

UNITED *for* PATENT REFORM

**Questions for the Record for Ms. Stephanie Martz
Senate Committee on the Judiciary
Subcommittee on Intellectual Property
Hearing on “The State of Patent Eligibility in America: Part II”
June 5, 2019**

QUESTIONS FROM SENATOR BLUMENTHAL

1. Striking the appropriate balance between encouraging innovation and protecting consumers is a key goal of our patent system.

a. What impact will broadening the subject matter that can be patented have on industry?

United for Patent Reform (UFPR) is a broad coalition of diverse American businesses advocating for a patent system that enhances patent quality, advances meaningful innovation, and protects legitimate American businesses from abusive patent litigation. Our members are small and large—they range from Main Street retail shops, REALTORS®, hotels, grocers, convenience stores, and restaurants to national construction companies, automobile manufacturers, and technology businesses. Collectively, our members represent over 80 million U.S. employees, a figure that accounts for nearly two-thirds of private sector jobs in the U.S.

Broadening the subject matter that can be patented beyond current case law would reopen the floodgates for abusive patent litigation by non-practicing entities (NPEs, sometimes called patent trolls) against UFPR members, raising costs and discouraging job creation without incentivizing innovation. This impact would occur across the full range of UFPR membership, but the hardest hit would be the smaller members for whom even a single suit can be devastating.

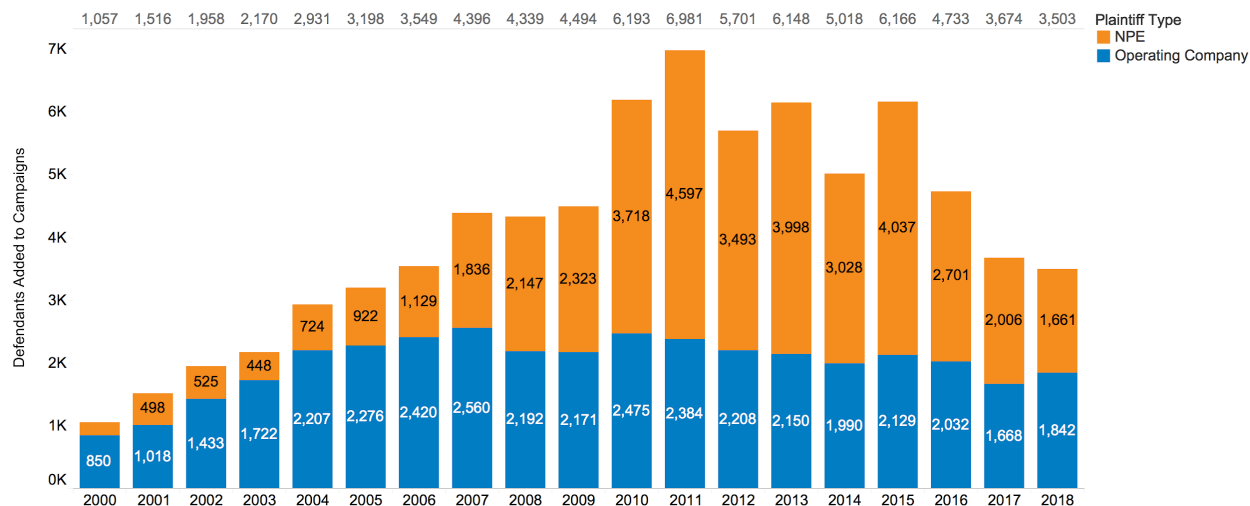
The patent troll business model of buying questionable patents and demanding nuisance value settlements exploded and patent litigation rates reached historic highs from 2010 to 2015.¹ Litigation rates are now lower, but the problem remains. Between 50 and 60 percent of patent infringement cases are brought by NPEs. The median cost of fighting an NPE in court is \$1.7 million,² and last year, 40 percent of NPE lawsuits were filed against small- and medium-sized

¹ Data provided by RPx Corp., *see e.g.* Blog, <https://www.rpxcorp.com/intelligence/blog/>

² NPE Litigation: Costs by Key Events (March 2015) <https://www.rpxcorp.com/wp-content/uploads/2014/12/Final-NPE-Litigation-Costs-by-Key-Events.pdf>.

companies.³ Insofar as the situation has improved in the past three years, it is partly due to the American Invents Act and in very large part due to the Supreme Court *Alice* decision.

Alice allows businesses to fight back and it makes a business model based on litigation far less lucrative, which in turn frees up resources for innovation and job creation. Last year, NPEs filed less than half the number of lawsuits they filed in 2013, the year before the Supreme Court decided *Alice*. There is little doubt that overruling *Alice* will once again increase patent litigation levels.



b. What impact will broadening the subject matter that can be patented have on consumers?

c. Could these reforms increase consumer prices? If so, in what industries or on what products?

The range of industries helped by the reduction in wasteful litigation brought about by the *Alice* decision touch *all* American consumers multiple times a day. In 2014, the Court unanimously confirmed in *Alice* what was already clear from its precedent: Section 101’s prohibition of patents on abstract ideas means that business methods and other abstract economic concepts are not eligible for patents merely because they are performed on a computer. The decision was significant in the fight against wasteful litigation because this is precisely the type of low-quality e-commerce patent favored by NPEs attacking a broad range of Main Street industries.

Broadening the subject matter eligible for patenting by overturning *Alice* will bring back those unwarranted litigation expenses and force companies to take resources from other places

³ Unified Patents: Patent Dispute Report (Sept. 2018)
<https://www.unifiedpatents.com/news/2018/9/28/q3-2018-patent-dispute-report>.

that will harm consumers, like decreasing hiring or raising prices. In just a few examples of the many cases for which *Alice* has provided the winning defense:

- restaurants like Whataburger and Dairy Queen were sued for posting nutritional information and picture menus online in 66 cases;⁴
- over two hundred retailers like See's Candy Shop, 1-800-FLOWERS.com and Men's Wearhouse were sued for using online shopping carts;⁵ and
- realtors and home builders were sued for the use of online maps to identify available properties.⁶

A business sued on a business method patent can now point to *Alice* and ask a court to knock out such clearly invalid patents that make no technological contribution to the public and dismiss the case before the start of costly discovery and without an expensive trial. That is what happened to Capstone, a small photography business in Connecticut that was sued by an NPE for selling event photographs online, which was able to fight back and win. The owner, Michael Skelps, explained, "without the *Alice* decision, it is unlikely that I could have afforded the long fight necessary to invalidate the patent on other grounds."⁷

Alice has provided the successful defense against some of the most infamous non-practicing entities that have plagued Main Street businesses for the past decade. NPE Shipping & Transit, and its predecessor ArrivalStar, sued over 500 companies from 2009-2017, many of them small companies, like 15-person Michigan company Spice Jungle that sells spices online. Shipping & Transit accused Spice Jungle and many others like it of infringing its patents through the common practice of emailing a tracking number to customers. The large majority settled for less than the cost of litigation, and over the years Shipping & Transit collected more than \$15 million.⁸ In 2017, a district court finally ruled that Shipping & Transit's patents were clearly

⁴ "Patent Holder Sues Basically Anyone who Offers Recipes or Meal Planning Online," Tech Dirt (June 15, 2012) <https://www.techdirt.com/articles/20120615/03122319332/patent-holder-sues-basically-anyone-who-offers-recipes-meal-planning-online.shtml>; Meal Planning Patent Invalidated under Supreme Court's *Alice* Decision, Lexology (July 8, 2014) <https://www.lexology.com/library/detail.aspx?g=eda64394-e1eb-4ae5-998f-7e3c4fe2b4c4>.

⁵ "Biggest Patent Troll of 2014 Gives Up, Drops Appeal," ars Technica (Mar. 4, 2016) <https://arstechnica.com/tech-policy/2016/03/biggest-patent-troll-of-2014-gives-up-drops-appeal/>.

⁶ *Move, Inc. et al v. Real Estate Alliance LTD.*, No. 2017-1463 (Fed. Cir. 2018) (invalidating patents under Section 101) <http://www.cafc.uscourts.gov/sites/default/files/opinions-orders/17-1463.Opinion.1-31-2018.1.PDF>.

⁷ "Supreme Court's *Alice* Decision Protected my Small Business from Patent Trolls," The Hill (July 7, 2016) <https://thehill.com/blogs/congress-blog/judicial/286691-supreme-courts-alice-decision-protected-my-small-businesses-from>.

⁸ "America's Biggest Filer of Patent Suits Wants You to Know it Invented Shipping Notification," The Wall Street Journal (Oct. 27, 2016) <https://www.wsj.com/articles/americas-biggest-filer-of-patent-suits-wants-you-to-know-it-invented-shipping-notification-1477582521>.

invalid under Section 101 and the *Alice* case, and that the NPE should pay the attorney's fees of its latest target.⁹ Only then did Shipping & Transit stop its attacks. In 2018, it filed for bankruptcy.¹⁰

Consumers will be harmed if the businesses with which they interact every day must go back to spending tens of millions of dollars licensing e-commerce patents, like that asserted by Shipping & Transit, when those businesses seek to cover those costs by charging higher prices or decreasing investment.

⁹ District Court Awards Attorney's Fees after Holding that Plaintiff had Repeatedly Sought to Avoid a Section 101 Ruling," (July 27, 2017) <https://www.lexology.com/library/detail.aspx?g=0ee7f167-b6a7-403d-ab00-5bebd592d7c7>.

¹⁰ "Notorious Patent Enforcement Entity Values its Entire Portfolio at \$2, Folds," ars Technica (Nov. 1, 2018) <https://arstechnica.com/tech-policy/2018/11/most-litigious-patent-enforcer-in-us-calls-it-quits-files-bankruptcy/>.

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From Senator Mazie Hirono

- 1. Last year, Judge Alan Lourie and Judge Pauline Newman of the Federal Circuit issued a concurring opinion to the court’s denial of *en banc* rehearing in *Berkheimer v. HP Inc.*, in which they stated that “the law needs clarification by higher authority, perhaps by Congress, to work its way out of what so many in the innovation field consider are § 101 problems.”**

Do you agree with Judges Lourie and Newman? Does § 101 require a Congressional fix or should we let the courts continue to work things out?

We continue to believe that the wisest course is to allow the courts to develop the case law. The post-*Alice* case law properly aligns Section 101 with the Constitutional goal of promoting technological progress by identifying the question of whether a claim recites a technological solution or an improvement in the relevant technology as critical to the analysis of whether a claim is directed to an abstract idea. Nearly every software-related case raising Section 101 issues decided by the Federal Circuit has engaged this question.¹ There now exists a

¹ See, e.g., *Enfish LLC v. Microsoft Corp.*, 822 F.3d 1327, 1335 (Fed. Cir. 2016) (“[W]e find it relevant to ask whether the claims are directed to an improvement to computer functionality versus being directed to an abstract idea, even at the first step of the Alice analysis.”); *SRI Int’l, Inc. v. Cisco Sys., Inc.*, 918 F.3d 1368 (Fed. Cir. 2019) (“[C]laim 1 is not directed to an abstract idea. . . . The claims are directed to using a specific technique . . . to solve a technological problem arising in computer networks . . .”); *Ancora Techs., Inc. v. HTC Am., Inc.*, 908 F.3d 1343, 1349 (Fed. Cir. 2018) (“[the claim] is directed to a solution to a computer-functionality problem . . . It therefore passes muster under Alice step one . . .”); *Data Engine Techs. LLC v. Google LLC*, 906 F.3d 999, 1008 (Fed. Cir. 2018) (the claims are directed to “a specific solution to then-existing technological problems”); *Core Wireless Lic’g S.A.R.L. v. LG Elecs., Inc.*, 880 F.3d 1356, 1363 (Fed. Cir. 2018) (holding claims not abstract under Alice step one, stating, “This language clearly indicates that the claims are directed to an improvement in the functioning of computers, particularly those with small screens.”); *Finjan, Inc. v. Blue Coat Sys., Inc.*, 879 F.3d 1299, 1304 (Fed. Cir. 2018) (ruling that claims are not abstract at Alice step because the claimed invention “constitutes an improvement in computer functionality”); *Visual Memory LLC v. NVIDIA Corp.*, 867 F.3d 1253, 1260 (Fed. Cir. 2017) (upholding claims at Alice step 1 as directed to “a technological

large body of appellate case law drawing a line between claims that recite an improvement in technology and those that do not, providing useful guidance to innovative companies. While there have been a few close cases that attorneys can debate (as there would be with any new legislative standard), many cases have been decided easily. Further development by the courts and the Patent Office of the technological solution/improvement in technology standards will bring more clarity and better results for innovation than new legislative language could hope to achieve.

We also note that the Supreme Court has called for the views of the Solicitor General on whether to grant certiorari in both *Berkheimer v. HP Inc.* and *Hikma Pharmaceuticals USA Inc., et al. v. Vanda Pharmaceuticals Inc.*, and the Solicitor General has yet to respond. It is very possible that the Supreme Court will take up arguments concerning Section 101 in the future.

2. The draft legislation includes the requirement that an invention be in a “field of technology.”

a. The European Union, China, and many other countries include some sort of “technology” requirement in their patent eligibility statutes. What can we learn from their experiences?

It is significant that the global understanding of the role of a patent system is to promote innovation in technological improvements and not in categories of abstract ideas like business methods. Hundreds of years of human development around the world demonstrates that the reward of a patent is unnecessary to encourage advancement in non-technological areas, including business methods.

b. Is a claim that describes a method for hedging against the financial risk of price fluctuations—like the one at issue in the *Bilski* case—in a “field of technology”? What if the claim requires performing the method on a computer?

Some of the claims denied by the Patent Office and struck down by the Supreme Court in *Bilski v. Kappos* were more specific than hedging generally. They covered hedging in energy markets or incorporated limitations analyzing historical weather patterns. While ordinarily we would not understand claims directed to a financial transaction like hedging to be in “a field of technology,” it is not at all clear what additional limitations courts would view as crossing that line. Some may view the additional context of energy production and sales or the incorporation of weather data to be sufficient, especially in light of the additional provisions of the proposed draft language that puts a heavy thumb on the scale toward finding eligibility. Or they might not. The critical point is that there is no way to know, and the draft language will create long-term instability, sweeping change and unintended consequences.

improvement: an enhanced computer memory system.”); *McRO, Inc. v. Bandai Namco Games Am. Inc.*, 837 F.3d 1299, 1314 (Fed. Cir. 2016) (upholding claim at Alice Step 1, “we . . . look to whether the claims in these patents focus on a specific means or method that improves the relevant technology.”).

If the hedging method of the claims in *Bilski v. Kappos* were recited as being performed using generic computer equipment and methods, the most likely outcome is that it would fall within a “field of technology” as that term is used in the draft language. Indeed, the stated intent of those who support the draft proposal is to allow patent claims on business methods performed on a computer even when there is no purported improvement in computer technology or technological solution claimed. As UFPR explained in its written testimony, that outcome would be bad for innovation and bad for America’s Main Street businesses, who have borne the brunt of litigation on such patents, wasting precious resources that would have been better directed to job creation and R&D.

c. What changes to the draft, if any, do you recommend to make the “field of technology” requirement more clear?

As discussed above, UFPR believes that Section 101 properly requires that claims recite an improvement in the relevant technology or a technological solution to a technological problem and that a large body of existing case law defines those terms. We do not suggest that this change alone would address all of our concerns with the draft language, however.

3. Sen. Tillis and Sen. Coons have made clear that genes as they exist in the human body would not be patent eligible under their proposal.

Are there other things that Congress should make clear are not patent eligible? There are already statutes that prevent patents on tax strategies and human organisms. Are there other categories that should be excluded?

Subject matter that does not constitute an improvement in technology/technological solution to a technological problem should be excluded. This includes the categories of abstract ideas like business methods, methods of organizing human behavior and mathematical processes.

4. I have heard complaints that courts do not consistently enforce Section 112 with respect to claims for inventions in the high tech space.

a. Are these valid complaints?

Yes. In the experience of UFPR members, many software-related patents disclose almost no information on how to accomplish the purported invention, violating the enablement requirement. It is also common for claims to use terms that have no understood meaning in the field and are not defined in the specification. This makes the scope of claims unclear, and patent owners take advantage of the intentional ambiguity to stretch claims to cover subject matter not described in the patent. A classic example is a fax machine patent asserted over internet e-commerce technology.

While it is important to address these problems to improve the functioning of the patent system, this is a different category of problem than the proper interpretation and enforcement of Section 101, which serves as a filter to exclude non-technological subject matter from the patent system.

b. Do the proposed changes to Section 112 adequately address those complaints and limit the scope of claims to what was actually invented?

No. The proposed change to Section 112(f) is helpful in that it directs courts to apply Section 112(f) according to its original language and intent by interpreting *all* functional claims in light of the structure and equivalents disclosed in the specification, regardless of whether a claim recites “magic words.” The proposed change to Section 112(f) does not address other needed changes to Section 112, such as invigorating the written description and definiteness requirements that are so critical for clearly limiting the scope of non-functionally recited claims to what was actually invented.

c. Are you concerned that the proposed changes will make it too easy for competitors to design around patent claims that use functional language?

No. Enforcing the *quid pro quo* of the patent system is essential to protecting the public interest. Inventors are granted patent rights commensurate with the scope of what they disclose to the public. The proposed amendment to Section 112(f), like the current version of Section 112(f), gives patent owners exclusive rights over what they disclose and *equivalents*. Both theory, and the direct experience of the past several decades, demonstrates that giving patent owners exclusive rights over non-disclosed and non-equivalent subject matter severely disrupts the essential *quid pro quo* of the patent system and hurts innovation. It is also important to remember that a key function of the patent system is to encourage further invention through attempts to design around what was disclosed.

5. **There is an intense debate going on right now about what to do about the high cost of prescription drugs. One concern is that pharmaceutical companies are gaming the patent system by extending their patent terms through additional patents on minor changes to their drugs. My understanding is that the doctrine of obviousness-type double patenting is designed to prevent this very thing.**

The Federal Circuit has explained that obviousness-type double patenting “is grounded in the text of the Patent Act” and specifically cited Section 101 for support.

Would the proposed changes to Section 101 and the additional provision abrogating cases establishing judicial exceptions to Section 101 do away with the doctrine of obviousness-type double patenting? If so, should the doctrine of obvious-type double patenting be codified?

UFPR has no position on whether the current proposed language would eliminate obviousness-type double patenting. This is an important doctrine to the functioning of the patent system, however, and we suggest that any ambiguity be clarified to support the doctrine.

6. **In its *Oil States* decision, the Supreme Court explicitly avoided answering the question of whether a patent is property for purposes of the Due Process Clause or the Takings Clause.**

What are the Due Process and Takings implications of changing Section 101 and applying it retroactively to already-issued patents?

UFPR has no position on the Due Process and Takings question presented. We point out however, that proposed changes to Section 101 and other sections of the Patent Act, such as Section 112, must be treated identically on the question of retroactive vs. prospective application in order to craft a balanced system.