

IP Advisory: Federal Circuit Narrows Scope of Patentable Business Methods

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On October 30, 2008, the United States Court of Appeals for the Federal Circuit issued a long-anticipated *en banc* decision in the *In re Bernard L. Bilski and Rand A. Warsaw* appeal (read full opinion). As expected, the Federal Circuit retreated from its broad holding in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), which put the judicial stamp of approval on so-called “business method” patents. While the court upheld the overall viability of claims for business methods (as well as “all process claims” in general), it replaced the broader “useful, concrete and tangible result” test articulated in the *State Street Bank* decision with a “machine-or-transformation” test for determining the usefulness of processes under 35 U.S.C. § 101. While the holding of *Bilski* narrows the scope of patentability for business-method (and, to a lesser extent, software) patents, the constriction likely will not prove to be too great going forward, as the machine-or-transformation test itself should not significantly raise the threshold for patentability of process claims. Existing business-method and software claims that were drafted according to the broader “useful, concrete, and tangible result” test of *State Street Bank* could face additional hurdles to enforcement, however, as defendants now have a new Section 101 invalidity argument to use against them.

Change in the Law Regarding Patentability Threshold

The *Bilski* appeal involved an application for business methods directed to hedging risk in commodities trading. The question for the Federal Circuit, therefore, was whether the subject matter of the claims was patentable as a “new and useful process” under Section 101. The Federal Circuit decided that the Supreme Court’s “machine-or-transformation” test should be the sole inquiry for determining the answer. An applicant can satisfy the machine-or-transformation test by satisfying either of two inquiries:

- by showing that his claim is tied to a particular machine; or
- by showing that his claim transforms an article.

The claimed machine or transformation, however, must be more than “insignificant postsolution activity,” as “meaningful limits” on claim scope must be found.

Unfortunately for those seeking clear guidance regarding patentability under Section 101, the facts of *Bilski* were not close, and the Federal Circuit did not need to analyze them in any depth. First, the applicants had admitted that the claimed methods were not limited to a computer, thus precluding patentability under the first part of the test. Second, the Federal Circuit determined that the claims could be applied to “public or private legal obligations or relationships, business risks, or other such abstractions,” thereby precluding patentability via the second part of the test. Thus, *Bilski* narrowly holds that a claim to a process for altering the legal relationship between parties does not result in “transformation of an article” and is therefore not patentable under Section 101. The court explicitly left further articulation of the test for later cases, intimating that the Supreme Court may reconsider the machine-or-transformation test altogether.

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