Regulating Software Patents

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Today's Presentation: What the Courts, Congress, and PTO are doing/have done to regulate software patents

Problems with the Popular Solution

1. 35 USC 101
2. TRIPS
3. What's a software patent?

Public Solution?

Software patents go here

Google: Time to ditch our current software patent system?

Google's public policy director says at an Austin conference that "Most patents are not helpful to consumers..."
# Problems with the Popular Solution

1. **35 USC 101**

   - Patentable:
     - any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof

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# 35 USC 101

- Patentable:
  - abstract ideas, natural phenomenon, laws of nature

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# What the Supreme Court has said

- Patentable:
  - abstract ideas, natural phenomenon, laws of nature

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# What the Supreme Court has said (Mayo)

- Patentable:
  - abstract ideas, natural phenomenon, laws of nature + conventional steps

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# What the Supreme Court has said (Mayo)

- Patentable:
  - “simply stat[ing] a law of nature and adding the words ‘apply it’”

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# What the Supreme Court has said (Bilski)

- Patentable:
  - Machine or transformation is a useful and important clue
<table>
<thead>
<tr>
<th>What the Supreme Court has said (Mayo)</th>
<th>What the Federal Circuit has said (Ultramercial)</th>
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<tbody>
<tr>
<td><strong>Patentable:</strong></td>
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<tr>
<td><em>Machine or transformation is a useful and important clue but not a definitive test</em></td>
<td><em>Practical applications of general concepts</em></td>
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<th>What the Federal Circuit has said (Bancorp, Fort)</th>
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<td><strong>Patentable:</strong></td>
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<tr>
<td><em>Meaningful limits on patent scope + abstract concept</em></td>
<td><em>Meaningful limitations + abstract idea</em></td>
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<th>What the Federal Circuit has said (Cybersource)</th>
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<td><strong>Patentable:</strong></td>
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<td><em>Mental processes that only incidentally mention a computer</em></td>
<td><em>Only inventions that are “so manifestly abstract as to override the statutory language”</em></td>
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What the Federal Circuit has said (CLS)

**Patentable:**

Only that which is “nothing more than a fundamental truth or disembodied concept, with no limitations on the claim”

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Abolish software patents?

1. **35 USC 101**

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But the courts aren’t the only game in town

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Under similar conditions in history, these agencies effected change,

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A Short Pause for a Historical Break

2012 Smartphone Wars v. 1878 Agrarian Wars

“250,000 Patents”

6,211 Patents

Comments in the 1878 Congress

“[P]atent-sharks [] procure an assignment of [a] useless patent, and [] proceed to [] black-mail [] [] any man who has ever manufactured or sold, or even used, the [] invention; [] innocent users, choose to compromise rather than run the risk of ruin [] millions are thus filched and extorted from the people every year.”

- Senator Christianity, 8 Cong. Rec. 307-308 (1878).

Now

The Federal Circuit affirmed an award of attorney’s fees in a case that displayed “‘indicia of extortion’” where a non-practicing entity filed a large number of cases in order to “exploit[] the high cost to defend complex litigation to extract a nuisance value settlement.”

Eon-Net v. Flagster (Fed Cir 2011)

Then

Attorneys reportedly prepared for more than 4,000 cases in Iowa on behalf of a single patentee with the likely result that “unwary and unsuspecting farmers” would pay the nuisance fee rather than “be dragged one hundred fifty miles away from their homes, at great inconvenience and expense.”

- Hayter, (Senate Miscellaneous Documents, No. 50, 45 Cong., 2 Sess.(1873)).

Nuisance fee economics

Figure 2: Patent Nuisance Fee Economics

Assertion Makes Sense Because the Cost To Defend or Negotiate, and therefore the Likely Settlement Fees, Exceed the Cost To Assert
**How did that one end?**

“How the agrarian patent crisis started when functional design patents were created by the PTO and Congress around 1869. It took about 30 years for this patent crisis to develop and resolve, through a combination of PTO and legislative acts that abolished a class of design patents”


**Back to Our Regular Programming...**

**But can we really regulate software patents?**

- **2. TRIPS**

**What TRIPS Requires**

**Article 27**

“Patents shall be available for any inventions [] in all fields of technology”

**TRIPS Flexibilities**

**Article 33**

“The term of protection available shall not end before the expiration of a period of twenty years counted from the filing date”

**Reality Check: Others Regulate Patents by Type**

- **European Patent Convention Article 52(2)(c)**

  “The following in particular shall not be regarded as inventions within the meaning of paragraph 1: [] computer programs”
Section 14 of the AIA

“[A]ny strategy for reducing, avoiding, or deferring tax liability, whether known or unknown at the time of the invention or application for patent, shall be deemed insufficient to differentiate a claimed invention from the prior art.”

35 USC 273 (2000) Prior User Rights for Business Methods:

It shall be a defense to an action for infringement ...

271(c) no contributory infringement if:

the invention is a staple article or commodity of commerce suitable for substantial noninfringing use.

271(c)(1) Surgical Exception

the provisions of sections 281, 283, 284, and 285 of this title shall not apply against the medical practitioner or against a related health care entity with respect to such medical activity.
What about now? What have Congress/PTO done lately?

3. Even if we wanted to do this – how could we do it? what’s a software patent?

What’s a covered business method patent?

AIA Section 34(d)(1)

“Covered Business Method Patent” means a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.

What’s a software patent? (SHIELD Act)

“(3) SOFTWARE PATENT.—The term ‘software patent’ means a patent that covers—

“(A) any process that could be implemented in a computer regardless of whether a computer is specifically mentioned in the patent; or

“(B) any computer system that is programmed to perform a process described in [(A)].”.

What’s a hardware patent? (SHIELD Act)

“(2) COMPUTER HARDWARE PATENT.—The term ‘computer hardware patent’ means a patent that covers computer hardware, including a device or component of such device.

What’s a software patent? Do we need a precise definition?

Under the APA, judicial review of an agency decision is typically limited to the administrative record. 5 U. S. C. § 706

- Hyatt v. Kappos, SCOTUS 2011
### SHIELD Act

In an action disputing a computer hardware or software patent, upon making a determination that the patentee did not have a reasonable likelihood of succeeding, the court **may** award the recovery of full costs to the prevailing party.

### Section 285

“[t]he court in exceptional cases may award attorney fees to the prevailing party.”

~50 uses per year

### References:

Colleen Chien, *Reforming Software Patents*, 2012 Houston Law Review (available on SSRN)