

2014

## It's Not So Obvious: How the Manifestly Evident Standard Affects Litigation Costs by Reducing the Need for Claim Construction

Samuel Reger

Follow this and additional works at: <http://scholarship.law.tamu.edu/lawreview>

 Part of the [Law Commons](#)

---

### Recommended Citation

Samuel Reger, *It's Not So Obvious: How the Manifestly Evident Standard Affects Litigation Costs by Reducing the Need for Claim Construction*, 1 Tex. A&M L. Rev. 729 (2014).

Available at: <http://scholarship.law.tamu.edu/lawreview/vol1/iss3/10>

This Comment is brought to you for free and open access by Texas A&M Law Scholarship. It has been accepted for inclusion in Texas A&M Law Review by an authorized administrator of Texas A&M Law Scholarship. For more information, please contact [sphillips64@law.tamu.edu](mailto:sphillips64@law.tamu.edu).

# IT'S NOT SO OBVIOUS: HOW THE MANIFESTLY EVIDENT STANDARD AFFECTS LITIGATION COSTS BY REDUCING THE NEED FOR CLAIM CONSTRUCTION

*By: Samuel Reger*

## ABSTRACT

*Currently, the United States Supreme Court requires a fact-specific approach to determine whether a patent claim is eligible subject matter under 35 U.S.C. § 101, even though, traditionally, this has been considered a question of law. However, recently, the United States Court of Appeals for the Federal Circuit introduced the “manifestly evident” standard. The court held that when it is not manifestly evident that a claim is directed to a patent-ineligible abstract idea, then that claim must be deemed patent-eligible subject matter.*

*This Comment suggests that the manifestly evident standard, or one similar to it, will reduce litigation costs. This is because, under the current fact-specific requirements, it may become commonplace for courts to engage in formal claim construction, a costly pre-trial process, to decide whether these requirements are met. But under the manifestly evident standard, courts and litigants will be able to quickly move past the often confusing section 101 to the later sections of the Patent Act, which courts are better prepared to confront.*

## TABLE OF CONTENTS

I.	INTRODUCTION.....	730
II.	DESCRIPTION OF SECTION 101 AND ITS FUNDAMENTAL PRINCIPLE EXCEPTIONS .....	731
	A. <i>How Section 101 Functions Within the Structural Setup of the Patent Act</i> .....	733
III.	CLAIM CONSTRUCTION.....	734
IV.	FACT-SPECIFIC INQUIRES ON THE ROAD TO SUBJECT-MATTER ELIGIBILITY .....	735
V.	PAST TESTS TO DETERMINE SUBJECT-MATTER ELIGIBILITY UNDER SECTION 101.....	735
	A. <i>The Useful, Concrete, and Tangible Test</i> .....	735
	B. <i>The Machine-or-Transformation Test</i> .....	736
	C. <i>Bilski II and the Benson-Flook-Diehr Guideposts</i> ...	737
	D. <i>The Inventive Concept</i> .....	738
VI.	EXPLAINING <i>CLS BANK v. ALICE</i> .....	739
VII.	THE MANIFESTLY EVIDENT STANDARD WILL DECREASE LITIGATION COSTS BECAUSE IT IS A COARSE-GRAINED FILTER .....	742
	A. <i>Markman Hearings</i> .....	743
	B. <i>Why is Claim Construction so Important?</i> .....	743

C. <i>The Expenses Associated with Markman Hearings and Claim Construction</i> . . . . .	743
D. <i>How Common Is Claim Construction in Subject-Matter Eligibility Determinations?</i> . . . . .	744
1. Claim Construction After <i>Bilski II</i> and <i>Prometheus</i> . . . . .	744
2. Chief Judge Rader's Thoughts on Claim Construction During Subject-Matter Eligibility Determinations . . . . .	745
3. The USPTO's Stance on Claim Construction During Subject-Matter Eligibility Determinations . . . . .	745
E. <i>The Effect of Section 101 as a Coarse-Grained Filter</i> . . . . .	746
1. Avoiding Claim Construction . . . . .	746
2. Shifting the Analysis to the Later Sections of the Patent Act . . . . .	747
VIII. CONCLUSION . . . . .	749

## I. INTRODUCTION

Patent litigation has exploded over the past twenty years. Between 1991 and 2011, the number of patent filings in district courts has more than tripled.<sup>1</sup> And between 2010 and 2011, patent filings increased by 22%.<sup>2</sup> To make matters worse, in 2011, the median price of patent litigation was \$5 million per side.<sup>3</sup> The high cost of litigating patent disputes and the increased filing rates of patent suits mean that before adopting new rules and standards courts should not only consider precedent and policy, but also how these judicially imposed rules and standards affect the price tag of litigation.

Recently, the United States Court of Appeals for the Federal Circuit took the opportunity to introduce, arguably, a new standard for determining the subject-matter eligibility of patent claims.<sup>4</sup> In *CLS Bank International v. Alice Corp. Proprietary Ltd.*, the court controversially held that when it is not manifestly evident that a claim is directed to a patent-ineligible abstract idea, that claim must be deemed patent-eligible subject matter.<sup>5</sup> The Federal Circuit has since

1. Chris Barry et al., PRICEWATERHOUSE COOPERS LLP, *2012 Patent Litigation Study*, 6, [http://www.pwc.com/en\\_US/us/forensic-services/publications/assets/2012-patent-litigation-study.pdf](http://www.pwc.com/en_US/us/forensic-services/publications/assets/2012-patent-litigation-study.pdf) (last visited Feb. 23, 2013).

2. *Id.*

3. Mark A. Lemley, GOOGLE+ (Aug. 15, 2011), <https://plus.google.com/101873400615458854642/posts/28fnFbnGgeV>; see STEVEN M. AUVIL & DAVID A. DIVINE, AM. INTELL. PROP. L. ASS'N, REPORT OF THE ECONOMIC SURVEY, I-153 to I-156 (2011).

4. *CLS Bank Int'l v. Alice Corp. Proprietary Ltd.*, 685 F.3d 1341, 1356 (Fed. Cir. 2012) (Prost, J., dissenting), *vacated, reh'g en banc granted*, 484 Fed. Appx. 559 (Fed. Cir. 2012).

5. *Id.* at 1352.

vacated this decision, but during an en banc rehearing, it will once again decide what test the court should adopt to determine whether a claim is a patent-ineligible *abstract idea*.<sup>6</sup>

This Comment suggests that the manifestly evident standard may reduce litigation costs. Here is why: currently, the Supreme Court mandates several fact-specific requirements to determine subject-matter eligibility, even though this determination is a question of law.<sup>7</sup> Under the manifestly evident standard, as opposed to the current fact-specific requirements, district courts will spend less time digging into the claims to discover some of these factual intricacies because they will have to determine only whether it is manifestly evident that the patent claim is drawn to a patent-ineligible idea. This, in turn, may save litigants money because the claim-construction process will not burden them during subject-matter-eligibility determinations.

## II. DESCRIPTION OF SECTION 101 AND ITS FUNDAMENTAL PRINCIPLE EXCEPTIONS

Section 101 of the Patent Act states, “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor . . . .”<sup>8</sup> This section of the Patent Act instructs us on what types of inventions are patent-eligible, and inventions that fall within the scope of Section 101 are called patent-eligible subject matter.<sup>9</sup>

On its face, Section 101 does not contain any exceptions.<sup>10</sup> Indeed, its scope is very broad, and famously, the Supreme Court has said that Congress intended statutory subject matter to “include anything under the sun that is made by man.”<sup>11</sup> However, section 101 has limits, and thus does not truly include “anything under the sun.”<sup>12</sup> Later, the Supreme Court said there are implicit exceptions within the text of Section 101.<sup>13</sup> Fundamental principles, such as the laws of nature, physical phenomena, and abstract ideas are not patent-eligible subject matter.<sup>14</sup> For example, Albert Einstein would not have been able to patent his famous method for converting mass into energy<sup>15</sup> because, while this was a groundbreaking discovery, it is also an unpatentable

---

6. *CLS Bank*, 484 Fed. Appx. at 559–60.

7. See John M. Golden, *Patentable Subject Matter and Institutional Choice*, 89 TEX. L. REV. 1041, 1085 (2011).

8. 35 U.S.C.A. § 101 (West 2011).

9. See *Bilski v. Kappos*, 130 S. Ct. 3218, 3225 (2010).

10. § 101.

11. *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980).

12. See *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1293 (2012).

13. *Id.*

14. *Id.*

15.  $E=mc^2$ .

law of nature.<sup>16</sup> However, as the text of section 101 indicates, if Einstein had developed a method that implemented his law of nature, then he may have been able to acquire a patent.<sup>17</sup>

Therefore, subject-matter eligibility has two primary requirements or “hurdles.”<sup>18</sup> First, each patent claim must fit within one of the four statutorily mandated categories: process, machine, manufacture, or composition of matter.<sup>19</sup> Second, each claim must then be outside of the judicially derived exceptions to subject-matter eligibility: “abstract ideas, laws of nature, and natural phenomena.”<sup>20</sup>

The Supreme Court’s exception that fundamental principles are not patentable subject matter furthers the main goal of patent law, which is the “production, disclosure, and commercialization of socially valuable inventions.”<sup>21</sup> This is because the rule against patenting fundamental principles prevents inventors from obtaining a patent that is overly broad.<sup>22</sup> An overly broad patent burdens innovation and progress because it limits the ability for subsequent inventors to improve upon and patent new applications that use that same basic principle.<sup>23</sup> Thus, these exceptions are critical to patent law because they promote progress and innovation.<sup>24</sup>

However, Mark A. Lemley, a professor of law at Stanford University and a leading commentator in patent law,<sup>25</sup> points out that patentees oftentimes incorporate fundamental principles into their patents in new and useful ways to serve a practical end.<sup>26</sup> And when they do this, patentees are entitled to a patent.<sup>27</sup> Further, it has been pointed out that with any patent, the claims can all be stripped down or simplified to expose fundamental truths.<sup>28</sup> But when patentees claim fundamental ideas in such a way that the claim is overly broad or lacks an inventive concept, innovation is stifled because the inventor obtains control, through the grant of rights, over the fundamental idea itself.<sup>29</sup>

---

16. DONALD S. CHISUM ET AL., *PRINCIPLES OF PATENT LAW* 772 (3rd ed. 2004).

17. *Id.*

18. Mark A. Lemley et al., *Life After Bilski*, 63 *STAN. L. REV.* 1315, 1325 (2011).

19. *Id.*

20. *Id.*

21. *Id.* at 1326.

22. *Id.* at 1343.

23. *Id.*

24. *See id.* at 1343.

25. *Directory, Mark A. Lemley*, UNIV. OF STAN. SCH. OF LAW, <http://www.law.stanford.edu/node/166497> (last visited Feb. 24, 2013).

26. Lemley et al., *supra* note 18, at 1328–29.

27. *Id.*

28. *CLS Bank Int’l v. Alice Corp. Proprietary Ltd.*, 685 F.3d 1341, 1351 (Fed. Cir. 2012)

29. Lemley et al., *supra* note 18, at 1329.

A. *How Section 101 Functions Within the Structural Setup of the Patent Act*

Section 101, according to recent Supreme Court precedent, is a threshold test to the later sections of the Patent Act: 35 U.S.C. §§ 102, 103, 112 (collectively the “Later Sections”).<sup>30</sup> Section 102 requires that the subject matter be novel to receive a patent.<sup>31</sup> Section 103 requires that an invention be non-obvious.<sup>32</sup> And, generally, section 112 describes what a patent application must contain by requiring sufficient disclosure of the invention.<sup>33</sup> Each of these sections has its own set of independent and distinct requirements.<sup>34</sup> The Later Sections of the Patent Act each require detailed and fact-intensive inquiries to determine such things as the state of the prior art, the ordinary user’s level of knowledge, and the actual date of invention.<sup>35</sup> Because these sections are fact-intensive, they have been referred to as a fine-grained filter.<sup>36</sup> Together, Section 101 and the later sections of the Patent Act define the requirements of patentability.<sup>37</sup> A claim must pass each section before it can be deemed patentable by the U.S. Patent and Trademark Office.<sup>38</sup>

Because Section 101 is a threshold test, or an initial inquiry, before a district court can examine the Later Sections of the Patent Act, it functions as a filter.<sup>39</sup> Much of the debate following the Federal Circuit’s decision in *CLS Bank* has focused around whether Section 101 acts as a fine-grained or coarse-grained filter to the Later Sections of the Patent Act,<sup>40</sup> meaning that if Section 101 were a fine-grained filter, a district court would filter out more unpatentable claims under Section 101 because they are patent-ineligible subject matter.<sup>41</sup> And if the filter were more coarse-grained, more patent claims would pass by Section 101 so that district courts could examine patentability under the Later Sections.<sup>42</sup>

---

30. *Bilski v. Kappos*, 130 S. Ct. 3218, 3225 (2010).

31. 35 U.S.C.A. § 102 (West 2011).

32. *Id.* § 103.

33. *Id.* § 112.

34. *See* Golden, *supra* note 7, at 1055.

35. *Id.*

36. *Id.*

37. *See* U.S.C.A. §§ 101–103, 112.

38. *See generally id.*

39. Golden, *supra* note 7, at 1058–59.

40. *See* Brief for Clearing House Assoc. et al. as Amici Curiae Supporting Petitioners at 9, *CLS Bank Int’l v. Alice Corp. Proprietary Ltd.*, No. 2011-1301 (Fed. Cir., argued Feb. 8, 2013); Principal en Banc Brief for CLS Bank Int’l & CLS Servs. Ltd. at 28–29, *CLS Bank Int’l v. Alice Corp. Proprietary Ltd.*, No. 2011-1301 (Fed. Cir. argued Feb. 8, 2013).

41. *See* Principal en Banc Brief for CLS Bank Int’l & CLS Servs. Ltd. at 28–29, *CLS Bank Int’l*, No. 2011-1301.

42. *See id.*

John M. Golden, professor of law at the University of Texas and another leading commentator about patent law,<sup>43</sup> describes section 101 as a coarse-grained filter that contrasts with the other sections of the Patent Act.<sup>44</sup> Unlike the Later Sections of the Patent Act, subject-matter eligibility does not have distinctive or specific requirements for the claimed invention.<sup>45</sup> Instead, Section 101 requires that the claimed invention fit within one of the broadly drawn categories of things that Congress has deemed worthy of a patent.<sup>46</sup>

### III. CLAIM CONSTRUCTION

When a court determines the patentability of claims, it primarily focuses on the text of the claim to interpret the meaning of the claim.<sup>47</sup> This process, which is oftentimes the most important part of the entire pre-trial process, is known as *claim construction*.<sup>48</sup> While constructing claims, a court primarily relies upon intrinsic evidence, which is contained within the language of the patent claim. However, courts, after thoroughly examining intrinsic evidence, will rely upon extrinsic evidence, such as dictionaries, scientific treatises, and expert testimony.<sup>49</sup>

Claim construction, like a subject-matter-eligibility determination, is a legal question.<sup>50</sup> Thus, the judge, not the jury or the parties, determines the meaning of the claims through the process.<sup>51</sup> Because claim construction is a matter of law, appellate courts review claim construction de novo, even if the claim construction includes fact-based questions that relate to the claim construction.<sup>52</sup>

In terms of subject-matter eligibility under section 101, after a court interprets the claims through the claim construction process, it then categorizes the claim under one of the four subject-matter eligibility categories.<sup>53</sup> As Section 101 states, the patent claim must be a process, machine, manufacture, or a composition of matter.<sup>54</sup> But, even if a court determines that the claim fits within one of the four categories, if the court determines that the claim fits within one of the three fundamental principle exceptions—laws of nature, physical phenomena,

---

43. *The UT Law Faculty, John M. Golden*, UNIV. OF TEX. SCH. OF LAW., <http://www.utexas.edu/law/faculty/jg33285/> (last visited Feb. 24, 2013).

44. Golden, *supra* note 7, at 1058–59.

45. *Id.* at 1061.

46. *Id.* at 1058.

47. *Id.* at 1059.

48. *Id.*

49. *Id.*

50. *See Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996).

51. *Id.*

52. *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1451 (Fed. Cir. 1998).

53. Golden, *supra* note 7, at 1059.

54. *Id.*

or abstract ideas—then the claim fails the requirements of subject-matter eligibility.<sup>55</sup>

#### IV. FACT-SPECIFIC INQUIRIES ON THE ROAD TO SUBJECT-MATTER ELIGIBILITY

Although the Supreme Court has said determining subject-matter eligibility is purely a question of law, fact-specific inquiries still exist during the process.<sup>56</sup> The Supreme Court and the Federal Circuit are concerned with granting patents that are overly broad.<sup>57</sup> Thus the “no-preemption” rule states that patent claims cannot preempt all the uses of a fundamental principle.<sup>58</sup> The no-preemption rule can cause a detailed inquiry into the scope of the patent claims to determine how broad the claims are.<sup>59</sup> Further, courts may also have to examine the ability of other inventors to exploit the fundamental principle in the future, assuming that a patent was granted.<sup>60</sup>

Closely related to the no-preemption rule is the *significance filter*, which is the requirement that patent claims must contain more than insignificant extra-solution activity.<sup>61</sup> This means that an applicant cannot simply claim a fundamental principle, such as abstract idea, and then, say, apply it.<sup>62</sup> Instead, the patent claims must contain some sort of inventive concept that brings the claim into the realm of subject-matter eligibility.<sup>63</sup> The significance filter and the inventive-concept requirement, because they are concerned with novelty and non-obviousness, require close inspection by district courts.<sup>64</sup> As Professor Golden points out, these requirements, both the no-preemption rule and the significance filter, can involve a fact-specific inquiry into the scope of the patent claim.<sup>65</sup>

#### V. PAST TESTS TO DETERMINE SUBJECT-MATTER ELIGIBILITY UNDER SECTION 101

##### A. *The Useful, Concrete, and Tangible Test*

The manifestly evident standard, introduced in *CLS Bank*, was not the Federal Circuit or Supreme Court’s first attempt at articulating a

---

55. *Id.* at 1059–60.

56. *Id.* at 1061.

57. *Id.*

58. *Id.*

59. *Id.*

60. *Id.*

61. *Id.*; Lemley, et al., *supra* note 18, at 1318.

62. *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294 (2012).

63. *Id.*

64. *See* Golden, *supra* note 7, at 1061.

65. *Id.*



workable test to determine subject-matter eligibility.<sup>66</sup> In 1994, the Federal Circuit introduced the “useful, concrete, and tangible” test, which focuses on the results of a claimed process to determine if the claim is patent-eligible.<sup>67</sup> In *State St. Bank*, the Federal Circuit applied this test to a process that used a computer to transform data, which represented discrete dollar amounts, through a series of mathematical calculations into a final share price.<sup>68</sup> The Federal Circuit said that, because the process produced a final share price that could be recorded for reporting purposes and then relied upon in subsequent trades, the result was useful, concrete, and tangible.<sup>69</sup> Thus, the process, although it contained a series of mathematical formulas and calculations, was patent-eligible.<sup>70</sup>

### B. *The Machine-or-Transformation Test*

From 1998 to 2008, patentable subject matter was a “dead letter,” until the Federal Circuit heard *In re Bilski*.<sup>71</sup> In this case, the Federal Circuit said that the useful, concrete, and tangible result test was inadequate.<sup>72</sup> Explaining further, the court stated that, while a useful, concrete, and tangible result may provide insight into whether a claim is drawn to a patent-ineligible abstract idea, the inquiry is nonetheless insufficient to determine eligibility under Section 101.<sup>73</sup> In its place, the Federal Circuit inserted the machine-or-transformation test.<sup>74</sup>

Under the two-prong machine-or-transformation test, the applicant may demonstrate that a process satisfies section 101 by showing that the claim is either tied to a particular machine or brings about a particular transformation of a particular article.<sup>75</sup> Under the Federal Circuit reasoning, a claim that is tied to a particular machine or transforms a particular article does not preempt all uses of the fundamental principle because it is limited to a particular use.<sup>76</sup> Also, under either prong of the test, the machine or transformation must “impose meaningful limits” and the involvement of the machine or transformation must not be “insignificant extra-solution activity.”<sup>77</sup>

With *In re Bilski* (*Bilski I*) the Federal Circuit decided whether a business process that hedged risk in the sale of commodities was pat-

---

66. See *State St. Bank & Trust Co. v. Signature Fin. Grp., Inc.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998).

67. *In re Alappat*, 33 F.3d 1526, 1544 (Fed. Cir. 1994).

68. *State St. Bank*, 149 F.3d at 1373.

69. *Id.*

70. *Id.*

71. Lemley et al., *supra* note 18, at 1318.

72. *In re Bilski*, 545 F.3d 943, 959–60 (Fed. Cir. 2008), *aff'd sub nom. Bilski v. Kappos*, 130 S. Ct. 3218 (2010) (*Bilski I*).

73. *Id.* at 959.

74. *Id.* at 960–61.

75. *Id.* at 961.

76. *Id.* at 957.

77. *Id.* at 961–62.

entable subject matter.<sup>78</sup> More specifically, the claims were drawn to a “financial hedging method that allows commodity users and producers to fix their costs by shifting the risk of supply and demand fluctuation onto other market participants.”<sup>79</sup> The Federal Circuit held that this business method was not patentable subject matter because the claims were drawn to a patent-ineligible abstract idea.<sup>80</sup> The applicant admitted that the machine prong was not satisfied, so the court only addressed the transformation prong.<sup>81</sup> The court said that the applicant’s process does not transform any article to a different state or thing.<sup>82</sup> Manipulations of legal obligations or business risks cannot meet the test’s requirements because they are not physical objects or substances, according to the court.<sup>83</sup>

### C. *Bilski II and the Benson-Flook-Diehr Guideposts*

In *Bilski v. Kappos (Bilski II)*, the Supreme Court granted certiorari to review *In re Bilski*.<sup>84</sup> The Supreme Court affirmed the Federal Circuit, but it disagreed that the machine-or-transformation test was the sole means of determining patent eligibility of processes under Section 101.<sup>85</sup> The Court stated that the machine-or-transformation test is a useful and important clue, but it is not the exclusive means for deciding whether an invention is a patent-eligible process.<sup>86</sup>

The Supreme Court’s holding in *Bilski II* instructs patent lawyers and judges to take a fact-and-case-specific approach to determine the scope of patent eligibility under Section 101.<sup>87</sup> In place of a standard or rule, the Supreme Court instead focused on three cases that were decided in the 1970s.<sup>88</sup> These three cases are known as the *Benson-Flook-Diehr* guideposts.<sup>89</sup> Generally, these three cases are similar because they address whether patent claims, which all used a computer to carry out a process, were patentable processes or unpatentable abstract ideas.<sup>90</sup> A few requirements, which were briefly discussed above, emerge from the synthesis of these three cases. First, a process that wholly preempts a fundamental concept is unpatentable.<sup>91</sup> Sec-

---

78. *Id.* at 949.

79. Dennis Crouch & Robert P. Merges, *Operating Efficiently Post-Bilski by Ordering Patent Doctrine Decision-Making*, 25 BERKELEY TECH. L.J. 1673, 1676 (2011).

80. *In re Bilski*, 545 F.3d at 964.

81. *Id.* at 950.

82. *Id.* at 963.

83. *Id.*

84. *Bilski v. Kappos*, 130 S. Ct. 3218, 3225 (2010) (*Bilski II*).

85. *Id.* at 3227.

86. *Id.*

87. Crouch & Merges, *supra* note 79, at 1677.

88. *Id.*

89. *Bilski II*, 130 S. Ct. at 3222.

90. *Diamond v. Diehr*, 450 U.S. 175, 175 (1981); *Parker v. Flook*, 437 U.S. 584, 586 (1978); *Gottschalk v. Benson*, 409 U.S. 64, 64 (1972).

91. *Benson*, 409 U.S. at 72.

ond, a claim that includes fundamental concepts must have a substantial practical application.<sup>92</sup> Third, extra-solution activity, no matter how conventional, cannot transform an unpatentable fundamental concept into a patentable process.<sup>93</sup> Thus, instead of merely applying extra-solution activity to a fundamental concept, the use of the fundamental concept must be tied to the process during the solution.<sup>94</sup>

#### D. *The Inventive Concept*

In the Supreme Court's latest attempt to define the limits of subject-matter eligibility, it renewed the idea that patent claims must "contain other elements or a combination of elements, sometimes referred to as an 'inventive concept,' sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the natural law itself."<sup>95</sup>

The Supreme Court addressed the inventive-concept idea in *Flook*.<sup>96</sup> The claims in *Flook* comprised a method for updating alarm limits.<sup>97</sup> Alarm limits, according to the case, are simply numbers that are calculated and then compared to operating conditions of a catalytic conversion process.<sup>98</sup> If the operating conditions exceeded the alarm limits, then an alarm would signal the presence of an abnormal condition.<sup>99</sup> To calculate the alarm limits, the process employed a novel mathematical formula.<sup>100</sup> However, the Court recognized that the only thing inventive about this process was the mathematical algorithm itself.<sup>101</sup> And because algorithms are not patent-eligible subject matter, they are always assumed to be within prior art, no matter how novel they may be.<sup>102</sup> Once the formula was assumed to be within the prior art, no other inventive application of this algorithm existed because the specific catalytic conversion process was well known.<sup>103</sup> Therefore, the process was not patent-eligible subject matter, in part because it contained no inventive concept.<sup>104</sup>

Generally, the Supreme Court imposed the inventive-concept requirement for two reasons.<sup>105</sup> First, the inventive-concept requirement

---

92. *Id.* at 71.

93. *Flook*, 437 U.S. at 594–95.

94. *See Diehr*, 450 U.S. at 191–92.

95. *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294 (2012).

96. *Flook*, 437 U.S. at 594.

97. *Id.* at 585.

98. *Id.*

99. *Id.*

100. *Id.*

101. *Id.*

102. *Id.* at 594.

103. *Id.*

104. *Id.*

105. *See Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294 (2012).

works to make patent eligibility independent of a “draftsman’s art.”<sup>106</sup> Meaning that if the Court requires an inventive concept, it will help prevent a skilled patent draftsman from making an otherwise patent-ineligible claim seem patent-eligible because the court will look more to content rather than style.<sup>107</sup> Second, it also helps prevent claims that only contain extra-solution activity added to an abstract idea or natural law from being patented.<sup>108</sup> Claims that contain nothing more than extra-solution activity cover a broad range of potential uses and can unduly limit innovation.<sup>109</sup> So the inventive-concept requirement is another limit on the scope of patent eligibility because it requires courts to closely examine the factual intricacies of the patent claim in search of an inventive concept.<sup>110</sup>

## VI. EXPLAINING *CLS BANK V. ALICE*

The Federal Circuit has remained divided on the issue of subject-matter eligibility, even though the Supreme Court has recently addressed the issue of patent eligibility in *Bilski II* and *Mayo*.<sup>111</sup> In a 2-1 decision, the court held that a patent claim purporting to minimize settlement risk was patentable subject matter.<sup>112</sup> Interestingly, and as evidence of the divide among the court, both sides cited *Prometheus* to support their positions for and against the other.<sup>113</sup>

Leading up to the case, the United States Patent and Trademark Office (USPTO) issued four patents to Alice Corporation.<sup>114</sup> Collectively, these patents cover a process that eliminates settlement risk.<sup>115</sup> Settlement risk is “the risk that only one party’s obligation will be paid, leaving the other without its principal.”<sup>116</sup> Alice Corporation, in its opposition to CLS Bank’s motion to dismiss, provided the following example: suppose that a bank in London would like to exchange

---

106. *Id.*

107. *Id.*

108. *Id.*

109. *Id.*

110. Crouch & Merges, *supra* note 79, at 1688 (“All of the patentability doctrines seek to ensure that granted patents are not overreaching but instead are given their appropriate scope.”).

111. Jason Rantanen, *CLS Bank v. Alice: The “Nothing More Than” Limitation on Abstract Ideas*, PATENTLY-O, (July 10, 2012), <http://www.patentlyo.com/patent/2012/07/cls-bank-v-alice-corp.html>.

112. Tony Dutra, *CLS Bank v. Alice: Another Federal Circuit Section 101 Decision, Another Split*, BLOOMBERG INTELL. PROP. BLOG (July 10, 2012), <http://www.bna.com/cls-bank-alice-b12884910574/>.

113. *Id.*

114. *See* *CLS Bank Int’l v. Alice Corp. Proprietary Ltd.*, 685 F.3d 1341, 1343 (Fed. Cir. 2012).

115. *Id.*

116. *Id.*

£500 for \$1,000 with a bank in New York.<sup>117</sup> The London bank would pay £500 to an agent of the New York bank, and then it would patiently wait to receive the \$1,000 payment.<sup>118</sup> Because the exchanges between the two banks cannot occur simultaneously, there is a risk that the New York bank will become insolvent and thus unable to pay the \$1,000 to the London bank.<sup>119</sup> This is an example of settlement risk.<sup>120</sup>

The risk that only one side will complete its obligation is common in many transactions that occur between people or businesses, not just in currency exchange.<sup>121</sup> For example, when a lawyer performs legal work for a client, there is a risk that the client will not pay for the work performed.<sup>122</sup> On the other side, when a client pays for legal services in advance, there is no guarantee that the work will be performed.<sup>123</sup>

Some commentators suggest that Alice's business method, which attempts to eliminate settlement risk, is similar to the age-old concept of employing an escrow account to reduce the risk of nonpayment or nonperformance.<sup>124</sup> An escrow account is "a bank account, generally held in the name of the depositor and an escrow agent, that is returnable to the depositor or paid to a third person on the fulfillment of specified conditions."<sup>125</sup> Alice's method to reduce settlement risk, which uses "shadow accounts," is similar to an escrow account because both involve an arrangement where an intermediary delivers funds when a pre-specified condition occurs.<sup>126</sup> The similarity between the two ideas gives rise to the argument that, collectively, Alice's patents cover nothing more than an abstract idea.<sup>127</sup> However, Alice contends that this method is still different from the traditional use of

---

117. Opposition to the Motion to Dismiss of Respondent-Appellant at 5, *CLS Bank Int'l v. Alice Corp. Proprietary Ltd.*, 768 F. Supp. 2d 221 (D.D.C. 2011) (No. 07-974).

118. *Id.*

119. *Id.*

120. *Id.*

121. Dennis Crouch, *CLS Bank v. Alice Corp: Patenting Software Ideas*, PATENTLY-O (Sept. 7, 2012), <http://www.patentlyo.com/patent/2012/09/cls-bank-v-alice-corp-patenting-software-ideas.html>; Joe Mullin, *Judge Blasts Colleagues for Defying SCOTUS, Allowing Financial Patent*, ARS TECHNICA (July 13, 2012, 7:00 PM), <http://arstechnica.com/tech-policy/2012/07/judge-blasts-colleagues-for-defying-scotus-allowing-financial-patent/>.

122. *Id.*

123. *Id.*

124. *Id.*

125. BLACK'S LAW DICTIONARY 20 (9th ed. 2009).

126. See *CLS Bank Int'l v. Alice Corp. Proprietary Ltd.*, 685 F.3d 1341, 1346 (Fed. Cir. 2012).

127. See *id.* ("[T]his basic idea of 'credit intermediation' is not just abstract; it is also literally ancient.").

escrow accounts because it uses a computer to carry out an exchange in a particular way through the use of these “shadow accounts.”<sup>128</sup>

At the district court level, CLS Bank sought a declaratory judgment stating that all four of Alice’s patents were invalid.<sup>129</sup> After finding that the business method claimed by Alice was directed to nothing more than the fundamental idea of using a neutral intermediary to minimize settlement risk, essentially escrow, the district court said that the claims were drawn to a patent ineligible abstract idea.<sup>130</sup>

Alice timely appealed, and the Federal Circuit heard the case to determine whether Alice’s claims were patentable subject matter.<sup>131</sup> The issue presented in *CLS Bank* was whether a computer-implemented business method is patentable subject matter under 35 U.S.C. § 101.<sup>132</sup> In a split decision, with a strong dissent, the majority reversed the district court and held that the invention was patentable subject matter.<sup>133</sup>

The majority, led by Judge Linn, introduced what has become known as the *manifestly evident standard*.<sup>134</sup> The Federal Circuit said that “when—after taking all of the claim recitations into consideration—it is not manifestly evident that a claim is directed to a patent ineligible abstract idea, that claim must not be deemed for that reason to be inadequate under Section 101.”<sup>135</sup> The court further defined the rule by explaining that it is inappropriate to hold that a claim is a patent-ineligible abstract idea unless the claim can be understood as nothing more than a fundamental truth without any limitations attaching that idea to a specific application.<sup>136</sup> Applying the new standard, the majority’s main point was that the presence of computer limitations in Alice’s method to reduce settlement risk prevented the court from finding it manifestly evident that the patent claims were an ineligible abstract idea.<sup>137</sup>

The dissent, delivered by Judge Prost, offered a sharp critique of the majority’s analysis.<sup>138</sup> Chief among the dissent’s concerns was that the majority seemingly broke from recent Supreme Court precedent.<sup>139</sup> The dissent suggested that the most appropriate method, in light of recent Supreme Court precedent, would be a case-specific determina-

---

128. Reply Brief of Defendant-Appellant at 1–2, *CLS Bank Int’l v. Alice Corp. Proprietary Ltd.*, 685 F.3d 1341 (Fed. Cir. 2012) (No. 2011-1301).

129. See *CLS Bank*, 685 F.3d at 1345.

130. *Id.* at 1345–46.

131. *Id.* at 1345.

132. *Id.* at 1343.

133. *Id.* at 1356.

134. *Id.* at 1343, 1352.

135. *Id.* at 1352.

136. *Id.* at 1353.

137. *Id.* at 1356.

138. *Id.* at 1356–61.

139. *Id.* at 1356.

tion of whether Alice's claims contain an inventive concept.<sup>140</sup> And, in an interesting comparison, Judge Prost called the new manifestly evident standard "more of an escape hatch than a yardstick."<sup>141</sup>

Later, the Federal Circuit granted CLS Bank's petition for rehearing en banc. On rehearing, the Federal Circuit will address: "What test should the court adopt to determine whether a computer-implemented invention is a patent ineligible 'abstract idea'; and when, if ever, does the presence of a computer in a claim lend patent eligibility to an otherwise patent-ineligible idea?"<sup>142</sup> Because of the high costs of patent litigation and the rising filing rates, it is imperative that, on rehearing, the Federal Circuit considers not only Supreme Court precedent, but also how the new test affects litigation costs.

#### VII. THE MANIFESTLY EVIDENT STANDARD WILL DECREASE LITIGATION COSTS BECAUSE IT IS A COARSE-GRAINED FILTER

Google's amicus briefs to the Federal Circuit, addressing the issues presented in the en banc rehearing of CLS Bank, suggest that using a finer filter during the Section 101 analysis will save litigants money and save the court's judicial resources.<sup>143</sup> Their argument goes like this: excluding claims under Section 101 is efficient for both the litigants and the court because the issues are questions of law, so a district court may be able to quickly dispose of the claim without formal claim construction.<sup>144</sup> However, this argument is overly broad. It fails to consider that, under recent Supreme Court precedent, Section 101 has become a fine-grained filter, which requires fact-specific determinations to determine subject-matter eligibility. These fact-specific requirements may cause district courts to engage in claim construction, which is a very expensive and timely process. So, while procedurally subject-matter eligibility determinations may remain a question of law, the process might become more of a mixed question of law and fact.<sup>145</sup> However, the Author suggests that under the manifestly evident standard, the burden of these factual requirements will be reduced because the standard is relatively low and courts may be able to move past subject-matter eligibility without claim construction at a Markman Hearing.

---

140. *Id.* at 1360.

141. *Id.* at 1357.

142. *Id.* at 1356.

143. Brief for Google Inc. et al. as Amicus Curiae Supporting Petitioners at 27, *CLS Bank Int'l v. Alice Corp. Proprietary Ltd.*, No. 2011-1301 (Fed. Cir. argued Feb. 8, 2013).

144. *Id.* at 26-27.

145. See Peter S. Menell et al., *Patent Claim Construction: A Modern Synthesis and Structured Framework*, 25 *BERKELEY TECH. L.J.* 711, 727 (2010).

### A. *Markman Hearings*

In a Markman Hearing the district court determines the scope of patent protection by construing, or, in other words, interpreting, the claims through the formal claim construction process.<sup>146</sup> However, not all claim construction occurs during a Markman Hearing; sometimes claim constructions can occur informally during the pre-trial process.<sup>147</sup> Regardless, the court, not the parties or a jury, determines the meaning and scope of the claims as a matter of law.<sup>148</sup> Claim construction is frequently the most important step in the pre-trial process of patent litigation because a favorable claim construction in one party's favor can lead to settlement or summary judgment.<sup>149</sup>

### B. *Why is Claim Construction so Important?*

A favorable claim construction can be an important bargaining chip because “to decide what the claims mean is nearly always to decide the case.”<sup>150</sup> For example, in patent application, an inventor claims a method of pumping fresh water from a container to household appliances. In this situation, the inventor would try to draft the claims as broadly as possible to cover all pumps that move water from any container to any household appliance. Moreover, let us say that General Electric thinks that this pump infringes on their similar patent that also pumps fresh water to a washing machine. If a court interprets or constructs GE's patent to cover all household appliances, and not just washing machines, then it will have a good basis on which to move for summary judgment against the applicant because, under the court's construction, the inventor's pump is infringing.

### C. *The Expenses Associated with Markman Hearings and Claim Construction*

Often, the importance of a Markman Hearing makes it very expensive to litigants.<sup>151</sup> First, both parties have to draft briefs discussing the issues at the Markman Hearing.<sup>152</sup> Second, parties are frequently required to conduct extensive discovery about the accused device and its prior art in a Markman Hearing.<sup>153</sup> Third, Markman Hearings can be lengthy and are conducted at the courthouse; thus attorneys may

---

146. See Kyle J. Fiet, *Restoring the Promises of Markman: Interlocutory Patent Appeals Reevaluated* Post-Phillips v. AWH Corp., 84 N.C. L. REV. 1291, 1296–97 (2006).

147. See Brief for Appellants at 4, Prometheus Labs., Inc. v. Mayo Collaborative Servs., 628 F.3d 1347 (Fed. Cir. 2010) (No. 2008-1403) (showing that a district court interpreted claims, just not at a Markman Hearing).

148. See Fiet, *supra* note 146, at 1292–93.

149. *Id.* at 1296–97.

150. Markman v. Westview Instruments, Inc., 52 F.3d 967, 989 (1995) (Mayer, J., concurring).

151. See Fiet, *supra* note 146, at 1292.

152. See Menell, *supra* note 145, at 796.

153. See *id.* at 792; see Golden, *supra* note 7, at 1059.



have to bill many hours and travel expenses to other parts of the country to complete the hearing. Fourth, Markman Hearings frequently require parties to conduct extensive discovery about the nature of the accused device and of its prior art.<sup>154</sup> Lastly, in order to bolster the pleadings, the attorneys may employ expensive experts during the hearing.<sup>155</sup>

D. *How Common Is Claim Construction in Subject-Matter Eligibility Determinations?*

Even though the Supreme Court recently advocated for a fact-specific approach to subject-matter eligibility, recent case law does not support the proposition that district courts have engaged in formal claim construction at Markman Hearings to uncover the factual requirements. However, there is some indication that courts have engaged in informal claim construction or are at least aware that claim construction may be necessary to determine subject-matter eligibility.

1. Claim Construction After *Bilski II* and *Prometheus*

In fact, in *Prometheus*, the district court did engage in some claim construction, although not at a formal Markman Hearing, to determine patent eligibility.<sup>156</sup> In a brief to the Federal Circuit, the appellee said that there was no Markman Hearing, but the court's summary judgment hearing was "essentially a Markman Hearing."<sup>157</sup> At this hearing, the parties described in detail the meaning of the disputed terms of the asserted claims; because of this, *Prometheus* was successful in obtaining a broad construction of the claims.<sup>158</sup> Additionally, in *CLS Bank*, instead of conducting a Markman Hearing, CLS Bank agreed to a favorable claim construction for Alice to save time before the court made its ruling on summary judgment.<sup>159</sup> This indicates that the parties in *CLS Bank* were at least aware of the fact that claim construction was imminent if the parties did not come to an agreement. Further, it shows that litigants will try to avoid the process—presumably because it saves money and time—even if it gives the other party an edge.

---

154. Menell, *supra* note 145, at 792.

155. *Id.*

156. Brief for Appellant at 4, *Prometheus Labs., Inc. v. Mayo Collaborative Servs.*, 628 F.3d 1347 (Fed. Cir. 2010) (No. 2008-1403).

157. Brief for Appellees at 7, *Prometheus*, 628 F.3d 1347 (Fed. Cir. 2010) (No. 2008-1403).

158. Brief for Petitioners at 10, *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012) (No. 10-1150).

159. *CLS Bank Int'l v. Alice Corp. Proprietary Ltd.*, 768 F. Supp. 2d 221, 236 n.6 (D.D.C. 2011) ("I will say even as to *Markman* our briefing will assume a broad construction favorable to Alice, so we're going to assume that in arguing whether this is really a patentable subject matter or not so that we can expedite that.").

## 2. Chief Judge Rader's Thoughts on Claim Construction During Subject-Matter Eligibility Determinations

Case law may not clearly support the idea that claim construction has become commonplace for determining subject-matter eligibility. But Chief Judge Rader, of the Federal Circuit, thinks that claim construction might be vital under the current eligibility requirements.<sup>160</sup> In *Bancorp*, Chief Judge Rader stated that “it will ordinarily be desirable—and often necessary—to resolve claim construction disputes prior to a [Section] 101 analysis, for the determination of patent eligibility requires a full understanding of the basic character of the claimed subject matter.”<sup>161</sup> And Chief Judge Rader also recognizes that the coarseness of Section 101 is directly related to whether claim construction will be necessary.<sup>162</sup> In *Ultramercial*, he said, “because eligibility is a ‘coarse’ gauge of the suitability of broad subject matter categories for patent protection, claim construction may not always be necessary for [Section] 101 analysis.”<sup>163</sup> Taken together, Chief Judge Rader’s comments indicate that, under the current factual requirements for subject-matter eligibility, claim construction is often necessary, and that the coarseness of Section 101 affects whether claim construction will be required.

## 3. The USPTO’s Stance on Claim Construction During Subject-Matter Eligibility Determinations

Another persuasive leader in the patent world—The United States Patent and Trademark Office (USPTO)—argues that, currently, claim construction should be required for certain eligibility determination. The USPTO advocates for claim construction as the first requirement to determine patent eligibility for computer implemented method claims.<sup>164</sup> In fact, the USPTO made this argument during oral arguments for the en banc rehearing of *CLS Bank*.<sup>165</sup> Nathan Kelly, appearing for USPTO as amicus curiae, stated that a bright-line approach to deciding patent eligibility is unworkable and contrary to recent Supreme Court precedent.<sup>166</sup> Instead, Kelly suggests that the courts should “dig into the claims themselves,” presumably through

---

160. *Bancorp Servs. L.L.C. v. Sun Life Ass’n Assurance Co. of Can.*, 687 F.3d 1266, 1273–74 (Fed. Cir. 2012).

161. *Id.*

162. *Ultramercial, L.L.C. v. Hulu, L.L.C.*, 657 F.3d 1323, 1325 (Fed. Cir. 2011), *vacated*, 132 S. Ct. 2431 (2012).

163. *Id.*

164. AM. INTELL. PROP. L. ASS’N, FEDERAL CIRCUIT HEARS ORAL ARGUMENT OF COMPUTER IMPLEMENTED METHODS AND SYSTEMS (2013).

165. Oral Argument at 26:00, *CLS Bank Int’l v. Alice Corp. Proprietary Ltd.*, 768 F. Supp. 2d 221 (D.D.C. 2011) (No. 2011-1301), available at <http://cafc.uscourts.gov/oral-argument-recordings/2011-1301/all>.

166. *Id.*

claim construction, to determine if a computer is actually inseparable from the claim's abstract idea.<sup>167</sup>

In summary, claim construction to determine subject-matter eligibility is not unheard of. First, Chief Judge Rader has written that claim construction may be desirable—and often necessary—to resolve claim construction disputes prior to a Section 101 analysis. Next, some courts recently engaged in informal claim construction leading up to a subject-matter eligibility determination. Last, the USPTO suggests that claim construction should be the first step to determine patent eligibility for computer implemented method claims. All three of these examples indicate that claim construction used to determine subject-matter eligibility may become routine in the near future. Why is this? Since *Bilski II* and *Prometheus*, the Supreme Court has mandated fact-specific inquiries, such as the inventive concept requirement, to determine subject-matter eligibility. These requirements have begun to transform Section 101 from a coarse-grained filter to a fine-grained filter, much like the fact-intensive later sections of the Patent Act—sections 102, 103, and 112.

#### E. *The Effect of Section 101 as a Coarse-Grained Filter*

##### 1. Avoiding Claim Construction

So how does using Section 101 as a coarse-grained filter affect litigation costs? Google thinks that it will increase overall litigation costs.<sup>168</sup> In its amicus brief to the Federal Circuit, it stated that “deferring consideration of [patentability] would unnecessarily subject defendants to expensive discovery, claim construction, and other litigation costs concerning, among other things, the other requirements for patentability found in 35 U.S.C. §§ 102, 103, and 112.”<sup>169</sup> However, contrary to Google's argument, addressing the issue of patentability under Section 101 might not save litigants money. Consider that, under the current factual requirements for subject-matter eligibility, a district court may have to engage in claim construction to determine if the requirements were met. Thus, Google's point that it may be able to avoid claim construction under Section 101 might not be accurate. However, if a coarse-grained filter were employed, such as the manifestly evident standard, then districts courts could move past Section 101 without examining the factual intricacies of the claim.

The underlying problem in Google's statement is that it assumes that if a fine-grained filter were employed, courts would still be able to determine patent eligibility without claim construction. However, the

---

167. *Id.*

168. Brief for Google Inc. et al. as Amicus Curiae Supporting Petitioners at 27, *CLS Bank Int'l v. Alice Corp. Proprietary*, No. 2011-1301 (Fed. Cir. argued Feb. 8, 2013).

169. *Id.*

opposite is more likely true. When district courts are faced with complex patent claims, such as business-method patents or process patents in the medical field, and then required to locate specific factual elements, they will likely have to construct the claims (either formally or informally) to determine if the claims are subject-matter eligible.

## 2. Shifting the Analysis to the Later Sections of the Patent Act

Using a coarse-grained filter will not only save money by avoiding claim construction, but it might also save money by shifting more of the analysis to the later sections of the Patent Act.<sup>170</sup> Dennis Crouch, an Associate Professor of Law at the University of Missouri School of Law and the editor of the popular patent law blog: Patently-O,<sup>171</sup> and Robert P. Merges, a Wilson Sonsini Goodrich & Rosati Professor of Law and Technology, Co-Director, Berkeley Center for Law and Technology,<sup>172</sup> suggest avoiding Section 101 unless it is absolutely necessary.<sup>173</sup> Crouch and Merges believe that any claim can be invalidated within the later sections of the Patent Act to avoid potential controversial and complex requirements for patentability within Section 101.<sup>174</sup> Offering some empirical data to support their idea, the authors write that in a recent study, which examined the prosecution history files of over 1,500 recently issued U.S. patents, 84% of the patent applications that had been rejected for lacking subject matter-eligibility were also rejected as either anticipated or obvious.<sup>175</sup> Thus, 84% of claims that failed under subject-matter eligibility also failed under the Later Sections.<sup>176</sup> In their own study, Crouch and Merges reviewed 117 patent applications from the Board of Patent Appeals and Interferences.<sup>177</sup> They found that 94% of claims that were questioned on the grounds of subject-matter eligibility were also rejected because of different requirements for patentability.<sup>178</sup> These two studies suggest that even if Section 101 were avoided, as Crouch and Merges advise, or if the fact-specific requirements of Section 101 were relieved, as the Author proposes, then there would still likely be grounds to find claims unpatentable under one of the Later Sections of the Patent Act. These studies are notable because they help to mitigate the concerns that under the manifestly evident standard there

---

170. Crouch & Merges, *supra* note 79, at 1681.

171. *Faculty*, Dennis B. Crouch, UNIV. OF MO. SCH. OF L., <http://law.missouri.edu/faculty/directory/crouchd.html> (last visited Feb. 24, 2013).

172. *Faculty Profiles*, Robert R. Merges, BERKELEY L. UNIV. OF CAL., <http://www.law.berkeley.edu/php-programs/faculty/facultyProfile.php?facID=297> (last visited Feb. 24, 2013).

173. Crouch & Merges, *supra* note 79, at 1682–83.

174. *Id.* at 1674.

175. *Id.* at 1686.

176. *Id.*

177. *Id.*

178. *Id.*

would be an increase in patents that are overly broad or patents that preempt future innovation.

Contrary to the Author's belief, Crouch and Merges also suggest that Section 101 is not truly an initial inquiry. They propose that courts do not need to examine subject-matter-eligibility issues before examining the Later Sections of the Patent Act.<sup>179</sup> This, combined with their theory that any claim can more easily be invalidated under another section, means that district courts should simply avoid Section 101, unless absolutely necessary.<sup>180</sup> However, part of the Author's argument rests on the idea that district courts are required to examine Section 101 prior to examining the later portions; thus avoidance is not possible.

In the Author's opinion, case law indicates that a Section 101 issue must be dealt with first. In *Diehr*, the Supreme Court, albeit in dicta, called Section 101 a threshold.<sup>181</sup> Later, in *Bilski II*, the Supreme Court again said that "Section 101 imposes a threshold condition" such that no patent is available unless it falls in one of the express categories of patentable subject matter.<sup>182</sup> In *State St. Bank*, the Federal Circuit said that "[t]he first door which must be opened to the difficult path to patentability is [Section] 101."<sup>183</sup> Furthermore, many recent Federal Circuit cases refer to Section 101 as a threshold requirement.<sup>184</sup> Additionally, Merriam-Webster's Dictionary defines threshold as: "the place or point of entering or beginning."<sup>185</sup> Therefore, if subject-matter eligibility issues exist, those issues must be dealt with prior to advancing to the later sections of the Patent Act.

Assuming that Section 101 is truly a threshold or initial inquiry, the coarse-grained filter will save litigants money because district courts could move quickly past confusion involving Section 101 confusion and then deal with other, less controversial sections.<sup>186</sup> Crouch and Merges point out that it makes sense to deal with the "easier" issue first because doing so is more efficient and it preserves the "scarce

---

179. *Id.* at 1679.

180. *Id.* at 1681.

181. *Diamond v. Diehr*, 450 U.S. 175, 188 (1981).

182. *Bilski v. Kappos*, 130 S. Ct. 3218, 3236 (2010).

183. *State St. Bank & Trust Co. v. Signature Fin. Grp., Inc.*, 149 F.3d 1368, 1373 n.2 (Fed. Cir. 1998).

184. *In re Comiskey*, 554 F.3d 967, 973 (Fed. Cir. 2009); *Classen Immunotherapies, Inc. v. Biogen IDEC*, 659 F.3d 1057, 1065 (Fed. Cir. 2011); *Dealertrack, Inc. v. Huber*, 674 F.3d 1315, 1335 n.3 (Fed. Cir. 2012); *Perkinelmer, Inc. v. Intema Ltd.*, No. 2011-1577, 2012 WL 5861658, at \*72 (Fed. Cir. Nov. 20, 2012).

185. *Dictionary: Threshold*, MERRIAM-WEBSTER, <http://www.merriam-webster.com/dictionary/threshold> (last visited Feb. 24, 2013).

186. *See* Crouch & Merges, *supra* note 79, at 1674. This argument may bolster Judge Prost's statement that the manifestly evident standard is more of an escape hatch than a yard stick. The Author is certainly not arguing that the manifestly evident standard is the best standard, only that it may help litigants realize a cost savings.

currency of court legitimacy.”<sup>187</sup> A coarse-grained filter at the subject-matter-eligibility stage would further both of these reasons. For example, if a claim is clearly invalid under Section 103 because it is not useful, but it might also be an abstract idea, then courts applying the doctrine of avoidance would not be required to dissect the claims to discover an abstract idea. It could simply move past Section 101 and deal with Section 103.<sup>188</sup>

A possible issue with this argument is that the Author assumes that litigants will realize a cost savings if a district court can find invalidity under one of the later portions of the Patent Act, instead of Section 101. To be clear, determining validity under the Later Sections can be an “arduous undertaking,” which will likely include claim construction.<sup>189</sup> Also, the Author argues that a course-grained filter standard would avoid the costly judicial process involved with claim construction. So why is it still more efficient to move past Section 101 if litigants will still encounter claim construction expenses while addressing the later sections of the Patent Act? As Crouch and Merges point out, it still makes sense for the court to deal with the “easier” issue, and address the costly and confusing subject-matter eligibility if necessary.<sup>190</sup> So, the “easier” issue is more likely to be found in the Later Sections.<sup>191</sup> If this is true, then it makes sense to use Section 101 as a coarse-grained filter to define the limits of patent law, instead of a way to invalidate patents, except in the most obvious of situations.

## VIII. CONCLUSION

Section 101’s granularity has a direct effect on costs that litigants will bear during the litigation process. In British Airway’s amicus brief to the Federal Circuit, the company claimed that subject-matter eligibility is “uniquely suited for early resolution at the pleadings stage” because this question presents pure issues of law that require no claim construction.<sup>192</sup> However, because the Supreme Court and the Federal Circuit increasingly require fact-specific inquiries for a subject-matter eligibility determination, Section 101 becomes a fine-grained filter, much like the Later Sections.<sup>193</sup> While subject-matter eligibility may remain a legal question, these fact-specific inquiries begin to erode some of the advantages that Section 101 offers.

---

187. *Id.* at 1681.

188. *Id.* at 1684.

189. *Id.*

190. *Id.* at 1681.

191. *Id.*

192. Brief for British Airways PLC et al. as Amicus Curiae Supporting Neither Party at 8, *CLS Bank Int’l v. Alice Corp. Proprietary Ltd.*, No. 2011-1301 (Fed. Cir. argued Feb. 8, 2013).

193. *See supra* Part IV.

The Federal Circuit's manifestly evident standard may not be the paramount standard to determine eligibility, but it can help ease the burden that the current fact-specific inquiries impose on subject-matter eligibility. Although case law does not clearly support the idea that district courts have had to recently engage in claim construction to determine the fact-specific requirements of Section 101, some indirect evidence exists supporting the notion that claim construction will become commonplace for subject-matter-eligibility determinations.<sup>194</sup> Chief Judge Rader opines that claim construction may often be necessary for eligibility determinations. The USPTO argues that claim construction should be the first requirement to determine if the claim recites only an abstract idea.<sup>195</sup> This evidence is significant because claim construction is an expensive process.<sup>196</sup> The claim construction process can involve extensive discovery, lengthy briefing, expensive experts, and time spent traveling to the hearing itself.

However, under the *CLS Bank* standard, litigants can move past Section 101, unless it is manifestly evident that the patent claims are drawn to an abstract idea; thus, the litigants avoid spending unnecessary amounts of time constructing claims. If Dennis Crouch and Robert Merges are correct that the easier and more cost-efficient issues on the road to patentability lie in the Later Sections, then this rule will end up saving litigants both time and money.<sup>197</sup>

---

194. *See supra* Parts VII.D.1–3.

195. *Id.*

196. *See supra* Part VII.C.

197. *See supra* Part VII.E.2.