

JAN 22 2014

OFFICE OF THE CLERK

In The
Supreme Court of the United States

ALICE CORPORATION PTY., LTD.,

Petitioner,

v.

CLS BANK INTERNATIONAL, *et al.*,

Respondents.

On Writ Of Certiorari To The
United States Court Of Appeals
For The Federal Circuit

**AMICUS CURIAE BRIEF OF RETAILERS
IN SUPPORT OF NEITHER PARTY**

PETER J. BRANN
(*Counsel of Record*)
DAVID SWETNAM-BURLAND
STACY O. STITHAM
BRANN & ISAACSON
184 Main St., P.O. Box 3070
Lewiston, Maine 04243-3070
(207) 786-3566
pbrann@brannlaw.com

*Attorneys for
Amici Curiae Retailers*

BLANK PAGE

TABLE OF CONTENTS

	Page
TABLE OF AUTHORITIES	ii
INTEREST OF <i>AMICI CURIAE</i>	1
SUMMARY OF ARGUMENT	4
ARGUMENT	6
I. THE COURT SHOULD ADOPT A THRESHOLD TEST THAT COMPUTER- IMPLEMENTATION CANNOT CREATE PATENTABILITY UNDER SECTION 101	6
A. The Court Should Reaffirm That Pat- entability Under Section 101 Is A Threshold Test	6
B. The Court Should Hold That Computer- Implementation Cannot Create Pat- entability	10
II. PRACTICAL CONSIDERATIONS OFTEN PREVENT RETAILERS FROM LITIGATING EVEN WEAK COMPUTER-IMPLEMENTED PATENTS	12
CONCLUSION	24

TABLE OF AUTHORITIES

	Page
CASES	
<i>Aspex Eyewear, Inc. v. Altair Eyewear, Inc.</i> , 818 F. Supp. 2d 348 (D. Mass. 2011)	22
<i>Bilski v. Kappos</i> , 130 S. Ct. 3218 (2010).....	<i>passim</i>
<i>Diamond v. Diehr</i> , 450 U.S. 175 (1981).....	7, 10, 11
<i>Digitech Information Systems, Inc. v. BMW Financial Services NA, LLC</i> , 864 F. Supp. 2d 1289 (M.D. Fla. 2012)	23
<i>Eon-Net LP v. Flagstar Bancorp.</i> , 653 F.3d 1314 (Fed. Cir. 2011).....	22
<i>Glory Licensing LLC v. Toys ‘R’ Us, Inc.</i> , 2011 WL 1870591 (D.N.J. May 16, 2011).....	24
<i>Graff/Ross Holdings LLP v. Fed’l Home Loan Mortg. Corp.</i> , 2010 WL 6274263 (D.D.C. Aug. 27, 2010)	24
<i>Kewanee Oil Co. v. Bicron Corp.</i> , 416 U.S. 470 (1974).....	6
<i>Mayo Collaborative Servs. v. Prometheus Labs., Inc.</i> , 132 S. Ct. 1289 (2012).....	<i>passim</i>
<i>OIP Techs., Inc. v. Amazon.com, Inc.</i> , 2012 WL 3985118 (N.D. Cal. Sep. 11, 2012).....	23
<i>Parker v. Flook</i> , 437 U.S. 584 (1978)	10, 11
<i>SmartGene, Inc. v. Advanced Biological Labs., SA</i> , 852 F. Supp. 2d 42 (D.D.C. 2012)	23

TABLE OF AUTHORITIES – Continued

	Page
<i>Steel Co. v. Citizens for a Better Environment</i> , 523 U.S. 98 (1998).....	8
<i>Ultramercial, Inc. v. Hulu, LLC</i> , 722 F.3d 1335 (Fed. Cir. 2013).....	23
 STATUTES	
35 U.S.C. § 101	<i>passim</i>
35 U.S.C. § 102	8, 9, 17, 20
35 U.S.C. § 103	8, 9, 17, 20
35 U.S.C. § 112.....	8, 9, 17, 20
35 U.S.C. § 271	20
 TREATISES	
Am. Intell. Prop. Ass’n, <i>Report of the Economic Survey</i> (2011).....	16
Colleen Chien, Patently-O, <i>Patent Trolls by the Numbers</i> (Mar. 14, 2013) (available at http:// www.patentlyo.com/patent/2013/03/chien-patent- trolls.html)	15
David L. Schwartz, <i>Courting Specialization: An Empirical Study of Claim Construction Com- paring Patent Litigation Before Federal Dis- trict Courts and the International Trade Commission</i> , 50 Wm. & Mary L. Rev. 1699 (2009).....	20

TABLE OF AUTHORITIES – Continued

	Page
David Swetnam-Burland & Stacy O. Stitham, <i>Patent Law 101: The Threshold Test As Threshing Machine</i> , 21 Tex. Intell. Prop. L.J. 135 (2013).....	7
Erik Hovenkamp, <i>Predatory Patent Litigation</i> (Aug. 5, 2013) (available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2308115).....	14
Executive Office of the President, <i>Patent Assertion and U.S. Innovation</i> (June 2013).....	16
James Bessen & Michael J. Meurer, <i>Patent Failure</i> (2008).....	12, 13
James Bessen & Michael J. Meurer, <i>The Direct Costs from NPE Disputes</i> , Boston Univ. School of Law Working Paper No. 12-34 (June 28, 2012) (available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2091210).....	15
James Bessen, <i>A Generation of Software Patents</i> , 18 B.U.J. Sci. & Tech. L. 241 (2012).....	13, 14
John R. Allison, Emerson H. Tiller & Samantha Zyontz, <i>Patent Litigation and the Internet</i> , 2012 Stan. Tech. L. Rev. 1 (Feb. 14, 2012)	13
John R. Allison, Mark A. Lemley & Joshua Walker, <i>Patent Quality and Settlement Among Repeat Patent Litigants</i> , 99 Geo. L.J. 677 (2011).....	13
Kyle Jensen, Patently-O, <i>Counting Defendants in Patent Litigation</i> (available at http://www.patentlyo.com/patent/2010/10/guest-post-counting-defendants-in-patent-litigation.html)	14

TABLE OF AUTHORITIES – Continued

	Page
<i>Local Patent Rules: Patent Rules Made Easy</i> (available at http://www.localpatentrules.com/)	17
Sara Jeruss, Robin Feldman & Joshua Walker, <i>The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation</i> , Duke Law & Tech. Review (2012)	15
Stjepko Tokic, <i>The Role of Consumers in Deter- ring Settlement Agreements Based on In- valid Patents: the Case of Non-Practicing Entities</i> , 2012 Stan. Tech. L. Rev. 2 (Jan. 9, 2012)	17
Ted L. Field, “ <i>Judicial Hyperactivity</i> ” in <i>the Federal Circuit: an Empirical Study</i> , 46 U.S.F. L. Rev. 721 (2012)	21
U.S. Government Accountability Office, Report to Congressional Committees, <i>Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality</i> , GAO-13-465 (Aug. 2013)	13, 14
 RULES	
D.N.J. Local Pat. R. 3.2A	19
D.N.J. Local Pat. R. 3.3	19
E.D. Tex. Local Pat. R. 3-3	19
Fed. R. Civ. P. 12(b)(6)	8
Judge Rodney Gilstrap, <i>Discovery Order – Patent</i>	19

TABLE OF AUTHORITIES – Continued

	Page
N.D. Cal. Local Pat. R. 3-3	19
N.D. Ill. Local Pat. R. 3.1	18
N.D. Ill. Local Pat. R. 3.2	18
S. Ct. R. 37.3(a).....	1
S. Ct. R. 37.6	1
S.D.N.Y. Local Pat. R. 7.....	19

OTHER AUTHORITIES

General Robert E. Lee, Farewell Address to Army of Northern Virginia (Apr. 10, 1865).....	21
Hermann Hesse, <i>The Glass Bead Game</i>	24

INTEREST OF AMICI CURIAE

Amici Curiae Balsam Hill LLC; Chico's FAS, Inc.; Crutchfield Corporation; Dillard's, Inc.; Express, Inc.; Food Marketing Institute; Hasbro, Inc.; JAND, Inc. d/b/a Warby Parker; J. Crew Group, Inc.; Jill Acquisition LLC; L Brands, Inc.; L. L. Bean, Inc.; Macy's, Inc.; Main Sequence Technology, Inc.; National Restaurant Association; Newegg, Inc.; Overstock.com, Inc.; Parke-Bell Ltd. Inc. d/b/a Touch of Class Catalog; Presidio International, Inc. d/b/a A/X Armani Exchange; QVC, Inc.; Retail Litigation Center, Inc.; SkyMall, Inc.; and The Talbots, Inc. (collectively, the "Retailers") submit this brief in support of neither party.¹

The Retailers do not seek to pick a winner or loser in this litigation, but rather to urge the Court to adopt a threshold test for patentability under 35 U.S.C. § 101, namely, that computer-implementation cannot create patentable subject matter. The Retailers' interest is in an early resolution of the gateway issue of subject matter eligibility because the alternative – lengthy and expensive discovery, invalidity and infringement analysis, claim construction, trial, and

¹ In accordance with S. Ct. R. 37.3(a), all parties have consented to the filing of this brief. The Petitioner and Respondents have filed consent letters with the Clerk. Pursuant to S. Ct. R. 37.6, counsel for *Amici* state that no counsel for a party authored this brief in whole or in part, and no person or entity other than *Amici* or their counsel made a monetary contribution to the preparation or submission of this brief.

appeal before patentability can be resolved finally by a fractured Federal Circuit – virtually guarantees that most companies will accept a cost-of-litigation settlement rather than find out whether the alleged invention is actually patentable. As a practical matter, delaying a decision on this dispositive issue until at or after trial means that the most basic question of all – does this invention qualify for patent protection? – will rarely, if ever, get answered.

The Retailers have numerous differences among them. Some of them have only an online presence, while others also have brick-and-mortar stores. Some of them began as catalog sellers, while others began in a storefront. Some of them are located in a handful of locations, while others are organizations that represent tens of thousands of retailers, restaurants, retail food stores, and pharmacies located in every corner of the country. Some of them began many years ago, while others grew up with the Internet. Some of them are start-ups, while others are household names. They have their headquarters from Maine to California. They sell a vast array of products and services – from food to electronics to home furnishings to fashion wear – that cost from less than a dollar to many thousands of dollars.

What the Retailers have in common is simple – they have websites and mobile applications through which people can purchase, browse, or order their different products, offerings, or services. And, because they have websites and mobile applications, they have been sued, repeatedly, for patent infringement

in cases in which a plaintiff claims that some feature of their website or mobile application infringes a computer-implemented patent, and the plaintiff seeks a percentage of their online revenues, which can amount to millions of dollars. The Retailers regularly defend lawsuits brought under patents asserted against their use online of computerized retailing cornerstones that have been around for ages – *e.g.*, the display of catalog-style images and text *on a web page*, the ability to order food *on a computer*, or the ability to flip back to previously viewed product pages *on a website*, and the like – without any regard to the myriad of ways in which those ideas are actually implemented or the details that differentiate one website from another.

Faced with a lawsuit, usually filed in a distant jurisdiction, that will certainly cost hundreds of thousands, if not millions of dollars to litigate to a conclusion years later, and faced with patent jurisprudence that is anything but certain, the Retailers must make a decision whether to litigate or settle without being able to determine whether or not the alleged invention is even patentable until all appeals have been exhausted. The Retailers' interest in this case is, as a result, intensely practical. They seek a bright-line rule of law concerning patentability that can be applied at the outset of litigation, and thus comports with this Court's direction that courts address subject matter eligibility as a "threshold" issue. *Bilski v. Kappos*, 130 S. Ct. 3218, 3225 (2010). Such a rule

would yield quicker, better, and less expensive outcomes.

SUMMARY OF ARGUMENT

The Retailers seek a clear rule of law concerning patentability that can be applied at the beginning of a lawsuit. Whether or not a claimed invention is patentable under 35 U.S.C. § 101 should be a threshold issue that can be addressed in many, if not most, cases on a motion to dismiss at the start of the litigation. This not only follows as a straight line from this Court's recent patent decisions, but is necessary to fulfill the mandate of Section 101, which, after all, is entitled "Inventions Patentable." It makes no sense to answer the complicated and costly questions whether a patent is infringed or is anticipated or obvious in light of some prior art, or anything else, if the underlying invention is not even patentable. It would be like being forced by the DMV to pay for expensive repairs on a used car in order to obtain a new inspection sticker only to be told after the car passes inspection that the person who sold you the car never had title to it in the first place.

Furthermore, the threshold test to the question presented to this Court should be that computer-implementation cannot create patentable subject matter. Just as a putative inventor cannot simply recite a law of nature and then add the instruction "apply the law," *Mayo Collaborative Servs. v. Prometheus Labs.*,

Inc., 132 S. Ct. 1289, 1297 (2012), a putative inventor cannot simply recite an abstract idea or general idea and then add the instruction “apply it on a computer.” Computer-implementation, alone, cannot create patentable subject matter.

Currently, there is not a single rule of law that can be applied either at the outset or the conclusion of litigation to address this issue. The splintered six opinions spanning over 125 pages from the *en banc* Federal Circuit, none of which represents the opinion of a majority of that court, means that no one can be certain what is patentable until they learn the make-up of their panel on appeal.

This lack of certainty has serious, real-world consequences. Computer-implemented patents are among the fastest growing category of patents, the patents most likely to be litigated, and the patents least likely to be found valid and infringed if litigated to the bitter end. Further, they are more likely than others to be asserted against companies that merely use the accused software, such as retailers who sell goods over the Internet, and not the companies that wrote the accused source code. Because of the cost of reaching the bitter end, in which non-infringement and invalidity will only be determined finally after defendants will have expended enormous, usually unrecoverable, sums, computer-implemented patents are also among the patents least likely to be litigated to a final judgment, particularly by companies that use, but did not create, the accused technology. So long as the plaintiff prices a settlement below the

enormous costs of full-blown litigation, which is the norm in this arena, most defendants will opt for a cost-of-litigation settlement instead of litigating the patentability of even the gauziest of patents. Thus, even if a panel of academics could agree on a definition of patentability, if it is not expressed in a clear legal rule that can be applied at the beginning of the litigation by a district court judge, it will remain academic for most defendants.

ARGUMENT

I. THE COURT SHOULD ADOPT A THRESHOLD TEST THAT COMPUTER-IMPLEMENTATION CANNOT CREATE PATENTABILITY UNDER SECTION 101.

A. The Court Should Reaffirm That Patentability Under Section 101 Is A Threshold Test.

“[N]o patent is available for a discovery, however useful, novel, and nonobvious, unless it falls within one of the express categories of patentable subject matter.” *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 483 (1974) (brackets added). Title 35 U.S.C. § 101, entitled “Inventions Patentable,” sets forth the metes and bounds of what is patentable, and what is not.

The initial question is whether Section 101 is a threshold test, or not. Although this issue sharply divides the Federal Circuit and lower courts, *see*

David Swetnam-Burland & Stacy O. Stitham, *Patent Law 101: The Threshold Test As Threshing Machine*, 21 Tex. Intell. Prop. L.J. 135 (2013), it does not divide this Court.

In *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), the Court held that “[t]he § 101 patent-eligibility inquiry is only a threshold test.” *Id.* at 3225 (brackets added). Although Justice Stevens and the other concurring Justices disagreed on the proper standard to conclude likewise that Bilski’s claimed invention was not patentable, on the role of Section 101, there was no daylight between the majority and concurrence: “Section 101 imposes a threshold condition.” *Id.* at 3236 (Stevens, J., concurring in the judgment).

In *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012), the Court unanimously found that Prometheus’ striving for a patent came up short because it was attempting to claim a law of nature, which is an implicit exclusion from patentability under Section 101:

The Court has long held that this provision contains an important implicit exception. “[L]aws of nature, natural phenomena, and abstract ideas” are not patentable.

Id. at 1293 (brackets added by Court and quoting *Diamond v. Diehr*, 450 U.S. 175, 185 (1981) (other citations omitted).

Significantly, for present purposes, the Court rejected the Government’s *amicus curiae* argument that

other provisions of the Patent Act governing novelty, obviousness, and written description (35 U.S.C. §§ 102, 103, 112) can better perform the “screening function” than 35 U.S.C. § 101. *See Mayo*, 132 S. Ct. at 1303. “This approach, however, would make the ‘law of nature’ exception to § 101 patentability a dead letter.” *Mayo*, 132 S. Ct. at 1303. “And to shift the patent-eligibility inquiry entirely to these later sections risks creating significantly greater legal uncertainty, while assuming that those sections can do work that they are not equipped to do.” *Id.* at 1304. In other words, the unanimous Court reaffirmed in *Mayo* that Section 101 should continue to perform its unique and uniquely important “screening function” as a “threshold test.”

Just as subject matter jurisdiction is a threshold issue that may be more difficult to decide than other issues in a lawsuit, but nevertheless should be decided before turning to the merits of the lawsuit precisely because it is a threshold issue, *see Steel Co. v. Citizens for a Better Environment*, 523 U.S. 98 (1998), patentability should be decided at the outset of the litigation before turning to issues that are specific to the patent-in-suit. Although motions to dismiss under Section 101 certainly will not dispose of all meritless patent lawsuits, that is not a reason to deny Section 101 its role as a threshold test, any more than the inability of motions to dismiss to weed out all meritless lawsuits would be a reason to eliminate Federal Rule of Civil Procedure Rule 12(b)(6).

For the Retailers, treating patentability as a threshold test subject to a motion to dismiss, instead of just another validity defense to be resolved eventually, is not a distinction without a difference. Patentability under Section 101 is a doctrine that is different in kind from anticipation, obviousness, and the other invalidity defenses found in Sections 102, 103, and 112. While those doctrines assess the validity of a claim against specific prior art references or standards of adequacy of the patent's specification, Section 101 asks a court to police the boundaries of what can and cannot be patented, a different enterprise with a different set of aims. If the former sections tell us whether a patentee played the game by the rules, the latter section tells us whether he or she was playing the game at all.

The practical consequence is that anticipation, obviousness, and the other invalidity defenses found in Sections 102, 103, and 112 generally require extensive, expensive, discovery, prior art searching, invalidity analysis, claim construction, expert reports and depositions, and the other accoutrements of patent litigation before the district court can address them, either on summary judgment or at trial. In contrast, patentability under Section 101 can – and should – be addressed as a legal issue at the outset of the lawsuit on a motion to dismiss. Given the practical problems discussed below that the Retailers and others face in litigating patent cases to a final judgment, treating patentability as a threshold issue or not will largely

determine in almost every case whether patentability is ever addressed by a court.

B. The Court Should Hold That Computer-Implementation Cannot Create Patentability.

Abstract ideas cannot be patented, no matter how novel and useful. *Diehr*, 450 U.S. at 185. Furthermore, since at least 1978, the Court has made clear that “the prohibition against patenting abstract ideas ‘cannot be circumvented by attempting to limit the use of the formula to a particular technological environment’ or adding ‘insignificant postsolution activity.’” *Bilski*, 130 S. Ct. at 3230 (quoting *Diehr*, 450 U.S. at 191-92, and citing *Parker v. Flook*, 437 U.S. 584 (1978)).

“*Flook* rejected [t]he notion that post-solution activity, no matter how conventional or obvious in itself, can transform an unpatentable principle into a patentable process.” *Bilski*, 130 S. Ct. at 3230 (brackets added by Court and quoting *Flook*, 437 U.S. at 590). Applying *Flook*, the Court recently concluded that “[p]urely ‘conventional or obvious’ [pre]-solution activity’ is normally not sufficient to transform an unpatentable law of nature into a patent-eligible application of such a law.” *Mayo*, 132 S. Ct. at 1298 (brackets added by Court and citations omitted). Thus, “[a] patent . . . could not simply recite a law of nature and then add the instruction ‘apply the law.’” *Id.* at 1297 (ellipsis and brackets added).

So, too, here. A patent cannot simply recite a general concept or abstract idea, and then add the instruction “apply using a computer” or “apply it on the Internet.” Plaintiffs have repeatedly filed suits, and obtained significant settlements, based on patents asserted against computerized versions of concepts that have been around for ages, such as the ability to interact with a live customer service representative *over the Internet*, or the ability to calculate nutritional information *on a website*, and the like, regardless of the manner in which those concepts are actually implemented on the Internet or computer. In each of these examples, the patentee has taken a general retailing concept and simply added a “conventional or obvious” activity once the Retailers had e-commerce websites, namely, “apply using a computer” or “apply it on the Internet.”

Computer-implementation should bear on the patent eligibility question only if it contributes meaningfully to narrow the scope of the claimed invention to a single, concrete application of an abstract idea for a novel and specific purpose, in the same manner in which a mathematical formula can be used narrowly to define a novel and specific industrial process new to the field. *See Diehr*, 450 U.S. at 192-93. Computer-implementation alone is not enough. The easily applied rule, therefore, that the Retailers derive from *Flook*, *Diehr*, *Bilksi*, and *Mayo* is that computer-implementation alone cannot create patentability under Section 101.

II. PRACTICAL CONSIDERATIONS OFTEN PREVENT RETAILERS FROM LITIGATING EVEN WEAK COMPUTER-IMPLEMENTED PATENTS.

The Retailers, like most pragmatic business enterprises, do not savor time spent on the finer points of patent doctrine. They feel the urgency for a clear rule of patent eligibility in the field of computer-implemented patents because that issue directly impacts their businesses on a daily basis. The sense of urgency is real because there is a significant and accelerating problem of weak computer-implemented patents being used to extract enormous unearned sums from retailers and other businesses.

To summarize, empirical studies demonstrate that a confluence of factors – the generally low quality of computer-implemented patents, the uncertainty of patent litigation outcomes, and the rising costs of patent infringement litigation – have combined to create an untenable situation. Computer-implemented patents are *more* likely to be litigated yet *less* likely to be valid. At the same time, lawsuits under computer-implemented patents are the *least* likely to reach claim construction, let alone judgment on the merits. In other words, external factors, chiefly expense and uncertainty, are leading companies to settle the very cases that the merits suggest they ought to defend most vigorously.

A 2008 estimate put the number of software patents at over 200,000. See James Bessen & Michael

J. Meurer, *Patent Failure* 22 (2008). Of these, some 11,000 covered some aspect of the Internet. *Id.* at 8-9. Since that time, the number of software patents has increased dramatically. James Bessen, *A Generation of Software Patents*, 18 B.U.J. Sci. & Tech. L. 241, 252-53 & Fig. 1 (2012). The Government Accountability Office recently estimated that as of 2011, patents related to software made up more than half of all issued patents. U.S. Government Accountability Office, Report to Congressional Committees, *Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality*, GAO-13-465 at 13 (Aug. 2013) (“GAO Report”).

Data on litigation outcomes suggest that computer-implemented patents are of lower quality compared with patents in other fields. See John R. Allison, Mark A. Lemley & Joshua Walker, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 Geo. L.J. 677, 680 (2011) (software patent-owners overall win only 12.9% of their cases.). Even so, Internet patents in particular are between 7.5 and 9.5 times *more* likely to be litigated than patents in other fields. John R. Allison, Emerson H. Tiller & Samantha Zyontz, *Patent Litigation and the Internet*, 2012 Stan. Tech. L. Rev. 1, 6 (Feb. 14, 2012). Ironically, the very weakness of computer-implemented patents actually makes it more likely that they will be litigated aggressively by plaintiffs because aggressive litigation increases the odds that other potential defendants, concerned about the cost of such potential litigation,

will agree to take a cost-of-litigation settlement. Erik Hovenkamp, *Predatory Patent Litigation*, 1-5 (Aug. 5, 2013) (available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2308115). Thus, the patents most likely to be litigated are the least likely to survive battle-testing.

It may be an understatement to say that the growth of patent infringement litigation generally, and in the technology sector in particular, has been explosive. *See* Bessen, *supra*, at 259 (“Clearly, the number of software patent lawsuits has continued to grow rapidly, meaning that the risk of litigation from software patents has necessarily increased.”). Measured by total number of defendants – which provides a more accurate measure than the total number of cases, given the presence of large multi-defendant patent infringement litigation in some districts – the total number of patent infringement defendants increased six-fold between 1990 and 2010. Kyle Jensen, Patently-O, *Counting Defendants in Patent Litigation* (available at <http://www.patentlyo.com/patent/2010/10/guest-post-counting-defendants-in-patent-litigation.html>). Growth in the litigation of software patents has kept, if not exceeded, this pace. *See* Bessen, *supra*, at 259 (measuring rapid growth of software litigation by number of lawsuits); GAO Report (number of overall defendants in patent infringement lawsuits increased approximately 129% from 2007 to 2011; 89% of which was due to lawsuits involving software-related patents).

One driver of this growth is the rapid increase in litigation by “patent assertion entities,” which are also known as “non-practicing entities” or “patent trolls.” Given that the business of the patent assertion entity depends upon asserting patents in litigation, it is little wonder that the growth of this industry would increase the volume of patent infringement litigation. In a recent study, researchers concluded that plaintiffs whose business is to extract money from patents through litigation and licensing, as opposed to developing products under those patents, accounted for 40% of all patent cases filed in 2011, up from the already significant figure of 22% in 2007. See Sara Jeruss, Robin Feldman & Joshua Walker, *The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation*, at 5 & 43-57, Duke Law & Tech. Review (2012); see also James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes*, at 2, Boston Univ. School of Law Working Paper No. 12-34 (June 28, 2012) (available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2091210) (patent assertion entity litigation affected 5,842 defendants in 2011, and cost the country \$29 billion). Professor Colleen Chien, who has conducted several studies of patent assertion entity litigation, estimates that 62% of patent lawsuits in 2012 were brought by patent assertion entities, up from 45% in 2011. Colleen Chien, Patently-O, *Patent Trolls by the Numbers* (Mar. 14, 2013) (available at <http://www.patentlyo.com/patent/2013/03/chien-patent-trolls.html>).

The number of companies, organizations, and persons threatened with patent litigation by non-practicing entities is even more dramatic. Conservatively, at least 60,000 companies, organizations, and persons have been threatened with suit by such entities, and the more likely number is over 100,000. See Executive Office of the President, *Patent Assertion and U.S. Innovation*, at 6 (June 2013).

The explosive growth of patent litigation concerning weak computer-implemented patents by patent assertion entities would not be a crisis if there was a quick, inexpensive way to separate the wheat from the chaff. But that is not the reality of modern patent litigation.

It belabors the obvious to state that patent litigation is breathtakingly expensive. The American Intellectual Property Law Association estimates that the average cost of patent litigation ranges from a low of \$350,000 to reach the end of discovery and \$650,000 to fully complete litigation when less than \$1,000,000 is at risk, to a high of \$3,000,000 to reach the end of discovery and \$5,000,000 to fully complete litigation when more than \$25,000,000 is at risk. Am. Intell. Prop. Ass'n, *Report of the Economic Survey* (2011). Since plaintiffs frequently seek a percentage of a company's online revenues as damages for implementation of the alleged invention on the company's website, the amount at stake often reaches the high end of these estimates, and thus the projected cost of pursuing patent litigation through the final reel is likely to meet or exceed the \$5,000,000

estimate. Also, given the asymmetry between parties in which plaintiffs are frequently patent assertion entities, and therefore have little discovery to provide, these costs are usually borne largely by defendants. Furthermore, these litigation costs continue to increase. See Stijepko Tokic, *The Role of Consumers in Deterring Settlement Agreements Based on Invalid Patents: the Case of Non-Practicing Entities*, 2012 Stan. Tech. L. Rev. 2, 8 (Jan. 9, 2012).

Absent a threshold test enabling defendants to short-circuit a patent case where the alleged invention is not patentable, defendants usually must conduct extensive analysis and provide substantial discovery before seeking a determination that they do not infringe the patent or that the patent is invalid. Both infringement under Section 271 and invalidity under Sections 102, 103, and 112 generally require detailed analysis of the patent-in-suit, usually following claim construction and expert discovery, either on summary judgment or at trial, and further require comparison of the claims as construed by the court against the defendant's specific actions or the specific pieces of prior art unearthed by the defendant. All of these requirements take time and money.

Currently, 26 districts, including some of the districts with the heaviest patent caseloads, have local patent rules. *Local Patent Rules: Patent Rules Made Easy* (available at <http://www.localpatentrules.com/>). These local patent rules generally frontload requirements relating to infringement and invalidity analysis, which often require defendants to produce both

their non-infringement and invalidity analyses shortly after the plaintiff presents them with its infringement contentions.

The burden here falls more heavily on defendants. To prepare infringement contentions, plaintiffs must only match up the claim language of their patents against the defendants' accused functionality, by, for example, placing claim language next to screenshots of the defendants' public website – a task that they presumably already performed as part of their pre-filing investigation. To prepare invalidity contentions, defendants, by contrast, must conduct a thorough worldwide search of existing patents and patent applications, technical journals, and other written works, for specific pieces of prior art that match the claim language of the asserted patent point-for-point, and they must perform this search on the tight timeline set by the rules.

For example, Local Patent Rule 3.2 in the Northern District of Illinois requires a defendant's non-infringement, unenforceability, and invalidity contentions within 14 days after getting the plaintiff's infringement contentions. Additionally, Local Patent Rule 3.1 in the Northern District of Illinois requires defendants to provide along with their initial disclosures:

- (1) documents sufficient to show the operation and construction of all aspects or elements of each accused apparatus, product, device, component, process, method or other instrumentality identified with specificity in

the pleading of the party asserting patent infringement; and

(2) a copy of each item of prior art of which the party is aware that allegedly anticipates each asserted patent and its related claims or renders them obvious or, if a copy is unavailable, a description sufficient to identify the prior art and its relevant details.

The Local Patent Rules elsewhere generally require defendants to conduct a comprehensive search for prior art early in the litigation, and to disclose under pain of forfeiture shortly after learning the plaintiff's theory of infringement all of the defendant's specific theories of invalidity. *See, e.g.*, E.D. Tex. Local Patent Rule 3-3 (disclosure of invalidity theories within 45 days of receipt of infringement contentions); N.D. Cal. Local Patent Rule 3-3 (same); S.D.N.Y. Local Patent Rule 7 (same); D.N.J. Local Patent Rules 3.2A, 3.3 (disclosure of non-infringement and invalidity theories within 45 days of receipt of infringement contentions).

Additionally, in the busiest patent district, the Eastern District of Texas, standing discovery orders generally require parties at the outset of the case, without the necessity of a document request, to “produce or permit the inspection of all documents, electronically stored information, and tangible things in the possession, custody, or control of the party that are relevant to the pleaded claims or defenses involved in this action[.]” Judge Rodney Gilstrap, *Discovery Order – Patent* (brackets added) (available at

<http://www.txed.uscourts.gov/page1.shtml?location=info:judge&judge=17>). Thus, defendants frequently must provide not only a complete accounting of their invalidity positions and prior art, but also a complete document production on a compressed schedule. Again, plaintiffs do not share this burden as their document production, particularly in the case of patent assertion entities, generally amounts to little more than a copy of the patent and its file history and records of prior settlement agreements.

Accordingly, Retailers and others sued for patent infringement incur early in the case the disproportionate costs necessary to develop their non-infringement and invalidity positions (including scouring the world for potential invalidating prior art), and to produce all potentially relevant documents, including all electronically stored information, which, in turn, necessitates significant internal investment and distraction for the Retailers and others. But, even if they incur such costs and distraction, there is no obvious exit ramp from the litigation other than settlement because infringement analysis under Section 271 and invalidity analysis under Sections 102, 103, and 112 frequently must await claim construction before being ripe for summary judgment. “[I]n almost every patent case claim construction is a dispositive issue.” David L. Schwartz, *Courting Specialization: An Empirical Study of Claim Construction Comparing Patent Litigation Before Federal District Courts and the International Trade Commission*, 50 Wm. & Mary L. Rev. 1699, 1708 (2009)

(brackets added). This means, however, that Retailers usually must incur the cost and distraction of a patent case through discovery and claim construction before they even have the opportunity to convince the court that they do not infringe the specific claims of the patent or that the specific claims of the patent are invalid.

Although claim construction may be a dispositive issue, it rarely is a settled issue. Studies show that the reversal rate by the Federal Circuit on claim construction ranges between 33% and 44%. Ted L. Field, *“Judicial Hyperactivity” in the Federal Circuit: an Empirical Study*, 46 U.S.F. L. Rev. 721, 734-35 & Table 1 (2012). This means that even if a Retailer is prepared to pursue the matter through trial, its odds on appeal on the dispositive issue in the litigation are little better than the flip of a coin.

Judge Young of the District of Massachusetts put the conundrum facing the litigants and trial courts this way:

In most cases the trial judge, with the “satisfaction that proceeds from the consciousness of duty faithfully performed,” General Robert E. Lee, Farewell Address to Army of Northern Virginia (Apr. 10, 1865), and a reversal rate among the several circuits ranging from two to fourteen percent, has the added satisfaction of knowing that he has probably resolved the parties’ dispute and that they can get on with their business. Not so here.

Here the parties have fought each other to a standstill and any “victory” is pyrrhic. Given the monetary stakes involved and a Federal Circuit reversal rate exceeding forty percent, this Court is no more than a way station – an intermediate irritating event – preliminary to the main bout in the Federal Circuit. Whatever the merits of such a system, it is undeniably slow and extraordinarily expensive. The most this Court can say is, “Good luck and Godspeed.”

Aspex Eyewear, Inc. v. Altair Eyewear, Inc., 818 F. Supp. 2d 348, 365 n.8 (D. Mass. 2011).

The reality of modern patent litigation is that Retailers and others often face the Sisyphean prospect of spending upwards of \$5,000,000 through the end of the litigation, preparing and producing early in the litigation their non-infringement and invalidity positions, producing early in the litigation their documents and electronically stored information, conducting full-blown discovery, and litigating dispositive claim construction issues that are reversed nearly half the time on appeal, just to be able to have a court rule that they do not infringe the specific claims of the patent-in-suit or that the specific claims of the patent-in-suit are invalid as anticipated, obvious, lacking a written description, and the like. So long as the plaintiff prices the settlement at less than the massive costs of defense through judgment and appeal, most defendants will opt to settle instead of defending against even a weak patent. *Cf. Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1327 (Fed.

Cir. 2011) (defendant spent over \$600,000 to litigate a case it could have settled for \$75,000 or less). Based on these pragmatic concerns, even though weak computer-implemented patents are growing in number, they rarely are litigated to a final judgment that is affirmed on appeal.

Reaffirming that patentability under Section 101 is a threshold issue will provide some measure of relief to Retailers because they will not have to spend millions of dollars and wait until all appeals are exhausted to resolve this gateway issue. The Federal Circuit has confirmed that claim construction is not necessary to resolve the issue of patentable subject matter under Section 101. *See Ultramercial, Inc. v. Hulu, LLC*, 722 F.3d 1335, 1339 (Fed. Cir. 2013). For courts that treat patentability as a threshold issue, it is an issue that can be, and should be, resolved on motions to dismiss, for judgment on the pleadings, or early summary judgment. *See, e.g., OIP Techs., Inc. v. Amazon.com, Inc.*, 2012 WL 3985118, *5 (N.D. Cal. Sep. 11, 2012) (granting motion to dismiss under Section 101 after “conclud[ing] that the procedural posture of this case does not render [the defendant’s] motion premature”) (brackets added); *SmartGene, Inc. v. Advanced Biological Labs., SA*, 852 F. Supp. 2d 42, 52 (D.D.C. 2012) (granting motion to dismiss noting, “[i]n this case, the section 101 analysis begins and ends the Court’s inquiry as it reveals that the patents-in-dispute are not patentable”); *Digitech Information Systems, Inc. v. BMW Financial Services NA, LLC*, 864 F. Supp. 2d 1289, 1292-93 (M.D. Fla.

2012) (granting summary judgment motion under Section 101 over objection that motion was premature); *Glory Licensing LLC v. Toys ‘R’ Us, Inc.*, 2011 WL 1870591 (D.N.J. May 16, 2011) (granting motion to dismiss); *Graff/Ross Holdings LLP v. Fed’l Home Loan Mortg. Corp.*, 2010 WL 6274263 (D.D.C. Aug. 27, 2010) (granting motion to dismiss).

If patentability under Section 101 instead is treated like any other invalidity defense, to be considered only after full discovery and claim construction, practical considerations make it unlikely that defendants will ever obtain a court ruling on this issue. Patent litigation should not resemble Hermann Hesse’s *The Glass Bead Game*, in which players participate for years in an elaborate, abstract game in an ivory tower remaining oblivious to the real-world problems outside. The Retailers, therefore, seek a practical solution to a real-world problem and a solution that flows easily and directly from this Court’s jurisprudence on patentability, namely, that computer-implementation alone cannot create patentability.



CONCLUSION

Amici Curiae Retailers request that the Court adopt a threshold test for patentability under 35 U.S.C. § 101 that computer-implementation cannot create patentable subject matter, vacate the judgment

below, and remand for reconsideration in light of the announced standard.

Respectfully submitted,

PETER J. BRANN

(Counsel of Record)

DAVID SWETNAM-BURLAND

STACY O. STITHAM

BRANN & ISAACSON

184 Main St., P.O. Box 3070

Lewiston, Maine 04243-3070

(207) 786-3566

Attorneys for

Amici Curiae Retailers

January 22, 2014

BLANK PAGE