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Patents/Business Methods/Patentable Subject Matter

CAFC Struggles with Business Method Claim to Human Actions

In re Bilski, Fed. Cir., No. 2007-1130, oral argument 10/1/07.

In the wake of a panel decision that business methods directed to mental processes are not patentable, the Federal Circuit is now struggling with the patentability of a business method involving human actions. At the October 1, 2007 oral argument in *In re Bilski*, the PTO argued that a business method patent application involving financial hedging was properly rejected because it recites an abstract idea that is not embodied in, does not operate on, and does not transform a machine, manufacture, or composition of matter.

Background

In September of 2006, the Board of Patent Appeals and Interferences affirmed an examiner's rejection of the Bilski patent application for failing to satisfy the statutory subject matter requirements of 35 U.S.C. §101. The claims are directed to hedging methods, i.e., managing the consumption risks associated with selling a commodity at a fixed price. Claim 1 provides as follows:

1. A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price comprising the steps of:
 - (a) initiating a series of transactions between said commodity provider and consumers of said commodity wherein said consumers purchase said commodity at a fixed rate based upon historical averages, said fixed rate corresponding to a risk position of said consumer;
 - (b) identifying market participants for said commodity having a counter-risk position to said consumers; and
 - (c) initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market participant transactions balances the risk position of said series of consumer transactions.

Although the Board of Patent Appeals and Interferences turned away the examiner's "technological arts" test, it nonetheless found the claims non-statutory for failing to indicate that the invention accomplishes any type of physical transformation.

On September 20, 2007, the Federal Circuit decided *In re Comiskey*, affirming the Section 101 rejection of a business method patent directed to methods of mandatory arbitration. The court held that business methods employing only human intelligence without involving machines, manufactures, or compositions of matter do not qualify as patentable subject matter.

AIPLA filed an amicus brief in this case arguing that the proper patentable subject matter test for process claims is whether the claimed process, when viewed as a whole, recites a practical application with a useful result. While transformation of physical subject matter from one state to another may be relevant, according to the brief, there should be no requirement that claims incorporating abstract ideas include a strictly physical transformation. To read the AIPLA brief, click [here](#).

Bilski Oral Argument

Judge William Bryson asked counsel for Bilski to explain what effect the *Comiskey* decision has on this case. David C. Hanson, of the Webb Law Firm, contended that the claims in this case are different because the method is not a mental process as in *Comiskey* but a series of physical steps involving communication and negotiation. While every act has some mental component behind it, Hanson agreed with Judge Kimberly Moore that acts such as “identifying market participants” have as much physicality as selecting a chemical from the periodic table for use in a chemical process. Judge Raymond Clevenger suggested that there are also physical steps in carrying out an arbitration method like that in *Comiskey*, such as finding a room for the arbitration or finding an arbitrator.

While Hanson tried to distinguish these claims by pointing to the industrial effect of Bilski’s process, i.e., commodities are “sold,” Judge Clevenger pointed to similar effects of the process claimed in *Comiskey*, such as the movement of money as a result of the arbitration award. Hanson also contended that *Comiskey* was wrongly decided because it is inconsistent with *State Street Bank and Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368, 47 USPQ2d 1596 (Fed. Cir. 1998). He acknowledged that the *Comiskey* court distinguished *State Street* by pointing out that the claimed method was carried out with a machine.

However, Hanson pointed out that the Supreme Court left the door open to the issuance of a valid process patent not tied to an apparatus (see *Parker v. Flook*, 437 U.S. 584, 198 USPQ 193 (1978), fn. 9), suggesting that the *State Street* test is whether the claimed process produces a useful, concrete and tangible result, without regard to the machine element. Claim 1 of Bilski’s application does not recite an abstract method that can simply “be thought,” Hanson argued, but instead recites a series of physical steps that achieve a practical result. The same is true of the patent in *Comiskey*, Judge Clevenger pointed out. He observed that Bilski’s claims would benefit from the rule in *AT&T Corp. v. Excel Communications Inc.*, 175 F.3d 1352, 50 USPQ2d 1447 (Fed. Cir. 1999), that simply required a useful, concrete result from the claimed process, adding that the question is whether that would apply here in light of the *Comiskey* gloss.

USPTO Oral Argument

Associate Solicitor Raymond Chen told the court that the *Comiskey* opinion supports the Board’s conclusion that the Bilski application is directed to non-statutory subject matter. Asked whether *Comiskey* satisfies the PTO as the analytically correct test, Chen said the decision was supported by case law, but expressed some reservations about the “mental process” characterization of the arbitration claims in that case. While the last step of the Claim 1 in that case involves the mental exercise of “determining” an arbitration award, the preceding steps also involve multiple physical acts, he explained.

Would you call all the steps accompanying the “determining” step insignificant post- or pre-solution activity, Judge Moore asked. No, Chen answered, because the numerous human actions, which involve more than purely mental activity, cannot simply be disregarded. The PTO is concerned about the way the *Comiskey* opinion relied on the term “mental processes,” according to Chen, pointing out that all human actions involve mental processes. This criterion, he observed, invites future disputes and litigation over the dividing line between a patent eligible business method and a patent ineligible mental process.

Judge Bryson asked Chen for the PTO-preferred reformulation of the *Comiskey* test. Chen pointed to language in *Comiskey* stating that a process claim reciting an abstract idea is statutory only if “it is embodied in, operates on, transforms, or otherwise involves another class of statutory subject matter, i.e., a machine, manufacture, or composition of matter” (see page 17 of the slip opinion in *In re Comiskey*). He said that an analytical model that turns on the presence of abstract ideas is more workable than one that focuses on mental processes, which will underlie any human activity. Judge Moore suggested that the term

“abstract idea” is broad enough to encompass a mental processes or algorithms. Chen also found troublesome the ambiguous phrase “or otherwise involved” in the passage quoted above from *Comiskey*, although he said, however, that the panel could clarify these issues without resort to en banc consideration.

Judge Clevenger reminded Chen that footnote 9 in *Flook* leaves the door open to other patentable subject matter possibilities, but Chen replied that *Flook* was talking about other “technological” possibilities. Should there be a “technological arts” requirement under Section 101, Judge Moore asked. Chen answered yes, agreeing with comments to that effect in *Comiskey*. He acknowledged that the Board decision in this case turned away the examiner’s technological arts rationale for his rejection, but explained that the examiner’s rationale was ill defined.

What about design patents, Judge Moore continued. If the patent-copyright clause of the Constitution is confined to technological inventions, did Congress lack the authority to provide for patents on ornamental and non-functional designs? What about the patentability of a chiropractor’s method of adjusting someone’s back or of a surgical procedure for operating on someone’s back? It would depend on what kind of technology was involved, Chen responded. He conceded that a mental process is behind both examples, but said that a process implemented purely by hand would be outside the patent system.

Judge Bryson pointed out that a chiropractic process involving only manual manipulation clearly has a transforming effect on the human body, and asked why patentability should depend on whether a specialized glove is used instead of a bare hand. Chen replied that the patent system is for the application of some kind of technology, and it does not extend to non-technological innovations such as a new way of teaching, a new way of selecting a jury, or a new way of writing a legal brief. In response Judge Moore’s question about patenting sports moves after *Comiskey*, Chen said that issue will require further review. Judge Bryson asked if the Office would distinguish between a claim to a new way to throw a curve ball and a claim to a new way of throwing a “scuff ball,” where the determinative device is introduced by calling for the ball to be scratched against the pitcher’s belt.

Chen asked the court to clarify the statutory subject matter test recited in *Comiskey* by requiring that a process claim reciting an abstract idea must be embodied in, operate on, or transform, another class of statutory subject matter, i.e., a machine, manufacture, or composition of matter. He also asked the court to emphasize that process claims must satisfy the Supreme Court’s bar against abstract idea claims that have a preemptive effect.

To hear an audio recording of the oral argument in this case, click [here](#).
To read the Board opinion in this case, click [here](#).

Legislation/Vessel Hull

Senate Passes Vessel Hull Protection Bill

The Senate on October 4, 2007, passed by unanimous consent a bill (S. 1640) to extend the coverage of the Vessel Hull Design Protection Act at 17 U.S.C. §1301, et seq. The bill now goes to House, where it passed in the last Congress without objection.

The legislation responds to an Eleventh Circuit ruling which affirmed the cancellation of a vessel hull registration after finding that the design was not a “substantial revision” of a pre-existing hull design, protectable under Section 1303 of the statute. *Maverick Boat Co. v. American Marine Holdings Inc.*, 48 F.3d 1186, 75 USPQ2d 1590 (11th Cir. 2005). The court said that the changes to the intersection of the hull sides with the top of the boat’s deck were mere corrections to a mistake in the original design, and thus not covered by Section 1303. Whereas the current statute (Section 1301(4)) defines a “hull” as including the deck of a vessel, the amendment would make a vessel deck and vessel hull separately protectable.

To read the Senate proceedings on S. 1640, click [here](#).

Trademarks/Well-Known Marks Doctrine

AIPLA Urges NY High Court to Recognize Well-Known Marks Doctrine

ITC Limited v. Punchgini, Inc., N.Y. Ct. App., No. 05-0933, brief filed 10/2/07.

AIPLA in an October 2, 2007, amicus brief urged the New York Court of Appeals to recognize that New York common law recognizes the “well-known marks” doctrine, enabling the owner of a foreign mark that is well known, but not used in New York, to prevent unauthorized uses of its mark in a manner likely to confuse or deceive consumers.

The case is in the New York high court upon the certification of questions from the Second Circuit, which concluded that the well-known marks doctrine is not encompassed by the Lanham Act, despite the ruling to the contrary by the Ninth Circuit in *Grupo Gigante S.A. De CV v. Dallo & Co., Inc.*, 391 F.3d 1088 (9th Cir. 2004). AIPLA filed an amicus brief in the U.S. Supreme Court supporting reversal of the Second Circuit decision, but review was denied on October 1, 2007.

According to the brief, the owner of the foreign mark must prove by a preponderance of the evidence that its mark is well known to at least one relevant sector of the public in New York, and New York courts should determine the renown of the claimed foreign mark using the factors adopted by the World Intellectual Property Organization and the Assemble of the Paris Union.

Petitioner ITC Ltd. operates a five-star hotel in New Delhi, India, which includes its “Bukhara” restaurant. The restaurant enjoys an international reputation and had operations in New York and Chicago under the “Bukhara” name until 1991 and 1997 respectively. When former employees of the New York restaurant formed Punchgini Inc. to open their “Bukhara” restaurant in New York, ITC sued. The Second Circuit affirmed the dismissal of the suit because ITC was not using the mark in the United States.

To read the AIPLA amicus brief in the New York high court, click [here](#).

To read the AIPLA amicus brief in the Supreme Court, click [here](#).

To read the Second Circuit opinion, click [here](#).