

## ALERTS

## Intellectual Property Law Alert - Alice: It's No Use Going Back To Yesterday Because I Was A Different [Patent] Then

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The U.S. Supreme Court's June 19 opinion in *Alice Corporation Pty. Ltd. v. CLS Bank Int'l, et al.* provided important, additional guidance as to when computer software can be patented under 35 U.S.C. § 101. The patent claims in *Alice* generally related to the use of a third party to mitigate settlement risk, which the Court described as "intermediated settlement." The Supreme Court held that implementing the patented risk mitigation scheme was not eligible for patent protection. A little more than four months later, the effects of the *Alice* decision are being felt in both patent prosecution and patent litigation.

The *Alice* decision helps to further elucidate how the Supreme Court is evaluating what subject matter(s) are eligible for patent protection under 35 U.S.C. § 101. In *Mayo Collaborative Servs. v. Prometheus Lab., Inc.*, the Supreme Court described a two-step test to determine patent eligibility. The subject matter eligibility of patent claims is first evaluated to assess whether they are directed to a traditionally patent-ineligible concept (e.g., an abstract idea, a law of nature, or a natural phenomenon). If the claims are directed to a concept that is typically patent-ineligible, the Court should ask whether there is an inventive concept in the claims that makes them patentable—e.g., as an inventive application or implementation of the abstract idea, law of nature, or natural phenomenon. Under this approach, an abstract concept that is simply implemented by known and conventional means is not patent-eligible. Importantly, the Supreme Court and Federal Circuit have repeatedly held in recent years that merely implementing an idea via a general-purpose computer is unlikely to satisfy this standard.

The Supreme Court's application of this standard in the *Alice* decision is likely to impact how patents directed to computer software are prosecuted and litigated. Software patents have grown from about 3 to 5% of issued patents in 1976 to about 25 to 40% of issued patents presently.<sup>1</sup> The U.S. Patent & Trademark Office has recently provided examiners with guidelines in examining patents in view of *Alice* that may change the manner in which software patents are prosecuted—or make it more difficult to prosecute software patent claims at all. The USPTO's instructions indicate that if the claim is directed to an abstract idea implemented by computer, then there must be an element or combination of elements that provide "significantly more" to the claim than simply using a computer.<sup>2</sup> Under the USPTO's new instructions, just stating "apply it," providing "mere instructions to implement," or reciting "generic computer functions that are well-understood, routine, and conventional"

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are not sufficient to provide “significantly more” and render the claim patent eligible.<sup>3</sup> Initial reports indicate that the Alice decision and the USPTO’s new instructions have affected how software patents are prosecuted. A recent report in *IP360* assessed § 101 rejections Technology Center (TC) 3600, which contains many business-method art units, both pre- and post-Alice.<sup>4</sup> The report found that § 101 rejections between January 13 to 27, 2014 (before Alice) was 24%. The report then measured § 101 rejections July 13 to 27, 2014, after Alice and the examination guidelines. The report found that the § 101 rejection rate had increased to 78% in the July 2014 time period in the TC 3600 business-method art units.<sup>5</sup> Notices of allowance also dropped from 23.6% during the January 2014 period to 4.5% during the July 2014 period in the TC3600 business method art units.<sup>6</sup> The data indicate that software-related art units are rejecting a higher percentage of applications under § 101, and that allowance rates have decreased.

For patent litigation, the data are not as clear as the USPTO data, but data suggest that § 101 challenges to issued patents are becoming more common—as well as more likely to succeed. New patent litigation filed in September 2014 (329 cases) was a 40% reduction compared to September 2013 (549 cases).<sup>7</sup> Over the past few years, new patent litigation cases are reduced over the summer but increase again in September. However, a post-summer increase did not happen this year. Although correlation does not equal causation, the Alice decision may make patent holders hesitant to file new litigation due to not wanting to proceed with possible invalid claims under § 101. However, Alice is not the only factor. The America Invents Act provided an alternative pathway to challenge patents--2003 inter partes reviews (IPRs) and 240 covered business method reviews (CBMs) have been requested since September 16, 2012.<sup>8</sup> In the first two years, the PTAB has found all challenged claims invalid in 65% of the 126 final decisions. Thereby, there are most likely several contributing factors leading to the decrease in patent litigation, whereby Alice is probably one of several factors.

For more information, contact the Barnes & Thornburg attorney with whom you work or a member of the firm’s Intellectual Property Law Department in the following offices: Atlanta (404-846-1693), Chicago (312-357-1313), Columbus (614-628-0096), Delaware (302-300-3434) Elkhart (574-293-0681), Fort Wayne (260-423-9440), Grand Rapids (616-742-3930), Indianapolis (317-236-1313), Los Angeles (310-284-3880), Minneapolis (612-333-2111), South Bend (574-233-1171), Washington, D.C. (202-289-1313).

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- (1) Crouch, Dennis. "Rise of Computer Patents," <http://www.patently-o.com> (October 29, 2014) (preliminary data of keyword search of patents containing an independent claim reciting one or more of computer, processor, software, machine readable, information, memory, data, virtual, or storage media).
- (2) Preliminary Examination Instructions in view of the Supreme Court Decision in Alice Corporation Pty. Ltd. V. CLS Bank Int'l, et al. (June 25, 2014).
- (3) Id. citing Alice, slip op. at 12-13 and 15.
- (4) Gaudry, Kate and Thomas Franklin. "Post-Alice Exam Stats In Software Art Units: A Bleaker Road," Law360 (October 3, 2014).
- (5) Id.
- (6) Id.
- (7) Wickam, Allissa. "New Patent Suits Drop Off Sharply from Last Year," Law360 (October 8, 2014).
- (8) <http://ptoligitationcenter.com/essentials/statistics/>