

Post-Alice Exam Stats In Software Art Units: A Bleaker Road

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The recent U.S. Supreme Court decision in *Alice Corporation Pty. Ltd. v. CLS Bank International* involved analysis of 35 U.S.C. 101, which identifies patentable subject matter. In this particular case, the Supreme Court held that the claimed scheme for mitigating settlement risk was not patent-eligible because it was directed to an abstract idea implemented on a generic computer. How this decision will influence subsequent examination of patent applications, in large part, remains to be determined. One particularly interesting question is how this decision will influence examination of software patent applications.



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Most of the patents at issue in *Alice Corp.* were examined in art units frequently referred to as a “business-method” art unit in technology center 3600. Despite this shorthand name for these art units, business-method art units examine a rather broad range of patent applications, including many software applications focused, for example, on medical software, business crypto, anti-counterfeiting, fraud detection and electronic voting.[1] Software is an impressive component of the United States economy, contributing \$526 billion to the United States’ output in 2012 and propelling job creation and stability.[2] Should *Alice Corp.* substantially reduce prospects of securing software patents, we could see businesses elect to cut back investments in software technologies.

To gain some preliminary insight about how *Alice Corp.* and the interim guidelines issued by the United States Patent and Trademark Office are shaping patent examination, we analyzed recent examiner outputs. Specifically, using Reed Tech Patent Advisor, we collected data for all actions (office actions and notices of allowances) issued from each art unit in Technology Center (TC) 3600 in each of two periods: from Jan. 13, 2014, to Jan. 27, 2014, (before *Alice Corp.*) and from July 13, 2014, to July 27, 2014. This TC was chosen as it is home to approximately 33 business-method art units (art units 3621-29, 3681-89 and 3691-95). We will adopt the conventional naming of these art units as “business-method” art units, though we again emphasize that the applications examined by these art units extend much beyond what is typically thought of as business-method technology.

The percentage of actions[3] in the business-method art units of TC 3600 with a 101 rejection in the July time period (78 percent) was nearly three times that in the January time period (24 percent). These numbers are specific to the business-method art units within TC 3600. Figure 1 shows, for each TC 3600 art unit, how many office actions were issued from July 13-27 that either: did not include a rejection under 35 U.S.C. 101 (green bars) or did include a 101 rejection (red bars). Fifty-seven percent of the

3600 AUs very rarely issue office actions with 101 rejections (where 20 percent or fewer of the issued office actions included a 101 rejection), 31 percent consistently issue 101-inclusive office actions (where 80 percent or more of the issued office actions included a 101 rejection) and only 12 percent are in the intermediary (with 20-80 percent of office actions including a 101 rejection). This bimodality is largely explained by TC 3600 include both business-method art units and nonbusiness-method art units.

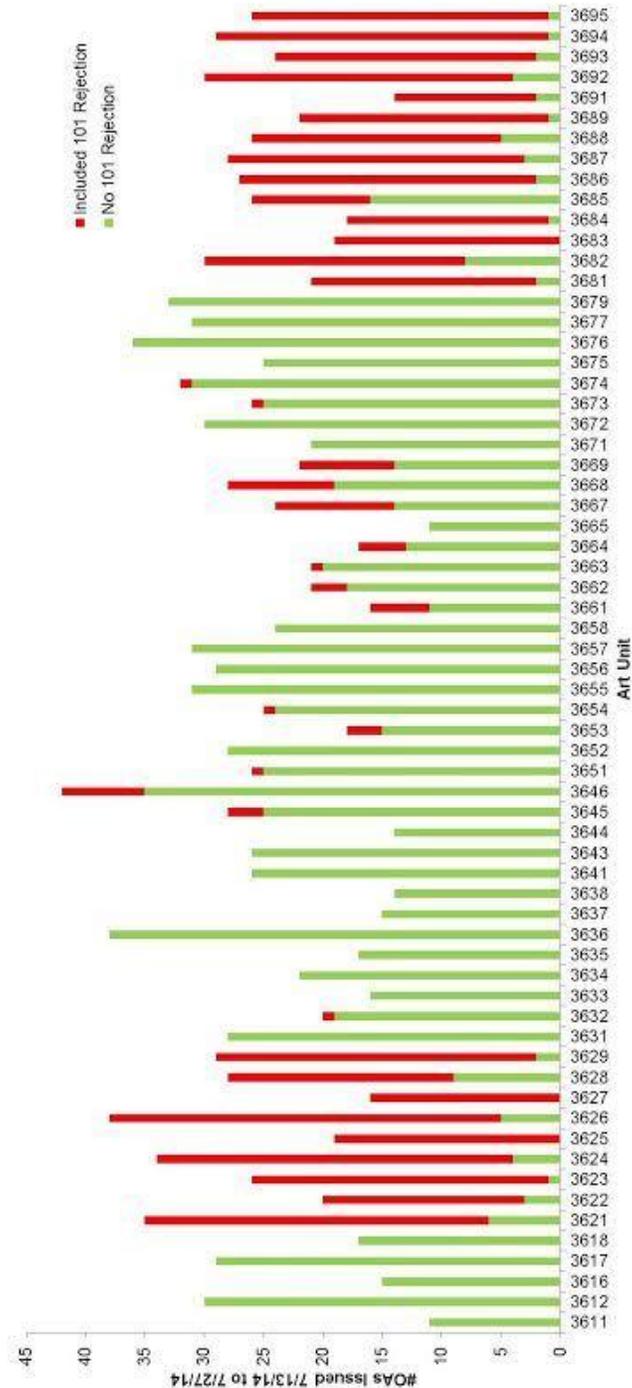


Figure 1. Each green bar identifies a number of office actions issued by a particular art unit from July 13 to July 27, 2014, that did not include a rejection under 35 USC 101. Each red bar identifies a number of office actions issued by the art unit during this time period that did include a 101 rejection.

Figure 2 also shows an art-unit specific comparison of the prevalence of 101 rejections in office actions for the July time period as compared to the January time period. The red data points represent business-method art units and show a drastic increase in 101 rejections following the Alice Corp. decision and issuance of interim guidelines.

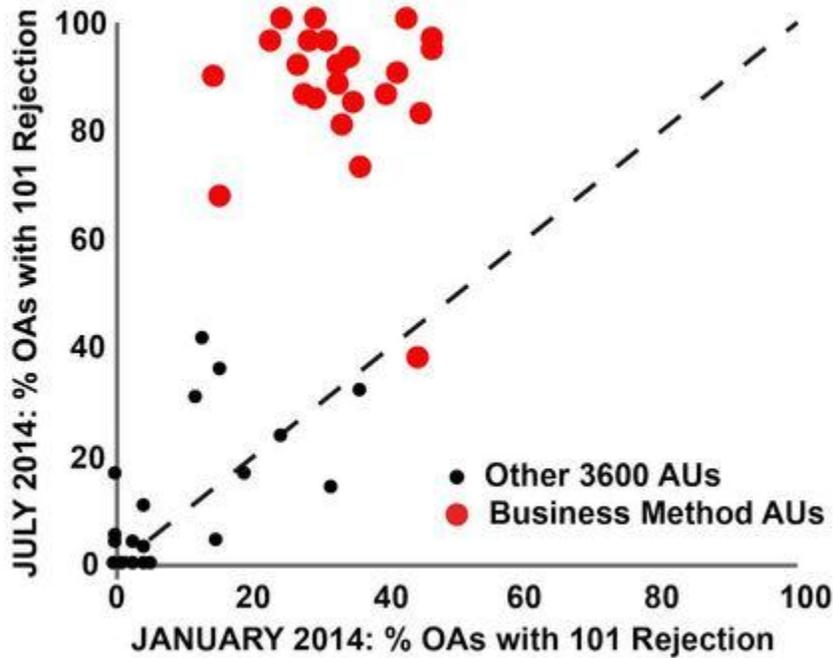


Figure 2. Each point represents an art unit in Technology Center 3600. The red points represent business-method art units, and the black points represent other art units. The y-values identify the percentage of office actions issued from July 13 to July 27, 2014, that included a 101 rejection. The x-values identify a corresponding percentage for office actions issued from Jan. 13 to Jan. 27, 2014. We note that there is a clustering at (0,0) for nonbusiness-method art units.

Perhaps unsurprisingly, these results are met with reductions in allowances. Figure 3A illustrates that art units (business-method art units) in TC 3600 that are most likely to include 101 rejections in their office actions are also issuing the fewest number of notices of allowances relative to all action issuances (the sum of notices of allowances and office actions). Corresponding, as shown in Figure 3B, the proportion of notices of allowances issued in business-method art units has also dramatically dropped since January (from an average of 23.6 percent to 4.5 percent).

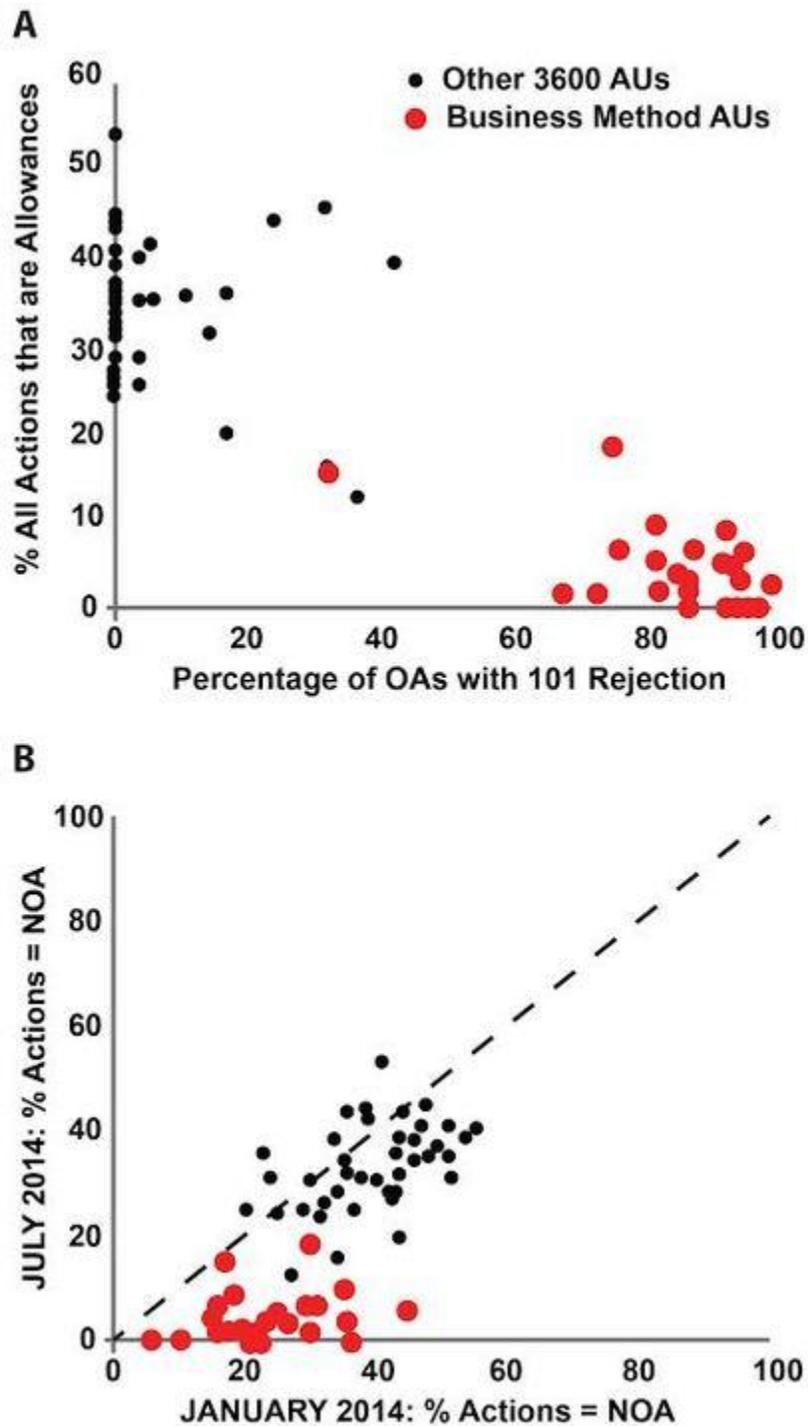


Figure 3. Each point represents an art unit in Technology Center 3600. The red points represent business-method art units, and the black points represent other art units. (A) The y-values identify the percentage of all actions (notices of allowances and office actions) issued from July 13 to July 27, 2014, that were notices of allowances. The x-values identify a percentage of office actions that include a 101 rejection. (B) The y-values identify the percentage of all actions issued from July 13 to July 27, 2014, that were notices of allowances. The x-values identify a corresponding percentage for actions issued from Jan. to Jan. 27, 2014.

As the PTO refines its guidelines as to how to interpret Alice Corp. and as examiners work through retrospective 101 analysis of cases, we will stay tuned to the examination of business-method patents. As it stands, however, this data seems to suggest that the hope for securing patent protection of business-method inventions — something already regarded as a rather dismal prospect — is becoming even bleaker for applicants.

This analysis shows that 101 rejections are the norm rather than the exception in the business-method art units. In discussing Alice rejections with examiners, they are largely as perplexed as applicants in determining how to craft claims that would protect these technologies. Indeed, so many cases were pulled from allowance that the PTO had to modify its productivity rules to accommodate this dramatic change in examination.

Although interim guidelines are thoughtful and were timely released, the examining corps does not have a clear understanding of what 101 means in a way that can be explained to applicants. As a practical matter, allowance in many art units is not attainable until there is guidance that the corps can follow appreciating that many are not lawyers who could fully appreciate the cryptic direction from the Supreme Court in Alice Corp.

Although the PTO has essentially stopped issuing patents in business-method art units, business needs clear direction. The patent system was designed by our Founding Fathers to encourage business to do the investment that solves big problems without fear that a fast follower could copy their winning solution. The United States still leads the world in software and services falling unfortunately in those art units that have stopped issuing patents. Business needs to know that their success earned through investment in solving vexing problems cannot be stolen. In this way, a patent serves as “the carrot for capitalism” necessary to lubricate the wheels of innovation. Without incentive, say goodbye to the quick pace of innovation we enjoy as we use convenient payment methods, are cured with modern health care, rest without worry about credit fraud, or otherwise enjoy in our modern lives.

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[1] United States Patent and Trademark Office. “Patent Technology Center 3600 Contact Information,” available at http://www.uspto.gov/about/contacts/phone_directory/pat_tech/3600.jsp.

[2] Software & Information Industry Association. “The U.S. Software Industry: An Engine for Economic Growth and Employment.” September 2014.

[3] Including office actions and notices of allowances.