

APPELLATE SPOTLIGHT

■ INTELLECTUAL PROPERTY

Fed. Cir. set to review patent eligibility

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THE U.S. COURT OF Appeals for the Federal Circuit redefined the margins of patent eligibility in *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998). The effect was to boost patent protection for business methods, such as financial models, contract provisions, insurance policy features, computer-related inventions and Internet startups.

There were unintended effects, too. The U.S. Patent and Trademark Office (PTO) was deluged with new patent applications and had few examiners with the expertise to handle them. Four Supreme Court justices have bemoaned the precedent, calling it vague and contrary. After a decade of disagreement over the precedent's bearing on American innovation, the Federal Circuit decided on Feb. 15 to revisit *State Street* through the lens of another case, *In re Bilski*, No. 2002-2257, which lifts *State Street*'s holding on business methods and attempts to carry it further. In a rare move, the court scheduled an en banc hearing without prompting by the parties in the case. The hearing is set for May 8.

Until 1998, patent lawyers had lived by the words of former Chief Justice Warren Burger, who famously wrote that Congress intended the patent's reach to "include anything under the sun that is made by man." *State Street*, then, reached for the stars. The opinion, authored by Judge Giles Rich, one of the architects of the Patent Act of 1952, was based on the thinking that the patent system should be as much an incubator of business innovation as of technological innovation. Critics said the prece-

dent worked to the opposite effect by overburdening the PTO. Applications for business method patents have increased by an average of 1,000 a year since 2005, according to the PTO. In 2007, the office received 11,378 application filings and issued 1,330 business method patents.

In *State Street*, the Federal Circuit held that patent eligibility turns on whether an invention "produces a useful, concrete and tangible result." That meant that Signature Financial Group's data-processing system, which makes a daily calculation of assets of two or more mutual funds invested in a partnership portfolio, was indeed patentable, even though it constituted a method of doing business and not an invention.

In re Bilski, patent lawyers say, is far more brazen, eschewing the link between method and machine. Bernard Bilski and Rand Warsaw filed their patent application in April 1997 for "a method for managing the consumption risk costs of a commodity sold by a commodity provider." Put simply, it's a novel hedging method. The PTO rejected the application on the ground the method lacked an apparatus to perform the functions described and failed to show the transformation of physical subject matter. Thus, it flunked *State Street*'s "useful, concrete and tangible result" test.

Bilski appealed, arguing the method involved a series of physical steps requiring communication and negotiation. Rather than issue a ruling, the court voted to hear the case en banc.

Lawyers and patent officials predict that the court will use the opportunity to carve out boundaries in business method patents, rather than repeal them.

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—Warren Burger