

JUNE 2008 Federal Circuit seeks new patentability test in Bilski

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The Federal Circuit last month examined terms such as "tangible", "abstract", "concrete" and "transformative", in the closely watched In re Bilski hearing

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Twelve Federal Circuit judges last month questioned lawyers about the definition of terms such as "tangible", "abstract", "concrete" and "transformative", in the closely watched hearing in *In re Bilski*, which could redefine what is patentable subject matter in the US.

During the rare *en banc* hearing on May 8, the judges focused on what the proper test should be for patentable subject matter under section 101 of the patent law, and also considered recent case law on business method patents.

The US Court of Appeals for the Federal Circuit judges heard arguments from the USPTO and the appellee as well as two *amici*.

The Court considered five questions in its *en banc* rehearing, most of which relate to Section 101 of the US patent code. It also asked whether it is appropriate to reconsider *State Street Bank & Trust Co v Signature Financial Group Inc* (which opened the door to business method patents in the US) and *AT&T Corp v Excel Communications, Inc* (which eliminated the requirement of physical elements or limitations for process claims) in this case and, if so, whether those cases should be overruled in any respect.

Many observers present in the courtroom said it might have been the best-attended hearing in the 25-year history of the Federal Circuit. A line began to form outside the CAFC well before noon in anticipation of the 2pm hearing. It stretched easily over 200 people long by 1pm, when eager members of the patent community were allowed to begin filing in.

Those in attendance included figures such as former USPTO solicitor and general counsel, John Whealan, who recently left his post with the Office to become associate dean for intellectual property law at George Washington University Law School [See interview page 28]

The Federal Circuit agreed to hear Bernard Bilski's appeal from a rejection by the USPTO's Board of Patent Appeals and Interferences (BPAI) on February 16.

The BPAI rejected Bilski's patent application for an invention relating to a method for hedging weather-related risks associated with a commodity sold at a fixed price on the grounds that it did not meet the criteria for patentable subject matter under section 101 of the US Patent Act.

Charles Macedo of Amster Rothstein & Ebenstein, who filed an *amicus* brief on behalf of Reserve Management Corporation in the case, told *Managing IP* at the hearing: "Financial services patents are an important part of the economy and the amount of *amici* shows that. Whether we like it or we hate it, it's critical. Financial services is one of our biggest industries – it's not good for the economy if we don't protect innovation."

Significantly, the Court also chose to hear arguments from two *amici* who filed briefs in the case. Bank of America et al (the financial services industry) was represented by Bill Lee of WilmerHale, while John Duffy of George Washington University Law School and law firm Fried Frank argued on behalf of Regulatory DataCorp.

Judge Alan Lourie began the line of questioning right away, interrupting David Hanson of the Webb Law Firm, who argued for Bilski, soon after he began speaking.

Lourie pointedly asked Hanson to explain why the USPTO was wrong. "Because consumption risk is not abstract," said Hanson.



However, Hanson stumbled when asked by Chief Judge Michel to define the terms used in the *State Street Bank & Trust Co v Signature Financial Group Inc* decision.

When Hanson explained that "tangible means being in the real world", Judge Michel asked: "So what does concrete add?" To which Hanson replied "I don't know", eliciting a roar of laughter from the courtroom.

The USPTO, represented by associate solicitor Raymond Chen, and the two *amici* received similar lines of questioning, perhaps indicating that the judges are acutely concerned with pinpointing new language to define the scope of

patentability, in order to avoid future cases such as *Bilski*.

Professor John Duffy, arguing on behalf of Regulatory DataCorp in support of neither party, urged the Court to proceed with caution in making its decision: "The Supreme Court and other courts should follow Congress, and Congress' intent is to be broad [on this subject]," he said.

Duffy told *Managing IP* after the hearing: "I think it went well, but these are hard questions. They're questions that have been litigated for a century. Our theme is that *per se* rules have been failures in this area."

Meanwhile, the PTO argued that *State Street* and *AT&T Corp v Excel Communications, Inc* should not be revisited, since the claim at issue in *Bilski* does not involve a machine implementation.

Chen said that it would be "inappropriate and dangerous" to revisit the issues at this time, because it could contradict Supreme Court precedent, which was last set forth in *Diamond v Diehr*.

Pavan Agarwal of Foley & Lardner observed that the phrase "business method patent" was not used at all during the hearing. "The judges were more interested in getting a workable standard," said Agarwal.

"It's clear that the judges are paying attention to this subject and were really studied on it, so a decision will be made only after careful consideration," he added.

Agarwal said it could easily take six months for a decision of such magnitude to be handed down.

One in-house IP counsel in the financial services industry said that, since most of the innovation in the financial services area today is taking place in the US, it could be particularly detrimental to the country's economy to bar inventions such as the one at issue in *Bilski*.

"Some of our most innovative people are in the financial services industry," he told *Managing IP*. "We have to find a way to protect their inventions too. We don't want to close the door for patenting, as long as they have sufficient tie-in to something tangible."

Patent community observations on Bilski

May 8 hearing

revealed the predicament that is facing the court: how to fix a patentability standard that doesn't seem to be working

satisfactorily. The essentially philosophical discussions that occurred at the hearing evidenced the court's appreciation for the possibility any ruling will have impact well beyond the financial methods that are the subject of the *Bilski* application. It does seem likely that later this year the court will issue a new test, or at least improvements to the current tests. It remains to be seen, however, whether it will provide the absolute clarity that the participants on both sides of the issue are seeking. At the same time, the court's questions and comments did little to signal a plan to reverse either *State Street* or *AT&T*."

Joshua Rawson, Dechert LLP



"Although some of the judges appeared concerned about limiting process patents in a way that would eliminate all software patents,

others seemed concerned that patents were being granted for intangible things such as methods of arranging financial transactions. The case may have wide-ranging implications for the financial services, software and consulting industries, which often seek process patents in a non-manufacturing setting."

Bradley Wright, Banner & Witcoff



"This has the potential to have far-reaching implications, not only for business method patents, but for process patents overall. *Bilski* presents the interesting

question of whether a mixed claim (one that includes both mental and physical steps) is patentable. One possible outcome is that *State Street* and *AT&T* are upheld as being directed to processes performed wholly by a machine, whereas mixed claims, such as in *Bilski* are held unpatentable. Alternatively, the court may hold that mixed claims are patentable if they end in a useful result."

Richard Eskew, Stroock and Stroock and Lavan

