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BY MARK SCARSI AND MIGUEL RUIZ[1]

From 1994 until 2005, the lineup of the Supreme Court remained unchanged, the longest such streak in history. Now with the Court about to add its third member in the last five years, we may start to see some shifts in the way the Court views intellectual property. At a minimum, replacing Justice David Souter, a noted technophobe, with Justice Sonia Sotomayor, an IP litigator before taking the bench, will certainly raise the Court's comfort level with the complex issues surrounding the protection of intellectual property in the modern era. And it appears that we will not have to wait long to gauge Sotomayor's impact. This fall, the Court will address the issue of "patentable subject matter" in a decision that should lay to rest the question of how the patent system protects software related inventions.

The combination of patent law and computer software has never been an easy marriage. Over the years, courts have struggled with the application of both copyright and patent law to protect software expression and invention. While the Federal Circuit has now held that software, standing alone, can be patentable, the Supreme Court has never squarely dealt with the issue. The Court will have this opportunity in the case of Bilski v. Doll. In deciding, In re Bilski, 545 F.3d 943 (Fed. Cir. 2008), the Federal Circuit set out a "machine-or-transformation" test for determining when subject matter is patentable. Under this test, subject matter, such as software, has to be tied to a special purpose machine or physical transformation in order to qualify for patent protection. This case marked a departure from prior Federal Circuit case law that held that software could be patentable on a disk – no special purpose machine required. If the new Bilski test becomes the law of the land, a number of current software patents could be invalid.

The Supreme Court has decided several patent cases in the last few years, striking down several Federal Circuit tests. In most of these decisions, the Supreme Court cut back on the Federal Circuit's expansion of patent rights. Bilski, however, marked a departure for the Federal Circuit. Instead of expanding patent rights, the Federal Circuit actually relied on Supreme Court precedent to scale back its own test for "patentable subject matter." Given that the Federal Circuit grounded Bilski in older Supreme Court precedent, one might expect the Court seems to affirm most, if not all, of the lower court's decision. On the other hand, given Justice Sotomayor's potential views on software patentability, the Court could very well move in a different direction, possibly adopting the Federal Circuit's prior expansive view which allowed patents for software without a tie to a special purpose computer or physical transformation.

PATENTABLE SUBJECT MATTER

35 U.S.C. section 101 defines patentable subject matter as "any new and useful process, machine, manufacture, or composition of matter." Previously, the Supreme Court ruled that section 101 is to be read broadly and "that Congress intended statutory subject matter to 'include anything under the sun that is made by man.'"[2] While this definition would seem broad enough to include software, the Court initially took a narrower view. In Diamond v. Diehr, 450 U.S. 175 (1981), the Supreme Court allowed a patent on a process that used a computer. Justice Stevens, however, wrote a strongly worded dissent, arguing that software is a mere algorithm and not patentable subject matter. Starting in 1994, the Federal Circuit's *en banc* decision In re Alappat, 33 F.3d 1526 (Fed. Cir. 1994), began to expand on Diehr, finding an anti-aliasing program on a computer patentable subject matter. The Alappat court reasoned that if a process using a computer was patentable, then a machine using a computer program would also be patentable.

After Alappat, it was clear that software could receive some patent protection, although no court had held that software could be patented independently of a computer. The next year, the Federal Circuit jumped this hurdle in the case of In re Beauregard, 53 F.3d 1583 (Fed. Cir. 1995). The patent at issue in Beauregard contained claims to a computer program on a disk without additional limitations for a computer. On appeal, the PTO agreed that a computer program in a tangible medium was patentable subject matter, and the Federal Circuit dismissed for a lack of case or controversy. The Federal Circuit eventually affirmed this rationale explicitly in Eolas Tech v. Microsoft, 399 F.3d 1325 (2005), stating that "without question, software code alone qualifies as an invention eligible for patenting."[3]

IN RE BILSKI

So if the law appeared settled regarding software patentability, how could Bilski, a case involving business method patents, change the mix? Before Bilski, the general test for "patentable subject matter" was whether the claimed invention "produced a useful, concrete, and tangible result."[4] Such a broad test led to the proliferation of what became know as "business method patents" (i.e. patents on novel methods of doing business). The patent at issue in Bilski involved a method of hedging risk in commodities trading. The PTO examiner and the Board of Patent Appeals and Interferences (BPAI) both rejected the claims, but for different reasons. The Federal Circuit, in an *en banc* decision, provided some guidance, rejecting the "useful, concrete, and tangible result" for the "machine-or-transformation" test. This test is a return to earlier Supreme Court precedents such as Diehr, Gottschalk v. Benson, 409 U.S. 63 (1972), and Parker v. Flook, 437 U.S. 584 (1978). As laid out by Bilski, the "machine-or-transformation" test requires that "A claimed process is surely patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing."

Strictly applying the Federal Cicuit's new Bilski test to software patents raises serious issues of validity. Software patent claims modeled after Diehr and Alappat and tied to a particular machine would seem to satisfy the first prong. However, Beauregard and Eolas type claims would seem unlikely to pass muster as they are not tied to a particular machine and may not transform an article from one state to another. In fact, IBM recently had a database patent rejected by the BPAI citing Bilski as its reason for denial.[5]

HOW WOULD THE SUPREME COURT APPLY BILSKI TO SOFTWARE?

Predicting how the Court will decide Bilski is a difficult task given its recent history of patent jurisprudence. In recent

years, the Supreme Court, has handled several patent cases, each time rejecting the Federal Circuit's attempts to broaden the patent system. For example, in KSR v. Teleflex, 550 U.S. 398 (2007), the Court struck down the Federal Circuit's "teaching-suggestion-motivation" test for determining obviousness. With this background, one could imagine the Court striking down the "machine-or-transformation" test in lieu of a test that made clearer a delineation of what qualified for patent protection and what does not. This is particularly likely in light of some of the justices' comments in Labcorp. v. Metabolite Labs., Inc., 548 U.S. 124 (2006). While the Court in Labcorp had an opportunity to deal head on with the issue of "patentable subject matter," the Court ultimately dismissed the case finding that certiori was improvidently granted. Justices Breyer and Stevens filed a dissent, noting that it was important for the Court to clarify the law of patentable subject matter.

The recent case of eBay, Inc. v. MercExchange, LLC, 547 U.S. 388 (2006), also sheds some light on the potential inclinations of the Court. In a concurring opinion, Justices Stevens, Souter and Breyer described business method patents as often vague and likely to be invalid, while in oral argument Justice Kennedy complained that "a business process patent is... difficult to define and could be... very restrictive." This decision would seem to indicate that the Court would like to define "patentable subject matter" narrowly, perhaps more narrowly, than the Federal Circuit's new Bilski test.

On the other hand, the majority opinion in J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc., 534 U. S. 124 (2001), written by Justice Thomas and joined by Justices Scalia, Kennedy, Souter and Ginsburg, emphasized that section 101 should be interpreted broadly. The Court recognized that Congress need not "expressly authorize protection for new patentable subject matter," providing some evidence that these justices would support a broad interpretation of section 101.

While conventional wisdom might predict that the Supreme Court would affirm the Federal Circuit's opinion in light of the fact that the Federal Circuit scaled back its own precedent to adopt a test more in line with Supreme Court precedent, the markedly different views of the justices make the outcome hard to predict, as evidenced by Microsoft Corp. v. AT&T Corp., 550 U.S. 437 (2007).

MICROSOFT

Microsoft is perhaps the best indicator of the justices' attitudes toward software patentability, because the Court explicitly discussed this issue at oral argument and in the concurring opinion. Seven of the justices who will be on the Court next year heard the case, which involved an AT&T patent for encoding and compressing speech. The parties stipulated that Microsoft was liable for domestic infringement of the patent but had not resolved the issue of whether Microsoft was liable for facilitating extraterritorial infringement under § 271(f), which creates liability when a party exports a patented invention's components for combination abroad. The question for the Court, therefore, was whether Microsoft's CDs, which contained the code that became infringing when installed on a computer, were components when they were not used to directly install the software on the foreign computers. The Court held that they were not components because they were not ever used in direct conjunction with the allegedly infringing machines and, therefore, that Microsoft did not infringe.

In the concurring opinion, Justices Alito, Thomas and Breyer went even further, arguing that, even if the CDs had been used to directly install the software, the CDs should not be considered components because components must be physical constituent parts, and, given that the CDs were not physically altered by the installation process or required for the computers to function on an ongoing basis, they could not meet that definition.[6]

Each of the opinions handed down in Microsoft is somewhat informative of the Court's view on software patentability. The concurring opinion is the most informative as it contains the following:

> "An inventor can patent a machine that carries out a certain process, and a computer may constitute such a machine when it executes commands–given to it by the code–that allow it to carry out that process… [T]he computer remains an infringing device after the installation process because…the code remains on the hard drive."[7]

Justices Alito, Thomas and Breyer clearly indicated that they believe that patents should be available for software tied to a computer. Justice Scalia indicated a similar belief in oral argument when he said that code cannot be patented in the abstract, but that "there needs to be a device," implying that software is patentable when combined with a device. Interestingly, this notion is broader that the Federal Circuit's Bilski test, which requires a special purpose machine and is not satisfied by software running on a general purpose computer.

The majority opinion implies a similar understanding of patentable subject matter, as it never suggests that AT&T's patent may be invalid. In part, it was not at issue, because the parties stipulated that Microsoft had infringed AT&T's patent domestically, but that fact did not stop multiple justices from asking about the patentability of software at oral argument. At one point, Justice Breyer asked the counsel for the Solicitor General, "If I were writing something, should I say on the assumption that it's patentable? Since the issue isn't raised?" Counsel responded, "No. I think, I think the reason that's not relevant here is that the patented invention in this case is not software. It's computer that has software loaded into it. And the components of a patented invention do not themselves have to be patented."

Even Justice Stevens' dissent contains some indications that he has become friendlier to software patents. His dissent did not dispute the validity of the patent, but, more importantly, it made a distinction between machine code that runs on a computer and the source code or other similar blueprints which are more abstract: "[Machine code] is more like a roller that causes a player piano to produce sound than sheet music that tells a pianist what to do." By analogizing machine code to a patentable roller, as opposed to unpatentable sheet music, Justice Stevens may be indicating that his views have changed since Diehr.

From Microsoft, it appears that all Justices would seem to support Alappat and Diehr claims. Justice Scalia expressed his support of such patentabilty during oral argument while Justices Alito, Thomas, and Breyer made their support explicit in the concurring opinion. As expressed in Diehr, Justice Stevens' opinion was that software was not patentable; however, his dissent in Microsoft shows that Justice Stevens seems willing to recognize software patentability in limited circumstances.

However, Justice Breyer, as shown by eBay and LabCorp, appears to express grave doubts about business method patents,

an opinion seemingly shared by Justices Roberts and Stevens by their actions in the eBay case. On the other hand, the J.E.M. Ag Supply majority, Justices Thomas, Scalia, Kennedy, and Ginsberg, all seemed to support a broader sense of patentability under Section 101. They would all certainly support patents directed to software running on a computer, but may stop short of Beauregard and Eolas claims.

While Justice Sotomayor has not heard any relevant patent cases on the bench, she did have a prior life as an intellectual property litigator, specializing in trademark law . This intellectual property background should provide her with a more permissive view of intangible property rights and might make her more comfortable with patents directed to software. Her suspected expansive views on the proprietary of intangible rights may be able to persuade the J.E.M. Ag Supply majority to embrace Beauregard claims.

CONCLUSION

With a change coming on the bench, the Supreme Court's term appears to also promise change. Given the background of the justices, it seems clear that at least some software patents with claims tied to Alappat and Diehr will still be patentable. However, Beauregard claims, once thought to be dead in the water, may have new life based on Justice Sotomayor's presence. Patent owners should be aware of this potential change and should watch how the Court handles Bilski as a signal to potential changes in patent law. IPT

ENDNOTES

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2. Diamond v. Chakrabarty, 447 U.S. 303, 309 (1980) (citing S. Rep. No. 82-1979 at 4 (1952); H.R. Rep No. 82-1923 at 6 (1952)).
3. Id. at 1369.
4. State Street Bank & Trust Co. v. Signature Financial Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998).
5. Ex Parte Koo, BPIA Appeal 2008-1344, App. No. 10/377,866 (Nov. 26, 2008).
6. Id. at 460-61 (Alito, J., concurring).
7. Id. at 461 (Alito, J., concurring).