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UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

Ex parte HOWARD W. LUTNICK

Appeal 2017-001171
Application 13/072,878
Technology Center 3600

Before HUBERT C. LORIN, NINA L. MEDLOCK, and
BRADLEY B. BAYAT, *Administrative Patent Judges*.

BAYAT, *Administrative Patent Judge*.

DECISION ON APPEAL¹

STATEMENT OF THE CASE

Howard W. Lutnick (“Appellant”)² appeals under 35 U.S.C. § 134(a) from the Examiner’s final rejection of claims 41, 45–48, 52, 63–74, 76–85, 87, and 88. We have jurisdiction under 35 U.S.C. § 6(b).

SUMMARY OF DECISION

We AFFIRM.

¹ Our Decision references Appellant’s Appeal Brief (“App. Br.,” filed Mar. 24, 2016), Reply Brief (“Reply Br.,” filed Oct. 24, 2016), the Examiner’s Answer (“Ans.,” mailed Aug. 24, 2016), and the Final Office Action (“Final Act.,” mailed May 28, 2015).

² Appellant identifies “BGC Partners, Inc.” as the real party in interest (App. Br. 3).

THE INVENTION

Appellant's claimed "invention relates in general to tradable financial instruments, and more particularly, to systems and methods for providing financial instruments including contrary positions." (Spec. 1, ll. 6–8).

Claim 41, reproduced below, is illustrative of the subject matter on appeal.

41. A method comprising:

identifying, by a provider, a first position on a first bond, wherein the first position comprises a long position on the first bond;

identifying, by the provider, a second position on a second bond, wherein the second position comprises a short position on the second bond, wherein the first bond has a different maturity date from the second bond, and wherein the first bond and the second bond are issued by a same corporation;

undertaking, by the provider, the first position and the second position by buying the first bond and selling the second bond, wherein the buying and selling is performed by trading electronically in real-time or substantially in real-time;

creating, by the provider, a hedged instrument including at least the first position and the second position;

determining a price for the hedged instrument based at least in part on the first position and the second position; and

offering the hedged instrument for sale at the determined price, wherein responsive to the offering, the hedged instrument is sold to a buyer via electronic trading.

THE REJECTION

Claims 41, 45–48, 52, 63–74, 76–85, 87, and 88 are rejected under 35 U.S.C. § 101 as being directed to judicially-excepted subject matter.

ANALYSIS

Under 35 U.S.C. § 101, an invention is patent-eligible if it claims a “new and useful process, machine, manufacture, or composition of matter.” 35 U.S.C. § 101. The Supreme Court, however, has long interpreted § 101 to include an implicit exception: “[l]aws of nature, natural phenomena, and abstract ideas” are not patentable. *See, e.g., Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2354 (2014) (internal quotation marks and citation omitted).

The Supreme Court, in *Alice*, reiterated the two-step framework previously set forth in *Mayo Collaborative Services v. Prometheus Laboratories, Incorporated*, 566 U.S. 66, 82–84 (2012), “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. The first step in that analysis is to “determine whether the claims at issue are directed to one of those patent-ineligible concepts.” *Id.* If the claims are not directed to a patent-ineligible concept, e.g., to an abstract idea, the inquiry ends. Otherwise, the inquiry proceeds to the second step where the elements of the claims are considered “individually and ‘as an ordered combination’” to determine whether there are additional elements that “‘transform the nature of the claim’ into a patent-eligible application.” *Id.* (quoting *Mayo*, 566 U.S. 66 at 79, 78).

Applying the framework in *Alice*, and as the first step of that analysis, the Examiner determined that the claims “are directed to an abstract idea of creating and offering hedged bond instruments.” (Ans. 2; *see also* Final Act. 13). Proceeding to the second step of *Alice*, the Examiner determined:

The additional element(s) or combination of elements in the claim(s) other than the abstract idea per se amount(s) to no more

than mere instructions to implement the idea by electronic trading that is incidental to the claims. Viewed as a whole, these additional claim element(s) 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. 13. *See also* Ans. 8 (“If Applicant invented new technology, it cannot be found and is not being claimed.”). The Examiner applied this analysis to all the claims in the rejection.

Appellant argues claims 41, 45–48, 52, 63–74, 76–85, 87, and 88 as a group. App. Br. 6–8; Reply Br. 2–5. We select independent claim 41 as representative for this group. Thus, claims 45–48, 52, 63–74, 76–85, 87, and 88 stand or fall with claim 41. *See* 37 C.F.R. § 41.37(c)(1)(iv).

Appellant challenges the Examiner on mostly evidentiary grounds; that is, regarding the *Alice* step one determination, “the Examiner provides no evidence at all” (App. Br. 6), and, regarding the *Alice* step two determination, “[t]he Examiner has provided no evidence that [claim] limitations are not substantially more than the alleged abstract ideas” (App. Br. 8).

To that end, we find that the Examiner properly complied with the Office’s Interim Guidance on Subject Matter Eligibility at the time of mailing of the Answer (e.g., “July 2015 Update: Subject Matter Eligibility” to the “2014 Interim Guidance on Subject Matter Eligibility (2014 IEG) published on Dec. 16, 2014(79 Fed. Reg. 74618)”). *See* Final Act. 4–10; Ans. 2–9. The Examiner set forth the statutory basis of the rejection, applied *Alice*’s two-part framework, and sufficiently articulated reasoning in an informative manner, thus, meeting the notice requirement of 35 U.S.C. § 132. *See* Ans. 2 (“The Examiner relies on the claim language and

specification”); *see also id.* at 5. Appellant does not maintain that he did not understand the Examiner’s rejection. *See Chester v. Miller*, 906 F.2d 1574, 1578 (Fed. Cir. 1990) (Section 132 “is violated when a rejection is so uninformative that it prevents the applicant from recognizing and seeking to counter the grounds for rejection.”).

Evidence may be helpful in certain situations where, for instance, facts are in dispute. But it is not always necessary. It is not necessary in this case.

Step one asks whether the Appellant’s claimed invention is directed to an abstract idea. In that regard, Appellant does not dispute the Examiner’s characterization that the claims are directed to “hedged instruments” (Final Act. 3). Accordingly, the only question is whether “hedged instruments” is an abstract idea. If so, the claims are directed to an abstract idea. As we explain below, we need only look to other decisions where concepts similar to the claimed invention were previously found abstract by the courts. In that regard, the concept of “hedged instruments” is similar to “risk hedging” that the Supreme Court determined to be an abstract idea in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010). Thus, the claims are directed to an abstract idea.

We further observe that [c]laim 41 recites a process of identifying first and second financial positions on financial instruments, buying and selling financial instruments, creating a hedged instrument, determining a price for the hedged instrument, and offering the hedged instrument for sale. This is the heart of the invention. *Cf. Bilski v. Kappos*, 561 U.S. 593, 595 (2010) (“the concept of hedging risk and the application of that concept to energy markets”).

The Examiner’s determination of the abstract idea is consistent with the description in the Specification of the problem solved by the invention. *See, e.g.*, Spec. 4, ll. 26–28 (“hedged instruments may provide an investor [an] opportunity to indirectly participate in contrary positions, without having to actually undertake such positions”); *id.* at 5, ll. 4–6 (“hedged instruments may attract more investors to a particular market, which may increase the liquidity of markets for such hedged instruments as well as markets for readily existing instruments”); *id.* at 5, ll. 11–12 (“hedged futures contracts may provide various tax advantages.”).

Appellant argues that the Examiner erred because “[t]he full test identified in *Alice* is whether an idea is a fundamental economic practice long prevalent in our system of commerce.” (App. Br. 7). According to Appellant, “[t]he fact that the Examiner was unable to raise any prior art to support a 102 or 103 rejection is evidence that the idea is not either fundamental or long prevalent.” (*Id.*)

Appellant’s argument is unpersuasive at least because abstract ideas are not limited to longstanding human organizing/social activity or financial methods. “The ‘abstract idea’ step of the inquiry calls upon us to look at the ‘focus of the claimed advance over the prior art’ to determine if the claim’s ‘character as a whole’ is directed to excluded subject matter.” *Affinity Labs of Tex. v. DirectTV, LLC*, 838 F.3d 1253, 1257 (Fed. Cir. 2016 (quoting *Electric Power Group, LLC v. Alstom S.A.*, 830 F.3d 1350, 1353 (Fed. Cir. 2016)); *see also Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1335 (Fed. Cir. 2016). There is no definitive rule to determine what constitutes an “abstract idea.” Rather, the Federal Circuit has explained that “both [it] and the Supreme Court have found it sufficient to compare claims at issue to

those claims already found to be directed to an abstract idea in previous cases.” *Enfish*, 822 F.3d 1327, 1334 (Fed. Cir. 2016); *see also Amdocs (Israel) Ltd. v. Openet Telecom, Inc.*, 841 F.3d 1288, 1294 (Fed. Cir. 2016) (explaining that, in determining whether claims are patent eligible under § 101, “the decisional mechanism courts now apply is to examine earlier cases in which a similar or parallel descriptive nature can be seen – what prior cases were about, and which way they were decided”).

We also cannot agree with Appellant’s contention that the claims before us are similar to the claims addressed in the Federal Circuit’s decision in *McRO, Inc. v. Bandai Namco Games Am. Inc.*, 837 F.3d 1299 (Fed. Cir. 2016). *See Reply Br. 2.*

In *McRO*, the Federal Circuit addressed claims directed to “[a] method for automatically animating lip synchronization and facial expression of three-dimensional characters” *McRO*, 837 F.3d at 1307. The court reviewed the specification of the patent at issue and found that, rather than invoking the computer merely as a tool, “[c]laim 1 of the [asserted] patent is focused on a specific asserted improvement in computer animation.” *Id.* at 1314. Here, Appellant has not adequately shown that creating hedged instruments is rooted in an improvement in computer technology (e.g., electronic trading). Appellant has not offered any evidence or technical reasoning that the computer implementation improves the functioning of the computer (or electronic market) itself.

For example, with respect to the claimed “trading electronically” step, the Specification simply discloses that “hedged instruments 111 and 151 and/or available instruments 112, 122, and 132 may be traded electronically and in real-time or substantially in real-time.” (Spec. 8, ll. 14–15). “The

[S]pecification fails to provide any technical details for the tangible components, but instead predominately describes the system and methods in purely functional terms.” *In re TLI Comm. LLC Patent Litig.*, 823 F.3d 607, 612 (Fed. Cir. 2016). There is no detail as to how the electronic trading is carried out in real-time or any indication that the real-time electronic trading improves over prior art electronic trading techniques.

As discussed under *Alice* step one, we agree with the Examiner that the claimed invention is most similar to the claims directed to hedging held ineligible by the Supreme Court in *Bilski*. *See, e.g.*, Final Act. 7. We also agree with the Examiner (*see id.*) that the claims here involve creating “contractual relations, which are intangible entities.” *BuySAFE v. Google, Inc.*, 765 F.3d 1350, 1353 (Fed. Cir. 2014). *See also In re Chorna*, 656 F. App’x 1016, 1021 (Fed. Cir. 2016) (“abstract idea of a financial instrument to reduce the risk of investing”).

Turning to the second step of *Alice*, here, too, evidence is unnecessary. Except that “the hedged instrument is sold to a buyer via electronic trading” (claim 41), the claim provides no technical details. As we explain below, the claimed invention covers employing generic computers. Evidence is not needed to support the position that employing generic computers does not transform the claim, as a whole, into “significantly more” than a claim to the abstract idea itself. *See Alice*, 134 S. Ct. at 2360.

Appellant argues that “[t]he Examiner has provided no evidence that these limitations are not substantially more than the alleged abstract ideas.” (App. Br. 8; *see also*, Reply Br. 3). According to Appellant, “[t]he Examiner admits that these limitations are novel and non-obvious” and “[t]o

be novel and non-obvious, these claims must then add something significantly more to an abstract idea that the Examiner alleges is a fundamental economic practice.” (*Id.*).

To the extent that Appellant maintains that the elements of the claim necessarily amount to “significantly more” than the abstract idea because the claimed process is allegedly patentable over the prior art, Appellant misapprehends the controlling precedent. Although the second step in the *Alice* framework is termed a search for an “inventive concept,” the analysis is not an evaluation of novelty or non-obviousness, but rather, a search for “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.’” *Alice*, 134 S. Ct. at 2355. A novel and nonobvious claim directed to a purely abstract idea is, nonetheless, patent-ineligible. *See Mayo*, 566 U.S. at 90. An abstract idea is not transformed into an inventive concept just because the Examiner has not found prior art that discloses or suggests it. Indeed, “[t]he ‘novelty’ of any element or steps in a process, or even of the process itself, is of no relevance in determining whether the subject matter of a claim falls within the § 101 categories of possibly patentable subject matter.” *Diamond v. Diehr*, 450 U.S. 175, 188–189 (1981). A “[g]roundbreaking, innovative, or even brilliant” claimed concept does not by “itself satisfy the § 101 inquiry.” *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2117 (2013).

We also cannot agree with Appellant’s contention that the claims before us are similar to the claims held eligible in *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245 (Fed. Cir. 2014). Reply Br. 3–4. According to Appellant, the claims are similar because they “override the routine and

conventional sequence of events that would have otherwise left a user purchasing instruments separately to hedge a position.” (*Id.* at 4).

In *DDR Holdings*, the Federal Circuit determined that although the patent claims at issue involved conventional computers and the Internet, the claims nevertheless addressed the problem of retaining website visitors who, if adhering to the routine, conventional functioning of the Internet hyperlink protocol, would be transported instantly away from a host’s website after “clicking” on an advertisement and activating a hyperlink. *DDR Holdings*, 773 F.3d at 1257. The court determined that those claims were directed to statutory subject matter because they claim a solution “necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.” *Id.*

No such technological advance is evident in the claimed invention. Unlike the situation in *DDR Holdings*, Appellant does not identify any problem particular to computer networks and/or the Internet that claim 41 allegedly overcomes. Claim 41 does not recite the Internet or any other computer network. Instead, claim 41 merely limits the abstract idea to a conventional technological environment, i.e., “wherein the buying and selling is performed by trading electronically in real-time or substantially in real-time” and “the hedged instrument is sold to a buyer via electronic trading.” Nothing in the claim, understood in light of the Specification, requires anything more than conventional electronic trading. *See* Spec. 8, ll. 14–15. “[A]fter *Alice*, there can remain no doubt: recitation of generic computer limitations does not make an otherwise ineligible claim patent-eligible.” *DDR Holdings*, 773 F.3d at 1256 (citation omitted). Here, “the method claims, which merely require generic computer implementation, fail

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to transform that abstract idea into a patent-eligible invention.” *Alice*,
134 S. Ct. at 2357.

Accordingly, we are not persuaded for the reasons set forth above that the Examiner erred in rejecting independent claim 41 under 35 U.S.C. § 101. Therefore, we sustain the Examiner’s rejection of claim 41, including claims 45–48, 52, 63–74, 76–85, 87, and 88, which fall with claim 41.

DECISION

The rejection of claims 41, 45–48, 52, 63–74, 76–85, 87, and 88 under 35 U.S.C. § 101 is affirmed.

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

AFFIRMED