



Intellectual Property Advisory: **Federal Circuit May Clamp Down on Process Patents**

The U.S. Court of Appeals for the Federal Circuit heard oral arguments
In re Bilski on May 8, 2008.

By Bradley C. Wright¹

On May 8, 2008, the U.S. Court of Appeals for the Federal Circuit held a rare en banc hearing to determine what constitutes a patentable process under the patent laws. The appeal was from the U.S. Patent and Trademark Office (PTO), which had rejected Bilski's patent application for a method for managing consumption risk costs of a commodity. The claimed process included three steps involving various transactions between a commodity provider and market participants in a way that balanced risk. The PTO rejected the patent application on the basis that it was not a "process" as that term is defined in the patent statute and earlier court decisions. According to the PTO, in order to be patentable, a process must either be tied to a particular machine, or it must transform a tangible article to a different state. Because Bilski's claimed invention did neither, it did not meet the definition of a "process."

Bilski Argued for a Practical Results Test

Bilski's attorney argued to the court that a process should be patentable if it produces a "practical result," regardless whether it is tied to a machine or transforms something tangible. According to Bilski's attorney, the various transactions recited in the claim were very specific and involved real-world activities. Several of the judges appeared to have difficulty agreeing with Bilski's proposed "real-world" test for patentability. Bilski also argued that the more specific a

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patent claim is, the less likely it is to constitute an abstract idea, which the Supreme Court has stated is unpatentable. Several of the judges also appeared to question whether the “useful, concrete and tangible” test seemingly created in its earlier *State Street Bank* case provided a workable standard to judge patentability, but *Bilski*’s attorney endorsed the continuation of that standard.

An Amicus Party RDC Argued Against the PTO

Professor Duffy argued on behalf of the Regulatory Data Corp., one of many amicus parties in the case, that the PTO has taken too narrow a view of what is a patentable process, and urged the Federal Circuit not to draw any bright-line rules. Instead, Duffy proposed that the court look at various factors to determine whether a process was patentable. He argued that the breadth of the claim should be one factor to consider, and seemed to agree that the degree to which the claim was connected to “real-world” activities could be another factor, but the judges seemed to have difficulty eliciting a clear list of factors that should be considered or which might be more important than others. He also criticized the requirement that there must be something tangible and physical in order to constitute a patentable process. Some of the judges appeared to have difficulty accepting the lack of any concrete standard under this “factor-based” test.

The PTO Argued for a Test of Tying a Process to a Machine or Transforming Physical Subject Matter

The PTO argued that the U.S. Supreme Court decision in *Diamond v. Diehr* made it clear that in order to be patentable, a process must either be tied to a machine or must transform physical subject matter. The judges explored whether throwing a baseball “transformed” the baseball in a patentable way, which the PTO answered in the negative. One of the judges asked whether a method of performing chiropractic might constitute a patentable “transformation,” but the PTO did not take a position one way or another on that question. Some of the judges expressed concern that adopting a rigid rule might eliminate patents on software, but the PTO responded that most software implemented on computers would still be patentable because they transformed the computer and the software was tied to a machine. Chief Judge Michel pointed out that the Supreme Court had previously ruled that not every process tied to a machine would be patentable if there was insignificant “post-solution activity.”

Another Amicus, The Financial Services Industry Argued for a Three Part Test Including Non-Conventional Ties to Machines

Bill Lee argued on behalf of the financial services industry (another amicus) that the court should adopt a factor-based test based on three principles: First, abstract ideas and mental processes should not be patentable. Second, a process involving a physical transformation of matter would normally be patentable, but he rejected the idea that throwing a baseball “transforms” the ball in any way. Third, a process that is tied to a physical machine in a non-conventional way might be patentable, but not if it was tied in a conventional way. Several of the judges questioned whether “non-conventional” should be an added requirement for a process, given that every process must already be novel and nonobvious in order to qualify for a patent.

Bilski’s Rebuttal Argued that He Satisfied State Street Bank

Finally, Bilski’s attorney in rebuttal argued that the information recited in Bilski’s patent application constituted something that was “physical” and he reiterated his point that there was real-world interaction recited in the claim, which was all that was needed to satisfy State Street Bank’s “useful, concrete and tangible” test.

Prediction: The Likely Outcome is Safe Harbors for Process Patent Patentability, Denial of Patentability for Mere Manipulation of Numbers and Refinement of the State Street Bank Standard

Although it is difficult to predict what the court might say in ruling on Bilski’s patent application, it seems likely that the PTO’s decision will be upheld and Bilski’s claim to a method of managing risk will not be deemed to be patentable. Two of the judges appeared to take a broad view of patentable subject matter, leaving patentability to be determined under the remaining the standards of novelty, nonobviousness, and definiteness. Several judges appeared concerned about eliminating broad categories of invention such as computer software or financial industries. Some of the judges seemed concerned about allowing process patents only where the process was tied to a particular machine or transformed subject matter in some way. But a majority of the judges appeared to have difficulty accepting that Bilski’s claim was something that the patent laws were intended to cover.

In this author's opinion, the most likely outcome is that the Federal Circuit will create two safe harbors for process patent patentability, and leave open the door to future technological developments that might fall within additional safe harbors. The two safe harbors would be that a process involving steps tied to another category of invention (e.g., a machine or a composition of matter) could be patentable, and a process that transforms something tangible could be patentable. Mere manipulation of numbers, without more, would not be patentable. Bilski's claim, which seems to recite intangible principles of arranging a financial transaction in a certain way, would fail the test. Similarly, patents involving methods of playing sports or other activities lacking machinery or other tangible things might not survive the court's decision. But the court is likely to tread carefully so that it does not wipe out patents in whole industry areas, such as banking and computer software. And the court will likely refine its earlier State Street Bank decision to clarify that "useful, concrete and tangible result" is not enough for patentability.

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