



Intellectual Property Law Information Memo

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THE SUPREME COURT HEARS ORAL ARGUMENTS IN *BILSKI V. KAPPOS*

On November 9, 2009, the Supreme Court of the United States heard oral arguments in the patent case of *Bilski v. Kappos* (formerly *Bilski v. Doll*), which revolves around whether methods, particularly business methods, are patentable subject matter under § 101 of the Patent Act.

On April 10, 1997, applicants Bernard Bilski and Rand Warsaw filed U.S. Patent Application Serial No. 08/833,892 directed to a method of hedging risk in the field of commodities trading. During prosecution of the application the examiner rejected all 11 claims under 35 U.S.C. § 101 as being directed to nonstatutory subject matter. The Board of Patent Appeals and Interferences affirmed the examiner's decision (although on other grounds), holding that since there was no transformation of physical subject matter from one state to another, nor any "useful, concrete, and tangible result," the claims were not patentable subject matter. *Ex parte Bilski*, No. 2002-2257, 2006 WL 5738364 (B.P.A.I. Sept. 26, 2006).

On appeal at the Court of Appeals for the Federal Circuit the case was heard by a panel and then *en banc*, which was ordered *sua sponte* by the court. A decision was issued on October 30, 2008. *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008). In the decision the Federal Circuit affirmed the rejection of the claims 9-3, holding that in prior patent cases the Supreme Court had "enunciated a definitive test" for method claims: "[a] claimed process is surely 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." The court held that this new test was "the only applicable test" for patentability under § 101, effectively overruling an earlier decision by the court in *State Street Bank* which relied on a "useful, concrete, and tangible result" test. The court went on to hold that the claims in question failed to satisfy either prong of the newly-articulated legal test.

The applicants appealed the Federal Circuit's decision to the Supreme Court which granted certiorari in the case on June 1, 2009 for the following two questions:

- (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.

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Although it is impossible to predict exactly how the Court will decide the case, the questions asked by the Justices during the oral arguments suggest that they too are struggling to articulate or apply a test of patentability under § 101 that maximizes innovation without stopping “the wheels of progress.”

J. Michael Jakes, the attorney for *Bilski* and Warsaw, began by arguing that the Federal Circuit’s machine-or-transformation test was “rigid and narrow” and not supported by either precedential opinions or the patent statute. In response, several Justices proposed methods they appeared to believe were not patentable and asked Jakes whether and why he believed they should be patentable. Justice Breyer, for example, drew laughter when he suggested his own “great, wonderful, really original method of teaching antitrust law... [that] kept 80 percent of the students awake.” Justice Scalia suggested methods employed by “horse whisperers,” while Justice Ginsberg suggested methods for “an estate plan, tax avoidance, how to resist a corporate takeover, [and] how to choose a jury...” In each case, Jakes replied that the proposed method could be patentable if it satisfied the novelty and non-obvious requirements.

Justice Sotomayor, the newest member of the Court and a former intellectual property attorney, also appeared to be struggling with exactly how § 101 limits patentability, posing the following to Jakes:

“So how do we limit it to something that is reasonable? Meaning, if we don’t limit it to inventions or to technology, as some amici have, or to some tie or tether, borrowing the Solicitor General’s phraseology, to the sciences, to the useful arts, then why not patent the method of speed dating?”

Later, she posed a very similar question to the government’s attorney:

“So help us with a test that doesn’t go to the extreme the Federal Circuit did, which is to preclude any other items, something we held open explicitly in two other cases, so we would have to backtrack and say now we are ruling that we were wrong, and still get at something like this?”

The first half of the oral argument ended with a discussion of a patent for Morse code and Alexander Graham Bell’s patent for transmitting sound electronically, with Jakes arguing that those claims might not have passed the Federal Circuit’s current machine-or-transformation test. Justice Scalia, however, countered that Bell’s claim “clearly would have been covered by” the government’s test.

In response, Deputy Solicitor Malcolm J. Stewart stated that the government would prefer that the Court decide *Bilski* by affirming the “basic principle that some link to a machine or transformation is necessary,” leaving for the PTO and the Federal Circuit to examine down the road the harder issues that arise when “part of the process is machine-implemented and another part is not.”

Several Justices then proceeded to propose their own hypothetical tests, with Justice Sotomayor suggesting “something as simple as patent law doesn’t cover business matters” and Justice Scalia proposing a test stating “that in the limited area of business methods, if there is no machine or transformation there is no patent eligibility.”

Getting back to the Deputy Solicitor’s initial statements, Chief Justice Roberts highlighted the last footnote in the government’s brief which stated that if part of the claim had been tied to a microprocessor, it might have been patentable. The Justice analogized the footnote to a hypothetical situation in which using a typewriter to type something out would render a previously unpatentable claim patentable, and argued that the footnote “takes away everything that you spent 53 pages establishing.”

A full transcript of the hour-long November 9th oral argument is available online at http://www.supremecourtus.gov/oral_arguments/argument_transcripts/08-964.pdf.

Since the Federal Circuit’s decision, applicants, patentees, practitioners, judges, and even the Federal Circuit itself has struggled with interpreting the impact of *Bilski*. Although a decision from the Supreme Court could possibly affirm the Federal Circuit’s § 101 test or articulate a new one, it is unclear whether a decision from the court will provide any firm insight to applicants and patentees evaluating the validity of their existing method claims.

A decision in *Bilski v. Kappos* is expected sometime before the end of the current Supreme Court session which ends in late June or early July 2010.

If you have any questions, please contact George R. McGuire, Chair, Intellectual Property Practice Group, at 315-218-8515 or gmcguire@bsk.com.