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Via Electronic Mail Only: TPCBMP Definition@uspto.gov

Director of the U.S. Patent and Trademark Office
Mail Stop Patent Board
Attn: Lead Judge Michael Tierney
P.O. Box 1450
Alexandria, Virginia 22313-1450

Re: Transitional Program for Covered Business Method Patents – Definition of Technological Invention
Written Comments of Microsoft Corporation

Dear Judge Tierney:

Microsoft Corporation appreciates the opportunity to offer comments on the Proposed Rulemaking for the *Transitional Program for Covered Business Method Patents - Definition of Technological Invention*, published in the Federal Register on February 10, 2012 (RIN 0651-AC75).

As a longtime advocate of legislative patent reform, Microsoft appreciates and supports the excellent work being done by the U.S. Patent and Trademark Office to implement the 2011 *Leahy-Smith America Invents Act*, Pub. L. 112-29, 125 Stat. 284 (*"AIA"*). This new law carries with it the promise of a more efficient and streamlined patent system, significant improvements in the application and examination processes, and a more robust post-issuance review system that will provide an attractive alternative to litigation as a means of resolving disputes about a patent's validity.

We commend the Office for its efforts to ensure speedy and appropriate implementation of the AIA. In general, we agree with the draft rules proposed by the Office. Overall, the draft regulations reflect a thoughtful, balanced and pragmatic approach to implementing the new law. However, despite our general agreement with what the Office has proposed, we also believe that—as with any undertaking of this type—there is some room for improvement with respect to few of the regulations, including the proposed regulatory definition that is the subject of this rulemaking proceeding.

Background

Section 18 of the AIA mandates the creation of a distinct procedural avenue for a party who has been sued for, or charged with, infringement of a "covered business method patent" to challenge the asserted patent's validity. The Transitional Program provides petitioners with several advantages that are not available in other review proceedings. Additionally, restrictions and potential impediments to review that are found in other review proceedings do not apply to reviews under this program. For example, the ability to initiate proceedings is not limited to the nine-month period after issuance of the patent the petitioner seeks to challenge.

The advantages provided by the rules of the Transitional Program will create strong incentives for petitioners to characterize a patent they seek to challenge as a "covered business method patent." As a result, it is important that the scope of the Transitional Program be limited in the manner intended by Congress and that the terms "covered business method" and "technological invention" be defined with sufficient specificity and clarity to ensure that the Transitional Program is not abused to obtain an unfair advantage (*i.e.,* by attempting to circumvent the limited time period available for post-grant review).

The Rule: Covered Business Method Patent

Section 18(d)(1) of the AIA defines a "covered business method patent" as:

> [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.)

Some have argued that this definition does not limit the scope of the Transitional Program to patents that claim methods of doing business, but instead should be construed expansively to encompass any patent that claims any type of method or process that is used by a company in the financial services sector. Because computers are, by definition, used for performing data processing and because all computerized methods involve the processing of some form of data, any computer-implemented invention would potentially be considered "covered business methods" irrespective of whether the method was Bilski's method of hedging risk in commodities markets or a method for coordinating the exchange of information among a group of servers. This interpretation would expand the scope of the Transitional Program to other widely-adopted technologies used by a broad spectrum business enterprises (not just those in the financial services sector) even though such patents do not claim (and have no connection to) methods of doing business.

We do not believe that such a broad interpretation is justified by the text of the statute. Moreover, even if the statutory language were susceptible to this reading, such an expansive interpretation should be rejected as being directly contrary to the clear legislative intent as to the scope and operation of the Transitional Program. As evidenced by repeated statements during the course of the legislative debate, Congress clearly intended the scope of the Transitional Program to be limited to traditional business methods. See, e.g., Letter from Chairman Lamar Smith to Senator John Kyl, 157 Cong. Rec. S7413 (November 14, 2011) (Section 18 intended to "appl[y] to patents that describe a series of steps used to conduct every-day business applications in the financial products and retail services sectors"); *See also*, Statement of Sen. Pryor, 157 Cong. Rec. S1363 (stating that the Transitional Program "is simply trying to address the problem of business method patents of dubious validity").

In sum, the terms "covered business method" and "technological invention" must be interpreted in light of Congress's intent to limit review under the Transitional Program to patents whose subject matter is clearly and directly related to methods of doing business as opposed to inventions relating to information intensive technologies in fields like computing or telecommunications.

<u>The Exception: Technological Invention</u>

Section 18(d)(2) provides that the Director will issue regulations for determining whether a patent is for a "technological invention," and thus ineligible for a validity review under the Transitional Program. The instant rulemaking proposes a new 37 C.F.R. § 42.301(b) rule for determining whether a patent is for a "technological invention":

> The following will be considered on a case-by-case basis: Whether the claimed subject matter as a whole (1) recites a *technological feature* that is novel and unobvious over the prior art; and (2) solves a *technical problem* using a *technical solution*.

(Emphasis added.) We respectfully submit that — despite being generally consistent with the underlying legislative intent — the proposed definition lacks the clarity and force that is necessary for the exclusion to have its intended effect. In particular, given that decades of debate about what types of inventions should be considered as having a sufficiently technical character to be eligible for patenting has failed to result in any significant consensus about what is technical and what is not, we think that a definition based solely on this concept is unlikely to be effective in providing a basis for making consistent, predictable decisions as to which patents are eligible for review and which are excluded.

Moreover, in our view, a definition grounded in the single criterion of "technicality" inappropriately fails to incorporate the types of factors and considerations that the authors of the AIA recited in explaining the meaning and intended effect of the exclusion. As was made clear during the congressional debate, the exclusion for technological inventions was intended to constrain the scope of the Transitional Program to business methods. As stated by one of the leading authors of the House bill, "[t]he program's exception for 'technological inventions' precludes review of patents for inventions based on application of the natural sciences or related engineering or inventions in computer operations." 157 Cong. Rec. S7413 (Nov. 14, 2011) (Letter from Chairman Lamar Smith to Senator John Kyl); 157 Cong. Rec. S1379 (March 9, 2011) (Statement of Senator John Kyl) (Scope of Section 18 intended to extend "only to abstract business concepts and their implementation" and not to "inventions relating to computer operations for other uses or the application of the natural sciences or engineering"); *see also* 157 Cong. Rec. S5431 (Sept. 8, 2011) (Statement of Senator John Kyl) (stating that "technological inventions are excluded from the scope of the program, and that these technological inventions include inventions in the natural sciences, engineering, and computer operations — and that inventions in computer operations obviously include software inventions.").

In the absence of a clear statutory definition, we would submit that the most appropriate way to define the term "technological invention" is by reference to the intent, characteristics, factors and considerations that the AIA's authors and advocates used to distinguish between "business method patents" and "technological inventions" and to describe what types of patents would qualify for review under the Transitional Program. Drawing from statements made during the legislative debate, the relevant characteristics, factors and considerations could, for example, include:

> **1. Whether the inventive contribution of the claimed subject matter falls within an established field of technology.** If the claimed invention's advance over the prior art pertains directly to a core financial services activity or function, the patent is likely to be a covered business method. Such core activities include asset management, investment planning, banking, investment, risk assessment, the trading or exchange of securities or commodities, extension of credit, provision of insurance, calculation of tax liability, preparation and submission of taxes, forms, or related documentation to a governmental entity, and the exchange or processing of financial instruments. Conversely, if the patent's inventive contribution falls within an established field of technology that is unrelated to

economics or finance, this weighs in favor of a conclusion that the patent is a "technological invention."

2. Whether the predominant use of the invention is in the practice, administration, or management of financial products or services. Predominant use by entities in the financial services industry suggests that the invention's contribution relates directly to a method of doing business and weighs in favor of a conclusion that it is a covered business method. Conversely, if the invention is widely used by entities not engaged in the provision of financial services or the offering of financial products, or if use of the invention within the financial services industry is incidental or insubstantial, this suggests that the patent is a "technological invention."

3. Whether the patent claims a general concept, principle, theory, plan or scheme that relates to economics, finance or conducting business. Examples of general concepts of this nature include, but are not limited, to: Basic economic practices or theories (*e.g.,* hedging, insurance, financial transactions, marketing); Mental activities relating to economics (*e.g.,* forming a judgment, observation, evaluation or opinion about the value of an asset, the likely future value of a stock, or the financial risk presented by a transaction); Interpersonal interactions (*e.g.,* negotiation, cooperation with colleagues, leading a business team); Human behavior (*e.g.,* exercising, following rules or instructions, dressing for success). The presence of patent claims directed to a general concept that relates to economics, finance or conducting business weighs in favor of a determination that the claimed invention is a covered business method. Conversely, the absence of claims directed to such general concepts weights in favor of the conclusion that the claimed subject matter is a "technological invention."

4. Whether the claimed invention limits the field of use to core financial services activities. If the claims limit the patent's scope to activities that are normally performed in the course of providing financial services and products, and are not normally performed by entities in other lines of business, this weighs heavily in favor of a conclusion that the patent is directed to a covered business method. Similarly, if the patent identifies financial services or products as the invention's primary field of use, the invention is likely to be a covered business method. Conversely, if the patent does not indicate the field of use or if the patent describes a field of use the scope of which does not include or extends substantially beyond activities normally undertaken in provision of financial services and products, this suggests the patent is a "technological invention."

Conclusion

Although we strongly believe there is a need for additional clarity and specificity with respect to the inquiry under Section 18(d)(2) of the AIA and the definition of "technological invention" and would respectfully urge the Office to adopt factors that better reflect Congress's intent with regard to this provision, we would be remiss if we did not also acknowledge that our disagreement with the Office's proposed approach here is the exception, not the rule. In closing, we would like to reiterate our appreciation for the constructive, transparent and evenhanded manner in which the Office has conducted its implementation efforts and emphasize our general agreement with and support for the bulk of the implementing regulations proposed to date.

Respectfully Submitted on behalf of MICROSOFT CORPORATION,

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