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UNITED STATES PATENT AND TRADEMARK OFFICE

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BEFORE THE PATENT TRIAL AND APPEAL BOARD

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*Ex parte* PAUL EFRON, TAMILLA GHODSI, and JAMES BROWER

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Appeal 2016-000080
Application 11/006,441[1]
Technology Center 3600

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Before KEVIN F. TURNER, NINA L. MEDLOCK, and
SHEILA F. McSHANE, *Administrative Patent Judges*.

McSHANE, *Administrative Patent Judge*.

DECISION ON APPEAL

Appellants seek our review under 35 U.S.C. § 134(a) of the Examiner's final decision to reject claims 1, 3–12, and 15. We have jurisdiction under 35 U.S.C. § 6(b).

We AFFIRM.

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[1] According to Appellants, the real party in interest is Goldman, Sachs & Co. Appeal Brief filed February 2, 2015, hereafter "Appeal Br.," 2.

BACKGROUND

The invention relates to hedging leveraged lease equity credit risks associated with leveraged lease equity transactions. Specification, hereafter "Spec.," Abstract, 1:5–7. Goals of the invention are to provide a more efficient way to hedge risks and to provide new opportunities for non-investment grade companies to obtain lease financing. *Id.* at 3:14–18.

Representative method claim 1 is reproduced from page 9 of the Appeal Brief (Claims App.) as follows:

> 1. A processor-implemented method for performing a credit risk hedging transaction, comprising:
>
> electronically identifying an entity via a processor, said entity holding at least one asset on lease and receiving rent payments on said lease, said entity having a beneficial interest owned by a leveraged lease equity investor, wherein said beneficial interest is an ownership interest in said entity;
>
> electronically establishing via the processor a leveraged lease equity investment between the leveraged lease investor and the entity, wherein said beneficial interest is received by said leveraged lease equity investor for investing in said entity;
>
> electronically structuring via the processor a first agreement associated with a hedging transaction between said leveraged lease equity investor and a hedge counterparty to hedge credit risk associated with the leveraged lease equity investment, wherein the structured first agreement includes identification of a credit event associated with said lease and an obligation that the said leveraged lease equity investor deliver said beneficial interest to said hedge counterparty upon the occurrence of said credit event, the credit event representing events that present the credit risk to the leveraged lease equity investor;
>
> electronically structuring a second agreement between said hedge counterparty and a third party investor, said structured second agreement including an obligation of said hedge counterparty to deliver a second beneficial interest to said third party investor upon the occurrence of said credit event[;] and

> electronically generating via the processor said first agreement associated with the transaction and issuing the generated first agreement to said leveraged lease equity investor and said hedge counterparty, and generating said second agreement and issuing the generated second agreement to said hedge counterparty and said third party investor.

In the Final Action, the Examiner rejects claims 1, 3–12, and 15 under 35 U.S.C. § 101 as directed to non-statutory subject matter. The Examiner also rejects claim 1 as unpatentable under 35 U.S.C. § 103(a) over Kastel[2] and Canezin.[3,4] Claims 4, 6–12, and 15 are rejected as unpatentable under 35 U.S.C. § 103(a) over Kastel, Canezin, and Monsen.[5] Claim 3 is rejected as unpatentable under 35 U.S.C. § 103(a) over Kastel, Canezin, Monsen, and Andrus.[6] Claim 5 is rejected over Kastel, Canezin, Monsen, and Freund.[7] Final Action, hereafter "Final Act.," 2–8, mailed September 8, 2014; Answer, hereafter "Ans.," 2, mailed July 14, 2015.

Appellants address the claims under the § 101 and § 103 rejections as a group, with claim 1 used as the representative claim. Appeal Br. 6, 8. We will address the claims in a similar manner. *See* 35 C.F.R. § 41.37(c)(iv).

Claim 2 was cancelled by amendment filed on January 20, 2012. Claims 9–12, which depend directly or indirectly from claim 2, were not cancelled, but are

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[2] US Patent No. 7,792,730 B2, issued September 7, 2010.
[3] US Patent Publication No. 2006/0282355 A1, published December 14, 2006.
[4] Although there are typographical inconsistencies in the claim identifications in the summaries of the respective rejections, this is inadvertent error because the correct claim numbers and basis of rejections can be discerned from the context of the Action. *See* Final Act. 3–6. Appellants do not present any arguments related to typographical issues.
[5] US Patent Publication No. 2006/0259419 A1, published November 16, 2006.
[6] US Patent Publication No. 2002/0156709 A1, published October 24, 2002.
[7] US Patent No. 7,853,461 B2, issued December 14, 2010.

unpatentable, as they stand, by virtue of their dependency. *See* Claims App. 10–11. In light of the disposition of this Appeal, in which we address the claims as a group and affirm the § 101 rejection, we decline to enter a new rejection of claims 9–12 on a dependency basis because it would be moot.

DISCUSSION

*35 U.S.C. § 101*

The Examiner finds that claims 1, 3–12, and 15 are directed to non-statutory subject matter that is an abstract idea because the steps of the claims are to "establishing an 'agreement' which is no more than a legal cont[r]act," where "establishing an agreement" is an abstract idea. Final Act. 2. The Examiner finds that the claims are "no more patentable under 101 than words in a book." Ans. 2. The Examiner finds that the limitations of claim 1 are directed to "identifying elements, structuring and generating 'legal' agreements," which do not qualify as patentable under § 101. *Id.* Additional claim elements are not found to be significantly more than the abstract idea because they are via a processor and "do not provide meaningful limitation(s) to transform the abstract idea into a patent eligible application of the abstract idea such that the claim(s) amounts to significantly more than the abstract idea itself." Final Act. 2–3.

Appellants argue that the § 101 rejection is based on conclusory statements, with insufficient analysis or rationale provided in support of the rejection. Appeal Br. 4. Appellants also allege that the claims are novel and non-obvious and, therefore, even if the claims involve an abstract idea, the elements of the claims are sufficient to transform them into patent eligible subject matter. *Id.* at 5.

Appellants further allege that there should be no concern with representative claim 1 because there would be no monopolization of basic tools of science and technology because the claim includes "additional concrete and meaningful limitations," which Appellants list. App. Br. 5.

To provide context, 35 U.S.C. § 101 provides that a new and useful "process, machine, manufacture, or composition of matter" is eligible for patent protection. The Supreme Court has made clear that the test for patent eligibility under Section 101 is not amenable to bright-line categorical rules. *See Bilski v. Kappos*, 561 U.S. 593, 609 (2010). There are, however, three limited, judicially created exceptions to the broad categories of patent-eligible subject matter in § 101: laws of nature; natural phenomena; and abstract ideas. *See Mayo Collaborative Services v. Prometheus Labs., Inc.*, 566 U.S. 66, 70 (2012).

In *Alice Corporation Pty, Ltd. v. CLS Bank International*, 134 S. Ct. 2347 (2014) ("*Alice*"), the Supreme Court reiterated the framework set forth previously in *Mayo*, "for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of those concepts." *Alice*, 134 S. Ct. at 2355 (citation omitted). Under *Alice*, the first step of such analysis is to "determine whether the claims at issue are directed to one of those patent-ineligible concepts." *Id.* (citation omitted). If it is determined that the claims are directed to a patent-ineligible concept, the second step in the analysis is to consider the elements of the claims "individually and 'as an ordered combination"' to determine whether the additional elements 'transform the nature of the claim' into a patent-eligible application." *Id.* (quoting *Mayo*, 566 U.S. at 79, 78). In other words, the second step is to "search for an 'inventive concept'—*i.e.*, an element or combination of elements that is 'sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.'" *Id.* (alteration in original) (quoting *Mayo*, 566 U.S. at 72–73).

After considering Appellants' arguments and the evidence presented in this Appeal for the § 101 rejection, we are not persuaded that Appellants identify reversible error. We add the following for emphasis.

We agree with the Examiner that when steps of the claims are considered, they are directed to generating legal documents associated with transactions, including steps of identifying entities and structuring transactions. The Federal Circuit has held that if a method can be performed by human thought alone, or by a human using pen and paper, it is merely an abstract idea and is not patent-eligible under § 101. *CyberSource Corp. v. Retail Decisions, Inc.*, 654 F.3d 1366, 1372–73 (Fed. Cir. 2011) ("[A] method that can be performed by human thought alone is merely an abstract idea and is not patent-eligible under § 101."). Mental processes remain unpatentable even when automated to reduce the burden on the user of what once could have been done with pen and paper. *CyberSource*, 654 F.3d at 1375 ("That purely mental processes can be unpatentable, even when performed by a computer, was precisely the holding of the Supreme Court in *Gottschalk v. Benson*."). Here, the claims could have been performed by a human structuring the respective transactions and reducing the related agreements to paper. Moreover, similar types of claims have been found to be directed to an abstract idea. *See In re Comiskey*, 554 F.3d 967 (Fed. Cir. 2009) (methods directed to resolving binding arbitration involving legal documents, such as contracts, were patent-ineligible); *Bilski*, 561 U.S. at 609 (claims directed to risk hedging ineligibly directed to an abstract idea); *Dealertrack, Inc. v. Huber*, 674 F.3d 1315, 1331–34 (Fed. Cir. 2012) (ineligible method directed to a computer aided method for credit management). And, although Appellants list all the steps of representative claim 1 (*see* Appeal Br. 5), there is no explanation provided in support of why the elements transform the abstract idea into "significantly more" under step 2 of *Alice*.

Regarding Appellants' argument that the Examiner's findings are insufficient and unsupported, we determine that the findings provide sufficient notice of the basis for the rejection. *See In re Jung*, 637 F.3d 1356, 1362 (Fed. Cir. 2011). The Examiner has identified the abstract idea the claims are directed to, and has also identified why the claims do not represent "significantly more" because they are merely directed to performance by a processor. Notice of the basis of the rejection is sufficient, however, as there is no requirement that additional extrinsic evidence has to be provided in support of the findings. *See id.; see also, e.g., Mortgage Grader, Inc. v. First Choice Loan Servs. Inc.,* 811 F.3d 1314, 1325 (Fed. Cir. 2016).

Appellants' argument regarding the lack of monopolization by claim 1 also does not support patentability in this instance. Although it may be true that there is no broad preemption of "basic tools of science and technology" under the scope of the claims, that issue is not dispositive as to whether the claims are patent eligible. *See Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1379 (Fed. Cir. 2015) ("While preemption may signal patent ineligible subject matter, the absence of complete preemption does not demonstrate patent eligibility."); *see also OIP Techs., Inc. v. Amazon.com, Inc.*, 788 F.3d 1359, 1360–1361 (Fed. Cir. 2015).

Finally, we disagree with Appellants' allegations that the claims are novel and non-obvious and, therefore, the elements of the claims are sufficient to transform the nature of the claims into patent eligible subject matter. Novelty and non-obviousness are additional requirements for patentability, which are separate and distinct from those of § 101 patent eligibility.

We, therefore, sustain the Examiner's rejection of claims 1, 3–12, and 15 under § 101.

*35 U.S.C. § 103*

Appellants contend that Kastel fails to disclose the claim 1 limitations of "electronically identifying an entity . . . having a beneficial interest owned by a leveraged lease equity investor, wherein said beneficial interest is an ownership interest in said entity" and "electronically structuring via the processor a first agreement . . . includes . . . an obligation that the said leveraged lease equity investor deliver said beneficial interest to said hedge counterparty." *Id.* at 7. Appellants also disagree with the Examiner's findings that in the comparison of the claim elements to Kastel that "the 'hedge counterparty' is the 'protection seller', the 'credit event' is the 'credit risk' and the 'deliver beneficial interest' is the 'specified obligation' and 'will receive payment.'" *Id.* (citing Final Act. 4).

After considering Appellants' arguments and the evidence presented in this Appeal for the § 103 rejection, we are persuaded that Appellants identify reversible error, and we, therefore, reverse the obviousness rejection. We add the following for emphasis.

The Examiner relies upon Kastel for the teachings of the majority of the claim steps, with the reliance on Canezin limited to teaching the elements relating to "a third party investor." Final Act. 4–5. The only portion of Kastel relied upon in the rejection states:

> Another field where such techniques can be applied to is the valuation of futures contracts that are based on a basket of credit default swaps as underlyings. Credit default swaps are the most commonly traded credit derivatives. A credit default swap is a contract where one party (the "protection seller") receives a premium from another party (the "protection buyer") for assuming the credit risk of a specified obligation. In return for this premium, the protection buyer will receive a payment from the protection seller upon the occurrence of a credit event.

Kastel, 1:43–59.

Although this portion of Kastel may disclose the use of the equivalent of "hedging" transactions, that is, assumptions of "credit risk," it fails to disclose, at least, a "leveraged lease equity investment" with a beneficial interest ownership as required in claim 1.

Thus, we cannot sustain the Examiner's rejection of representative claim 1, and claims 3–12 and 15, under 35 U.S.C. § 103(a).

## SUMMARY

The rejection of claims 1, 3–12, and 15 under 35 U.S.C. § 101 is affirmed.

The rejection of claims 1, 3–12, and 15 under 35 U.S.C. § 103(a) is reversed.

No time period for taking any subsequent action in connection with this appeal may be extended under 37 C.F.R. § 1.136(a)(1)(iv).

## AFFIRMED