

THE COALITION FOR 21ST CENTURY PATENT REFORM

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The Case for Expanding the Special Transition Program for Business Method Patents Proposed in S. 866 Has Not Been Made

Section 18 of the Leahy-Smith America Invents Act (AIA) authorizes certain business method patents to be challenged under the early review procedures established by the AIA. The patents singled out for such challenges are those covering methods or apparatus ~~used~~ in the practice, administration, or management of a financial product or service, and which are not for ~~technological~~ inventions. The provision is transitional in nature with an eight-year life because it was intended to apply to a very limited class of patents and the time allotted was deemed sufficient to complete the review of these relatively few patents.

S. 866 would greatly expand the scope of the business method patents which could be challenged under section 18 by broadening the scope to methods or apparatus used in the management of ~~an~~ enterprise, or of any ~~product~~, and would make section 18 permanent by eliminating its eight-year sunset. The Coalition for 21st Century Patent Reform (21C) remains concerned the about the extent to which section 18 upsets the balance of the carefully constructed 2-tier post grant challenge mechanism established under the AIA. Further, we have yet to see any evidence of a need to expand the program or to make it permanent since it became operational just last year. While the 21C opposes the incorporation of S. 866 into S. 1720, we remain ready and willing to develop effective approaches to address any problems that are shown not to be already addressed by the AIA or by the other provisions of S. 1720.

Background

A major goal of the AIA was to improve the quality of patents. The AIA accomplished this goal by adopting a first-inventor-to-file priority system, simplifying and making more objective the criteria for determining patentability, and making the system more transparent by allowing greater public participation in the patent granting and review process.

The enhancements to the review process were key to improving the quality of issued patents. A two-pronged approach was developed: a first prong that allows the public to participate in the examination process by bringing relevant information to the attention of examiners, and a second prong that established two post-grant proceedings in which the public could challenge the validity of issued patents. The first post-grant procedure (Post-Grant Review or PGR) allows any member of the public to challenge the validity of a patent granted under the new first-inventor-to-file rules within nine months of grant on any ground that could be raised under paragraph (2) or (3) of section 282(b). The second post-grant procedure (known as Inter Partes Review or IPR) is available to allow the public to challenge the validity of all patents . both patents granted under the previous first-to-invent rules and, following the 9-month eligibility period for PGR, patents granted under the new first-inventor-to-file rules. Patents may be challenged in an IPR until their terms expire, but only on the basis of patents and printed publications.

Together, PGR and IPR fairly balance the interests of patent holders in obtaining quiet title to their patents and the interests of both the public and patent holders in increasing overall patent quality. PGR allows members of the public to promptly challenge questionable patents on all grounds for the first nine months. The limitation of PGRs to the initial nine months after grant is necessary because all issues of

invalidity can be raised . patents, printed publications, and public uses and sales anywhere in the world. The uses and sales could involve evidence based upon oral recollections of events which could have occurred years earlier, including activities that took place outside the United States, in an administrative proceeding with a limited opportunity for discovery. This is just one of the reasons why limiting PGRs to the first nine months is crucial to ensure fairness for patentees.

For those situations where a person has no reason to consider challenging a patent until many years after its issuance, IPR is available throughout the life of a patent to challenge its validity on the basis of patents and printed publications, grounds which do not raise the evidentiary issues of public uses and sales.

Section 18

The transitional program for challenging financial sector+business method patents was proposed during the consideration of the legislation that resulted in the AIA. The growth in business method patents began in 1998 with the U.S. Court of Appeals for the Federal Circuit decision in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*¹ Critics claimed that *State Street* launched an avalanche of patent applications seeking protection for common business practices, but clearly the improved search database created by the Office to review such inventions and the *Bilski* decision² narrowing of the subject matter which could be patented as a business method have ended any such avalanche (if it ever existed).

Moreover, it would clearly be premature to amend Section 18 in light of the Supreme Court's granting certiorari in *Alice Corp. Pty. Ltd v. CLS Bank International*³ on December 6, 2013. The Court's answer to the question presented

Whether claims to computer-implemented inventions . including claims to systems and machines, processes, and items of manufacture . are directed to patent-eligible subject matter within the meaning of 35 U.S.C. § 101 as interpreted by this Court.?

will provide additional guidance on the patent eligibility of business method patents. It would be premature for Congress to broaden and extend Section 18 to address a limited problem critics assert exists which, if it ever existed, may be totally mooted by the Court's decision.

During the consideration of Section 18, the examples given of business method patents which could be challenged under Section 18 included, inter alia, those for extending credit, servicing loans, deposit taking activities, check-cashing, financial data processing, asset management, securities brokerage, and related services. At the time, Senator Schumer stated that to be eligible for section 18 review, the patent claims must be broad enough to cover a financial product or service,+adding that the language makes it clear that section 18 is intended to cover not only patents claiming the financial product or service itself, but also patents claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity.⁴

Authorizing such previously granted business method patents to be challenged under the new PGR procedures was said to be necessary because these patents granted by the USPTO following the *State Street* decision were questionable because the Office only had access to patent defeating information+

¹ 149 F.3d 1368 (Fed. Cir. Jul. 23, 1998).

² *Bilski v. Kappos*, 130 S. Ct. 3218 (2010).

³ Supreme Court Docket No. 13-298, opinion below, *CLS Bank International v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269 (Fed. Cir. 2013)(en banc)(per curiam), replacing the vacated panel opinion, 685 F.3d 1341 (Fed. Cir. 2012). See <http://www.supremecourt.gov/Search.aspx?FileName=/docketfiles/13-298.htm> and <http://www.supremecourt.gov/qp/13-00298qp.pdf>.

⁴ See 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011).

contained in printed patents and publications, and did not have the ability to uncover public uses and sales of such inventions. Furthermore, the new PGR procedures would allow financial sector+business method patents to be challenged on the basis that the inventions covered were not eligible for patent protection under section 101 of title 35.

What's Changed?

Notwithstanding the alleged urgent need to allow challenges to business method patents under the PGR procedures at the time of the consideration of Section 18, just 39 challenges have been filed and only 12 trials have been instituted as of July 31, 2013⁵. Barely one per month since the section 18 procedures were available. Moreover, there has been no study or evaluation of the 12 challenges accepted to determine whether or not the expansive procedures of PGR which permit all grounds of patentability to be raised have actually been necessary. It is entirely possible that all of the challenges could have been brought under the IPR procedures which are based only on patents and printed publications. Accordingly, there has been no showing that section 18 has been insufficient to satisfy the purposes for which it was created.

Moreover, no reasons have been given for the need to broaden the definition of the inventions covered in section 18 from methods or corresponding apparatus used in the practice, administration, or management of a financial product+ to a definition expanded to include methods or corresponding apparatus used in the administration or management of an enterprise+or the practice of a product.+The 21C believes it would increase the opportunities for copyists to harass legitimate patent holders.

Although couched as legislation to crackdown on patent trolls+ companies that prey on innovators and technology companies,⁶ expanding Section 18 as proposed would do little to end abusive patent litigation. Allowing stays of patent infringement actions brought against end users and customers and authorizing fee shifting when the circumstances of a case justify it would provide effective tools to curtail abusive litigation practices. Absent further study demonstrating that broadening the definition of covered business method patent as proposed in S. 866 is either necessary or effective, the proposed expansion of the definition of the business method patents subject to section 18 challenges would clearly be premature and unfair to inventors and patent owners.

In addition, there is no basis for removing the provision that would sunset section 18 after eight years. By the time the current sunset is reached, all of the patents being granted will be first-inventor-to-file patents and eligible for challenge upon grant under PGR without the need for the transitional provision established by section 18. To extend section 18 indefinitely as proposed in S. 866 would be very prejudicial and unfair to the owners of valuable, new, patent-eligible innovative methods for enhancing commerce and industry because the public will not be encouraged to challenge patents promptly under PGR, but will instead wait and attack later in the life of the patent. This delay will also subject the public to patents which perhaps should not have been granted and would destroy the carefully crafted balance between the PGR and IPR procedures reached during the consideration of the AIA that provides the certainty of patent rights needed to promote investment in innovation.

⁵ See *USPTO Trial Proceeding Statistics*, at http://www.uspto.gov/ip/boards/bpai/stats/aia_trial_proceedings.pdf.

⁶ See Press Release of Senator Schumer, *Schumer: 'Patent Trolls' Preying On New York's Technology Industry With Unwarranted Lawsuits—Costing Legitimate Companies Billions Of Dollars; Announces New Legislation To Crackdown On Growing Problem* (May 2, 2013), at http://www.schumer.senate.gov/Newsroom/record_print.cfm?id=341612.

S. 866 would also be detrimental to U.S. industry seeking to protect its innovations abroad. It would set a precedent to which our trading partners could point when amending their patent laws to add special interest exceptions inimical to U.S. inventors.

Conclusion

Given the paucity of cases filed challenging business method patents for financial products and in the absence of any compelling data demonstrating a need for expanding or prolonging section 18, we see no reason for incorporating its provisions into S. 1720.

The Coalition has approximately 50 members from 18 diverse industry sectors and includes many of the nation's leading manufacturers and researchers. The Coalition's Steering Committee includes 3M, Caterpillar, General Electric, Johnson & Johnson, Eli Lilly and Procter & Gamble. Visit <http://www.patentsmatter.com> for more information.