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

BRIEF OF *AMICUS CURIAE* EAGLE FORUM EDUCATION & LEGAL DEFENSE IN SUPPORT OF PETITIONERS

ANDREW L. SCHLAFLY
939 OLD CHESTER ROAD
FAR HILLS, NJ 07931
(908) 719-8608

Counsel for Amicus

QUESTIONS PRESENTED

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, despite this Court's precedent declining to limit the broad statutory grant of patent eligibility for "any" new and useful process beyond excluding patents for "laws of nature, physical phenomena, and abstract ideas."

Whether the Federal Circuit's "machine-or-transformation" test for patent eligibility, which effectively forecloses meaningful patent protection to many business methods, contradicts the clear Congressional intent that patents protect "method[s] of doing or conducting business," 35 U.S.C. § 273.

TABLE OF CONTENTS

Pages

QUESTIONS PRESENTED ii

TABLE OF CONTENTS iii

TABLE OF AUTHORITIES iv

INTEREST OF *AMICUS CURIAE* 1

SUMMARY OF ARGUMENT 2

ARGUMENT 6

I. THE FEDERAL CIRCUIT ERRED IN HOLDING THAT A PROCESS MUST ALWAYS BE TIED TO A PARTICULAR MACHINE OR APPARATUS TO BE PATENTABLE 7

II. THE UNDERLYING FLAW IN THE CURRENT PATENT PROCESS IS LACK OF ENFORCEMENT OF OTHER STATUTORY PROVISIONS, WHICH HURTS INNOVATION 11

III. ROBUST PATENT LAW THAT PROTECTS SMALL INVENTORS IS ESSENTIAL TO CONTINUED AMERICAN PROSPERITY 12

CONCLUSION 14

TABLE OF AUTHORITIES

Pages

Cases

Eldred v. Ashcroft,
537 U.S. 186 (2003)..... 13

Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.,
499 U.S. 340 (1991)..... 11

Gottschalk v. Benson,
409 U.S. 63 (1972) 7, 10

In re Bilski,
545 F.3d 943 (Fed. Cir. 2008).....*passim*

O'Reilly v. Morse, 56 U.S. 62, 1853 U.S. LEXIS
273 (1854)..... 8

Parker v. Flook,
437 U.S. 584 (1978)..... 6-7, 11

United States v. Line Material Co,
333 U.S. 287 (1948)..... 13-14

Statutes

35 U.S.C. § 101..... ii, 3, 6

35 U.S.C. § 273..... ii

TABLE OF AUTHORITIES—Continued

Pages

Other

The Federalist No. 43 2

http://pdos.csail.mit.edu/6.828/2008/readings/ritchie79evolution.html 9

http://www.websters-online-dictionary.org/definition/MPEG+ AUDIO+LAYER+3..... 9

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INTEREST OF *AMICUS CURIAE*[1]

Eagle Forum Education and Legal Defense Fund ("EFELDF"), a nonprofit organization founded in 1981, is a pro-family group that has long advocated fidelity to the text of the U.S. Constitution. EFELDF has a longstanding interest in defending rights of inventors and private property in general, and has previously filed amicus briefs in federal courts on the issue of intellectual property. The mission of EFELDF

[1] This brief is filed with the written consent of all parties. Pursuant to its Rule 37.6, counsel for *amicus curiae* authored this brief in whole, and no counsel for a party authored this brief in whole or in part, nor did any person or entity, other than *amicus*, its members, or its counsel make a monetary contribution to the preparation or submission of this brief.

includes defending the Patent Clause and the intellectual property rights of individual inventors, which are so crucial to American prosperity.

SUMMARY OF ARGUMENT

The Patent Clause is one of the most important provisions in the entire Constitution due to its central and essential role in promoting American ingenuity and prosperity. Though the Patent Clause receives scant historical attention – merely one paragraph addresses it in *The Federalist* No. 43 – this unique American constitutional right has motivated the vast majority of the world's greatest inventions. From Thomas Edison to Alexander Graham Bell to many of today's greatest inventions, the Patent Clause has played an instrumental role in encouraging and protecting the individual's right to the fruits of his creative efforts. It must continue to do so no less in this Information Age.

The decision below usurps the legislative role and adds complexities to patent law that are neither welcome nor justified in the 21st century. If the invention at bar "promote[s] the Progress of Science and useful Arts," U.S. Const. Art. I, Sect. 8, Cl. 8, and if it satisfies the legislative requirements pursuant to that provision, then it is patentable subject matter. By adhering to the anachronistic "machine-or-transformation" test, which can be found in neither the Patent Clause nor its implementing statute, the court below improperly eviscerated much of the value of the patent system for the future. The incentives-based and natural rights-based approaches to intellectual property, which have always been the hallmark of the American patent system, should not be

encumbered by outdated categorical exclusions based on machines and transformations.

The claim at bar is for a method of hedging commodities risk. Suppliers of goods would like to hedge their risk against a market drop in price; consumers of goods (such as manufacturers) would like to hedge their risk against a market increase in price. The patent claim describes use of an intermediary, called the "commodity provider," which would buy and sell at fixed prices as sought by the ultimate suppliers and consumers. The patent claim also extends beyond that to encompass the trading of options.

The patent examiner rejected these claims (1-11) under 35 U.S.C. § 101 because "the invention is not implemented on a specific apparatus and merely manipulates [an] abstract idea and solves a purely mathematical problem without any limitation to a practical application, therefore, the invention is not directed to the technological arts." *In re Bilski*, 545 F.3d 943, 950 (Fed. Cir. 2008). The Patent Board affirmed on different grounds, holding that transformation of "non-physical financial risks and legal liabilities of the commodity provider, the consumer, and the market participants" is not patentable subject matter. *Id.* (quotations omitted). The Board also noted that Applicants' claimed process did not produce a "useful, concrete and tangible result," and thus was not patentable subject matter. *Id.* (quotations omitted). The Federal Circuit affirmed, but on the grounds that the patent claim did not satisfy the "machine-or-transformation" test.

But Congress has not categorically excluded from patentability inventions that fail a "machine-or-transformation" test, and it was error for the lower court to impose that limitation. If an invention is ob-

vious and thereby fails the "non-obvious" test, then a patent application for such invention may be rejected. Similarly, if an invention is outside the constitutional scope of the "Progress of Science and useful Arts," then Congress itself may not secure its protection under the Patent Clause. But the Federal Circuit erred in not deciding the patentability of the invention on either of those grounds, and instead grafting complex and unjustified requirements such as and especially the "machine-or-transformation" test. This test is unsuitable for the 21st century, it is inconsistent with the enormously successful incentives-based approach taken by the Framers, and it is contrary to a textualist interpretation of the applicable legislation and of the Patent Clause itself.

The separate dissents below by Judges Newman and Rader set valuable guideposts for reversal of the errant majority decision. Judge Newman correctly observed:

> 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. Its impact on the future, as well as on the thousands of patents already granted, is unknown.

In re Bilski, 545 F.3d at 976 (Newman, J., dissenting).

Judge Rader aptly dissented on the grounds that the lower court had "ventured away from the statute":

> [A]s innovators seek the path to the next techno-revolution, this court ties our patent system to dicta from an industrial age decades removed from the bleeding edge. A direct reading of the Supreme Court's principles and cases on patent eligibility would yield the one-sentence resolution suggested above. Because this court, however, links patent eligibility to the age of iron and steel at a time of subatomic particles and terabytes, I must respectfully dissent.

Id. at 1011 (Rader, J., dissenting). Judge Rader observed that "this court today invents several circuitous and unnecessary tests" and that other "statutory conditions and requirements better serve the function of screening out unpatentable inventions than some vague 'transformation' or 'proper machine link' test." *Id.* at 1015.

The applicable statute never mentions "transformations" and the decision below usurps the legislative role to impose the "machine-or-transformation" threshold test on patentability. Many valuable inventions that could propel the American economy will be lost if the judicial activism below is not reversed and the full rights of the individual inventor are not restored. This Court should then remand this case for a determination of whether the Bilski process is patentable under the statutory criteria set forth by Congress, not under a judicial test unsupported by

precedent and without basis in the statute or the Patent Clause itself.

ARGUMENT

Three points are essential to deciding this appeal. First, continued vitality in the patent system for small inventors is essential to continued American prosperity. Second, a categorical exclusion from patentability of subject matter that lacks a "machine or transformation" is unjustified and ill-suited to inventions in the Information Age. Third, the much-lamented flaws in the current patent system are due to a lack of enforcement of other statutory requirements, such as the non-obviousness test. A judicial redefinition of the patent process is neither needed nor appropriate.

Categorical exclusion of patentable subject matter from 35 U.S.C. § 101 is misguided. As explained further below, *Amicus* EFELDF urges this Court to reexamine and adopt the reasoning set forth by Justice Potter Stewart in his dissent in *Parker v. Flook*:

> [I]t strikes what seems to me an equally damaging blow at basic principles of patent law by importing into its inquiry under 35 U. S. C. § 101 the criteria of novelty and inventiveness. Section 101 is concerned only with subject-matter patentability. Whether a patent will actually *issue* depends upon the criteria of §§ 102 and 103, which include novelty and inventiveness, among many others. It may well be that under the criteria of §§ 102 and 103 no patent should issue on the process claimed in this case, because of anticipation, abandonment, obviousness, or for some other reason. But

> in my view the claimed process clearly meets the standards of subject-matter patentability of § 101.

437 U.S. 584, 600 (1978) (Stewart, J., dissenting).

I. THE FEDERAL CIRCUIT ERRED IN HOLDING THAT A PROCESS MUST ALWAYS BE TIED TO A PARTICULAR MACHINE OR APPARATUS TO BE PATENTABLE

The central error in the decision below was its categorical denial of the patent application based on the "machine-or-transformation test," which the Court described as follows:

> The machine-or-transformation test is a two-branched inquiry; an applicant may show that a process claim satisfies § 101 either by showing that his claim is tied to a particular machine, or by showing that his claim transforms an article. *See Benson*, 409 U.S. at 70. Certain considerations are applicable to analysis under either branch. First, as illustrated by *Benson* and discussed below, the use of a specific machine or transformation of an article must impose meaningful limits on the claim's scope to impart patent-eligibility. *See Benson*, 409 U.S. at 71-72. Second, the involvement of the machine or transformation in the claimed process must not merely be insignificant extra-solution activity. *See Flook*, 437 U.S. at 590.

In re Bilski, 545 F.3d 943, 963 (Fed. Cir. 2008) (emphasis added).

The decision below held as a threshold matter that "the operative question ... is whether Applicants' claim 1 satisfies the transformation branch of the machine-or-transformation test." The Court held that it does not:

> We hold that the Applicants' process as claimed does not transform any article to a different state or thing. Purported transformations or manipulations simply of public or private legal obligations or relationships, business risks, or other such abstractions cannot meet the test because they are not physical objects or substances, and they are not representative of physical objects or substances. Applicants' process at most incorporates only such ineligible transformations. … [C]laim 1 does not involve the transformation of any physical object or substance, or an electronic signal representative of any physical object or substance. **Given its admitted failure to meet the machine implementation part of the test as well, the claim entirely fails the machine-or-transformation test and is not drawn to patent-eligible subject matter**.

Id. at 963 (emphasis added).

This categorical exclusion from patentability unwisely and unjustifiably excludes desirable innovations from the protection of patent law. For example, Samuel Morse obtained a patent for the following claim for his Morse Code:

> Fifth, I claim, as my invention, the system of signs, consisting of dots and spaces, and of dots, spaces, and horizontal lines, for numerals, letters,

> words or sentences, substantially as herein set forth and illustrated, for telegraphic purposes.

O'Reilly v. Morse, 56 U.S. 62, 1853 U.S. LEXIS 273, *49 (1854). It seems doubtful that this claim would survive the machine-or-transformation test imposed by the decision below. Part of the enormous value of Morse Code is that it is machine *independent.*

Many great inventions of the Information Age are valuable precisely *because of their machine independence*, such as the UNIX operating system[2] and the "MP3" music player format.[3] The essence of the real breakthrough of these inventions is their independence of particular machines. Copyright law protects the software program code itself, but the true invention (what the code does) is not adequately protected by copyrights on the code.

It is unwise and unjustified to categorically exclude from patentability anything and everything that is decoupled from a physical process. For the UNIX operating system, the invention's value was the lack of a link to a specific computer machine and the fact that it is not hooked to any particular (physical) hardware. The decision below will not properly incentivize future inventions like UNIX, and even more abstract yet extremely valuable and desirable ones, if the anachronistic "machine-or-

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[2] *See* *http://pdos.csail.mit.edu/6.828/2008/readings/ritchie79evolution.html* (describing the history of the development of UNIX, including some of its marvelous innovations).

[3] For a history of MP3 and its innovative value, see http://www.websters-online-dictionary.org/definition/MPEG+AUDIO+LAYER+3.

transformation" test is affirmed here. Patent law should not be limited by arbitrary physicality, but should be able to look more to the utility of the novel work.

This machine-or-transformation test imposed below also creates more questions than it answers. It leaves unclear what link to a machine is adequate, an issue of particular importance for the vast number of computer-related inventions. As pointed out by Judge Rader in dissent:

> What link to a machine is sufficient to invoke the "or machine" prong? Are the "specific" machines of *Benson* required, or can a general purpose computer qualify? What constitutes "extra-solution activity?" If a process may meet eligibility muster as a "machine," why does the Act "require" a machine link for a "process" to show eligibility? Does the rule against redundancy itself suggest an inadequacy in this complex spider web of tests supposedly "required" by the language of section 101?

In re Bilski, 545 F.3d at 1015 (Rader, J., dissenting).

This lower court's "machine-or-transformation" requirement is harmful in several ways. It will suppress and discourage invention – and thereby prosperity – in a way that the Constitution does not support and that Congress has not authorized. This unjustified requirement is also difficult to implement and enforce. As Judge Rader noted in dissent below, this test strays from a straightforward, textualist reading of the applicable statute, and instead reads a whole new test into the statute that was never intended.

II. THE UNDERLYING FLAW IN THE CURRENT PATENT PROCESS IS LACK OF ENFORCEMENT OF OTHER STATUTORY PROVISIONS, WHICH HURTS INNOVATION

As Justice Potter Stewart wrote in his dissent in *Parker v. Flook*, "[w]hether a patent will actually *issue* depends upon the criteria of §§ 102 and 103, which include novelty and inventiveness, among many others." 437 U.S. 584, 600 (1978) (Stewart, J., dissenting). It is a lack of enforcement of the novelty and inventiveness requirements that causes the underlying flaws in the current patent process.

Copyright law, by analogy, has successfully adhered to its originality requirement to help keep out non-meritorious claims. This Court held without dissent that "[o]riginality is a constitutional requirement." *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 346 (1991). "The originality requirement articulated in *The Trade-Mark Cases* and *Burrow-Giles* remains the touchstone of copyright protection today. It is the very premise of copyright law." *Id.* at 347 (quotations and citations omitted).

Similarly, the better approach to curb abuses in patent law is to strengthen the requirement of originality rather than erect complex, non-statutory obstacles to patentability. As Judge Newman explained in his dissent, the lower court's "exclusion is imposed at the threshold, before it is determined whether the excluded process is new, non-obvious, enabled, described, particularly claimed, etc.; that is, before the new process is examined for patentability." *In re Bilski,* 545 F.3d at 976 (Newman, J., dissenting).

Other "statutory conditions and requirements better serve the function of screening out unpatentable inventions than some vague 'transformation' or 'proper machine link' test." *Id.* at 1015 (Rader, J., dissenting).

This Court should affirm the approach taken by Judge Rader below:

> If this court would follow that Supreme Court rule, it would afford broad patent protection to new and useful inventions that fall within the enumerated categories and satisfy the other conditions of patentability. **That is, after all, precisely what the statute says.**

In re Bilski, 545 F.3d at 1011-12 (Rader, J., dissenting) (emphasis added).

III. ROBUST PATENT LAW THAT PROTECTS SMALL INVENTORS IS ESSENTIAL TO CONTINUED AMERICAN PROSPERITY

"Patents provide an incentive to invest in and work in new directions," observed Judge Newman in dissent below. *In re Bilski,* 545 F.3d at 997 (Newman, J., dissenting). Those incentives are essential to continued American prosperity.

The Patent Clause and its statutory implementation inspired some of the greatest inventions in the history of mankind. Thomas Edison, properly recognized as the most influential person in the world during the entire second millennium by *Life* magazine, was motivated by the patent system to obtain 1,093 patents in the United States. The patent system provided enormous incentives for Edison for his ingenui-

ty, and as a result the entire world reaped prodigious rewards. Without the full and robust protections of patent law, ingenuity by the small inventor is diminished and the American economy suffers from a lack of incentives for valuable inventions.

The anachronistic "machine-or-transformation" test forecloses the future Thomas Edisons of the Information Age. A marvelous new invention that fails the "machine-or-transformation" test may still be something that we want to encourage. The "machine-or-transformation" is simply too rigid to adapt to changing times. The future equivalent of the light bulb or power station might well be intangible and thereby fail the overly-restrictive "machine-or-transformation" test.

As in the analogous field of copyright law, "It is generally for Congress, not the courts, to decide how best to pursue the Copyright Clause's objectives." *Eldred v. Ashcroft,* 537 U.S. 186, 212 (2003). This aphorism applies with even greater force to the Patent Clause. Patents play an even more vital role in protecting and encouraging ingenuity and productivity. The wooden "machine-or-transformation" test imposed below will inevitably stifle inventions and innovation. Courts should not meddle with the important incentives for invention created by Congress based on the Patent Clause.

As Justice Burton, joined by Chief Justice Vinson and Justice Frankfurter, observed over a half-century ago:

> the frontiers of science have expanded until civilization now depends largely upon discoveries on those frontiers to meet the infinite needs of the future. The United States, thus far, has taken a

> leading part in making those discoveries and in putting them to use.

United States v. Line Material Co., 333 U.S. 287, 332 (1948) (Burton, J., dissenting). Patentability should not be locked into the anachronisms of the past, and incentives for original inventions for the future must be fully preserved.

CONCLUSION

The decision below should be reversed.

Respectfully submitted,

ANDREW L. SCHLAFLY
939 OLD CHESTER ROAD
FAR HILLS, NJ 07931
(908) 719-8608

Counsel for Amicus

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