

# United States Senate

WASHINGTON, DC 20510

COMMITTEES:  
BANKING  
DEMOCRATIC POLICY & COMMUNICATIONS  
FINANCE  
JUDICIARY  
RULES

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Submitted Via Electronic Mail:

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Attention: Lead Judge Michael Tierney, Covered Business Method Patent Review  
United States Patent and Trademark Office  
Alexandria, VA 22313

**Re: Proposed Rulemakings Implementing The Transitional Program For Business  
Method Patents**

I write to commend the Office for the Proposed Rulemaking Regarding Section 18 of the America Invents Act, which creates a transitional business method review program, and to further reinforce the intent of the provision. I was the principal author of Section 18 of the legislation, along with my colleague from Arizona, Senator Kyl, and thus can provide you unique insight into our intent in drafting and expectations for implementation.

I understand that some commenters on the Proposed Rulemakings have urged you to construct a narrow program under Section 18; however, this would be directly at odds with our intent in drafting and is merely an attempt to achieve through the regulatory process what they could not through the legislative process. The transitional program was enacted for the dual purposes of improving patent quality and reducing meritless litigation of low quality business method patents and should be constructed in a way that achieves each purpose. The proposed rule takes significant strides toward meeting the legislative intent, but some commenters seem bent on restrictions that would limit its applicability. Indeed some commenters purport to rely on my own statements in the congressional record to support their flawed positions. I write to correct those interpretations and provide additional clarification as to my position.

1. The Program Is Not Limited to Financial Services Companies

Comments suggest that the business method review program should be limited to petitions brought by companies in the financial services industries, arguing that definitions of covered business method patents that include “any financial transaction” are not within the intent of Section 18 and should be rejected. Nothing could be further from the truth. In fact, many of the problematic business method patents this program is intended to weed out are asserted against small businesses, especially internet startups. This program was designed to target problematic *patents*, regardless of the business identity of the party against whom they are asserted. The limitation commenters suggest is not only contrary to basic common sense and fairness, it is plainly refuted by the record.

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First, the definition of “covered business method patent” in the statute was drafted to encompass all patents “claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity.” 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer). The text of section 18(d)(1) of the AIA provides that a patent is eligible for review if it can be applied to the “practice, administration, or management” of a financial product or service. The breadth of this definition was emphasized during the Congressional debates on the AIA:

This language is intended to make clear that the scope of patents eligible for review under this program is not limited to patents covering a specific financial product or service. In addition to patents covering a financial product or service, the “practice, administration and management” language is intended to cover any ancillary activities related to a financial product or service, including, without limitation, marketing, customer interfaces, Web site management and functionality, transmission or management of data, servicing, underwriting, customer communications, and back office operations--e.g., payment processing, stock clearing.

157 Cong. Rec. S1363, S1365 (daily ed. March 8, 2011) (statement of Senator Schumer).

Moreover, contrary to the commenter’s arguments, “[n]othing in the American Invents Act limits use of section 18 to banks, insurance companies or other members of the financial service industry... . The plain meaning of ‘financial product or service’ demonstrates that section 18 is not limited to the financial services industry. At its most basic, a financial product is an agreement between two parties stipulating movements of money or other consideration now or in the future.” 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer). Accordingly, “[a]ny business that sells or purchases goods or services ‘practices’ or ‘administers’ a financial service by conducting such transactions.” *Id.*

Also, the fact that a business method review can be brought by “a person’s real party in interest or *privy*” who has been sued or charged with infringement under the patent refutes the commenters argument. As discussed in the legislative history, the use of the word “privy” in the statute is intended to broaden the scope of the program so that a petition may be brought when customers of the petitioner are charged with infringement. “Thus, the addition of the ‘privy’ language clearly demonstrates that section 18 applies to patent that may be used by entities other than the financial services industry.” Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

It is ironic that the very same interests who opposed this provision as a “bank bailout” now file comments to limit the program to financial services companies. Section 18 was not then, and should not be now, construed to be a program for the financial services sector. Rather, it creates a post grant review of patents that, by consensus, are the most likely to lack substantive merit and be asserted purely for financial gain in an abuse of the patent litigation system.

## 2. The “Technological Invention” Exception Should Be Narrowly Construed



The term “technological invention” should not provide a haven for clever lawyers. Arguments that the “technological invention” exception is broad are false. As stated in the legislative history, “Clever drafting of patent application should not allow a patent holder to avoid PTO review under [the program]. Any other result would elevate form over substance.” 157 Cong. Rec. S1363, S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer). Indeed, the “‘technological invention’ exception only excludes those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution” and therefore, “the recitation of computer hardware, . . . software, . . . databases, specialized machines, such as an ATM or point of sale device, or other known technology, does not make a patent a technological invention...” *Id.* Moreover, many of the problematic patents this program targets involve practices that are in widespread use by companies through their digital platforms – an often-cited example is a patent for one-click check-out. A broad construction of the technological invention exception would exclude any patent that involved the internet, and would render the program effectively meaningless. For these reasons, the commenters’ suggestions to categorically exclude particular types of patents from the program should be rejected.

The Office should also reject commenters suggestions to define technological invention based on a Section 101 subject-matter patentability test. We explicitly declined to amend or address the categories of patent-eligible subject matter under Section 101 as part of this legislation (although that was a suggestion of some critics). The commenters who are suggesting a Section 101 test are merely trying to find additional ways to limit the program that are inconsistent with legislative history or intent.

### 3. The Business Review Program Should Be Available For Previously Reviewed Patents

Comments suggest that patents that have been reviewed in Court or in the Office should not be eligible for review under the business method review program. This suggestion has no basis in the statute or legislative history. In fact, suggestions to include language indicating such an exception were explicitly and repeatedly rejected during the legislative negotiations leading up to the passage of the AIA, including in amendments filed which did not ultimately receive a vote. The suggestion that constitutional principles require a bar on previously reviewed patents does not hold water.

Congress received a constitutional analysis of the business method review program from distinguished law professors and academics during the debate, which verify that the use of the program to review patents that were previously litigated has no constitutional or other legal infirmities. See 157 Cong. Rec. S5374, 5376 (daily ed. Sept. 7, 2011) (letter from Prof. Michael W. McConnell). Moreover, the Court of Appeals for the Federal Circuit has recently confirmed that the analysis in Professor McConnell’s comments remains good law. In particular, the court reiterated that there is “no contradiction between an affirmed litigation judgment [of infringement and no invalidity] and the Examiner’s rejection during [subsequent] reexamination.” *In re Construction Equip Co.*, 665 F.3d 1254, 1256 n.3 (Fed. Cir. 2011).

The Office is capable of determining whether a business method review should be initiated following an earlier reexamination by applying the proper statutory threshold for



invoking a business method review set forth in 35 U.S.C. § 314(a). To the extent a petition for business method review of a patent is filed based on prior art and arguments previously raised before the Office in a prior reexamination proceeding, that fact may justify denying the petition for failure to show a “reasonable likelihood that the petitioner would prevail.”

This program was designed to expose and eliminate low quality business method patents. The Congress has no fear that legitimate patent holder will be unduly burdened. Indeed, reaffirmation by the office will enhance the quality of the underlying patent.

4. The Office Should Apply A Standard Similar To That For Invoking Declaratory Judgment Jurisdiction In Determining Whether A Petitioner Has Been Charged With Infringement

Some commenters suggest that the program should not be available unless the petitioner can show that the patentee has used the magic word “infringement” in its correspondence with petitioner or its privies. This approach should be rejected, and the Office should adopt a standard similar to the test for invoking declaratory judgment jurisdiction in the federal courts.

The purpose of the business method review program is to be an efficient and cost-effective alternative to litigation. As with petitions for post-grant review, the program is not available to a petitioner if, prior to the date a petition is filed, the petitioner has already brought a declaratory judgment action in federal court regarding the patent. 35 U.S.C. § 315(a)(1). If the commenters’ suggestion were adopted, patentees concerned about the ability of their patent to survive a business method review in the office could simply send threatening letters to potential targets that avoid use of magic words such as “infringement.” This would force those target companies either to forego business method review in the Office by filing a declaratory judgment action, or to continue with their activities under the cloud of uncertainty created by patentee’s correspondence, while waiting for the patentee to decide to file its own action in court. This is not consistent with the statutory language or the intent of Congress in establishing the business method review program.

Accordingly, the Office should adopt a rule establishing that if the correspondence between the parties has reached the point where a real and substantial controversy regarding a business method patent has arisen, such that the petitioner would have standing to bring a declaratory judgment action in federal court, the petition also has standing to initiate a business method review.

In short, it would turn the purpose of the business method program on its head if the Office were to adopt a rule establishing that a patentee can avoid exposing its patent to review under the business method review program simply by avoiding use of “magic words” in its correspondence with target companies.

Again, the program is constructed by Congress to target low quality business method patents and provide a post-grant review for those patents that are so suspect that they are “more likely than not invalid.” It is certainly true that the transitional program for business method patents requires more interpretive judgments by the Office than other post-grant programs (where “gate-keeping” is provided by the date the patent issues). For business method patents,

the Office is required to make threshold a determination about the “type” of patent, and its likely validity. This determination may be uniquely challenging, but that is because business method patents are uniquely problematic. Still, common sense should still prevail. The Office has a rich history of dealing with business method patents and those which read on the critical infrastructure of financial services should be reviewed if they are, as determined by the Office, “more likely than not invalid.” The rules governing Section 18 should thwart any effort to evade review though clever drafting or narrow construction of definitions.

I appreciate your consideration of my comments, and look forward to working with you if you have any further questions.

Sincerely



Charles E. Schumer  
United States Senator