roughs out some vague guidelines in which to operate, and affirms the Court's earlier decisions as to guiding the lower courts. Thus, business methods remain potentially patentable, but subject to further and possibly uncertain scrutiny as lower courts attempt to interpret and implement *Bilski*.