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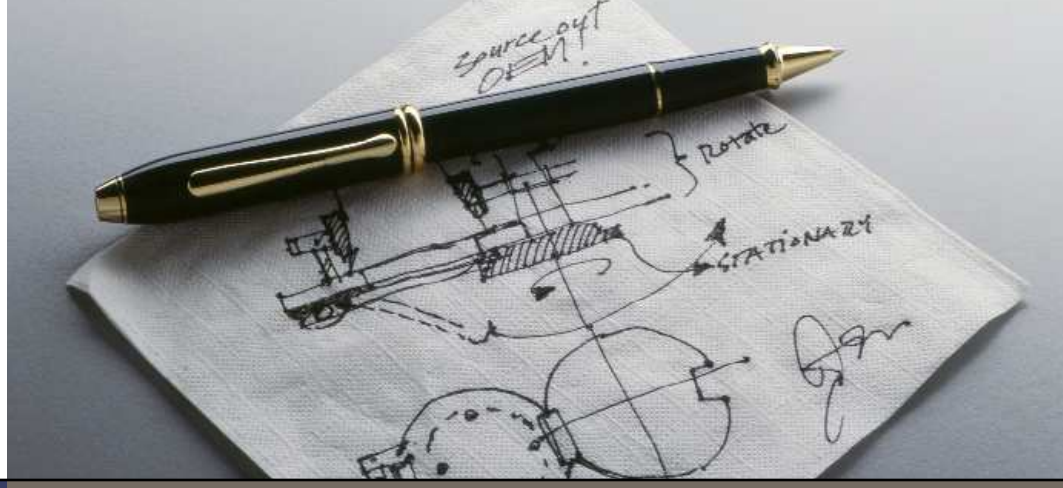

Intellectual Property Bulletin

THE U.S. SUPREME COURT HEARS ORAL ARGUMENT IN BILSKI

Introduction

In *Bilski v. Kappos*, the Court of Appeals for the Federal Circuit affirmed the Patent Office's rejection of Bilski's claims directed to a method for hedging risk in commodities trading. In its decision, the Federal Circuit set forth a machine-or-transformation test for determining whether a process or method is eligible for patenting under 35 U.S.C. §101. Under the Federal Circuit's machine-or-transformation test, a process is eligible for a patent if: "(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." The U.S. Supreme Court granted Bilski's petition to review the case and the oral argument was held on November 9 in Washington, D.C.

Arguments

Bilski's counsel, J. Michael Jakes, argued that the machine-or-transformation test is too rigid and that the test limits patentable subject matter beyond Congress's intent when establishing the patent system. He asked the Court to strike down the machine-or-transformation test and make patent eligibility determinations based on the language of the statute and established Supreme Court precedent. The statute states that "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefore." Supreme Court precedent in *Diamond v. Diehr* establishes that "anything under the sun that is made by man" except laws of nature, natural phenomena and abstract ideas is patentable subject matter.

Deputy Solicitor General, Malcolm L. Stewart, represented the Patent Office and argued that the machine-or-transformation test establishes the right balance for determining patentable subject matter eligibility and that the test is in accordance with the original understanding of the U.S. Constitution and the patent statute, as well as with Supreme Court precedent.

The Court's Questions

During oral argument, the Justices of the Supreme Court appeared to struggle with their decision in this case and its implications. The questions raised by the Court suggest that they are not persuaded that Mr. Bilski's claimed process is entitled to patent protection. The real issue of contention in the case seems to be why. On one hand, the Court seems to be seeking a test that limits patentable subject matter eligibility to exclude patent claims such as Mr. Bilski's, which the Federal Circuit's machine-or-transformation test does. On the other hand, the Court is concerned that the machine-or-transformation test may be overly restrictive and, thus, that it may impair the development and protection of future technologies.

Justice Scalia began the questioning. After pointing out that the Constitution grants Congress the power to establish a patent system to protect the "useful arts," Scalia asked whether the term "useful arts… means manufacturing arts… not somebody who writes a book on how to win friends and influence people… that [useful arts] was always thought to deal with machines." Scalia's questions seem to indicate his view of the machine prong of machine-or-transformation as not overly restrictive. Scalia also seems to endorse the transformation prong when in reference to the Morse Code patent he said "[s]ound has been transformed into current and current is transmitted over the wire and then transformed back at the other end into sound… it clearly would have been covered by the [machine-or-transformation] test."

Justice Breyer asked whether the Court should err on the side of more limitation, and thus affirm machine-or-transformation, and "if you leave something out, Congress can put it back in." He was also concerned with whether business methods patents impede progress by "forc[ing] any possible competitor to do a search and then stop the wheels of progress." Justice Breyer confessed to not knowing "how to make the balance." "I don't know whether across the board or in this area or that area patent protection will do harm," he said. Justice Breyer expressed his concern with machine-or-transformation and ask both parties for alternatives.

Justice Ginsburg cited examples of processes that she, presumably, does not believe involve patentable subject matter such as "an estate plan, tax avoidance, how to resist a corporate takeover, [and] how to choose a jury" that would be patentable under Mr. Bilski's proposed interpretation of the statute. She also seemed to propose an alternative test when she asked whether patentable processes should be

"technology-based" as they are in Europe. At the end, however, Ginsburg seems to want to decide this case narrowly and perhaps by affirming the Federal Circuit. She cited Judge Mayer's Federal Circuit opinion stating that machine-or-transformation "has a simplicity to it." She went on to state that "this case could be decided without making any bold steps."

First term Justice, Sonia Sotomayor, also seemed concerned with striking the right limiting balance when she asked: "how do we limit it [patentable subject matter] to something that is reasonable?" Is there "benefit to society from patenting a method… that involves just human activity, as opposed to some machine, substance, or other apparatus to help that process?" Her line of questioning may be interpreted as some level of endorsement for machine-or-transformation. However, she also asked the Solicitor whether the safer practice would be to ban business methods outright, to which the Solicitor made clear that the government did not seek the ban of business methods patents as a category. Justice Sotomayor also requested the Solicitor to help her devise a test that would exclude claims such as Bilski's, but "that doesn't go to the extreme the Federal Circuit did."

Bilski's argument that "anything under the sun made by man" except laws of nature, natural phenomena and abstract ideas is patentable subject matter, prompted Chief Justice Roberts to ask "[h]ow is [Bilski's claim 1] not an abstract idea?... Claim 1, it seems to me, is classic commodity hedging that has been going on for centuries." Bilski's counsel responded that if that was the case, the patent application's claims should have been rejected for anticipation under 35 U.S.C. §102 or obviousness under 35 U.S.C. §103, but not as being unpatentable subject matter because the physical steps necessary in a commodity hedging process are not abstract ideas.

The Chief Justice also seemed concerned with the ease with which an otherwise unpatentable process may become patentable under machine-or-transformation by involving a machine in the form of a computer to help with some step in the process and the difficulty of determining how much involvement is enough.

Justice Kennedy had similar concerns. He argued that the physical steps taken by an insurance company to determine policy premiums have been known for centuries, however, under Mr. Bilski's interpretation, a patent claim claiming these physical steps would be patentable subject matter. Thus, a common sentiment within the Court seems to be that what Bilski seeks to claim was known or obvious. The Court's concern in this regard seems to confuse the requirements of 35 U.S.C. § 101 regarding patentable subject matter eligibility with those of § 102 novelty and § 103 obviousness.

Justice Kennedy seems to endorse the machine prong of the machine-or-transformation test when he expressed his concern about processes that produce things that "cannot be touched or seen or things that do not look like a machine." He also seems comfortable with the transformation prong and processes that take "electronic signals and turning them into some other sort of signal." He declared that "that's not what [Bilski is] doing." Finally, Kennedy also stated that in his view machine-or-transformation is consistent with the Federal Circuit's precedent in *State Street Bank*, the case that first allowed a patent for a business method because the claim in *State Street Bank* recited a machine.

Justice Stevens seemed to read the Court's precedent in *Diamond v. Diehr* as not taking into account subject matter of the type claimed by Mr. Bilski, and, therefore, *Diehr* not precluding the Court from affirming machine-or-transformation or establishing a new test to address this type of claims. Stevens also mentioned that he admired Judge Rich, one of the main drafters of the current patent statute and the author of the *State Street Bank* opinion. This pronouncement on the part of Justice Stevens may be interpreted as his endorsement of at least the machine prong or machine-or-transformation.

Various Justices including Breyer, Alito, and Ginsburg seemed to be looking for narrow grounds for a decision, perhaps by holding that Bilski's patent claim was not patentable subject matter because it was directed to an abstract idea in violation of the Court's precedent. This would mean that the Court would issue a decision based on Bilski's claim being directed to an abstract idea and not rule on machine-or-transformation allowing the test to be elaborated on and tested in the lower courts.

Software and Medical Diagnostics Patents

As far as software and medical diagnostics patents, a number of Justices seems to be in agreement that *Bilski* is not the proper case to make a pronouncement on these issues. In fact, the Solicitor asked the Court to not address software and medical diagnostics patents at this time, but leave them for a later case, and agreed that this case is not a proper vehicle for resolving those issues because Bilski's were not software or medical diagnostics patent claims.

Conclusion

In summary, the oral argument suggests that the Supreme Court will affirm the rejections of the Bilski patent claims on grounds of unpatentable subject matter. However, the decision could be grounded in the doctrine that the law does not protect abstract ideas and thereby leave in place the Federal Circuit's machine-or-transformation test. Finally, it appears unlikely that the Court will address the patent eligibility of software and medical diagnostics patents in its opinion.

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