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The Federal Circuit, Not the Supreme Court, Legalized Software Patents

Timothy B. Lee - 10/03/2012

Most of the time I ignore trolls in the hope they'll go away. But patent attorney Gene Quinn outright accuses me of lying in his response to my recent piece on how the Federal Circuit Court of Appeals wrecked the patent system. So I thought a quick response was in order. Here's Quinn, arguing that my claim that "software was generally considered to be ineligible for patent protection" under pre-1982 Supreme Court precedents is "completely false."

> The United States Supreme Court first addressed the patentability of computer software in Gottschalk v. Benson. It is true that it was the widespread belief in the industry that the Supreme Court in Benson decided that software was not patentable, which is a fair reading of the decision. What Lee ignored, however, is that the Supreme Court later retracted the blanket prohibition against patenting software in Diamond v. Diehr. So it is simply factually inaccurate to say that Supreme Court precedent prohibits the patenting of software. Lee just didn't do his homework or didn't care to get it correct.

I've written about the patentability of software in depth. The view that the Supreme Court "retracted the blanket prohibition against patenting software" isn't a crazy interpretation of the *Diehr* decision, but I think it's incorrect. Here's the key paragraph from the Supreme Court's 1981 ruling:

> A mathematical formula as such is not accorded the protection of our patent laws, and this principle cannot be circumvented by attempting to limit the use of the formula to a particular technological environment. Similarly, insignificant postsolution activity will not transform an unpatentable principle into a patentable process. To hold otherwise would allow a competent draftsman to evade the recognized limitations on the type of subject matter eligible for patent protection. On the other hand, when a claim containing a mathematical formula implements or applies that formula in a structure or process which, when considered as a whole, is performing a function which the patent laws were designed to protect (e. g., transforming or reducing an article to a different state or thing), then the claim satisfies the requirements of § 101. Because we do not view respondents' claims as an attempt to patent a mathematical formula, but

> *rather to be drawn to an industrial process for the molding of rubber products, we affirm the judgment of the Court of Customs and Patent Appeals.*

I read this as holding that the patent meets the requirements of the law precisely because it's not a software patent. Rather, the patent covers a physical machine whose purpose is "transforming or reducing an article to a different state or thing." The key principle is that the "post solution activity"—in this case, opening the rubber mold at just the right time—has to be more than trivial.

Now compare this to the patent at issue in the Federal Circuit's infamous 1998 *State Street* decision. There, the court held that you could patent a strategy for managing a mutual fund with a computer. The "invention" used a generic computer to perform some mathematical calculations and issue orders to buy or sell assets. This seems like a textbook example of the kind of "insignificant postsolution activity" the Supreme Court said doesn't transform a mathematical formula into a patentable invention.

To be clear, plenty of people disagree with me about how *Diehr* should be interpreted. The Supreme Court's decisions on this question have not been models of clarity. But I think one indication that my claim was basically right is the way the software industry reacted, or more precisely didn't react, to the 1981 *Diehr* ruling. The legalization of software patents produced a backlash in the software industry. If the impetus for software patents came from the Supreme Court, we should have expected that backlash to start in the early 1980s. Instead, opposition started cropping up in the 1990s, shortly after the Federal Circuit decided a case called *In Re Iwahashi* in November 1989. Bill Gates's famous memo expressing concerns about software patents was penned in 1991. Oracle testified at the Patent Office opposing software patents in 1994. If the impetus for software patents came from the Supreme Court in 1981, why did Oracle wait until 1994 to start complaining about it?

The obvious answer is that most people in the software industry believed that the Supreme Court had excluded most software from patent protection. They were thus blindsided when the Federal Circuit started upholding software patents in 1989.