Summary of the *Bilski v. Kappos* Oral Argument

Before the U.S. Supreme Court

*By Linda X. Shi*

The *Bilski v. Kappos* oral argument before the U.S. Supreme Court is perhaps the most hotly anticipated argument of the year for the field of patent law, with over seventy *amicus* briefs filed by patent practitioners, legal academics, trade associations, and large corporations such as Microsoft, IBM, and the Bank of America. The *Bilski* oral argument took place on November 9, 2009, and the Court attempted to define the line for patentability of business methods.

The claims at issue were directed to a method for hedging risk in the field of commodities trading, where a “commodity provider” serves as an intermediary by buying commodities at a fixed price from the suppliers and then selling those commodities at a second fixed price to consumers. After the USPTO Board of Patent Appeals and Interferences sustained the rejection of all the claims as not directed to patent-eligible subject matter under 35 U.S.C. § 101, the patentee appealed to the Federal Circuit. In an *en banc* decision, the Federal Circuit found the “machine-or-transformation test” to be the governing test for determining patent eligibility of a process under § 101, rejecting previous tests such as the Freeman-Walter-Abele test, the “useful, concrete and tangible result” inquiry, and the “physical steps” test. Since the claims at issue are neither tied to a particular machine nor transform an article to a different state or thing, the court affirmed the Board’s rejection of the claims for lack of patentable subject matter.

Arguing on behalf of the Petitioners Bernard L. Bilski and Rand A. Warsaw was J. Michael Jakes of the D.C. firm Finnegan, Henderson, Farabow, Garrett & Dunner, LLP. I met him briefly while waiting in line with a group of Finnegan associates, and he seemed remarkably calm for someone who was about to argue before the Supreme Court. That composure carried through the entire argument, where he argued the Petitioners’ case first before the Court.

After Mr. Jakes made his opening statement, arguing that the Federal Circuit’s “rigid and narrow machine-or-transformation test” was contrary to Supreme Court precedent and should be reversed, the Justices jumped in quickly with their questions. True to his reputation, Justice Scalia fired off the first question
regarding how to define the “useful arts” and what should and should not be included in that category. Both Justices Ginsburg and Justice Breyer voiced their concern over broad patentability of general processes like estate planning, tax avoidance, corporate takeover strategies, and jury selection. Justice Breyer wondered if the Constitution’s framers had business methods in mind when they suggested protecting “useful arts.”

Mr. Jakes remained calm and unfazed during the questioning, and responded that while the hypotheticals raised by the Justices may be eligible for patenting as processes, they must still meet the other statutory requirements. Throughout the oral argument, Mr. Jakes also emphasized that abstract ideas are not patentable, but that the “machine or transformation” test was not the sole standard to determine patentability of processes.

Justice Sotomayor, the newest member of the Court frequently spoke during the oral argument, starting with questions on how to limit the patenting of processes to “something that is reasonable” and why human activities should be covered by the term “useful arts.” Mr. Jakes quickly responded that human activities are in fact patentable, and used the example of a surgical method performed by a doctor, which is patent-eligible subject matter that Congress has carved out an infringement exception for in § 287(c). Justice Sotomayor then questioned whether patenting such activities benefits society and is in line with the intent of the patent law. After Mr. Jakes answered in the affirmative, Justice Breyer pondered whether he could patent a “great, wonderful, really original method of teaching antitrust law” that would keep 80 percent of the students awake, which was met with laughter from the audience. Unshaken, Mr. Jakes maintained that even Justice Breyer’s “fabulous” teaching method is “potentially” patentable.

Justice Ginsberg’s questions focused on a “technology” based standard for patentability of business methods, similar to the standard used in the European patent system, which does not allow business method patents. It appeared that the Justice was suggesting an alternative “technological arts test” had been proposed by several amici and previously rejected by the Federal Circuit. Mr. Jakes responded that although such a standard might work in other systems, the U.S. patent system grants broader patent protection. In addition, using a “technology” based standard would depend largely on how one defines “technology,” and would not help resolve the ambiguities in business method patents. I spoke to an associate from Finnegan who worked on the Petitioners’ brief after the oral argument, and he suggested reading IBM’s amicus brief in this case, which also focused on the “technological arts” standard.

The Court’s concerns were perhaps best summed up by Justice Breyer, who enumerated the pros and cons of the patent system and the need to balance granting inventors protection and encouraging public disclosure, but also ensuring
that protection does not become too costly or destroy technological advances. Justice Breyer then stated:

In the nineteenth century, they made it one way with respect to machines. Now you’re telling us, make it today in respect to information. And if you ask me as a person how to make that balance in respect to information, if I am honest, I have to tell you – I don’t know. And I don’t know whether across the board or in this area or that area patent protection will do no harm or more harm than good. So that’s the true situation in which I find myself in respect to your argument. And it’s in respect to that, I would say: All right, so what do I do?

After a moment of contemplation, Mr. Jakes answered “I think the answer is to follow the statute,” to which the Justice dryly responded “Well, thank you. I thought that was the issue, not the answer,” which was met with a round of audience laughter.

Malcolm L. Stewart argued on behalf of the Respondent, the Director of the USPTO. Mr. Stewart started with a discussion of the Morse code and Alexander Graham Bell telephone cases, which the Justices had questioned Mr. Jakes on. Mr. Stewart focused on the fact that patentability in those cases hinged on methods that “operated in the realm of the physical.” In addition, Mr. Stewart stressed that the Federal Circuit’s machine-or-transformation test was not rigid or inflexible because it “leave[s] for another day the hard questions,” such as when part of a process is machine-implemented and another part is not. Mr. Stewart argued that it was important to first establish the “basic principal that some link to a machine or transformation is necessary” before the USPTO and the Federal Circuit can develop more precise rules on when links to machines are sufficient to qualify for patent eligibility.

Justice Sotomayor expressed concern that the application and effect of the “machine or transformation” test is unclear, especially when one considers the impact it may have on various industries, and suggested a strict ban on all business methods. In response, Mr. Stewart argued that a strict rule banning all business method patents would also leave out certain machines that would are innovative because they perform novel business methods. Later, Justice Ginsberg again suggested the merits of a “technological arts” test by pointing to Circuit Judge Mayer’s dissent in In re Bilski, finding the test to “have a simplicity to it.” Like Mr. Jakes before him, Mr. Stewart argued that limiting the patentability inquiry to whether “technology” is involved would not make the analysis easier, and would raise problems of its own.

Justice Breyer felt that the Federal Circuit, in its In re Bilski decision, has “pulled back” from allowing business method patents, but has left many unresolved
questions, including: 1) how broad/narrow the “transformation” aspect of the machine-or-transformation test is; 2) whether merely adding computer to a business method patent claim can satisfy the machine-or-transformation test; and 3) whether there may be an invention that is neither a machine nor a transformation but is nevertheless patentable.

Mr. Stewart never got to respond fully to those points, as he was interrupted by Chief Justice Roberts, who stated “I thought I understood your argument up until the very last footnote in your brief.” The Chief Justice was likely referring to footnote 30 of the Respondent’s brief, which stated that the Petitioners’ claims “might satisfy the machine-or-transformation definition if they involved a machine implementation central to the process of hedging. For example, the method might be patent-eligible if it conducted hedging transactions online, using a computer network to identify counterparties and initiate the transactions, and a microprocessor to calculate the fixed purchase price.” Chief Justice Roberts’ concern seemed to be that the machine-or-transformation test could be circumvented by even “the most tangential and insignificant use of a machine.” The Chief Justice listed a number of analogies, including: looking up something on a computer versus the Yellow Pages; using a calculator to perform a mathematical operation instead of doing it by hand; and identifying counterparties to a transaction through a computer search function.

While the Chief Justice stated that he didn’t mean to dwell on that footnote, he felt that it “takes away everything that [the Respondent] spent 53 pages establishing.” Mr. Stewart tried to clarify that the footnote only identified potential situations where the use of a machine “might be enough,” and the USPTO would have to review those facts in the context of an actual application. Mr. Stewart emphasized that the Court should not use this particular case “as the vehicle for identifying the circumstances in which innovations . . . would and would not be patent eligible,” because the case doesn’t represent all technologies, such as in the area of software innovations or medical diagnostic techniques.

In a four minute rebuttal argument, Mr. Jakes stressed that instead of using the machine-or-transformation test as the “sole test” for all processes, the proper focus should be on whether an applicant is attempting to patent an abstract idea. Focusing on a “transformation” would be a matter of form over substance, because the question pertinent to patentability should be whether a process is a “practical application of a useful result.” Mr. Jakes concluded that because the Bilski patent application is directed to a process “rooted in the real world” with practical application and physical steps, it is not merely an abstract method and should be eligible for examination.

After the Court adjourned, I spoke to some of the other attendees to get their thoughts on the oral argument. Like me, they did not feel the Court was noticeably
favoring either side. Although I felt the Court peppered the Petitioners with
tougher questions, I did not get the impression that the Court was comfortable with
adopting the machine-or-transformation test as the sole test for business method
patents. Although some of the Justices’ questions seemed tangential and not really
relevant to the specific issue at hand, that may have been the Court’s way of getting
a “big picture” view of what the machine-or-transformation test would mean in a
broad sense and how it would affect industries and innovation. Justice Breyer’s
questions, in particular, seemed to struggle with how to properly draw the line for
process patents. Other attendees expressed the view that it appeared as if the
Court did not want to hold for the Petitioners because of the specific patent-at-issue,
but also did not like the Federal Circuit’s adaptation of the machine-or-
transformation test as the sole test for whether processes are patent eligible. It
would not be surprising to see the Court take a KSR approach where they hold that
the machine-or-transformation test is merely one of the tests to be used when
determining patentability of business methods, but not the only test. As Mr.
Stewart noted in his response to Justice Kennedy’s joking comment that the
Respondent thought the Court “would mess it up,” the Bilski case may be an
“unsuitable vehicle for resolving the hard questions.”