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 OF THE UNITED STATES PATENT AND TRADEMARK OFFICE,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITIONERS' REPLY BRIEF

J. MICHAEL JAKES
Counsel of Record
ERIKA H. ARNER
FINNEGAN, HENDERSON, FARABOW, GARRETT & DUNNER, L.L.P.
901 New York Avenue, N.W.
Washington, D.C. 20001
(202) 408-4000

RONALD E. MYRICK
DENISE W. DEFRANCO
FINNEGAN, HENDERSON, FARABOW, GARRETT & DUNNER, L.L.P.
55 Cambridge Parkway
Cambridge, Massachusetts 02142
(617) 452-1600

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20002

AMENDMENT TO RULE 29.6 CORPORATE DISCLOSURE STATEMENT

Equitable Resources, Inc. has changed its name to EQT Corporation. The Rule 29.6 Corporate Disclosure Statement that appeared in the petition for a writ of certiorari should therefore be amended to read:

All parent corporations and publicly held companies that own 10% or more of the stock of EQT IP Ventures, LLC are: EQT Corporation.

TABLE OF CONTENTS

Page

AMENDMENT TO RULE 29.6 CORPORATE DISCLOSURE STATEMENT i

TABLE OF AUTHORITIES..... iv

PETITIONERS' REPLY BRIEF 1

CONCLUSION 13

TABLE OF AUTHORITIES

CASES: Page

Classen Immunotherapies, Inc. v. Biogen IDEC, 304 F. App'x 866 (Fed. Cir. 2009) 9

CyberSource Corp. v. Retail Decisions, Inc., 2009 WL 815448 (N.D. Cal. Mar. 27, 2009) 6, 7, 8

Diamond v. Chakrabarty, 447 U.S. 303 (1980) 2, 11, 12

Diamond v. Diehr, 450 U.S. 175 (1981) 2, 11, 12

Ex parte Cornea-Hasegan, 89 U.S.P.Q.2d 1557 (B.P.A.I. 2009) 8

Ex parte Gutta, 2009 WL 112393 (B.P.A.I. Jan. 15, 2009) 8

Ex parte Nawathe, 2009 WL 327520 (B.P.A.I. Feb. 9, 2009) 8

Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd., 535 U.S. 722 (2002) 3

Fort Props., Inc. v. American Master Lease, LLC, ___ F. Supp. 2d ___, 2009 WL 249205 (C.D. Cal. Jan. 22, 2009) 6

Gottschalk v. Benson, 409 U.S. 63 (1972) 3, 10

In re Ferguson, 558 F.3d 1359 (Fed. Cir. 2009) 6

Parker v. Flook, 437 U.S. 584 (1978) 10

State St. Bank & Trust Co. v. Signature Fin. Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998) 3, 12

TABLE OF AUTHORITIES—Continued

STATUTES: Page

35 U.S.C. § 101 ..... *passim*

35 U.S.C. § 273(a)(3) 2, 4

LEGISLATIVE HISTORY:

145 Cong. Rec. S14696-03, S14717 (daily ed. Nov. 17, 1999) 5, 6

OTHER AUTHORITIES:

Comments of Prof. Rochelle Dreyfuss, Proceedings of The Limits of Abstract Patents in an Intangible Economy, The Brookings Institution, Jan. 14, 2009 9

Steven B. Roosa, *The Next Generation of Artificial Intelligence in Light of In re Bilski*, 21 INTELL. PROP. & TECH. L.J. 6 (2009) 3

Robert R. Sachs & Robert A. Hulse, *On Shaky Ground*: *The (Near) Future of Patents After Bilski*, 11 No. 2 E-COMMERCE L. REP. 8 (2009) 8

William J. Simmons, *Bilski blundering biotech*, 27 NATURE BIOTECHNOLOGY 245 (Mar. 2009) 9

Hannibal Travis, Essay, *The Future According to Google: Technology Policy From the Standpoint of America's Fastest-Growing Technology Company*, 11 YALE J.L. & TECH. 209 (2009) 8

5 WRITINGS OF THOMAS JEFFERSON 75-76 (Washington ed. 1871) 11

IN THE

Supreme Court of the United States

No. 08-964

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

v.

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

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITIONERS' REPLY BRIEF

The Federal Circuit's "machine-or-transformation" test, which this Court has never said is required for patent eligibility, has abruptly changed the law of what can be patented under 35 U.S.C. § 101. By holding that this test is "the only applicable test" for patent-eligible processes, the decision below diminishes incentives for future innovation and destroys the settled expectations of countless patent owners. The machine-or-transformation test is consistent with neither Congressional intent that patentable subject matter "include anything under the sun that is made by man" nor this Court's precedent holding that only "laws of nature, natural phenomena, and

abstract ideas" are excluded from protection under section 101. *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980); *Diamond v. Diehr*, 450 U.S. 175, 185 (1981). Restricting process or "method" patents to manufacturing methods that satisfy the "machine-or-transformation" test has effectively eliminated patent protection for business methods, contradicting the patent statute's recognition that business methods can be patented. *See* 35 U.S.C. § 273(a)(3).

Ten *amici*, including companies whose products range from electronics to regenerative medicine products, from computer software to mail delivery systems and management consulting services, and who collectively own thousands of patents, have all urged this Court to grant certiorari in this case, because "a mandatory machine-or-transformation test inherently denies valuable process patent protection to service industries and manufacturers whose products are not traditional physical articles." *See* Philips Electronics Br. 17.

Respondent argues that (i) this case—despite meriting en banc review below—is "unremarkable"; (ii) the recognition of "business method" patents in the Patent Act is not relevant to the questions presented; (iii) this case provides no opportunity for this Court to address problems arising in technologies outside of Petitioners' risk-hedging method; (iv) the "machine-or-transformation" test is drawn directly from this Court's precedent; and (v) no well-founded expectations were disrupted by the decision below. None of these points has merit.

I.

While Respondent characterizes this case as "an unremarkable application of [the] machine-or-trans-

formation test," Opp. at 10, the procedural history and facts say otherwise. The U.S. Patent and Trademark Office ("Patent Office") singled this case out, empanelling an expanded five-judge panel and designating its 70-page opinion "informative" after nearly ten years of examination. Pet. 9. The Federal Circuit likewise elevated this case by *sua sponte* ordering its en banc consideration and using this case to overrule its earlier decisions applying the "useful, concrete and tangible result" test of *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) and the *Freeman-Walter-Abele* test developed by the Federal Circuit to implement this Court's decision in *Gottschalk v. Benson*, 409 U.S. 63 (1972). Pet. App. 21a-24a. The thirty-eight *amicus* briefs filed in the Federal Circuit and the ten *amici* supporting the petition for certiorari further underscore the importance of the issues squarely presented in this case.[1]

The many amici[2] supporting Petitioner call this case the "proper vehicle" for deciding the "important issues of federal law" presented, giving this Court the opportunity to "inject certainty back into the patent system." Accenture & Pitney Bowes Br. 21; AIPLA

---

[1] Many scholars have remarked on the extraordinary nature of this case. *See, e.g.*, Steven B. Roosa, *The Next Generation of Artificial Intelligence in Light of In re Bilski*, 21 INTELL. PROP. & TECH. L.J. 6, 6 (2009) (noting that while *Bilski* started as a dispute over whether a hedging method was patentable, the case "ended up being a wholesale reevaluation of the criteria that must be met . . . for a process to qualify as patentable under 35 U.S.C. § 101").

[2] The petition for certiorari has generated a level of *amicus* support not seen in a patent case since the landmark case of *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 535 U.S. 722 (2002).

Br. 2; Philips Electronics Br. 13. Because the machine-or-transformation test is "causing immediate and irreparable harm . . . the inventing community cannot afford to wait for some other, distant section 101 case to correct the Federal Circuit's error." Accenture & Pitney Bowes Br. 7.

Respondent argues that review is not warranted because only one judge below would have held Petitioners' claims patentable under section 101. Opp. 8. This argument misses the point. It is not merely the application of the machine-or-transformation test to petitioners' claims, but the Federal Circuit's adoption of this mandatory test for all process patents that warrants Supreme Court review. On this issue, the court below splintered. Three separate dissents warned that the machine-or-transformation test: "disrupts settled and wise principles of law," Pet. App. 134a (Rader, J., dissenting); is "unnecessarily complex and will only lead to further uncertainty regarding the scope of patentable subject matter," Pet. App. 131a (Mayer, J., dissenting); and introduces uncertainties that "not only diminish the incentives available to new enterprise, but disrupt the settled expectations of those who relied on the law as it existed," Pet. App. 61a (Newman, J., dissenting).

II.

Respondent urges this Court to proceed with caution, implying that Petitioners seek to "extend patent rights into areas wholly unforeseen by Congress." Opp. 3. In fact, the opposite is true. Congress expressly defined "business methods" in its 1999 revision of the Patent Act. 35 U.S.C. § 273(a)(3) ("[T]he term 'method' means a method of doing or conducting business."). Notably, when enacting section 273, Congress recognized that patents protect business

methods "whether in the form of physical products, or in the form of services, or in the form of some other useful results; for example, results produced through the manipulation of data or other inputs to produce a useful result." 145 Cong. Rec. S14696-03, S14717 (daily ed. Nov. 17, 1999). Thus, Respondent's suggestion that overturning the machine-or-transformation test would improperly expand patent rights beyond Congress's intended scope is simply wrong.

Similarly, Respondent cannot simply sidestep the issue by arguing that the decision below does not involve section 273. *See* Opp. 16. In fact the Federal Circuit's decision overturned the very test embraced by Congress when it enacted section 273. Regarding the prior inventor defense to infringement of business method patents, Congress explained: "As the Court [in *State Street Bank*] noted, the reference to the business method exception had been improperly applied to a wide variety of processes, blurring the essential question of whether the invention produced a 'useful, concrete, and tangible result.'" 145 Cong. Rec. S14696-03, S14717 (daily ed. Nov. 17, 1999). The decision below wholly ignores Congress's acknowledgement and acceptance of the "useful, concrete, and tangible result" test and instead overrules the decisions that adopted it. Pet. App. 22a-24a.

More fundamentally, the machine-or-transformation test adopted by the Federal Circuit forecloses patent protection for a broad class of business methods included within the definition established by Congress in its section 273 effort to balance the rights of owners of patents on such methods against prior users of such methods. Rather than processes tethered to machines or physical transformations, Congress defined business methods in broad enough

terms to encompass Petitioners' hedging method. Congress did not require physical restraints to machines or transformation of articles but merely "the manipulation of data or other inputs to produce a useful result." 145 Cong. Rec. S14696-03, S14717 (daily ed. Nov. 17, 1999). Under the mandatory application of a machine-or-transformation test, section 273 would provide a meaningless defense to the infringement of a class of patents that cannot exist. That cannot be what Congress intended, and the Federal Circuit's failure to address this conflict between its decision and the clear legislative intent expressed through the adoption of section 273 warrants review by this Court.

III.

A. Respondent argues that business methods remain patentable under the Federal Circuit's machine-or-transformation test, so the decision below does not conflict with section 273. Opp. 17. This argument does not square with how the machine-or-transformation test is being applied by the Federal Circuit, district courts, and the Patent Office. While this petition has been pending, for example, the Federal Circuit has applied the machine-or-transformation test to affirm Patent Office rejections of pending claims to a method of marketing software products. *In re Ferguson*, 558 F.3d 1359 (Fed. Cir. 2009). District courts have applied the machine-or-transformation test to invalidate claims to a method of detecting fraud in credit card transactions, *CyberSource Corp. v. Retail Decisions, Inc.*, 2009 WL 815448 (N.D. Cal. Mar. 27, 2009), and a method of creating a real estate investment instrument, *Fort Props., Inc. v. American Master Lease, LLC*, ___

F. Supp. 2d ___, 2009 WL 249205 (C.D. Cal. Jan. 22, 2009).

Judge Marilyn Patel of the U.S. District Court for the Northern District of California, noted that, "[a]lthough the majority declined [to] say so explicitly, *Bilski*'s holding suggests a perilous future for most business method patents." *CyberSource*, 2009 WL 815448, at *9. Indeed, she continued, "[t]he closing bell may be ringing for business method patents, and their patentees may find they have become bagholders." *Id*. at *10. Without this Court's intervention, the owners of thousands[3] of business method patents and patent applications filed before the introduction of the mandatory machine-or-transformation test will be left with valueless patent rights, which Judge Patel likens to "shareholder[s] left holding shares of worthless stocks." *Id*. at *10, n.16.

B. Respondent claims that innovations in emerging technologies are not relevant to this case because Petitioners' hedging method does not involve those technologies. Opp. 14. This argument, too, misses the point. The machine-or-transformation test in the decision below must be applied to every process claim, whether for business methods, software, biotechnology, or any other field of endeavor. The sweeping and mandatory nature of the test itself warrants this Court's review.

Software and computer-related inventions have already fallen victim to the machine-or-transformation

---

[3] One *amicus* estimates that, in the business methods area alone, 18,000 issued patents and at least 48,000 pending patent applications are affected by the machine-or-transformation test. Boston Patent Law Assoc. Br. 24 n.11

test. In addition to the *CyberSource* decision applying the test to invalidate claims to a "computer readable medium containing program instructions for detecting fraud in a credit card transaction between a consumer and a merchant over the Internet," *CyberSource*, 2009 WL 815448, at *1, *7, the Board of Patent Appeals and Interferences has applied *Bilski* to reject computer-based claims, such as a "computerized method performed by a data processor," *Ex parte Gutta*, 2009 WL 112393 (B.P.A.I. Jan. 15, 2009); a "computerized method," *Ex parte Nawathe*, 2009 WL 327520 (B.P.A.I. Feb. 9, 2009); and a "computer readable media including program instructions." *Ex parte Cornea-Hasegan*, 89 U.S.P.Q.2d 1557 (B.P.A.I. 2009).

Although Respondent attempts to dismiss *In re Bilski* as inapplicable to the software and information technology industries, the machine-or-transformation test has had such a "substantial impact upon these industries," that several *amici* from the computer industry now urge this Court to grant certiorari and overturn the machine-or-transformation test. *See, e.g.*, Borland Br. 15; Philips Electronics Br. 19. Scholarly observers agree that the decision below applies broadly to software and other computer-related innovations.[4]

---

[4] *See, e.g.*, Robert R. Sachs & Robert A. Hulse, *On Shaky Ground: The (Near) Future of Patents After Bilski*, 11 No. 2 E-COMMERCE L. REP. 8, *3 (2009) (noting that the first casualties of *In re Bilski* will likely involve "software patents, particularly those issued after *Alappat* and *State Street*, [that] were written without paying homage to the court's talismanic 'machine-or-transformation' test"); Hannibal Travis, Essay, *The Future According to Google: Technology Policy From the Standpoint of America's Fastest-Growing Technology Company*, 11 YALE J.L. & TECH. 209, 221-22 (2009) (predicting that *Bilski* may have "pro-

Since the petition for certiorari first noted the impact of *In re Bilski* on biotechnology patents, Pet. 31, things have grown more urgent. At a Brookings Institution conference on the implications of *In re Bilski*, New York University law professor Rochelle Dreyfuss was asked whether *Bilski* killed medical diagnostic patents. Yes, she answered, noting that the Federal Circuit's application of *In re Bilski* to invalidate diagnostic method claims in *Classen Immunotherapies, Inc. v. Biogen IDEC*, 304 F. App'x 866 (Fed. Cir. 2009) was "so obviously the outcome of *Bilski*" that the four-line opinion was not marked for publication. Comments of Prof. Rochelle Dreyfuss, Proceedings of The Limits of Abstract Patents in an Intangible Economy, The Brookings Institution, January 14, 2009. *Amici* warn of groundbreaking innovations in the areas of diagnostic and treatment methods, immunology, and personalized medicine that will likely fall victim to the machine-or-transformation test,[5] joined by scholars who argue that the decision below poses a significant threat to innovation in biomedical technology and pharmaceuticals.[6]

Just as this case presented the opportunity for the Federal Circuit to issue a mandatory test for all process claims, regardless of technology, it also presents this Court with the opportunity to reverse

---

found implications" for Google's patents and its search engine and other services).

[5] *See, e.g.,* Boston Patent Law Assoc. Br. 18; Medistem Br. 11.

[6] *See, e.g.*, William J. Simmons, *Bilski blundering biotech*, 27 NATURE BIOTECHNOLOGY 245, 247 (Mar. 2009) (noting that "[t]he potentially devastating extension of *Bilski* from business methods to biotech" is already playing out in patent infringement cases).

the damage that test has already begun to cause for all process patents, regardless of technology.[7]

IV.

A. The machine-or-transformation test is hardly drawn "directly" from this Court's precedent, as Respondent contends. Opp. 9. Rather than declaring that the "machine-or-transformation" test is the only test for process patent eligibility, this Court has twice refused to adopt such a rule. *Benson*, 409 U.S. at 71; *Parker v. Flook*, 437 U.S. 584, 588 n.9 (1978). Both Respondent and the Federal Circuit seek to dismiss these forbearances as mere "hesitation" or "equivocation" about the machine-or-transformation test. Opp. 12; Pet. App. 16a-17a. As noted by Judge Newman, however, "there is nothing equivocal about 'We do not so hold.'" Pet. App. 65a (Newman, J., dissenting) (quoting *Benson*, 409 U.S. at 71). When it adopted the machine-or-transformation test as the "only test" for whether a process is patent-eligible under 35 U.S.C. § 101, Pet. App. 34a, the Federal Circuit flouted this Court's precedent.

Respondent argues that Petitioners overstate this Court's interpretation of section 101 as extending patentable subject matter to include "anything under the sun that is made by man . . . ." Opp. 12-13; *see Chakrabarty*, 447 U.S. at 309. In particular, Respondent contends that the Congressional reports quoted

---

[7] One *amicus* catalogues several examples of patents for formerly frontier technologies that would not survive the mandatory machine-or-transformation test, including a foundational invention in FM radio technology, the widely-used public key encryption system, and the CDMA technology at the heart of a dominant cellular phone transmission standard. Boston Patent Law Assoc. Br. 14-18.

by this Court in *Chakrabarty* applied the phrase "anything under the sun" to only the "machine" and "manufacture" categories set forth in section 101. Opp. 13. This statement, however, was but one of several factors this Court considered when construing section 101 in *Chakrabarty*. This Court was also informed by the use of the comprehensive modifier "any" introducing the statutory categories as well as statements by the original author of the Patent Act that "ingenuity should receive a liberal encouragement." *Chakrabarty*, 447 U.S. at 308-09 (quoting 5 Writings of Thomas Jefferson 75-76 (Washington ed. 1871)). Applying standard tools of statutory construction, this Court concluded that "Congress plainly contemplated that the patent laws would be given wide scope," *id.*, and that with regard to the statutory term "process" in particular, "we may not be unmindful" of Congressional intent that "statutory subject matter . . . 'include anything under the sun that is made by man.'" *Diehr*, 450 U.S. at 182.

B. Respondent implies that any expectations upset by the decision below are unfounded. Opp. 15-16. To the contrary, the Federal Circuit's decision in this case has disrupted expectations of patent owners and inventors that were rightly based on this Court's precedent, Federal Circuit precedent, and the plain language of the Patent Act. Because the now-mandatory machine-or-transformation test introduces uncertainties that "not only diminish the incentives available to new enterprise, but disrupt the settled expectations of those who relied on the law as it existed," Pet. App. 61a (Newman, J., dissenting), this Court's review is warranted.

Owners of patents issued since this Court's last two decisions on section 101 relied on a well-settled,

flexible standard for patentable subject matter under which only "laws of nature, natural phenomena, and abstract ideas" were excluded from patent-eligibility. *Diehr*, 450 U.S. at 185; *see also, Chakrabarty*, 447 U.S. at 309. Over the past ten years, patent owners and applicants have followed the Federal Circuit's guidance that a process that produces a "useful, concrete and tangible result" is patent eligible, a standard acknowledged by Congress in its 1999 update of the Patent Act. *State Street Bank*, 149 F.3d at 1373; 35 U.S.C. § 273. In light of this long-standing precedent, the settled expectations of patent owners and the inventing public were far from unfounded.

With the decision below, the Federal Circuit has abruptly changed course and overturned years of its own precedent with no new guidance from this Court or Congress. Innumerable[8] patent owners, licensees, and inventors are left with uncertain property rights and a diminished incentive to innovate. This case squarely presents the opportunity for this Court to overturn the mandatory machine-or-transformation test and restore certainty to the patent system.

---

[8] One *amicus* estimates that 130,000 patents outside the business methods area are called into question by the decision below. Boston Patent Law Assoc. Br. 24 n.11. Another posits that over one million patents issued since 1992 with process claims are called into question by *In re Bilski*. Philips Electronics Br. 11 & n.6.

CONCLUSION

For these reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

J. MICHAEL JAKES
Counsel of Record
ERIKA H. ARNER
FINNEGAN, HENDERSON, FARABOW,
GARRETT & DUNNER, L.L.P.
901 New York Avenue, N.W.
Washington, D.C. 20001
(202) 408-4000

RONALD E. MYRICK
DENISE W. DEFRANCO
FINNEGAN, HENDERSON, FARABOW,
GARRETT & DUNNER, L.L.P.
55 Cambridge Parkway
Cambridge, Massachusetts 02142
(617) 452-1600