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Stakeholders Question Future of Business Method Patents After *Bilski* Oral Argument

In the aftermath of the U.S. Supreme Court's oral argument, amici and other stakeholders generally agreed that the justices may not affirm the Federal Circuit's machine-or-transformation test, but will create some mechanism that will deny patentability to the kinds of business methods the patent applicants sought in *Bilski v. Kappos*, No. 08-964 (U.S. argued Nov. 9, 2009).

None of the sources consulted by BNA predicted an outcome that would allow patentability of the financial patent at issue in the case.

Scholars who had submitted briefs as amici were more inclined to see the court as earnestly groping for some middle ground that would disallow patents of that kind while at the same time not foreclosing patents on emerging and unforeseen technologies. Practitioners painted a starker picture, with the court barring patentability to "human interactions" at least, and potentially going farther and extending limitations on patent eligibility to software applications.

But practitioners and scholars alike expressed some frustration that the justices only now seemed to understand the difficulty in devising tests that can distinguish areas of desired or undesired patentability. Many questioned further why the court chose this particular case, with its limited application, to address the broader questions the court asked.

Justices Criticize Both Sides' Positions. The patent application at issue in the case was submitted by Bernard L. Bilski and Rand A. Warsaw, and claimed a method for predicting and hedging consumption risk in commodities markets.

The patent examiner, the Board of Patent Appeals and Interferences, and the en banc U.S. Court of Appeals for the Federal Circuit denied patentability (77 PTCJ 4, 11/7/08), and the solicitor general urged the Supreme Court not to take the case (78 PTCJ 32, 5/8/09).

The court granted certiorari nonetheless (78 PTCJ 145, 6/5/09), and 66 amici—representing 63 companies, 40 associations and bar groups, 52 individuals, and 7 universities or government agencies—submitted briefs (78 PTCJ 455, 8/14/09; 78 PTCJ 692, 10/9/09).

The applicants' counsel, J. Michael Jakes of Finnegan, Henderson, Farabow, Garrett & Dunner, Washington, D.C., argued for a broad reading of patentable subject matter under Section 101 of the Patent Act, 35 U.S.C. § 101.

Deputy Solicitor General Malcom L. Stewart, representing the government's position, defended the "machine-or-transformation" test held by the Federal Circuit, requiring that any patentable "process" must be tied to particular machine or apparatus, or transform a particular article into a different state or thing.

Throughout the proceedings (reviewed elsewhere in this issue), the justices' questions did not give any indication that they were leaning to a complete acceptance of either argument.

Academic Amici on Both Sides React. A group of legal scholars who had participated in the *Bilski* case as amicus brief authors, convened at George Washington University Law School, Washington, D.C., for a post-argument panel discussion Nov. 9 that was moderated by former Patent and Trademark Office Solicitor John M. Whealan, now associate dean at the law school.

Whealan remarked that, despite the many amicus briefs supporting patentability, that argument "got no traction" in the court. Nor did the court like the Federal Circuit's machine-or-transformation test, however, Whealan said. Instead, he said, the court seemed to be saying to the parties, "Tell us how far we should go" in writing a better test.

John Duffy, a GW law professor who authored an amicus brief on behalf of Regulatory Data Corp., American Express Co., and various technology companies "in support of neither party," said that he expected a "major battle" regarding statutory interpretation of such phrases as "useful arts" during the oral arguments, but that "it didn't happen." Duffy, whose amicus brief favored patentability of the Bilski claims, reaffirmed his position that business method patent protection is not a consequence of judicial activism but the appropriate response under the statute to a profound transformation in business practices, which have come to increasingly resemble physical sciences and engineering. In Duffy's view, counsel for Bilski failed to get the message across to the court that business method patents are simply accommodating to that change in technology.

Bilski's counsel could have stressed that the rise in business method patents issued by the PTO predated the patent at issue in *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368, 47

USPQ2d 1596 (Fed. Cir. 1998) (56 PTCJ 346, 7/30/98), and that his client's application was filed before the Federal Circuit's ruling upholding the patent in that case. Oddly, however, it was the government that defended the *State Street* decision, Duffy noted.

Like his colleagues on the panel, Duffy sensed general hostility on the part of the court toward the Bilski patent application. However, the discussion of how far the court should go to rein in such patents "slightly favored the petitioner," according to Duffy. "The court seemed to want something more flexible" than the narrowing of protection advocated by the government, he suggested.

Pamela Samuelson, a law professor at the University of California, Berkeley, said that the court seemed to make a real effort to "talk out" what kinds of innovations should be patentable, pointing to Justice Ruth Bader Ginsburg's statement that legal methods are not patentable, and Justice Stephen Breyer's comment that a method of teaching antitrust law is not patentable. Samuelson filed an amicus brief in support of the PTO on behalf of entrepreneurs and consumer groups, including the Electronic Frontier Foundation, Public Knowledge, and others, urging the court to affirm the rejection of the Bilski application.

As for why the court decided to take up this case, despite the government's recommendation against certiorari review, Samuelson suggested that the court wanted to "clean up" the Federal Circuit's splintered en banc ruling, which it may have feared would spawn subsequent inconsistent panel decisions. She acknowledged arguments that it might have made sense to let the Federal Circuit apply its machine or transformation test a few times before subjecting it to Supreme Court review.

Kevin E. Collins, a law professor at Indiana University, Bloomington, Ind., also submitted a brief "in support of neither party," arguing that patents should not be allowed when the only advancement over the prior art resides in mental states or processes, even if they are useful, novel, and nonobvious, and even if the claim as a whole recites prior-art, extra-mental technologies. Two things struck Collins about the oral arguments: a clear sense that the Bilski patent will not be upheld, but a lack of clarity as to how broadly the court will rule against business method patents.

The court seemed aware that too broad a ruling might jeopardize legitimate patent protection for software, medical diagnostic tests, and other biotechnology inventions, he said. The court could head back in the direction of *State Street*, he suggested.

Other Commenters Doubt Patentability. "It was not a good day for either Bilski or those people like AIPLA who were looking for a more positive reaction to the scope of Section 101," James D. Crowne, director of communications at the American Intellectual Property Law Association, Arlington, Va., said to BNA. "It was certainly a skeptical panel."

But the court was also dissatisfied with the machine-or-transformation test, he said, and appeared to be trying to find a middle ground. But the justices only now "started to appreciate how difficult it would be to find that middle ground," Crowne said, saying that they appeared to be frustrated "that they were not getting answers to their questions that fit in with their preconception of what the problem was."

Mary Calkins of Foley & Lardner, Washington, D.C., issued a statement echoing that observation generally. "The *Bilski* oral argument differed from previous Roberts court arguments on major patent issues because, while the bench didn't seem to totally embrace the Federal Circuit's 'machine or transformation' test, they seemed far more uncomfortable with the broad patent eligibility for business methods being advocated by Bilski," Calkins said.

"Rather than simply pointing to statutory interpretations and its own precedent to show how the appellate court got it wrong, the Justices seemed to be genuinely searching for a workable standard that would limit the patent eligibility of pure business methods, without rendering crucial medical and software inventions patent-ineligible," she added.

Robert Greene Sterne of Sterne, Kessler, Goldstein & Fox, Washington, D.C., agreed as well, saying it was "the most thoughtful and inquiring Supreme Court argument that I have heard in a patent case in the last 25 years, because the justices really seemed to be in a quandary as to what to do."

But Sterne and other commenters were more direct in their predictions of the outcome.

"It's pretty clear Mr. Bilski is not going to get his patent," according to Bradley C. Wright of Banner & Witcoff, Washington, D.C. "It was clear that no one [on the court] was sympathetic to Bilski's method at all," he said, pointing specifically to Chief Justice Roberts' apparent belief that it involved nothing more than picking up the phone and calling buyers and sellers of the commodity. "They'll find a way to preempt that area," he said, "some way of eradicating patents on purely human interactions."

Also, as noted by former administrative patent judge at the BPAI, James T. Carmichael, now with Miles & Stockbridge, Tysons Corner, Va., each of the justices devised "absurd examples" of allowable patents under Bilski's argument for broad patentability. He pointed to Justice Sonia Sotomayor's argument that Bilski would allow a patent on "speed dating," to Breyer's "method of teaching antitrust law where 80 percent of the students stay awake," and other such comments. "It seemed like they were one-upping each other," he said.

Crowne said that was a case of the justices "failing to distinguish between 'patent eligibility' and 'patentability on the merits' determinations." He observed that they seemed to want to blend together novelty, obviousness, enablement, and patentability issues into the question, "What good does it do society to have patents on this kind of subject matter?"

Carmichael, who recently authored a preview of the case for BNA78 PTCJ 807, 10/30/09), said that none of the justices evinced any support for business method patents generally, and he would not be surprised to see another 9-0 decision by the court denying patentability.

Will Software Patents Fall Too? Sterne disagreed with that prediction, but mostly because of an issue that theoretically was not at stake in the instant case—the patentability of software applications. He predicted a split decision similar to the court's most recent significant decision on patentability in *Diamond v. Chakrabarty*, 447 U.S. 303, 206 USPQ 193 (1980) (484 PTCJ A-1, 6/19/80), which was never mentioned in the oral arguments.

But Carmichael actually agreed with Sterne's view to some extent, though he still said the vote against Bilski's application would be unanimous. He said that a "pack of four"—Roberts, Breyer, Justice Anthony Kennedy, and Justice John Paul Stevens—appeared interested in invalidating software patents as well. Roberts criticized the government for, in its brief, saying that Bilski's patent could be patentable under a certain computer-based implementation.

Carmichael also described how Kennedy and Stevens engaged in a discussion with Stewart on the extent to which software can ever create a "new machine," and Breyer summed up that discussion by saying that if "all you do is just have a set of instructions for saying how to set a computer to do it . . . all the business patents are all right back in."

Wright was frustrated that the justices raising questions about computer use and software did not seem to appreciate the difference in claiming machines and processes. The government "tried to explain that *State Street* was addressed to claiming a machine and not a process, and that Bilski's claims involved a different statutory class," but the justices "kept pressing," he said.

But in any case, Carmichael said he did not see a fifth vote supporting a rule that would further limit software patents. "I don't think Justice Sotomayor will let them get away with it," he said, citing her repeated concern for the implications of the machine-or-transformation test on industries other than business methods. In particular, he noted that after Jakes agreed with Sotomayor's comment that "there is some benefit to society from patenting a method to cure someone that involves just human activity," she nodded vigorously and turned to the other justices to make her point clear.

Machine-or-Transformation Test Affirmance Unlikely. "They're either going to try a test broader than machine-or-transformation or provide clarification on what a transformation might include," predicted David M. Tennant of White & Case, Washington, D.C.

He agreed that there are probably enough votes on the court to save software patents, but expected that outcome might result from a clarification by the court of the transformation prong of the test. Indeed, the Federal Circuit's test was not definitive on the instances in which data may be transformed in a computer. Tennant said that one clarification, describing how "changing data to produce something new" would be patentable, might "cover the gray area that would not be covered by a strict machine-or-transformation test."

But he saw little reason to believe that the court would scrap the test altogether in favor of, for example, the simpler "no business methods at all" test proposed by Sotomayor. With that test, Tennant said, "You're still going to need some type of underpinning" to determine when you are dealing with a business method patent application. So you may well be back to an underpinning that says "not tied to any type of machine or transformation of physical matter," he said.

Wright said that the court could "stick with the machine-or-transformation test but make clear it could be extended in the future and should not be applied too rigidly" by federal courts. He was particularly surprised

that no justice nor either party referenced the Federal Circuit's recent decision in *Prometheus Laboratories Inc. v. Mayo Collaborative Services*, No. 2008-1403, 92 USPQ2d 1075 (Fed. Cir. Sept. 16, 2009) (78 PTCJ 635, 9/25/09). In that case, the appellate court clarified that methods of treatment almost always involve a transformation, which should have allayed the fears of many Bilski amici that the test would have dire results on the medical diagnosis and biotechnology industries.

So, maybe the Supreme Court will use *Prometheus* to clarify the test, Wright said, noting the recently filed certiorari petition in *Mayo Collaborative Services d/b/a Mayo Medical Laboratories v. Prometheus Laboratories Inc.*, No. 09-490 (U.S. review sought Oct. 22, 2009) (79 PTCJ 10, 11/6/09).

Or, Wright said, the justices could frame their ruling as a "surgical strike," creating a new judicially-recognized exclusion to statutory subject matter. It is unlikely that the exclusion would be "business methods," though, he argued, but more likely a bar against patenting "purely human interaction." The court could then sit back and allow development of the law related to the patentability of software or medical diagnoses independently.

But Should the Court Have Taken the Case at All? Wright's third option for the court's prospective ruling was to resolve the case on the narrow ground that Bilski's method is an abstract idea. That very question was posed by Justice Samuel Alito at the oral arguments, much to the chagrin of the government's counsel, who wanted a more definitive ruling on the machine-or-transformation test.

Indeed, Wright suggested that such an outcome was unlikely, since "it would not create new law and would demonstrate that the court made a bad decision to take this case."

Sterne saw the possibility of a decision to affirm the machine-or-transformation as one path to patenting, but with the additional ruling that it is not the exclusive test, and with the court then also following Alito's approach to make a narrow ruling on the Bilski claims only.

But Carmichael said that whether the court should have taken the case was an open question regardless, and he again suggested that the anti-software "pack of four" was behind the decision to grant certiorari.

"The good news is that the court appeared to be concerned about the impact of an overly broad ruling," in any case, Wright said. "I think they will be very careful not to do anything that will disturb large areas of patenting, with the exception of 'pure business methods,'" he said, citing as examples marketing methods, financial transactions that do not involve computers, methods of teaching, consulting methods, and ways of playing sports. "I would suspect those would go by the wayside after this ruling," he concluded.

BY TONY DUTRA

 Oral argument transcript at <http://pub.bna.com/ptcj/08964ArgTranscriptNov9.pdf>

Amicus briefs are available through the Supreme Court's docket, clicking on "merits briefs," at <http://www.supremecourtus.gov/docket/docket.html>