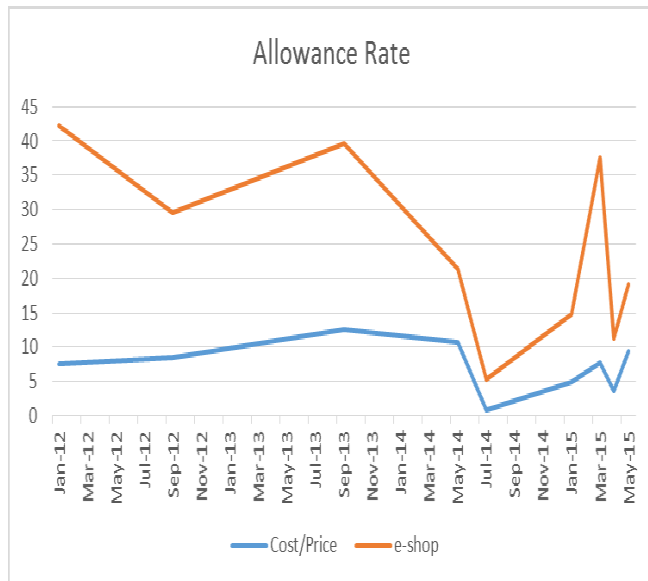


Patent Points

NOW STARTING MY 22ND YEAR...

Supreme Court Kills Business-Method Patents

An analysis of recent patent office statistics by a well-known patent expert shows a dramatic drop in patent allowances since the *Alice* Supreme Court ruling in June 2014. Certain areas such as eCommerce are seeing 85-90% of cases receiving § 101 rejections, and these cases are being abandoned (lost) at a high rate. The law used to reject business methods is known as section § 101.



This graph shows allowance rates for two e-commerce technical groups. The data is similar for other e-commerce and business-method groups. The blue line is for the Cost/Price technology (think Priceline auctions) while the orange line is for the e-shopping group (Amazon, etc.).

The anomalous spike higher in March 2015 was caused by the Examiners going away to training and dramatically reducing the number of office actions that month. The next month, April 2015, saw a huge surge in rejections when the Examiners came back from training on how to write these kinds of rejections. For example, e-Shopping Examiners issued about 70 § 101 rejections a month, then issued only 5 § 101 rejections in April, then came back from training and issued 197 § 101 rejections in May.

The technical area assigned by the patent office can make a big difference. Only 3% of "incentive program" patents were allowed in April 2015. 97% were rejected. E-shopping had 11% allowed, 89% rejected. The allowance rates vary by technology and from month-to-month. Overall, for e-Commerce, the allowance rates have plunged from 60% down to 10%.

What this graph is showing is that if your patent is categorized as a "Business Method", such as e-shopping, incentive programs, cryptography, cost/pricing, inventory, accounting, etc., your chance of getting your patent allowed now is roughly 2-25%.

Actually, we get 2 office actions per case, and we can re-file the case (RCE) for 2 more office actions, so the probability of eventually getting allowed, perhaps after paying for several amendments and RCE fees, is perhaps double this. An educated guess might be a 5-40% chance of allowance.

So you have a 60% to 95% chance of not getting your patent allowed if your are in one of these technologies. For high-value patents, it might still be

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worthwhile to file a patent application, even if the chances of success are only 10%.

See the Article by Robert H. Sachs on BliskyBlog.com 6/20/15:

<http://www.bilskiblog.com/blog/2015/06/the-one-year-anniversary-the-aftermath-of-alicestorm.html>

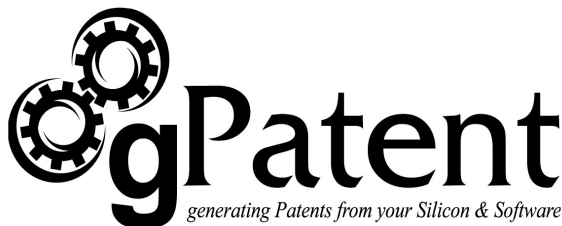
Gamble on Future Rule Changes ?

The law might change in the future, and the patent office might ease up on § 101 rejections, especially if there is a backlash against them rejecting nearly 100% of all business-method patents. However, change is slow at the government-run patent office.

It often takes 2-5 years for the examiners to review a new case, due to a huge backlog in the software areas. So when we file today, we are taking a chance on what the rules will be 3 years from now. It might be better than it is today. However, if the examiners continue to churn out these easy-to-write § 101 rejections at a high rate, they might burn through their backlog faster than in the past. It might be a way for the patent office to eliminate the nagging backlog that they never could make headway on.

One Solution - Don't Claim Software

The new § 101 rejections occur when software is claimed, or when at least one software element is in an otherwise-hardware claim. So if you claim only hardware, you should not get these § 101 rejections.



The new patent-office guidelines list a 3-step process to examine software claims. If there is any software in the claim, even just a little bit of code, the new guidelines are triggered. The third step tells the examiner to allow the claim if

"significantly more" than an abstract idea is claimed. Since software is now per se considered an "abstract idea", there has to be enough hardware to offset the software.

Old Trick of Claiming New Software Running on Generic Hardware Won't Work

However, simply having a generic computer (hardware) run your software is not enough. The "newness" or point of novelty probably needs to be more than just software. The guidelines show several examples of where new software running on generic hardware was not "significantly more" than the abstract idea and were thus denied a patent. Deciding what is "significantly more" is often just an arbitrary decision, and with the current momentum against software patents, more examiners will reject. "When in doubt, reject" will be the new norm.

Maybe GPS Phone and Servers are OK?

There are several exceptions described as examples in the patent office guidelines.

For example, software using a cell phone with GPS is "significantly more" and can be patented. So while claiming your software running on a PC is not patentable, claiming your software running on a smartphone might be patentable. In the example, GPS precision was improved, so this was not an "abstract idea" since GPS is real, not abstract.

Unfortunately, this line of reasoning might not extend to other smartphone cases, such as an e-commerce app on a smartphone, since e-commerce itself is "abstract" while GPS is "real".

Also, remember that the actual statistics show that the examiners are rejecting everything (or 90% of everything software). They are ignoring the examples in the guidelines. So relying on the guideline examples may appear safe, but still result in rejections.

Another exception is that software that makes the computer itself better is allowable. For example, an algorithm that improves the speed of the computer might be allowed, at least according to the examples in the guidelines. Software that allows business to be done faster would not be allowed, even if it made the computer run faster, since the claim is still for a business method. Examiners are smart and can see around bogus arguments.

Claim Lots of Hardware

Before June 2014, we liked to claim just the software, with little or no hardware. So if we had a smartphone app, we would claim just the procedure the smartphone app does, or the software that "can" run on a smartphone, without claiming the smartphone hardware itself.

A store might have hardware servers and WiFi iBeacons that can communicate with a smartphone app. Before June 2014, we would try to claim just the app, not the phone or servers. We might also have a system claim that included everything - the app, servers, iBeacons, but maybe not the smartphone.

Today, the system claim might still work. The hardware makes it "significantly more" than software or abstract ideas. However, the examiner might see the hardware as generic. If the invention is in the hardware, this argument is good. If the invention is in the software, this argument is weaker.

Claiming inventive hardware makes the patent appear to be a hardware invention, not a software invention, and not a business method. The more that the patent can look like engineering, and less like business, the better. Getting a patent categorized as a business method can be the kiss of death. Getting that same patent categorized as a hardware system can save it.

Tradeoff is Economic Value

While claiming lots of hardware may help the patent get allowed, it significantly reduces the economic value of the patent.

The store example above has a smartphone app, hardware servers, wifi access points, iBeacons, and proprietary software running on the store's servers. Assume that the patent owner's company makes the software that runs on the store's server, and

also the smartphone app, and sells the software to the store, such as Macy's or Wall-Mart.

If the patent had a software claim, the patent owner could sue a competitor that makes the same software. However, if the patent had only a system claim, then the competitor does not infringe the patent, since the competitor does not sell servers, WiFi access points, or iBeacons. The store would have to be sued. All the parts of the claim are not assembled until the store. The competitor provides only one piece of the claim.

The competitor might be sued for contributory infringement, but this is much weaker than direct infringement.

If the claim also included the smartphone, then the store does not infringe; instead, it is the combination of the store and the customer. The store does not own the smartphone. Again, the store contributes to infringement, but the customer is also a partial infringer. How could the patent owner sue the end customers? How could the patent owner sue the store, if the store is a potential customer?

Having a patent might give the patent owner some leverage in negotiations with the store, so there is still some economic value even for a narrow system patent. But the economic value is still reduced compared with software-only claims that now appear DOA.



Nobody Knows What Will Work

There is a huge amount of uncertainty right now. We just do not know what will work. It appears that every business method is being rejected now. Even the allowable examples in the guidelines that the patent office published are likely being ignored, since the statistics show that 95% of the examiner's actions are rejections and only 5% allowances.

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After 21 years of writing patents as a full-time Patent Agent, 493 applications that I've written have now issued as patents. Congratulations inventors!

You can view the 493 issued patents I've written at:

www.gpatent.com

Rates Set for 2015

My hourly rate for 2015 will be \$250 per hour, billed in quarter-hour increments. Fixed-price quotes are available for patent applications to facilitate budgeting and avoid expensive surprises.

Prosecution work such as amendments and other paperwork is billed at the hourly rate. Litigation-support work is billed at a higher rate. Patent searches are billed at a flat \$500 for U.S. abstract searches. Patents can be viewed on-line.

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Address Correction Requested