

IP Strategies

Special Bulletin

BUSINESS METHOD PATENTS: THE *BILSKI* CASE

On October 30, 2008, the U.S. Court of Appeals for the Federal Circuit issued its highly anticipated en banc decision in *In re Bilski*, ruling that the determination whether a claimed method constitutes patent-eligible subject matter requires an analysis under a “machine-or-transformation test.” In doing so, the court discarded as “insufficient” their previous standard for determining patent-eligibility that hinged on whether a claimed method produces “a useful, concrete and tangible result.” In reaching its ruling, the *Bilski* court reexamined the U.S. Supreme Court’s case law as well as its own precedent concerning subject matter eligibility under the statute, i.e., what constitutes patentable subject matter under 35 U.S.C. § 101. In establishing the machine-or-transformation test, the majority in the 9–3 decision attempted to base its conclusions in the Supreme Court’s precedents. Specifically, the *Bilski* court held that the machine-or-transformation test requires a two-branched inquiry in which an Applicant may show that a process claim satisfies

§ 101 either by showing that the claimed process (i) is tied to particular machine or (ii) transforms an article. By applying the machine-or-transformation test, the *Bilski* court rejected as unpatentable subject matter relating to a method for hedging risks in commodities trading.

While some may hail the *Bilski* decision as having a significant impact on so-called “business method patents” or “software patents,” it is important to note that the court rejected any tests based on such broadly worded categorical exclusions. Rather, the court specifically stated that *the* test to use is whether the claimed method or process satisfies the machine-or-transformation test. Thus, the most successful patent applicants operating in the post-*Bilski* world will be those describing and claiming their inventive processes in a manner that best meets the machine-or-transformation test.

The Patent Application at Issue

The patent application at issue was directed to a method for managing the consumption risk

cost of a commodity sold by a commodity provider at a fixed price. Claim 1 reads:

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

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commodity provider and said market participants at a second fixed rate such that said series of market participant transactions.

During the examination phase, the examiner rejected all of the claims as not directed to patent-eligible subject matter under § 101. The Board of Patent Appeals and Interference sustained the examiner's rejections. The Applicant then appealed to the U.S. Court of Appeals for the Federal Circuit.

The Supreme Court's Establishment of the Machine-Or-Transformation Test

In determining whether the claimed risk management process constituted eligible subject matter, the court began by noting that the Supreme Court has previously held that one cannot patent "fundamental principles," i.e., laws of nature, natural phenomena or abstract ideas. The key consideration enunciated by the Court is that one cannot wholly preempt use of such fundamental principles through a patent claim, whereas an *application* of a fundamental principle may be permitted. Relying on the Supreme Court's 1972 decision in *Gottschalk v. Benson*, the *Bilski* court stated that the "definitive test to determine whether a process claim is tailored narrowly enough to encompass only a particular application of a fundamental principle rather than to preempt

the principle itself [is to determine] if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." Interestingly, the *Bilski* court, in establishing that this machine-or-transformation test was the exclusive test for patentability, relied strongly on the Supreme Court's phrasing of this principle in *Benson*: "Transformation and reduction of an article 'to a different state or thing' is *the* clue to the patentability of a process claim that does not include particular machines." (Emphasis added.) Noting the equivocal support in *Benson* for the assertion that the machine-or-transformation test is the exclusive test, the *Bilski* court noted that the Court's subsequent *Diamond v. Diehr* opinion was not equivocal in this regard, and therefore inferred that the Court intended to establish the machine-or-transformation test as the exclusive test.

Importantly, in establishing the exclusivity of the machine-or-transformation test, the court very clearly established that previous tests were no longer viable. Beginning with the so-called Freeman-Walter-Abele test (i.e., determine whether the claim recites an "algorithm" within the meaning of *Benson*, and then determine whether that algorithm is "applied in any manner to physical elements or process steps"), the court noted that it ran

afoul of the instruction against dissecting claims when determining subject matter eligibility, and was therefore inadequate. Likewise, the court instructed against reliance on the "useful, concrete and tangible result" test established in its famous *State Street* opinion. Further still, in relatively summary fashion, the court dismissed any notion that the so-called "technological arts" test was viable given the ambiguity of what is sufficiently "technological," and also rejected establishment of any categorical exclusions (e.g., against "business methods" or "software"). Finally, the court used this opportunity to clarify its holding in its recent *In re Comiskey* decision, in which claims directed to a process for mandatory arbitration of disputes were held unpatentable under § 101. The *Comiskey* court concluded that the claims at issue were drawn to a "mental process" of arbitrating disputes, and that claims to such an application of only human intelligence to the solution of practical problems is no more than a claim to a fundamental principle. The court further explained that its *Comiskey* decision did not rely on any requirement of "physical steps" in a claim. Indeed, the court stated, "even a claim that recites 'physical steps' but neither recites a particular machine or apparatus, nor transforms any article into a different state or thing, is not drawn to

patent-eligible subject matter.” On the other hand, the court stated, “a claim that purportedly lacks any ‘physical steps’ but is still tied to a machine or achieves an eligible transformation passes muster under § 101.”

The Federal Circuit’s Application of the Machine-or-Transformation Test

Because the applicants in the instant case admitted that their claims (e.g., claim 1 above) did

The court made clear that a claimed process is patent-eligible if it transforms an article into a different state or thing.

not limit any process step to any specific machine or apparatus, the court did not consider issues specific to the machine implementation part of the machine-or-transformation test. Instead, the court left elaboration on the precise contours of machine implementation, as well as the answers to particular questions such as whether or when recitation of a computer suffices to tie a process claim to a particular machine to future cases. The court then considered the transformation part of the test.

The court made clear that a claimed process is patent-eligible if it transforms an article into a

different state or thing. This transformation, the court states, must be central to the purpose of the claimed process. Further, the court emphasized that the main aspect of the transformation test that requires clarification is what sorts of things constitute “articles” such that their transformation is sufficient to impart patent-eligibility under § 101. While the court noted that it was virtually self-evident that a process for a chemical or physical transformation of physical objects or substances is patent-eligible subject matter, the court observed that “[t]he raw materials of many information-age processes, however, are electronic signals and electronically-manipulated data.” Thus, the court adopted the “measured approach” from its prior precedents in determining whether transformation of such data would suffice to meet the transformation branch of the test.

Meaning of “Transformation”

In determining what it means to sufficiently “transform” an article as to establish patent-eligible subject matter, the *Bilski* court looked to its own (and its predecessor court’s) precedents. In particular, the court found guidance in *In re Abele*, where the court’s predecessor held unpatentable a broad independent claim reciting a process of graphically displaying variances of data from average values. This broad independent claim was held unpatentable, the court noted, because the claim

did not specify any particular type or nature of data, nor did it specify how or from where the data was obtained or what the data represented. In contrast, the court further noted, a dependent claim was deemed to be drawn to patent-eligible subject matter where it specified that “said data is X-ray attenuation data produced in a two dimensional field by a computed tomography scanner.” The rationale elucidated by the court was that this data clearly represented physical and tangible objects, namely the structure of bones, organs, and other body tissues. Thus, the transformation of that raw data into a particular visual depiction of a physical object on a display was sufficient to render that more narrowly claimed process patent-eligible.

Further, the Federal Circuit noted for clarity that because the electronic transformation of the data itself into a visual depiction was sufficient, the claim in *Abele* was not required to involve any transformation of the underlying physical object that the data represented. This result, the court asserts, satisfies the basic principle underlying the Supreme Court’s articulation for the machine-or-transformation test, namely the prevention of preemption of fundamental principles. As demonstrated by *Abele*, so long as the claimed process is limited to a practical application of a fundamental principle to transform specific

data, and the claim is limited to a visual depiction that represents specific physical objects or substances, there is no danger that the scope of the claim would wholly preempt all uses of the principle.

Refining this analysis further, the court noted precedents that “adding a data-gathering step to an algorithm is insufficient to convert that algorithm into a patent-eligible process.” Thus, a claim that is merely an algorithm combined with a data-gathering step will not meet the transformation requirement because simply stating that data inputs are gathered—without specifying how—is a meaningless limit on a claim, since every algorithm inherently requires the gathering of data inputs.

Application of the Machine-Or-Transformation Test In Bilski

In holding that the Applicants’ process as claimed failed to transform any article to a different state or thing, the *Bilski* court reasoned that purported transformations or manipulations simply of public or private legal obligations or relationships, business risks or other such abstractions cannot meet the test because they are not physical objects or substances, and they are not representative of physical objects or substances. The court stated that the Applicants’ process at most incorporated only ineligible transformations in

that the claimed process transformed the relationships between the commodity provider, the consumers and market participants. The court found that the claim only refers to “transactions” involving the exchange of legal rights at a “fixed rate corresponding to a risk position.” Thus, the court held that the claims did not involve the transformation of any physical object or substance, or an electronic signal representative of any physical object or substance. Given the applicants’ admitted failure to meet the machine implementation part of the test as well their failure to meet the transformation part of the test, the court held that the claim entirely fails the machine-or-transformation test and is not drawn to patent-eligible subject matter.

Therefore, the Federal Circuit held that, while it agreed with the Applicants that the only limit to patent-eligibility imposed by Congress is that the invention fall within one of the four categories enumerated in § 101, the Federal Circuit stated that it must apply the Supreme Court’s test to determine whether a claim to a process is drawn to a statutory “process” within the meaning of § 101. By applying the machine-or-transformation test, the *Bilski* court held that the Applicants’ claim fails that test. Accordingly, the Applicants’ claim is not drawn to a “process” under § 101 as that term has been interpreted.

Open Questions

While the *Bilski* court was very explicit in its determination that the machine-or-transformation test is the exclusive test to be used when determining patent eligibility of process or method claims, it also gives rise to a number of issues that will require further explanation before the full impact of *Bilski* can be determined. Perhaps most obviously, because the applicants in *Bilski* admitted that their claims failed to recite any specific machine, the court expressly declined to elaborate on “issues specific to the machine implementation part of the test.” Instead, such questions are left to future cases, particularly the question “whether or when recitation of a computer suffices to tie a process claim to a particular machine.” On the sufficiency of a computer as the necessary machine, it is worth noting the court’s observation that the *Benson* court rejected the use of a computer as a sufficient “machine” because the use of a computer did not resolve their preemption concerns. That is, because the claimed method could only be used on a general purpose computer, the claim would still amount to a complete preemption of the underlying fundamental principle. This suggests the possibility that a process claim reciting a general purpose computer as the specific machine to which the process is

could satisfy the specific machine branch of the machine-or-transformation test to the extent that the process could be carried out by other machines, e.g., application specific circuits, etc.

In this same vein, the court stated that, in order to meet the test, the involvement of the specific machine or transformation must impart “meaningful limits” on the claim’s scope. This begs the question: What kinds of ties between the claimed process and the recited machine and/or their degree of connection are required to establish such “meaningful limits” on a claim’s scope? For example, would a process claim reciting function-specific “components” used to carry out the process impart meaningful limits on the claim? Certainly, such a claim would seem to impart more specific (and therefore more meaningful) limitations than a bare recitation of a computer programmed to carry out the process, thereby paying greater heed to the preemption concerns underpinning the machine-or-transformation test.

Regarding the transformation alternative of the test, the court established that transformation of data that is clearly representative of “physical and tangible objects,” e.g., bone, organs and body tissues, would suffice to render a process patent-eligible. How far could an applicant push the meaning of a “physical and tangible” object? Data concerning

the status or performance of a machine (e.g., a car engine, a server computer, etc.) would seem to be sufficiently attached to a physical and tangible object. Clearly, the subject matter of the claims at issue in *Bilski*, i.e., data representing a legal or contractual obligation between parties, is not tied to a sufficiently physical or tangible object. If a person is a physical or tangible object, would transformation of a person’s biometric data (e.g., height, weight, fingerprints, etc.) be sufficient? If so, how is the amount of money that person owes to a creditor a less meaningful “state variable” of that person than his/her biometric data if one is developing an “information-age” process, for example, an algorithm for determining if someone is a good credit risk?

Further still, the court explained that a claim preempting a fundamental principle within a specific “field” of endeavor was no more eligible for patenting than a claim precluding all uses of the fundamental principle. Instead, the court noted, “a claim that is tied to a particular machine or brings about a particular transformation of a particular article does not preempt all uses of a fundamental principle in any field but rather is limited to a particular use, a specific application.” However, at some sufficiently high level of abstraction, a specific application may be perceived as

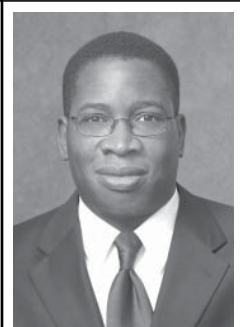
impermissible as an entire field. For example, if, instead of “X-ray attenuation data produced . . . by a computed tomography scanner” as in *Abele*, the claim recited “X-ray attenuation data produced by an X-ray machine” or “attenuation data produced by any diagnostic imaging device,” would the inclusion of all possible “diagnostic imaging devices” constitute an impermissible field limitation?

It is anticipated that these and other issues will be further developed by the courts in the coming months and years. Several practice tips in view of the *Bilski* case are on the following page.

If you have any specific questions regarding this case, please contact Christopher P. Moreno at 312-609-7842, Uchendu O. Anyaso at 312-609-7628 or any member of the Intellectual Property Group at Vedder Price. ■



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Practice Tips in View of *Bilski*

- In order to pass the scrutiny of patent-eligibility under § 101, a claim to a process should now recite either a specific machine to which the process is tied, or specifically recite transformation of a physical and tangible object (or signals/data representative thereof). In the case of a patent application directed to, for example, electronically manipulated data, one would do well to specify (a) the type or nature of the data, (b) how or where the data was obtained and/or (c) what data is represented. Compare this with the allowed claim in *Abele* cited with approval by the *Bilski* court, i.e., “said data is X-ray attenuation data [setting forth what the data represents] produced in a two dimensional field [setting forth the type or nature of the data] by a computed tomography scanner [setting forth where the data is obtained].”
- If a method or process is computer-implemented, bare recitation of that fact in the claim may not be sufficient to meet the specific machine branch of the machine-or-transformation test. To the extent possible, it may be better to recite specific structures implemented within a computer for implementing the claimed process, e.g., “performing, by a first component, X; performing, by a second component in communication with the first component, Y; etc.” Alternatively, if implementations other than computer-based implementations are possible, e.g., pen and paper or other machines not strictly interpreted as computers, then recitation of a “computer-implemented” method might be sufficiently restrictive as to avoid the fatal preemption concern.
- Because questions remain as to the precise scope of what constitutes a sufficient “machine” or when data is sufficiently representative of a “physical and tangible object,” it is advisable, if possible, to include multiple method claims touching upon both branches of the test. That is, one set of method claims might be directed to a specific machine-based implementation, whereas another set of method claims might be directed to tying any claimed transformation into specific physical and tangible objects or data representative thereof.
- If one assumes that the Supreme Court would not grant certiorari on an appeal from the *Bilski* decision (given the Federal Circuit’s grounding of its opinion in the Court’s precedents) or that the applicants in *Bilski* are not willing to push the issue further, then patentees should start considering any issued, pre-*Bilski* claims that may be questionable under the machine-or-transformation test. For any claims where patent-eligibility under the machine-or-transformation test is questionable, and where support for meeting the test’s requirements exists, reissue proceedings may present a potential remedy. 35 U.S.C. § 251 states that “[w]henver any patent is, through error without any deceptive intention, deemed wholly or partly inoperative or invalid . . . by reason of the patentee claiming more or less than he had a right to claim in the patent,” then the patentee may seek to correct the error through a reissue of the patent. Noting that § 251 is remedial in nature and should therefore be construed liberally, the Federal Circuit in its 2006 *Medrad v. Tyco* decision found that § 251 should “be read to encompass any error that causes a patentee to claim more or less than he had a right to claim” (emphasis added), including, one may presume, errors in adhering to the requirements of 35 U.S.C. § 101.

Case Law Review

LIMITED EXCLUSION ORDERS GRANTED BY THE ITC DO NOT APPLY TO DOWNSTREAM MANUFACTURERS NOT NAMED AS RESPONDENTS TO AN ITC COMPLAINT

***Kyocera Wireless
Corp. v. International Trade
Commission***
(Fed. Cir. 2008)

The International Trade Commission (“ITC”) may not issue a limited exclusion order that applies to all downstream products when it applies to parties not named as respondents to the ITC complaint, according to the Federal Circuit.

Broadcom Corporation (“Broadcom”) owns U.S. Patent No. 6,714,983 (“the ‘983 patent”), which is generally directed towards a mobile computing device that can both communicate with wireless networks and operate in a reduced power mode to extend battery life. Broadcom filed a complaint with the ITC naming Qualcomm Incorporated (“Qualcomm”), and only Qualcomm, as the respondent. Broadcom alleged that thirteen Qualcomm chips and chipsets infringed several Broadcom patents, including the ‘983 patent.

The ITC rejected Qualcomm’s invalidity arguments and determined that Qualcomm’s chips, when programmed to

enable certain battery-saving features, infringe the ‘983 patent. The ITC also found Qualcomm liable for inducing third party manufacturers to incorporate battery-saving software and Qualcomm’s chips into their mobile devices.

As a remedy, the ITC issued a limited exclusion order (“LEO”) excluding “[h]andheld wireless communication devices, including cellular telephone handsets and PDAs, containing Qualcomm baseband processor chips or chipsets that are programmed to enable the power saving features covered by claims 1, 4, 8, 9, or 11 of U.S. Patent No. 6,714,983, wherein the chips or chipsets are manufactured abroad by or on behalf of Qualcomm Incorporated.” Thus, wireless device manufacturers that were not respondents to Broadcom’s ITC complaint were subject to the LEO because they purchased and incorporated Qualcomm chips into their mobile wireless devices outside the United States and then imported them into the United States for sale.

Qualcomm and third-party manufacturers and carriers appealed the ITC’s decision. On appeal, the Federal Circuit affirmed the ITC’s findings that the ‘983 patent was not invalid; affirmed the ITC’s determination of no direct infringement by Qualcomm; held that the ITC misapplied the standard for induced infringement; and

determined that the ITC did not have statutory authority to issue an LEO against downstream products of non-respondents.

With respect to the LEO, Qualcomm and the third-party appellants argued that the ITC exceeded its statutory authority by issuing an LEO that excludes imports of downstream manufacturers who were not named as respondents to Broadcom’s initial complaint. In contrast, Broadcom and the ITC maintained that the ITC has authority to order an LEO which excludes all of a respondent’s articles that are determined to violate, regardless of the identity of the importer.

The Federal Circuit turned to the Commission’s authority to issue exclusion orders, which is granted under 35 U.S.C. § 1337(d). According to the statute, Congress created two distinct forms of exclusion orders: a limited exclusion order and a general exclusion order. The default and limited exclusion order “shall be limited to persons determined by the Commission [(i.e., the ITC)] to be violating this section,” according to section 1337(d)(2). By contrast, the Federal Circuit said, “a ‘general exclusion’ order (‘GEO’) is only appropriate if two exceptional circumstances apply. Specifically, under subsection d(2)(A), the Commission may issue a GEO if it is ‘necessary to prevent circumvention of an exclusion order limited to

products of named persons' or, under subsection d(2)(B), if 'there is a pattern of violation of this section and it is difficult to identify the source of infringing products.'" Thus, the Federal Circuit said that an LEO is "both 'an order limited to products of named persons,' and one where the complainant has not demonstrated 'a pattern of this section and [difficulty in identifying] the source of infringing products.'"

In this case, the court determined that the ITC did not have the authority to issue an LEO that applies to downstream products imported by parties not named as respondents to the ITC complaint. The Federal Circuit noted, for example, that Broadcom appears to have made a strategic decision to not name downstream wireless device manufacturers, most of whom were known, and to not request the ITC to enter a GEO. Consequently, the Federal Circuit concluded that the statute permits the LEO to exclude only the violating products of the named respondents. ■

Practice Tip:

When filing a complaint with the ITC, the patent holder should carefully consider whom to name as respondents to the complaint since a limited exclusion order cannot limit imports of downstream manufacturers that are not named respondents. Alternatively, the patent holder may wish to seek a general exclusion order, but the patent holder should be aware of the more stringent requirements necessary for obtaining such an order.

INFRINGEMENT OF DESIGN PATENTS IS BASED ON THE "ORDINARY OBSERVER" TEST

Egyptian Goddess, Inc. v. Swisa, Inc.

(Fed. Cir. 2008 (en banc))

The "ordinary observer" test should be the test used when evaluating infringement of design patents, according to the Federal Circuit.

Egyptian Goddess, Inc. ("EGI") appealed the decision of the district court and alleged that Swisa, Inc. ("Swisa") had infringed EGI's U.S. Design Patent No. 467,389 ("the '389 patent"). The patent claimed a design for a nail buffer consisting of a rectangular hollow tube having a generally square cross-section and featuring buffer surfaces on three of its four sides. Swisa's accused infringing

product consisted of a rectangular, hollow tube having a square cross-section but featured buffer surfaces on all four of its sides.

The district court granted Swisa's motion for summary judgment based on noninfringement and stated that the plaintiff in a design patent case must prove both (1) that the accused device is "substantially similar" to the claimed design under what is referred to as the "ordinary observer" test, and (2) that the accused device contains "substantially the same points of novelty that distinguished the patented design from the prior art." After comparing the claimed design and the accused product, the district court held that Swisa's allegedly infringing product did not incorporate the "point of novelty" of the '389 patent, which the court identified as "a fourth, bare side to the buffer."

EGI appealed the district court's decision, and a panel of the Federal Circuit agreed with the district court. The panel stated that the point of novelty in a patented design "can be either a single novel design element or a combination of elements that are individually known in the prior art." In order for a combination of individually known design elements to constitute a point of novelty, however, the panel said "the combination must be a nontrivial advance over the prior art." The panel noted that EGI's

asserted point of novelty was a combination of four of the claimed design's elements, and the panel agreed with the district court's determination that one prior art patent contained each of the four elements except that the body was triangular, rather than square, in cross-section. Thus, the panel concluded that "no reasonable juror could conclude that EGI's asserted point of novelty constituted a non-trivial advance over the prior art." Additionally, the panel noted that the various design elements of the claimed design "were each individually disclosed in the prior art." Thus, the panel concluded that summary judgment was appropriate.

The Federal Circuit then granted EGI's request for an en banc review. The Federal Circuit considered whether the "point of novelty" test or the "ordinary observer" test should be used to determine whether an accused infringing product infringes a design patent. To infringe under the point of novelty test, "the accused device must appropriate the novelty in the patented device which distinguishes it from the prior art." Under the ordinary observer test, "[I]f in the eye of an ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the

first one patented is infringed by the other."

In a decision that could strengthen the amount of protection provided by design patents, the Federal Circuit agreed with EGI in holding that "the 'ordinary observer' test should be the sole test for determining whether a design patent has been infringed. Under that test, . . . infringement will not be found unless the accused article 'embod[ies] the patented design or any colorable imitation thereof.'" The Federal Circuit reasoned, in part, that the point of novelty test proved too difficult to apply where the claimed design has numerous features that can be considered points of novelty, or where multiple prior art references are in issue and the claimed design consists of a combination of features, each of which could be found in one or more of the prior art designs. Nonetheless, the Federal Circuit affirmed the district court's summary judgment in favor of Swisa because "no reasonable fact-finder could find that EGI met its burden of showing, by a preponderance of the evidence, that an ordinary observer, taking into account the prior art, would believe the accused design to be the same as the patented design." ■

Practice Tip:

When considering whether a design patent may present a question of infringement for a product, it is recommended to consider whether the product and the patented design are substantially the same to deceive an ordinary observer. In cases where the accused design and the claimed design are not plainly dissimilar, the ordinary observer analysis may include reviewing the prior art, which may yield significant differences between the product and the patented design.

DISCLOSING ALL ELEMENTS DOES NOT MANDATE ANTICIPATION AND BEWARE GENERAL MEANS PLUS FUNCTION DISCLOSURE FOR SOFTWARE

Net MoneyIN v. Verisign
(Fed. Cir. 2008)

According to the Federal Circuit, in order for a reference to anticipate a claim, the reference must teach all of the claimed elements together; teaching all the elements in separate embodiments is not enough for anticipation under 35 U.S.C. § 102. Additionally, a general purpose computer or microprocessor alone cannot provide sufficient structure for means-plus-function language.

This case involves systems for processing credit card

transactions over the Internet and for addressing security concerns not present in direct retail transactions. A working document entitled Internet Keyed Payments Protocol (the “iKP reference”) sets forth standards on “how payments may be accomplished efficiently, reliably[,] and securely.” The iKP reference sets forth two standard models, or protocols, to enable Internet-based secure electronic payments while utilizing the existing financial infrastructure for payment authorization and clearance. Unsatisfied with the early approaches taken by others, inventor and patent attorney Mark Ogram set out to create a new payment model to remedy what he perceived as two deficiencies in the prior art protocols: “the fact that the customer had to send confidential information over the Internet to an unknown merchant; and the fact that credit card issuers imposed onerous financial requirements on merchants.” Ogram filed a patent application directed to a payment model utilizing a financial processing entity, and the patent application ultimately resulted in U.S. Patent Nos. 5,822,737 (“the ’737 patent”) and 5,963,917 (“the ’917 patent”). Shortly after filing the patent application, Ogram formed Net MoneyIN (“NMI”).

NMI filed suit for infringement of the ’737 and ’917 patents

against a number of parties alleged to compete in the Internet credit card processing field, including Verisign, Inc. and eProcessing Network (collectively, “Verisign”). During claim construction, among other things, the district court invalidated claims 1, 13, and 14 of the ’737 patent, which contain limitations in means-plus-function format, as lacking corresponding structure and thus indefinite under 35 U.S.C. § 112 2. The district court then addressed two motions for summary judgment: (1) the district court granted Verisign’s motion for summary judgment that it did not induce infringement of NMI’s patents, and (2) the district court granted Verisign’s motion for summary judgment of invalidity, based on the argument that the iKP reference anticipated claim 23 of the ’737 patent under 35 U.S.C. § 102(a).

As to the question regarding the means-plus-function language, the Federal Circuit found that the district court correctly concluded that claims 1, 13, and 14 of the ’737 patent are indefinite under 35 U.S.C. § 112 2. The court explained that a patent applicant who employs means-plus-function language “must set forth in the specification an adequate disclosure showing what is meant by that language. If an applicant fails to set forth an adequate disclosure, the applicant has in effect failed to particularly point out and

distinctly claim the invention as required by the second paragraph of section 112.” The court continued that “[t]o avoid purely functional claiming in cases involving computer-implemented inventions, we have ‘consistently required that the structure disclosed in the specification be more than simply a general purpose computer or microprocessor. Because general purpose computers can be programmed to perform very different tasks in very different ways, simply disclosing a computer as the structure designated to perform a particular function does not limit the scope of the claim to the corresponding structure, material, or acts that perform the function.’” Thus, the Federal Circuit upheld the district court’s decision that claims 1, 13, and 14 of the ’737 patent were indefinite.

As to the district court’s conclusion that the iKP reference anticipated claim 23 of the ’737 patent, the Federal Circuit reversed. The Federal Circuit described that the iKP reference discloses two separate protocols for processing an Internet credit card transaction, but neither of these protocols contains all five links arranged or combined in the same way as claimed in the ’737 patent. The Federal Circuit also noted that the district court was wrong to combine parts of the separate protocols shown in the iKP reference to conclude that

claim 23 was anticipated. The Federal Circuit stated, “Granted, there may be only slight differences between the protocols disclosed in the iKP reference and the system of claim 23. But differences between the prior art reference and a claimed invention, however slight, invoke the question of obviousness, not anticipation.” Because the parties did not contend that the iKP reference disclosed all of the limitations recited in the claim arranged or combined in the same way as in the claim, and because it was in error for the district court to find anticipation by combining different parts of the separate protocols in the iKP reference “simply because they were found within the four corners of the document,” the Federal Circuit reversed the district court’s grant of summary judgment of invalidity as to claim 23 of the ’737 patent. ■

Practice Tip:

When reviewing the rejection of a patent application or as a defense to infringement, a reference cited for allegedly anticipating the claimed subject matter should be carefully reviewed. In order for a reference to anticipate a claim, it must disclose all elements of the claim arranged and combined in the same way as claimed. An examiner cannot pick and choose different elements from different embodiments to argue that a reference anticipates a claim. Furthermore, when drafting a patent application, extra care should be taken to ensure that the specification includes sufficient structure that corresponds to any means-plus-function claim language. This is particularly important when the means-plus-function language is performed by a computer since disclosing the computer in general, with nothing else, may not provide sufficient support for means-plus-function language.

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We welcome your suggestions for future articles. Please call Angelo J. Bufalino, the Intellectual Property and Technology Practice Chair, at 312-609-7850 with suggested topics, as well as other suggestions or comments concerning materials in this newsletter.

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