UNITED for PATENT REFORM

Re: USPTO Request for Comments on the Current State of Patent Eligibility Jurisprudence in the United States, 86 Fed. Reg. 36257-60.

Dear Under Secretary Hirshfeld:

United for Patent Reform ("UFPR") appreciates this opportunity to provide comments for the U.S. Patent and Trademark Office's ("PTO") study on the current state of patent eligibility jurisprudence in the United States. UFPR is a broad coalition of American businesses advocating for a patent system that ensures high quality patents, advances meaningful innovation, and protects legitimate American businesses from unnecessary patent litigation. Our members are small and large—they range from Main Street retail shops, REALTORS®, hotels, grocers, convenience stores, and restaurants to national construction companies, automobile manufacturers, and technology businesses. Collectively, our members represent over 80 million U.S. employees, a figure that accounts for nearly two-thirds of private sector jobs in the United States.

While some UFPR members manufacture products and have their own patent portfolios, the vast majority do not. Nevertheless, we are compelled to make our voices heard on patent policy because, over the last two decades, our members have become routine targets of abusive patent infringement lawsuits. In particular, our members frequently are sued on patents that claim business methods and other ineligible subject matter.

The PTO's July 9, 2021 Federal Register notice requests comments on "the current state of patent eligibility jurisprudence in the United States" and the supposed "uncertainty" that it has created. The request itself is primarily directed to patent holders and asks questions that appear to presuppose that patent eligibility law has had a negative impact on innovation and the U.S. economy. UFPR takes a contrary view. Our members have found that the current patent eligibility jurisprudence is appropriately balanced and has improved patent quality, decreased wasteful litigation, and furthered the patent system's goal of promoting technological innovation for the benefit of American consumers.

The Patent System Is Designed to Encourage Technological Innovation and Benefit the U.S. Economy. Eligibility Law Helps Ensure That It Does So.

Our members' experience with section 101 jurisprudence, particularly since the U.S. Supreme Court's landmark decision in *Alice Corp. v. CLS Bank Int'l*,[1] has overwhelmingly been positive. Eligibility law, when properly enforced as in recent years, plays a critical role in keeping patents within their proper lanes and protecting American businesses and consumers from unjustified and abusive litigation.

Section 101 ensures that patent claims are directed to a *technological* advance, rather than ordinary human activities such as running a business or advertising products and services. Eligibility law protects Main Street businesspeople by allowing them to carry out their desired methods of doing business, whether it be conducted manually or using computers. Eligibility law also blocks patents that attempt to claim the intended use of pre-existing products in particular "fields" and "contexts." This protects both manufacturers and consumers, neither of whom should be required to pay a license for the use of the manufacturer's product for its intended functions.

Policy makers must keep in mind just how damaging unjustified patent litigation can be to small and medium-sized businesses. The median cost of fighting an infringement suit brought by a non-practicing entity (NPE) is $1.7 million,[2] a crippling expense to a small business. Just the projected cost of a defense can force a business to pay a substantial shakedown settlement, regardless of the merits of the case. NPEs have been responsible for a majority of patent lawsuits filed in recent years, and they bring 40% of their suits against small and medium-sized companies.[3]

Eligibility law not only helps ensure that improper patents do not issue in the first place, but it also provides a fast and efficient mechanism for invalidating patents that were mistakenly issued in the past. Although problematic patents may be invalid for multiple reasons, section 101 allows validity to be resolved without time-consuming and expensive inquiries into what was known in the prior art or whether claims were enabled. Whether a patent claims subject matter that can be patented is a threshold issue, one that logically should be resolved first. And eligibility can almost always be resolved simply by reviewing

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[1] 573 U.S. 208 (2014).

[2] *See The State of Patent Eligibility in America, PartII: Hearing Before the Subcomm. on Intellectual Prop. of the S. Comm. on the Judiciary*, 116th Cong. (2019) (statement of Stephanie Martz, General Counsel, National Retail Federation, on behalf of United for Patent Reform), at 1-2, available at https://unitedforpatentreform.com/files/martz-testimony1145142093.pdf.

[3] *See id.*

the patent itself, without requiring expensive litigation activity that forces nuisance settlements.

Finally, UFPR rejects the notion that modern eligibility jurisprudence has created "uncertainty." The Federal Circuit's decisions have been uniform and relatively clear, particularly in recent years: business methods and "field of use" claims are not eligible for patenting. The judges are carefully interpreting the law. The rest of the system should respect and enforce their decisions.

The Prohibition on Patenting Business Methods Protects Main Street Businesses

Since the Supreme Court's *Alice* decision, the Federal Circuit has consistently struck down patents that claim methods of conducting business. For example, the court has invalidated patents for ways of selling and promoting media content;[4] modified investment vehicles;[5] and various business ideas for providing loans or credit to customers.[6] The court has also rejected attempts to patent different means of paying for products and services, such as the idea of using reward points,[7] paying for transit with bank cards,[8] paying for internet purchases at a brick and mortar store,[9] or giving customers discounts in exchange for faster payment.[10] Consistent with *Alice*, the court has also nixed claims to systems of escrow or third-party transaction guarantees.[11] And finally, the Federal Circuit has prevented the patenting of the different ways that merchants set prices for their goods and services.[12]

There is nothing "uncertain" or "unpredictable" about the jurisprudence of business method patents. Business plans and practices are not patent eligible subject matter, period.

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[4] *See Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709 (Fed. Cir. 2014) (providing media content in exchange for viewing an advertisement); *Smartflash LLC v. Apple Inc.*, 680 F.App'x 977 (Fed. Cir. 2017) (providing media content in exchange for payment); *cf. VeriPath, Inc. v. Didomi*, 842 F.App'x 640 (Fed. Cir. 2021) (granting the user of a mobile device enhanced functionality in exchange for access to personal information).

[5] See *In re Greenstein*, 774 F.App'x. 661 (Fed. Cir. 2019) (adjusting investment returns by age).

[6] *See Mortgage Grader, Inc. v. First Choice Loan Servs. Inc.*, 811 F.3d 1314 (Fed. Cir. 2016) (anonymous loan system); *LendingTree, LLC v. Zillow, Inc.*, 656 F.App'x 991 (Fed. Cir. 2016) (internet loan applications).

[7] *See cxLoyalty, Inc. v. Maritz Holdings Inc.*, 986 F.3d 1367 (Fed. Cir. 2021).

[8] *See Smart Systems Innovations, LLC v. Chicago Transit Authority*, 873 F.3d 1364 (Fed. Cir. 2017).

[9] *See Inventor Holdings, LLC v. Bed Bath & Beyond, Inc.*, 876 F.3d 1372 (Fed. Cir. 2017).

[10] *See Fast 101 Pty. Ltd. v. CitiGroup Inc.*, 834 F.App'x 591 (Fed. Cir. 2020).

[11] *See buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350 (Fed. Cir. 2014); *Boom! Payments, Inc. v. Stripe, Inc.*, 839 F.App'x 528, 532 (Fed. Cir. 2021).

[12] *See OIP Technologies, Inc. v. Amazon.com, Inc.*, 788 F.3d 1359 (Fed. Cir. 2015) (setting prices based on consumer demand); *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306 (Fed. Cir. 2015) (basing prices on products and the class of purchasers); *SAP America, Inc. v. InvestPic, LLC*, 898 F.3d 1161 (Fed. Cir. 2018) (predicting financial markets).

The prohibition on patenting business methods reflects sound public policy. Managing a business and serving customers is a quintessentially human activity that cannot be captured in a patent. The key to success in a service-oriented business is hard work and a commitment to one's customers and their needs. Just ask the many UFPR members who operate retail enterprises, restaurants, hotels, or service businesses such as real estate agencies. They will tell you that there is no substitute for working long hours and developing relationships with their customers.

The *Alice* decision's bar on business-method patents allows UFPR's Main Street business owners to work hard, serve their customers, and enjoy the fruits of their labors, without having to pay licenses to patentees that improperly try to take advantage of their success. They are the lifeblood of our communities and the national economy.

Section 101's Prohibition on "Field of Use" Patents Protects Both Innovative Manufacturers and American Consumers

Patent eligibility jurisprudence also prohibits attempts to patent a pre-existing technology—something that others have invented and built—and claim its routine functions in a "context" or "field of use." Patents of this sort have frequently been asserted against end users of different types of telecommunications equipment and computer technology. The patents in these cases do not purport to make any improvement to the technology itself. Instead, they claim the use of these products for their *intended* functions in a particular environment.

The Federal Circuit has repeatedly held that a patent must claim an actual technological advance and that a "field of use" does not create eligible subject matter. In one recent example, *The Chamberlain Group, Inc. v. Techtronic Indus. Co.*,[13] the court invalidated claims to the use of pre-existing wireless-communication technology to operate a garage door system, emphasizing that wireless communication "was conventional at the time of the patent and could be performed with off-the-shelf technology."[14] Similarly, *ChargePoint, Inc. v. SemaConnect, Inc.*[15] struck down a patent that claimed the use of networked communication "in the context of [operating] electric vehicle charging stations."[16] The patent did not claim any improvement to the underlying network technology—it simply used that technology for

[13] 935 F.3d 1341 (Fed. Cir. 2019).

[14] *Id.* at 1349; *see also Sensormatic Elecs., LLC v. Wyze Labs, Inc.*, No. 2020-2320 (Fed. Cir. Jul. 14, 2021) (invalidating claims to using wireless communication in the context of a surveillance system).

[15] 920 F.3d 759 (Fed. Cir. 2019).

[16] *Id.* at 768.

its intended purpose of communicating information. Other Federal Circuit decisions have rejected attempts to patent the use of mobile devices to facilitate restaurant ordering;[17] the use of off-the-shelf radio frequency identification tags to manage business inventory;[18] the use of graphical processing technology in a particular computer environment;[19] and the use of pre-existing scanners to scan data in the "particular technological environment" of depositing a check at an ATM.[20]

Not only have the Federal Circuit's decisions in this area been clear and consistent, but they enforce an important eligibility limit that protects both technology manufacturers and consumers. Some of UFPR's members make the telecommunications and computer equipment that is targeted in these patents, while others purchase that equipment and use it in their own businesses. Neither party should be required to pay a license to a patentee who made no investment in nor technological contribution to the product. Only those who invented the underlying technology should be allowed to demand compensation for its use. And once a consumer has purchased the product, no patent intermediary should be allowed to demand a second payment for using the product as intended in any particular "context" or "environment." Such patents do not reward technological innovation. They are nothing more than an unjustified tax on innovative manufacturers and American consumers and a drain on the economy.

Finally, for all the complaints about patent eligibility jurisprudence that have come from some quarters, it is important to emphasize that the limits on the types of subject matter that can be patented are long-standing and well-established. The patent eligibility statute dates to the 18th century and has been repeatedly interpreted and clarified by the courts. It was over a century ago that the U.S. Court of Appeals for the Second Circuit held that patent eligibility does not extend to "system[s] of transacting business."[21] As one commentator recently noted, the rule that a patent must claim a technological advance "was long and widely accepted," and "the patenting of business methods was all but unheard of

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[17] *Apple Inc. v. Ameranth, Inc.*, 842 F.3d 1229 (Fed. Cir. 2016).

[18] *Automated Tracking Solutions, LLC v. The Coca-Cola Co.*, 723 F.App'x 989 (Fed. Cir. 2018).

[19] *Simio, LLC v. FlexSim Software Prods.*, Inc., 983 F.3d 1353 (Fed. Cir. 2020).

[20] *Content Extraction and Transmission LLC v. Wells Fargo Bank*, 776 F.3d 1343 (Fed. Cir. 2014); *see also In re Yu*, 1 F.4th 1040, 1043 (Fed. Cir. 2021) (invalidating claims directed to "simply a generic environment" in which "conventional components perform only their basic functions"); *GREE, Inc. v. Supercell Oy*, 834 F.App'x 583 (Fed. Cir. 2020) (invalidating claims to using a pre-existing positional template in the context of a computer game); *WhitServe LLC v. Dropbox, Inc.*, 854 F.App'x 367, 372 (Fed. Cir. 2021) (invalidating claims that "rely on the ordinary storage and transmission capabilities of computers within a network and apply that ordinary functionality in the particular context of onsite backup").

[21] *Hotel Security Checking Co. v. Lorraine Co.*, 160 F. 467, 469 (2d Cir. 1908).

during the first two centuries of the nation's history."[22] Similarly, the rule against patenting the routine functions of pre-existing devices is "deeply rooted in American jurisprudence" that stretches over a century and a half.[23]

Conclusion

The limits on patent subject matter eligibility are not new, and they are clearly articulated and enforced in the modern jurisprudence. These rules protect the broad sweep of UFPR's members, from Main Street businesses serving their customers to high-tech companies that manufacture innovative products. These rules also ultimately protect American consumers, who should not be forced to pay extra for the products that they purchase because of imprudently issued patents that do not make a technological contribution to those products. The industries and interests that make up our membership reflect the economic heartland of the United States, and they "foster innovation, competitiveness and economic growth, domestically and abroad"—the very mission that the patent system purports to serve. We urge the PTO to keep them in mind as it conducts its study of patent eligibility jurisprudence.

Sincerely,

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[22] Joseph Matal, "The Three Types of Abstract Ideas," 30 Fed. Cir. B.J. 87, 98 (2021), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3930350.
[23] *Id.* at 134; *see also id.* at 135-141 (citing cases).

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