

## Legal Updates & News

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#### Supreme Court Wrestles with Scope of Patentable Subject Matter in *Bilski*

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On November 9, 2009, the United States Supreme Court heard oral arguments in *Bilski v. Kappos*. Although the Court's written decision is not expected until the spring of 2010, it appears from their questioning that a majority of the justices believe that the Federal Circuit reached the correct result on the patentability of Bilski's method claims, but may not have applied the right legal test in reaching that result.

*Bilski* has drawn intense interest and attention—arguably, more than any other patent case in U.S. history. Remarkably, in *Bilski*, a total of 68 amicus briefs on the merits have been filed with the Supreme Court. By comparison, the Supreme Court received 37 amicus briefs in *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007), 31 amicus briefs in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), 27 amicus briefs in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722 (2002), and 17 such briefs in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

The diverse amici who weighed in on *Bilski* include an impressive list of Fortune 500 companies, software giants, e-commerce retailers, life science companies, financial institutions, and insurance companies with a combined market capitalization in excess of a trillion dollars. This list also includes numerous professors, academic institutions, bar associations, free software proponents, and individuals.

Among the divergent views held by amici, most conclude that the Federal Circuit erred by holding that a "process" must be tied to a particular machine or apparatus, or transform a particular article into a different state or thing. A minority endorse the Federal Circuit's machine-or-transformation test, but most of these amici argue that the test should be modified. While most amici do not take an explicit position on the patentability of Bilski's claims, about a third argue that the specific claims at issue in *Bilski* should stand rejected.

As indicated by the unprecedented level of interest in this patent case, the Supreme Court's decision could significantly change the scope of patent eligibility for method claims. The Court's ruling may have a profound impact on a wide range of companies and industries, and on the ways they conduct business.

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## **Bilski Background**

On October 30, 2008, the Federal Circuit issued its en banc *Bilski* decision. In that opinion, the Federal Circuit adopted a definitive test for determining patent eligibility for processes under 35 U.S.C. § 101. *In re Bilski*, 545 F.3d 943, 958-61 (Fed. Cir. 2008) (en banc). Under that test, a claimed process is patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing. *Id.* at 954. The Federal Circuit emphasized that “the machine-or-transformation test is *the only applicable test* and must be applied, in light of the guidance provided by the Supreme Court and this court, when evaluating the patent-eligibility of process claims.” *Id.* at 964 (emphasis added).

On the merits, the Federal Circuit affirmed the rejection of certain business method patent claims involving hedging risks in commodities trading. In doing so, the court drew into question thousands of business method, software, and biotech/life-sciences related patents.

On January 28, 2009, the patent applicants—Bernard L. Bilski and Rand A. Warsaw—petitioned for a writ of certiorari, seeking to overturn the Federal Circuit’s decision. The Supreme Court granted the patent applicants’ petition on June 1, 2009.

The questions presented by Bilski’s petition are:

1. “Whether the Federal Circuit erred by holding that a ‘process’ must be tied to a particular machine or apparatus, or transform a particular article into a different state or thing (‘machine-or-transformation’ test), to be eligible for patenting under 35 U.S.C. § 101, despite this Court’s precedent declining to limit the broad statutory grant of patent eligibility for ‘any’ new and useful process beyond excluding patents for ‘laws of nature, physical phenomena, and abstract ideas’?”
2. “Whether the Federal Circuit’s ‘machine-or-transformation’ test for patent eligibility, which effectively forecloses meaningful patent protection to many business methods, contradicts the clear Congressional intent that patents protect ‘method[s] of doing or conducting business.’ 35 U.S.C. § 273?”

## **Oral Argument Highlights**

Although it is impossible to know with certainty what the Court’s decision will be when it is announced next spring, there were lines of questioning at the argument that may shed light on where the Court—or at least particular justices—may be heading.

### **A. Overall Assessment**

Overall, there seems to be a consensus view that Bilski’s claims are not eligible for patent protection under 35 U.S.C. § 101. Several justices questioned whether Bilski’s claims represent too abstract an idea to be patentable. Justice Kennedy’s remarks were representative. He drew a contrast between Bilski’s hedging claims and the types of patents that have traditionally been granted. Justice Kennedy noted that most patents were to “something that you could touch, that you could see, that looked like a machine, [or where] the substance was different before the process and after the process.”

Chief Justice Roberts voiced the same type of concern. He cited to Bilski’s claim 1 and pointedly asked, “[h]ow is that not an abstract idea? You initiate a series of transactions between commodity providers and commodity consumers. You set a fixed price at the consumer end, you set a fixed price at the other end, and that’s it.” Justice Stevens emphasized that “[n]one of our cases has ever approved a rule such as [Bilski] advocate[s].”

Some justices expressed skepticism through hypothetical questions they asked of Bilski’s counsel. Justice Sotomayor wondered if a patent would be available on “the method of speed-dating,” and Justice Ginsburg asked about whether “an estate plan, tax avoidance, how to resist a corporate takeover, how to choose a jury . . . [are] all of those patentable?” Justice Kennedy questioned whether someone who

went to the Bureau of Statistics and “compile[d] statistics on life expectancy” should be eligible for patent rights. Not to be outdone, Justice Breyer wondered if “a great, wonderful, really original method of teaching antitrust law” that “kept 80 percent of the students awake” would be patentable.

The overall tenor of the justices’ comments suggests that the odds of *Bilski*’s claims being held patent eligible are relatively low.

At the same time, the Supreme Court seems to be struggling with whether it should go so far as to endorse the Federal Circuit’s “machine-or-transformation” test. This is an important question as *Bilski* and many of the amicus briefs before the Court emphasize that the Supreme Court’s historical precedents in this area have never categorically stated that satisfying this test is the only way that a process can qualify for patent protection. In cases such as *Parker v. Flook*, 437 U.S. 584, 588 n.9 (1978), *Gottschalk v. Benson*, 409 U.S. 63, 71 (1972), and *Diamond v. Diehr*, 450 U.S. 175, 186-87 (1981), the Supreme Court suggested that the rule for patent eligibility is not so narrow.

Along these lines, some of the justices at the *Bilski* argument appeared to be looking for a narrower ground for decision. In view of their questions, it is quite conceivable that the Court will affirm the rejection of *Bilski*’s application without deciding the test for eligibility of all method claims, such as those in areas like software and medical diagnostics. Justice Alito, for instance, asked flat-out whether “this is a good case” to get into the broader question of the outer limits of patentability for all method claims. In response, the Government reminded the Court that it had taken the position in its opposition to *Bilski*’s petition for certiorari that this was not a good case for reaching that issue.

Justice Sotomayor likewise seemed to be searching for a narrower basis on which to rule. The newest justice commented, “I have no idea what the limits of the Federal Circuit rule would be in the medical field or the computer world,” and warned that “[o]nce you announce an exclusive test, you’re shoe-horning technologies that might be different.” She even asked the Justice Department attorney to “[h]elp us [to announce] a test that does not go to the extreme that the Federal Circuit did.”

Justice Ginsburg summed up this viewpoint, stating that “[t]his case could be decided without making any bold step.” Comments like these point to the real possibility that the Supreme Court will affirm the rejection of *Bilski*’s claims on the ground that they are too abstract, but may not necessarily endorse the Federal Circuit’s “machine-or-transformation” test as “*the only applicable test*” for patent eligibility.

Accordingly, the Supreme Court may ultimately continue its recent practice of criticizing the Federal Circuit for espousing rules in patent cases that are too inflexible. See, e.g., *KSR*, 550 U.S. at 415 (“We begin by rejecting the rigid approach of the Court of Appeals. Throughout this Court’s engagement with the question of obviousness, our cases have set forth an expansive and flexible approach inconsistent with the way the Court of Appeals applied its TSM test here.”); *eBay*, 547 U.S. at 394 (“Just as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief.”); *Festo*, 535 U.S. at 738 (“While this Court has not weighed the merits of the complete bar against the flexible bar in its prior cases, we have consistently applied the [prosecution history estoppel] doctrine in a flexible way, not a rigid one.”).

It will be very interesting to see how this plays out. Indeed, even if the Supreme Court affirms the rejection of the *Bilski* claims, some industry sectors (such as the software and medical diagnostic industries) would likely consider anything less than a full-scale adoption of the “machine-or-transformation” test to be a victory of sorts. This would leave open the door to the possibility that the Court could adopt a more flexible test down the road in a case that presents more nuanced issues.

## B. Business Method Patents

Another intriguing question is what impact the Court’s ultimate decision will have on “business method” patents. In its en banc decision last year, the Federal Circuit expressly stated that it was *not* adopting a “categorical exclusion” of all business method patents. But these types of patents have been the subject of criticism for years and district courts have begun to invalidate such claims in light of *Bilski*.

Some Supreme Court justices have also previously expressed skepticism about the validity of business method patents. For instance, in his concurrence in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388,

397 (2006), which was joined by Justices Stevens, Breyer, and Souter, Justice Kennedy noted “the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times.” Justice Kennedy further commented on the “potential vagueness and suspect validity of some of these patents . . . .” *Id.*

These same concerns were echoed a few times during the oral argument in *Bilski*. For example, Justice Sotomayor asked whether the simplest way for the Court to resolve this case would be to hold that the Patent Act does not protect “business methods.” Justice Breyer also appeared to have doubts about whether the statute should be construed so broadly such that “anything that helps any businessman succeed is patentable.”

There seems to be at least a possibility that the Supreme Court may end the speculation about these types of claims and take this opportunity to state that they are not the kinds of methods that our patent laws are designed to protect.

### C. The “Tied to A Machine” Issue

The Supreme Court also examined what has proven to be one of the most confounding questions faced by patent practitioners since the Federal Circuit announced the “machine-or-transformation” test in *Bilski*. In particular, the Patent Office has struggled to apply the prong of the *Bilski* test that asks whether the method in question is “tied to a particular machine.”

Some decisions from the Board of Patent Appeals and Interferences indicate that patent claims simply requiring the implementation of a process on a general purpose “computer” will suffice. *See Ex Parte Dickerson* (B.P.A.I. July 9, 2009) (allowing claim directed to a “computerized method” for increasing the business value of a company). Other decisions have gone the other way. In these decisions, the Patent Office has rejected applications where the process is tied to a general purpose computer and held that the computer or other machine must be specially designed. *See Ex Parte Greene* (B.P.A.I. April 24, 2009) (rejecting claims directed to a “computer system for performing a fast Fourier transform on N ordered inputs in n stages” because they merely implemented a Fourier transform on a conventional computer system).

This is an issue that many patent lawyers believe needs clarification. Chief Justice Roberts framed the question this way: “If you develop a process that says look to the historical averages of oil consumption over a certain period and divide it by 2, that process would not be patentable. But if you say use a calculator, then it — then it is?”

It will be interesting to see if the Supreme Court provides greater clarity on whether a general purpose computer is sufficient or whether a special purpose computer or machine is required to satisfy the “tied to a particular machine” prong of the *Bilski* test. Even if the Supreme Court affirms *Bilski* and does not alter the “machine-or-transformation” test, it could offer some guidance about how the Patent Office and the lower courts should apply the “tied to a particular machine” part of the test. However, given the nature of the claims at issue and the possibility of reaching a decision on other grounds, the Court may not reach this issue.

### **Conclusion**

Although we will not know for sure until the spring, it appears likely that the Supreme Court will hold that *Bilski*’s claims are not eligible for patent protection under 35 U.S.C. § 101. Less clear is whether the Court will provide greater guidance on the test for patentability for claims that are not so abstract.

Ultimately, the Court may merely clarify that the “machine-or-transformation” test is not the sole and exclusive test for patent eligibility. The many and varied industry participants who are hoping that the justices will enunciate a more definitive test—such as rules that would provide resolution on the eligibility of business methods, computer software, or medical diagnostics—may be left still searching for answers.

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