USIJ to Supremes: Set Boundaries on 101 Jurisprudence to Save U.S. Innovation

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“This is not the proper functioning of a rule of law, it is more akin to a casino than to a United States court, and the longer-term impact will be to diminish one of our country’s most important attributes, our world-class innovation environment.”- USIJ amicus brief

The Alliance of U.S. Startups & Inventors for Jobs has filed an amicus brief supporting American Axle & Manufacturing, Inc.’s petition for certiorari with

the U.S. Supreme Court, claiming that many feel that "the U.S. patent system appears to be on life support"

The Petition

American Axle & Manufacturing, Inc. petitioned the High Court on December 28, 2020, asking it to review the Federal Circuit's July 31, 2020 modified judgment and October 2019 panel opinion in the closely-watched Section 101 patent eligibility case involving driveshaft automotive technology. In that decision, a split (2-1) Federal Circuit panel, in affirming the district court's holding, found the claims in question—directed to an industrial *process* for manufacturing an improved driveshaft for an automobile—ineligible for patenting as merely invoking a natural law, and "nothing more" because the claims "invoked the equation, $F = kx$ (Hooke's Law)." *American Axle*, 967 F.3d at 1304.

The questions American Axle is asking the Supreme Court to consider are:

1. What is the appropriate standard for determining whether a patent claim is "directed to" a patent-ineligible concept under step 1 of the Court's two-step framework for determining whether an invention is eligible for patenting under 35 U.S.C. § 101?
2. Is patent eligibility (at each step of the Court's two-step framework) a question of law for the court based on the scope of the claims or a question of fact for the jury based on the state of art at the time of the patent?

The petition argues, in a reference to a quote from Judge Moore, that the CAFC is "bitterly divided" on Section 101 law and that "the entire patent system is desperate for the Court's guidance and has cried for its help."

USIJ Brings the Startup Perspective

USIJ filed its brief on January 29, and generally argues:

1. The panel majority decision fails to comply with eligibility precedents established by the Court and Federal Rule of Civil Procedure Rule 56 (Rule 56); and
2. Investments in technology startups in American has been declining for more than a decade.

Specifically, the USIJ notes that:

From the standpoint of many entrepreneurs, inventors and investors that comprise the Invention Community, the U.S. patent system appears to be on life support. Legal protection for inventions and discoveries that once was a defining characteristic of U.S. industrial policy has become increasingly irrelevant, no longer providing adequate safety and incentives to investors otherwise willing to make high risk commitments of time and capital or to visionary inventors who would leave secure jobs to pursue breakthrough technologies and challenge entrenched incumbents.

Further, there is a shift in activity between entrepreneurs and investors, says the brief. "Such activity has shifted away from the inventions needed for strategically critical technologies…toward investments such as entertainment, apparel, social media and the like, which either do not depend on patents at all or do not consider enforceable patents to be essential to their businesses."

Notably, startups, small companies and individual inventors have been responsible historically for many of America's most important breakthrough inventions. These entities need patent protection far more than the large corporate incumbents that own vast portfolios of patents, and yet it is the former group that is most severely

affected by “the systematic weakening of patent protection that we have witnessed over the last few years.”

The Courts Divided

“The instant case, however, is but the tip of an iceberg in terms of judicial frustration with the guidance provided by this Court,” continues the brief.

USIJ highlights that “although there has been more than one contributor to the growing perception within the Invention Community that patents no longer are relevant to protecting long-term commitments of time and capital, this Court’s current jurisprudence on patent eligibility, as implemented by the Federal Circuit and some of the district courts, stands at or near the top of that list.”

Consistency in precedent is necessary to provide reliable judgments to avoid the harmful effects unpredictability and confusion as to eligible subject matter have on the economy, the patent system as a whole, and to inventors, business entities, investors, innovators attempting design around solutions, and other interested parties who need to understand what is, and is not, patentable. USIJ argues that a number of the Federal Circuit’s eligibility rulings, in particular, have been driven by an apparent belief that the appellate court was merely implementing rulings by the Supreme Court. Instead, USIJ believes that “the Federal Circuit is unduly cautious in a number of such rulings, certainly in the instant case, and as a result has expanded the categories of inventions that no longer are eligible for patent protection well beyond what was prescribed or even envisioned by this Court.” In sum, the panel majority opinion in this case appears to have been rendered in a search for “outcome-oriented theories around which to find ineligibility that otherwise would not exist.”

Worse than its dangerous and unnecessary expansion of what was intended as a “narrow exception” to the statutory language of Section 101, the Federal Circuit is “hopelessly divided as to a proper interpretation of this Court’s rulings in *Mayo Collaborative Services, et.al v. Prometheus Laboratories, Inc.*, 132 S.Ct. 1289 (2012) and *Alice Corp. v. CLS Bank*, 573 U.S. 208; 134 S.Ct. 2347 (2015), among others.” As

further evidenced by the fact that half of the active Federal Circuit judges dissented from the denial of rehearing *en banc in American Axle*, it is clear the Federal Circuit is divided as to how to apply Supreme Court Section 101 jurisprudence. Other case law shows this divide as well. For example, in *TecSEC, Inc. v. Adobe Inc.*, and in *Illumina, Inc. v. Ariosa Diagnostics, Inc.*, both 2020 cases, the Federal circuit found that an encryption method that improves network security and a process separating fetal DNA from maternal DNA were both patent eligible. In contrast, in *Electronic Communication Technologies, LLC v. Shopperschoice.com*, the Federal Circuit found that software directed to advance notification of a delivery was not eligible for patent protection.

The disparity of views among the various judges of the Federal Circuit also means that outcomes on eligibility often are "dependent on the specific panel of judges assigned to a case, with disastrous uncertainty facing litigants on both sides," says the brief. Litigants dealing with Section 101 in the Federal Circuit will know with any accuracy what the outcome is likely to be only when they see which judges will make up their panel.

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The Decline of The Innovation Investment Economy

"The weakening of patent protection in the United States since 2004 has led to a corresponding decline in the willingness of entrepreneurs and inventors to rely on patents as the foundation for making investments," says USIJ.

USIJ conducted a study to show the decline of the innovation investment economy since 2004. In this study, USIJ discovered that "declines can be seen in drug discovery, medical devices, operating systems, core networking technology, etc." At the same time, "investments in consumer apparel, hotels, social media and similar market segments increased substantially." This trend suggests that American innovation is moving away from startups introducing "breakthrough"

technology and toward more investment in entertainment, social media, and the like.

The USIJ points to semiconductor technology, for example, and argues that it would "rank high on almost any list of the most critical technologies for cybersecurity, artificial intelligence, national defense and virtually every other economic activity that depends on computational progress." However, "investment in startups likely to develop real breakthrough inventions in that field of technology has all but vanished."

Although it may be years before the long-term implications of this shift away from critical technologies becomes fully apparent, the trend line is "readily visible" today. As such, the brief urges the court to grant a writ of certiorari in *American Axle*.

The Chicago Patent Attorneys and the New York Bar Association also recently filed amicus briefs supporting the petitioner.

On the same day USIJ filed its brief, the Court also requested a brief in opposition be filed by the Respondent, due by March 1, 2021. The fact that the Court has called for a Brief in Opposition means that at least one Justice or law clerk for a Justice thinks the Petition is worthy of further review and should be included on the Court's "discuss list," said the NYIPLA, whose brief in support of American Axle is detailed here.