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What's happened to software inventions? Five unexpected facts that will change how you see patent eligibility

The third quarter of 2016 was a busy one for the Federal Circuit when it comes to subject matter eligibility – with Federal Circuit issuing more opinions addressing *Alice* in 3Q2016 than it had in the preceding three calendar quarters combined. After such a flurry of activity, it seems reasonable to wonder what remains of what we thought we knew about subject matter eligibility, especially since there seems to be some controversy even within the Federal Circuit itself.[1] However, after looking at the cases the Federal Circuit has decided since *Alice*, I concluded that there are at least five things we now know about subject matter eligibility, starting with…

5. The name of the game is no longer the claim.

Judge Giles Rich (about whom more later) famously stated that "the name of the game is the claim." While the accuracy of that aphorism may have been arguable in the past, it has been effectively abjured in the Federal Circuit's subject matter eligibility jurisprudence. Regardless of the ultimate conclusion, the Federal Circuit has turned time and again to the remainder of the specification when evaluating eligibility.[2] Of course, that's not to say that the claims are completely irrelevant to the subject matter eligibility determination. The Federal Circuit still at least ostensibly considers claim language when applying § 101,[3] and their recent decisions have illustrated that…

4. It's better for a claim to be vague than to describe something that sounds familiar or like a business method.

What do you get for describing an invention as one which bases the management of records on rules rather than one which uses rules in patient record management? The answer is ten times more likely to get a patent, since "policy, rule-based management of records, files and documents" is included in class 707 (database and file

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management or data structures) while "patient record management" is included in class 705 (financial, business practice, management, or cost/price determination), and as of writing, the allowance rates for those classes are, respectively, 42.1% and 4.7%.[4] There's a similar difference between describing an invention as a way for organizing data, and as a way of organizing a particular type of data that a judge is likely to be familiar with – i.e., pictures. The former type of description is arguably covered by the holding that a model for organizing data in a database isn't an abstract idea,[5] while the latter type of description would result in an invention being deemed ineligible because organizing a specific type of data which is likely to be familiar to a judge – i.e., pictures – is an abstract idea.[6] This is a big change from the days when vague claims would have hurt the chances for a patent to be upheld or issued, but that's not the only change that's stemmed from our current subject matter eligibility jurisprudence because…

3. Subject matter eligibility is exorcising the ghost of Judge Rich.

Until the current line of subject matter eligibility cases, the impact of Judge Giles Rich on the patent law was undeniable. He was one of the architects of the 1952 patent act,[7] and authored the decisions which established that patent eligibility hinged on the presence of a "useful, concrete and tangible result"[8] and formally ended the practice of treating business methods as per se unpatentable.[9] However, the current subject matter eligibility cases are directly undoing Judge Rich's legal changes. This is somewhat ironic, since during the oral arguments for *Bilski v. Kappos*, Justice Stevens professed to admire Judge Rich, and asked if he had written anything on what methods should be patentable.[10] Nevertheless, current subject matter eligibility jurisprudence rejects Judge Rich's subject matter eligibility decisions in *State Street*[11] and *Alappat*,[12] and the necessity of identifying an "inventive concept" to establish a claim's eligibility has reintroduced an amorphous "invention" requirement that Judge Rich had specifically criticized and that the 1952 act had sought to eliminate.[13] You might imagine that the courts wouldn't be undoing the life's work of a hugely

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influential and well-respected figure in patent law unless there was a good reason, but you'd be wrong because …

2. There is no reason for what we're doing.

In *Alice*, the Supreme Court explained that the reason for treating certain subject matter as ineligible is to avoid pre-emption.[14] However, current subject matter eligibility jurisprudence is clearly not limited to only invalidating claims where necessary to avoid preemption.[15] Some opinions have also hinted at policy-based reasons for aggressively policing subject matter eligibility – e.g., that certain classes of patents, like those claiming the use of a computer to perform well-known business methods, don't protect real innovation and therefore should be eliminated[16] – which may be closer to the truth for why the law has developed as it has. However, other rules – such as the rule that simply performing a known business process in a particular commonplace technical environment is obvious[17] – were already in place before we started focusing on eligibility, and could have been used to eliminate non-innovative patents without having to create an entirely new body subject matter eligibility law. Of course, it's possible that some opinions' inclusion of dismissive references to the "draftsman's art,"[18] or warning against the "*in terrorem* power of patent trolls"[19] may reflect a distrust of patent attorneys and a desire to protect innovators from the cost and difficulty of dealing with them. However, if we're trying to do is protect innovators, aggressively policing subject matter eligibility makes no sense because …

1. We've been down this road before, and the end result will be to transfer resources to attorneys while making patents more opaque.

This isn't the first time courts have tried to issue new rules to rein in what they see as an out of control patent system. Claim construction is treated as a matter of law because the Federal Circuit saw juries as being unpredictable and wanted to minimize their role in patent cases as a matter of policy.[20] The result was to

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increase expense to patent litigants by making claim construction into a separate trial within a trial in virtually all cases,[21] and to make patents more difficult/expensive to prepare and interpret by spawning rules such as that saying what the invention is or what features are important could result in narrow protection.[22] Indeed, this isn't even the first time aggressive policing of subject matter eligibility has been used to try and limit the patenting of software. In the 1960s, the patent office strongly opposed the patenting of software, and issued guidance that computer programming was unpatentable.[23] The result was that the nascent software industry didn't stop trying to get patents,[24] but instead started describing their patents as being directed to something other than software.[25]

Is there any evidence that the current aggressive policing of subject matter eligibility will have similar effects? Well, we already know that, like treating claim construction as a matter of law, it's generated a new kind of trial within a trial – the subject matter eligibility determination – which patent litigants have to go through and pay their attorneys to handle.[26] We also know that, aggressive policing of subject matter eligibility hasn't stopped the number of patent application filings from increasing year over year for each of the past five years,[27] but that it has resulted in recommendations to omit features – like a high-level summary or a discussion of economic benefits – that could otherwise make patents easier to read and understand.[28] While we can't be certain that history will repeat itself, if you think that policing subject matter eligibility will necessarily make the patent system easier, cheaper, or more efficient, or even that policing subject matter eligibility makes sense when evaluated on its own terms, may want to consider this history as a reason to change how they think of subject matter eligibility.

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[1] *Compare Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709, FN2 (Fed. Cir. 2014) (Mayer, J. concurring) ("Section 101's vital role – a role that sections 102 and 112 'are not equipped to take on' is to cure systemic constitutional infirmities by eradicating those patents which stifle technological progress and unjustifiably impede the

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flow of ideas and information") *with Bascom Global Internet Services, Inc. v. AT&T Mobility LLC*, 827 F.3d 1341, 1353 (Fed. Cir. 2016) (Newman, J. concurring) ("Although there is concern that broad claims may preempt development by others of improvements and variants of a broad invention, and limiting patentable scope may restrict preemption, it is not the policy of patent law to permit only narrow claims when an inventor has made a new, broad invention. When an invention is new and unobvious and described and enabled, commensurate patent rights are not barred on policy grounds.").

[2] *E.g.*, *Affinity Labs of Texas, LLC v. DIRECTV, LLC*, — F.3d —, 2016 WL 5335501 (Fed. Cir. Sept. 23, 2016) at *5 ("Nothing in the flow chart or the text of the specification provides any details regarding the manner in which the invention accomplishes the recited functions"); *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1339 (Fed. Cir. 2016) ("The specification's disparagement of conventional data structures, combined with language describing the 'present invention' as including the features that make up a self-referential table, confirm that our characterization of the 'invention' for purposes of the § 101 analysis has not been deceived by the 'draftsman's art.'").

[3] *E.g.*, *Content Extraction and Transmission LLC v. Wells Fargo Bank, Nat. Ass'n*, 776 F.3d 1343, 1346 (Fed. Cir. 2014) ("We focus here on whether the claims of the asserted patents fall within the excluded category of abstract ideas.").

[4] USPTO Open Data Portal: Allowance Rate by USPC Class, *available at* https://developer.uspto.gov/visualization/allowance-rate-uspc-class.

[5] *See Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1330, 1339 (Fed. Cir. 2016) ("The '604 and '775 patents are directed to an innovative logical model for a computer database. A logical model is a model of data for a computer database explaining how the various elements of information are related to one another…we find the claims at issue are not directed to an abstract idea.").

[6] *See In re TLI Communications LLC Patent Litigation*, 823 F.3d 607, 609 (Fed. Cir. 2016) ("we agree with the district court that the

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patent-in-suit claims no more than the abstract idea of classifying and storing digital images in an organized manner").

[7] James F. Davis, Judge Giles S. Rich, His Life and Legacy Revisited, *available at* http://www.americanbar.org/content/dam/aba/migrated/intelprop/magazine/LandslideSept09_Davis.authcheckdam.pdf.

[8] *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994).

[9] *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

[10] Bilski v. Kappos, official transcript, at 17:15-19 ("Justice Stevens: I have always admired Judge Rich, who was very active in drafting the '52 amendment. … Has he written anything on this particular issue?")

[11] *In re Ferguson*, 558 F.3d 1359, 1365 (Fed. Cir. 2009) ("[W]e rejected the viability of the 'useful, concrete, and tangible result' language of *State Street Bank & Trust Co. v. Signature Financial Group,* 149 F.3d 1368, 1373 (1998), as a test.")

[12] *EON Corp. IP Holdings LLC v. AT&T Mobility LLC*, 785 F.3d 616, 623 (Fed. Cir. 2015) ("*Alappat* has been superseded by *Bilski,* 561 U.S. at 605–06, 130 S.Ct. 3218, and *Alice Corp. v. CLS Bank Int'l,* ––– U.S. ––––, 134 S.Ct. 2347, 189 L.Ed.2d 296 (2014).").

[13] *See Bascom Global Internet Services, Inc. v. AT&T Mobility LLC*, 827 F.3d 1341, 1353 (Fed. Cir. 2016) (Newman, J. concurring):

An important aspect of Title 35 is that it discarded the judge-made usage of "invention" and "flash of creative genius," and replaced it with the statutory standard of unobviousness. "Nowhere in the entire act is there any reference to a requirement of 'invention' and the drafters did this deliberately in an effort to free the law and lawyers from bondage to that old and meaningless term." Giles S. Rich, *Principles of Patentability*, 28 GEO. WASH. L. REV. 393, 405 (1960).

[14] *Alice Corp. Pty. Ltd. v. CLS Bank Intern.*, 134 S.Ct. 2347, 1254 (2014) ("We have described the concern that drives this exclusionary principle as one of pre-emption.").

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[15] *See, e.g., Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1379 (Fed. Cir. 2015) ("While preemption may signal patent ineligible subject matter, the absence of complete preemption does not demonstrate patent eligibility.").

[16] *E.g., Loyalty Conversion Systems Corporation v. American Airlines Inc.*, 66 F.Supp.3d 829, 845 (E.D.Tx. 2014) (Bryson, J. by designation):

there is a broader point to be made about the particular type of "business method" patents of which the patents in this case are examples. Patents of this sort have the following features in common: (1) they recite methods for performing a commonplace business function—such as currency conversion, hedging, or employing intermediated settlement in a financial transaction—typically by using a computer system or computer components to perform those methods; (2) they are aspirational in nature in that they describe the business function, but do not describe any novel manner of performing that function other than referring to the use of routine operations performed by a specially programed computer; and (3) the recitations referring to the use of a computer do not include any inventive measure that "purport[s] to improve the functioning of the computer itself," *CLS Bank,* 134 S.Ct. at 2359. … The principal flaw in these patents is that they do not contain an "inventive concept" that solves practical problems and ensures that the patent is directed to something "significantly more than" the ineligible abstract idea itself.

[17] *See, e.g., Western Union Co. v. MoneyGram Payment Systems, Inc.*, 626 F.3d 1361, 1369 (Fed. Cir. 2010):

In *Muniauction* [532 F.3d 1318 (Fed. Cir. 2008)], we concluded that conducting previously known methods of bidding through an Internet web browser was obvious because it amounted to no more than applying the use of the Internet to an existing electronic process at a time when doing so was commonplace.

[18] *E.g., Alice Corp. Pty. Ltd. v. CLS Bank Inter.*, 134 S.Ct. 2347, 2359 (2014).

[19] *Commil USA, LLC v. Cisco Systems, Inc.*, 135 S.Ct. 1920, 1932 (2015) (Scalia, J. dissenting).

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[20] *See Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 989 (Fed. Cir. 1995) (Mayer J. concurring in judgment)

[T]oday's action is of a piece with a broader bid afoot to essentially banish juries from patent cases altogether. If it succeeds juries will be relegated, in those few cases where they have any presence at all, to rubber stamps, their verdicts preordained by "legal" and "equitable" determinations that brook only one "reasonable" result.

In re Lockwood, 50 F.3d 966, 990 (Fed. Cir. 1995) (Nies, J. dissenting) ("It is my understanding that the denomination of an issue as one of law represents a policy decision that a judge is more appropriate than a jury to make the decision.").

[21] *See* Laurie Gallun and Victoria Wicken, *Intellectual Property Litigation: A Procedural Primer*, 45 The Advoc. (Texas) 92 (Winder, 2008) at 92:

A critical procedural stage unique to patent litigation is the claim construction hearing. This "trial within a trial" became common practice in the wake of *Markman v. Westview Instruments, Inc.*, 116 S. Ct. 1384 (1996), a landmark decision in which Supreme Court held that the interpretation of patent claims is a matter of law for the trial judge, not the jury, to decide. For this reason, claim construction hearings are typically called "Markman" hearings.

[22] *See, e.g.*, Richard V. Burquijan et al., *Practical Considerations and Strategies in Drafting U.S. Patent Applications*, China IP News, April 2009, *available at* http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=80dcb48 0cab-4dc2-ab03-34eabfca340b (describing techniques to "Avoid Patent Profanity").

[23] Examination of Patent Applications on Computer Programs, 33 Fed. Reg. 15,609, 10 (Oct. 22, 1968) ("The basic principle to be applied is that computer programming per se, whether defined in the form of process or apparatus, shall not be patentable.").

[24] *See* Wild, *Computer Program Protection: The Need to Legislate a Solution*, 54 CORN. L. REV. 586, n.11 (1967-68) quoting *Software Gets a Hardsell Approach*, BUSINESSWEEK, Oct. 21, 1967, at 171:

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The [software] industry is now campaigning to have computer programs included under the patent revisions now before Congress. One of the leaders in the campaign … says such protection is necessary if software companies are to survive in competition with computer manufacturers who include programs in their equipment prices.

[25] *See Gottschalk v. Benson*, 409 U.S. 63, 72 (1972)

Direct attempts to patent programs have been rejected on the ground of nonstatutory subject matter. Indirect attempts to obtain patents and avoid the rejection, by drafting claims as a process, or a machine or components thereof programmed in a given manner, rather than as a program itself, have confused the issue further.

[26] *See Bascom Global Internet Services, Inc. v. AT&T Mobility LLC*, 827 F.3d 1341, 1352 (Fed. Cir. 2016) (Newman, J. concurring)

[I]t has become increasingly apparent, as various factual situations have been brought into Section 101 challenges, that these new litigation opportunities have led to judicial protocols that are time-consuming and usually unnecessary. As this case illustrates, these cumbersome procedures for separate determinations of patent eligibility and patentability have added to the cost and uncertainty of patent-supported commerce, with no balancing benefit.

[27] U.S. Patent Activity, Calendar Years 1790 to the Present.

[28] Michael Loney, *Tips for Drafting Claims Post-Alice* Managing Intellectual Property (Oct. 25, 2014) *available at* http://www.managingip.com/Article/3393845/Tips-for-drafting-claims-post-Alice.html ("He concluded with some post-Alice drafting strategies. These included … avoid summarizing the invention at too high a level; and avoid discussion of non-technical benefits such as economic benefits.").

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