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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

USPTO Patent-Eligibility Revamp May Face Court Skepticism

By **Ryan Davis**

Law360 (September 25, 2018, 10:38 PM EDT) -- A U.S. Patent and Trademark Office plan to overhaul patent-eligibility rules for examiners was greeted with cautious optimism by attorneys, who said the changes could clarify a murky area of the law, but risk putting the office on a collision course with courts that may have different views on eligibility.

The USPTO has not made a formal proposal to change its approach to determining what is and is not eligible for a patent, and director Andrei Iancu said in a speech on Monday that finalizing one "would take some time." Nevertheless, he provided substantial detail about what he would like to office to do differently.

For one, he proposed establishing specific categories of what constitutes patent-ineligible "abstract ideas," a vague phrase that has bedeviled courts and and attorneys, that would include math, mental processes and economic practices. He also said the office should consider patent eligibility separately from other issues like anticipation and obviousness.

Iancu said he agreed with Federal Circuit judges who have recently said that the current state of the law on patent eligibility makes it "near impossible to know with any certainty" whether an invention is eligible for a patent or not. The proposed changes would provide "significantly more clarity for the great bulk of cases," he said.

Attorneys said they agreed that the patent system would benefit from a clearer and more predictable patent-eligibility analysis and that Iancu's proposal is a good start. Yet they noted the office's approach could face pitfalls if the courts disagree with the office and decide to invalidate patents issued under new rules as a result.

"I applaud any effort to corral the current case law to create clearer boundaries. The challenge will be to thread the needle so it doesn't conflict with the current law," said Michelle K. Holoubek of Sterne Kessler Goldstein & Fox PLLC. "There has been a history of bright-line rules in this space that have not satisfied judicial scrutiny. That's always a concern when anything changes."

The approach advocated by Iancu is an effort to bring more certainty to the patent-eligibility analysis, "which is how it should be," said Michael Borella of McDonnell Boehnen Hulbert & Berghoff LLP.

"My concern is that clients could end up getting a lot of patents that are of limited value because they might get invalidated by the courts," he said.

Following high-profile U.S. Supreme Court decisions like Alice v. CLS Bank and Bilski v. Kappos, courts have invalidated scores of patents, and the USPTO has rejected many applications, based on Section 101 of the Patent Act, which is designed to describe what types of invention are eligible for patents.

The statute holds that any "new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof" is patent-eligible. However, the courts have set out an involved analysis for what meets that standard, and rejected specific rules from the Federal Circuit aimed at making the process clearer.

The high court has said areas like laws of nature, natural phenomena and abstract ideas are ineligible, but exactly what falls into those categories, and what an invention involving those areas of technology has to include to become eligible, has been very difficult for the Federal Circuit, other courts and litigants to determine with any accuracy or consistency.

"101 law in its current state in examination is an analytical dumpster fire," said Edward R. Reines of Weil Gotshal & Manges LLP. "You get wildly different outcomes from different decision makers since the Federal Circuit's tests are so analytically weak."

The USPTO has "one hand tied behind its back" in trying to clarify the situation, since it must follow the confusing precedent set by the courts, he said, but Iancu's proposed new approach is a "step in the right direction, and in that sense, it's very welcome."

The specific definitions provided by the USPTO director of areas that constitute abstract ideas, like mathematical formulas, fundamental sales and marketing activities and mental processes like forming an opinion or judgment, "would be adding clarity and teeth to the standard," Reines said.

Iancu delivered his speech at the Intellectual Property Owners Association's annual meeting in Chicago, and it made a significant impression on those in attendance, said Matthew J. Rizzolo of Ropes & Gray LLP, who was there.

"Certainly, it was welcome news for a lot of people in the room," he said. "Regardless of which side you generally take regarding patent rights, it's clear that most people believe the state of 101 law is uncertain, to put it mildly."

The approach Iancu is calling for appears to make patent eligibility under Section 101 more of a coarse filter, Rizzolo said, meaning that more applications would pass muster on eligibility grounds, then examiners would move on to scrutinize them on the other grounds of patentability, like novelty and nonobviousness.

If patent applications pass muster under the new test, "we can rest assured that other sections of the code should still prevent a patent if the claim is not inventive" or otherwise doesn't meet the requirements of the Patent Act, Iancu said in the speech.

That approach "could potentially lead to more patents being granted when they previously would have been rejected under 101, but it's really hard to say at this point," Rizzolo said. "The devil in the details of how this is implemented."

Any new rules that might be ultimately adopted by the patent office would likely include more specifics, but

based on the outline given in Iancu's speech, some areas of his planned approach could run into skepticism from the Federal Circuit, attorneys said.

For one, Iancu said that if the patent does not claim subject matter that falls into one of the categories identified as being patent-ineligible, "then the 101 analysis is essentially concluded and the claim is eligible." He also said if patent-ineligible subject matter is integrated into a practical application, it should be eligible.

But while the new proposed categories of abstract ideas he described are drawn from court decisions that have found math and economic practices ineligible, the courts have not said that only those things can be abstract ideas. In addition, what constitutes a practical application is open to debate.

"There are different opinions on the Federal Circuit about how broad subject matter eligibility should be," Holoubek said. "If judges on the Federal Circuit think these rules go too far, there could be trouble down the road."

Borella said the problem facing the office is setting new eligibility rules is that "the Federal Circuit judges don't even agree with one another, much less the PTO."

Computer-implemented inventions could in particular could cause debates about what is eligible, Holoubek said, using the example of an algorithm that could be used to predict whether a patient has a certain disease. Some might say that is just math and should not be patent-eligible, while others might say it is a practical application of math that should be eligible, she said.

"That’s where a lot of the gray area exists: what’s considered a practical application?" she said. "I hope the eventual guidelines will at least be explicit about how to address those types of inventions."

Iancu's suggestion that integrating an abstract idea into a practical application would make it patent-eligible needs to be fleshed out more and may be in tension with the Supreme Court's holding in Alice that "stating an abstract idea while adding the words 'apply it' is not enough for patent eligibility," Rizzolo said.

"The PTO will certainly have to take care to be sure its approach comports with the law set forth by the Federal Circuit and the Supreme Court. If it gets out of those lanes, there could be problems down the line," he said.

Regardless of what any eventual guidance ultimately looks like, the idea that the USPTO is confronting perceived problems with existing eligibility case law is significant, Borella said.

"In a way, it's a really gutsy moved on the part of the patent office," he said. "They're saying the law is really messed up and the courts are not able to give guidance, so we're going to interpret the law from the Supreme Court the way we think it should be interpreted."

That could send a message to Congress that legislation is needed to rewrite the statute governing patent eligibility to make it clearer, he said. Several major IP groups have suggested doing that in recent months, though Iancu noted Monday would be a long and uncertain process.

It remains to be seen how the courts and Congress would react to a patent-eligibility overhaul by the USPTO, but Reines said he's hopeful that the approach taken by Congress could be a catalyst for positive change.

"Director Iancu's restatement of the law does push the envelope," he said. "I'd like to think that enlightened thinking has its own force, but only time will tell if there's a conflict between this and positive law."

--Editing by Katherine Rautenberg and Alanna Weissman.