

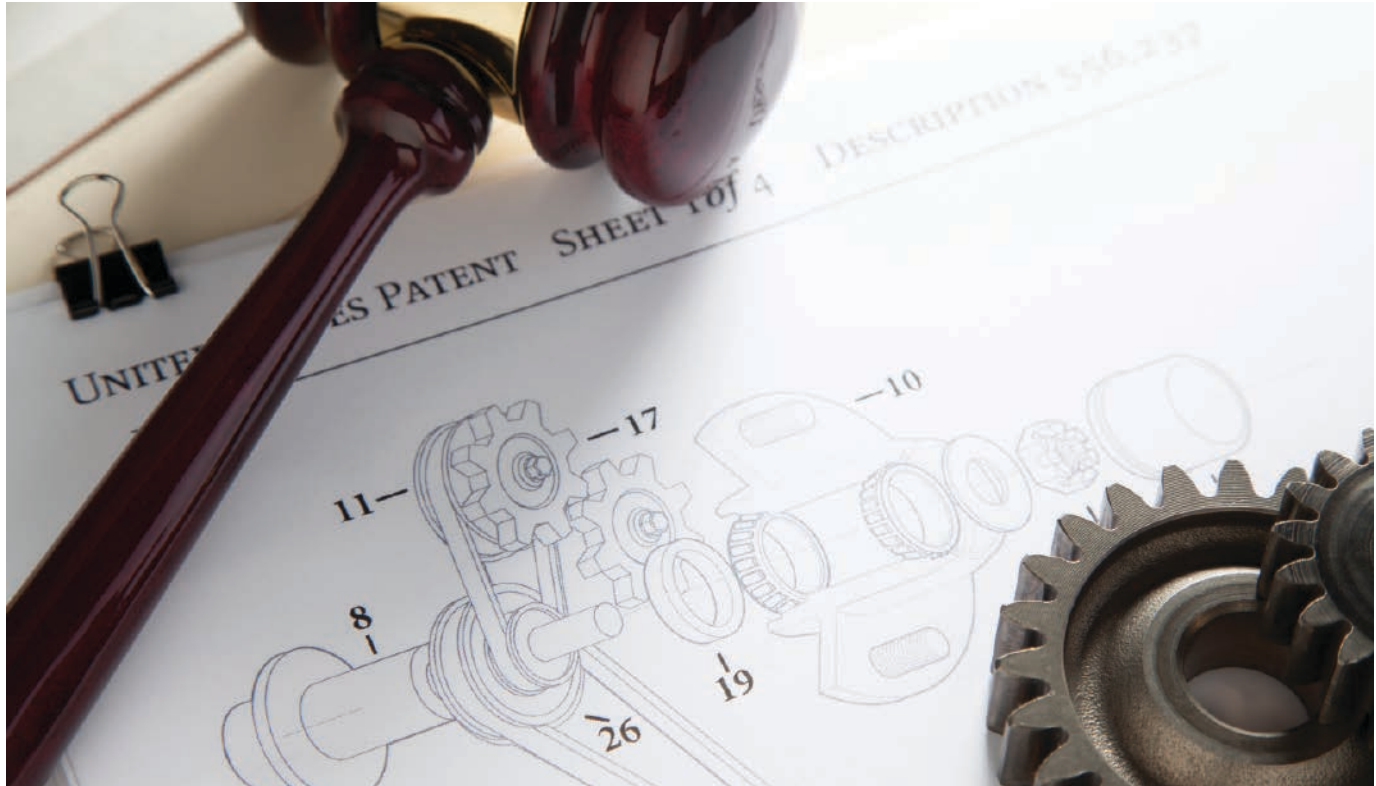
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Intellectual Property

Four Years After Alice, Software Patents Making a Comeback

By Aseet Patel



This is the second of two articles in Today's General Counsel intended to encourage companies to recognize that the pendulum has noticeably swung back since the United States Supreme Court decision in *Alice Corp. Prop. Ltd. v. CLS Bank Int'l*. The first article, "Software Patents Still Valuable After Alice," discussed the two-part *Alice* test for determining patent eligibility in accordance with 35 U.S.C. § 101 of United States patent laws, and its detrimental effect on the patent eligibility of many computer and software related patents. In spite of the challenges, cybersecurity patent powerhouse, Finjan, Inc., successfully navigated *Alice* to extract massive licensing revenue from its patent portfolio. Technology companies should be encouraged by the *Finjan* decision because it makes more predictable the

types of software inventions that should pass muster after *Alice*.

This second article predicts more certainty for patent-eligibility determinations in the future. Like *Finjan*, other recent events foretell that the *Alice* pendulum has noticeably swung back toward center: a changing of the leadership at the United States Patent and Trademark Office, several favorable Court of Appeals for the Federal Circuit (CAFC) holdings, some sharp dissents and patent bar associations' calls for legislative reform.

General counsel and chief executives should rethink their company's patenting strategies in this changing landscape.

Since being sworn in as the new director of the USPTO in February, Andrei Iancu has led the charge to improve predictability of patent-

eligible subject matter. In his speech at the annual meeting of the Intellectual Property Owners Association in Chicago in late September, the director told the IPO's membership that the USPTO is "contemplating revised guidance to help categorize the exceptions [to patent eligibility], and indeed to name them, and instruct examiners on how to apply them." Nevertheless, because the CAFC is outside of Iancu's direct purview, some patent attorneys are skeptical whether the director's effort to create more predictable guidelines will help patent applicants and patentees withstand subject-matter eligibility challenges at the CAFC.

In addition to guiding United States patent examiners, Iancu has also tried to eliminate inconsistencies in the interpretation and implementation of

the two-part *Alice* test among different branches of the USPTO. In August, the director created a new post that coordinates between the Patent Trial and Appeal Board (PTAB) of the USPTO and the examining corps. He installed former Chief Judge of the PTAB, David Ruschke, to that post. Iancu aims to make the patent system more consistent and predictable, particularly regarding patent eligibility. Companies seeking to recalibrate their patent strategy should monitor and timely review any guidance materials the USPTO releases in the coming months.

Furthermore, the CAFC is doing its part to build a 35 U.S.C. § 101 jurisprudence with improved predictability for patent applicants and patent owners. As it did in *Finjan*, the judges of the CAFC have released several favorable holdings and sharp but favorable dissents. Many, including Iancu, applauded the CAFC. In particular, Iancu praised Judge Linn and Judge Plager for their sharp dissents. The director shared Judge Linn's sentiment that "the abstract idea test is 'indeterminate and often leads to arbitrary results.'"

Judge Linn's dissent in *Smart Systems Innovations, LLC v. Chicago Transit Authority et al.* noted that some of today's most important inventions in artificial intelligence, the Internet of Things (IoT) and computing are in grave danger of being left unprotected if we do not get the *Alice* test right.

Moreover, Judge Plager, a 29-year veteran of the CAFC, noted that we currently have an incoherent body of doctrine. In his fifteen page dissent in *Interval Licensing LLC v. AOL, Inc. et al.*, Judge Plager noted that the two-part *Alice* test creates unwanted uncertainty about whether an invention is patent eligible and identified a need for a single, succinct, usable definition of "abstract idea." The CAFC is actively laying the groundwork for what should eventually cause either the United States Supreme Court or Congress to intercede and clarify the judge-made exemptions to subject-matter eligibility.

The United States Supreme Court has given little indication that it will move the subject-matter eligibility needle during its current session, which started on the first Monday of October. The Court has already denied certiorari in two cases that could have expanded the *Alice* jurisprudence — *Smartflash LLC v. Samsung Electronics America, Inc. et al.* and *Cleveland Clinic Foundation et al. v. True Health Diagnostics LLC*.

Smartflash could have been the Court's opportunity to explain its views on what role the evidence of "undue preemption" should play in determining patent eligibility under 35 U.S.C. § 101. *Cleveland Clinic* could have been an opportunity for the Court to resolve the CAFC's seemingly fractured approach to Section 101 issues. In its briefs, petitioner *Cleveland Clinic* argued that "[t]he Federal Circuit's fractured approach to handling Section 101 issues has created confusion in the industry and chilled innovation because inventors and investors cannot predict whether new discoveries in this field will ultimately be protected."

Its briefs positioned CAFC Judges Reyna, Wallach and Lourie on one end of a spectrum because they advocate expedient resolution of patent-eligibility issues at the pleadings stage of litigation. Meanwhile, on the other end of the spectrum, it noted that CAFC Judges Moore, Taranto, Stoll and Newman do not treat patent eligibility as a pure question of law, but rather evaluate the invention in light of the scientific and historic facts. In any event, the CAFC is creating a body of jurisprudence that the district courts, the PTAB, and United States patent examiners are obligated to follow.

With the Supreme Court seemingly content to stand on the sidelines about subject-matter eligibility issues, some bar associations have joined forces to encourage legislative action. Director Iancu noted at the IPO annual meeting: "I know that IPO committees have been hard at work on a legislative fix to Section 101. Indeed, IPO and the American Intellectual Property Law

Association have joined forces recently and proposed new statutory language... As we all know, however, any legislative effort takes a long time, and the result is uncertain." In any event, the efforts of bar associations to further certainty are admirable, and their coordinated efforts have not been unnoticed.

In spite of *Alice*, companies continue to innovate in the fields of AI, machine learning (ML), cloud computing, and the IoT. At the Black Hat USA conference earlier this year, cybersecurity companies stressed that AI and ML will play an important role in the security aspects of future products of all types, including the industrial Internet of things, self-driving cars and financial trading products. Furthermore, many — including some CAFC judges — have noted that inventions in the fields of AI, ML and the IoT are too important to society and cannot be left simply unprotected.

Meanwhile, the USPTO has stepped up its efforts to distribute guidance and educational materials that improve predictability of what is and is not patent eligible under its interpretation of 35 U.S.C. § 101 jurisprudence. Bar associations are also contributing to the effort with proposed legislation to Congress. While each has its shortcomings, the widespread coordinated efforts bode well for patent owners and applicants of software innovations. The increased clarity should improve depressed patent valuations, result in increased patent licensing activity and raise shareholder value. General counsel and chief executives should rethink their company's patenting strategies to take the changing landscape into account. ■



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