



Intellectual Property

A Practice Focus

It's on Course for the Supreme Court

As Federal Circuit cases pile up, the high court may revisit the scope of patentable inventions.

BY ERIKA ARNER

Speculation is swirling around *In re Bilski*, pending before the U.S. Court of Appeals for the Federal Circuit: Has the time come for the Supreme Court to add to its jurisprudence on what kinds of inventions may be patented? And if so, will the case be *Bilski*?

The Supreme Court's doctrine is several decades old. *Gottschalk v. Benson* (1972), *Parker v. Flook* (1978), and *Diamond v. Diehr* (1981)—sometimes dubbed the “BFD” cases—represent modern doctrine on the scope of patentable inventions under 35 U.S.C. §101.

Section 101 allows a patent for a “process,” among other things, and in the decades since these BFD cases, the process claim has become the tool of choice for patent drafters with software, Internet-based, or business method inventions.

But the U.S. Patent and Trademark Office, practitioners, and courts have increasingly struggled to apply the BFD cases, handed down as technologies such as the personal computer and mobile phones were just being introduced and well before the Internet. Many think that the time has come for the Supreme Court to revisit and perhaps revise its Section 101 jurisprudence.

TIMING IS EVERYTHING

In 1999, the Supreme Court declined two opportunities to do so.

The Court first denied certiorari in the 1998 decision in *State Street Bank & Trust Co. v. Signature Financial Group*. It thus remained silent on what has since become the test for a patentable process claim incorporating a mathematical algorithm: whether it produces “a useful, concrete and tangible result.”

Later that year, the Court denied cert in *AT&T Corp. v. Excel Communications*, a 1999 decision concluding that a process

does not require a physical transformation. When the high court declined to review the Federal Circuit's decision, Justice John Paul Stevens, who wrote the majority opinion in *Flook* and a lengthy dissent in *Diehr*, filed a statement noting that “[t]he importance of the question presented” made it appropriate to reiterate that the denial of cert was not a ruling on the merits.

Beyond this enigmatic statement, the Supreme Court remained silent on Section 101 and process claims.

HAS THE TIME COME?

Seven of the current Supreme Court justices were on the Court that denied cert in these two cases. So what has changed since 1999 that might lead the Court to take a Section 101 case now?

Since *State Street Bank*, the Patent Office has received more than 62,000 patent applications in the “business methods” technology class 705.

Amid public outcry over the issuance of some questionable patents and the continuing debate over when a process is patentable, the allowance rate in class 705 dropped from 45 percent in 2001 to 11 percent in 2004. In March 2007, the Patent Office narrowed its interpretation of when a process is patentable, stating that a process can only produce a “useful, concrete and tangible result” if it is machine-implemented.

The Federal Circuit also has recently restricted the scope of patentable subject matter. In *In re Comiskey* (2007), a three-judge panel adopted the Patent Office's test for process claims, ruling that an algorithm or abstract idea was patentable only if “it is embodied in, operates on, transforms, or otherwise involves” a machine, manufacture, or composition of matter.

Another Federal Circuit panel restricted Section 101 in a different way, holding in *In re Nuijten* (2007) that a transitory, propagating signal is not a process, machine, manufacture, or

composition of matter and “thus, such a signal cannot be patentable subject matter.”

In the wake of these panel decisions narrowing the scope of Section 101, the *en banc* Federal Circuit reheard *In re Bilski*, which involves process claims that are not tied to a machine. During oral argument, the judges wondered whether the rule should be a “useful, concrete, and tangible result” or something else. When counsel admitted that it would be difficult to identify a bright line rule, an exasperated Chief Judge Paul Michel asked for even a “dim line” rule.

Some sort of rule is something the Supreme Court may now feel compelled to provide. Three justices have criticized the “useful, concrete, and tangible result” standard. Dissenting from the Court’s dismissal of *Laboratory Corporation of America Holdings v. Metabolite Labs* (2006) before decision, Justice Stephen Breyer noted that although the Federal Circuit in *State Street Bank* said that a process is patentable if it produces a “useful, concrete, and tangible result,” the Supreme Court “has never made such a statement.” He also noted that “if taken literally,” the Federal Circuit’s test would cover instances where the Supreme Court has found the subject matter nonpatentable.

Another factor that weighs in favor of taking a case on Section 101 is the Court’s general interest in patent cases lately. In recent years, the Court has handed down decisions on injunctions, declaratory judgment jurisdiction, obviousness, contributory infringement, and patent exhaustion. This is quite an uptick from past years when patent law was sometimes absent from the Court’s docket.

PICKING THE CASE

If the Court is ready to take a case on Section 101, which will it be?

In re Nuijten is already on its way, with a petition for cert filed on May 9. The Supreme Court may note that the three-judge *Nuijten* panel was divided, with a dissent that ran longer than the majority opinion. Three Federal Circuit judges also dissented from the denial of a petition for rehearing *en banc*.

The Supreme Court may think that the *Nuijten* panel overstepped by creating a fourth category of things that are not patentable—transitory, propagating signals. (This adds to the long-accepted nonpatentable list of natural phenomena, laws of nature, and abstract ideas.)

The Court may also want to address the definitions of the four classes of patentable subject matter set forth in *In re Nuijten*. Can something be “physical and real,” as the Federal Circuit admitted the claimed signal was, but not be a machine, manufacture, or composition of matter?

As an alternative to *In re Nuijten*, or perhaps in addition to it, the Supreme Court may have the opportunity to address the patentability of business processes in the near future, in one of several potential cases in which the Court could grant cert. And the justices may be eager to do so. Four of the current justices expressed concern over the “potential vagueness and suspect validity” of business method patents in a concurrence in *eBay v. MercExchange* (2006). These four may welcome the opportunity to restrict the patent protection available to business methods.

It is unclear whether *In re Bilski* will make its way to the Supreme Court, though the Federal Circuit has certainly signaled

its potential importance. In its order, by its own action, granting an *en banc* hearing, the Federal Circuit posed several questions, including what standard should be used to determine whether a process is patent-eligible subject matter under Section 101 and whether the court should reconsider or overrule *State Street Bank* and *AT&T v. Excel*.

The nearly 40 amicus briefs filed, by parties as varied as Accenture, EndSoftwarePatents, and the American Civil Liberties Union, also highlight the case’s importance.

Statements made during the *Bilski* oral arguments may also interest the Supreme Court. Much debate centered on whether *Cochrane v. Diener* (1877) sets forth the only ways a process can be patentable: by physically transforming subject matter or reducing an article to a different state or thing. The judges also wondered if the Federal Circuit can follow the Patent Office in creating a fourth category of nonpatentable subject matter, i.e., non-machine-implemented processes. Finally, several judges expressed concern that requiring processes to be tied to a machine “in a non-conventional way” could mark the demise of all software patents.

If *In re Bilski* does not end up at the Supreme Court, other business method cases now at the Federal Circuit may take its place. A petition for rehearing *en banc* is pending in *In re Comiskey*, and another business method case, *In re Ferguson*, is awaiting decision.

AT THE COURT

If the Supreme Court does grant cert in a case involving the scope of Section 101, how might it rule?

Only a few sitting justices have indicated how they might interpret Section 101. Stevens has been the most vocal. Back in *Diehr*, he urged the Court to hold unequivocally that no “program-related invention” is patentable “unless it makes a contribution to the art that is not dependent entirely on the utilization of a computer.” He also expressed a conviction that the Court “is not authorized to address” whether computer programs should have patent protection.

In the 27 years since *Diehr*, Stevens has continued to speak out on the topic at almost every opportunity. Examples include his statement on the denial of cert in *Excel v. AT&T*, his joining the concurrence in *eBay* (decrying the “potential vagueness and suspect validity” of business method patents), and his dissent from the dismissal of cert in *LabCorp* (calling into question the “useful, concrete, and tangible result” test). It seems likely that however Section 101 presents itself, Stevens will be ready to weigh in.

Justices David Souter and Stephen Breyer also seem to take a dim view of business method patents and the “useful, concrete and tangible result” test, joining in both the *eBay* concurrence and the *LabCorp* dissent. Justice Anthony Kennedy seems concerned about the validity of business method patents, having written the *eBay* concurrence.

Of course, that leaves five justices who have not taken part in the Court’s most recent statements about Section 101. With this uncertainty, we can’t know how the full Court may rule, even if it ultimately decides to grant cert as so many expect.

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