

No. 13-255

IN THE
Supreme Court of the United States

WILDTANGENT, INC.,

Petitioner,

v.

ULTRAMERCIAL, LLC AND ULTRAMERCIAL, INC.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE
FEDERAL CIRCUIT

**BRIEF OF *AMICI CURIAE*
CHECK POINT SOFTWARE TECHNOLOGIES
LTD.; ENDURANCE INTERNATIONAL
GROUP; FACEBOOK, INC.; NETFLIX, INC.;
PINTEREST; QUANTUM CORPORATION;
RACKSPACE; RINGCENTRAL, INC.; SABRE
HOLDINGS; TRULIA, INC.; TWITTER, INC.;
AND UNION SQUARE VENTURES IN
SUPPORT OF PETITIONER**

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INTEREST OF THE AMICI CURIAE¹

Amici are companies that make and sell products and services involving the Internet and computer software and venture capitalists who fund such companies. Amici are regularly faced with lawsuits filed by patent trolls – companies who assert patents but who do not make any product. Amici have no direct interest in the outcome of this case, but have a strong interest in ensuring that invalid patents can be identified and weeded out early in litigation.

¹ Parties have been given at least ten days notice of our intent to file this brief. Counsel for the parties have consented in writing to the filing of this brief. Pursuant to Rule 37.6, no counsel for either party had any role in authoring this brief in whole or in part, and no party other than the named Amici has made any monetary contribution toward the preparation and submission of this brief.

SUMMARY OF ARGUMENT

The petition should be granted for two reasons. First, the Federal Circuit is hopelessly divided on the question of whether and when software is patent eligible subject matter. The opinion below cannot be reconciled with that court's other opinions on that issue, making it impossible to know when a patent claim is invalid. Second, the opinion below wrongly suggests that patentable subject matter cannot be decided on a motion to dismiss, preventing the doctrine from serving as a threshold test for patent protection.

ARGUMENT

I. The Federal Circuit's Patentable Subject Matter Jurisprudence is Hopelessly Confused

There are hundreds of thousands of software patents in force in the United States today. By one estimate, there are 250,000 patents that relate to smartphone technology alone. According to the United States Government Accountability Office, as many as half of the nearly 250,000 patents the United States Patent and Trademark Office (PTO) issues every year are software patents. United States Government Accountability Office, *Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality* fig. 1, available at <http://www.gao.gov/products/GAO-13-465> (2013). And the GAO report found that 89% of the growth in

patent litigation between 2007 and 2011 was attributable to assertions of software patents. *Id.* at 21.

Despite the growth of software patents and related litigation, it is impossible under current law to know whether a particular software claim is eligible for patent protection until after the claim reaches the Federal Circuit following years of expensive litigation. The Federal Circuit split 5-5 on all of the critical issues in *CLS Bank International v. Alice Corporation Pty. Ltd.*, 717 F.3d 1269 (Fed. Cir. 2013) (*en banc*), producing seven different opinions but nothing of precedential authority. In that vacuum, Federal Circuit decisions on patentable subject matter are resolved based on whether the judges assigned to the panel hearing the appeal happen to be in one group of five or in the other.

The *Ultramercial* decision that is the basis of this Petition illustrates this problem. Before the decision in this case, it was at least facially possible to reconcile the Federal Circuit's patentable subject matter jurisprudence by focusing on whether the patent claims contained "complex computer programming" or simply called for an otherwise abstract function to be carried out on a computer. *Res. Corp. Techs., Inc. v. Microsoft Corp.*, 627 F.3d 859, 863 (Fed. Cir. 2010).

But *Ultramercial* renders that distinction meaningless, finding a claim to contain "complex computer programming," even though it has *no* programming elements of any kind and is far more

abstract than claims this Court has rejected as unpatentable.² Indeed, Claim 1 of the *Ultramercial*

² Both the specific algorithm recited in claim 4 of the patent at issue in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), and the algorithm at issue in *Gottschalk v. Benson*, 409 U.S. 63 (1972), for instance, are far more limited and specific than anything set forth in the claims at issue in this case. But such algorithms were nonetheless unpatentable.

Claim 4 of Bilski's patent application, for instance, provides: "The method of claim 3 wherein the fixed price for the consumer transaction is determined by the relationship: Fixed Bill Price = $F_i + [(C_i + T_i + LD_i) \times (\alpha + \beta E(W_i))]$ wherein, F_i = fixed costs in period i ; C_i = variable costs in period i ; T_i = variable long distance transportation costs in period i ; LD_i = variable local delivery costs in period i ; $E(W_i)$ = estimated location-specific weather indicator in period i ; and α and β are constants."

Claim 8 of the patent in *Benson* provides:

The method of converting signals from binary coded decimal form into binary which comprises the steps of
 (1) storing the binary coded decimal signals in a reentrant shift register,
 (2) shifting the signals to the right by at least three places, until there is a binary '1' in the second position of said register,

patent requires no specific technology other than “the Internet.” Thus, the decision directly conflicts with other Federal Circuit decisions finding claims similarly lacking in specific technology to be unpatentable.³ *See, e.g., Accenture Global Servs., GmbH v. Guidewire Software, Inc.*, __ F.3d __ 2013 WL 4749919, at * 5, 7 (Fed. Cir. Sept. 5, 2013) (patent claims to a system with a set of “databases” and an “event processor” unpatentable because the claims “offer no meaningful limitations” “that set them apart from the abstract idea of handling insurance-related information.”); *Bancorp Servs., LLC v. Sun Life Assurance Co. of Canada*, 687 F.3d 1266, 1273-74 (Fed. Cir. 2012) (patent claims

(3) masking out said binary ‘1’ in said second position of said register,
 (4) adding a binary ‘1’ to the first position of said register,
 (5) shifting the signals to the left by two positions,
 (6) adding a ‘1’ to said first position, and
 (7) shifting the signals to the right by at least three positions in preparation for a succeeding binary ‘1’ in the second position of said register.”

Benson, 409 U.S. at 73-74.

³ Judge Lourie, concurring in the decision below, would have found the claim patentable but disagreed that it included “complex computer programming.” *Ultramercial, Inc. v. Hulu, LLC*, 722 F.3d 1335, 1355 (Fed. Cir. 2013) (Lourie, J., concurring).

including general-purpose computer structures such as “digital storage” and “calculator” and claims requiring that the steps of the method be “performed by a computer” both invalid for lack of patentable subject matter); *Dealertrack, Inc. v. Huber*, 674 F.3d 1315, 1334 (Fed. Cir. 2012) (claims to “computer-aided method” not patentable subject matter); *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1374-75 (Fed. Cir. 2011) (claims patent-eligible only if they are “truly drawn to [a] specific apparatus distinct from other apparatus[es] capable of performing the identical functions.”); *Fort Props. Inc. v. Am. Master Lease*, 671 F.3d 1317, 1323 (Fed. Cir. 2012) (claim to business method not patentable subject matter where it “simply added a computer limitation to claims covering an abstract concept”).

The result is that it is impossible for the patentees, software companies, district courts, or the U.S. Patent and Trademark Office (PTO) to know whether a software patent claim meets the “threshold test” of patent eligibility. *Bilski*, 130 S. Ct. at 3225. The patents continue to issue, and parties continue to litigate them. But because there is a split within the circuit charged with overseeing the evaluation of patentable subject matter, litigants are forced to extreme positions. Patentees are free to assert any claim, no matter how abstract, and software companies are well advised to always bring a section 101 challenge, no matter how concrete the claim, because neither party has any idea which way the law might turn in a year or two. The PTO cannot issue clear guidance to its examiners as to whether to issue patents as long as the claim makes

some reference to a computer or whether to require evidence of real computing technology. And both district judges and the administrative law judges at the International Trade Commission and the Patent Trial and Appeal Board have no way to know which line of inconsistent Federal Circuit cases they should follow.

The Federal Circuit is either unable or unwilling to resolve this intra-circuit split, despite this Court's remand in this very case to allow that court to reconsider its views on patentable subject matter. As the majority of one divided Federal Circuit panel noted, "[o]ur opinions spend page after page revisiting our cases and those of the Supreme Court, and still we continue to disagree vigorously over what is or is not patentable subject matter." *MySpace, Inc. v. GraphOn Corp.*, 672 F.3d 1250, 1259 (Fed. Cir. 2012). This Court should intervene to resolve that disagreement.

II. By Changing Patentable Subject Matter From a Question of Law to a Question of Fact, the *Ultramercial* Decision Makes It Practically Impossible to Resolve Patentable Subject Matter Early in Litigation

The uncertainty that *Ultramercial* injected into the patentable subject matter inquiry is compounded by the Federal Circuit's repeated statements in the opinion below that analyzing patentable subject matter is "rife with underlying factual issues." *Ultramercial, Inc. v. Hulu, LLC*, 722 F.3d 1335, 1339 (Fed. Cir. 2013). The Federal Circuit further advised

that because whether an idea is too abstract will often require resolution of factual questions, resolving patentable subject matter was inappropriate on a motion to dismiss. *Id.* at 1355. And it held that the absence of patentable subject matter must be proven by clear and convincing evidence on a motion to dismiss. *Id.* at 1338-39.

In fact, however, this Court has previously indicated that patent validity as a whole is a question of law. *Microsoft Corp. v. i4i LP*, 131 S. Ct. 2238, 2242-43 (2011) (“the ultimate question of patent validity is one of law.”); *id.* at 2253 (Breyer, J., concurring); *Mahn v. Harwood*, 112 U.S. 354, 358 (1884) (“a valid defense, not given by the statute, often arises where the question is whether the thing patented amounts to a patentable invention. This being a question of law, the courts are not bound by the decision of the commissioner . . .”); *Sakraida v. Ag Pro, Inc.*, 425 U.S. 273, 280 (1976) (citing *Great Atl. & Pac. Tea Co. v. Supermarket Equip. Corp.*, 340 U.S. 147, 155 (1950) (Douglas, J., concurring)); *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 17 (1966) (same). And this Court’s opinions on patentable subject matter in particular have consistently avoided according deference to any decisions of the lower courts or the PTO.

In each of this Court’s modern § 101 cases—beginning with *Gottschalk v. Benson*, 409 U.S. 63 (1972)—the Court’s analysis focuses on the legally operative patent claims, and in none of these cases does this Court’s analysis of the patentable subject matter issue reveal any deference to the findings or

conclusions below. The opinion in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012), is typical: the Court made its own assessment of the scope of the claims, *id.* at 1296-98, then tested those claims against the § 101 jurisprudence *de novo*, *id.* at 1298-1304. Even in the highly technical *Ass’n for Molecular Pathology v. Myriad*, 133 S. Ct. 2107 (2013), this Court appears to have relied entirely on undisputed facts, and explicitly rejected a call for deference to the PTO’s practice of granting gene patents.

The Federal Circuit has repeatedly held that measuring patent claims against § 101 is a question of law, including in its *en banc* *Bilski* opinion. *See, e.g., In re Bilski*, 545 F.3d 943, 951 (Fed. Cir. 2008) (*en banc*) (“Whether a claim is drawn to patent-eligible subject matter under § 101 is an issue of law that we review *de novo*.”), *aff’d sub nom. Bilski v. Kappos*, 130 S. Ct. 3218 (2010); *AT&T Corp. v. Excel Commc’ns, Inc.*, 172 F.3d 1352, 1355 (Fed. Cir. 1999) (“whether the asserted claims of the ’184 patent are invalid for failure to claim statutory subject matter under 35 U.S.C. § 101, is a question of law which we review without deference”), *abrogated on other grounds by In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008); *SiRF Tech., Inc. v. Int’l Trade Comm’n*, 601 F.3d 1319, 1331 (Fed. Cir. 2010) (“Whether a claim is drawn to patent-eligible subject matter is an issue of law that is reviewed *de novo*.”); *Dealertrack*, 674 F.3d at 1333 (“Whether a patent claim is drawn to patent-eligible subject matter is an issue of law that is reviewed *de novo*.”) (citation omitted).

While the Federal Circuit has occasionally posited that there may be particular circumstances in which patentable subject matter presents disputed questions of fact, *see In re Comiskey*, 554 F.3d 967, 975 (Fed. Cir. 2009) (“there may be cases” that turn on subsidiary factual questions, though not here); *Arrhythmia Research Tech. v. Corazonix Corp.*, 958 F.2d 1053, 1055-56 (Fed. Cir. 1992) (some cases “may require findings of underlying facts” though not here), not until this case had the court ever found such a case to exist, much less suggested it was the norm.

The *Ultramercial* opinion further muddled the issue when it emphasized the clear and convincing evidence standard as a reason to deny most motions to dismiss based on patentable subject matter. The clear and convincing *evidence* standard is just that – a standard that applies to the resolution of fact disputes, not to legal questions:

Where the ultimate question of patent validity turns on the correct answer to legal questions—what these subsidiary legal standards mean or how they apply to the facts as given—today’s strict standard of proof has no application.

Microsoft Corp., v. i4i LP, 131 S. Ct. at 2253 (Breyer, J., concurring); *Reckendorfer v. Faber*, 92 U.S. 347, 355 (1875) (a patent is “a prima facie right only . . . subject to an examination by the courts”); *In re Etter*, 756 F.2d 852, 856 (Fed. Cir. 1985); *Stratoflex*,

Inc. v. Aeroquip Corp., 713 F.2d 1530, 1534 (Fed. Cir. 1983).

It is well established that a court is to take the facts as pled in the complaint as given in resolving a motion to dismiss. *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007) (a court must proceed “on the assumption that all the allegations in the complaint are true (even if doubtful in fact)”); *Rosenau v. Unifund Corp.*, 539 F.3d 218, 221 (3d Cir. 2008); *see also Maio v. Aetna, Inc.*, 221 F.3d 472, 482 (3d Cir. 2000). For that reason, the clear and convincing evidence standard does not apply to a motion to dismiss. Instead, the proper inquiry is to assume the truth of the allegations in the complaint and give the complainant the benefit of any reasonable inference to be drawn from those allegations in determining whether they give rise to a plausible claim for relief. *Ashcroft v. Iqbal*, 129 S. Ct. 1937, 1949 (2009); *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555-56 (2007). By attempting to add the clear and convincing evidence burden *on top* of this standard, *Ultramercial* is double-counting the movant’s burden, and defeating the purpose of assuming the plaintiff’s factual allegations are true.

This Court has spoken of patentable subject matter as a “threshold test,” *Bilski*, 130 S. Ct. at 3225, and a “screening” device, *Mayo*, 132 S. Ct. at 1303. The logical implication is that the threshold inquiry precedes other inquiries. *See Parker v. Flook*, 437 U.S. 584, 593 (1978) (emphasizing that “[t]he obligation to determine what type of discovery

is sought to be patented” so as to determine whether it falls within the ambit of section 101 “must precede the determination of whether that discovery is, in fact, new or obvious”); *Comiskey*, 554 F.3d at 973 (“Only if the requirements of § 101 are satisfied is the inventor allowed to pass through to the other requirements for patentability, such as novelty under § 102 and . . . non-obviousness under § 103.”) (internal quotation marks and citation omitted).

Patentable subject matter can serve that screening function only if courts can use it to distinguish patentable from unpatentable claims at an early stage in the process – something district courts were starting to do prior to *Ultramercial*.⁴

⁴ Before *Ultramercial*, a number of courts were willing to resolve questions of patentable subject matter on a motion to dismiss. See, e.g., *buySAFE, Inc. v. Google Inc.*, No. C.A. 11-1282-LPS, 2013 WL 3936906 (D. Del. July 29, 2013); *SmartGene, Inc. v. Advanced Biological Labs., SA*, Civ. A. No. 08-00642 (BAH), 2012 WL 1059611, at *1 (D.D.C. Mar. 30, 2012); *Cardpool, Inc. v. Plastic Jungle, Inc.*, No. C 12-04182 WHA, 2013 WL 245026 (N.D. Cal. Jan. 22, 2013); *Sinclair-Allison, Inc. v. Fifth Ave. Physician Servs., LLC*, No. CIV-12-360-M, 2012 WL 6629561 (W.D. Okla. Dec. 19, 2012) (granting defendant’s § 101 motion to dismiss); *Glory Licensing LLC v. Toys “R” Us, Inc.*, Civ. No. 09-4252 (FSH), 2011 WL 1870591 (D.N.J. May 16, 2011) (granting defendant’s § 101 motion to dismiss); *Vacation Exchange, LLC v. Interval Int’l, Inc.*, Case 2:12-cv-RGK-FFM (C.D. Cal. Sept. 18, 2012) (granting defendant’s § 101

See, e.g., MySpace, Inc., 672 F.3d at 1264 (Mayer, J., dissenting). To relegate the threshold screening test to a background role at trial, after the litigants' money has been spent and the specific factual questions resolved, is inconsistent with the purpose of the patentable subject matter inquiry. And it is at odds with this Court's oft-stated commitment to invalidating bad patents. This Court has emphasized "the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain," *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969), and the concomitant social value of testing weak patents and protecting the public from monopolies based on invalid patents. *See, e.g., MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 137 (2007) (licensees have standing to challenge patent validity or infringement without repudiating their licenses); *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 57 (1973) (emphasizing "public interest in free competition" in concluding that licensee in antitrust suit "may attack the validity of the patent under which he is licensed even though he has agreed not to do so in his license"); *Blonder-Tongue Labs., Inc. v. Univ. of Illinois Found.*, 402 U.S. 313, 349-50 (1971) (allowing alleged infringer to claim

motion to dismiss); *Graff/Ross Holdings LLP v. Federal Home Loan Mortgage Corp.*, Case 1:07-cv-00796-RJL (D.D.C. Sept. 25, 2012) (adopting Magistrate's Report and Recommendation converting defendant's motion to dismiss on § 101 grounds into a motion for summary judgment, and granting it).

estoppel where patent previously declared invalid); *Microsoft Corp.*, 131 S. Ct. at 2253 (Breyer, J., concurring) (offering measures designed to “increase the likelihood that discoveries or inventions will not receive legal protection where none is due”).

It is true that some weak patents can be invalidated, case by case, by application of other sections of the Patent Act. But as Judge Mayer noted in his *MySpace* dissent, that approach

has, as a practical matter, proved woefully inadequate in preventing a deluge of very poor quality patents. *See Bilski*, 130 S. Ct. at 3259 (Breyer, J., joined by Scalia, J., concurring in the judgment) (noting that patents granted in the wake of *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998), have “ranged from the somewhat ridiculous to the truly absurd” (citations and internal quotation marks omitted)). “[T]here is no evidence that relying on §§ 102, 103, or 112 will solve the problem [of poor quality business method and software patents]. This claim was made ten years ago. It is still being made now. At what point does this argument run out of credibility?” Gerard N. Magliocca, *Patenting the Curve Ball: Business Methods and Industry Norms*, 2009 BYU L. Rev. 875, 900 (2009) (footnote omitted).

MySpace, 672 F.3d at 1268 (Mayer, J., dissenting).

More fundamentally, case-by-case invalidation of meritless claims will not work in practice. Taking a large patent case to trial now costs a median of \$5.5 million per side in legal fees. 2013 AIPLA Report of the Economic Survey 34. There is a vibrant and growing business in filing meritless patent lawsuits, only to settle those suits for less than the cost of defense. Indeed, by some accounts that business model now accounts for as much as half of all patent lawsuits filed. *See, e.g.*, Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 114 Colum. L. Rev. __ (forthcoming 2013), available at

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2269087; Colleen V. Chien, *Patent Assertion Entities* (Dec. 10, 2012), available at

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2187314 (finding that most patent lawsuits are resolved for less than \$10 million including legal fees, suggesting that they are driven by the cost of defending those suits).⁵ The point of Fed. R. Civ. P.

⁵ Data reported by Colleen Chien shows that trolls accounted for 38% of suits and 63% of assertions in 2011, and 57% of suits and 53% of assertions in 2012. Colleen V. Chien & Aashish R. Karkanis, *Functional Claiming and Software Patents* (working paper 2013), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2215867. Similarly, Jeruss et al. find that “patent monetization entities filed 58.7% of the patent lawsuits in 2012. This is a sharp rise from 2007,

12(b)(6) is precisely that those meritless suits “be exposed at the point of minimum expenditure of time and money by the parties and the court.” *Bell Atl. Corp.*, 550 U.S. at 558.

The Federal Circuit’s newfound hostility to motions to dismiss based on patentable subject matter contradicts its own prior case law, muddles the law–fact distinction, and misapplies the clear and convincing evidence standard. It is inconsistent with the role this Court has long articulated for the doctrine as a gatekeeper to weed bad patents out early in litigation. This Court should grant certiorari to clarify the proper role of patentable subject matter as a threshold inquiry.

when patent monetization entities filed only 24.6% of patent infringement litigations.” Sara Jeruss et al., *The AIA 500 Expanded: The Effects of Patent Monetization Entities*, available at <http://ssrn.com/abstract=2247195>.

CONCLUSION

The petition for writ of certiorari should be granted.

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