

Statement Of Eliot D. Williams

On Behalf Of

The Financial Services Roundtable (FSR),
The American Bankers Association (ABA)
The American Insurance Association (AIA),
The Independent Community Bankers of America (ICBA),
NACHA – The Electronic Payments Association,
The National Association of Federal Credit Unions (NAFCU), and
Credit Union National Association (CUNA)

BEFORE THE

COMMITTEE ON THE JUDICIARY

UNITED STATES HOUSE OF REPRESENTATIVES

Hearing on Implementation of the Leahy-Smith America Invents Act
(Pub. Law 112-29)

May 16, 2012

Thank you for this opportunity to discuss implementation of the America Invents Act. I am appearing today on behalf of The Financial Services Roundtable (FSR), The American Bankers Association (ABA), The American Insurance Association (AIA), The Independent Community Bankers of America (ICBA), NACHA – The Electronic Payments Association, The National Association of Federal Credit Unions (NAFCU), and the Credit Union National Association (CUNA) to discuss implementation of Section 18 of the Leahy-Smith American Invents Act (AIA), which creates a transitional program for review of business method patents.

At the outset, we would like to thank Chairman Smith, Chairman Goodlatte, and the other members of the Committee for their leadership on this important program. We also would like to thank Director Kappos and his team at the U.S. Patent & Trademark Office for the commendable job they have done in the initial rounds of rule-making related to implementation of the AIA.

While we are largely supportive of the Patent Office's proposed rules relating to the transitional business method review program, we believe there are few areas in the proposed rules that would benefit from slight alteration or clarification, so as to properly carry out the Congressional intent underlying the program

Importance of the Transitional Business Review Program

The importance of the transitional review program for covered business methods to the overall purpose of the AIA cannot be overstated. The program offers a less-costly and more efficient alternative to litigation, so that businesses acting in good faith do not have to spend the millions of dollars it costs to litigate a business method patent of questionable validity.¹ Instead, they can request that the Patent Office reevaluate that patent in view of the best prior art available, and can be an active participant in that reevaluation process.

Unlike the traditional patent application process, where the PTO hears from only one party (*i.e.* the patent applicant), the transitional business method review program permits full participation by the party charged with infringement. The PTO is therefore able to obtain additional insight and argument from interested parties in the impacted industry, including the most-pertinent prior art known to the accused infringer. This can be especially important in the case of business method patents, where the most pertinent prior art is often found in non-traditional locations, such as marketing literature, and therefore may be difficult for the PTO to uncover during the original application process.²

Additionally, recent caselaw developments in the Court of Appeals for the Federal Circuit have heightened the need for a robust business method review program, so that parties charged with infringement can be full participants in the reevaluation of these patents.³

Notably, business method review will only be available after the PTO determines, in view of the material submitted by the petitioner requesting reevaluation of the patent, that it is more likely than not that at least one claim of the challenged patent is invalid.⁴ Accordingly, this relatively high threshold already provides ample protection for patentees against improper use of

the program. The program should therefore be implemented so that no technical loopholes permit a questionable patent to escape review.

With these guideposts in mind, we offer the following comments on the PTO's proposed rules implementing the business review program, which we believe are necessary to properly carry out the intent of the program.

1. The Burden Should Be On The Patentee To Show The "Technological Invention" Exception Applies (Proposed 37 CFR §§ 42.301(b), 42.304(a))

We fully support the Office's proposed definition of "technological invention."⁵ However, the Leahy-Smith America Invents Act and its legislative history, demonstrate that the Office should err in favor of permitting review of the patent under challenge. Therefore, the PTO should revise its proposed rule to clarify that the ultimate burden of persuasion is on the patentee to show that the patent is a "technological invention."

In particular, section 42.304(a) of the proposed rules should be revised to clarify that the petitioner need only make a *prima facie* showing (rather than "demonstrate") that the patent for which review is sought is a covered business method patent.

Further, the definition of "technological invention" should be amended by adding a new sentence to the end, as follows: "The burden of persuasion shall be on the patentee to show that claimed subject matter satisfies this definition."

These recommendations are well-supported in the text and legislative history of the AIA. First, the AIA specifically requires the Office, in prescribing regulations related to the post-grant review proceeding (including the transitional post-grant review proceeding for business method patents), to "consider the effect of any such regulation on the economy." AIA § 6(d); *see also* AIA § 18(a)(1). Here, the economy would be benefited by erring on the side of including patents in the business method review program, rather than excluding them, so that potentially invalid patents cannot escape review under this program. Notably, during the legislative hearing on then-pending H.R. 1249, Director Kappos testified that it is more costly to the U.S. economy when patents escape subsequent review in the PTO because the threshold for determining whether to reevaluate the patent was set too high.⁶

Second, the legislative history reveals that the Act's authors, including the Chairman of this Committee, intended the implementing regulations to be drafted to apply the business method review program "as broadly as possible."⁷ Similarly, Senator Schumer, one of the sponsors of the business-method review program in the Senate, in his comments to the PTO, cautioned that the "term 'technological invention' should not provide a haven for clever lawyers" to draft patent claims to escape review.⁸ We believe that our proposal, which places the burden of persuasion on the patentee to show that the technological invention exception applies, is consistent with this legislative history, and best ensures that the program will be applied as envisioned by the Act's authors.

Finally, we note that some other commenters have suggested that the Office should replace the proposed "technological invention" definition with a standard based on subject matter eligibility under 35 U.S.C. § 101, and/or have proposed highly-complex, multi-factor tests to

determine whether a patent is a “covered” business method. These approaches should be rejected, as they depart from the purpose of the program, which is to ensure rigorous and thorough review of business method patents in view of the most pertinent prior art.

The regulations implementing the business method review program should be simple and straight-forward. The use of overly-complicated standards risks the exact kind of damage to the economy that Director Kappos referred to when he cautioned against setting the review threshold too high. In particular, those complex tests risk keeping improperly-granted business method patents on the books, which is contrary to the intent of this important program.

2. The Office Should Further Define “Charged With Infringement”
(Proposed 37 CFR § 42.302(a))

The proposed rules require a petitioner to show that it has been “sued for infringement of the patent or has been *charged with infringement* under that patent” before a business method review may be initiated.⁹ The rule should be revised to clarify that there is no requirement that the patentee expressly use “magic words” such as “litigation” or “infringement” in its correspondence before a petitioner may invoke the program. In particular, the Office should apply a test similar to that used in the district courts to determine whether declaratory judgment jurisdiction is present. Under that test, “a declaratory judgment action cannot be defeated simply by ... correspondence that avoids magic words.”¹⁰ As long as there is a substantial controversy between the patentee and the petitioner (or the petitioner’s privies) that is real and sufficiently immediate, the program should be available.

Any other result would frustrate the purpose of this program. In particular, a patentee could send cleverly-drafted correspondence to potential targets that would not trigger applicability of the program -- forcing those targets to either file their own declaratory judgment action in district court (and incur the substantial expense of that litigation), or take the risk of incurring potentially-increasing liability under the patent until the patentee sues in court.

3. There Should Be No Restriction on Requesting Business Method Patent Review Of First-To-Invent Patents During The Post-Grant Review Period
(Proposed 37 CFR § 42.303)

In the Patent Office’s proposed rules, a petition requesting a covered business method review may not be filed “during the period in which a petition for a post-grant review of the patent would satisfy the requirements of 35 U.S.C. § 321(c).”¹¹ This, however, is inconsistent with section 18(a)(2) of the AIA, which specifies that the transitional business method review program is available to “any covered business method patent...except” for the first nine months after issuance of *patents subject to the first-to-file* provisions of the AIA. See AIA § 18(a)(2).

The proposed rule appears to improperly preclude the use of the program to review first-to-invent business method patents during the first 9 months of their pendency, even though such patents are not subject to review under the post-grant review program.¹² Thus, the proposed rule effectively insulates first-to-invent business method patents from review for the first nine months of their term.

To remedy this error, proposed rule 42.303 should be revised to read:

42.303 Time for filing. A petition requesting a covered business method patent review may be filed at any time, except that such a petition may not be filed to institute review of a patent issued from an application that has an effective filing date on or after March 16, 2013 during the period in which a petition for a post-grant review of such patent would satisfy the requirements of 35 U.S.C. 321(c).

In short, the transitional review program should be available for all first-to-invent patents, even within the first nine months of the grant of such patents.

4. The Appropriate Fees Should Be Charged To Ensure An Effective Review Program (Proposed 37 CFR § 42.15(b))

We strongly support the ongoing efforts of the Office and the Administration to “put[] patent quality first.”¹³ The transitional business review program should be an important part of that initiative. In that regard, we are supportive of a fee model that ensures the Office has sufficient resources for a sustainable and effective business review program.

However, to ensure that the business method review program is broadly accessible to all entities (large and small) against whom a covered business method patent is asserted, we suggest that the proposed rules regarding the fees applicable to the business method review program be slightly revised. Notably, the currently proposed fee structure may enable owners of business method patents to extract settlements from small entities using a settlement value based on avoiding the cost of filing a business method review which, in the case of patents with numerous claims, may exceed \$100,000 -- even if the review is not ultimately granted.¹⁴ Patentees should not be permitted to build their litigation war chests through these tactics.

Accordingly, the fee should be reduced in instances where the petition is filed by a small (or micro) entity. Additionally, a staged fee structure should be adopted -- imposing an initial fee due at the filing of a petition for business method review, and a subsequent fee due if the review is instituted. This is similar to the PTO’s current practice under 37 CFR § 1.16(a), (k) and (o) of staging filing, search and examination fees for utility patent applications.

5. The Office Should Interpret “Financial Product Or Service” Broadly In Accordance With the Purpose of the Program (Proposed 37 CFR §§ 42.301(a))

The Office should interpret “Covered business method patent” in § 42.301(a) broadly, consistent with Congressional intent. In particular, the legislative history of the AIA discusses several specific types of “financial products or services” to be covered by the transitional business method review program, including: (1) financial data processing; (2) administration and processing of benefits; (3) insurance products and services; (4) collecting, analyzing, maintaining or providing consumer report information or other account information; and (5) securities brokerage, investment transactions and related support services, among others.¹⁵ Moreover, the language in proposed rule 42.301(a), which comes from section 18(d)(1) of the AIA, explicitly makes eligible for review patents that can be applied to the “practice, administration, or management” of a financial product or service. The legislative history of that provision shows that the language was “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” and was

meant 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.”¹⁶

We support proposed rules 42.302 and 42.304(a), which properly reflect that a petition under the business method program can be invoked by any entity, as long as the disputed patent is asserted against 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. *See* AIA § 18(d)(1).¹⁷

6. The Office Should Consider Accepting Petitions For Business Method Review Prior To September 16, 2012

In view of the importance of the transitional business method review program, the Office should accept petitions for business method review prior to the effective date of the program pursuant to AIA § 18(a)(2), so that the Office can immediately begin consideration of those petitions on September 16, 2012. Similarly, the PTO should publish business method review filing parameters on the PTO website, as contemplated by proposed rule 42.6(b)(1), several weeks prior to September 16, 2012. This would allow practitioners to properly prepare and file petitions in advance of the effective date.

Conclusion

In conclusion, we thank the Chairman and the members of the Committee for the opportunity to testify here today. We are very excited about the transitional business method review program, and look forward to working with the Patent Office, and the members of this Committee in ensuring that the program is implemented effectively and efficiently.

The Financial Services Roundtable (FSR) represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for \$92.7 trillion in managed assets, \$1.2 trillion in revenue, and 2.3 million jobs.

The American Bankers Association (ABA) represents banks of all sizes and charters and is the voice of the nation's \$13 trillion banking industry and its two million employees.

The American Insurance Association (AIA) is the leading property-casualty insurance trade organization, representing approximately 300 insurers that write nearly \$100 billion in premiums each year. AIA member companies offer all types of property-casualty insurance, including personal and commercial auto insurance, commercial property and liability coverage for businesses, workers' compensation, homeowners' insurance, medical malpractice coverage, and product liability insurance.

The Independent Community Bankers of America (ICBA) represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers they serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever changing marketplace. With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold \$1.2 trillion in assets, \$960 billion in deposits, and \$750 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

NACHA manages the development, administration, and governance of the ACH Network, the backbone for the electronic movement of money and data. The ACH Network serves as a safe, secure, reliable network for direct consumer, business, and government payments, and annually facilitates billions of payments such as Direct Deposit and Direct Payment. Utilized by all types of financial institutions, the ACH Network is governed by the NACHA Operating Rules, a set of fair and equitable rules that guide risk management and create certainty for all participants. As a not-for-profit association, NACHA represents over 10,000 financial institutions via 17 regional payments associations and direct membership. Through its industry councils and forums, NACHA brings together payments system stakeholders to enable innovation that strengthens the industry with creative payment solutions. To learn more, visit www.nacha.org, www.electronicpayments.org, and www.payitgreen.org.

Founded in 1967, the National Association of Federal Credit Unions (NAFCU) exclusively represents the interests of federal credit unions before the federal government. Membership in NAFCU is direct; no state or local leagues, chapters or affiliations stand between NAFCU members and its headquarters in Arlington, VA. NAFCU provides its members with representation, information, education, and assistance to meet the constant challenges that cooperative financial institutions face in today's economic environment. NAFCU represents nearly 800 federal credit unions, accounting for two-thirds of total federal credit union

assets and 61 percent of all federal credit union member-owners. NAFCU represents many smaller credit unions with limited operations as well as many of the largest and most sophisticated credit unions in the nation, including 83 out of the 100 largest federal credit unions.

The Credit Union National Association (CUNA) is the largest credit union advocacy organization in the United States, representing nearly 90% of America's 7,300 state and federally chartered credit unions and their 94 million members.

¹ 157 Cong. Rec. S5408, S5409 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer); 157 Cong. Rec. H4429 (daily ed. June 22, 2011) (statement of Rep. Quayle). *See also* 157 Cong. Rec. S1363 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer) (noting that the program will “reduce the burden placed on courts and the economy” by providing a “temporary administrative alternative for reviewing business method patents”).

² *See* House Judicial Committee Report on H.R. 1249 (H. Rep. 112-98), p. 54; 157 Cong. Rec. S1053 (daily ed. Mar. 1, 2011)(statement of Sen. Schumer).

³ For instance, patentees have been permitted to have their facially-invalid patents allowed during reexamination in the patent office by making arguments which have the effect of narrowing otherwise facially broad language in their claims, but without triggering intervening rights. *See Marine Polymer Tech., Inc. v. Hemcon, Inc.*, 672 F.3d 1350 (Fed. Cir. 2012). Similarly, patentees have been permitted to reissue with broadened claims recapturing subject matter previously given up in order to obtain the original patent. *See In re Youman*, ___ F.3d ___, 2012 WL 1598089, Docket No. 2011-1136 (Fed. Cir., May 8, 2012).

⁴ *See* AIA § 6(d) (35 U.S.C. § 324(a)).

⁵ *See* Transitional Program for Covered Business Method Patents - Definition of Technological Invention, 77 Fed. Reg. 7095, 7108 (to be codified at 37 C.F.R. § 42.301(b)).

⁶ *America Invents Act: Hearing on H.R. 1249 Before the Subcomm. on IP, Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Congress 52 (Mar. 30, 2011) (oral testimony of Hon. David J. Kappos, Director of the U.S. Patent and Trademark Office).

⁷ *See* Letter from Rep. Lamar Smith to Sens. Kyl, Schumer, Leahy, and Grassley (Sep. 8, 2011) (“This program was designed to be construed as broadly as possible and as [the] USPTO develops regulations to administer the program that must remain the goal.”) 157 Cong. Rec. S7413-S7414 (daily ed. Nov. 14, 2011).

⁸ Letter from Sen. Schumer to United States Patent and Trademark Office, p. 3 (Apr. 10, 2012). <http://www.uspto.gov/aia_implementation/comment-schumer.pdf>.

⁹ 77 Fed. Reg. 7080, 7095 (proposed § 42.302(a)) (emphasis supplied).

¹⁰ *Arris Group Inc. v. BT*, 639 F.3d 1368, 1379 (Fed. Cir. 2011); *see also MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

¹¹ 77 Fed. Reg. 7080, 7095 (proposed 37 CFR § 42.303).

¹² The only limitation on the filing of a post-grant review petition expressed in 35 U.S.C. § 321(c) is that the petition must be filed within 9 months of issuance of the patent. There is no apparent restriction in that Section that the patent to be reviewed must also be a first-to-file patent. Of course, under AIA § 6(f)(2)(A), post-grant reviews are only available for first-to-file patents.

¹³ *See* <https://www.whitehouse.gov/petitions#!/response/promoting-innovation-and-competitive-markets-through-quality-patents>.

¹⁴ *See* 77 Fed. Reg. 7080, 7086 (Feb. 10, 2012); Rules of Practice for Trials Before the PTAB, 77 Fed. Reg. 6879, 6909 (Feb. 9, 2012) (to be codified at 37 C.F.R. § 41.15(b)).

¹⁵ 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

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

¹⁷ *See also* 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer); *see also* 157 Cong. Rec. S5441 (daily ed. Sep. 8, 2011) (statement of Sen. Leahy).