Federal Trade Commission

Antitrust Implications of the Supreme Court's 2009-2010 Docket

Remarks of J. Thomas Rosch[*]
Commissioner, Federal Trade Commission

at the

Association of Corporate Counsel Antitrust Program

Richmond, Virginia

March 31, 2010

The Supreme Court was expected to hand down three decisions this Term with implications for antitrust enforcement. To be sure, only one of the cases, *American Needle v. NFL*, involves the Court's interpretation of a federal antitrust statute. But the other two cases – *Jones v. Harris*, a securities case and *Bilski v. Kappos*, an intellectual property case – may have broader ramifications than some may realize.

I.

The case that directly involves an antitrust claim, is *American Needle v. NFL.*[1] In *American Needle,* the Court will address whether the NFL is subject to antitrust scrutiny for granting Reebok an exclusive license to market NFL-branded headwear.

[*] The views stated here are my own and do not necessarily reflect the views of the Commission or other Commissioners. I am grateful to my attorney advisor, Darren Tucker, for his invaluable assistance in preparing this paper.

The Supreme Court has addressed antitrust issues arising from the sports industry many times. This is not surprising given the financial success of professional sports and the necessity of coordination among teams, which, like other joint conduct, has the potential to raise antitrust concerns. The NFL, unlike major league baseball, is subject to the antitrust laws. In 1922, the Supreme Court exempted major league baseball from the antitrust laws, finding that the game did not constitute interstate commerce.[2] In contrast, the Supreme Court and lower courts have held that other professional sports, including football, *are* subject to the antitrust laws.[3] There is no principled reason for baseball's special treatment, but its immunity remains on the books.[4]

The NFL is the most successful professional sports league in the United States today based on a variety of metrics.[5] The NFL is an unincorporated association of 32 separately-owned and operated teams that offers viewers approximately 250 annual games culminating in

---

[1] *American Needle Inc. v. NFL*, 538 F.3d 736 (7th Cir. 2008).

[2] *Fed. Baseball Club v. Nat'l League of Prof'l Baseball Clubs*, 259 U.S. 200 (1922).

[3] *United States v. Int'l Boxing Club*, 348 U.S. 222 (1955) (boxing); *Radovich v. NFL*, 352 U.S. 445 (1957) (football); *Haywood v. NBA*, 401 U.S. 1204 (1971) (basketball); *Deesen v. Professional Golfers' Ass'n*, 358 F.2d 165 (9th Cir. 1966) (golf); *Petro v. Madison Square Garden Corp.*, 1958 Trade Cas. (CCH) 69,106 (S.D.N.Y. 1958) (hockey).

However, in 1961, Congress passed the Sports Broadcasting Act, which permits the NFL and other professional sports teams to sell their television broadcast rights as a package. 15 U.S.C. § 1291.

[4] While recognizing that baseball's antitrust exemption is an "anomaly," the Supreme Court has twice affirmed its 1922 decision granting immunity. *See Flood v. Kuhn*, 407 U.S. 258, 282 (1972); *Toolson v. New York Yankees, Inc.*, 346 U.S. 356 (1953) (per curiam).

[5] *Forbes* magazine recently noted that the "finances of the NFL remain unparalleled in professional sports," with revenues of $7.6 billion and an average team enterprise value of $1 billion. Kurt Badenhausen, Michael K. Ozanian & Christina Settimi, *Recession Tackles NFL Team Values*, Forbes, Sept. 2, 2009.

the Super Bowl. For these games to occur and to be successful requires extensive coordination between the teams in matters such as the rules of play, scheduling, and promotion.

In the early 1960s, the teams decided to collectively promote the NFL brand to compete against other types of entertainment. As part of this effort, the NFL licensed vendors to make and sell consumer products bearing team logos and trademarks. For several decades, the NFL granted licenses to make headwear – essentially baseball caps – to several companies, including American Needle. In 2000, the NFL changed course and decided to offer an exclusive headwear license for ten years to the highest bidder. Reebok won, and American Needle lost its license.

American Needle responded by filing an antitrust action under the Sherman Act in federal district court. American Needle claimed that the NFL's exclusive license to Reebok was in fact a conspiracy among the teams to restrain competition for headwear. According to American Needle, the 2000 agreement and subsequent license to Reebok eliminated competition and independent decisionmaking that had previously existed among the teams.

The NFL argued that it was immune from liability under the Supreme Court's decision in the *Copperweld* case, which held that a parent corporation and its wholly-owned subsidiaries are a single entity for antitrust purposes.[6] In *Copperweld*, the Court explained that a corporate parent-subsidiary relationship is "guided or determined not by two separate corporate consciousnesses, but one," and accordingly any so-called agreement between the two does not deprive the marketplace of any independent sources of economic power.[7] The NFL argued that it fell within the *Copperweld* exception because the individual NFL teams functioned as a single

[6] *Copperweld Corp. v. Indep. Tube Corp.*, 467 U.S. 752, 771 (1984). Section 1 of the Sherman Act prohibits a "contract, combination . . . or conspiracy, in restraint of trade." As these words suggest, Section 1 requires at least two people acting in concert for a violation; a single person or entity acting alone cannot, by definition, violate Section 1.

[7] *Id*. at 769-71.

entity when promoting NFL football and because licensing was an essential part of this promotional activity. The district court agreed and granted the defendants summary judgment.

The Seventh Circuit affirmed in a unanimous opinion, explaining that "the NFL teams are best described as a single source of economic power when promoting NFL football through licensing the teams' intellectual property."[8] In reaching this conclusion the court rejected any consideration of the extent to which "the NFL teams could [have] compete[d] against one another when licensing and marketing their intellectual property."[9] The panel also seemed to place a lot of weight on the fact that football teams had collectively licensed their trademarks for several decades.

What happened next was unusual. Both American Needle *and* the NFL urged the Supreme Court to grant certiorari, pointing to a circuit split on the issue of whether a sports league can be a single entity under *Copperweld*. You are no doubt wondering why the NFL sought review of a decision in its favor. As Drew Brees, quarterback of the Super Bowl Champions New Orleans Saints, wrote in a Washington Post op-ed: "It was an odd request – as if I asked an official to review an 80-yard pass of mine that had already been ruled a touchdown."[10] While the NFL won in the Court of Appeals, it did so on narrow grounds, arguably with no application to other aspects of its operations. The NFL apparently hoped for a broader holding that would immunize more of its activities.

When asked for its views, the U.S. Solicitor General's office argued against certiorari on the grounds that the Seventh Circuit's decision was narrow, that there was no circuit split, and

[8] *American Needle*, 538 F.3d at 744.

[9] *Id*. at 743.

[10] Drew Brees, *Saints' Quarterback Drew Brees Weighs in on NFL's Supreme Court Case*, Washington Post, Jan. 10, 2010.

that a case involving a sports league was not an appropriate way to address *Copperweld*-type issues.[11] The Court granted certiorari nonetheless.

The case generated a fairly meager number of amicus briefs, almost all of which from within the professional sports business.[12] This was somewhat surprising because a ruling from the Supreme Court adopting the NFL's position could potentially immunize a wide swath of conduct outside the sports context.[13] The FTC and DOJ submitted a joint amicus brief on the merits recommending reversal of the Seventh Circuit but disagreeing with the approaches advocated by both parties. Instead, the agencies asserted that "the NFL and its member teams should be regarded as a single entity for some but not all aspects of the league's operations."[14]

At oral argument, the Court was skeptical of both sides' arguments. There appeared to be little support for the NFL's position that sports leagues are single entities for all purposes,[15] just as there appeared to be little support for American Needle's position that sports teams are

---

[11] Brief for the United States as Amicus Curiae, American Needle, Inc. v. NFL, No. 08-661 (U.S. May 2009). I did not participate in the FTC's involvement in the case at either the merits or certiorari stage due to my prior representation of Reebok.

[12] Other sports leagues supported the NFL, while players unions and an association of coaches noted that a broad ruling could cripple competition in their respective labor markets.

[13] *See* Chris Sagers, *American Needle*, *Dagher*, *and the Evaloving Antitrust Theory of the Firm: What Will Become of Section 1?*, Antitrust Source, Aug. 2009, at 1 ("If the Court affirms, and particularly if it does so in explicit reliance on *Dagher*, then *American Needle* could, as a practical matter, do significant damage to the enforceability of Section 1 of the Sherman Act . . . .").

[14] Brief for the United States as Amicus Curiae Supporting Petitioner at 13, American Needle, Inc. v. NFL, No. 08-661 (U.S. Sept. 2009).

[15] Several Justices appeared concerned about adopting a rule that would immunize NFL conduct beyond certain core activities of a league, such as establishing rules and scheduling. *See* Transcript of Oral Argument at 49-63, American Needle Inc. v. NFL, No. 08-661 (U.S. Jan. 13, 2010). In addition, several justices appeared skeptical that licensing of NFL trademarks was essential to the promotion of the league (as opposed to a means of raising revenue by the individual teams). *Id*. at 46-48, 53, 61.

separate entities in all aspects of their operations.[16] Instead, the Court seemed to be searching for a middle ground. Several of the justices – perhaps a majority – appeared to want a fact-intensive inquiry as to the necessity of a particular joint activity to the success of the game.

My reading of the tea leaves is that the Court is likely to reverse the Seventh Circuit and remand with instructions to apply a fact-intensive test along these lines. This would be a victory for plaintiffs but would still leave many hurdles for plaintiffs to establish liability.

Without yet knowing the outcome of the case, let me offer some thoughts on potential implications of the Court's decision. First, the current Supreme Court continues to be very interested in antitrust. *American Needle* will be the eleventh antitrust decision in the last six terms, which is nearly two decisions a term. By comparison, the Court averaged less than one decision a year in the prior fifteen terms.[17]

Second, *American Needle* is the first opportunity to see how Justice Sotomayor approaches antitrust cases as a Supreme Court justice. Her questions at oral argument suggested that, like the other Justices, she was not inclined to support either side's argument and was searching for a middle ground. I should mention that *American Needle* is not her first exposure to antitrust law as a jurist. Not long before her elevation to the Supreme Court, she participated as a circuit court judge in an antitrust case that was surprisingly similar to *American Needle*

[16] Referring to the game's rules and schedule, Chief Justice Roberts stated that "[t]here are some things that it just seems odd to subject to a rule of reason analysis." *Id*. at 24. Justices Kennedy and Alito echoed this concern. *Id.* at 6-9.

[17] I have previously discussed why the current Court is so interested in antitrust. *See* J. Thomas Rosch, Commissioner, Fed. Trade Comm'n, The Supreme Court's Antitrust Jurisprudence: Will The Past Be Prologue?, Remarks before the Antitrust Section of the Connecticut Bar Association 8-11 (Apr. 23, 2008), *available at* http://www.ftc.gov/speeches/rosch/090423robertscourt.pdf.

involving the licensing of major league baseball trademarks.[18] The case is also not her first exposure to sports law, as she is credited for ending the 1994-1995 Major League Baseball strike when she issued a preliminary injunction prohibiting the league from implementing a new collective bargaining agreement and using replacement players.[19]

Third, the case is significant for the fact that the FTC and DOJ's joint amicus brief supported a plaintiff for the first time in many years.[20] Likewise, if the Court reverses the Seventh Circuit, this will be the first time the Supreme Court has ruled for an antitrust plaintiff in recent memory. Over the past six terms, the Supreme Court has curtailed the reach of the federal antitrust laws in a number of respects. Would a plaintiff victory in *American Needle* suggest a shift in the Court's outlook on antitrust? I think it would be too early to draw that conclusion. Indeed, several of the Justices at oral argument, including Justice Sotomayor, indicated concern about the cost of antitrust litigation and the risk of treble damages – concerns that animated several of the Court's recent decisions curtailing antitrust liability such as *Twombly* and *Billing*.

Finally, the Court's ruling could have significant ramifications for football fans and players. The current NFL collective bargaining agreement expires after the next season. Some have argued that a broad ruling in favor of the NFL could give the league additional leverage in its negotiations with the NFL Players Association by shielding the league from antitrust lawsuits by the players. For this reason, the president of the NFL Players Association told a

[18] *Major League Baseball Properties v. Salvino, Inc*., 542 F.3d 290 (2d Cir. 2008). That case held that MLB's joint licensing arrangement should be evaluated under the rule of reason. In her concurring opinion, then-Judge Sotomayor, while not addressing *Copperweld*, expressed concern about immunizing joint conduct simply because of a "joint venture" label.

[19] *Silverman v. Major League Baseball Player Relations Committee, Inc.*, 880 F. Supp. 246 (S.D.N.Y.), *aff'd*, 67 F.3d 1054 (2d Cir. 1995).

[20] *See* Table 1 *infra*.

congressional subcommittee that a ruling in the NFL's favor would increase the chance of a lockout.[21] Likewise, Drew Brees asserted in his same op-ed that an NFL victory could give the owners the power to "end or severely restrict free agency, continue to enter into exclusive agreements that will further raise prices on merchandise, lock coaches into salary scales that don't reward them when they're promoted and set higher ticket prices (including preventing teams from competing through ticket discounts)."[22] In contrast, a ruling in favor of American Needle or a narrow ruling in favor of the NFL probably would have little effect beyond the specific headwear license at issue.

II.

The next case, *Jones v. Harris*, is another case from the Seventh Circuit.[23] The issue in *Jones v. Harris* is how courts should evaluate the compensation of mutual fund advisors. What's interesting about the case from an antitrust perspective is that the judges who authored the appellate panel decision and the en banc dissenting opinion are both leaders of the law and economics movement, yet they reached very different conclusions about the marketplace's ability to control advisors' compensation. Their disagreement reflects, to some extent, a deeper debate about the role of economic thinking in the law.

In 1970, Congress amended the Investment Company Act to provide a cause of action when an investment advisor of a registered investment company breaches its fiduciary duty with

[21] By Mark Maske, *NFL Players' Union Braces for a 2011 Lockout*, Wash. Post, Jan. 21, 2010.

[22] Brees, *supra* note 10.

[23] *Jones v. Harris Associates L.P.*, 527 F.3d 627 (7th Cir. 2008).

respect to compensation.[24] Congress created this fiduciary duty out of concern that the close relationship between investment advisers and investment companies could result in excessive compensation to advisors.[25] In the *Gartenberg* case, the Second Circuit explained that "the test is essentially whether the fee schedule represents a charge within the range of what would have been negotiated at arm's-length in light of all of the surrounding circumstances."[26] Put another way, "the adviser-manager must charge a fee that is so disproportionately large that it bears no reasonable relationship to the services rendered and could not have been the product of arm's-length bargaining."[27] At least two other circuits have followed *Gartenberg*.[28]

The plaintiffs in the *Jones v. Harris* case were investors in three mutual funds operated by Oakmark, which is a family of mutual funds established and advised by Harris Associates. Plaintiffs contended that Harris' fees to Oakmark were excessive in violation of the Investment Company Act because Harris charged institutional clients less for similar services. The district court, applying the *Gartenberg* standard, dismissed plaintiff's claim based on the undisputed evidence that Harris' fees were consistent with industry standards.

In a unanimous opinion written by Chief Judge Easterbrook – a strong advocate of the Chicago School of economics, which is essentially what you learned in Economics 101 back in

---

[24] Section 36(b) of the Investment Company Act states that "the investment advisor of a registered investment company shall be deemed to have a fiduciary duty with respect to the receipt of compensation for services." 15 U.S.C. § 80a-35(b).

[25] *Daily Income Fund, Inc.* v. *Fox*, 464 U.S. 523, 540-541 (1984).

[26] *Gartenberg v. Merrill Lynch Asset Management, Inc.*, 694 F.2d 923, 928 (2d Cir. 1982).

[27] *Id*.

[28] *Krantz v. Prudential Investments Fund Management LLC*, 305 F.3d 140 (3d Cir. 2002) (per curiam); *Midgal v. Rowe Price-Fleming Int'l, Inc.*, 248 F.3d 321 (4th Cir. 2001).

college – the Seventh Circuit affirmed the judgment of the district court but rejected the *Gartenberg* standard. Instead, the proper test, according to the Seventh Circuit, is whether the advisor was honest and disclosed all relevant fee information.[29]

The court advanced three reasons for its departure from *Gartenberg*. First, the court noted that under the law of trusts, a fiduciary is not subject to a cap on compensation. In the court's words: "A fiduciary must make full disclosure and play no tricks but is not subject to a cap on compensation."[30]

Second, the court saw little need for judicial oversight of advisor fees given the highly competitive nature of the mutual fund business. As the court explained, there are thousands of mutual funds in the United States, and cost is one of the metrics on which the funds compete for investors. The court observed that "[m]utual funds rarely fire their investment advisors, but investors can and do 'fire' advisors cheaply and easily by moving their money elsewhere."[31] Because of its highly competitive nature, the mutual fund industry would seem to be one of the last markets in which price regulation would be desirable, according to Judge Easterbrook.

---

[29] Judge Easterbrook's approach may not actually differ much from *Gartenberg* because even Judge Easterbrook would permit judicial scrutiny of compensation substantially out-of-line with peer institutions. As he explained: "It is possible to imagine compensation so unusual that a court will infer that deceit must have occurred, or that the persons responsible for decision have abdicated . . . ." *Jones v. Harris*, 527 F.3d at 632.

[30] *Id*.

[31] *Id*. at 634.

Third, permeating the court's opinion was a concern about the administrability of a rule requiring the courts to determine the reasonableness of compensation. "However weak competition may be at weeding out errors, the judicial process is worse," said the court.[32]

Turning to the facts of the case, since plaintiffs did not allege any fraud or deceit, the Seventh Circuit found that dismissal of their claims was appropriate. The court found irrelevant plaintiff's contention that Harris charged a lower fee to its institutional clients, explaining that institutional clients cost less to service and are more price sensitive.

By a five to five vote, the Seventh Circuit denied rehearing the case en banc.[33] The five dissenting judges issued a dissenting opinion authored by Judge Richard Posner, another well-known Chicago School proponent. He argued that the case should be reheard by the entire circuit because of the creation of a circuit court split, "the importance of the issue to the mutual fund industry," and the panel's reliance on "an economic analysis that is ripe for reexamination."[34]

As to the last point, Judge Posner disputed the panel's conclusion that competition among mutual funds for shareholder business would necessarily lead to competition for fund advisors. He pointed to a number of studies describing the weak incentives for fund directors to oversee their investment advisors, particularly with respect to their fees. The result, according to Judge Posner, "is a governance structure that enables mutual fund advisors to charge exorbitant fees . . .

---

[32] *Id*. at 633. A complicating factor in the mutual fund industry, according to the court, is that some sophisticated investors actually prefer to pay higher fees in order to attract and retain a superior advisor.

[33] *Jones v. Harris Associates L.P.*, 537 F.3d 728, 729 (7th Cir. 2008) (denying rehearing en banc).

[34] *Id*. at 730-33.

industry-wide."[35] Judge Posner was likewise skeptical of the panel's claim that investors will avoid funds that charge excessive fees.

Judge Posner was particularly concerned by the advisor's charging the funds more than twice what it charged institutional investors. While acknowledging that the difference could be justified by a difference in costs, he asserted that there was no record evidence to justify such a conclusion.[36] Finally, Judge Posner dismissed Judge Easterbrook's concern with judicial review of corporate salaries, explaining that such a review was necessary to the determination of whether a breach of fiduciary duty had occurred.

Picking up where Judge Posner left off, some of the amicus briefs pointed to recent research in behavioral economics, which is an emerging field of research that questions whether people and companies actually act rationally, as the Chicago School assumes. For example, one brief submitted by three academics pointed to research suggesting that "the vast majority of investors cannot accurately assess the quality of the mutual funds in which they invest . . . [and] lack essential information necessary for them to make informed decisions."[37] Another brief submitted by several law professors echoed these comments, saying that "investors . . . have demonstrated little behavioral capacity to invest rationally."[38] As a result of these deficiencies, investors are unlikely to be able to control advisor compensation by shifting their investments.

---

[35] *Id*. at 732.

[36] This point was debated at length at oral argument. *See* Transcript of Oral Argument at 8, 34-36, 41, 44-50, Jones v. Harris Associates L.P., No. 08-586 (U.S. Nov. 2, 2009).

[37] Brief of Robert Litan, Joseph Mason, and Ian Ayres as *Amici Curiae* Supporting Petitioners at 5-6, Jones v. Harris Associates L.P., No. 08-586 (U.S. June 17, 2009).

[38] Brief of *Amici Curiae* Law Professors in Support of Petitioners at 23, Jones v. Harris Associates L.P., No. 08-586 (U.S. June 15, 2009).

The government's amicus brief supported the plaintiffs and criticized the Seventh Circuit's opinion. The government endorsed the *Gartenberg* standard, as well as plaintiffs' position that fees charged to institutional clients are a relevant consideration in the court's fairness assessment.[39]

At oral argument, each of the parties – Jones, Harris, and the Solicitor General – advocated adoption of the *Gartenberg* standard,[40] and counsel for Harris declined to defend the Seventh Circuit's approach.[41] This led Justice Breyer to quip that "I'm not sure there is much of an issue" left.[42] Indeed, there appeared to be consensus that a sufficiently high fee, even absent a clear process flaw by the advisor or board, could establish liability.[43] The disagreement centered on how to determine the fairness of an advisor's fee. Plaintiffs argued that the fees charged to institutional clients was a highly relevant, if not dispositive comparison, while defendants argued that courts must give deference to independent boards in setting advisor fees.[44]

---

[39] Brief for the United States as Amicus Curiae Supporting Petitioners at 11-12, Jones v. Harris Associates L.P., No. 08-586 (U.S. June 2009) ("The *Gartenberg* court's inquiry—an analysis of "all pertinent facts," potentially including the fees charged by the adviser for comparable services rendered to unaffiliated clients—provides the appropriate way to resolve Section 36(b) cases.").

[40] Transcript of Oral Argument at 37, Jones v. Harris Associates L.P., No. 08-586 (U.S. Nov. 2, 2009) (Counsel for Harris: "The Solicitor General gets it right when she describes *Gartenberg* as the standard.").

[41] *Id*. at 36 (Counsel for Harris: "I do not defend that . . . .").

[42] *Id*. at 40.

[43] Transcript of Oral Argument at 31-30, Jones v. Harris Associates L.P., No. 08-586 (U.S. Nov. 2, 2009) (Counsel for Harris: "There are two separate causes of action, I can imagine, under 36(b): One, a process flaw that has a fee impact; and second, a fee that is so far outside of the boards of what could have been bargained that it justifies independent review.").

[44] In addition, the parties disputed whether, if the Court adopted the *Gartenberg* standard, there was a need for a remand, given the district court's previous application of that test.

On Tuesday, March 30th, in a 9-0 decision authored by Justice Alito, the Court turned its back on Judge Easterbrook's Seventh Circuit "pure Chicago School" decision.[45] It essentially adopted the *Gartenberg* standard – a "totality of the circumstances test" – for liability, including whether advisor fees were lower for institutional clients. I would suggest the headlines are fourfold. First, in the words of one academic, the opinion "smothers the lower court's market oriented analysis." Second, the Court ruled in favor of plaintiffs, which doesn't happen often with the Roberts Court. Third, the Court otherwise stayed out of the academic fray, declaring that "the debate between the Seventh Circuit panel and the dissent is a matter for Congress, not the courts." Fourth, the Court refrained from expressing concern about judicial oversight of competition and prices like it did in some of the Court's recent antitrust decisions, including *Twombly* and *Credit Suisse*.

III.

The third case, *Bilski v. Kappos*, which deals with a fundamental question of patent law: Which types of innovations deserve patent protection?

Our patent system provides a careful balance between the goals of fostering innovation and encouraging competition. On the one hand, the patent system encourages innovation by granting successful inventors the right to exclude.[46] On the other hand, the grant of a legal

---

[45] *Jones v. Harris Assoc. L.P.*, No. 08-586, 2010 WL 1189560 (U.S. Mar. 30, 2010).

[46] U.S. Const. art. I, § 8, cl. 8; (granting Congress the authority to establish a system of patents and copyrights to "promote the Progress of Science and useful Arts"); *Graham v. John Deere Co.*, 383 U.S. 1, 8-9 (1966) (describing a patent as "a reward, an inducement, to bring forth new knowledge").

Section 101 of the Patent Act states that "Whoever invents or discovers any new or useful *process*, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor . . . ." 35 U.S.C. § 101 (emphasis added). The Supreme Court had previously held that the Patent Act's meaning of a "process" is narrower than the word's ordinary meaning. *Parker v. Flook*, 437 U.S. 584, 593 (1978). Specifically, the Court monopoly to an inventor can result in higher prices, reduced output, and diminished follow-on innovation. As the Supreme Court has explained, the Constitution's "Patent Clause reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition . . . ."[47]

Perhaps nowhere is this tension more apparent today than in the area of business method patents, which are a class of patents which disclose and claim new methods of doing business. The Federal Circuit blessed the granting of business method patents in a 1998 decision.[48] Since then, the number of business method patents issued by the PTO has exploded.[49] Critics have charged that these patents are poorly defined, cause uncertainty, result in expensive litigation and defensive patenting, and are contrary to the purposes of the Patent Act. Critics also charge that business method patents are favored by non-practicing entities, or "patent trolls," which are companies that acquire patents solely with the intent to sue. Supporters argue that patent coverage for business methods encourages innovation, augments public knowledge though the Patent Act's disclosure requirement, and is consistent with the aim of the Patent Act to be read broadly to accommodate new and useful technologies.

---

had excluded "laws of nature, natural phenomena, [and] abstract ideas." *Diamond v. Diehr*, 450 U.S. 175, 185 (1981); *see also Gottschalk v. Benson*, 409 U.S. 63, 67 (1972) ("Phenomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable, as they are the basic tools of scientific and technological work.").

[47] *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

[48] *State Street Bank & Trust v. Signature Financial Group*, 149 F.3d 1368 (1998) (holding that a method of processing mutual fund data could be patented).

[49] Jess Bravin, *Justices to Study Patents on Business Methods*, Wall St. J., Nov. 9, 2009 ("The Patent Office received 974 business method patent applications in 1997. The number has risen each year since, reaching 13,779 in 2008."); Fed. Trade Comm'n, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy at Ch. 4, pg. 39 (2003) ("The Federal Circuit's ruling launched a surge in the number of business method patent filings, though, in absolute terms their numbers remain relatively small.").

In 2003, the FTC issued a report that examined the proper balance between patent law and antitrust law.[50] The report recognized "the continuing debate regarding business method patents raises the issue of the proper boundaries of patentable subject matter."[51] Given the complexity of the issue, the report took no position on whether the patentability of business methods should be reconsidered. The report did note, however, that future extensions of patent coverage should not be undertaken lightly, given "the uncertainty surrounding the benefits and the possible competitive downside."[52]

The *Bilski* case arose from the attempt of two inventors to obtain a patent in 1997 on mathematical formulas to hedge against the risk of fluctuating raw material prices. A patent examiner and then the patent appeals board rejected the application, but for different reasons.[53]

The inventors appealed to the Federal Circuit, which *sua sponte* heard the case en banc. The case generated intense interest, with 38 amici joining the case – a remarkable number. The court in a 9 to 3 decision by Chief Judge Michel held that the "machine-or-transformation" test was the exclusive test for determining whether a process is patentable. Under this test, a process is eligible for a patent if "(1) it is tied to a particular machine or apparatus or (2) it transforms a

[50] Fed. Trade Comm'n, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy (2003).

[51] *Id*. Ch. 4, pg. 39.

[52] *Id*. Ch. 4, pg. 43.

[53] The Board explained that the applicants' process was not drawn to a patent-eligible subject matter because it did not produce a "useful, concrete and tangible result." *Bilski*, 545 F.3d at 950. The examiner rejected the application because "the invention is not implemented on a specific apparatus and merely manipulates [an] abstract idea and solves a purely mathematical application." *Id*.

particular article into a different state or thing."[54] The court left open the possibility, however, that it might "refine or augment" the machine-or-transformation test "to accommodate emerging technologies."[55] Turning to the facts of the case, the court found that the invention at issue "entirely fails the machine-or-transformation test" and therefore affirmed the decision of the Patent Board to reject the patent application.

The inventors sought certiorari, arguing that the machine-or-transformation test conflicted with Supreme Court precedent requiring broad interpretation of the patent grant and that Congress had specifically allowed business method patents. The Solicitor General, representing the Patent Office, urged the Court to deny review, claiming that the decision below was a straightforward application of Supreme Court precedent.

The Court's granting of certiorari increased the already substantial interest in the case. 68 amici filed briefs on the merits, with roughly one-third supporting the inventors, one-third supporting the patent office, and one-third in support of neither party. Interestingly, even some of the amicus briefs critical of the federal circuit's test asserted that the risk-hedging invention should not be patentable.

At oral argument, there were strong indications that the Court did not view the risk-hedging invention as patentable. The Justices spent much of their time peppering the inventors' lawyer with a series of hypothetical business methods that they evidently felt did not deserve a patent. For example, Justice Sotomayor asked if a "method for speed dating" could be

---

[54] *Id*. at 954; *see also id*. at 961-62 ("[T]he use of a specific machine or transformation of an article must impose meaningful limits on the claim's scope to impart patent-eligibility. [And], the involvement of the machine or transformation in the claimed process must not merely be insignificant extra-solution activity." (citations omitted)); *id*. at 962 ("A claimed process is patent-eligible if it transforms an article into a different state or thing. This transformation must be central to the purpose of the claimed process.").

[55] *Id*. at 956.

patented.[56] While it seemed clear that the Court agreed with the Federal Circuit and the Patent Office that the invention at issue is not patentable, it is far less clear whether the Supreme Court will endorse the machine-or-transformation test. At oral argument, the Court was searching for a test that would avoid patenting questionable business method patents while providing enough flexibility to account for future technologies. Some of the justices also seemed to want a more straightforward standard than the machine-or-transformation test.

The oral argument was also noteworthy for Justice Breyer's discussion of how the case required the Court to weigh the conflicting goals underlying the patent system. It is worth quoting him at length. He said:

> There are actually four things in the patent law which everyone accepts. There are two that are plus and two that are minus. And the two that are plus is by giving people a monopoly, you get them to produce more [and] you get them to disclose. The two minuses are they charge a higher price, so people use the product less; and moreover, the act of getting permissions and having to get permission can really slow things down and destroy advance[s]. So there's a balance. . . . 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.[57]

* * * * *

[56] Transcript of Oral Argument at 7, *Bilski v. Kappos*, No. 08-964 (U.S. Nov. 9, 2010); *see also id.* at 4 (Justice Scalia: "a book on how to win friends and influence people"); *id*. at 5-6 (Justice Ginsburg: "So an estate plan, tax avoidance, how to resist a corporate takeover, how to choose a jury, all of those are patentable?"); *id*. at 9 (Justice Breyer: "I have a great, wonderful, really original of teaching antitrust law, and it kept 80 percent of the students awake. . . . That you are going to say is patentable, too?"); *id*. at 10 (Justice Roberts: "I buy low and sell high. That's my patent for maximizing wealth."); *id*. at 11 (Justice Kennedy: "how to compile an actuarial table and – and apply it to risk"); *id*. at 16 (Justice Scalia: "Don't you think that – that some people, horse whisperers or others, had some . . . insights into the best way to train horses? And that should have been patentable on your theory."); *id*. at 22 (Justice Roberts: "You think you can patent an alphabet because it is a process of forming words.").

[57] *Id*. at 19-20.

In conclusion, at first blush the 2009-2010 term may involve fewer antitrust cases than prior terms. But in reality there is plenty on the docket for those interested in antitrust to chew on.

TABLE 1

CASE	HOLDING	DECISION BELOW FAVORED	GOV'T AMICUS BRIEF FAVORED	FTC VOTE TO JOIN GOV'T AMICUS BRIEF	SUPREME COURT DECISION FAVORED	SUPREME COURT VOTE
Verizon v. Trinko (2004)	Refusal to share not a Section 2 violation	Plaintiff	Defendant	4-0	Defendant	9-0
Empagran v. F. Hoffmann-LaRoche (2004)	No Sherman Act claim for conduct alleging foreign effects	Plaintiff	Defendant	4-0	Defendant	8-0
Illinois Tool Works v. Independent Ink (2006)	Patent does not necessarily confer market power	Plaintiff	Defendant	3-0	Defendant	8-0
Texaco v. Dagher (2006)	Not per se illegal for legitimate joint venture to set prices	Plaintiff	Defendant	4-0	Defendant	8-0
Volvo v. Reeder Simco GMC (2006)	For price discrimination claim, distributors must sell to same retailer	Plaintiff	Defendant	5-0	Defendant	7-2
Weyerhaeuser v. Ross-Simmons Hardwood Lumber (2007)	*Brooke Group* standard applies to predatory buying claims	Plaintiff	Defendant	3-2	Defendant	9-0
Bell Atlantic v. Twombly (2007)	Pleadings must state plausible claim for relief	Plaintiff	Defendant	Did not join	Defendant	7-2
Leegin Creative Leather Products v. PSKS (2007)	RPM analyzed under rule of reason	Plaintiff	Defendant	3-2	Defendant	5-4
Credit Suisse First Boston Ltd. v. Billing (2007)	Implied antitrust immunity under the securities laws	Plaintiff	Defendant	5-0	Defendant	7-1
Pacific Bell Telephone v. linkLine Communications (2009)	Most price squeeze claims follow *Brooke Group* standard	Plaintiff	Defendant	Did not join	Defendant	9-0
American Needle v. NFL (expected 2010)		**Defendant**	**Plaintiff**	3-0		