

No. 2007-1130  
(Serial No. 08/833,892)

UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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*In re* BERNARD L. BILSKI  
*and*  
RAND A. WARSAW

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On Appeal from the  
United States Patent and Trademark Office  
Board of Patent Appeals and Interferences

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BRIEF *AMICUS CURIAE* OF  
COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION  
IN SUPPORT OF APPELLEE DIRECTOR OF THE U.S. PATENT AND  
TRADEMARK OFFICE AND URGING AFFIRMANCE

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Matthew Schruers  
*(counsel of record)*  
COMPUTER & COMMUNICATIONS  
INDUSTRY ASSOCIATION (CCIA)  
900 Seventeenth Street, 11<sup>th</sup> Floor  
Washington, D.C. 20006  
(202) 783-0070

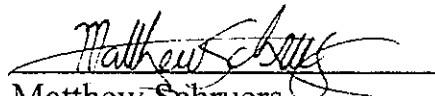
April 7, 2008

*Counsel for Amicus Curiae*

## CERTIFICATE OF INTEREST

Pursuant to Federal Rule of Appellate Procedure 26.1 and Federal Circuit Rule 47.4, counsel for *amicus curiae* certifies the following:

1. The full name of every party or *amicus* represented by me is:  
Computer & Communications Industry Association.
2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is: None.
3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or *amicus curiae* represented by me are: None.
4. The names of all law firms and the partners or associates that appeared for the party or *amicus* now represented by me in the trial court or agency or are expected to appear in this court are: Matthew Schruers, see below.

  
Matthew Schruers  
COMPUTER & COMMUNICATIONS  
INDUSTRY ASSOCIATION (CCIA)  
900 Seventeenth Street, 11<sup>th</sup> Floor  
Washington, D.C. 20006  
(202) 783-0070

April 7, 2008

*Counsel for Amicus Curiae*

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## STATEMENT OF INTEREST

The Computer & Communications Industry Association (CCIA) is dedicated to open markets, open systems, and open networks. CCIA members participate in the information and communications technology industries, ranging from small entrepreneurial firms to the largest in the business. CCIA members employ nearly one million people and generate annual revenues exceeding \$200 billion.<sup>1</sup> CCIA members are substantially affected by the patent system and depend upon it to fulfill its constitutional purpose.

Pursuant to the Court's Feb. 15, 2008 order setting en banc hearing, CCIA submits the following brief *amicus curiae* in support of Appellee Director of the U.S. Patent and Trademark Office.

## ARGUMENT

This brief addresses two of the five questions posed by the Court for *en banc* review:

2. What standard should govern in determining whether a process is patent-eligible subject matter under section 101?

and

5. Whether it is appropriate to reconsider *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368

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<sup>1</sup> A complete list of CCIA's members is available online at <http://www.ccianet.org/members.html>.

(Fed. Cir. 1998), and *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352 (Fed. Cir. 1999), in this case and, if so, whether those cases should be overruled in any respect?

With respect to Question Five, CCIA argues that both cases should be reconsidered and rejected. *State Street* upends the historically and constitutional limitation of patents to the technological arts and misreads the Supreme Court's seminal case on the patentability of abstract ideas, *Gottschalk v. Benson*, 409 U.S. 63 (1972).

The explosive spread of patents in the wake of *State Street* has made a public spectacle of the patent system. Despite the fact that there had never been a lobby for patents on business methods, *State Street* created a self-interested constituency that opposes virtually all limitations on patent-eligible subject matter. It has created an area of patent practice with poorly defined boundaries and a uniquely high rate of litigation. In concert with other decisions of the Federal Circuit, it has raised demand for patents with little appreciation of systemic effects, especially the impact on markets for the complex networked products and services characteristic of the IT sector.

With respect to Question Two, CCIA argues that the Federal Circuit must forge a new standard to address the difficult but all-important question about the proper scope of the patent system. This question is integral to the mission of the Federal Circuit. It must be resolved by recognizing past

limitations in the perspective of the Court and its predecessor and by fully acknowledging the framework of *Benson*, *Parker v. Flook*, and *Diamond v. Diehr*.<sup>2</sup> The Court should repudiate *State Street*, shed the intellectual insularity that led to that decision, and address “the needs of the modern world” in a balanced, empirically grounded manner. Finally, the Court should be forthcoming to innovators and to Congress on requirements for an evidence-based patent system that can adequately account for the growing diversity of innovation in the modern world.

**I. *State Street* Misreads *Benson*, and Misconstrues and Misapplies Congressional Intent.**

*State Street* and *AT&T* extended the dominion of the patent system over virtually all areas of the economy. *See State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), *cert. denied*, 119 S. Ct. 851 (1999). *State Street* effectively superseded previously established standards for patent-eligible subject matter with respect to both algorithms and business methods. It reinterpreted the Supreme Court’s historic decision in *Gottschalk v. Benson* as merely an application of the utility requirement, while relying dubiously on legislative history to

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<sup>2</sup> *Parker v. Flook*, 437 U.S. 584 (1978); *Diamond v. Diehr*, 450 U.S. 175 (1981).

reinterpret the Patent Act of 1952 and abolish long-standing hornbook law against patents on business methods.

**A. *State Street* misreads *Benson*.**

*State Street* unceremoniously dismisses the Federal Circuit's own long-evolving *Freeman-Walter-Abele* standard, explaining: "After *Diehr* and *Chakrabarty*, the *Freeman-Walter-Abele* test has little, if any, applicability to determining the presence of statutory subject matter." *State Street*, 149 F.3d at 1373 (citing *Diamond v. Chakrabarty*, 447 U.S. 303 (1980)). The *State Street* decision fails to note that *Abele* was decided after *Diehr*. *In re Abele*, 684 F.2d 902 (C.C.P.A. 1982). It also misconstrues *Diehr*, claiming "[i]n *Diehr*, the Court explained that certain types of mathematical subject matter, standing alone, represent nothing more than abstract ideas until reduced to some type of practical application, *i.e.*, 'a useful, concrete and tangible result.'" *State Street, id.* (quoting *In re Alappat*, 33 F.3d 1526, 1544 (Fed. Cir. 1994)).

Despite appearances, this sentence does not cite *Diehr*. It cites only to the Federal Circuit's *In re Alappat*, where this language first appeared as a mere rhetorical flourish: "This is not a disembodied mathematical concept which may be characterized as an 'abstract idea,' but rather a specific

machine to produce a useful, concrete, and tangible result.” *Id.* Without justification, *State Street* elevates what was originally undefined embellishment into the ultimate test of patent eligibility.

These three words – useful, concrete, and tangible – add nothing to the analysis. “Useful” is nothing more than the utility test of Section 101, which has historically been applied separately from subject matter eligibility.<sup>3</sup> “Concrete” and “tangible” remain no more than the flip side of “abstract idea,” although the U.S. Patent & Trademark Office has suggested and sought public input on more specific definitions.<sup>4</sup>

*State Street* focuses on “useful” in bootstrapping language from *Alappat* to reinterpret *Benson*, stating that “Unpatentable mathematical algorithms are identifiable by showing they are merely abstract ideas constituting disembodied concepts or truths that are not ‘useful.’ From a practical standpoint, this means that to be patentable an algorithm must be applied in a ‘useful’ way.” *State Street*, 149 F.3d at 1374.

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<sup>3</sup> John R. Thomas, *The Post-Industrial Patent System*, 10 Fordham IP, Media & Entm’t L. J. 3, 26-27 (1999).

<sup>4</sup> *Request for Comments on Interim Guidelines for Examination of Patent Applications for Patent Subject Matter Eligibility*, 70 Fed. Reg. 75,451 (Dec. 20, 2005).

However, the Supreme Court deemed the algorithm in *Benson* unpatentable not because it lacked practical utility, but because it was *too* useful in a fundamental sense: “Phenomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable, as they are the *basic tools* of scientific and technological work.” 409 U.S. at 67 (emphasis supplied). “The end use may.... vary from the operation of a train to verification of drivers’ licenses to researching the law books for precedents....” *Id.* at 68.

Finally, *State Street*’s construction of *Benson* ignores *Flook*, insofar as the temperatures, pressure, flow, alarms, and times at issue in *Flook* are no less concrete and tangible than the dollar values at issue in *State Street*.

**B. *State Street* misconstrues Congressional intent.**

*State Street*’s abolition of the business method exception is an outlier in patent jurisprudence, and may be viewed as judicial activism given its cavalier treatment of Congressional intent.

Although it reads the 1952 Patent Act as overturning a longstanding judicial rule against patents for methods of doing business, *State Street* did not offer any direct evidence of such intent. There is none. Rather, *State Street* claimed to have found intent by Congress to abandon traditional subject matter limitations in a formerly obscure clause of legislative history:

the now infamous mantra, “anything under the sun made by man.” This phrase first appeared in exactly the same language in both the House and Senate committee reports on the Patent Act. *See* S. Rep. No. 1979, 82d Cong., at 5 (1952); H.R. Rep. No. 1923, 82d Cong., at 6 (1952). This legislative history was drafted by P.J. Federico, a patent attorney employed by the Patent Office and loaned to the House committee.<sup>5</sup>

The phrase is an offhanded dependent clause in a sentence that reads: “A person may have ‘invented’ a machine or a manufacture, which may include anything under the sun that is made by man, but it is not necessarily patentable under Section 101 unless the conditions of the title are fulfilled.” The sentence as a whole is not directed at the scope of patentable subject matter, but rather to ensuring compliance with all provisions of Title 35 – and, as the quotes around “invented” show, putting distance on the concept of “invention” as it was interpreted prior to the 1952 Act.

This phrase lay unnoticed for 27 years until Judge Giles Rich, who along with Federico was one of the two principal authors of the Act, quoted it in his three-stage formula for how to read the basic requirements of the

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<sup>5</sup> *See* Giles S. Rich, *Congressional Intent – Or, Who Wrote the Patent Act of 1952?*, in *Patent Procurement and Exploitation* 61, 73 (1963).

Patent Act.<sup>6</sup> See *In re Bergy*, 596 F.2d 952, 961 (C.C.P.A. 1979). *Bergy* first quotes it in the full context of the surrounding report language, but then in conclusion, selectively:

If we had any doubt about the propriety of giving those words a broad interpretation, it would be dispelled by the identical statement in the House and Senate reports accompanying the 1952 reenactment, quoted supra, that “a machine, or a manufacture... may include *anything under the sun that is made by man.*”

596 F.2d at 987 (emphasis in opinion).

The Supreme Court affirmed *Bergy* in *Diamond v. Chakrabarty*, with Justice Burger repeating in dicta “anything under the sun” similarly devoid of its original context. 447 U.S. 303, 309 (1980).<sup>7</sup> It would reappear as dicta, again out of context, in *Diehr*. 450 U.S. at 182.

But *Diehr* is concerned not with machines or manufacture as the original sentence specifies, but with a conventionally defined physical process:

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<sup>6</sup> Judge Rich sometimes invoked his past role as a drafter of the statutory language in support of his own interpretations of the language of the Patent Act. See e.g., *Paulik v. Rizkalla*, 760 F.2d 1270, 1276 (Fed. Cir. 1985) (Rich, J., concurring). The opinion in *State Street* does not indicate this role, although it relied heavily on Congressional intent.

<sup>7</sup> A. Samuel Oddi, *Assault on the Citadel: Judge Rich and Computer-Related Inventions*, 39 Houston L. Rev. 1033, 1074-76 (2002) (recounting the history of the phrase in a provocatively titled homage to Judge Rich).

A process is a mode of treatment of certain materials to produce a given result. It is an act, or a series of acts, performed upon the subject-matter to be transformed and reduced to a different state or thing.... The process requires that certain things should be done with certain substances, and in a certain order....

*Diehr*, 450 U.S. 175, 183-84 (quoting *Cochrane v. Deener*, 94 U.S. 780, 787-88 (1877)).

*Diehr* further makes clear that Congress did not change the meaning of ‘process’ in the 1952 Patent Act: “Analysis of the eligibility of a claim of patent protection for a ‘process’ did not change with the addition of that term to § 101.” 450 U.S. at 184. The Patent Act was enacted against a backdrop of established judicial limitations on patentability. If Congress intended to change the business method exclusion in this regard, it was quite capable of doing so explicitly.

*Chakrabarty* involved a new kind of technology that Congress admittedly could not have foreseen in 1952, a technology solidly rooted in the natural sciences. “Methods of doing business,” by contrast, are not technology at all and are therefore not within the “useful arts” as interpreted by *In re Musgrave*, 431 F.2d 882, 893 (C.C.P.A. 1970).<sup>8</sup> Methods of doing business are neither new nor unanticipated. They had existed, unprotected by patents, for hundreds of years when Congress enacted the 1952 Patent

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<sup>8</sup> John R. Thomas, *The Patenting of the Liberal Professions*, 40 B.C. L. Rev. 1139, 1140 & n.12 (1999).

Act. See, e.g., *Hotel Security Checking Co. v. Lorraine Co.*, 160 F. 467, 469 (2d Cir. 1908); *Loew's Drive-In Theatres v. Park-In Theatres*, 174 F.2d 547, 552 (1st Cir. 1949) (“a system for the transaction of business... however novel, useful, or commercially successful is not patentable apart from the means for making the system practically useful, or carrying it out”); *In re Patton*, 127 F.2d 324, 327 (C.C.P.A. 1942). *State Street* heroically attempts to invest Section 101’s “any” with new Congressional intent, although that word long predated the 1952 Act.<sup>9</sup>

Moreover, legislative history cannot be read to alter Section 101 unless that intent is “clearly expressed.” *Reves v. Ernst & Young*, 507 U.S. 170, 177 (1993). As Judge Rich himself observed much closer to the time of enactment, “members of the Congress wrote only a few words of the Patent Act... the Patent Act was written basically, however, by patent lawyers drawn from the Patent Office, from industry, from private practice, and from some government departments.” Rich, *supra* n.5, at 73. Indeed, Judge Rich quoted Rep. Crumpacker’s assessment that a “good 95% of the members of both bodies [of Congress] never knew that the legislation was under consideration, or that it had passed, let alone what it contained.... How can

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<sup>9</sup> “The repetitive use of the expansive term ‘any’ in Section 101 shows Congress’s intent not to place any restrictions on the subject matter for which a patent may be obtained beyond those specifically recited in Section 101.” *State Street*, 149 F.3d at 1373.

the House, as a legislative body, be said to have any ‘intent’ with respect to the bill?” *Id.* at 75. To suggest that a report written by a Patent Office employee before the Act was passed reflects that intent offends common sense. Judge Rich’s concluding admonition is thus well heeded:

The foregoing will, it is hoped, cause you to pause and think when you hear or use the phrase ‘intent of Congress.’ Realistically, the ‘intent,’ with respect to the Patent Act of 1952, was the intent of a subcommittee to pass the bill prepared by the patent lawyers.... You need only compare the bill prepared by the Coordinating Committee with the law as enacted to see this.

*Id.* at 77. Since the “anything under the sun” sentence is not even addressed to the scope of patentability, it cannot suggest that Congress intended to change the scope of patentable subject matter. In fact, there is not a word anywhere in the text or legislative history to suggest that Congress intended to expand the reach of the patent system.

The absence of any such intent to expand patentable subject matter was also evident to Judge Rich a mere eight years after the passage of the Act. *See* Giles S. Rich, *Principles of Patentability*, 28 *Geo. Wash. L. Rev.* 393 (1960), *reprinted in* John Witherspoon, ed., *Non-obviousness: The Ultimate Condition of Patentability*, at 2:8 (1980) (describing diaper service as unpatentable). Even in *Alappat*, from which *State Street* extracts the “useful, concrete, and tangible result” rule, Judge Rich observed:

We further note that *Maucorps* dealt with a business methodology for deciding how salesmen should best handle respective customers and *Meyer* involved a “system” for aiding a neurologist in diagnosing patients. Clearly, neither of the alleged “inventions” in those cases falls within any Section 101 category.

*In re Alappat*, 33 F.3d 1541.

**C. *State Street* illustrates the dangers of discovering new rights by judicial fiat.**

By arbitrarily removing a commonly understood barrier to patentable subject matter, *State Street* became a textbook study in the dangers of recognizing new rights overnight. The extraordinary breadth offered by patents on business methods sparked an instant land rush.<sup>10</sup> Ironically, this was fueled in part by the extraordinary success of the *nonproprietary* platforms of the Internet and the World Wide Web, upon which anyone could build freely. Entrepreneurs scrambled to patent the first Internet-based implementation of known processes, such as reverse auctions,<sup>11</sup> because the Federal Circuit’s low standard for patents on combinations of known art made such patents easy to get.

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<sup>10</sup> So serious was the problem of question “Electronic Commerce” patents (Class 705) that the PTO launched a special initiative on business method patents. This included a second-pair-of-eyes review to reduce the allowance rate from 75 percent to 25 percent. *See* David Streitfeld, *Note: This Headline is Patented*, L.A. Times, Feb. 7, 2003, at A1.

<sup>11</sup> U.S. Patent No. 5,794,207 (issued Aug. 11, 1998) (“Priceline patent”).

Unlike patents for technologies, business method patents were conducive to broad, sweeping claims, and as a result drew hordes of rent seekers. The excitement was infectious. The Undersecretary for Intellectual Property and Director of the Patent and Trademark Office even expressed support for patents on legal arguments.<sup>12</sup> Such patents also drew unprecedented public attention and often condemnation, in part because their nontechnical nature made their absurdity easy for the public to grasp.<sup>13</sup> They have proved especially repugnant in areas such as tax-avoidance strategies, where the patent monopoly conflicts with other important values.

Prior to *State Street*, there was no public advocacy for patents on business methods. *State Street* created an instant constituency – and a classic public choice problem – one in which benefiting rights-holders are highly motivated to resist any diminution of their rights. In the case of patents, this constituency has frequently received support from the patent bar, which benefits directly from increased demand for services.<sup>14</sup>

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<sup>12</sup> Steven Pizzo, *Who's Really Being Protected?* O'Reilly Network, May 24, 2000, at 3, available at <http://www.oreillynet.com/pub/a/policy/2000/05/24/PizzoFiles.html>.

<sup>13</sup> U.S. Patent No. 6,329,919 (issued Dec. 11, 2001) (system for toilet reservations); see also James Gleick, *Patently Absurd*, N.Y. Times Mag., Mar. 12, 2000 (criticizing similar patents).

<sup>14</sup> A low standard of patentability “produces more patents, which is what the patent bar gets paid for, to acquire patents, not to get patent applications denied but to get them granted. And the more you narrow the obviousness

In turn, the asymmetry between legislative and judicial action inhibits Congressional response to judicially expanded rights. Once the Federal Circuit recognizes a new or expanded right, Congress's efforts to diminish that right may be challenged (rightly or wrongly) under the Fifth Amendment. For example, the Congressional Budget Office has estimated a budgetary impact of \$1.4 billion for S. 1145 as passed by the Senate Judiciary Committee, primarily because the bill precludes damages for check-imaging patents.<sup>15</sup>

**D. Business methods were not endorsed by Congress in the American Inventors Protection Act of 1999.**

*State Street* and *AT&T* were decided during an earlier effort on patent reform that, among other things, had originally sought to provide for prior user rights similar to those provided in other countries. Prior user rights were vehemently opposed by small inventors and universities, who saw them as undercutting the value of their patents.

No one was inclined to burden the already-paralyzed reform legislation with a debate on subject matter. However, *State Street* provided

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standard... the more likely it is that the patent will be granted.” Transcript of Oral Arg. (remarks of Scalia, J.), *KSR International Co. v. Teleflex, Inc.*, at 41-42 (No. 04-1350, Nov. 28, 2006).

<sup>15</sup> Cong. Budget Office, 110<sup>th</sup> Cong., *Cost Estimate: S. 1145, Patent Reform Act of 2007*, 1, 6 (Feb. 15, 2008) at <http://www.cbo.gov/ftpdocs/89xx/doc8981/s1145.pdf>.

a hook for reform proponents to rescue the failing provision on prior user rights, restyled as the “first inventor defense.” As argued by Representative Manzullo:

Before the State Street Bank and Trust case.... it was universally thought that methods of doing or conducting business were not patentable items.... In recognition of this *pioneer clarification* of the law, we felt that those who kept their business practices secret had an equitable cause not to be stopped by someone who subsequently reinvented the method of doing or conducting... business and obtained a patent. We, therefore, limited the first inventor defense solely to that class of rights....

145 Cong. Rec. H6,947 (Aug. 3, 1999) (emphasis supplied).

Inclusion of business methods in what became Section 273 was not presented as an endorsement of business method patents (a category which, according to *State Street*, did not exist). It was instead a last-minute effort to rescue prior user rights by defining “methods” as limited to “methods of doing business.” The motivation to revive a broad prior user right is shown by attempts to read into the record expansive definitions that have little relationship to the hornbook understanding of business methods as outside of the technological arts. For example:

- “It includes a practice, process, activity, or system that is used in the design, formulation, testing, or manufacture of any product or service”

– 145 Cong. Rec. S14,836 (Nov. 18, 1999) (statement of Sen. Schumer);

- “a method for conducting business such as a preliminary or intermediate manufacturing procedure” – 145 Cong. Rec. E1,789 (Aug. 3, 1999) (statement of Subcommittee Chair Rep. Howard Coble);
- “any kind of method, regardless of its technological character... used in some manner by a company... in the conduct of its business” – 145 Cong. Rec. S14,521 (Nov. 10, 1999) (statement of Sen. Lieberman).

Beyond this, there is nothing in the legislative record to show that Congress agreed on *State Street*'s meaning with regard to business methods, let alone sought to ratify patents on non-technological methods.

## **II. The Federal Circuit Should Address Subject Matter Eligibility by Examining and Accounting for the Actual “Needs of the Modern World.”**

- ### **A. Accounting for the “needs of the modern world” requires rejecting the fundamental misconceptions underlying the Federal Circuit’s historic patentee-centric approach to patent law.**

The costly effect of *State Street*'s sudden subject matter expansion is representative of a broader phenomenon: the Federal Circuit has not historically given sufficient consideration to the systemic effects of its

decisions. In *AT&T v. Excel*, the Federal Circuit stated, “this court (and its predecessor) has struggled to make our understanding of the scope of Sec. 101 responsive to the needs of the modern world.” 172 F.3d 1352, 1356 (Fed. Cir. 1999). Yet neither *State Street* nor *AT&T* offer an accounting of this struggle – no explanation of the “needs of the modern world” and how these needs were met by abandoning limits on patentable subject matter.

Since the Federal Circuit was formed, innovation has taken place in new and different ways in increasingly diversified technological and market environments. This growing diversity should not be treated simply as an invitation to continually expand the scope and reach of patents. The Court’s responses must be grounded in empirical reality – and the need to promote innovation, not patents. Otherwise, responding to the “needs of the modern world” will be too easily seen as responding to professional or institutional interest in increasing demand for patents.<sup>16</sup>

As one treatise has observed:

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<sup>16</sup> It has been suggested that the original purpose of the court was to “revive the patent incentive” by “strengthen[ing]” patents (as distinct from the rationale of simply making patent law more uniform and predictable). See Nat’l Acads. Bd. on Sci., Tech., & Econ. Pol. *et al.*, Conference on Patent Reform, Transcript at 161 (Jun. 9, 2005) at [http://www.aipla.org/Content/ContentGroups/Meetings\\_and\\_Events1/Roadshows/20058/Transcript\\_6-9-05.pdf](http://www.aipla.org/Content/ContentGroups/Meetings_and_Events1/Roadshows/20058/Transcript_6-9-05.pdf); see also Hon. Pauline Newman, *Origins of the Federal Circuit: The Role of Industry*, 11 Fed. Cir. B.J. 541, 542-43 (2001).

[B]road notions of patent eligibility appear to be in the best interest of the patent bar, the PTO and the Federal Circuit. Workloads increase and regulatory authority expands when new industries become subject to the appropriations authorized by the patent law. Noticeably absent from the private, administrative and judicial structure is a high regard for the public interest.<sup>17</sup>

This problem is aggravated by the fact that the Court has also developed a reputation for insularity, which compounds the limitations of an adversarial process focused on the competing interests of the two parties.<sup>18</sup> This increases the likelihood that decisions (such as those involving an applicant and the PTO) will have adverse effects on the system as a whole, or that decisions that may be reasonable in one industry may have adverse effects on another.<sup>19</sup>

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<sup>17</sup> Roger E. Schechter & John R. Thomas, *Intellectual Property: The Law of Copyrights, Patents and Trademarks* 314 (2003).

<sup>18</sup> See Craig A. Nard, *The Future of Patent Law: Toward a Cautious Approach to Obeisance: The Role of Scholarship in Federal Circuit Patent Law Jurisprudence*, 39 *Houston L. Rev.* 667, 692 (2002). See also John R. Thomas, *Academics and the Federal Circuit: Is There a Gulf and How Do We Bridge It?* 15 *Fed. Cir. B.J.* 315 (2005-2006).

<sup>19</sup> The 2003 report by the Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) showed the range of industry perceptions of the patent system, ranging from a positive pharmaceutical sector to a predominately negative “software and Internet” sector. More recently, this division has been reflected in debate over critical provisions in patent reform legislation. The discriminatory effects of diversity are further confirmed in the recent empirical work of James Bessen & Michael Meurer, *Patent Failure: How Judges, Lawyers, and Bureaucrats Put Innovators at Risk* (2008).

Federal Circuit (and CCPA) decisions have made patents easier to obtain and assert, more powerful, and more difficult to contest. This creates an especially costly and risky environment for innovators in IT. The extreme complexity and interdependent character of IT products and services is a source of massive potential liability – an added incentive for those whose business model is based on ‘being infringed.’

As a result of the proliferation of tens of thousands of questionable patents in IT, the system has taken on an opacity that is extremely costly and risky to navigate. The value of patents in IT is much less than in pharmaceuticals and other chemicals, where boundaries are well-defined and there is often a direct equivalence between the value of a product like a drug and the corresponding patent. An IT product may have hundreds or even thousands of patented functions or components, buried within thousands more that are not patented. However, the costs of clearance – identifying the relevant patents, evaluating their validity and scope, assessing the potential for infringement, and designing around the patents – are prohibitive for even the largest companies.<sup>20</sup>

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<sup>20</sup> “[T]here are too many patents to be able to even locate which ones are problematic. I used to say only IBM does clearance searches... but IBM tells me even they don’t do clearance searches anymore.” *See Competition, Economic, and Business Perspectives on Substantive Patent Law Issues: Non-Obviousness and Other Patentability Criteria: Hearing Before the*

While these consequences can be traced back to a number of decisions, ultimately they are products of the Federal Circuit's view on how the patent system functions – or should function. For example, Judge Rich wrote as follows:

Why must an invention be a commercially hot number to be patentable? If it is a total dud, how is the public injured by a patent on it? A monopoly on something nobody wants is pretty much of a nullity. That is one of the beauties of the patent system. The reward is measured automatically by the popularity of the contribution.<sup>21</sup>

This observation assumes that low-quality patents have no impact and that knowledge about patents flows unimpeded by time, space, or bureaucratic cycles. It has become painfully evident, however, that low-quality patents can have an impact when patent-protected trivial technology is inadvertently incorporated in complex products and systems.

Additionally, Judge Rich's assumption of no harm allows a low standard of nonobviousness in case law:

A person of ordinary skill in the art is also presumed to be one who thinks along the line of conventional wisdom in the art and is not one who undertakes to innovate, whether by patent, and

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*Federal Trade Commission* 81 (Oct. 30, 2002) (statement of Robert Barr, Worldwide Patent Counsel, Cisco Systems) at <http://www.ftc.gov/opp/intellect/021030trans.pdf>.

<sup>21</sup> Giles S. Rich, *Principles of Patentability*, 28 Geo. Wash. L. Rev. 393 (1960), reprinted in John Witherspoon, ed., *Non-obviousness: The Ultimate Condition of Patentability*, at 2:8 (1980).

often expensive, systematic research or by extraordinary insights, it makes no difference which.

*Standard Oil Co. v. American Cyanamid Co.*, 774 F.2d 448, 454 (Fed. Cir. 1985).

This low standard for the “person having ordinary skill in the art” in turn raises the volume of trivial patents and enshrouds the patent landscape. There are more patents to be tripped over, and the sheer number makes them harder to see. *Kingsdown Medical Consultants v. Hollister* compounds the problem further by giving patent applicants license to track and ambush independent invention:

[T]here is nothing improper, illegal or inequitable in filing a patent application for the purpose of obtaining a right to exclude a known competitor’s product from the market; nor is it in any manner improper to amend or insert claims intended to cover a competitor’s product the applicant’s attorney has learned about during the prosecution of a patent application.

863 F.2d 867, 874 (Fed. Cir. 1988).

*Kingsdown* invites patent holders to track and ambush the development of IT standards, and so to hold entire industry segments hostage. Further, group efforts to restrain standards participants from doing so are construed in favor of the patentee. *Rambus, Inc. v. Infineon Techs.*, 318 F.3d 1081, 1100-01 (Fed. Cir. 2003).

Being “responsive to the needs of the modern world” requires understanding the larger consequences of these judicial decisions, including the business practices that may constrain, inhibit, or block innovation. More specifically, it means understanding that the standard for innovation today is not set by artisans but by the most talented and creative individuals and companies in the world in competition with each other. In a professional field like software, millions are innovating simultaneously, and if patenting standards are low, inadvertent infringement will be widespread.

In a 2002 keynote address on patent reform, now Chief Judge Michel described institutional limitations confronting patent reform. In calling for a reform process that was “adaptable, changing, adjustable, subject to constant review,” he observed, “we just keep replicating the old results based on the old precedents, whether they have kept pace with changes in business, changes in technology, or changes of a different sort.”<sup>22</sup> Judge Michel also observed, as did Judge Rich, the very real cognitive and public choice limitations of Congress.<sup>23</sup> And although chartered to develop policy for the Executive branch, the Patent and Trademark Office is also limited, most

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<sup>22</sup> Hon. Paul R. Michel, Keynote Presentation at Berkeley Center for Law & Technology Patent System Reform Conference, at ¶ 10 (May 1, 2002) *transcription published in* Internet Patent News Service (Greg Aharonian, ed.) July 31, 2002.

<sup>23</sup> *Id.* ¶ 11.

significantly by the fact that it operates exclusively at the front end of the system. The PTO knows nothing about what happens when patents go out into the world. It collects no data and does no economic analysis of how patent practice affects business and competition in different sectors.

Thus, for the near term, the Federal Circuit and the Supreme Court will likely continue to make the decisions that determine how patents will enhance or inhibit innovation. The Federal Circuit must assume intellectual leadership, first with respect to the problem of eligible subject matter, but also in ensuring that jurisprudence evolves within a coherent empirically grounded institutional framework. This means jettisoning the baggage of *State Street* and its imposition of the regulatory demands of the patent system on vast sectors of the economy.

**B. Algorithms and business methods represent two distinct frontiers between patentable subject matter and unpatentable ideas, and *State Street* unhelpfully confuses distinctions between these different frontiers.**

*Benson*, *Flook*, and *Diehr* remain the authoritative framework for addressing limitations on abstract ideas in information technology. This trilogy views the problem from one perspective – that of mathematical algorithms. Yet, algorithms and business methods are two distinctly different faces of abstract ideas, and the case before the Court involves a business method. (Indeed, algorithms and business methods are not the only

frontiers of abstraction. Diagnostic information, presented in *LabCorp v. Metabolite*, is a third;<sup>24</sup> the line between basic research and patentable research tools is yet another.<sup>25</sup>)

In some cases, *e.g.*, *Maucorps*,<sup>26</sup> a business methodology may be based on an algorithm, or a simple business process may be implemented in unspecified software as a program feature, such as the infamous one-click patent.<sup>27</sup> Unfortunately, *State Street* effectively collapses the eligibility treatment of algorithms and business methods into one by subjecting them to the same meaningless test – the “useful, concrete, and tangible result” test. When revisiting *State Street*, the Court should recognize that of the limits of abstract subject matter are context-dependent and cannot be subjected to identical analysis.

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<sup>24</sup> *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 548 U.S. 124 (2006) (dismissed as improvidently granted).

<sup>25</sup> The latter is in fact concerned with utility and may well be the source of the Federal Circuit’s misapplication of the utility standard to *Benson*.

<sup>26</sup> *In re Maucorps*, 609 F.2d 481 (C.C.P.A. 1979); *see also In re Meyer*, 688 F.2d 789 (C.C.P.A. 1982).

<sup>27</sup> U.S. Patent No. 5,960,411 (issued Sept. 28, 1999) (litigated in *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343 (Fed. Cir. 2001)).

**C. *Diehr* only addresses physical processes, unlike the case at hand, and in fact exemplifies an opposite approach to patentability than that employed in *Flook*.**

Limited as it was to physical processes, *Diehr* does not speak directly to the case at hand. *Diehr* approached patentability with a top-down analysis, while *Flook* approached patentability with a bottom-up analysis. As *Diehr* shows, claims may be directed to a multi-element invention as a whole, that is, from the top down. *Diehr* had to proceed top-down inasmuch as there is nothing novel about the well-known Arrhenius equation at issue in the case, thus making the patent a combination of apparently known elements. But *Diehr* explicitly reserves judgment as to novelty or nonobviousness:

In this case, it may later be determined that the respondents' process is not deserving of patent protection because it fails to satisfy the statutory conditions of novelty under § 102 or nonobviousness under § 103. A rejection on either of these grounds does not affect the determination that respondents' claims recited subject matter which was eligible for patent protection under § 101.

450 U.S. at 191.

By contrast, *Flook* views the claimed invention from bottom-up as a novel mathematical algorithm. The post-solution activity is seen as too trivial to consider as an additional element, so *Flook* does not

see the algorithm as an element of a combination that might be viewed top-down.<sup>28</sup>

Although the *Benson*, *Flook* and *Diehr* trilogy focuses on algorithms, including the role of algorithms in traditional physical processes, the trilogy does not confront the scope and complexity of today's software programs. These programs typically consist of large numbers of algorithms connected by other algorithms. They perform functions at multiple levels of abstraction, ranging from specific calculations all the way up to implementations of broadly described business methods that are not tied to any particular technological implementation.

Business methods *per se* fall outside of the technological arts, and patents on pure business methods preempt all specific technological implementations. Thus, such patents disfavor investments in technological innovation in favor of strategic brainstorming and creative lawyering. As the nation's largest user of the patent system phrased the problem in comments to the USPTO: "with the advent of business method patenting it is possible to obtain exclusive rights over a general business model, which

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<sup>28</sup> Justice Stewart's dissent in *Flook* anticipated *Diehr*'s express view that consideration of novelty or nonobviousness should be deferred. *Compare Flook*, 437 U.S. at 600 (Stewart, J., dissenting) *with Diehr*, 450 U.S. at 199-200.

can include ALL solutions to a business problem, simply by articulating the problem.”<sup>29</sup>

Most business methods are systems of component steps that invite top-down examination. In *Diehr* the system was an indisputably patentable physical process, and *Diehr* only says that such processes may include an unpatentable element. Thus, *State Street*’s reliance on *Diehr* is misplaced. *State Street* deals directly with the abstract idea boundary at system level (“invention as a whole”), and so should have been grounded on a proper interpretation of *Benson* and *Flook*, rather than the narrow holding in *Diehr*.

**D. *State Street* cannot survive, having so muddled the law of subject matter.**

*State Street* obliterates the boundaries between technology and business, law, teaching, finance, and other liberal professions not formerly subject to the patent system. It subjects virtually all human enterprise – business methods, algorithms, and more – to a general law of novelty without the consent or participation of those affected.

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<sup>29</sup> Comments of International Business Machines Corp. on the International Efforts to Harmonize the Substantive Elements of Patent Law (responding to USPTO Request for Comments on the International Effort to Harmonize the Substantive Requirements of Patent Law, 66 Fed. Reg. 13,409 (March 19, 2001)) available at <http://www.uspto.gov/web/offices/dcom/olia/harmonization/TAB42.pdf>.

*State Street* has been embraced by the patent bar as the ultimate mainstreaming of patent law. Under the influence of this constituency, the U.S. Government subsequently advocated business method patents as “best practice” and demanded that other nations recognize patents on all areas of human activity, not just technology.<sup>30</sup> While this extraordinary campaign was withdrawn in the face of international opposition, *State Street*’s “pioneer clarification” inaugurated in domestic law new property rights beyond the long-established perimeter of patent system, making it impossible for Congress to react without the risk of budget-busting liability.

In contrast to business methods, algorithms are often primary elements – in the words of *Benson*, basic tools. 409 U.S. at 67. These basic tools actually become embedded in software products and services. They are replicated, used, and reused wherever and whenever the products are used. Vast numbers of interconnected and overlapping algorithms make identification and evaluation of algorithm-specific patent information costly and impractical. The potential for liability runs both deep and wide as

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<sup>30</sup> U.S. officials unsuccessfully advocated this position in international harmonization talks on patentable subject matter, to the extent of threatening to withdraw from negotiations. See World Intell. Prop. Org., Report of the Seventh Session of the Standing Committee on the Law of Patents ¶¶ 159-173 (2002), available at [http://www.wipo.org/scp/en/documents/session\\_7/pdf/scp7\\_8.pdf](http://www.wipo.org/scp/en/documents/session_7/pdf/scp7_8.pdf) (providing official account).

common software pervades the economy. The cycles, costs, and assumptions of the patent system are an uneasy fit with the cycles of software development, the otherwise low barriers to entry, and the need to make thousands of algorithms work in perfect concert with thousands of other algorithms. Yet *State Street* heedlessly conflated both business methods and algorithms as a practical and legal matter, subjecting both to the same meaningless standard. For this reason, it cannot survive.

### CONCLUSION

The explosion of patents on abstract subject matter has created a systemic crisis. Intensive portfolio patenting in information technology and attendant cross-licensing practices create a business environment far removed from the patent-by-patent analysis of conventional patent jurisprudence.<sup>31</sup> Current patent policy debates illustrate unambiguously that the system favors some sectors over others,<sup>32</sup> and new research shows that patents on abstract subject matter, especially business methods, perform

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<sup>31</sup> See generally R. Polk Wagner & Gideon Parchomovsky, *Patent Portfolios*, 154 U. Pa. L. Rev. 1 (2005); see also Bronwyn H. Hall & Rosemarie H. Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the US Semiconductor Industry, 1979-95*, 32 Rand J. of Econ. 101 (2001) (conducting an in-depth industry-specific analysis).

<sup>32</sup> See *supra* note 19.

poorly as “property.”<sup>33</sup> Both problems erode public confidence in the IP system, leading toward a crisis of credibility. The roots of this crisis are found in *State Street*’s departure from *Benson* and *Flook*.

By departing from *Benson* and *Flook* and replacing the intuitively understood business method exception with a meaningless test, *State Street* has greatly confused the distinction between patentable subject matter and abstract ideas. Its distorted view of Congressional intent has contributed to a crisis of credibility in intellectual property law. It has painted the patent system in unfavorable light, as manipulated by insiders, catering to institutional and professional self-interest, and preempting the prerogatives of Congress. Any reasoned progress toward managing patents on abstract subject matter must begin with the repudiation of *State Street* and *AT&T*.

Analysis of patentable subject matter should be responsive to the “needs of the modern world,” but this analysis should proceed from a deeper understanding of costs and risks as well as benefits. It should proceed free of preconceptions that have set the tone for a jurisprudence that has favored patent holders to an extent that imposes disproportionate burdens on the IT sector, leading to an unprecedented inter-industry split in perspective and paralyzing efforts for patent reform.

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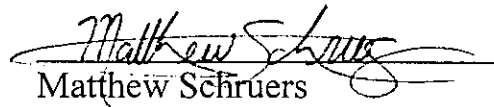
<sup>33</sup> See James Bessen & Michael Meurer, *Patent Failure: How Judges, Lawyers, and Bureaucrats Put Innovators at Risk* 191-93 & tb1.9.1 (2008).

If the Court is to do justice to the needs of the modern world and the goals of the patent system, it should make its institutional needs known – as its members have done in the debate over reform and other fora. The adversarial process is a limitation of the judicial system in that it forces the Court to decide between the merits of two positions. In patent appeals, this is often an innovator confronting a federal bureaucracy or an infringer, neither of whom are interested in expounding upon broader policy implications. The result of these disputes, however affect the entire economy at many stages and under many different conditions. National innovation policy is too important to be forged merely upon the preconceptions of lawyers.

While the Court has moved aggressively in *Comiskey* to limit patents on abstract business methods, that is only one aspect of the subject matter issue. Repudiating *State Street* will help disentangle the confusion between two different dimensions of abstraction. This will resurrect the plain language of *Benson* and *Flook* and give the Court an uncluttered slate on which the continuing challenges of abstract subject matter can be addressed.

For the foregoing reasons, the Board's conclusions should be affirmed.

Respectfully submitted,



Matthew Schruers

*(counsel of record)*

COMPUTER & COMMUNICATIONS  
INDUSTRY ASSOCIATION (CCIA)  
900 Seventeenth Street, 11<sup>th</sup> Floor  
Washington, D.C. 20006  
(202) 783-0070

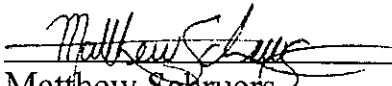
April 7, 2008

*Counsel for Amicus Curiae*

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This brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B) and (C) and Federal Circuit Rule 32(b). It is proportionally spaced, has a typeface of 14 points or more, and contains 6,892 words.

Dated: Washington, District of Columbia

  
Matthew Schruers  
COMPUTER & COMMUNICATIONS  
INDUSTRY ASSOCIATION (CCIA)  
900 Seventeenth Street, 11<sup>th</sup> Floor  
Washington, D.C. 20006  
(202) 783-0070

April 7, 2008

*Counsel for Amicus Curiae*

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I hereby certify that on April 7, 2008, I caused two (2) copies of the foregoing **BRIEF *AMICUS CURIAE* OF COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION** to be served via the overnight service of Federal Express on:

DAVID C. HANSON  
The Webb Law Firm  
436 Seventh Avenue  
Pittsburgh, PA 15219

*Counsel for Appellants  
Bilski and Warsaw*

DENISE W. DEFRANCO  
Finnegan, Henderson, Farabow  
55 Cambridge Parkway, 7th Floor  
Cambridge, MA 02142

*Counsel for Amicus AIPLA*

STEPHEN WALSH  
U.S. Patent & Trademark Office  
P.O. Box 15667  
Arlington, VA 22215

*Counsel for Appellee Jon W. Dudas*

SCOTT R. MCINTOSH  
Department of Justice  
950 Pennsylvania Avenue, N.W.,  
Room 7259  
Washington, DC 20530-0001

*Counsel for Appellee Jon W. Dudas*

PROF. KEVIN EMERSON COLLINS  
Indiana Uni. School of Law-Bloomg,  
211 South Indiana Avenue  
Bloomington, IN 47405

*Amicus curiae*

CHRISTOPHER A. HANSEN  
American Civil Liberties Union  
125 Broad Street, 18th Floor  
New York, NY 10004

*Counsel for Amicus ACLU*

CHARLES R. MACEDO  
Amster Rothstein & Ebenstein LLP  
Park Avenue, New York, NY 10016

*Counsel for Amicus Reserve  
Management Corporation, PCT  
Capital LLC, Rearden Capital Corp.,  
and Sales Optimization  
Group*

JACK E. HAKEN  
Philips Intellectual Property  
345 Scarborough Road  
Briarcliff Manor, NY 10510-8001

*Counsel for Amicus Knoinlijke Philips  
Electronics N.V.*

MICHAEL J. SWOPE  
Woodcock Washburn, LLP  
999 Third Avenue, Suite 3600  
Seattle, WA 98104

*Counsel for Amicus Washington State  
Patent Law Association*

  
Matthew Schruers