Before the
United States Patent and Trademark Office
Alexandria, VA 22313

In the Matter of	)
	)
Implementation of the	)
Leahy-Smith America Invents Act	)
Public Law 112-29	)

PRELIMINARY COMMENTS OF GOOGLE INC., VERIZON COMMUNICATIONS INC., AND CISCO SYSTEMS, INC. REGARDING IMPLEMENTATION OF TRANSITIONAL POST-GRANT REVIEW OF BUSINESS METHOD PATENTS UNDER THE LEAHY-SMITH AMERICA INVENTS ACT

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A. Introduction

In establishing post-grant and inter partes review procedures in Section 6 of the America Invents Act (AIA),[1] Congress recognized the harm to innovation caused by invalid patents and the need for an alternative to litigation to eliminate those patents.[2] Post-grant and inter partes reviews are intended to "provide a meaningful opportunity to improve patent quality."[3]

In Section 18 of the AIA, Congress further acknowledged that one particular category of patents – business method patents – raise such significant concerns about the burden that invalid patents of this type place on the economy that a transitional post-grant review proceeding is needed.[4] In contrast to post-grant review under Section 6, where only patents filed after March 16, 2013 can be challenged, the transitional program allows post-grant review of business method patents regardless of the filing date.[5]

Proper implementation of Section 18 is important because, as Congress recognized, business method patents have been highly controversial and the subject of extensive litigation and threats that place a drag on the economy by draining scarce resources from R&D activities. Business method patents are nearly seven times more likely to be litigated than other patents, and high litigation rates can be correlated with questionable validity and unclear claim scope.[6] Because firms consider litigation risk when deciding whether to invest in R&D, these patents can deter innovation.[7] For that reason, the Supreme Court has warned against the

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[1] Pub. L. 112-29, 125 Stat. 284 (2011).

[2] *See, e.g.,* H.R. Rep. 112-98 at 48, 87.

[3] H.R. Rep. 112-98 at 48.

[4] As Senator Charles Schumer stated in discussing the need for transitional business method program, "litigation over invalid patents places a substantial burden on U.S. courts and the U.S. economy." 157 Cong. Rec. S1363-65 (Mar. 8, 2011) (Schumer); *see also* 157 Cong. Rec. H4497 (June 23, 2011) (Crowley) (business method patents have been "used to sue legitimate businesses and nonprofit business organizations . . . who engage in normal activity that should never be patented.").

[5] Compare AIA §§ 6(f)(2)(A) and 3(n)(1) with 18(a)(2).

[6] James Bessen & Michael J. Meurer, PATENT FAILURE, 22, 191 (2008).

[7] Id. at 130.

"potential vagueness and suspect validity" of business method patents[8] and the potential for an unduly low bar for patentability to "put a chill on creative endeavor and dynamic change."[9] Also recognizing the problem, Congress created the transitional program and gave companies an important tool to test the validity of business method patents through administrative review rather than spend millions of dollars in litigation.[10]

To administer the transitional program for business method patents, the Patent and Trademark Office ("PTO") must promulgate numerous governing regulations. The transitional program will employ many of the procedures of post-grant review as established by Section 6 of the AIA. Accordingly, the comments that we submitted regarding the procedural implementation of Section 6 are equally applicable to Section 18.[11]

But implementation of the transitional program raises additional issues that are specific to Section 18. In particular, the AIA allows only those persons who have been sued or "charged with infringement" of a "covered business method patent" to file a petition seeking to institute a transitional proceeding. This statutory text raises two definitional issues concerning eligible petitions that the PTO should address in implementing regulations:

- what constitutes being "charged" with infringement where there is no lawsuit; and
- what patents are "covered business method patents."

As explained below, in order to fulfill the congressional purpose of Section 18 and to mitigate the harm to the economy from invalid business method patents, the PTO

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[8] *eBay v. MercExchange*, 126 S. Ct. 1837, 1842 (J. Kennedy, concurring).

[9] *Bilski v. Kappos*, 130 S.Ct. 3218, 3229 (2010).

[10] Rep. Smith explained that the transitional program was enacted to "create an inexpensive and faster alternative to litigation, allowing parties to resolve their disputes rather than spending millions of dollars that litigation now costs." 157 Cong. Rec. H4495 (June 23, 2011) (Smith); *see also* 157 Cong. Rec. S5409 (Sept. 8, 2011) (Schumer) (transitional program provided "so that businesses acting in good faith do not have to spend the millions of dollars it costs to litigate a business method patent in court").

[11] *See* Preliminary Comments of Verizon Communications Inc, Google Inc., Cisco Systems, Inc., and Intuit, Inc. Regarding Implementation of Inter Partes and Post-Grant Reviews under the Leahy-Smith America Invents Act, at 20-28 (filed Nov. 6, 2011).

should adopt rules that allow the broadest possible access to the transitional post-grant review procedure consistent with the statutory language.

B. Petitioners "Charged" with Infringement Are Those that Can Satisfy the Standards for Bringing a Declaratory Judgment Action of Invalidity

The AIA does not define when a party is "charged" with infringement, but the structure of the statute makes clear that being "charged" with infringement is something other than being sued for infringement in federal district court. The AIA states:

> A person may not file a petition for a transitional proceeding with respect to a covered business method patent unless the person or the person's real party in interest or privy has been sued for infringement of the patent or has been charged with infringement under that patent.[12]

The rationale for allowing petitioners to challenge the validity of business method patents in the transitional program even when they have not been sued is clear. Fundamentally, for the transitional program to serve as an alternative to litigation as Congress intended, parties must be able to access the procedure before litigation ensues. Moreover, the costs and drag on innovation imposed by invalid business method patents reaches far beyond the expense of litigation. The assertion of invalid patents forces licensors to pay unwarranted fees and incur transaction costs that can exceed litigation expenses. Even when assertion does not result in litigation, it generates expense and business uncertainty that deters investment in productive activities. For the transitional program to provide an effective antidote to the costs imposed by invalid business method patents, it must allow parties facing the threat of an infringement suit to challenge validity.

The standard for determining when a party can bring a declaratory judgment ("DJ") action challenging patent validity in district court is based on similar concerns about the injury that an infringement threat can cause even without litigation. As such, it provides a robust and well-defined external standard that the PTO can adopt through regulation for determining when a party has been "charged" with infringement and is eligible to file a petition under Section 18.

A party may bring a DJ action when it can demonstrate that "there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."[13] This

[12] AIA § 18(a)(1)(B).

[13] *Medimmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764, 771 (2007) (quoting *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941)).

standard recognizes that even implied threats of infringement can impose costs that create the need for the target to seek resolution of patent issues. For that reason, the Federal Circuit has held that a DJ action may be brought even when the patent-holder asserts that it "has no plan whatsoever to sue" if its actions demonstrate otherwise. The court explained that there should be redress for "extra-judicial patent enforcement with scare-the-customer-and-run tactics,"[14] which generate controversy and threaten injury. The analysis looks past form to the substance of a controversy. Thus, a "declaratory judgment action cannot be defeated simply by the stratagem of a correspondence that avoids magic words such as 'litigation' or 'infringement.'"[15]

The transitional program rules likewise should not require "magic words" such as "charge" or "allege infringement" in correspondence between a patent owner and its target to support the filing of a petition. Doing so would make the program an ineffective tool for fighting the costs imposed by invalid business method patents. Instead, the PTO should make clear through regulations that the DJ standard governs the identification of those eligible to seek review under the transitional program.

C. The PTO Should Interpret the Term "Covered Business Method Patent" to Fulfill Congress' Intent that the Transitional Program Provide a Useful Alternative to Litigation for Challenging Validity

In debating and passing Section 18, Congress made clear that it sought to relieve the burden that invalid business method patents – which Senator Schumer called "the bane of the patent system" – place on productive companies.[16] To accomplish that end, Section 18 defined "covered business method patents" to distinguish them from non-business method patents that are ineligible for the transitional program. In particular, Section 18 provides:

> For purposes of this section, the term "covered business method patent" means a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.[17]

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[14] *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F. 3d 1372, 1382-83 (Fed. Cir. 2007).

[15] *ABB, Inc. v. Cooper Industries*, LLC, 635 F. 3d 1345, 1348 (Fed. Cir. 2011) (quoting *Hewlett-Packard Co. v. Acceleron LLC*, 587 F.3d 1358, 1362 (Fed. Cir. 2009)).

[16] 157 Cong. Rec. S1363-65 (Mar. 8, 2011) (Schumer).

[17] AIA § 18(d)(1).

When interpreting this provision and identifying those patents eligible for the transitional program, it would be contrary to Congress' intent to restrict the program to a small subset of business method patents. To provide a statutory interpretation that is more consistent with Congress' intent, we first discuss the broad category of financial-related patents encompassed by the statute. We then turn to the exception for "technological inventions."

(1) "Covered Business Method Patent"

As one important indication of its breadth, the plain language of the statutory definition of business methods is not limited to method claims. It also covers apparatus claims. Congress chose this language so that techniques of claim drafting would not allow patent owners to avoid review under the transitional program by elevating form over substance.[18] As Senator Schumer explained, "[t]he phrase 'method or corresponding apparatus' is intended to encompass, but not be limited to, any type of claim contained in a patent, including, method claims, system claims, apparatus claims, graphical user interface claims, data structure claims–Lowry claims–and set of instructions on storage media claims–Beauregard claims."[19]

As a second important indication of its breadth, the plain language of the statutory definition covers not only financial products and services, but also the "practice, administration and management" of a financial product or service. The legislative history explains that this language covers a broad range of activities, including "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."[20]

These broad provisions demonstrate that the scope of patents eligible for review under the transitional program is not limited to those covering any particular financial activity. Accordingly, the language that a covered business method patent relates to a "financial product or service" places few limits on the category of eligible patents other than the requirement that they involve financial transactions. The plain meaning of this language encompasses a broad range of services relating to money.[21] It includes for instance, payment-processing services

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[18] 157 Cong. Rec. S1363-65 (Mar. 8, 2011) (Schumer).

[19] Id.

[20] Id.

[21] *See* Merriam Webster Online Dictionary (defining "financial" as "*relating to* finances or financiers" (emphasis added), with "finance" defined as "money," *available at* http://www.merriam-

for sales that occur in person or over the Internet. Certainly, nothing in the statute suggests that covered financial services are limited by the type of institution providing the service, such as a bank. On the contrary, Section 18 addresses the problem of invalid business method patents for "all businesses that have financial practices."[22]

Moreover, the legislative history explains that for a patent to "relate" to a financial product or service, it "need not recite a specific financial product or service. Rather the patent claims must only be broad enough to cover a financial product or service."[23] The example provided illustrates the full breadth of Section 18:

> For example, if a patent claims a general online marketing method but does not specifically mention the marketing of a financial product, such as a savings account, if that marketing method could be applied to marketing a financial product or service, the patent would be deemed to cover a "financial product or service."[24]

A more narrow definition of "covered business method patents" would destroy the ability of the transitional program to promote innovation by weeding out invalid business method patents that would otherwise generate wasteful litigation and unwarranted licensing fees. The need for the transitional program is great. As Rep. Goodlatte explained, "[b]usiness method patents . . . are litigated at a rate 39 times greater than any other patents. Section 18 is designed to correct a fundamental flaw in the system."[25]

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webster.com/dictionary/financial?show=0&t=1320687431; *see also Smith v. United States*, 508 U.S. 223, 228, 229 (1993) (interpreting undefined statutory term in federal statute according to its "everyday meaning" and dictionary definitions).

[22] 157 Cong. Rec. S5409 (Sept. 8, 2011) (Schumer) ("Of course, this problem extends way beyond the financial services industry. It includes all businesses that have financial practices, from community banks to insurance companies to high-tech startups.").

[23] 157 Cong. Rec. S1363-65 (Mar. 8, 2011) (Schumer).

[24] Id.

[25] 157 Cong. Rec. H4497 (Mar. 8, 2011) (Goodlatte). Lerner reports that financial patents are 27 to 39 times more likely to be litigated than other patents. Josh Lerner, *The Litigation of Financial Innovations*, 14 (NBER Working Paper No. W14324, 2008), *available at* http://hbswk.hbs.edu/item/6040.html.

(2) "Technological Invention" Exception

Although "technological inventions" are not subject to review under the transitional program, both the statute and the legislative history indicate that this exception is narrow. Section 18 calls on the PTO to issue guidance on the exception's meaning.[26] First, in forming that guidance, the PTO should not consider all patent-eligible subject matter under 35 U.S.C. § 101 to be a "technological invention" that falls outside the transitional program. The AIA clarifies that there is no link between patent-eligible subject matter and patents eligible for the transitional program.[27] Excluding any invention sufficiently "technological" to satisfy Section 101 would vitiate the Section 18.

Second, the PTO should state that the presence of claim limitations reciting physical elements, such as a computer or the Internet, does not render a claim a "technological invention." The statutory language requires this outcome because it expressly allows a patent claiming "an apparatus for performing data processing" to fall within the transitional program.

The legislative history provides further guidance on the meaning of the technological invention exception. Multiple Congressmen explained that the exception does not exclude a patent from challenge under Section 18 "simply because it recites technology."[28] Thus, the "technological invention" exception does not "exclude patents that use known technology to accomplish a business process or method of conducting business—whether or not that process or method appears to be novel."[29] For example, the recitation of computer hardware, communication or computer networks, software, memory, computer-readable storage medium, scanners, display devices or databases does not make a patent a "technological invention" immune from review under Section 18.[30] Thus, there can be no question

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[26] The AIA calls on the PTO to "issue regulations for determining whether a patent is for a technological invention." AIA § 18(d)(2).

[27] AIA § 18(e) ("Nothing in this section shall be construed as amending or interpreting categories of patent-eligible subject matter set forth under section 101 of title 35, United States Code.").

[28] 157 Cong. Rec. S1363-65 (Mar. 8, 2011) (Schumer); 157 Cong. Rec. S5428 (Sept. 8, 2011) (Coburn); 157 Cong. Rec. H4497 (June 23, 2011) (Smith).

[29] 157 Cong. Rec. S1363-S1365 (Mar. 8, 2011) (Schumer).

[30] Id. Rep. Smith gave an example of a patent covering "machines that scan currency whose novelty turns on a technological innovation over the prior art" as a patent covering a "technological invention" and outside the transitional program. 157 Cong. Rec. H4497 (June 23, 2011) (Smith).

that Section 18 review is available at least for those patents relying on known technology, machines or apparatuses to implement a business method.

D. Conclusion

Based on the language of Section 18, as well as its fundamental purpose and its legislative history, we urge the PTO to adopt regulations and practices allowing broad access to the transitional program for testing the validity of business method patents. Petitioner's right to file a petition should be judged based on its ability to satisfy the declaratory judgment standard for challenging patent validity. A "covered business method patent" should be defined as one that can relate in many different ways to a financial product or service, regardless of who provides that product or service. Patents cannot be excluded from review simply because they recite technology.

These interpretations would be consistent with the essential goals of the statute to promote innovation by weeding out invalid business method patents that might otherwise be the subject of expensive litigation and unwarranted licensing fees. Such a program would increase business certainty and confidence in the integrity of the patent system, precisely as Congress intended.