



PATENT, TRADEMARK & COPYRIGHT



VOL. 79, NO. 1944

JOURNAL

DECEMBER 4, 2009

Patents/Statutory Subject Matter

Stakeholders Revisit *Bilski* Oral Argument, Predict a Reasoned Decision by High Court

Three weeks after the U.S. Supreme Court's oral argument, stakeholders reflecting on the justices' questions and apparent leanings appear to be less anxious about a game-changing ruling on patentable subject matter in *Bilski v. Kappos*, No. 08-964 (U.S. argued Nov. 9, 2009) (79 PTCJ 33, 11/13/09).

Immediately after the case was heard Nov. 9, BNA solicited reactions from those in attendance (79 PTCJ 36, 11/13/09). Professors and practitioners alike, including amicus brief filers, generally expressed frustration that the justices seemed only have begun understanding the difficulty of devising tests for patentability.

In follow-up, BNA recently contacted other practitioners and amicus filers to gauge their reactions after unhurried readings of the transcript of the arguments. For the most part, concerns that the high court might overreach with a new patent-eligibility test were decidedly less marked.

However, each person responding agreed with earlier predictions that the court will find unpatentable the commodity hedging process at issue in *Bilski*, and some predicted the court's pronouncements on patentable subject matter will extend more broadly to computer-based business methods.

Hypothetical 'Absurdity'? During one sequence of the justices' questioning, it became clear that the counsel for the Patent and Trademark Office, Deputy Solicitor General Malcom L. Stewart, was concerned that the court would narrow patent-eligibility beyond the limits of the machine-or-transformation test, as his client was seeking a ruling against patentability only as to the subject matter in *Bilski*. Perhaps sensing Stewart's fear that the court might place broader restrictions on subject matter patentability, Justice Anthony Kennedy evoked a stutter from Stewart and laughter from the audience when he said, "you thought we would mess it up."

In follow-up interviews, BNA gave observers the opportunity to express the concern that the court would "mess it up," but none were that pessimistic.

In their initial reactions to the oral arguments, some of those commenting criticized the justices for apparently trying to one-up each other in presenting hypothetical examples of clearly non-patentable subject mat-

ter that would be patent-eligible under the petitioners' viewpoint. In an article titled "The Supreme Court v. Patent Absurdity," Wall Street Journal columnist L. Gordon Crovitz referred to this questioning as "judicial levity" and said that the justices "tickled themselves" in presenting the hypotheticals.

But Michael M. Murray of Milbank, Tweed, Hadley & McCloy, New York, characterized the questioning as merely signalling the justices' leaning in the case. "The Court seemed hostile to Petitioner's contention that essentially all processes should be eligible for patent protection" except fundamental principles, he said to BNA. "The Court cited several examples of processes that it implied would be absurd to patent, such as Justice Sotomayor's 'method of speed dating.'"

Robert J. Tosti of Brown Rudnick, Boston, on the other hand, told BNA that the questioning was nothing more than the court's typical effort "to test the limits on both sides." He noted that the hypotheticals confronting Stewart were equally challenging.

Accenture's Wayne P. Sobon, coauthor of an amicus brief on behalf of his company and Pitney Bowes Inc., sent BNA a statement that agreed with Tosti on that point, calling the hypotheticals "a series of seemingly far-fetched examples of 'clearly' unpatentable inventions—most, if not all, of which have actually been granted patents. But the Court equally attacked the Government's position and the machine-or-transformation test."

Sobon told BNA, "We are cautiously optimistic that while the Court seems likely to strike down the *Bilski* claims as (paraphrasing Chief Justice Roberts) 'not having enough physical steps,' they seem equally likely to overturn the Federal Circuit's test. Our hope is that the Court, as it has tended to do in recent patent cases, will decide the case on narrower grounds, perhaps following Justice Alito's one question—and the proposal of Accenture's amicus brief—about whether the claims could simply be rejected as too abstract, leaving other questions for other cases."

Court Will Make a Reasoned Decision. "I am confident that the court will make a reasoned decision and properly gauge the arguments presented as a generalist court," Robert C. Laurenson of the Howrey law firm, Irvine, Calif., told BNA. Laurenson was the author of an amicus brief filed on behalf of the San Diego Intellectual Property Law Association.

After reading the oral argument transcript, Laurenson counted at least seven votes on the high court for

affirming the PTO's rejection of the patent claims made by applicants Bernard L. Bilski and Rand A. Warsaw.

"The only question in my mind," he said, "is what test will the court apply in affirming the rejection of the Bilski claims. In any event, regardless of what test is ultimately adopted, based on the comments of several of the justices, particularly Justices Sotomayor, Breyer, and Roberts, I believe the court will adopt a test that is narrowly tailored to the facts of the case, and does not have unforeseen consequences in other areas, such as software and medical diagnostics, that are not implicated or raised by the facts of the *Bilski* case."

Laurenson took issue somewhat with the initial complaints by some that Roberts seemed to conflate Section 101 patentability and obviousness. Roberts criticized the Bilski patent claim by saying it was "classic commodity hedging that has been going on for centuries." Laurenson interpreted the comment as "relevant to showing that commodity hedging, widely practiced around the world for centuries, is a 'fundamental principle,' which is the threshold showing required to invoke the preemption mode of analysis."

In fact, Laurenson thought the court might well take this approach and affirm the rejection based on whether the claim seeks to preempt a "fundamental principle"—one of the judicially-recognized exclusions to patentability: an abstract idea, natural phenomenon, or law of nature. He described the preemption test as "where one looks to see if the claim recites a fundamental principle, and, if it does, then one looks to see whether the claim merely adds insignificant post-solution activity to the fundamental principle and/or merely seeks to limit use of the principle to a particular technological environment," citing *Diamond v. Diehr*, 450 U.S. 175, 205 USPQ 488 (1981) (519 PTCJ AA-1, D-1, 3/5/81), and *Parker v. Flook*, 437 U.S. 584, 198 USPQ 193 (1978) (385 PTCJ A-1, D-1, 6/29/78).

Laurenson offered two other rationales the court may use in affirming the rejection of the Bilski claims: (1) adhering to but allowing future modification of the machine-or-transformation test, or (2) holding business methods per se patent ineligible, at least without a machine tie. But he heard only Roberts, Sotomayor, and Scalia making comments on the former rationale, and he noted that even the respondents seemed to be against the latter.

The Court on Business Method, Software Issues. Other stakeholders consulted by BNA did not agree, though, on how to interpret the line of questioning by the justices on the machine prong of the Federal Circuit's machine-or-transformation test.

Murray's colleagues in the intellectual property practice group at Milbank Tweed generally agreed with Laurenson's recap of the proceedings, but they also predicted that the court will issue a decision that addresses computing-related issues that are not included in Bilski's claims, but which nonetheless appeared to hold much of the court's interest.

Echoing Laurenson's reliance on *Diehr*, Christopher E. Chalsen said, "I expect the court will continue to follow this type of approach, i.e., not disqualifying processes from eligibility merely because they include as a component nontraditional business type of steps as long as they are grounded in traditionally eligible processes or hardware types of environments."

His colleague, Blake Reese, shared Laurenson's overall impression that the court's approach was reasonable, given the breadth of the problem. "The court's understandably expressed frustration with formulating a reasonable patent eligibility test for the information age at least leads me to believe that they will invest a great amount of time and thought in drafting their opinion," he said.

Reese said that the court may well take the same approach as it did in *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398, 82 USPQ2d 1385 (2007) (74 PTCJ 5, 5/4/07), "and formulate a less rigid test that partly looks to the machine-or-transformation test, just like the *KSR* test still embraces the Federal Circuit's teaching, suggestion, and motivation test for obviousness, but relaxes the requirements for showing obviousness."

Some Measure of Concern Still. Robert Plotkin, a Boston-based patent attorney and author of the book, *The Genie in the Machine: How Computer-Automated Inventing is Revolutionizing Law & Business*, reiterated many of the Milbank Tweed team's comments, but expressed some measure of concern for the outcome.

"The questions from most of the Justices indicated that they understand the difficulty of crafting rules which draw the right line between patentable-eligible subject matter and non-patent-eligible subject matter," Plotkin said. "It also seemed that most of them were skeptical that a 'pure' business method—by which I mean a business method which is performed without the use of a computer or any other machine—should be patent-eligible."

But he said there is "a real risk" that the court will not decide "clearly enough to draw a sharp line between methods which are performed using machines and those which are not. If the decision is ambiguous on this point, it could raise questions about whether software is patentable, thereby calling into doubt the validity of tens of thousands of issued software patents."

As an example of the court's "confusion" on the issue, Plotkin pointed to justices' questions about the patent claims 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).

During the oral argument, Stewart tried unsuccessfully to distinguish those machine claims from process claims. He eventually told the court that a process claim covering State Street's "hub-and-spokes investment" invention would be patent-eligible if tied to a computer, characterizing that claim as an example of where "a person claims . . . to have invented a new machine." Justice Stevens responded, "I don't understand how that can be a patent on a machine if the only thing novel is the process that the machine is using."

Plotkin said that the act of programming a computer with software physically transforms the computer into a "new machine," something the Federal Circuit has recognized many times. "If Justice Stevens is confused about how a programmed computer can constitute a 'new machine,' then he might be inclined to rule that software is not patentable, at least as a product (machine, composition of matter, or article of manufacture under the Patent Act)."

"Any lack of clarity about this in the opinion could raise questions about the patentability of software unnecessarily," he said. "This kind of problem could take many years to resolve at great expense to all of the par-

ties involved, and for that reason I truly hope if the court decides to rule that business methods are not patent-eligible, it words its opinion very carefully.”

But Is It a ‘Silly Distinction.’ Tosti, who coauthored an “Analysis and Perspective” story for BNA elsewhere in this issue, agreed with Plotkin as to the potential for a result that affects software patents, but did not see the same confusion in the court’s focus on the use of a machine.

In fact, he characterized Stevens’s statements and questions as a justified attempt to resolve the “silly distinction” in the machine-or-transformation test, allowing a business method running on a computer to be patent-eligible while the same method without the computer is not. Rather than confusion, he said, “That indicates the justices do know what’s going on pretty clearly.”

Tosti, therefore, predicted that the court would have difficulty simply affirming the machine-or-

transformation test, “because it doesn’t seem to capture the essence of what is patentable subject matter and what isn’t.”

While he did not expect the court to “draw a line,” Tosti did expect the justices to “gravitate toward a test that sets some limits” on patent eligibility. That prediction would likely justify Plotkin’s fears, as Tosti added that the computer industry should generally be concerned the result “is going to hurt them a lot more than it’s going to hurt any other industry.”

BY TONY DUTRA

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

The parties’ and amicus briefs are available through the Supreme Court’s docket, clicking on “merits briefs,” at <http://www.supremecourtus.gov/docket/docket.html>