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HOW THE SUPREME COURT SHOULD RESOLVE BILSKI

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Introduction

Law360, New York (July 20, 2009) -- In 1998, the Federal Circuit had the forethought and insight to recognize that the revolution in information technology and availability of the Internet would radically change the way that the world does business and that U.S. patent law would need to adapt to this new technological and commercial reality by confirming the availability of patent protection for “business method” patents.

First, in *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), and then later in *AT&T Corp. v. Excel Communications Inc.*, 172 F.3d 1352, 1355 (Fed. Cir. 1999), the Federal Circuit followed the Supreme Court’s lead in *Diamond v. Chakrabarty* to recognize that patent-eligible subject matter should be broadly construed to “include anything under the sun that is made by man.” 447 U.S. 303, 308-09 (1980) (quoting S. Rep. No. 82-1979, at 5 (1952); H.R. Rep. No. 82-1923, at 6 (1952)).

Those decisions, an inevitable evolution in patent law based on the Supreme Court’s binding precedent, fostered a renaissance in patent law. More and more, so-called business-related and computer-related patents were sought, and the U.S. Patent and Trademark Office started to become overwhelmed.

A number of “dubious quality” patents began to issue and made their way to the courts. Scrutiny from the press, Congress and the Supreme Court ensued.

At the core, the problems caused by these patents were based on their failure to comply with Sections 102, 103 and 112 of the Patent Act, rather than by any real dispute over whether those patents were patent-eligible subject matter.

With this backdrop, just over a decade after *State Street*, the Federal Circuit was faced with considering centuries of jurisprudence in order to address the specific issue raised in *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (en banc), cert. granted, 129 S.Ct. 2735 (2009), of what types of processes should be eligible for patent protection under 35 U.S.C. § 101.

In a split decision, the majority opinion authored by Chief Judge Michel redefined the “governing” test for patent-eligible processes to be the “machine-or-transformation” test. *In re Bilski*, 545 F.3d at 952, 956. The Supreme Court has now granted certiorari to address this important issue and weigh in on the scope of patent-eligible subject matter.

No doubt a wide range of views will be presented by Messrs. *Bilski* and *Warsaw*, the government and what is anticipated to be dozens of amici submissions.

In this article, we provide a brief summary of our view as to how the Federal Circuit's decision in *Bilski* went awry, and what the Supreme Court should do to put the law on patent-eligible subject matter back on track.

Supreme Court precedent provides broad guidelines on what constitutes patent-eligible subject matter:

1) the claimed subject matter must fall within one of the four statutory categories of patent-eligible subject matter—process, machine, manufacture or composition of matter (or any improvement thereof); and

2) the claimed subject matter must not preempt what the *Bilski* majority calls “fundamental principles” (545 F.3d at 952 n.5) — laws of nature, natural phenomena or abstract ideas.

See *Diamond v. Diehr*, 450 U.S. 175, 185 (1981) (holding that a claim is not a patent-eligible process if it claims “laws of nature, natural phenomena, [or] abstract ideas.”) (citing *Parker v. Flook*, 437 U.S. 584, 589 (1978) and *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972)).

While the Supreme Court has found certain safe harbors that have met these broad guidelines, it has also repeatedly refused, over centuries of such precedent, to turn such safe harbors into rigid tests:

- *Flook*, 437 U.S. at 589 n.9 (“An argument can be made, however, that this court has only recognized a process as within the statutory definition when it either was tied to a particular apparatus or operated to change materials to a ‘different state or thing,’ [however] ... we assume that a valid process patent may issue even if it does not meet one of these qualifications of our earlier precedents.”);

- *Benson*, 409 U.S. at 71 (“It is argued that a process patent must either be tied to a particular machine or apparatus or must operate to change articles or materials to a ‘different state or thing.’ We do not hold that no process patent could ever qualify if it did not meet the requirements of our prior precedents.”);

- *Expanded Metal Co. v. Bradford*, 214 U.S. 366, 384 (1909) (“[T]his court did not intend to limit process patents to those showing chemical action or similar elemental changes”);

- *Tilghman v. Proctor*, 102 U.S. 707, 722 (1881) (“The patent law is not confined to new machines and new compositions of matter, but extends to any new and useful art or manufacture. A manufacturing process is clearly an art, within the meaning of the law.”) (quoted in *Diamond v. Diehr*, 450 U.S. 175, 184 n.8 (1981)).

Even the Bilski majority opinion by the Federal Circuit below recognized that other efforts to adopt rigid rules for determining whether a claim is patent-eligible subject matter, like the “technological arts” test, Friedman-Walter-Abele test, and “useful, concrete and tangible result” test from State Street proved “inadequate” and “insufficient.” See *In re Bilski*, 545 F.3d at 958-61.

While much of the majority decision correctly describes the Supreme Court’s binding precedent in this area, the Bilski majority nonetheless deviates from Supreme Court precedent and errs in the following important respects that we believe the Supreme Court should correct:

1) “The Machine-or-Transformation” Test Should Not Be a Rigid Rule

In the Federal Circuit’s quest to find a “test or set of criteria” to “govern” the USPTO or courts in determining patent-eligibility, the Bilski majority erroneously adopts as the “governing test” a mechanical version of the “machine-or-transformation” test.

In re Bilski, 545 F.3d at 952, 956. This is exactly the kind of error the Supreme Court found the Federal Circuit to have made with respect to the obviousness analysis in *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398, 419 (2007) (“We begin by rejecting the rigid approach of the Court of Appeals.”).

Adoption of this rigid rule has wreaked havoc on the stability and reliability of hundreds of thousands of issued patents (as evidenced by litigations that have begun to sprout since the Bilski decision) and uncounted pending applications (as evidenced by increasingly rigid rules coming out of decisions of the Board of Patent Appeals and Interferences (“BPAI”) at the USPTO).

The Supreme Court should quiet title on meritorious inventions and refocus the inquiry to whether the claimed invention is novel, nonobvious, useful and sufficiently well-defined, as contemplated by the Patent Act.

2) The Bilski Majority’s Definition of Patent-Eligible Process Is Too Narrow

The Bilski majority also departs from Supreme Court precedent and the broad statutory construction intended by Congress in the majority’s interpretation of the statutory framework by ignoring the statutory definition of “process” in the Patent Act (35 U.S.C. § 100(b)) and engrafting extra-statutory limitations on patent-eligible processes. Cf. *In re Bilski*, 545 F.3d at 951 n3.

In particular, the majority’s analysis errs in two significant ways.

First, as Judge Newman’s dissent explains, the majority, in finding the statutory definition of process “unhelpful,” *In re Bilski*, 545 F.3d at 951 n.3, misses the point of this definition and fails to consider the long history associated with its adoption. See *In re Bilski*, 545 F.3d at 978 (Newman, J. dissenting).

The definition was intended to be broad and make clear that the substitution of the term “art,” used in prior statutes, for “process,” used in the 1952 Patent Act, was not intended to be limiting and should include “any” process. See 35 U.S.C. § 101.

Similarly, the majority also errs in failing to address the affect of the adoption of the prior user right (35 U.S.C. §273) in response to *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), and Congress’ legislative acquiescence to the Federal Circuit’s holding in that case.

Congress made clear in the legislative history that the adoption of 35 U.S.C. §273 and the prior user right was contemplated by the State Street case. See, e.g., 145 Cong. Rec. S14717 (daily ed. Nov. 17, 1999); 145 Cong. Rec. H6942 (daily ed. Aug. 3, 1999).

Congress' failure to change Section 101 at that time, or in any of its opportunities since (see, e.g., S. 2369, 110th Cong.; H.R. 1908, 110th Cong. §10; S. 861, 110th Cong. §303; H.R. 2365, 110th Cong.), is probative evidence of Congress' legislative acquiescence to the standards set forth in State Street and its progeny.

3) The Bilski Majority's Interpretation of the Transformation Prong Is Too Narrow

The Bilski majority's blanket exclusion of "electronic signals and electronically-manipulated data" and "business methods," involving, for example, manipulation of "legal obligations, organizational relationships and business risks" — today's "raw materials" of innovation — from being patent-eligible subject matter unless tied to a computer or some other machine (see *In re Bilski* 545 F.3d at 962) is the result of a wooden analysis that is contrary to the rational used by the Supreme Court in developing the "transformation" prong of the "machine-or-transformation" test that the Bilski majority seeks to apply.

See *Expanded Metal Co. v. Bradford*, 214 U.S. 366 (1909) (rejecting arguments seeking to limit the transformation prong to chemical transformations in favor of also including mechanical transformations).

While we agree that definiteness requirements may preclude claims directed to purely mental steps from being patent-eligible subject matter, the patent-eligibility test under 35 U.S. C. §101 should turn only on whether the claim preempts an abstract idea or fundamental principle, not on what type of transformation occurs.

4) Wooden Distinctions Between General-Purpose Computers and Specific-Purpose Computers Should Be Rejected

The majority decision, which in some respects helped clarify Supreme Court precedent in *Benson*, nonetheless failed to adequately clarify whether a distinction should be drawn between a computer-implemented invention that is implemented on a general-purpose computer rather than on a specific-purpose computer.

Unfortunately, as a result, much confusion has ensued, at least at the BPAI level and in the district courts, whereby mechanical distinctions have been drawn that are contrary to the underlying principles set forth in *Benson* and other governing Supreme Court precedent. See *Benson*, 409 U.S. at 71-72. The Supreme Court should clarify that such distinctions are misplaced.

Conclusion

The role of patents related to financial services, e-commerce and computers in the U.S. economy is vitally important. Such patents, when appropriately awarded, encourage innovation and transparency, and advance the constitutional goal of "promot[ing] the Progress of Science and useful Arts." U.S. Const., art. I, § 8, cl. 8.

The Supreme Court should resist the temptation to bow to the outspoken minority who would undermine a system that our founding fathers thought was so important that they included it in Article I of the U.S. Constitution and enacted it into one of the earliest public laws of this country at its infancy, and which has been maintained ever since.

Rather, the Supreme Court should reaffirm its prior precedent which recognizes the broad scope of patent-eligible subject matter under Section 101, and reject efforts to create any rigid rules or short-cut analyses that seek to narrow the scope of Section 101.

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Mr. Macedo was principal attorney, along with Amster Rothstein & Ebenstein partner Anthony Lo Cicero and associate Jung S. Hahm on an amicus curiae submission to the Federal Circuit in *In re Bilski*.

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