No. 08-964

In The Supreme Court of The United States

BERNARD L. BILSKI AND RAND A. WARSAW,

Petitioners,

v.

JOHN J. DOLL, ACTING UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND ACTING DIRECTOR, PATENT AND TRADEMARK OFFICE,

Respondent.

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

BRIEF OF *AMICUS CURIAE* TELECOMMUNICATION SYSTEMS, INC. IN SUPPORT OF NEITHER PARTY AND FOR PURELY PROSPECTIVE APPLICATION OF ANY ADOPTION OF THE NEW LEGAL TEST APPLIED BELOW

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STATEMENT OF INTEREST OF *AMICUS CURIAE*

TeleCommunication Systems, Inc. (NASDAQ: TSYS) (hereafter, "TCS") is a high technology corporation holding a diverse portfolio of patents and other intellectual property rights.[1] TCS is a leading provider of wireless communication technology. TCS holds 85 patents, most in the United States, with 230 applications pending. Based in Maryland, TCS has almost 650 employees. TCS technologies include, among many others, lifesaving E911 location systems – equipment that allows first responders to pinpoint the location of emergency 911 wireless calls.

Such lifesaving innovations would not have been possible without a predictable, reliable patent system. In order to achieve its growth and commercial success, TCS has relied on a strong United States patent system. Numerous TCS patents have been infringed over the years. In 2009, the Eastern District of Virginia issued judgment for TCS on a jury verdict holding that Sybase 365, another messaging technology company, infringed its U.S. Patent No. 6,985,748 (Civil Action No. 3:06-CV-485 (JRS), now on appeal). The innovations in the '748 patent make it easier for individuals to send SMS text messages to each other. In late 2008 and throughout 2009, TCS began seeking compensation

[1] Under Supreme Court Rule 37.6, we state that no part of this brief was authored by counsel for any party, and no person or entity other than the *amicus curiae* filing this brief made a monetary contribution to the preparation or submission of the brief. The brief is filed with the consent of the parties, and copies of the consent letters have been filed with the Clerk.

for widespread infringement of two different patents – U.S. Patent Nos. 6,891,811 and 7,355,990. The innovations in the '811 and '990 patents allow wireless subscribers to send text messages to computers on the World Wide Web, and receive automated return messages.

TCS has witnessed firsthand the mischief caused by the new patent-eligibility legal standards announced by the Court of Appeals for the Federal Circuit. Though TCS is a technology company and has not sought to patent financial services inventions like the ones invented by Messrs. Bilski and Warsaw, TCS's detractors seek to use the holdings of *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008), to devalue and attack TCS's investment-backed intellectual property rights. For example, TCS recently became a defendant in a civil action an infringer filed to invalidate the widely-infringed '811 and '990 patents (*Newegg Inc. v. TeleCommunication Systems, Inc.*, Civil Action No. CV-09-0982 (JL) (N.D. Cal.)).

In paragraphs 20 and 29 of that Declaratory Judgment Complaint (Dkt. No. 1), the plaintiff alleges that TCS's '811 and '990 patents are invalid as directed to "nonstatutory subject matter under 35 U.S.C. § 101." TCS believes this sort of declaratory judgment count would have been unthinkable against a high technology patent before *Bilski*. At least one other infringer during 2009 cited *Bilski* to lend a pretext to its refusal to pay royalties. Thus, even though TCS's '811 and '990 patents claim innovations related to "gateways" (*i.e.*, "machines"

that would clearly pass the *Bilski* "machine or transformation" test), the *Bilski* decision has emboldened copyists to urge expansion of its holdings even further. Though the lower court did not intend to weaken the patent rights of pure technology companies who rely on the patent system to backstop investments in lifesaving technologies, one of its unintended results has been to change the "reality on the ground." *Bilski* has inspired copyists to free-ride on the hard work and investments of others. TCS takes no sides in filing this brief, but simply urges the Court to minimize the damage to the innovation and investment community that might be caused by endorsing the new legal standards wrought below.

SUMMARY OF THE ARGUMENT

This nation's technological leadership relies on a predictable, enforceable patent system. The lower court's *Bilski* decision threatens predictability, because its newly announced limitations on the standards of patent-eligibility under 35 U.S.C. § 101 contradict this Court's holding in *Gottschalk v. Benson*, 409 U.S. 63, 71 (1972). If this Court decides to overrule *Benson* in this regard, it should do so under the framework the Court laid out in *Chevron Oil Co. v. Huson*, 404 U.S. 97, 106-07 (1971) – that is, make any such holding purely prospective.

ARGUMENT

I. INTRODUCTION

In *Bilski*, the Federal Circuit majority applied a new test for process patent eligibility, holding a claimed process must be tied to a particular machine or apparatus, or transform an article into a particular state or thing (the "machine or transformation" test). *In re Bilski*, 545 F.3d 943, 954 (Fed. Cir. 2008). Judge Newman's dissent states that this Court's precedents require a different test: that a claimed process simply must not as a whole embody a law of nature, natural phenomenon, or abstract idea.[2] *Id.* at 977 (Newman, J., dissenting). Necessarily, more inventions are eligible for patent protection under the test Judge Newman gleaned from this Court's precedents. Both the majority and Judge Newman claimed to divine their tests from this Court's interpretations of 35 U.S.C. § 101, codified within the Patent Act of 1952. This Court will now decide which test is correct. This brief does not address that question.

Instead, this brief points out that Judge Newman's views (not that of the majority) have been the prevailing belief within the innovation and investment community since the dawn of the biotechnology and information technology revolution. They have also been the views applied by the United States Patent and Trademark Office (USPTO) in granting millions of patents over the past three

[2] Judge Rader's separate dissent makes similar points. But for simplicity, this brief will refer just to Judge Newman's dissent.

decades. The majority's holding – a test requiring a process to embody a machine or transformation – upsets decades-old expectations of what the law is. To borrow Justice Ginsburg's words from a recent decision declining to limit patent rights in another context, the new *Bilski* rules "unfairly discount the expectations of a patentee who had no notice at the time of patent prosecution that such [rules] would apply." *Warner-Jenkinson, Inc. v. Hilton Davis Chem. Co.,* 520 U.S. 17, 41 (1997) (Ginsburg, J., concurring).

As when it decided *Warner-Jenkinson* (*id.* at 28) and *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 535 U.S. 722, 739-40 (2002), this Court should again give thoughtful consideration to the effect of the lower court's newly-announced "definitive test" on the reasonable expectations of the innovation and investment community. "Fundamental alterations in these rules risk destroying the legitimate expectations of inventors in their property." *Id.*, 535 U.S. at 739. Here, property rights received under the old patent-eligibility test (the one Judge Newman identified) risk being forfeited and taken without due process of law or just compensation. Limiting any affirmance to prospective application only would quell such concerns.

Affirming *Bilski*'s "machine or transformation" test would represent a break from clear past precedent, would conflict with the historical purpose behind the statutory provisions for patent eligibility, and would impose great

inequity, injustice and hardship if there were retroactive application. Therefore, if this Court affirms the "machine or transformation" test as the touchstone *vel non* of patent eligibility for processes under 35 U.S.C. § 101, it should apply that holding only prospectively under this Court's *Chevron Oil* framework.[3] In summary, the *Chevron Oil* factors apply for the following reasons:

- **Break from Precedent (the first *Chevron Oil* factor):** The Federal Circuit made "machine or transformation" the "definitive test" – whereas this Court in *Benson*, 409 U.S. at 71, expressly refused to issue such a holding. *Id.* (stating "We do not hold [this]."). Affirmance of this as the "definitive test" would amount to the Court overruling this aspect of *Benson*.

- **Conflict with Historical Purposes (the second *Chevron Oil* factor):** Congress indicated the purpose of § 101 of the Patent Act is to make "anything under the sun that is made by man" eligible for patenting, while allowing other sections of the Patent Act to serve the role of determining actual patentability (novelty, inventiveness, descriptiveness, enablement, *etc.*). *Diamond v. Chakrabarty*, 447 U.S. 303, 308-09 (1980) (citing S. Rep. No. 1979, 82d Cong., 2d Sess., 5 (1952); H.R. Rep. No. 1923, 82d Cong., 2d Sess., 6 (1952)). Congress used clear, broad terminology in § 101 to effect this purpose, modifying the statutory language with the comprehensive word "any." *Id.* A

[3] *Chevron Oil Co. v. Huson*, 404 U.S. 97, 106-07 (1971).

holding that effectively qualifies such statutory language by interpreting implicit limitations into it (*e.g.*, the "machine or transformation" test) would counter such purposes.

- **Inequity (the third *Chevron Oil* factor):** Affirmance of "machine or transformation" as the "definitive test" for process patent eligibility would amount to an unprecedented massive government taking of personal property without due process or just compensation. One need look no further than the USPTO's own classification system to realize that "Business Methods" (the category most likely to involve non-machine, non-transformative processes) encompass an entire class of inventions currently examined by the USPTO (Class 705). Scholars and commentators have noted the sea change brought on by this new rule, including its ability to vitiate an entire class of inventions until now believed patent-eligible. *E.g.*, Wayne P. Sobon and Erika H. Arner, "*In re Bilski*: 19th Century Thinking for 21st Century Challenges," Landslide, Volume 1, Number 3, January/February 2009 (published by the ABA Section of Intellectual Property Law).[4]

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[4] Sobon & Arner state in the cited article that to date, more than 15,000 patents have issued in Class 705 (Business Methods). They conclude that *Bilski* "fashioned a rigid, absolute rule for the patentability of processes, a rule better suited for the days of buggy manufacturers and leather dyers than the modern world of information and services," such that it "stunningly and simply ignored the clear will of Congress, a

II. LEGAL STANDARDS

Three factors guide whether a judicial decision should have a purely prospective effect: (1) whether the decision to be applied establishes a new principle of law, (2) whether retroactive application of the decision serves the purpose and effect of the decision, and (3) whether substantially inequitable results would ensue if the decision were applied retroactively. *See Chevron Oil Co. v. Huson*, 404 U.S. 97, 106-07 (1971). This Court in *Harper v. Virginia Dept. of Taxation*, 509 U.S. 86, 97 (1993) abandoned *selective* prospectivity, holding that when it "applies a rule of federal law *to the parties before it*, that rule is the controlling interpretation of federal law and must be given full retroactive effect..." (emphasis added). However, the issue here is whether the *Bilski* holding that "machine of transformation" is the "definitive test" for process patent eligibility should be given *purely* prospective effect. Justice O'Connor noted that "the question of pure prospectivity [was] not implicated by [*Harper*]." *Id.* at 116 (O'Connor, J. dissenting). Thus, even after *Harper*, this Court has not foreclosed applying a decision in a *purely* prospective manner if the *Chevron Oil* factors are present. *See Glazner v. Glazner*, 347 F.3d 1212, 1216-19 (11th Cir. 2003)

Congress that adapted the patent code in response to *State Street Bank* to carefully balance competing policy interests. . . ." They sum up that "*Bilski* is wrongly reasoned, flies in the face of Supreme Court guidance, ignores Congress, throws aside the settled expectations of thousands of patentees, and risks new, serious and unknown economic harm."

(analyzing this Court's precedents to conclude *Chevron Oil* prospectivity remains available, in modified form).

III. THIS COURT NEVER HELD THE "MACHINE OR TRANSFORMATION" TEST TO BE THE "DEFINITIVE TEST" OF PATENT-ELIGIBILITY OF PROCESSES

The first *Chevron Oil* factor is present: that the decision below states a new rule. While it is true that this Court has characterized the "machine or transformation" test as the "clue" to patent eligibility (*Benson*, 409 U.S. at 72, citing *Cochrane v. Deener*, 94 U.S. 780, 787-88 (1876)), and has characterized a positive result from that test as militating in favor of patent eligibility (by preceding its mention with the abbreviation "e.g.," as in *Diamond v. Diehr*, 450 U.S. 175, 192 (1981)), this Court has never invalidated patent rights for failure alone to meet the "machine or transformation" test. Quite simply, passing the "machine or transformation" test is a *sufficient* reason to find patent-eligibility, but this Court has never described it as a *necessary* pathway to patent-eligibility.

As Judge Newman's dissent explains, the *Bilski* majority misunderstood *Cochrane* dictum discussing a "process" as an act performed on subject matter, thus mistakenly believing that this Court adopted the "machine or transformation" test in the 19th Century. *Bilski*, 545 F.3d at 984-85 (Newman, J. dissenting). Judge Newman pointed out that this dictum has long been understood not to embody a rule or definition limiting what constitutes a

statutory "process." *Id.* Judge Newman also demonstrated that this Court's 20th Century citation of *Cochrane* has always put that earlier decision into its proper perspective, as not embodying an exclusion of non-transformative, non-machine processes. *Id.* at 985, citing *Parker v. Flook*, 437 U.S. 584, 588 n.9 (1978) and *Benson*, 409 U.S. at 71.

Judge Newman was right to conclude that nothing in this Court's precedents prepared the innovation and investment communities for the legal regime change wrought by the lower court. While this Court has used the "machine or transformation" test as a "clue" to confirm patent eligibility (as it did with the rubber curing process in *Diamond v. Diehr*), it has never used such a test to negate it. Indeed, this Court's decision in *Benson* declined invitations to elevate the "machine or transformation" "clue" into the definitive test of patent eligibility for claimed processes. 409 U.S. at 71.

The USPTO's public statements and examination policies have underscored the expectation that the "machine or transformation" test is not the "definitive test" for process patent eligibility. Over 3,300,000 United States patents have issued under these policies.[5]

Since July 1980, with the Third Revision to the Fourth Edition, the Manual of Patent Examining Procedure (MPEP) has guided both the USPTO and inventors on the meaning of the Supreme Court's

[5] U.S. Patent No. 4,210,000 issued on July 1, 1980, and U.S. Patent No. 7,510,000 issued on March 31, 2009.

patent eligibility tests. MPEP § 2105 (4th Ed. 3rd Rev., July 1980). Over nearly thirty years, four editions and thirty-three revisions, the USPTO's long-held understanding of this Court's statements of the correct patent eligibility tests has remained exactly the same. Here we quote the relevant MPEP text, as it has existed continuously in every edition and revision since 1980:

> The tests set forth by the Court are (note especially the italicized portions):
>
> (A) "The laws of nature, physical phenomena and abstract ideas" are not patentable subject matter.
>
> (B) A "nonnaturally occurring manufacture or composition of matter - a product of human ingenuity -having a distinctive name, character, [and] use" is patentable subject matter.
>
> (C) "[A] new mineral discovered in the earth or a new plant found in the wild is not patentable subject matter. Likewise, Einstein could not patent his celebrated $E=mc^2$; nor could Newton have patented the law of gravity. Such discoveries are 'manifestations of... nature, free to all men and reserved exclusively to none.'"
>
> (D) "[T]he production of articles for use from raw materials prepared by giving to these materials *new forms,*

> *qualities, properties, or combinations whether by hand labor or by machinery"* [emphasis added] is a "manufacture" under 35 U.S.C. 101.

MPEP § 2105 (4th Ed. 3rd Rev., July 1980) (identical text through 8th Ed. 7th Rev., July 2008) (all alterations and emphases in original). Note what is missing. None of these tests, which the USPTO gleaned from Supreme Court precedents, required a process to involve a "machine or transformation" to be patent-eligible. Instead, insofar as the recognized tests related to processes, the MPEP states the same standard Judge Newman recognized in her dissent below – exclusion of laws of nature, natural phenomenon and abstract ideas. *Bilski*, 545 F.3d at 977 (Newman, J., dissenting).

Within this period, the MPEP also added new sections (*e.g.*, §§ 2106 and 2110) dealing specifically with patent-eligibility of process inventions that use algorithms or computer programs. Even today, none of these MPEP editions or revisions glean a definitive test from Supreme Court precedent requiring a process to involve a "machine or transformation" to be patent-eligible. The only tests the USPTO recognized from Supreme Court decisions are the ones quoted above – tests that do not include a "machine or transformation" limitation for all processes.

In 2005, after several important Federal Circuit decisions, the USPTO issued Interim Guidelines for Examination of Patent Applications for Patent Subject Matter Eligibility. *See* USPTO

Official Gazette Notices 22 November 2005 (available at http://www.uspto.gov/web/offices/com/sol/og/2005/week47/patgupa.htm, last visited June 11, 2009). Even here, the USPTO did not recognize any definitive test requiring processes to involve a "machine or transformation" for a process to be patent-eligible.

The MPEP bears witness to the reasonable expectations of the innovation and investment community. The USPTO analyzed this Court's precedents and formed examination policies, guidelines and manuals for ascertaining patent-eligibility. Having examined and issued over 3.3 million patents in this time period, it never recognized those precedents to require the same test that the *Bilski* majority divines from the same precedents. In effect, the United States has examined patent applications and granted valuable personal property rights under Judge Newman's view of Supreme Court precedent, not that of the *Bilski* majority. Such policies, guidelines and manuals resulted in eligibility for patent protection for processes that involved neither a machine nor a transformation of an article to a different state or thing, as long as those processes did not otherwise seek to claim exclusive rights in inventions that solely embodied laws of nature, natural phenomenon, or abstract ideas. Regardless of its correctness or incorrectness, the holding of the *Bilski* majority embodies different rules from what the USPTO employed in examining the most recent 3.3 million issued patents.

IV. THE NEW TEST CONFLICTS WITH THE HISTORICAL PURPOSES OF § 101 OF THE PATENT ACT

The second *Chevron Oil* factor is present: a break with historical purposes of the rule. Other *amici* have already briefed to this Court why the *Bilski* majority's test conflicts with the purpose and history of the Patent Act of 1952. *See, e.g.*, Brief of *Amicus Curiae* American Intellectual Property Law Association in Support of the Petition for a Writ of *Certiorari* (No. 08-964), at 6-8. In short, (1) Congress placed the broad modifier "any" into the statutory language of 35 U.S.C. § 101, (2) committee reports note that statutory subject matter ought to include "anything under the sun that is made by man," and (3) this Court's precedents have respected these indications of Congressional intent in prior cases, *e.g.*, *Diehr*, 450 U.S. at 182; *Chakrabarty*, 447 U.S. at 309.

V. IT WOULD BE INEQUITABLE TO ALLOW RETROACTIVE APPLICATION OF ANY AFFIRMANCE

Finally, the third *Chevron Oil* factor is present: unfairness in applying the new rule retroactively. In articulating a new "definitive test," the lower court has called into question the validity of thousands (perhaps millions) of issued patents filed and issued before any court ever used the "machine or transformation" criterion as the definitive test of patent-eligibility under § 101. Reliance on the old test would now leave many patentees with worthless patents if *Bilski* is applied retroactively. If the new test were applied retroactively, typical patent claim-drafting practices would leave a patentee with claims that were drawn to patent-eligible subject matter when obtained, but now have retroactively become "non-statutory" as falling outside 35 U.S.C. § 101. The "machine or transformation" test thus would reverse the rules of the game for millions of existing patents. *Cf. Festo*, 535 U.S. at 739 ("Fundamental alterations in these rules risk destroying the legitimate expectations of inventors in their property.").

The patent process is a bargain between the inventor and the Government. The inventor agrees to disclose and specifically claim an invention, both to augment public welfare with an increase in the storehouse of knowledge, and to set forth a definitive demarcation of his or her property rights. In return, the Government grants a patent on the invention for a term of years. *See, e.g., Pfaff v. Wells Electronics,*

Inc., 525 U.S. 55, 63 (1998) ("[T]he patent system represents a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time."). *Bilski* retroactively rewrites the bargain. It changes the rules for inventors after they already invented something useful and practical, disclosed their inventions in reliance on the rules of the day, but drafted process claims that omitted reference to a machine or transformation. An inventor confronting the new rules with the same invention today might re-weigh the options and decide not to seek patent protection, depriving the public of the inventor's enabling disclosure. Thus, *Bilski* destroys the reliance interest of patentees and instead helps copyists who stand ready to capitalize on the sudden availability of technology in the pubic domain that its creators had once thought protected. *Bilski* also re-calibrates the bargain going forward, disincentivizing public disclosure, instead incentivizing the cultivation of trade-secrecy protection.

Changing the rules mid-game would be unfair, and for thousands (maybe more) would amount to a taking without either due process or just compensation. "[A] patent is property, protected against appropriation both by individuals and the government." *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415 (1945); 35 U.S.C. § 261 ("patents shall have the attributes of personal property."). A patentee's rights are "secured, as against the government, by the constitutional guarantee which

prohibits the taking of private property for public use without compensation." *Hollister v. Benedict & Burnham Mfg. Co.*, 113 U.S. 59, 67 (1885); *see also William Cramp & Sons Ship & Engine Bldg. Co. v. Int'l Curtis Marine Turbine Co.*, 246 U.S. 28, 39-40 (1918) (patent rights are "protected by the guarantees of the Constitution and not subject therefore to be appropriated even for public use without adequate compensation.").

Affirming the "machine or transformation" test would accomplish a taking no less offensive to the Fifth Amendment, even though effected by judicial decree rather than legislative action. *Webb's Fabulous Pharmacies, Inc. v. Beckwith*, 449 U.S. 155, 164 (1980) ("Neither the Florida legislature by statute, nor the Florida courts by judicial decree, may accomplish [a taking] simply by recharacterizing" private property as public domain); *Hughes v. Washington*, 389 U.S. 290, 298 (1967) (Stewart, J., concurring) ("[T]he Due Process Clause of the Fourteenth Amendment forbids [a state's confiscation of property] no less through its courts than through its legislature."). Justice Stevens has recognized that governmental recall of previously-recognized patent rights would raise serious Fifth Amendment takings concerns:

> It would be manifestly unfair if, after issuing a patent, the Government as a representative of the public sought to modify the bargain by shortening the term of the patent in order to accelerate public access to the invention. The

> fairness considerations that underlie the constitutional protections against *ex post facto* laws and laws impairing the obligation of contracts would presumably disable Congress from making such a retroactive change in the public's bargain with an inventor without providing compensation for the taking.

See Eldred v. Ashcroft, 537 U.S. 186, 226 (2003) (Stevens, J., dissenting). If shortening a patent term would be "manifestly unfair" by retroactively changing the public's bargain with an inventor, then surely eliminating it entirely is only more so. There can be no question that retroactively applying the new "machine or transformation" test would create inequity and unfairness. The innovation economy depends on the government keeping its bargains under the patent system.

CONCLUSION

This Court avoided the Constitutional danger of mid-stream rule changes vitiating previously-valid patent rights in two recent patent cases when presented with arguments to jettison old rules for new. *See Warner-Jenkinson*, 520 U.S. at 28; *Festo*, 535 U.S. at 739-40. Each of those two cases had the potential to limit or eliminate the longstanding doctrine of equivalents infringement test. This Court elected not to impose such limitations. In part, the Court steered away from upsetting legitimate expectations upon which the innovation and investment communities have relied. That

remains one option of this Court – *i.e.*, endorse Judge Newman's dissent rather than the majority. However, as argued above, if the Court does impose the new limitations on patent eligibility articulated by the *Bilski* majority, *Amicus Curiae* TeleCommunication Systems, Inc. urges the Court to avoid the thorny Constitutional issues by invoking pure prospectivity of any affirmance under the *Chevron Oil* framework.

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