USPTO Releases Report on Patent Examination Outcomes After Alice

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The U.S. Supreme Court’s 2014 Alice decision narrowed the scope of patent eligible subject matter and introduced unpredictable legal and economic consequences—including more rejections of claims by patent examiners under 35 U.S.C. § 101 as ineligible subject matter, and uncertainty as to whether claims would be rejected on such grounds. In a recent report entitled “Adjusting to Alice,” the USPTO’s Office of the Chief Economist (“OCE”) highlights how guidance provided by the USPTO in its 2018 and 2019 memos stemmed the rise in such rejections and increased certainty in USPTO examiners’ assessments of patent eligibility.

The question in Alice centered around whether Alice Corporation’s patented electronic system for settling financial exchanges using a third-party intermediary fell within the definition of patent-eligible subject matter. By using this automated escrow service, multi-party transactions could be completed quickly using an electronic third-party to minimize the risk of only one party to the transaction fulfilling its obligation. Such “intermediated settlement” of using an escrow provider was itself an abstract idea, but Alice defended its patents by arguing that abstract ideas are confined to “preexisting, fundamental truths” that “exist in principle apart from any human action,” while its patents required “a substantial and meaningful role for the computer.” The Supreme Court disagreed. It found that merely requiring a generic computer implementation fails to transform an abstract idea into patent-eligible subject matter, and invalidated Alice Corporation’s patents.
The USPTO recognized that this shift in subject-matter eligibility under *Alice* would have far-reaching consequences, both legal and economic. Firstly, thousands of pending patent applications had been drafted and filed without any consideration of this new standard, leaving applicants with little or no support to argue that their invention was more than a mere generic computer implementation. Issued patents also faced a similar challenge ahead with an increased likelihood of invalidation for failing to satisfy the new interpretation of 35 U.S.C. § 101, as happened to *Alice*. Even more broadly, economic investment in related technologies was negatively impacted with this added risk in seeking patent protection on certain inventions.

![Figure 1: The probability of receiving a first office action with a Section 101 rejection in *Alice*-affected technologies and in other technologies, Sept. 2011 - Dec. 2015.](image)

The OCE’s “Adjusting to Alice” report evaluated the effects of *Alice* and the subsequent USPTO guidance according to two metrics: 1) the probability of receiving a first office action with a § 101 rejection, and 2) variation in examiner first office action § 101 rejection rates. The first metric of probability, shown in Figure 1 of the report and reproduced here, illustrates how the number of these rejections increased following *Alice*, comparing *Alice*-affected technologies against other technologies from 2011 through 2015. Although *Alice*-affected technologies were traditionally more common than other technologies, the OCE’s report revealed that § 101 rejections in *Alice*-affected technologies increased by 31% in the 18 months following *Alice*. This led some patent practitioners to begin drafting patent applications in an attempt to avoid being classified to art units traditionally associated with *Alice*-affected technologies.
The *Alice* decision also drastically increased the uncertainty in receiving § 101 rejections. The OCE measured this uncertainty per patent examiner as the number of first office actions containing a rejection for patent subject matter eligibility divided by the overall number of first office actions by that examiner in the classification and time period. While the overall uncertainty in other technologies mostly remained unchanged, the OCE reported that uncertainty rose 26% in the 18 months following *Alice* in *Alice*-affected technologies. The OCE attributed this variation in receiving *Alice* rejections to the wide range of interpretations and application of the *Alice* decision by examiners.

In an attempt to clarify the *Alice* standard and assist examiners in interpreting the law, the USPTO issued several examination guidance documents that set policy guidelines on how to apply the legal concepts in *Alice* to the examination process. In June 2014, the USPTO provided preliminary examination instructions, followed by more substantive guidance on subject matter eligibility in December 2014. As shown in Figures 1 and 2 of the report, reproduced here, the 2014 guidance documents did not significantly reduce uncertainty, as first office action rejections with § 101 rejections continued to increase until April 2018. At that point, the probability of receiving a first office action with a rejection for subject matter ineligibility began to decline, as shown in Figure 3 of the report, reproduced here.
This coincides with the USPTO’s issuance of the Berkheimer Memorandum, “Changes in Examination Procedure Pertaining to Subject Matter Eligibility, Recent Subject Matter Eligibility Decision (Berkheimer v. HP, Inc.).” The Berkheimer Memorandum required examiners to support any conclusion that an additional element represents well-understood, routine, conventional activity with factual evidence. The OCE’s report concludes that this evidentiary requirement resulted in a statistically significant drop in the rate of first office action rejections for patent ineligible subject matter.

The USPTO issued further Revised Patent Subject Matter Eligibility Guidance ("2019 PEG") in January 2019, with the goal of clarifying the legal distinctions between claims directed solely to abstract ideas as opposed to those that merely involve an abstract idea but integrate the abstract idea into a practical application. The OEC believes that this 2019 guidance added clarity to an examiner’s decision-making process when applying the Alice standard. This is supported by the fact that, after the issuance of the January 2019 guidance, an even larger decrease in the rate of first office action rejections relating to patent ineligible subject matter was observed, shown in Figure 3. In particular, the report concludes that within a year of issuance of the 2019 PEG, the likelihood of receiving a § 101 rejection in a first office action was reduced by 25% and the uncertainty of receiving a § 101 rejection
fell by 44% for Alice-affected technologies. These results are shown in Figure 4 of the report, reproduced here.

These changes in patent examination outcomes after implementation of the Alice standard and the USPTO’s guidance documents are positive news for patent applicants. It appears that following the latest 2019 guidance on patent subject matter eligibility, the previously observed upward trend in subject matter eligibility rejections has been reversed. Additionally, by providing more clarity and decision-making structure to the subject matter eligibility analysis, the degree of variability observed across examiners when making determinations of subject matter eligibility has also been reduced. As a result, applicants can expect more predictable examination of their patent applications involving Alice-affected technologies at the USPTO.

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