

No. 08-964

IN THE
Supreme Court of the United States

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

v.

DAVID J. 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 AMERICAN BAR ASSOCIATION
AS *AMICUS CURIAE* IN SUPPORT
OF RESPONDENT**

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QUESTIONS PRESENTED

A) 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.”

B) 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

QUESTIONS PRESENTED	i
TABLE OF AUTHORITIES.....	iii
INTEREST OF THE AMICUS CURIAE.....	1
SUMMARY OF ARGUMENT.....	3
ARGUMENT	4
I. The Court Should Continue to Construe Section 101 Incrementally, By Excluding Certain Claims to Subject Matter As Non- Patentable, Rather Than Adopting A Categorical Rule That May Inadvertently Inhibit Innovation.....	4
II. It Is Enough To Resolve This Case That Petitioners Claim An Abstract Idea.....	8
A. This Court’s Precedents Correctly Settle That Abstract Ideas Are Not Patentable.....	8
B. Petitioners Claim Only An Abstract Idea.	11
III. The Federal Circuit’s Categorical “Machine- Or-Transformation” Standard Is Contrary To The Statutory Text And This Court’s Precedent.....	13
CONCLUSION	15
Appendix.....	1a

TABLE OF AUTHORITIES

CASES

<i>Diamond v. Chakrabarty</i> , 447 U.S. 303 (1980)	3, 8
<i>Diamond v. Diehr</i> , 450 U.S. 175 (1981)	11
<i>Gottschalk v. Benson</i> , 409 U.S. 63 (1972)	9, 13, 14
<i>In re Bilski</i> , 545 F.3d 943 (Fed. Cir. 2008).....	6, 11, 12
<i>J.E.M Ag Supply v. Pioneer Hi-Bred Int'l</i> , 534 U.S. 124 (2001)	6
<i>KSR Int'l Co. v. Teleflex Inc.</i> , 550 U.S. 398 (2007)	5
<i>Markman v. Westview Instruments, Inc.</i> , 517 U.S. 370 (1996)	10
<i>Parker v. Flook</i> , 437 U.S. 584 (1978)	9, 14

STATUTES

35 U.S.C.	
§ 100(b).....	5
§ 101.....	passim
§ 102.....	5
§ 103.....	5
§ 273.....	i

OTHER AUTHORITIES

United States Patent Classification 705/36T: Tax Strategies, http://www.uspto.gov/patft/class705_sub36t.html	9
U.S. Const., Article I, § 8, cl. 8	14

INTEREST OF THE *AMICUS CURIAE*¹

Pursuant to Supreme Court Rule 37.3, the American Bar Association (“ABA”), as *amicus curiae*, respectfully submits this brief in support of respondent. The ABA urges the Court to affirm the judgment of the Federal Circuit but to apply a different legal standard. Specifically, the ABA urges the Court to conclude that Claim 1 of the patent in suit falls within the Court’s long-standing precedent, pursuant to which “abstract ideas,” including mental processes, do not constitute patent-eligible subject matter under 35 U.S.C. § 101.

The ABA is the largest voluntary professional membership organization and the leading organization of legal professionals in the United States. Its nearly 400,000 members span all 50 states and other jurisdictions, and include attorneys in private law firms, corporations, non-profit organizations, government agencies, and prosecutor and public defender offices, as well as judges, legislators, law professors, and law students.²

¹ Pursuant to Rule 37.6, *amicus curiae* certifies that no counsel for a party authored this brief in whole or in part and that no person or entity, other than *amicus*, its members, or its counsel, has made a monetary contribution to the preparation or submission of this brief. The parties have consented to the filing of this brief.

² Neither this brief nor the decision to file it should be interpreted to reflect the views of any judicial member of the American Bar Association. No inference should be drawn that any member of the Judicial Division Council has participated in the adoption or endorsement of the positions in this brief. This brief was not circulated to any member of the Judicial Division Council prior to filing.

The ABA's Section of Intellectual Property Law ("IPL Section") is the world's largest organization of intellectual property professionals, with over 25,000 members. The IPL Section is composed of lawyers of diverse backgrounds who represent patent owners, accused infringers, individual inventors, large and small corporations, and universities and research institutions across a wide range of technologies and industries.

Other Sections of the ABA have a considerable interest in the proper disposition of the questions presented by this case – in particular, the Section of Taxation, the Section on Real Property, Trust & Estate Law, and the Section of Science and Technology Law – and as a consequence played a material role in the formulation and adoption of the ABA policy reflected in this brief.

When this Court granted the petition for certiorari, the ABA instituted a process for developing, articulating, and adopting a consensus position of the diverse members of the legal profession regarding the proper disposition of this case. After extensive discussion and refinement, the result was a proposed recommendation for consideration by the ABA's House of Delegates at the ABA's 2009 Annual Meeting. The proposed recommendation was approved by the ABA's House of Delegates as ABA policy. This policy is set out in full in the Appendix.³

³ This ABA Policy, with its accompanying Report, is also available at http://www.abanet.org/leadership/2009/annual/daily_journal/Three_Hundred_Two.doc. The ABA's House of Delegates ("HOD"), with more than 500 delegates, is the ABA's

The extensive process undertaken reflects the ABA's determination to identify the consensus view of legal professionals on the proper resolution of the important questions presented by this case. The resulting ABA policy presents a methodology that allows for a measured, balanced approach to the determination of patent-eligible subject matter for business method patents in particular.

SUMMARY OF ARGUMENT

The ABA submits that this Court, consistent with its prior precedents, should decide this case incrementally by holding that petitioners' patent claim does not define a "process" under 35 U.S.C. § 101 because Section 101 does not authorize the issuance of patents on "abstract ideas." *E.g.*, *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980). The Court should apply its approach of exclusion and conclude that petitioners' claim is a type of claim that is *not* encompassed by the statute. Petitioners' claim is not patent-eligible because it recites nothing more than an abstract idea: a mental process that is central, not ancillary, to the claim.

This case does not require this Court to make broad pronouncements of new legal principles regarding the scope of permissible "business method patents." Moreover, this Court's ruling has the

policymaking body. *See* ABA General Information, *available at* <http://www.abanet.org/leadership/delegates.html>.

Recommendations that are adopted by the HOD become ABA policy, while reports that accompany recommendations are only instructive as to considerations that were before the HOD when a recommendation was presented for adoption as policy.

potential to significantly narrow the scope of patentable inventions, including with respect to fields that are now only barely known or that are in fact entirely undiscovered. These factors, in the ABA's view, counsel in favor of incremental decision-making that does not inadvertently pre-empt the patentability of later fields of invention.

The Federal Circuit did not follow this Court's precedents, which seek to identify what is excluded from patentability under Section 101. Rather, the court of appeals announced a fixed and specific definition, applicable across all categories of inventions, which risks excluding those yet-to-be discovered technologies that are deserving of patent protection. Accordingly, the Federal Circuit's rigid "machine-or-transformation test" should be rejected.

ARGUMENT

I. The Court Should Continue To Construe Section 101 Incrementally, By Excluding Certain Claims To Subject Matter As Non-Patentable, Rather Than Adopting A Categorical Rule That May Inadvertently Inhibit Innovation.

This case presents the question of what constitutes a patent-eligible "process" claim. 35 U.S.C. § 101 states that "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor[e], subject to the conditions and requirements of this title." A process, in turn, is defined as a "process, art, or method, and includes a

new use of a known process, machine, manufacture, composition of matter, or material.” 35 U.S.C. § 100(b).

A finding that a claim recites patent-eligible subject matter – here, that it is a “process” within the meaning of Section 101 – does not mean that the invention is *ipso facto* patentable. Section 101 raises only a threshold inquiry: to be patentable, inventions must also satisfy the other requirements of title 35, including novelty, 35 U.S.C. § 102, and non-obviousness, 35 U.S.C. § 103.

Section 101 jurisprudence, accordingly, need not seek to eliminate all objectionable patent claims. Rather, that provision determines whether a claim to an invention is outside the field of patent-eligible subject matter, so that the claim is not patentable *even if* it is novel and non-obvious.

This Court’s recent practice has been to enhance, rather than restrict, the power of the Patent and Trademark Office and the courts to flexibly apply the statutory standards governing the issuance of a patent. Thus, *KSR v. Teleflex* rejected the inflexible application of the Federal Circuit’s so-called “teaching, suggestion, motivation” standard for proving an invention obvious. *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 415 (2007) (“Throughout this Court’s engagement with the question of obviousness, our cases have set forth an expansive and flexible approach inconsistent with the way the Court of Appeals applied its TSM test.”).

The same flexibility is appropriately applied here. History teaches us to anticipate developments in fields that are presently undiscovered or undeveloped

– such as in the areas of biotechnology and computer software. Developments in some fields – such as in artificial intelligence and neural networks – will raise questions of patentability that are difficult to anticipate. Those developments will represent vital areas of growth and competition for the American economy, and will likely require the spur of patent protection. By contrast, adopting a single, encompassing standard to govern every process invention arising under Section 101 threatens to be over- or under-inclusive. Such a standard is likely to be poorly adapted to the many diverse types of inventions deserving of patent protection that will arise over the coming decades, and may adversely affect those yet-to-be conceived inventions in emerging or unknown technologies.

Patent law has always retained the flexibility to adapt to new developments, carrying society from the agrarian age (the cotton gin), through the industrial age (the electric light and innumerable machines), to the information age (computer-related inventions). Section 101 in particular is a “dynamic provision intended to encompass new and unforeseen inventions.” *J.E.M Ag Supply v. Pioneer Hi-Bred Int’l*, 534 U.S. 124, 135 (2001).

Judge Newman, dissenting below, recognized that a rigid interpretation of Section 101 (such as the Federal Circuit’s “machine-or-transformation”) would exclude many useful inventions, such as “electronic and photonic technologies, as well as other processes that handle data and information in novel ways.” *In re Bilski*, 545 F.3d 943, 976 (Fed. Cir. 2008) (Newman, J., dissenting). Indeed, many useful

process innovations in the electronic, laser, sonar, and microwave fields would not be patentable under the “machine-or-transformation” standard, such as a novel process for generating a laser beam.

The ABA has thus formally adopted a policy, which is reproduced in full in the Appendix, *infra*, that opposes the application of Section 101 in a manner that articulates fixed and specific requirements that adversely affect yet-to-be conceived but deserving inventions in emerging or unknown technologies. Instead, the ABA endorses a flexible and incremental construction of Section 101.

Incremental decisions by this Court have the further benefit of retaining for Congress its role under the Constitution in the definition of the patent law. Congress regularly examines and adapts the law prospectively to new technologies.

By contrast, dramatic shifts in the definition of patentable subject matter adopted by the judiciary generally operate retrospectively and threaten to unfairly undercut significant investment-backed expectations. Inventors have reasonably acted against the backdrop of a substantial body of precedent interpreting Section 101 broadly. The Federal Circuit’s ruling in this case has dramatically departed from prior precedent in a manner that adopts a sweeping, categorical rule. Such a rule creates a significant and unwarranted degree of uncertainty that inhibits innovation.

The Court accordingly should resolve the application of Section 101 to this case and to the important body of similar patent applications, but there is no need to articulate, as the court of appeals

has attempted to do, an all-encompassing test for every process case that later may implicate Section 101. The ABA thus endorses the application of the common law tradition of incremental developments in determining the scope of patent eligibility under Section 101.

In particular, the ABA requests that this Court apply its approach of exclusion – deciding this case by announcing that a certain recurring type of claim (mental processes) falls under the category of abstract ideas and thus is not “patent-eligible.” The Court’s exclusionary approach provides inventors, the Patent and Trademark Office, and the judiciary with significant guidance, without inadvertently tying the hands of patent authorities and the courts with a rule that may prove to be unwise or unworkable. Consistent with its past practice, the Court should incrementally determine, over time and in the context of this and subsequent cases, what inventions do not fall within the category of so-called “patent-eligible” subject matter.

II. It Is Enough To Resolve This Case That Petitioners Claim An Abstract Idea.

A. This Court’s Precedents Correctly Settle That Abstract Ideas Are Not Patentable.

This Court has identified types of subject matter that are not “patent-eligible” under Section 101. A patent is not available for laws of nature, physical phenomena, and abstract ideas. *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980). These exceptions include “mental processes and abstract

intellectual concepts.” *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972). The common element underlying these categories of exclusion is that they represent the basic tools of scientific and technological development and, as such, should remain beyond the control of any patent owner. *Id.* at 66.

The uncertainty over the scope of patent-eligible “processes” in the wake of the Federal Circuit’s decision illustrates the wisdom of limiting considerations under Section 101 to an elaboration of the scope of these categories of exclusion. In this case, specifically, claims in which a mental process is central, not ancillary, should be determined to fall within the category of abstract ideas and thus, should not be patentable. Patent law should not interfere with the exercise of human intellect by granting a monopoly on processes in which thinking is central. Such processes “are not the kind of ‘discoveries’ that the [patent] statute was enacted to protect.” *Parker v. Flook*, 437 U.S. 584, 593 (1978). By reaffirming an interpretation of Section 101 excluding claims in which mental processes are central, abstract business methods like tax planning (which the Patent and Trademark Office has to date generally regarded as patentable, United States Patent Classification 705/36T: Tax Strategies, http://www.uspto.gov/patft/class705_sub36t.html (last visited Sept. 29, 2009)) and retirement planning may be unpatentable. If the exercise of human intellect or judgment is central to a claim, then the patentee’s contribution of other incidental matter in the claim should be insufficient to support a patent.

The following is an example of abstract claim language⁴ that would ordinarily cause a patent claim to be excluded because it specifically requires judgment, reasoning or other abstract ideas:

A method comprising:

- a) selecting options to include in tax-structured payments;
- b) performing a valuation of said options;
- c) advising a tax client based on said valuation; and
- d) preparing a tax return based on the advice.

In this claim, human judgment is central, not ancillary, to the claim. In fact, human judgment is central to every element of the claim: a human selects the options to be valued, performs a valuation, advises a client, and then prepares a tax return that is based on the advice. Accordingly, this claim recites an abstract idea – a mental process – where human judgment is central.

By contrast, a claim may constitute patentable subject matter if it is devoid of abstract ideas and does not require judgment or reasoning, though the claim may require the performance of specific functions such as counting, measuring, inspecting, observing, recognizing, or sensing, rather than abstract reasoning or judgment.

⁴ The application of Section 101 turns on the claim language, because the claim defines the invention. It is the claim – not the title, abstract, or summary of the invention – that defines the relevant subject matter. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 373-74 (1996).

B. Petitioners Claim Only An Abstract Idea.

As Judge Rader correctly recognized in his dissent below, this case could have been resolved in a single sentence: “Because *Bilski* claims merely an abstract idea, this court affirms the Board’s rejection.” *Bilski*, 545 F.3d 943, 1011 (D.C. Cir. 2008) (Rader, J., dissenting). *Cf. Diamond v. Diehr*, 450 U.S. 175, 191 (1981) (“when a claim recites a mathematical formula (or scientific principle or phenomenon of nature), an inquiry must be made into whether the claim is seeking patent protection for that formula in the abstract”). Like Judge Rader, the Patent and Trademark Office also recognized that petitioners’ claim merely manipulates an abstract idea. Petitioners attempt to preempt any method by which the public would engage in a very basic hedging of commodities risks.

Claim 1 of the *Bilski* patent claims a series of steps. These include “initiating a series of transactions . . . wherein . . . consumers purchase [a] commodity at a fixed rate based upon historical averages, said fixed rate corresponding to a risk position of [the] consumer.” *Bilski*, 545 F.3d at 949. The patent does not specify a means for identifying the relevant transaction, the commodity, or the degree of “correspond[ence]” to the appropriate “risk.” Rather, the person employing the invention must decide which transaction to perform, the commodity to be used, the risk, and the degree of correspondence to the risk. As a consequence, the claim is nothing more than an abstract idea; it is a vague economic concept. *See id.* at 1013 (Rader, J., dissenting). The

claim improperly attempts to assert a monopoly over an almost infinite number of methods of hedging commodity transactions.

Claim 1 also claims “identifying market participants . . . having a counter-risk position to said consumers.” *Bilski*, 545 F.3d at 949. This element of the claim is abstract because it requires the exercise of significant reasoning. The individual employing the invention is left to determine how to “identify” the other market participants and to determine what constitutes an appropriate “counter-risk position.”

Nonetheless, care is required in rejecting a patent claim as outside the field of patent-eligible subject matter based on the use of particular claim terms. For example, the *Bilski* patent recites “initiating” certain transactions. It may be possible to identify patent-eligible claims to inventions that recite “initiating” a series of steps – for example, where the term “initiating” is employed in the context of starting a series of well-defined physical steps requiring little judgment. By contrast, where recitation of the same term in the context of “initiating a series of transactions” calls for the exercise of human judgment, such as subjectively determining the best candidates with whom to transact, it is too abstract to satisfy Section 101.

Additionally, it would be possible to identify a patent-eligible claim to an invention that lists the step of “identifying” an object, as when the claim closely specifies the parameters for making the relevant choice. For example, an inventor may seek a patent on a process that permissibly requires

“identifying” an electrical input signal according to a particular, specified measurement.

For the foregoing reasons, this Court should elaborate on its prior holdings and conclude that claims to abstract ideas include mental processes such as those set out in Claim 1 of the Bilski patent, and that such claims are excluded from patentability under Section 101.

III. The Federal Circuit’s Categorical “Machine-Or-Transformation” Standard Is Contrary To The Statutory Text And This Court’s Precedent.

Rather than adopting an incremental approach of excluding non-patentable subject matter, the Federal Circuit adopted a rigid, categorical rule that an invention is patentable under Section 101 only if it is tied to a particular machine or apparatus or transforms a particular article into a different state or thing – the “machine-or-transformation” test.

The Federal Circuit need not have gone so far. Instead, it should have recognized that petitioners’ invention is not patentable under this Court’s prior precedent. The long-established exclusion of abstract ideas alone resolves this case.

The Federal Circuit’s ruling, further, is not supported by this Court’s decisions. In *Benson*, the Court expressly declined the invitation to hold that for an invention to consist of patentable subject matter it “must either be tied to a particular machine or apparatus or must operate to change articles or materials to a ‘different state of thing.’” *Gottschalk v. Benson*, 409 U.S. 63, 71 (1972). Subsequently, in

Flook, the Court continued to “assume that a valid process patent may issue even if it does not meet one of these qualifications.” *Parker v. Flook*, 437 U.S. 584, 589 n.9 (1978).

A “machine-or-transformation” test also is contrary to the structure of the constitutional and statutory grant of patent authority. The patent laws derive from the power to promote the progress of science and the “useful arts.” U.S. CONST. art. I, § 8, cl. 8. In our “unitary” patent system, particular categories of “arts” – such as method patents – have never been subject to distinct and more demanding standards of patentability. *Cf. Benson*, 409 U.S. at 67-68 (“We dealt there with a ‘product’ claim, while the present case deals with a ‘process’ claim. But we think the same principle applies.”).

Patentability under Section 101 governs every possible form of invention. The text of Section 101, extending patent-eligible subject matter to “processes,” should not be read to additionally impose the Federal Circuit’s rigid “machine-or-transformation” requirement. As Congress did not write Section 101 to tie patentability to any particular physical form, this Court should not impose such a restriction.

CONCLUSION

The judgment should be affirmed on other grounds.

Respectfully submitted,

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APPENDIX

At its 2009 Annual Meeting, the ABA House of Delegates adopted the following as ABA policy:⁵

- 1) the ABA supports the existing principle that laws of nature, physical phenomena, and abstract ideas are not patentable, even if they are new and non-obvious;
- 2) the ABA supports application by the Supreme Court of the United States of the common-law tradition of incremental development of jurisprudential doctrine for determining patent-eligible subject matter under 35 U.S.C. § 101;
- 3) the ABA opposes formulations by courts of tests to determine patent-eligible subject matter under 35 U.S.C. § 101 in a manner that articulates fixed and specific requirements that adversely affect yet-to-be conceived but deserving inventions in emerging or unknown technologies; and
- 4) the ABA opposes a requirement that a process be explicitly tied to a particular machine or apparatus, or transform a particular article into a different state or thing (i.e., the “machine-or-transformation” test), in order to be eligible for patenting under 35 U.S.C. § 101, but favors, in principle, an evenly applied and more

⁵ This ABA Policy, with its accompanying Report, is also available at http://www.abanet.org/leadership/2009/annual/daily_journal/Three_Hundred_Two.doc.

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generalized subject-matter bar on claims that would preempt the use of an abstract idea, thereby better effectuating the broad statutory grant of patent eligibility under 35 U.S.C. § 101 and Supreme Court precedent declining to limit that grant, while ensuring the unfettered use of abstract ideas.