Deference Runs Deep

The Ill Effects of *Alice*

By Brooks Kenyon

Under 35 U.S.C §101, a patent must be either a new and useful process, machine, manufacture, or composition of matter and, thus, must not lay claim to any idea that is abstract. [1] This abstraction can be increasingly difficult to eliminate when drafting software claims because the implementation of code onto a generic computer is somewhat abstract in nature. Areas of software that are, and are not, abstract have been hotly debated and a thorn in the side of court system. Hence, when Justice Thomas opined that the Supreme Court "need not labor to delimit the precise contours of the 'abstract ideas' category" in *Alice Corp. Pty. Ltd. v. CLS Bank Intern.*, he must have realized that abstaining from such a seminal issue would create ripples, if not waves, within the already confusing realm of software patents. [2] Almost two years later, the United States Patent and Trademark Office ("USPTO") and the Federal Circuit are still failing to distinguish a bright-line rule for such a vague category, and, therefore, the concept of an abstract idea is still an issue. If this is not resolved quickly and clearly through the Federal Circuit or Supreme Court, or even through a legislative action by Congress, software patents will assuredly diminish in number and patent persecutors will continue to draft with uncertainty.

Background and Reception

The patent in *Alice* claimed a computer-implemented scheme for mitigating "settlement risk" (i.e., the risk that only one party to a financial transaction will pay what it owes) by using a third-party intermediary—in essence, an escrow account for expediting countless financial transactions across the world. [3] Although the Court's opinion does not mention the word "software," numerous *amicus curiae* briefs urged the court for a distinction because the patent hinged on the same fundamental principle as software patents: an abstract idea. [4] Thus, the Supreme Court had to determine if the claims were patent-eligible under §101, or instead drawn to a patent-ineligible abstract idea. [5] Using a framework determined in a preceding case Mayo Collaborative Services v. Prometheus Laboratories, Inc., the Court used a two-step process: (1) determine whether the claims at issue are directed to a patent-ineligible concept, and if so, (2) evaluate if the claim's elements, considered both individually and "as an ordered combination," "transform the nature of the claim" into a patent-eligible application. [6] Ultimately, the Court determined that the introduction of a generic computer did not transform a claimed abstract idea into a patent-eligible invention, which was arguably the correct decision and has provided a basis to reject overtly abstract software patents. [7] Nevertheless, the Court side-stepped a monumental opportunity to weigh-in on what kinds of software patents should be eligible under §101. Indeed, this maneuver did not go unnoticed. The *Electronic Frontier Foundation* described the decision as not "offer[ing] the clearest guidance on when a patent claim is merely an

abstract idea." [8] *Wired* published an article on the case stating that the decision "leave[s] room for patenting specific ways of implementing an idea." [9]

The Federal Circuit's Interpretation

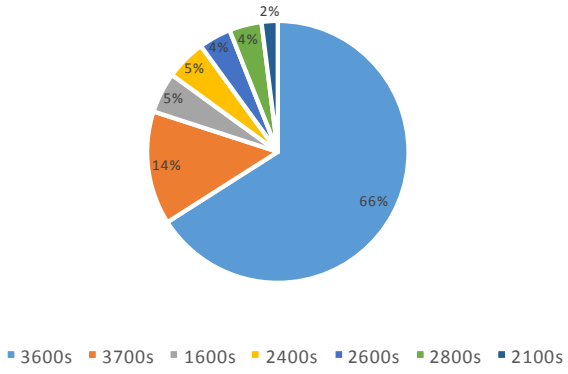
In 2015, the Federal Circuit heard numerous software cases dealing with claims that were questioned under §101 (colloquially, "*Alice*-type" scrutiny), and in each case, the court held the claims invalid. [10] Coincidentally, all but one case that reached the Federal Circuit in 2014 was held invalid as well. [11] Since all but one case under *Alice*-type scrutiny has been invalid, the Federal Circuit has demonstrably failed to provide a framework for what constitutes an abstract idea. For this reason, defendants have been successfully keeping patent trolls at bay by filing motions to dismiss under *Alice*-type arguments because defendants know that the court will most likely grant them. [12] This result is promising but static since their arguments are based on the consistency of the court's decisions, not on their understanding of an abstract idea.

The deference to the Supreme Court, and even Congress, to decide a bright-line rule within the software patent realm has resulted in no line at all, which is evident by the proliferation of software patents held ineligible. This not only creates confusion for patent prosecutors drafting claims, but it could presumably stunt patent growth. If the Federal Circuit does not opine on the undeniable mystery of where the line should be drawn, patent agents and attorneys—even USPTO examiners—will continue to prosecute patents in darkness.

The Effect of *Alice* on the USPTO

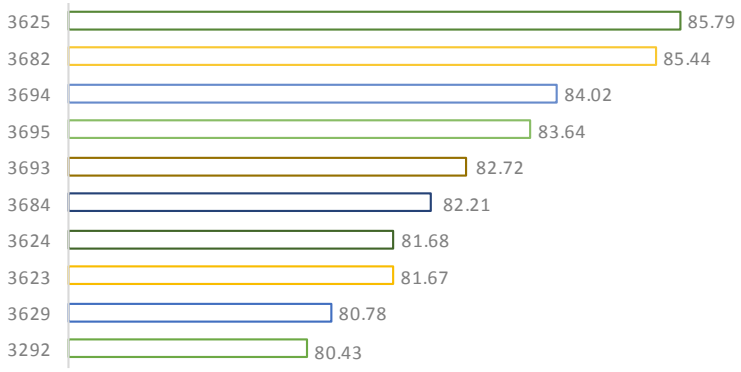
In July 2015, the USPTO issued examination guidelines to shed light on *Alice*-type rejections but, ultimately, did not offer any clear definition for an "abstract idea." [13] These guidelines have mirrored the Federal Circuit's stance on software patents, and thus, software patents are being rejected by *Alice*-type scrutiny at an alarming rate—some software areas more so than others. Tech Center 3600, the group of examiners that mostly deals with e-commerce patents, within the USPTO has felt the brunt of the rejections. As demonstrated in Figure 1 (on the following page), this Tech Center has accounted for 66% of all *Alice*-type rejections. It has even seen its "allowance rate drop from nearly 80% before *Alice* to 45% since *Alice*." [14]

Figure 1: Alice-type Rejections Across All Tech Centers



Moreover, some art units, which are sub-groups of examiners, within Tech Center 3600 can attribute a majority of their rejections to *Alice*, as seen in Figure 2. [15]

Figure 2: Top 10 Art Units for Alice-type Rejections



Evidently, patent examiners are hesitant to make definitive statements about *Alice*, especially when declaring claims eligible because they likely do not want to overstep their bounds. Their hesitancy is presumably due to orders from their superiors and from the examination guidelines. Thus, they are willing to *reject*, *reject*, *reject* because examiners know that any competent practitioner will appeal their *Alice*-type rejection to the Patent Trial and Appeal Board. This rejection strategy provides a cop-out for examiners to push the problem onto someone else without weighing in on the issue.

The deference running through the entire authoritative system will assuredly scare individuals and companies from patenting their software inventions and, therefore, will likely have residual effects on more important things, like the U.S. economy or intellectual property litigation. These effects will probably not come to fruition for quite some time since the impact of a stagnant software patent field will need to settle, but the effects will certainly come. Yet, a solution does exist: give practitioners, companies, and the interested general public what they want—guidance.

The Future

The real issue in the Federal Circuit's guidance, and in-turn the USPTO, is the lack of outcome diversity. In the coming years, the courts must try to find more claims valid under *Alice*-type scrutiny. In doing so, the court will be laying a framework for areas where software patents can and cannot be, and thus, the court will define what constitutes an abstract idea. Obviously this ideality comes with a lot of luck since the court cannot choose what cases are coming down the pipe, but they still need to be willing to hold more cases valid under *Alice*. Therefore, nobody can be certain if the pendulum will stay close to ineligibility or if the pendulum will be nudged closer to the middle, but as practitioners wait, they can follow some guidelines to alleviate the struggles of getting software patents through the USPTO. The most obvious of which is to avoid art units that can attribute most of their rejections to *Alice*—art unit 3625, art unit 3682, among others. If a claim should be rightfully placed within these art units, getting out may be troublesome, but for the rest, practitioners should avoid using any terms in their claims that may hint at e-commerce, like "advertising" or "business." A practitioner should also reference the examination guidelines provided by the USPTO. These guidelines not only provide an insider assessment of how patent examiners might think about software claims but also numerous examples to understand the bounds of an "abstract idea." [16] Although these examples will help determine if a claim fits into an already prescribed abstract idea area, they are entirely useless when determining what constitutes an "abstract idea." Thus, they are only helpful when

drafting claims that are very similar to the examples. Finally, narrowing claims to avoid *Alice*-type rejections can be used as a last resort. Practitioners are no longer able to sweep broadly when drafting software patents and, therefore, may need to be a little less greedy by only claiming what their patent purports to be novel and eligible under §101.

SOURCES

[1] 35 USC § 101 (1952).
[2] 134 S. Ct. 2347, 2351 (2014).
[3] Alice Corp., 134 S. Ct. at 2351-52.
[4] See CLS Bank Intern. v. Alice Corp. Pty. Ltd., 717 F.3d 1269, 1271-73 (Fed. Cir. 2013) aff'd, 134 S. Ct. 2347 (2014).
[5] Alice Corp., 134 S. Ct. at 2352.
[6] Id. at 2355.
[7] See id. at 2350.
[8] Daniel Nazer & Vera Ranieri, Bad Day for Bad Patents: Supreme Court Unanimously Strikes Down Abstract Software Patent, ELECTRONIC FRONTIER FOUND.: DEEPLINKS (June 19, 2014), https://www.eff.org/deeplinks/2014/06/bad-day-bad-patents-supreme-court-unanimously-strikes-down-abstract-software/.
[9] Klint Finley, Supreme Court Deals Major Blow to Patent Trolls, WIRED (June 19, 2014), http://www.wired.com/2014/06/supreme-court-deals-major-blow-to-patent-trolls/.
[10] Mortgage Grader, Inc. v. First Choice Loan Servs. Inc., 811 F.3d 1314, 1318 (Fed. Cir. 2016); Intellectual Ventures I LLC v. Capital One Bank (USA), 792 F.3d 1363, 1365 (Fed. Cir. 2015); Internet Patents Corp. v. Active Network, Inc., 790 F.3d 1343, 1344 (Fed. Cir. 2015); OIP Techs., Inc. v. Amazon.com, Inc., 788 F.3d 1359, 1360 (Fed. Cir. 2015).
[11] DDR Holdings, LLC v. Hotels.com, L.P., 773 F.3d 1245, 1248 (Fed. Cir. 2014).
[12] Klint Finley, Supreme Court Deals Major Blow to Patent Trolls, WIRED (June 19, 2014), http://www.wired.com/2014/06/supreme-court-deals-major-blow-to-patent-trolls/.
[13] July 2015 Update on Subject Matter Eligibility, 80 FR 45429-01
[14] James Cosgrove, The Most Likely Art Units for Alice Rejections, THE IPWATCHDOG (Dec. 14, 2015), http://www.ipwatchdog.com/2015/12/14/the-most-likely-art-units-for-alice-rejections/id=63829/.
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[16] Michelle Holoubek, 5 Observations On USPTO's Updated 101 Guidelines, LAW360 (Aug. 3, 2015), http://www.law360.com/articles/685895/5-observations-on-uspto-s-updated-101-guidelines/.