Legislative Briefing

# Myths & Facts About Expanding the Transitional Program for Covered Business Method Patents

There is widespread agreement across industry sectors that abusive patent litigation is a serious problem that warrants legislative action. The question is how to make life hard for bad actors and better for innovators.

Proposals that are designed to reduce the financial incentive to engage in predatory litigation enjoy broad support among stakeholders. For example, a coalition of more than 60 technology and telecommunications companies, industry associations and public interest groups have urged Congress to enact legislation that allows fee shifting, curbs discovery abuse, makes patent cases more efficient, and requires plaintiffs to be precise in their claims of infringement.[1]

But consensus breaks down around proposals that would diminish innovation incentives by weakening patent rights. Perhaps the most contentious such proposal is the idea of expanding the Transitional Program for Covered Business Method Patents (known as the CBM program) at the US Patent and Trademark Office to cover all patents relating to data-processing and other computerized operations. In an open letter to Congress, more than 100 large, medium-sized and small companies and associations across a wide range of innovative industry sectors expressed strong opposition to CBM expansion.[2] Others with less interest in intellectual property rights have expressed support. In the ensuing debate, there has been a great deal of confusion about the potential impact of CBM expansion.

Here are a number of common myths and facts.

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***Myth:*** ***The CBM program does not now and will not under currently proposed legislation apply to "technological inventions." Cancer therapies, automobile safety systems and the products of most industries are clearly technological and would not be affected.***

Fact: Legislation under consideration could well cover all patents that contain a "data processing" component — in which case it certainly would cover cancer therapies and automobile safety systems, among other things. For example, many cancer-therapy patents cover inventions on how best to analyze a patient's

[1] Joint letter to Senate and House Judiciary Committee Chairmen and Ranking Members, October 18, 2013. Available on *patentprinciples.org*.
[2] Joint letter to Senate and House Judiciary Committee Chairmen and Ranking Members, September 19, 2013. Available on *patentprinciples.org*.

genetic information to develop the optimal course of treatment for specific individuals.

The "technological invention" exception in the statute does not help, because the definition adopted by the PTO for the term "technological invention" renders it all but meaningless.

The PTO's definition is: "Whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art, and solves a technical problem using a technical solution." *(Emphasis added.)*

Under this definition, it is not enough for an invention as a whole to be novel and technological. Rather, the invention's novelty must correspond to a specific *technological* feature. Many of today's inventions involve the implementation of a novel method by means of conventional activities or existing technological tools. For example, recent advances in automobile safety technology have involved the development of advanced sensing and control algorithms that improve performance of existing systems without any change to their physical components. Because these algorithms are not themselves considered technological, and because the system that implements them is not new, it is unlikely that they would be able to satisfy the "novel technological feature" requirement.

Moreover, even patents that are clearly technical and disclose a novel technological feature may fail to qualify as "technological inventions." Under the PTO's rules, if a petitioner can demonstrate that *any* claim of the patent fails the USPTO's test, the entire patent is subject to CBM review even if, when considered as a whole, the patented invention clearly discloses a technological invention.

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***Myth:*** ***The letter and intent of the legislation covers only non-technological business method patents, like patents covering the use of online shopping carts. Any concern that the current proposed language reaches beyond that narrow category can be addressed by small changes to the proposed definition of covered patents.***

Fact: Regardless of the asserted intent of the law, neither the current nor the proposed language is limited in any away to business method patents. The PTO's own website says that a "covered business patent" is 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." *(Emphasis added.)* And legislative language introduced by Sen. Schumer and Reps. Issa and Chu would eliminate the "financial" requirement. Thus, a CBM patent would be any patent that involves "data processing or

operations" — a virtually boundless category that would include most inventions that are implemented on a computer or in digital electronics. As discussed above, the "technological invention" exception language is not a limiting factor.

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***Myth:*** ***Adopting the Patent Office's definition of business method patents and technological inventions would address any concerns that the CBM program would capture non-business method patents.***

Fact: As discussed above, this clearly is not accurate.

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***Myth:*** ***The same patentability standards that apply to every other patent will apply to those subject to the CBM program. Expanding the CBM program does not change the standards or incentives for patenting business methods. It only provides a procedural response to the litigation environment surrounding these patents.***

Fact: Expanding the CBM program means "data processing" patents will be treated differently from other inventions. Data processing patents that already have been issued will suddenly have a shadow of doubt cast on them, because they will be subject to a different type of review program than other patents. For example, pharmaceutical patents on small molecules or even patents to a mechanical pencil sharpener will not have the same scrutiny as a patent subjected to the CBM program. Furthermore, because litigation is almost automatically stayed under the CBM statute, the owner of a CBM patent will not be able to enforce it for at least 18 months while the PTO reviews it. While the CBM patent awaits its regulatory review process at the PTO, its owner will be powerless to stop competitors from stealing the technology. That isn't the case for owners of patents on things like mechanical pencil sharpeners, or any other category of patents.

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***Myth:*** ***Business method patents are litigated nine times more often than other types of patents. Trolls assert business method patents in 40 percent of their cases and in a majority of their cases against small and non-tech companies. The use of business method patents is growing most rapidly against smaller companies.***

Fact: First, these statistics use an overbroad or inconsistent definition of business method. The PTO created the class of business methods in 1997. It is known as class 705, which encompasses methods for performing data processing or calculation operations in the financial and management data-processing areas. Statistics that indicate business method patents are litigated nine times more often than other types of patents use a definition of business methods that is not consistent with that of the PTO's classification system.

***Myth:*** ***Business method patents are widely acknowledged to be of poor quality, including by the PTO. When defendants fight back, trolls lose business method patent litigation 85 percent of the time.***

Fact: Again, this statistic uses inaccurate data. In January 2013, Acting USPTO Director Teresa Stanek Rea confirmed that, in the business methods area, data showed compliant prosecutions and affirmance rates at the Patent Trial and Appeal Board are actually above the PTO's averages, suggesting that applications with allowable subject matter are in fact being allowed while applications that should be rejected are being rejected.

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***Myth:*** ***It is wholly appropriate for Congress to recognize the excessive and unprecedented litigation surrounding this one category of patents and provide a faster, cheaper alternative to litigation.***

Fact: Again, Congress has NEVER done this (except for in the CBM program). Furthermore, while troll litigation certainly is a problem, it is not "unprecedented." Throughout US history, whenever there has been an explosion of technology, there also has been an uptick in patent litigation, often involving non-practicing entities. This happened with the invention of the cotton gin, the sewing machine and the light bulb, among many others.

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***Myth:*** ***This is not the first time that Congress has recognized that the special litigation environment surrounding a class of patents required procedural adjustments to the Patent Act. It also did so in 1984 with the Hatch-Waxman Act for pharmaceutical patents and in 2009 with the Follow-On Biologics Act for biotechnology patents.***

Fact: Congress has NEVER created special administrative rules that discriminate between technologies. The Hatch-Waxman Act affects how District Court litigation is handled in pharmaceutical patent cases. In even simpler terms, the Hatch-Waxman act simply establishes legal standing and deadlines for District Courts, allowing infringement and validity issues to be resolved prior to the launch of a new generic drug. It does not subject pharmaceutical patents to additional scrutiny or provide a special administrative review process for determining their validity at the Patent Office.

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***Myth:*** ***No TRIPs-related objections have been raised in response to the creation of the CBM program for financial services patents. It is hard to see how expanding the program to all business method patents would create any additional concern.***

Fact: This is not true. Acting PTO Commissioner Rea, said in a September 2013 speech that the Administration's major reservation about making changes to the

CBM program was consistency with our international obligations under TRIPs not to discriminate between classes of inventions.

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***Myth:*** ***Expanding the CBM program is a targeted response to a litigation environment that exists only in the US. Responding to the special circumstances surrounding one class of patents is not discrimination under TRIPS, as demonstrated by the Hatch-Waxman Act for pharmaceutical patents and the Follow-On Biologics Act.***

Fact: Expanding the CBM program to all data processing patents is in no way a "targeted response." The GAO has estimated that about half of the patents being issued by the Patent Office are software-related. This is because software is an integral part of our daily lives and a critical component of a vast range of products and manufacturing processes that help drive the US economy. It does not just run our cell phones, it helps lasers perform precision eye surgery and planes navigate severe weather, among many other things we take for granted.

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***Myth:*** ***The concern about the effect on other countries is specious. Most other countries already prohibit the patenting of software "as such." Creating a procedural mechanism for Patent Office review of a small subcategory of software patents would not influence these policies.***

Fact: As discussed above, this is not a "small subcategory" of software patents. Legislation introduced by Sen. Schumer and Reps. Issa, and Chu captures ALL data-processing patents. This includes most software patents as well as many medical devices, biotech, manufacturing, and a host of other things where software is a part of the invention. Software-related patents alone encompass around 50 percent of the patents being issued by the PTO.

Most other countries do not currently prohibit the patenting of software. The "as such" language in other countries' laws is important as it has been interpreted to allow for the patenting of software so long as it novel, nonobvious, and adequately described. Furthermore, other countries do not have separate review procedures for software-related patents as would be created by legislation under consideration in Congress.

Yet foreign countries have been and will continue to be influenced by attacks on software patents in the US, such as proposals to expand the CBM program. These countries view weakening software patents as a way to diminish the competitive advantage of US software companies vis-à-vis their local software industry. For example, New Zealand during the past few years has attempted to ban software patents entirely. One of the justifications given by proponents of the ban was case law developments in the US and UK (taken out of context by anti-software advocates). This type attack on software patents is currently occurring in India, Brazil and other important foreign markets for American companies.

***Myth:*** ***Some District Court judges have exercised their discretion to stay litigation after the Patent Office has decided to accept a patent into the CBM program because it is "more likely than not" that the patent is invalid. Litigation has not been stayed in every case. When appropriate, such stays conserve the resources of severely over-burdened District Courts and parties. Encouraging District Court stays in favor of a faster, cheaper procedure for determining validity is good policy, not illegitimate delay.***

Fact: The patentee is at a huge disadvantage when a case is stayed. The infringer is gets an extra 18 months to infringe the patent while the patentee waits for the PTO to confirm that the patent is valid. This means the infringer is allowed to gain market share by stealing someone else's technology. Money damages at the end of CBM and litigation (four or five years later) will not make up for the loss of market share. In addition, the argument that some courts do not stay cases is both inaccurate and premature. The legislation intentionally gives courts very little latitude to deny staying the case. The few current CBM cases that have not been stayed were already well underway in District Court by the time the PTO issued its decision to bring the patent into the CBM program. This is because these cases were filed before the CBM program was up and running, which begs the question: Why is Congress trying to broaden a program that has only been in existence for less than a year?

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***Myth:*** ***Stays of litigation will not be lengthy, given the speed of CBM review. The PTO must inform a CBM petitioner within six months of filing whether the patent in question is eligible for CBM review because it is "more likely than not invalid." The agency then has nine months to issue a final decision.***

Fact: First of all, it is not the case that the patent comes out of the CBM program at the PTO and the patentee is immediately able to collect damages or get an injunction against an infringer. The PTO has 15 months to render a decision. That decision is then subject to appeal in the Federal Circuit, which could take another year. So, after two and a half years, the patentee is allowed to *begin* a District Court case, where the alleged infringer gets to challenge validity and deny infringement in a court case that will probably last *another* two years. This additional cost, uncertainty and delay would hurt small companies whose inventions are being stolen by larger companies, as well as large US companies whose innovation is being copied by foreign competitors. Additionally, the "more likely than not" standard is a red herring. Individual patents often contain several claims describing various aspects of the patented invention. To be eligible for CBM and thus the District Court stay, only one claim has to be found "more likely than not invalid." This means a patentee will be unable to enforce clearly valid claims while the PTO reviews the patent under CBM.

***Myth:*** ***It is not possible to bring all validity challenges against existing patents under any other program. The inter partes review program (IPR) allows challenges only on the grounds that a patent is anticipated or obvious in view of a printed publication; challenges for vagueness, over-breadth and abstractness are not allowed. And while post-grant review program (PGR) allows challenges on additional grounds, it only applies to patents filed after March 16, 2013. In addition, PGR is available only in the first nine months after a patent issues, making it irrelevant to companies facing business method suits, because you can't easily monitor and bring early challenges to the tens of thousands of potentially relevant patents that issue each year. A patent troll needs only to wait nine months and a day to file a lawsuit over a patent that is immune from the PGR process.***

Fact: After seven years of debate over the America Invents Act, having considered many options, this is exactly the balance Congress found to be fair to both patent owners and potential infringers. Expanding the CBM program completely undermines this balance. The IPR and PGR programs balance the need for the public to be able to challenge patents that were issued improperly with patent owners' need to have confidence in their ability to efficiently prevent infringers from stealing their inventions. An alleged infringer is allowed to bring any defense in the law during a District Court litigation. If the CBM program is expanded, an infringer will be able to game the system during the entire life of the patent. Additionally, the desire for more robust administrative challenges does not in any way justify adopting a special review proceeding for just software patents. Bad patents exist in every area of technology and across all sectors of the economy.

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***Myth:*** ***Only under the CBM program can a company that has been threatened or sued on an existing patent ask the PTO to consider whether that patent is invalid for being vague, overbroad or abstract. That is important because many business method patents that trolls assert suffer from these problems.***

Fact: This argument ignores the availability of PGR program, which does allow for these arguments to be made. In addition, if a patent is vague, overbroad or abstract, there is likely to be a printed publication or patent that proves that the invention in the patent is invalid, because it had either been invented by someone else beforehand or it is obvious in light of prior inventions, making the IPR program an appropriate administration option. This argument also ignores that an accused infringer has the ability to initiate a declaratory judgment action challenging the patent's validity and can always raise vagueness as a defense during infringement litigation in court. These types of defenses are often decided by summary judgment motions early in the case.

***Myth:*** ***There is no need to wait to know that the "financial services" limitation prevents many of the business method patents asserted by trolls from falling within the program, like patents covering online shopping carts, sending shipment-notification emails or reserving airline seats.***

Fact: The CBM program was put into the American Invents Act as a pilot program. Only one case has been decided by the PTO under the program so far, and that case challenged the patent of a vulnerable small business, not a patent troll. The Federal Circuit has not had an opportunity to review the case. In addition, PTO is required to issue a report on the effectiveness of the CBM program in 2015. At that point there will be sufficient data available to make an assessment. It makes no sense to expand a regulatory program that does not yet have a track record. Moreover, if proponents' goal is in fact merely to extend CBM review to all business method patents, the best and simplest way to do so would be to remove the financial services limitation and replace it with language that explicitly limits the scope of CBM review to business methods.

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***Myth:*** ***Parties are using the CBM program despite its narrow reach. Over 50 CBM petitions were filed since the program started in September, 2012. Besides, any argument that relatively few petitions have been filed is a reason to expand the program, not keep it narrow.***

Fact: The bottom line is that the program is new. There is not even one complete test case to see if it actually works. Thus, it would be premature to expand it now.

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***Myth:*** ***The prospect of getting patents for real inventions can promote innovation, but invalid patents harm innovation by deterring companies from creating new technologies, or by taxing innovative products through undeserved license fees and wasteful litigation.***

Fact: This ignores other side of the argument — that the prospect of being delayed more than two years before beginning to enforce a completely valid patent harms innovation and that being forced to bear the additional cost of defending a CBM review is a tax on innovation. It also ignores the fact that setting up a regulatory review process that allows copycats to play procedural games with innovators is bad for innovation.

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***Myth:*** ***Expanding the CBM program will create a faster, cheaper alternative to litigation for weeding out business method patents that never should have issued.***

Fact: After seven years of debate, Congress created post-grant review and *inter partes* review for this exact purpose. Expanding CBM would create a third review process that would undermine the current processes in the AIA. Consistent with

the AIA model, to the extent that more robust administrative review is provided, it should benefit potential defendants in all industries by allowing challenges to all suspect patents, irrespective of the underlying technology.

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***Myth:*** ***Strong patents that can encourage innovation will not be threatened. The CBM program allows challenges only against business method patents that have been asserted by the patent holder; and that the Patent Office has determined are "more likely than not" invalid.***

Fact: This is inaccurate. Patents typically cover many aspects of a single invention. Oftentimes patentees only assert part of the patent against a copycat. The CBM program, however, delays enforcement of the *entire* patent — even if the part of the patent that the PTO has said is "more likely that not" invalid is not the part of the patent that is being infringed.