No. 08-964

In The Supreme Court of The United States

BERNARD L. BILSKI AND RAND A. WARSAW,
Petitioners,

v.

DAVID KAPPOS, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR, PATENT AND TRADEMARK OFFICE,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF THE INTELLECTUAL PROPERTY SECTION OF THE NEVADA STATE BAR, AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

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QUESTIONS PRESENTED

1. Whether the Federal Circuit erred by holding that a "process" must be tied to a particular machine or apparatus, or transform a particular article into a different state or thing ("machine or transformation" test), to be eligible for patenting under 35 U.S.C. § 101.

2. Whether the Federal Circuit's "machine or transformation" test for patent eligibility contradicts the Congressional intent that patents protect "method[s] of doing or conducting business." 35 U.S.C. § 273.

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INTEREST OF *AMICUS CURIAE*[1]

The Intellectual Property Section of the Nevada State Bar is a voluntary group of approximately 125 attorneys who are members of the Nevada State Bar ("Nevada IP Section"). This *amicus curiae* brief is presented on behalf of the Nevada IP Section in accordance with the approval granted by the Nevada IP Section and the Board of Governors of the Nevada State Bar.

Nevada IP Section members represent a wide range of clients both in and out of the State of Nevada, including inventors, owners, and users of intellectual property. Accordingly, the Nevada IP Section's interest is to preserve and promote a robust patent system that fosters business and entrepreneurial activity, enhances the economic and social welfare of the State of Nevada's populace, and protects the rights of inventors generally, thus fulfilling the purpose expressly specified for the patent and copyright laws in the United States Constitution, Article I, Section 8, Clause 8.

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[1] In accordance with Supreme Court Rule 37, *amicus curiae* provided timely notice to the parties and the parties have consented to the filing of this brief by filing a general consent for amicus briefs with the Court. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae*, its members, or its counsel made a monetary contribution to the preparation or submission of the brief.

INTRODUCTION

Amicus curiae, the Nevada IP Section, submits this brief to convey the importance of the following issues: (a) contrary to the patent and copyright clause of the Constitution, the "machine or transformation" test improperly excludes useful arts from Section 101, making a policy decision that is for Congress to decide, not the Judiciary; and (b) the "machine or transformation" test will harm Nevada's business and entrepreneurial activity.

Several other fellow *amici* have filed briefs referencing the patent and copyright clause of the Constitution granting Congress the power: "To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." U.S. Const. art. I, § 8, cl. 8 ("Patent and Copyright Clause"). However, this brief emphasizes the fact that unlike other powers granted to Congress, the Patent and Copyright Clause includes specific parameters for the content of copyright and patent law. For over 200 years, Congress has enacted statutes in accordance with such granted powers and has made the decision to provide exclusivity opportunity for discoveries in the useful arts generally, subject to very limited exclusions.

Unfortunately, the Federal Circuit's en banc decision in *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), improperly excludes useful arts from Section 101. Notably, the Federal Court failed to identify or recognize any action taken by Congress which would

support its drastic exclusion. Congress has made its intent and direction clear with respect to the broad scope that should apply to Section 101. For example: (a) Section 100(b), which was concurrently enacted with Section 101, includes a broad definition of "process" and (b) the recently enacted Section 273 repeatedly states the understanding of Congress that "a method of doing or conducting business" is patentable, even setting forth a limited infringement defense in certain circumstances related to a patented method. In this case, the Federal Circuit not only contradicts the clear Congressional intent and direction, but also attempts to make a policy decision that, based upon the Patent and Copyright Clause, is reserved for Congress, not the Judiciary.

Further, from a very practical perspective, the fulfillment of the Patent and Copyright Clause is necessary for the vitality of economic development in Nevada. Nevada continues to be a developing state which seeks to encourage business and entrepreneurial activity. This business and entrepreneurial activity includes new technology ventures related to renewable energy and gaming, all of which depend upon strong patent and other intellectual property protections. Patents are an essential part in procuring funding and other support for such business and entrepreneurial activity. Based in part upon the practical experience of members of the Nevada IP Section, the Nevada IP Section strongly believes that Nevada's business and entrepreneurial activity will be negatively impacted if the "machine or transformation" test is upheld. At the very least, such a significant shift from the

Framers' intent ought to be a policy decision for Congress to make, not the courts.

Accordingly, with these two issues in mind, the Nevada IP Section encourages this Court to reverse the "machine or transformation" test. Further, the Nevada IP Section encourages this Court to adopt the position identified by Federal Circuit Judge Rader in the dissenting opinion that "*Bilski* attempts to patent an abstract idea" and therefore affirm the rejection by the United States Patent and Trademark Office, Patent Appeals and Interferences ("Board"). *In re Bilski*, 545 F.3d at 1015 (Rader, J., dissenting). Alternatively, the Nevada IP Section encourages this Court to remand the matter for reconsideration in light of the reversal of the "machine or transformation" test.

I. CONTRARY TO THE PATENT AND COPYRIGHT CLAUSE, THE "MACHINE OR TRANSFORMATION" TEST IMPROPERLY EXCLUDES USEFUL ARTS FROM SECTION 101, MAKING A POLICY DECISION THAT IS FOR CONGRESS TO DECIDE, NOT THE JUDICIARY

A. The Unique, Constitutionally Express Purpose of the Patent And Copyright Clause Is "To Promote the Progress of Science and Useful Arts" Generally

The Patent and Copyright Clause of the Constitution provides that Congress shall have the power: "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8. "'[U]nlike other enumerated [Constitutional] powers, which denominate a sphere of authority and leave the details to Congress, [this] Clause includes specific parameters for the content of the copyright [and patent] law.'" Note, *Copyright, Congress, and Constitutionality*, 79 Notre Dame L. Rev. 2115, 2119 (2004) (*quoting* M. Hamilton, *The Historical and Philosophical Underpinnings of the Copyright Clause,* 5 Occasional Papers in Intellectual Property from Benjamin N. Cardozo School of Law, Yeshiva U. 8 (1999)).

> The clause is both a grant of power and a limitation. This qualified authority, unlike the power often exercised in the sixteenth and seventeenth centuries by the English Crown, is limited to the promotion of advances in the "useful arts." It was written against the backdrop of the practices -- eventually curtailed by the Statute of Monopolies -- of the Crown in granting monopolies to court favorites in goods or businesses which had long before been enjoyed by the public. See Meinhardt, *Inventions, Patents and Monopoly*, pp. 30-35 (London, 1946). . . . Innovation, advancement, and things which add to the sum of useful knowledge are inherent requisites in a patent system which by constitutional command must "promote the Progress of . . . useful Arts." This is the *standard* expressed in the Constitution, and it may not be ignored.

Graham v. John Deere Co., 383 U.S. 1, 5-6, 86 S. Ct. 684, 687-88, 15 L. Ed. 2d 545 (1966) (emphasis in original). *Accord Eldred v. Ashcroft,* 537 U.S. 186, 212, 123 S. Ct. 789, 785, 154 L. Ed. 2d 683 (2003), ("The 'constitutional command,' we have recognized, is that Congress, to the extent it enacts copyright laws at all, create a 'system' that 'promote[s] the Progress of Science.' *Graham*, 383 U. S. at 6.") *Cf. Diamond v. Chakrabarty,* 447 U.S. 303, 315, 100 S. Ct. 2204, 2211, 65 L. Ed. 2d 144 (1980)

("congressional objectives [of the patent laws] require broad terms.")

The intent and words of the Patent and Copyright Clause included no objective to exclude particular sciences or useful arts. *Id.* Rather, through this Patent and Copyright Clause *per se* the Framers sought to foster "Science and useful Arts" generally, and to thereby foster the expansion of human knowledge and the welfare of the nation generally. *Id.*

For example, several months before enactment of the first Patent Act, President George Washington explained in his first address to the joint session of Congress on January 8, 1790:

> The advancement of agriculture, commerce, and manufactures, by all proper means, will not, I trust, need recommendation, but I cannot forbear intimating to you the expediency of giving effectual encouragement, as well to the introduction of new and useful inventions from abroad, as to the exertions of skill and genius in producing them at home . . . . Nor am I less persuaded that there is nothing which can better deserve your patronage than the promotion of science and literature.

Gregory A. Stobbs, *Software Patents* 13 (2d ed. 2000).

Similarly, in 1789 Thomas Jefferson wrote to James Madison that he supported a granting of "Monopolies" to "persons for their own productions in literature and their own inventions in the arts . . . ." 5 *Writings of Thomas Jefferson* 113 (Paul L. Ford Ed. 1895). Later Jefferson wrote: "Certainly an inventor ought to be allowed a right to the benefit of his invention for some time. . . . Nobody wishes more than I do that ingenuity should receive a liberal encouragement." Letter from Thomas Jefferson to Oliver Evans (May 1807), *reprinted in* 5 *Writings of Thomas Jefferson* 75-76 (A.A. Lipscomb & A.E. Berg. Eds. 1903).

Thus, as this Court explained in *Mazer* v. *Stein,* 347 U.S. 201, 219, 98 L. Ed. 630, 74 S. Ct. 460 (1954):

> The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'

See also Note, *supra*, at 2119-25; L. Patterson, C. Joyce, *An Essay Concerning The Founders' View of the Copyright Power Granted to Congress in Article I, Section 8, Clause 8 of the U.S. Constitution*, 52 Emory L. J. 909, 936-940 (Spring 2003).

B. As Enacted, the Goal of the Patent Laws Must Be To Promote the Progress of Science and Useful Arts Generally, Subject to Action By Congress Under Applicable Countervailing Constitutional Powers

That the Patent and Copyright Clause speaks in terms of promoting science and useful arts generally does not mean that, as passed by Congress, the patent laws must provide inventors with exclusive rights in all categories of science and discoveries all the time. Congress may declare particular types of inventions unpatentable in the exercise of other constitutional powers. *Cf.* 42 U.S.C. § 2181(a) (exempting from patent protection inventions that are useful solely in connection with special nuclear material or atomic weapons). In addition:

> Within the limits of the constitutional grant [set forth in the Patent and Copyright Clause], the Congress may, of course, implement the stated purpose of the Framers by selecting the policy which in its judgment best effectuates the constitutional aim. This is but a corollary to the grant to Congress of any Article I power. *Gibbons v. Ogden*, 9 Wheat. 1, 6 L. Ed. 23 [(1824)].

Graham, 383 U.S. at 6, 86 S. Ct. at 688. *Accord Chakrabarty,* 447 U.S. at 315, 100 S. Ct. at 2211

(1980) ("Congress, not the courts, must define the limits of patentability.")

Consequently, although it is for Congress to determine (i) which arts are useful or promoted by the grant of patents (*see Chakrabarty,* 447 U.S. at 314-18, 100 S. Ct. at 2210-12) and (ii) the period of "limited time" for exclusivity provided by the copyright laws (*Eldred,* 537 U.S. 212, 123 S. Ct. at 784-85), "Congress may not create patent monopolies of unlimited duration, nor may it authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available.'" *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146, 109 S. Ct. 97, 103 L. Ed. 2d 118 (1989) (*quoting Graham,* 383 U.S. at 6, 86 S. Ct at 688).

In essence, consistent with the Framers' express intent and directive that Congress has the power "to promote the Progress of Science and the useful Arts" generally, the patent laws must be enacted to achieve that end, subject to countervailing actions by Congress under other applicable constitutional powers. U.S. Const. art. I, § 8, cl. 8. Although it is Congress that is to "select the policy which in its judgment best effectuates the constitutional aim," that aim "by constitutional command must 'promote the Progress of . . . useful Arts.' This is the standard expressed in the Constitution, and it may not be ignored." *Graham,* 383 U.S. at 6, 86 S. Ct. at 688. *Cf. Chakrabarty,* 447 U.S. at 315, 100 S. Ct. at 2210 ("the constitutional and statutory goal of the patent laws

is "promoting 'the progress of science and the useful arts' with all that means for the social and economic benefits envisioned by Jefferson.")

Ever since their inception 220 years ago, the federal patent statutes have provided exclusivity for discoveries in "any" useful arts subject to very limited exclusion for purposes of national defense and security. *See Chakrabarty,* 447 U.S. at 308-09, 318, 100 S. Ct. at 2207-08, 2211. The first Patent Act of 1790 defined statutory subject matter to include "*any useful art,* manufacture, engine, machine, or device, or any improvement therein not before known or used." 1 Stat. 109, 110 (emphasis added).

> The Patent Act of 1793, authored by Thomas Jefferson, defined statutory subject matter as '*any* new and *useful art,* machine, manufacture, or composition of matter, or *any* new or useful improvement [thereof].' Act of Feb. 21, 1793, 1, 1 Stat. 319. The Act embodied Jefferson's philosophy that 'ingenuity should receive a liberal encouragement.' 5 *Writings of Thomas Jefferson* 75-76 (Washington ed. 1871). *See Graham v. John Deere Co.*, 383 U.S. 1, 7 -10 (1966). Subsequent patent statutes in 1836, 1870 and 1874 employed this same broad language. In 1952, when the patent laws were recodified, Congress replaced the word

> '*art*' with '*process*' but otherwise left Jefferson's language intact.

Chakrabarty, 447 U.S. at 309, 100 S. Ct. at 2007-08 (emphasis added, insertion in original).

In 1952, however, the term "process" meant "[a] procedure . . . [a] series of actions, motions, or operations definitely conducing to an end, whether voluntary or involuntary." *Webster's New International Dictionary of the English Language* 1972 (2d ed. 1952). Moreover, 35 U.S.C. 100(b), enacted along with Section 101, made clear that this broad scope of meaning for "process" in 1952 applied to Section 101: "The term 'process' means *process, art or method*, and includes a new use of a known process, machine, manufacture, composition of matter, or material." (Emphasis added.) Thus, the substitution of the term "process" for "art" in Section 101 did not exclude any useful art from the scope of patentable subject matter (nor is the expansive definition of the term "process" in Section 100(b) "unhelpful given that the definition itself uses the term 'process.'" *Bilski,* 545 F. 2d at 951 n.3).

On the contrary:

> The subject-matter provisions of [Section 101] have been cast in broad terms to fulfill the constitutional and statutory goal of promoting "the Progress of Science and the useful Arts" with all that means for the social and economic benefits envisioned by

> Jefferson. Broad general language is not necessarily ambiguous when congressional objectives require broad terms.

Chakrabarty, 447 U.S. at 315, 100 S. Ct. at 2210.

If there were any ambiguity about the scope of Section 101, the guide for its interpretation should be the express intent of Congress in light of the Constitutional purpose of the Patent and Copyright Clause

> Congress has performed its constitutional role in defining patentable subject matter in 101; we perform ours in construing the language Congress has employed. In so doing, our obligation is to take statutes as we find them, guided, if ambiguity appears, by the legislative history and statutory purpose.

Chakrabarty, 447 U.S. at 315, 100 S. Ct. at 2210.

Under the guide of Congressional intent and the broad purpose for the patent laws under the Patent and Copyright Clause, the scope of statutory subject matter under Section 101 includes anything made by mankind:

> in order to determine [the] meaning [of Section 101] *we may not be unmindful* of the Committee Reports

> accompanying the 1952 Act which inform us that Congress intended statutory subject matter to 'include anything under the sun that is made by man.' S. Rep. No. 1979, 82d Cong., 2d Sess., 5 (1952); H. R. Rep. No. 1923, 82d Cong., 2d Sess., 6 (1952).

Diamond v. Diehr, 450 U.S. 175, 182, 101 S. Ct. 1048, 1055, 67 L.Ed.2d 155 (1981) (emphasis added). *Accord Chakrabarty,* 447 U.S. at 308-10, 100 S. Ct. at 2207-08 (interpreting Section 101 broadly "in [the] light" of the same Congressional intent). *Cf. J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred International, Inc.,* 534 U.S. 124, 130, 135, 122 S.Ct. 593, 598, 600,151 L.Ed.2d 508 (2001) (Section 101 is "extremely broad" and a "dynamic provision designed to encompass new and unforeseen inventions").

Finally, the subsequent enactment of 35 U.S.C. § 273 yet again confirmed the intent of Congress for the broad scope of Section 101 found by this Court in *Chakrabarty* and *Diehr*. 447 U.S. at 308-10, 100 S. Ct. at 2207-08; 450 U.S. at 182, 101 S. Ct. at 1055. Section 273 repeatedly states the understanding of Congress that "a method of doing or conducting business" is patentable and sets forth a limited infringement defense based on prior use of such a patented method before the filing date of the patent covering the method. 35 U.S.C. § 273(1), (2), & (3). Section 273 does not include the term "process" and yet it expressly states Congress's understanding that methods of doing or conducting

business are patentable subject matter under Section 101. In passing Section 273, Congress thus confirmed (i) the broad breadth of Section 101 according to its literal meaning when enacted in 1952 along with Section 100(b) and (ii) the intent of Congress in 1952 to have Section 101 embrace "anything under the sun that is made by man." *Chakrabarty,* 447 U.S. at 308-10, 100 S. Ct. at 2207-08; *Diehr,* 450 U.S. at 182, 101 S. Ct. at 182. *Cf. J.E.M.,* 534 U.S. at 135, 122 S.Ct. 600 (Section 101 is a "dynamic provision designed to encompass new and unforeseen inventions").

This consistent pattern of Congressional action since the patent and copyright laws were first enacted in 1790 shows that Congress has itself understood and implemented the directive of the Patent and Copyright Clause *per se* that the patent laws should foster science and the useful arts generally – that is, subject to policy action by Congress within the scope of this Constitutional directive. [2]

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[2] In *Diehr*, this Court interpreted the term "process" in Section 101 according to a narrower definition from a Supreme Court decision 75 years before Congress enacted Sections 101 and 100(b). *Diehr*, 450 U.S. at 182-83, 101 S. Ct. at 1054-55 (*quoting Cochrane v. Deener*, 94 U.S. 780, 787-788, 24 L.Ed. 139 (1877)). In *Diehr*, however, the physical vulcanization process at issue even satisfied the narrower meanings of the term "process" from 75 years earlier. 450 U.S. at 182-84, 101 S. Ct. at 1054. Thus, the Court in *Diehr* did not address the full meaning of "process" in Section 101 in light of: the intent of Congress for the full scope of Section 101 acknowledged in *Diehr* itself and the Court's prior *Chakrabarty* decision; the 1952 definition of "process" generally and in Section 100(b) in

C. The "Machine or Transformation" Test Nevertheless Interprets Section 101 to Exclude Innovative Useful Arts of the 21st Century and Beyond

As recognized by the Federal Circuit dissents in *Bilski*, the majority's "machine or transformation" test improperly eliminates from patentable subject matter under Section 101 many types of undeniably new and useful arts "made by man" in the 21st Century including computing systems, medical technology, and business processes.

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particular; applicable rules of statutory construction recognized in *Diehr* itself; and the express purpose of the Patent and Copyright Clause. *Compare id. with* main text *supra* at 5-15. In addition, as support for use of a narrow definition of "process," *Diehr* cited as direct support *Gottschalk v. Benson*, 409 U.S. 63, 93 S. Ct. 253, 34 L.Ed.2d 273 (1972); but the Court in *Benson* explained that it did not so hold:

> 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.* It is said that the decision precludes a patent for any program servicing a **computer**. We do not so hold. . . . . It is said we freeze process patents to old technologies, leaving no room for the revelations of the new, onrushing technology. *Such is not our purpose.*

Compare Diehr, 450 U.S. at 184, 101 S. Ct. at 1055, *with Benson,* 409 U.S. at 63; 93 S. Ct. at 255 (emphasis in original).

> The court today acts *en banc* to impose a new and far-reaching restriction on the kinds of inventions that are eligible to participate in the patent system. The court achieves this result by redefining the word "process" in the patent statute, to exclude all processes that do not transform physical matter or that are not performed by machines. The court thus excludes many of the kinds of inventions that apply today's electronic and photonic technologies, as well as other processes that handle data and information in novel ways. Such processes have long been patent eligible, and contribute to the vigor and variety of today's Information Age. This exclusion of process inventions is contrary to statute, contrary to precedent, and a negation of the constitutional mandate.

545 F. 3d at 976 (Newman, J., dissenting); see also 545 F.3d at 1014-15 (Rader, J., dissenting). See Brief of Accenture and Pitney Bowes, Inc., as *Amicus Curiae* in Support of Petitioner, at 34-37, in which the present Amicus joins.

D. The "Machine or Transformation" Test Misconstrues Section 101 Contrary to the Express Purpose of the Patent and Copyright Clause and Without the Prerequisite Exclusionary Policy Action by Congress

In its *Bilski* decision, the Federal Circuit did not cite any Congressional policy excluding any useful arts from Section 101, much less to the degree that the "machine or transformation" test would require. *Bilski,* 545 F. 3d 949-66. Nor would any such exclusion be proper given the long history of including "any" useful "arts" within the scope of patentability under all patent acts since this nation was first founded. In the case of Section 101 in particular, this history includes only express and repeated inclusionary Congressional acts and intent to have Section 101 embrace "any" useful "art" – "anything under the sun that is made by man." *Chakrabarty,* 447 U.S. at 308-10, 100 S. Ct. at 2207-08; *Diehr,* 450 U.S. at 182, 101 S. Ct. at 1055; 35 U.S.C. §§ 100(b), 101, 273.

The Federal Circuit's narrow and exclusionary interpretation of Section 101 is therefore contrary to the basic constitutional framework in which such a policy is for Congress to decide, not the courts. *Graham,* 383 U.S. at 6, 86 S. Ct. at 688; *Chakrabarty,* 447 U.S. at 318, 100 S. Ct. at 2210. The "machine or transformation" limitation imposed upon Section 101 is thus in error and should be reversed.

Particularly at this point in time (over 220 years since Congress enacted the first Patent Act), an exclusionary interpretation of Section 101 (and relatedly Sections 100(b) and 273) is also contrary to the Framer's intent for, and the directive of, the Patent and Copyrights Clause at least absent clear prior adoption by Congress of an exclusionary policy consistent with the Clause or other grant of power, *Graham*, 383 U.S. at 6, 86 S. Ct. at 688; *Accord Eldred v. Ashcroft,* 537 U.S. at 212, 123 S. Ct. at 785.

II. THE *BILSKI* HOLDING WILL NEGATIVELY IMPACT NEVADA'S BUSINESS AND ENTREPRENEURIAL ACTIVITY

A. New Technology Ventures Depend on Strong Intellectual Property Protection

Amicus Nevada IP Section has many members, including the authors, with extensive experience in technology ventures. The Nevada IP Section offers to the Court the perspective from the trenches -- that is, an experienced practitioner's view of the importance of patents for emerging technology.

> The lifeblood of essentially all companies today is their intellectual assets. In every company, those assets include the intellectual output of their employees. In traditional manufacturing environments, the

> assets may be heavily focused around technological developments and know-how. In service-oriented companies such assets may include innovative and often proprietary processes and procedures. For content-oriented companies, the intellectual assets are typically the output of the creative process and may include art, text, music and other creative materials. Woe to the company that fails to recognize and protect its assets.

Jeffrey L. Brandt, *Turning Intellectual Assets into Business Assets*, *in* Bruce Berman, *From Ideas to Assets: Investing Wisely in Intellectual Property* 66 (2002).

Intangible assets based on intellectual property have become a key part of business life. In concluding that the U.S. is now an "intangible economy," one commentator stated:

> Information, knowledge and other intangibles now drive economic prosperity and wealth creation. Intangible assets—worker skills and know-how, informal relationships that feed creativity and new ideas, high-performance work organizations, formal intellectual property, brand names—are the new keys to competitive advantage. The value of U.S. gross investments in intangibles has been estimated to be at

> least a trillion dollars annually, covering investments in R&D, advertising and marketing, software, financial activities and creative activities of writers, artists and entertainers. This does not even count investments in productivity-enhancing changes in business processes, education and employee training.

Kenan Patrick Jarboe, *Reporting Intangibles: A Hard Look at Improving Business Information in the U.S.* (Athena Alliance, Working Paper No. 01, April 2005).

1. Start-up Ventures Based on Emerging Technology Need Patent Protection

Patents are an essential part of securing these vital intellectual assets for emerging technology companies. For many start-up ventures, the most significant asset, or maybe the only asset, is the value of its patents. *See* Jovica Carranza, *Patent Reform and Small Business Challenges: The Importance of Patent Rights and Commercial Competition* (Council on Foreign Relations, Roundtable on Technology, Innovation, and American Primacy: The Patent Crisis - An Update April 7, 2009).

We live in a capitalistic economic system, and start-up ventures need capital. Innovators are often undercapitalized and when the funds of the

innovator become depleted, start-up capital must be obtained from third party investors. Investors are interested in obtaining a return on investment. A patent for an emerging technology may serve as collateral for an investor. James E. Malackowski and David I. Wakefield, *Venture Investment Grounded in Intellectual Capital: Taking Patents to the Bank*, *in* Berman, *supra*, 174. Used as collateral, the patent may be the only hedge such a start-up venture has against an adverse outcome.

Before any commitment, a competent investor will thoroughly evaluate a start-up. Innovations and related patents will be vetted. Contrary to the perception of some, not just any patent will do. In a venture based upon an innovation, an effective patent is a prime determinate of acceptable risk. Christopher R. Fine & Donald C. Palmer, *Patents on Wall Street*, *in* Berman, *supra*, 523-526.

One critical attribute of a patent is its ability to secure innovation during development and after it enters the marketplace. H. Jackson Knight, *Intellectual Property "101"*, *in* Berman, *supra*, 10. Without a patent, the innovation and the research and development dollars invested in commercialization of the respective subject matter are susceptible to being usurped by a waiting competitor. Moreover, the patent may create and/or represent a defined framework for the venture. The patent (or the patent application) itself may provide the definition needed to evaluate the business value and the commercial feasibility of the underlying subject matter. *See generally* Howard A. Anawalt &

Elizabeth S. Enayti, *IP Strategy, Complete Intellectual Property Planning, Access and Protection,* 290-291 & n 6. (1996).

In the same way investors need to know the innovation is protected, inventors need to have that protection provided by a broad definition of Section 101 when approaching investors. For many emerging technologies, an inventor faces the fear and real possibility that the investors can simply take the innovation without compensation to the inventor, primarily because inventors often lack the funds to commercialize the technology. Moreover, financiers may require the inventor to make a detailed disclose of the invention, trade secrets, business plans, and market plans. *See generally* Lauri J. Radding, *Investment Related Intellectual Property: Due Diligence Strategies and Concerns* 20 & App. A & B (Licensing Executives Society, Sept. 22, 2003). This circumstance may be further complicated when the best source of financing is a vendor, customer, or even a competitor, particularly when such a player is in a better position to understand, evaluate, and exploit the technology.

2. Existing Enterprises Need Patent Protection to Undertake Development of an Emerging Technology

In the case of an existing technology-based enterprise, intellectual property assets represent the bulk of their worth. Posting of Angelo J. Bufalino, *IP Strategies (Part 1)*, to IPFrontline blog, http://www.ipfrontline.com/depts/article.asp?id=3698

&deptid=3 (May 25, 2005). Innovation requires that significant capital be allocated to research and development. That capital may come from internal resources, outside investors, or the public markets, but the technology must generate a return on investment. New technology must be protectable from its initial development through to commercialization.

The structure of an enterprise in and of itself presents issues for technology that can only be secured by patent protection. The sheer number of people in an enterprise increases the risk that essential technology will be prematurely disclosed, that knowledgeable key players will be hired away by competitors, or that key players will break away and establish their own venture.

Another way to interpret patents in emerging technologies is that patent protection is analogous to buying futures in pure research. Patents enable companies to invest in risky "futures" with the hope of commercializing that research and thereby turn efforts in innovation into protected, monetizable business assets. *See* Brandt, *supra*, 66-80. Research and development dollars invested can provide a return both from commercializing products and from licensing, and each stream can be monetized if appropriate patents are in place.

If this Court were to adopt the "machine or transformation test", some of these emerging technologies would be excluded from protection and the inventor and/or investor would be vulnerable to

attack or exploitation without appropriate remuneration.

B. Nevada Will be Harmed by Adoption of the "Machine or Transformation" Test

Nevada is a developing state that recognizes the need for the emerging technology industry. The vision of the Nevada Commission of Economic Development, the eponymous State Agency, is that "… Nevada's economic platform will be driven by renewable energy, future-based technology and human ingenuity to promote new business opportunity in every community." Nev. Comm'n Econ. Dev. Website, *available at* http://www.expand2nevada.com/documents/FY10%20IP.pdf. To encourage the development of emerging technologies within the State, a partial abatement of sales tax, modified business tax and personal property tax is available to qualified intellectual property development companies. NRS 360.750(2)(g). Also noteworthy is that the Nevada Legislature mandated that by 2015 twenty percent (20%) of the energy in Nevada should be from renewable energy sources. NRS § 704.7831.

Nevada is blessed with some of the most abundant solar energy resources of any state in the nation, and has the second most abundant Geothermal Energy Resources of any state in the nation. USGS, Assessment of Moderate- and High-Temperature Geothermal Resources of the United States, Fact Sheet (2008). Nevada is the No. 1 state

in the nation in solar watts per capita and solar as a percentage of retail sales. Nevada Energy website, *available at* http://www.nvenergy.com/renewablesenvironment/renewables/. Nevada has the largest solar photovoltaic project in the country. *Id.* Nevada Solar One is the largest solar thermal energy plants built in the world since 1991. U.S. Department of Energy, *Office of Efficiency and Renewable Energy, Solar Energies Technologies Program* (September 2008) *available at* http://www.nrel.gov/csp/pdfs/43685.pdf. Nevada is the worldwide capital of the gaming industry and gaming constitutes a large part of Nevada's economy. Software technology needed to support gaming and technology sectors throughout the State continues to develop and grow. Nevada's early adoption of fiber-optic technology, including expansive networks of ISDN and other large volume digital transmission infrastructures - along with digital switching - have made the State one of the most sought-after locations in the West. Nev. Comm'n Econ. Dev. website, *available at* http://www.expand2nevada.com/telecommunications.html.

Each of these industries uses technology that would be excluded from patentability if the *Bilski* "machine or transformation" test is adopted. *See e.g.*, James Jorasch, *The Process Laboratory*, *in* Berman, *supra*, 142-45. Without patent protection for these new, intangible technologies and others impacted by the test, Nevada will be at a disadvantage in terms of economic growth. *See generally* Robert J. Shapiro & Kevin A. Hassett, *The Economic Value of*

Intellectual Property (Sonecon, Intellectual Property Report Oct. 2005), *available at* http://www.sonecon.com/docs/studies/IntellectualPropertyReport-October2005.pdf. Nevada businesses will have an unfair disadvantage competing with businesses in states that already have a market advantage in established intangible technologies. Nevada will also be disadvantaged in attracting new technology as against other jurisdictions that allow protection for that technology. This is exactly the opposite of what the Framers intended for the patent system to accomplish as explained above, *supra* at 5-8.

CONCLUSION

The "machine or transformation" test should not be the law for a great number of reasons explained in the briefing before this Court, including because Congress has adopted no such policy and such a decision is for Congress, not the courts. *Graham,* 383 U.S. at 6, 86 S. Ct. at 688; *Chakrabarty,* 447 U.S. at 318, 100 S. Ct. at 2210. Consistent with the Patent and Copyright Clause the Court should interpret Section 101 to include any useful process, art, or method as expressly stated in and intended by Sections 100(b), 101, and 273.

Further, the Court should affirm the rejection of the Board on the basis that the patent claims in issue attempt to patent an abstract idea. *Bilski,* 545 F.3d at 1011, 1013 (Rader, J., dissenting). Alternatively, this Court should reverse the "machine or transformation" test and remand the

case to the Federal Circuit for reconsideration in view of reversal of the "machine or transformation" test.

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