

June 17, 2020

Sen. Thom Tillis, Chairman
Subcommittee on Intellectual Property
Senate Judiciary Committee
224 Dirksen Senate Office Building
Washington, D.C. 20510

Sen. Chris Coons, Ranking Member
Subcommittee on Intellectual Property
Senate Judiciary Committee
224 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Tillis and Ranking Member Coons:

The Covered Business Method (CBM) Patent Review Program, a postgrant administrative proceeding at the Patent Trial and Appeal Board (PTAB), is set to expire September 16, 2020. The undersigned urge you to let this postgrant proceeding expire permanently, and we would oppose any efforts to renew this program.

As you know, the CBM “transition” program was enacted as section 18 of the Leahy-Smith America Invents Act (AIA) in 2011. From the beginning, its purpose and rationale were suspect and controversial. The provision establishing CBM postgrant review was, as the New York Times put it, “largely aimed at helping banks rid themselves of the Ballard problem.”¹

This refers to inventor Claudio Ballard, who invented and was awarded patents on a digital imaging system that enables financial services institutions to process checks electronically. This saved banks millions of dollars in shipping and other costs to haul checks physically to far-flung banks for cancelling and returning the checks to depositors. Mr. Ballard’s invention proved of tremendous market value, sparing the banking industry huge costs and improving efficiency. However, banks faced having to pay his company, DataTreasury, royalties and patent licensing fees to benefit from Mr. Ballard’s invention.

Banks lost court challenges of his patents’ validity, lost in court where banks were found to be infringing the patents through unauthorized use of the invention, and couldn’t dominate in licensing negotiations because, as Mr. Ballard’s 13-plus-year winning streak maintained through constant litigation in Article III courts and pre-AIA Patent & Trademark Office proceedings attests, his patents were objectively sound. The banking industry attempted to advance “Check 21” legislation that initially failed to be enacted.

The AIA presented another legislative vehicle. The financial services industry sought what was effectively the Check 21 legislation, via the AIA, to create a customized method of administratively invalidating patents, beginning with those owned by a lone inventor who had prevailed in Article III judicial proceedings in which fairness and due process are the norm.

CBM patent review provided the banking industry the “tilt in the system” and “stacked procedures of Section 18” to invalidate² Mr. Ballard’s patents, which had been repeatedly found valid and successfully enforced in federal courtrooms.³ The Check 21/section 18/CBM proceeding, as the New York Times put charitably, was intended to “allow for an expanded consideration of other elements in a new [administrative patent] review format.”⁴

¹ Edward Wyatt, “Banks Turn to Schumer on Patents,” New York Times, June 14, 2011.

² Richard A. Epstein and F. Scott Kieff, letter to Congress, March 30, 2011, pp. 4, 11.

³ Epstein and Kieff, p. 2.

⁴ Wyatt.

Having delivered the banks' goal, the CBM program is used less and less. The Government Accountability Office reported that patents granted on business methods increased as a share of issued patents from 6 percent in 1990 to 28 percent in 2014, following *State Street*.⁵ Yet, CBM patent challenges since the proceeding's creation have been low, especially compared with another PTAB patent validity-challenge proceeding, inter partes review (IPR). GAO reported 524 CBM petitions in PTAB's first five years (September 2012-September 2017) versus 6,958 IPR petitions filed.

Further, CBM challenges have trended down since May 2015 to fewer than 5 petitions filed per month by September 2017. GAO found "the number of [CBM] petitions per month fluctuating but tapering off over time."⁶ No CBM petitions were filed the final two months of fiscal year 2017, the last of the period GAO studied. More recently, the PTO reports 36 CBM petitions filed in FY 2018, 22 in FY 2019, and 9 filed in FY 2020 through April 30.⁷ Thus, CBM should expire of disinterest, if not to eliminate a proceeding of questionable use, of illegitimate vintage, and of unjust intent.

Congress considered an extension of CBM in 2015; it was defeated on a strong bipartisan basis. The House Judiciary Committee rejected a CBM extension amendment, which the IP Subcommittee chairman offered with the support of the full committee chairman. The ranking minority member opposed the amendment. He noted the ostensibly transitional status of CBM, how PTO had broadened the program beyond its statutory boundaries, and that extending CBM "would work injustice on legitimate patent holders."⁸ In fact, it already had, including upon Claudio Ballard. Congress in 2020 should follow suit and let CBM expire.

For these reasons, we strongly urge you to oppose any efforts to extend the CBM program. We ask that you not only allow CBM to cease existence, as scheduled, this September 16, but also that you take steps to ensure CBM's expiration and permanent cessation.

Respectfully,

Chris Israel
Executive Director
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James Edwards
Executive Director
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⁵ *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1375 (Fed. Cir.1998). In *State Street*, the Federal Circuit said inventions involving a computer or business method is patentable if it yields a "useful, concrete and tangible result."

⁶ U.S. Government Accountability Office, "U.S. Patent and Trademark Office: Assessment of the Covered Business Method Patent Review Program," GAO-18-320, March 2018, p. 17.

⁷ U.S. Patent & Trademark Office, various Trial Statistics reports, PTAB Statistics, at www.uspto.gov/patents-application-process/patent-trial-and-appeal-board/statistics.

⁸ Gene Quinn, "Amendment to extend CBM defeated in House Judiciary Committee," IPWatchdog, June 11, 2015.

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* Organization names appear for identification purposes only.