2007-1130
(Serial No. 08/833,892)

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

IN RE BERNARD L. BILSKI and RAND A. WARSAW

On Appeal from the United States Patent and Trademark Office, Board of Patent Appeals and Interferences

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BRIEF FOR THE BUSINESS SOFTWARE ALLIANCE AS *AMICUS CURIAE* SUPPORTING NEITHER PARTY AND SUPPORTING AFFIRMANCE

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CERTIFICATE OF INTEREST

Counsel for amicus Business Software Alliance certifies the following:

1. The full name of every party or amicus represented by me is:

   Business Software Alliance

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:

   Business Software Alliance

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

   N/A

4. [X] There is no such corporation as listed in paragraph 3.

5. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

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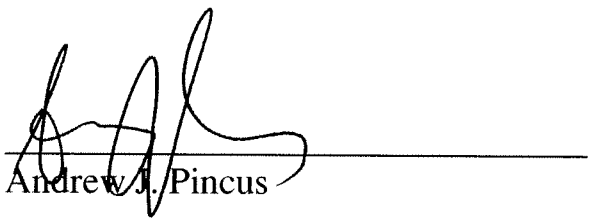

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INTEREST OF THE *AMICUS CURIAE*[1]

The Business Software Alliance ("BSA") is an association of the world's leading software and hardware technology companies. On behalf of its members, BSA promotes policies that foster innovation, growth, and a competitive marketplace for commercial software and related technologies. BSA members collectively own more than 30,000 patents, and include three of the six leading patent recipients for 2006. Because patent policy is vitally important to promoting the innovation that has kept the United States at the forefront of software and hardware development, BSA members have a strong stake in the proper functioning of the U.S. patent system.

The members of the Business Software Alliance are Adobe, Apple, Autodesk, Avid, Bentley Systems, Borland, CA, Cadence Design Systems, Cisco Systems, CNC Software/Mastercam, Corel, Dell, EMC Corporation, HP, IBM, Intel, McAfee, Microsoft, Monotype Imaging, PTC, Quark, SAP, SolidWorks, Sybase, Symantec, Synopsys, The MathWorks, and Siemens PLM Software.

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[1] This Court's order of February 15, 2008, provides that *amicus curiae* briefs "may be filed without leave of court."

ARGUMENT

I. THIS COURT SHOULD REJECT ARTIFICIAL LIMITATIONS ON PATENTABLE "PROCESS[ES]" THAT WOULD HINDER DEVELOPMENT OF NEW TECHNOLOGIES.

If innovation is the engine of the American economy, then intellectual property is its fuel. From the time of the Founders through today, it has been understood that to "promote the progress of . . . the useful arts," U.S. CONST. art. I, § 8, cl. 8, it is essential to provide economic incentives for those who develop new inventions. The importance of technological innovation to the growth of the American economy and the continued success of American industry cannot be overstated. Undue narrowing of the scope of patent protection would produce a concomitant reduction in innovation, with adverse effects for the entire economy. At the same time, an overly expansive interpretation of patent protection could deter innovation by blocking development of new technologies.

This Court has requested additional briefing on whether claim 1 of the 08/833,892 patent application ("Bilski's Claim 1") constitutes patent-eligible subject matter under 35 U.S.C. § 101. The requirement imposed by Section 101, of course, represents only "[t]he first door which must be opened on the difficult path to patentability." *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1372 n.2 (Fed. Cir. 1998) (quoting *In re Bergy*, 596 F.2d 952, 960 (CCPA 1979), *aff'd sub nom. Diamond v. Chakrabarty*, 447 U.S. 303 (1980)). An

invention that qualifies as patentable subject matter may receive a patent only if it in addition satisfies the requirements of novelty, nonobviousness, and enablement. 35 U.S.C. §§ 102, 103, 112.

The fundamental purpose of Section 101 is to establish the scope of the "useful arts," *cf.* U.S. CONST. art. I, § 8, cl. 8, not to filter out every unjustified patent claim.[2] Section 101 should not be given an artificially narrow construction in an attempt to force Section 101 to perform the filtering role served by the other statutory requirements that a patent applicant must satisfy; rather, the construction of Section 101 should reflect the fact that an applicant must also satisfy those other requirements.

A. Section 101 Imposes Substantial Limitations On Patentability By Prohibiting Patenting Of Laws Of Nature, Natural Phenomena, And Abstract Ideas.

1. The scope of patentable subject matter is broad, but it is far from unlimited. Section 101 permits the protection of "any new and useful process, machine, manufacture, or composition of matter." As the Supreme Court has long acknowledged, however, "[a]n idea of itself is not patentable." *Rubber-Tip Pencil Co. v. Howard*, 87 U.S. (20 Wall.) 498, 507 (1874). For that reason, "[p]henomena of nature, though just discovered, mental processes, and abstract intellectual

[2] An empirical review of litigated patent actions concluded that the reason for the invalidation of a patent is its subject matter just 0.7% of the time. *See* John A. Allison & Mark R. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 208 tbl.1 (1998).

concepts are not patentable." *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972); *accord Parker v. Flook*, 437 U.S. 584, 589 (1977). Patent law will not recognize a "claim to a monopoly" with respect to laws of nature, *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130 (1948), because they are "the basic tools of scientific and technological work," *Benson*, 409 U.S. at 67. Thus, no patent could claim Albert Einstein's equation for mass-energy equivalence, $E = mc^2$, *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980), and no patent may claim a fundamental mathematical algorithm, *Benson*, 409 U.S. at 72.

The principle that ideas are not patentable does not extend to "the application of [a] law of nature to a new and useful end." *Funk Bros.*, 333 U.S. at 130; *see also Mackay Radio & Tel. Co. v. Radio Corp. of Am.*, 306 U.S. 86 (1939) ("While a scientific truth, or the mathematical expression of it, is not a patentable invention, a novel and useful structure created with the aid of knowledge of scientific truth may be."). In drawing this critical distinction between abstract ideas and their applications, the Supreme Court has looked to whether "the patent would wholly pre-empt" the underlying idea, such that it "in practical effect would be a patent on the [idea] itself." *Benson*, 409 U.S. at 72; *accord Diamond v. Diehr*, 450 U.S. 175, 187 (1981).

This non-preemption principle has a long history in Supreme Court jurisprudence. In *Tilghman v. Proctor*, 102 U.S. 707 (1880), the Court examined a

patent claiming a novel method for decomposing fats that applied the chemical principle that "the elements of neutral fat [are] require[d] to be severally united with an atomic equivalent of water in order to separate from each other and become free." *Id.* at 729. Tilghman's method involved heating a mixture of fat and water in a vessel strong enough to resist the escape of steam. The Court determined that this process constituted patentable subject matter for two reasons: Tilghman did not claim the chemical principle itself; and the principle was not preempted, because Tilghman's claim did not cover the other known methods for employing the chemical fact—lime-saponification, sulphuric-acid distillation, or steam distillation. *Id.*

Conversely, in *O'Reilly v. Morse*, 56 U.S. (15 How.) 62 (1854), the Court examined Samuel Morse's eight claims relating to his electromagnetic telegraph and concluded that the eighth claim was unpatentable. Morse explained that he sought to protect not merely the specific application of direct current that he employed in his telegraph, but *any* use of electromagnetism for distance transmission "however developed." *Id.* at 86. The Court rejected the eighth claim because Morse had not—and could not have—invented every possible implementation of electromagnetism. *Id.* at 112-13. As this court's predecessor pointed out, "claim 8 was held improper because by disclaiming all apparatus limitations, Morse was attempting to define the limit of his invention in terms of

the natural phenomenon of electromagnetism and would, therefore, preempt the use of this phenomenon." *Bergy*, 596 F.2d at 990.[3]

More recently, although the Supreme Court did not reach the merits in *Laboratory Corp. of America Holdings v. Metabolite Laboratories, Inc.*, 126 S. Ct. 2921 (2006) (dismissing certiorari as improvidently granted), Justice Breyer specifically recognized the importance of the principle that patents are not available for laws of nature, natural phenomena, and abstract ideas. *Id.* at 2922-23 (Breyer, J., with whom Stevens and Souter, JJ., join, dissenting). He then applied the non-preemption test to determine that this principle precluded a patent for a process for detecting vitamin deficiencies by measuring the level of a correlated amino acid. *See id.* at 2928 ("[O]ne can reduce any process to a series of steps. The question is what those steps embody. And here, aside from the unpatented test, they embody only the correlation," which is "an unpatentable 'natural phenomenon.'").

2. Properly applied, the non-preemption principle is an important means for determining whether an inventor claims an abstract idea or an implementation

[3] *See also Tilghman*, 102 U.S. at 726 ("The eighth claim of Morse's patent was held to be invalid, because it was regarded by the court as being not for a process, but for a mere principle.").

thereof—and therefore whether the subject matter is patentable under Section 101.[4] This Court and its predecessor accordingly have applied preemption analysis to disqualify patent claims whose preemptive effect would be equivalent to the effect of patenting a natural law.

In *In re Warmerdam*, 33 F.3d 1354 (Fed. Cir. 1994), for example, this Court reviewed an application for a method to control the motion of objects to avoid collision with other (fixed or moving) objects. The Court assessed the interaction between Warmerdam's claim 1 and the Hilditch Skeletonization method for creating a bubble hierarchy on an object's medial axis. *See id.* at 1359-60. After concluding that "the only practical[] embodiment of the claimed method" was a replication of the Hilditch Skeletonization method itself, the Court correctly determined that Warmerdam's claim 1 "describe[d] nothing more than the manipulation of basic mathematical constructs, the paradigmatic 'abstract idea.'" *Id.* at 1360.

Similiarly, in *In re Schrader*, 22 F.3d 290 (Fed. Cir. 1994), the Court rejected a claim for a supposedly novel method for conducting auctions, because the patent claimed "two obvious and familiar modes of human behavior: that potential buyers naturally may submit bids on one, some, or all of the items

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[4] The Patent and Trademark Office ("PTO") agrees that "the analysis for eligibility" requires consideration of the principle that "one may not . . . pre-empt substantially every application of [an] abstract idea." PTO Supp. Br. 22.

available for sale, and that sellers may naturally choose that combination of bids that maximize their profits." *Id.* at 293 n.8. Exclusive control over modes of human behavior could not be awarded to an enterprising patent applicant. The Court has reached the same conclusion with respect to other claims.[5]

Consistent with the Supreme Court's guidance in *Benson*, the exclusion from the scope of Section 101 of claims that would preempt a law of nature, natural phenomenon, or abstract idea imposes substantial and important limits on the scope of patentability, guaranteeing that the elemental tools of innovation will not be denied public use.[6]

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[5] *See also In re Comiskey*, 499 F.3d 1365, 1379 (Fed. Cir. 2007) (affirming denial of a patent for "the use of mental processes to resolve a legal dispute" because it sought "to patent the use of human intelligence in and of itself"); *In re Grams*, 888 F.2d 835, 840 (Fed. Cir. 1989) (affirming denial of a patent for a method of testing a complex system, because the only difference between the process and the underlying mathematical algorithm was the gathering of data); *In re Meyer*, 688 F.2d 789, 796 (CCPA 1982) (affirming denial of a patent for a process to identify locations of malfunction in a complex system because the process was merely a mathematical algorithm to be employed through mental steps); *In re Maucorps*, 609 F.2d 481, 486 (CCPA 1979) (affirming denial of a patent for a model sales organization where "appellant's claimed invention as a whole comprises each and every means for carrying out a solution technique for a set of equations wherein one number is computed from a set of numbers").

[6] By pointing out how claims should be assessed to determine whether they are preemptive, we do not urge a return to the *Freeman-Walter-Abele* test. *See In re Freeman*, 573 F.2d 1237, 1245-46 (CCPA 1978), *as amended by In re Walter*, 618 F.2d 758, 766-68 (CCPA 1980), *and In re Abele*, 684 F.2d 902, 905-07 (CCPA 1982). Although that standard did begin as a mechanism for determining whether a claim fell outside Section 101, it subsequently was reconfigured as an all-inclusive test for patentability and not merely as an indicator of impermissible

B. This Court Should Not Adopt Artificial Limits On Patentable "Process[es]" That The Supreme Court Has Rejected.

1. The statutory term "process" should be interpreted broadly.

The Supreme Court has emphasized that "the language of § 101 is extremely broad," and that "Congress plainly contemplated that the patent laws would be given wide scope." *J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc.*, 534 U.S. 124, 130-31 (2001) (quoting *Chakrabarty*, 447 U.S. at 308). Beyond the three historical limitations just discussed (the exclusion of laws of nature, natural phenomena, and abstract ideas), the Court has "more than once cautioned" that "'courts "should not read into the patent laws limitations and conditions which the legislature has not expressed."'" *Diehr*, 450 U.S. at 182 (quoting *Chakrabarty*, 447 U.S. at 308, in turn quoting *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 199 (1933)). Applying that principle, the Court has held that "anything under the sun that is made by man" presumptively constitutes patentable subject matter under Section 101. *Diehr*, 450 U.S. at 182 (quoting S. REP. NO. 82-1979, at 5 (1952), and H.R. REP. NO. 82-1923, at 6 (1952)); *accord Bonito Boats, Inc. v.*

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abstractness. In that new role, the *Freeman-Walter-Abele* test was inadequate. As this Court held in *State Street Bank*, the *Freeman-Walter-Abele* test "has little, if any, applicability to determining the presence of statutory subject matter." 149 F.3d at 1374. The non-preemption principle, on the other hand, remains a valuable tool for enforcing the Supreme Court's *exclusion* of ideas from the scope of patentability. *See* Richard S. Gruner, *Intangible Inventions: Patentable Subject Matter for the Information Age*, 35 LOY. L.A. L. REV. 355, 394 (2002).

Thunder Craft Boats, Inc., 489 U.S. 141, 154 (1989); *Chakrabarty*, 447 U.S. at 308.

The Board of Patent Appeals and Interferences ("Board") suggested in its decision in this case that "anything under the sun that is made by man" refers only to machines and manufactures. JA 18-19. However, the House and Senate Reports (which use identical language) nowhere indicate that only those two categories should be interpreted broadly and the other categories, including processes, interpreted narrowly. In any event, the Board's approach cannot be squared with the treatment of the legislative history by the Supreme Court, which has invoked this very phrase in concluding that "process" must be broadly construed. *See Diehr*, 450 U.S. at 182.

The Supreme Court has interpreted "process" by applying the general principle that an undefined statutory term should be given its "ordinary, contemporary, common meaning." *Diehr*, 450 U.S. at 182. The ordinary meaning of "process" is broad: "an artificial or voluntary progressively continuing operation that consists of a series of controlled actions or movements systematically directed toward a particular result or end." WEBSTER'S NEW INTERNATIONAL DICTIONARY 1808 (3d ed. 1986). *See also* WEBSTER'S NEW INTERNATIONAL DICTIONARY 1972 (2d ed. 1950) ("process": "A series of actions, motions, or operations definitely conducing to an end, whether voluntary or involuntary."). Giving the term its

broad, ordinary meaning is important, because that approach allows the granting of patents with respect to new technologies. A construction that is not technology-neutral would threaten arbitrarily to short-circuit entire fields of development.

When Congress wishes to exclude a particular subject matter from the patent laws, it knows how to do so. For example, Congress has instructed the PTO to issue no patents for inventions "useful solely in the utilization of special nuclear material or atomic energy in an atomic weapon." 42 U.S.C. § 2181(a); *cf.* 17 U.S.C. § 102(b) (exclusions from copyrightable subject matter). But Congress has made no similar exception for certain types of processes, and the courts are not free to introduce a new exception in its stead.

Reinterpreting Section 101 to impose restrictions on the scope of patentable processes not found in the statutory text also would be inconsistent with the Supreme Court's ruling last year in *KSR International v. Teleflex Inc.*, 127 S. Ct. 1727 (2007). There, in assessing the evaluation of nonobviousness under Section 103, the Court rejected replacement of the "expansive and flexible approach" mandated by the statute with a "rigid approach" that added criteria not found in the text. *Id.* at 1739. This Court accordingly should not insert into Section 101 restrictions not found in the statutory text.

Finally, the Court has made clear that "process" claims must be "considered as a whole." *Diehr*, 450 U.S. at 188. Thus, "a new combination of steps in a

process may be patentable even though all the constituents of the combination were well known and in common use before the combination was made." *Id.* The Court's refusal to compartmentalize process claims further demonstrates its refusal to construe Section 101 as embodying restrictive standards not reflected in the statutory text rather than applying the "process" standard in light of all of the facts and circumstances presented in a particular case.

2. The Supreme Court has not restricted patentable "process[es]" to claims that are tied to an apparatus or are transformative.

a. The Supreme Court has stated that Section 101's reference to "process" includes methods (a) that are tied to an apparatus; or (b) that, when "performed upon the subject-matter," result in its being "transformed and reduced to a different state or thing." *Cochrane v. Deener*, 94 U.S. 780, 788 (1877); *see also Flook*, 437 U.S. at 588 n.9.

The Court in *Cochrane* considered whether an improved process for manufacturing flour constituted patentable subject matter. The applicant did not invent the machinery used in the individual steps of his process, 94 U.S. at 785, but instead invented a series of steps that, when considered as a whole, "produced a revolution in the manufacture of flour," *id.* at 786. The Court provided the two examples of a patentable "process" only after emphasizing that "it cannot be

disputed" that the patentability of a process does not depend on "the particular form of the instrumentalities used." *Id.* at 788.

Consistent with this observation, the Supreme Court has never held that *Cochrane*'s two examples—machine-based and transformative methods—were intended to be exhaustive. *See Benson*, 409 U.S. at 71 ("[w]e do not hold that no process patent could ever qualify" if it (a) was not "tied to a particular machine or apparatus" and (b) did not "operate to change articles or materials to a 'different state or thing'"); *Flook*, 437 U.S. at 588 n.9 ("we assume that a valid process patent may issue even if it does not meet one of these qualifications"). Indeed, this Court's predecessor held that the *Cochrane* formulation was designed "not to *limit* process patentability *but to point out that a process is not limited to the means used in performing it.*" *In re Prater*, 415 F.2d 1393, 1403 (CCPA 1969) (emphasis in original). Thus, while a process that fits within one of *Cochrane*'s two categories is within the scope of Section 101, processes that fall outside these categories are not automatically disqualified.

b. The PTO takes the position that, for a "process" to be covered by Section 101, it "must" be covered by *Cochrane*. PTO Supp. Br. at 6; *see id.* at 6-14, 25; PTO Br. 13-14. Beyond the clear inconsistency of this argument with the plain language of the Supreme Court's discussion of *Cochrane* in *Flook* and *Benson*, the PTO's analysis suffers from a number of additional flaws.

First, the PTO erroneously suggests that *Cochrane* provides a "definition" of "process." PTO Supp. Br. 7. To the contrary, as this Court's predecessor cautioned, while the language in *Cochrane* "has sometimes been misconstrued as a 'rule' or 'definition,'" that view "misapprehends the nature of the [relevant] passage" in *Cochrane*. *Prater*, 415 F.2d at 1403. The Supreme Court itself has never indicated that *Cochrane* provides a "definition" of "process." *See Benson*, 409 U.S. at 256 (stating only that transformation is "clue" to patentability of process claim); *Flook*, 437 U.S. at 588 n.9 (stating only that "[a]n argument can be made" that process must be transformative or tied to apparatus).

Second, the PTO is wrong in interpreting the Supreme Court's treatment of *Cochrane* as authorizing the "revisiting" of the standard "if a new, unforeseen technology warranted an exception to its test." PTO Supp. Br. 9; *accord* PTO Br. 17-19. Nothing in the Supreme Court's "process" decisions suggests that it was merely reserving the right to change its mind at some later date. Instead, the consistent message—from *Cochrane* in 1877 through *Flook* 101 years later—is that "processes" can exist today that, while not falling within the two categories described in *Cochrane*, nonetheless satisfy the requirements for patentability. Indeed, it would hardly be consistent with the bargain underlying the patent system to require inventors contemplating the pursuit of potentially groundbreaking innovations to convince a court to engage in a wholesale reconsideration and

reformulation of the patent system in order to open the door to realizing economic value from their investment.

This Court instead should approach Section 101 with the understanding that it is designed to *encourage* the pursuit of innovation. As the Supreme Court has indicated, that goal is not accomplished by imposing arbitrary limitations on Section 101 patentability but rather by crafting a system that accommodates (and therefore encourages) innovation without a built-in bias in favor of existing technology and against novel technologies. The PTO's proposed approach would have precisely the opposite result, erecting an additional obstacle specifically for inventors of new technologies.

Third, the PTO errs in trying to connect the meaning of "process" to the other three statutory terms in Section 101. The PTO insists that a narrow reading of "process" is required to keep the definition "*in pari materia*" with the other categories. PTO Supp. Br. 9. But interpretive canons of that type are of "no help absent some sort of gathering with a common feature to extrapolate," *S.D. Warren Co. v. Maine Bd. of Envtl. Protection*, 547 U.S. 370, 379-80 (2006), and the statute here provides no "contextual cues" that any inference of commonality is justified, *Ali v. Fed. Bureau of Prisons*, 128 S. Ct. 831, 839 (2008). In light of the Supreme Court's instruction that Section 101 must be construed as inclusive, it makes little

sense to cabin the definition of one of the four independent categories by reference to the scope of the other three.

In sum, limiting "process" to the two *Cochrane* categories has no basis in the text of Section 101 or the Supreme Court's decisions. And the effect of adopting such an artificial restriction would be to deter the development of new technologies, thereby jeopardizing the very purpose of the Patent Act.

3. The proper approach.

Supreme Court precedent establishes that mere ideas are not patentable but that methods satisfying *Cochrane* are. The question for this Court is how to assess the Section 101 eligibility of methods that neither claim an abstract idea, as determined by the non-preemption test, nor are encompassed by the *Cochrane* categories. For this task, the ordinary tools of statutory construction are all that is required.

The appropriate standard should reflect the text of the patent laws and carry out their underlying policy: that inventors should be rewarded for contributions to knowledge but not for those elementary principles that no person can monopolize. Toward this end, Section 101 acts as an important—if only partial—restraint. Section 101 precludes patent protection for abstract principles or natural laws—or their equivalents—that claim too much and would impede technological advancement if they could be controlled by one person. But Section 101 is not the

sole filter. Read in context, its purpose must be to set a threshold requirement for patentability that, while meaningful, does not bear the full burden for ensuring that only meritorious inventions receive the benefits of a patent. However, that threshold must not be rigid, lest it fail to recognize the dynamic nature of scientific progress and inventorship. The Court should adopt a standard that prevents patents on the building blocks of innovation—principally through the non-preemption examination—while staying true to the broad ordinary meaning of "process."

The cost of an under-inclusive test is serious, because inventions not pursued cannot be quantified. The cost of an over-inclusive approach is decidedly less pronounced, because borderline claims still will be required to satisfy the other stringent criteria for patentability. Consistent with the Supreme Court's teachings, this Court should therefore adopt a standard that errs on the side of finding processes to be patentable subject matter under Section 101.

C. Bilski's Claim 1 Is Not Patentable.

Claim 1—the only claim for which Bilski sought judicial review, *see* PTO Br. 6 n.2—is directed toward:

> A method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price comprising the steps of:
>
> (a) initiating a series of transactions between said commodity provider and consumers of said commodity wherein said consumers purchase said commodity at a

> fixed rate based upon historical averages, said fixed rate corresponding to a risk position of said consumers;
>
> (b) identifying market participants for said commodity having a counter-risk position to said consumers, and
>
> (c) initiating a series of transactions between said commodity provider and said market participants at a second fixed rate such that said series of market participant transactions balances the risk position of said series of consumer transactions.

JA 88. Although Bilski developed this method with energy hedging in mind, Claim 1 does not require a link to energy hedging and Bilski specifically disclaims any limitation on the embodiment of the invention. *See* JA 87 ("[I]t is distinctly understood that the invention is not limited [to the preferred embodiments] . . . ."). Claim 1 does not specify a particular method for determining how to "identify" persons or entities with a counter-risk position or how to "balance[]" the risk position of the consumer transaction; thus, Claim 1 seeks to cover any possible method with these characteristics. *See In re Morris*, 127 F.3d 1048, 1055 (Fed. Cir. 1997).

Accordingly, Claim 1 is a general claim on the concept of hedging. As the Board recognized, hedging is an "abstract idea" until it is implemented in some way. JA 50. But Claim 1 does not provide a specific method for implementing a hedge; its vague steps "cover ('preempt') any and every possible way of performing the steps of the plan, by human or by any kind of machine or by any combination thereof." *Id.* As a result, "the claim is so broad that it is directed to

the 'abstract idea' itself rather than a practical implementation of the concept." *Id.*; *accord* PTO Br. 39-40.

The Board correctly determined that Claim 1 falls outside Section 101 because it is an attempt to patent an abstract idea. It suffers from a defect similar to Morse's eighth claim—by trying to cover all possible uses of an idea (including those he has not invented), the claim degenerates into a disembodied concept without a particular application. The distinction between Bilski's claim and a related claim that might satisfy the non-preemption criterion parallels the distinction between Morse's failed eighth claim on telegraphy and Alexander Graham Bell's successful patent for telephony. As the Supreme Court explained in *Benson*, whereas Morse claimed an entire field of science (electromagnetism), Bell claimed only a particular *method* and not "all telephonic use of electricity." 409 U.S. at 68-69; *compare Morse*, 56 U.S. (15 How.) at 111-13, *with The Telephone Cases*, 126 U.S. 1, 534-38 (1888).

II. SECTION 101 SHOULD BE INTERPRETED TO MAINTAIN PATENT PROTECTION FOR SOFTWARE AND SIMILAR LEGITIMATE INVENTIONS.

Whatever approach this Court adopts with respect to Section 101, it should ensure that software continues to be eligible for patent protection. Overturning the settled jurisprudence permitting patents on software would upset expectations in an area of rapid technological growth that is critical to our country's economy as well as its global competitiveness.

As we explained in Part I, the American patent system is designed to provide incentives to innovators in order to promote progress. The history of software development reflects the effectiveness of this approach. Information technology has blossomed, with capital investments totaling $11 trillion worldwide. John Gantz, Int'l Data Corp., White Paper, *Enabling Tomorrow's Innovation*, at 2 (Oct. 2003), http://tinyurl.com/2ffwjs, In 2003, commercial software represented a $175 billion industry, employing 2.3 million people worldwide. *Id.* at 10.

In 2006, the information technology industry directly contributed $505 billion to the U.S. GDP. U.S. Dep't of Commerce, Bureau Econ. Analysis, Industry Economic Amount, http://tinyurl.com/24a6m3. More important, though, are the industry's indirect contributions to the economy. As former Federal Reserve Bank Chairman Alan Greenspan has observed, "information technology" and "information innovation" lie at "the root of productivity and economic growth" in the economy as a whole. Remarks before the Economic Club of New York, NY, Technology and the Economy (Jan. 13, 2000), http://tinyurl.com/a23za.

Patents have played an important role in generating and sustaining this development. By 2001, some 80,000 software patents had already been issued. Julie E. Cohen & Mark A. Lemley, *Patent Scope and Innovation in the Software Industry*, 89 CAL. L. REV. 1, 4 (2001). These patents have allowed inventors to capitalize on their craft and have encouraged thousands of our nation's brightest

minds to pursue careers in software engineering. Moreover, the public disclosure entailed in seeking a patent advances knowledge by eliminating the need for future innovators to replicate past discoveries—the proverbial "reinvention of the wheel." *See* Lee A. Hollaar, *Justice Douglas Was Right: The Need for Congressional Action on Software Patents*, 24 AIPLA Q.J. 283, 286 (1996). If the incentives for software development change, the flood of talent will move elsewhere and beneficial public disclosure will diminish.

A. Software Patents And Patents For Similar Legitimate Inventions Provide Important Benefits To The Economy And Society At Large.

Much like the other "useful arts," innovations in software technology bring important inventions to the American economy. Computer software is now used not just for word processing and calculating spreadsheets but also for designing bridges, diagnosing diseases, and directing our energy infrastructure. The automation of previously manual tasks through computer software has improved quality, consistency, efficiency, and access to a wide variety of products and services.

The backbone of this innovation is the patent system. As early as 1992, congressional reports recognized that "patent protection is of importance to the U.S. software industry, both domestically and in the global market." U.S. CONGRESS, OFFICE OF TECHNOLOGY ASSESSMENT, FINDING A BALANCE: COMPUTER

SOFTWARE, INTELLECTUAL PROPERTY, AND THE CHALLENGE OF TECHNOLOGICAL CHANGE 23 (1992). Without intellectual property protection, prospective software entrepreneurs face serious risks that competitors will free-ride on their innovations either by duplicating copies of software in what, under the current patent-law regime, constitutes illegal piracy or by pilfering the essential elements of a software program. *See, e.g.*, Bradford L. Smith & Susan O. Mann, *Innovation and Intellectual Property in the Software Industry: An Emerging Role for Patents?*, 71 U. CHI. L. REV. 241, 241-42 (2004). Either type of free-riding comes at the expense of the inventor's return on his investment. Conversely, with proper protection, potential innovators are stimulated to pursue new inventions and to proceed to commercial development to collect their economic rewards. *Id.* at 256-57; *see also* Erik S. Maurer, Note, *An Economic Justification for a Broad Interpretation of Patentable Subject Matter*, 95 NW. U. L. REV. 1057, 1087-88 (2001).

Simple economics suggests that, if patent protection for software were curtailed, the adverse consequences would be swift and severe. With less profit to capture, businesses would divert their resources into other, more lucrative ventures.[7] And, because of the importance of information technology to the U.S.

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[7] *See* U.S. PATENT AND TRADEMARK OFFICE, PUBLIC HEARING ON THE USE OF THE PATENT SYSTEM TO PROTECT SOFTWARE-RELATED INVENTIONS (Jan. 27, 1994) (statement of Victor Siber, Senior Counsel, IBM), http://tinyurl.com/27h2sn ("[I]f your competitor can legitimately copy the fruits from your R&D and can create a product that can compete head-on with your product while you are still trying to

economy, the spillover effects would be felt for some time and could threaten the continued technological advantage of the United States.

B. This Court Should Not Interpret Section 101 In A Manner That Upsets Settled Expectations.

Because so much has already been invested in computer software, both in resources and in manpower, this Court should be careful not to upset this settled industry of innovators by narrowing Section 101. This necessity is driven both by the legal imperative of *stare decisis* and by the extra force this doctrine carries in light of the particularly severe costs of upsetting patent expectations.

"*[S]tare decisis* plays an important role 'in preserving the rule of law and in ensuring that its evolution is not subverted by arbitrariness.'" *Preminger v. Sec'y of Veterans Affairs*, No. 07-7008, 517 F.3d 1299, ___, 2008 WL 482591, at *6 (Fed. Cir. Feb. 25, 2008) (quoting *Wilson v. United States*, 917 F.2d 529, 537 (Fed. Cir. 1990)). "[J]udicial departure from stare decisis always requires 'special justification,'" *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343-44 (Fed. Cir. 2004) (en banc) (quoting *Arizona v. Rumsey*, 467 U.S. 203, 212 (1984)), and "[c]onsiderations in favor of *stare decisis* are at

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build a market for the product, then you've lost. The long term value of R&D in the marketplace is in the new functions implemented by software. If such new functions are protected, investment flows to the industry. If not, investment will dry up.").

their acme in cases involving property and contract rights, where reliance interests are involved," *Payne v. Tennessee*, 501 U.S. 808, 828 (1991).

Among property rights, intellectual property invites particularly strong reliance. Moreover, "[c]onsiderations of *stare decisis* have special force in the area of statutory interpretation, for here, unlike in the context of constitutional interpretation, the legislative power is implicated, and Congress remains free to alter what [the courts] have done." *Shepard v. United States*, 544 U.S. 13, 23 (2005) (quoting *Patterson v. McLean Credit Union*, 491 U.S. 164, 172-73 (1989)).

Thus, where decisions interpreting a statute concern a right in intellectual property, *stare decisis* concerns apply with the greatest possible force. A dramatic change in patent law might invalidate certain patents notwithstanding the fact that—had the law imposed different requirements—claims would have been prosecuted differently, or unappealed rejections might have been pursued. As a result, the Supreme Court has cautioned that "[f]undamental alterations in these rules risk destroying the legitimate expectations of inventors in their property." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kubushiki Co.*, 535 U.S. 722, 739 (2002). Indeed, the Supreme Court has emphasized that "courts must be cautious before adopting changes that disrupt the settled expectations of the inventing community." *Id.*; *see also Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 32 (1997) ("[W]e should be extremely reluctant to upset the basic assumptions of the

PTO without substantial reason for doing so."). This Court has embraced the Supreme Court's reasoning, *see, e.g.*, *Masco Corp. v. United States*, 303 F.3d 1316, 1327 (Fed. Cir. 2002), and should continue to do so here. *See also* Cohen & Lemley, *supra*, at 4 ("With some eighty thousand software patents already issued . . . software patentability is a matter for the history books.").

C. Under Any Standard, Computer Software Is Plainly Patentable.

Under the principles derived from Supreme Court caselaw, it is apparent that software is patentable under Section 101, regardless of the precise interpretation of that provision adopted by this Court.

First, most software does not wholly preempt the use of an algorithm. Unlike the binary-decimal conversion technique discussed in *Benson*, 409 U.S. at 64-67, most software is designed to perform a particular function. As discussed above, any patent that is directed toward a particular application will avoid the categorical bar on patents for abstract ideas. The PTO has had little difficulty understanding that most—though not all—software is practical and particularized instead of abstract. *See, e.g.*, *Ex parte Baker*, 2002 WL 465345 (Bd. Pat. App. & Interf. 2002) (computer-implemented method for choosing an optimized stock portfolio); *Ex parte Phillips*, 2006 WL 2523865 (Bd. Pat. App. & Interf. 2002) (computerized method for distinguishing between ordinary and extraordinary binary floating point numbers, which makes the computer more efficient in

performing certain tasks); *cf. Ex parte Das*, 2004 WL 77064 (Bd. Pat. App. & Interf. 2004) (syntax for motion-compensated video bitstream deemed non-statutory subject matter because the syntax is not applied in any particular fashion).

Thus, it is now beyond challenge that the abstract-idea exception is not implicated for most computer software. *See, e.g.*, *Netscape Commc'ns v. Konrad*, 295 F.3d 1315 (Fed. Cir. 2002) (system for remote database access); *Amazon.com, Inc. v. barnesandnoble.com, inc.*, 239 F.3d 1343 (Fed. Cir. 2001) (method for expediting online transactions).[8]

Second, most software fits comfortably within Section 101 because it is tied to an apparatus. As this Court held in *In re Alappat*, "[computer] programming creates a new machine, because a general purpose computer in effect becomes a special purpose computer once it is programmed to perform particular functions pursuant to instructions from program software." 33 F.3d 1526, 1545 (Fed. Cir. 1994) (en banc). This legal principle comports with the reality for innovators, because "the idea matches almost exactly the concept of virtual machines discussed in operating systems classes." Hollaar, *supra*, at 294. Because Section 101 contemplates protection both for machines and for "any new and useful

[8] Of course, such applications still must demonstrate novelty, non-obviousness, and enablement.

improvement thereof," there is no basis for disturbing this interpretation of the provision.

III. ANSWERS TO THE QUESTIONS POSED BY THE COURT.

In its order granting *en banc* review, this Court posed five specific questions related to Bilski's Claim 1 and the scope of patentability under Section 101. We provide brief answers to each question below.

1. As we discuss in Part I.C, *supra*, Bilski's Claim 1 does not constitute patent-eligible subject matter under 35 U.S.C. § 101 because it fails the non-preemption test: it is the equivalent of a claim on the abstract idea of hedging. Because Bilski's claim is not tied to a particular application but instead claims essentially all practical uses of the phenomenon of hedging, Supreme Court precedent forbids access to the patent monopoly.

2. As we discuss in Part I.B.3, *supra*, the inquiry for determining whether a process is patent-eligible subject matter under Section 101 should begin with determining whether the application claims or dominates a law of nature, natural phenomenon, or abstract idea, utilizing the non-preemption analysis that the Supreme Court, this Court, and its predecessor have traditionally applied. If the claim is preemptive, then the process is not patentable. If no such principle is implicated, then the process should be evaluated under the *Cochrane* criteria. 94 U.S. at 788. If the process is either tied to an apparatus or transforms a subject-

matter or reduces it to a different state or thing, *id.*, then it satisfies Section 101. However, if the process neither fails the pre-emption test nor satisfies one of the *Cochrane* criteria, then additional analysis is needed. In light of the Supreme Court's guidance that "process" should be given its "ordinary, contemporary, common meaning," *Diehr*, 450 U.S. at 182, and consistent with the role of Section 101 in the overall patent scheme, the standard for these processes must be technology-neutral and flexible enough to encourage ventures into emerging areas of innovation.

3. As we discuss in Part I.C., *supra*, Bilski's Claim 1 preempts an abstract idea and is therefore ineligible for patent protection. When a claim contains multiple steps, some of which would be patent-eligible and some of which would not be, the appropriate response is to evaluate the claim "as a whole," *Diehr*, 450 U.S. at 188, and to apply the principles described above.

4. As we discuss in Part I.B.2, *supra*, so long as the non-preemption test is satisfied, tying a process to a machine or using that process to physically transform an article is sufficient to constitute patentable subject matter under Section 101. However, physical transformation is not necessary.

5. With regard to *State Street Bank* and *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352 (Fed. Cir. 1999), the holdings of these cases should be reaffirmed under the principles stated above. The patent at issue in *State*

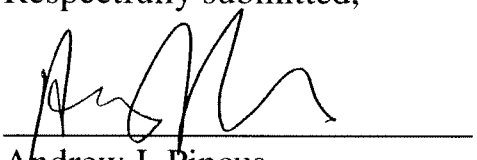
Street Bank did not violate the non-preemption test, when considered as a whole, because it applied its share-allocation algorithm in a particular machine-implemented task but did not otherwise restrict the use of the underlying principle, and it was tied to a particular apparatus. *See* 149 F.3d at 1371-74. In *AT&T*, although a simple mathematical operation (*p* and *q*) was employed in the course of the claimed process, the claim did not encompass every use of this mathematical operation. *See* 172 F.3d at 1358. Moreover, the method claimed was tied to the telephone switching apparatus, which it aimed to enhance. *See id.* at 1354. To the extent that these cases employed reasoning that is inconsistent with the Supreme Court precedent detailed in Part I, *supra*, *cf. LabCorp*, 126 S. Ct. at 2928 (Breyer, J., dissenting), the Court should clarify that it is the Supreme Court precedent that controls.

CONCLUSION

For the foregoing reasons, the Court should affirm the decision of the Board of Patent Appeals and Interferences.

April 7, 2008

Respectfully submitted,



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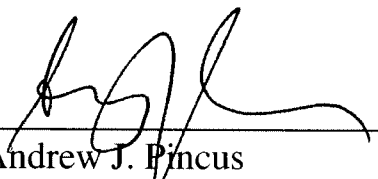

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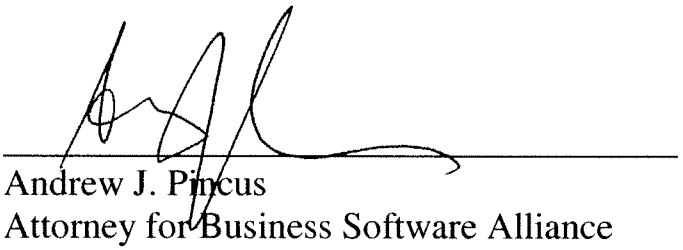
The foregoing Brief of the Business Software Alliance as *Amicus Curiae* complies with the type-volume limitation of Rules 29(d) and 32(a)(7)(B) of the Federal Rules of Appellate Procedure. The brief contains a total of 6807 words, including footnotes, as counted by Microsoft Word, and excluding the corporate disclosure statement, table of contents, table of authorities, and any certificates of counsel.



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