



## Testimony

Before the Subcommittee on Courts,  
Intellectual Property and the Internet,  
Committee on the Judiciary, House of  
Representatives

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For Release on Delivery  
Expected at 2:00 p.m. EST  
Tuesday, March 20, 2018

# U.S. PATENT AND TRADEMARK OFFICE

## Observations on the Covered Business Method Patent Review Program

Statement of John Neumann, Director,  
Natural Resources and Environment

Accessible Version

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Chairman Issa, Ranking Member Johnson, and Members of the Subcommittee:

I am pleased to be here today to discuss our recent report on the Patent Trial and Appeal Board's Transitional Program for Covered Business Method Patents (CBM program).<sup>1</sup>

As you know, to promote the progress of science and the useful arts, inventors are granted exclusive rights to their inventions—in the form of patents—for a limited time. Patent owners can bring infringement lawsuits against anyone who uses, makes, sells, offers to sell, or imports a patented invention without authorization. By restricting competition, patents allow their owners to earn greater profits on inventions than if the inventions could be freely imitated. In the late 2000s, however, legal commentators, technology companies, and others began raising questions about whether the patent system was working well to promote innovation. By law, before granting a patent, the U.S. Patent and Trademark Office (USPTO) must determine whether a patent application meets patentability requirements for subject matter, novelty, non-obviousness, and clarity and specificity.<sup>2</sup> Questions were raised about an increase in the number of patents granted that did not meet these requirements and about the increase in patent infringement litigation, especially in the software and technology sectors. As we have previously reported, patent infringement lawsuits can take years and cost several million dollars.<sup>3</sup>

In 2011, Congress passed the Leahy-Smith America Invents Act (AIA),<sup>4</sup> which authorized three administrative proceedings for challenging a

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<sup>1</sup>GAO, *U.S. Patent and Trademark Office: Assessment of the Covered Business Method Patent Review Program*, [GAO-18-320](#) (Washington, D.C.: Mar. 12, 2018).

<sup>2</sup>35 U.S.C. §§ 101, 102, 103 112(a), 131. A patent application that is unclear or overly broad, for example, could be denied a patent under section 112(a) of title 35 of the United States Code.

<sup>3</sup>GAO, *Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality*, GAO-13-465 (Washington, D.C.: Aug. 22, 2013). Bringing a patent infringement lawsuit can also be costly but is generally less costly than defending one. In civil lawsuits, the parties must exchange certain information relevant to the litigation, a process known as discovery. Discovery costs in complex litigation, including patent infringement litigation, can run into the millions of dollars. In many cases, patent owners have less information to disclose and thus have lower discovery costs.

<sup>4</sup>Pub. L. No. 112-29, 125 Stat 284 (2011).

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patent's validity, including the CBM program.<sup>5</sup> A "covered" business method 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. The CBM program provides entities facing infringement lawsuits an opportunity to challenge a patent's validity before administrative patent judges at USPTO's board. As reported by the House of Representatives Committee on the Judiciary, the program is intended to provide a more efficient and less costly alternative to district court for deciding patent validity. The CBM program began in September 2012 and is slated to sunset in September 2020.

My testimony today summarizes the findings and recommendation from our report.<sup>6</sup> Accordingly, this testimony addresses

1. the extent to which the CBM program has been used to challenge patents and the results of those challenges,
2. the extent to which USPTO ensures timeliness of trial decisions, reviews decisions for consistency, and engages with stakeholders to improve its administrative proceedings for the program, and
3. stakeholder views on the effects of the CBM program and whether it should be extended past its scheduled September 2020 sunset date.

To conduct this work, we obtained and analyzed data on board proceedings from September 2012 through September 2017,<sup>7</sup> reviewed the AIA and USPTO documents, and interviewed USPTO officials. We also assessed USPTO's efforts to review decisions for consistency against federal standards for internal control and USPTO's current strategic plan, and we interviewed a nongeneralizable sample of 38 stakeholders knowledgeable about the CBM program, who provided a broad spectrum of opinions on the CBM program.<sup>8</sup> Additional information

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<sup>5</sup>The other board proceedings are the *inter partes* review program and the post-grant review program.

<sup>6</sup>[GAO-18-320](#).

<sup>7</sup>We tested the quality of the data, interviewed relevant officials, and reviewed relevant documentation for the data and found the data to be sufficiently reliable to describe board petitions and their outcomes.

<sup>8</sup>Stakeholders were selected from the following sets of stakeholder groups: board petitioners and patent owners; attorneys in board proceedings; technology trade groups; public interest groups; legal and academic commentators; and venture capitalists.

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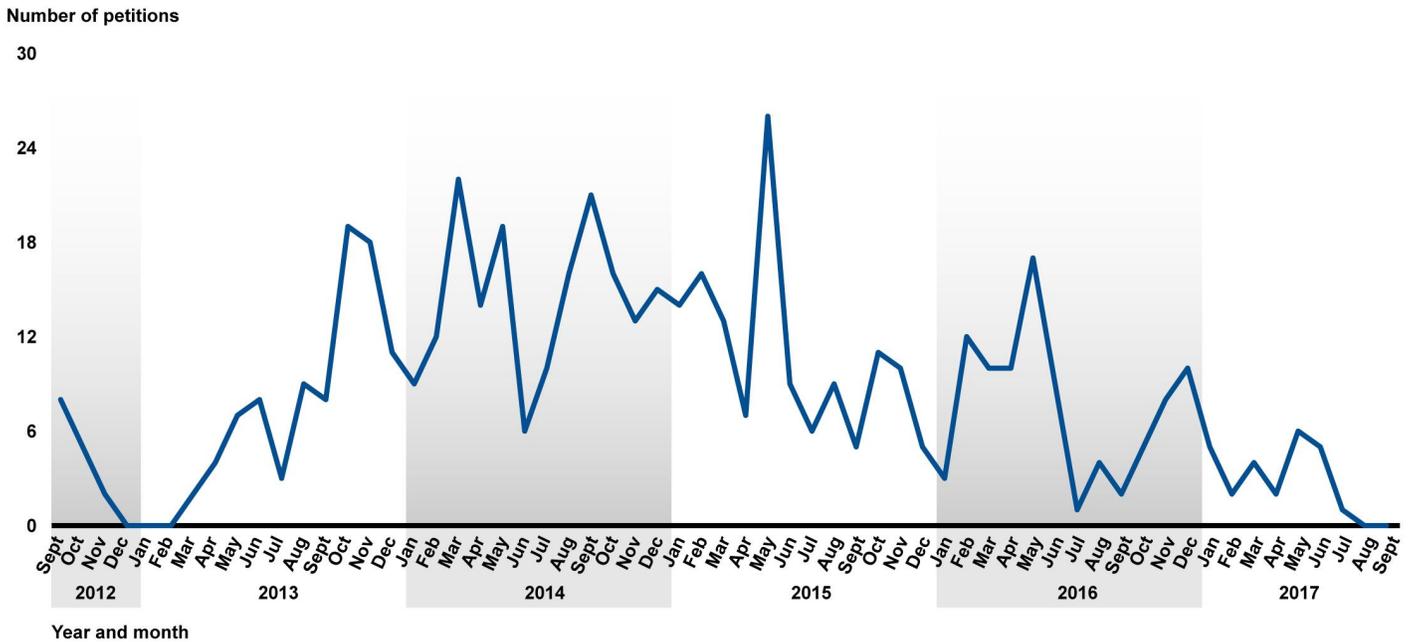
on our scope and methodology is available in our report. The work on which this testimony is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## More Than 350 Patents Have Been Challenged under the CBM Program, and About One-Third of These Patents Were Ruled Unpatentable

We found in our March 2018 report that, from September 2012 through September 2017, parties accused of patent infringement filed 524 petitions with the Patent Trial and Appeal Board challenging the validity of 359 distinct patents under the CBM program, resulting in rulings against about one-third of these patents. The average monthly number of CBM petitions fluctuated during this period and tapered off over time (see fig. 1). Specifically, during this 5-year period, an average of more than 9 petitions per month were filed under the CBM program, but this average rate declined to fewer than 5 per month in the last fiscal year, with no petitions filed in August or September 2017.

**Figure 1: Number of Petitions Filed for Review under the Covered Business Method Program per Month, September 2012 through September 2017**



Source: GAO analysis of RPX data. | GAO-18-451T

**Data Table for Figure 1: Number of Petitions Filed for Review under the Covered Business Method Program per Month, September 2012 through September 2017**

Month	Year/month	CBM petitions
9	2012/09	8
10	2012/10	5
11	2012/11	2
12	2012/12	0
1	2013/01	0
2	2013/02	0
3	2013/03	2
4	2013/04	4
5	2013/05	7
6	2013/06	8
7	2013/07	3
8	2013/08	9
9	2013/09	8
10	2013/10	19
11	2013/11	18

12	2013/12	11
1	2014/01	9
2	2014/02	12
3	2014/03	22
4	2014/04	14
5	2014/05	19
6	2014/06	6
7	2014/07	10
8	2014/08	16
9	2014/09	21
10	2014/10	16
11	2014/11	13
12	2014/12	15
1	2015/01	14
2	2015/02	16
3	2015/03	13
4	2015/04	7
5	2015/05	26
6	2015/06	9
7	2015/07	6
8	2015/08	9
9	2015/09	5
10	2015/10	11
11	2015/11	10
12	2015/12	5
1	2016/01	3
2	2016/02	12
3	2016/03	10
4	2016/04	10
5	2016/05	17
6	2016/06	9
7	2016/07	1
8	2016/08	4
9	2016/09	2
10	2016/10	5
11	2016/11	8
12	2016/12	10
1	2017/01	5

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2	2017/02	2
3	2017/03	4
4	2017/04	2
5	2017/05	6
6	2017/06	5
7	2017/07	1
8	2017/08	0
9	2017/09	0

Stakeholders we interviewed suggested several possible reasons for the decline in CBM petitions, including recent decisions from the U.S. Court of Appeals for the Federal Circuit and U.S. Supreme Court that clarified which patents are eligible for CBM review;<sup>9</sup> that CBM petitioners successfully targeted the lowest-quality business method patents—patents that should not have been issued because they did not meet the patentability requirements—in the early years of the program, and now those patents have been eliminated; and that owners of business method patents are more wary of asserting their intellectual property through infringement lawsuits and risking its invalidation.

Some stakeholders expressed concern about multiple petitions being filed against the same patent. Specifically, stakeholders have suggested that petitioners are, in some cases, using the CBM program and the *inter partes* review program as tools to increase costs borne by patent owners,<sup>10</sup> and in the case of the CBM program, as a tool to delay district court proceedings. In addition, some stakeholders asserted that this manner of use of the administrative proceedings authorized by the AIA amounts to harassment. However, our analysis of petition data showed that the vast majority of patents challenged under the CBM program were challenged once or twice. Stakeholders we interviewed outlined several reasons why petitioners may file more than one petition against a single patent. For example, the board limits the number of pages that a petitioner may use to submit prior art and arguments for invalidity and therefore some petitioners might file more than one petition so they can present all of their art and arguments at once.

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<sup>9</sup>See, for example, *Unwired Planet, LLC v. Google Inc.*, 841 F. 3d 1376 (2016) and *Secure Access, LLC v. PNC Bank Nat'l Assoc.*, 848 F. 3d 1370 (2017).

<sup>10</sup>The *inter partes* review program is a separate board proceeding for challenging patents. Under the program, any patent can be challenged for non-novelty or obviousness at any point during the life of the patent. For more detail on the differences between the proceedings, see [GAO-18-320](#).

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Overall, through September 2017, the Patent Trial and Appeal Board had completed reviews of 329 of the 359 patents challenged under the program, and for about one-third of these patents the board ruled at least some challenged patent claims unpatentable. Data on petition outcomes are open to different interpretations depending on how they are presented. For example, under the CBM program, board judges ruled some or all of the patent claims considered at trial unpatentable in 96.7 percent of the petitions for which they issued a final written decision from September 2012 through September 2017. On the basis of this statistic, the board could seem to invalidate the majority of the patents it reviews, as noted by some stakeholders. However, this outcome is predictable given the criteria for accepting, or instituting, a CBM trial—a judge panel will institute a petition to the trial phase if it is “more likely than not” that at least one of the claims challenged in a petition is unpatentable—which tips outcomes for instituted petitions toward rulings of unpatentability. In addition, board judges do not issue final written decisions for all petitions that enter the trial phase because the parties often reach a settlement before the final written decision. When taking into account all of the CBM petitions that had an outcome as of September 30, 2017, board judges ruled some or all of the claims considered at trial unpatentable in 35.6 percent of the cases.

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## The Board Met Timeliness Requirements and Took Steps to Analyze Decisions and Improve Proceedings but Does Not Have Guidance to Ensure Decision Consistency

We found in our March 2018 report that the Patent Trial and Appeal Board has completed all trials under AIA-authorized proceedings within statutorily directed time frames,<sup>11</sup> according to board data, and the board has taken steps to review issues that could affect the consistency of its trial proceedings and decisions and to engage with stakeholders to improve its proceedings. Board officials we interviewed told us the timeliness of decisions to institute a trial and of final written decisions has

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<sup>11</sup>Under statute and regulation, the full review process at the Patent Trial and Appeal Board for any of the three proceedings generally takes up to 18 months and comprises two phases: (1) the petition phase, which lasts up to 6 months, and (2) the trial phase, which generally lasts up to 12 months.

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not been a concern in the 5 years that the board has operated. According to board officials, as of November 2017, two AIA trials—one under the *inter partes* review program and one under the CBM program—have been extended, for good cause, past the typical 1-year time limit between the institution decision and the final written decision, as allowed by statute.

The Patent Trial and Appeal Board has decision review processes that help ensure trial decisions are reviewed as appropriate, but the board cannot ensure the consistency of its trial decisions because it does not have guidance for reviewing the decisions or the processes that lead to them. For trials still in progress, board officials told us there are several ways management gets involved in reviews—including reviews of ongoing trials if and when a paneled judge raises any issue deserving of management attention. Such issues are brought to the attention of the chief judge or other members of the board’s management team and are acted upon at their discretion. Board officials also told us that a separate internal review process has evolved over time, whereby a small group of board judges, in consultation with board management, seeks to ensure decision quality and consistency by reading a large number of draft AIA trial decisions and giving feedback or suggestions to authoring judges prior to issuance. In addition, the board reviews any AIA trial decisions that are appealed to the U.S. Court of Appeals for the Federal Circuit and the appeals court subsequently reverses or remands. Finally, board officials told us that the board has begun to increase the number of trial decisions considered for precedential and informative designations as part of its efforts to ensure the consistency of trial decisions.<sup>12</sup>

Taken together, the board’s review processes help ensure that board trial decisions are reviewed in some manner. However, because the board does not have documented procedures for how to review decisions for consistency, the board cannot fully ensure the consistency of the decisions or the processes that lead to them. Under federal standards for internal control, management should design control activities to achieve objectives and respond to risks. Such control activities include clearly

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<sup>12</sup>Under its Standard Operating Procedures, Patent Trial and Appeal Board decisions can be designated as “representative”, “informative,” or “precedential.” Representative decisions typically provide a representative sample of outcomes on a particular matter; they are not binding authority. Informative decisions provide norms on recurring issues, guidance on issues of first impression, and guidance on the board’s rules and practices; they are not binding authority. Precedential decisions are binding authority and emphasize decisions that resolve conflicts or address novel questions.

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documenting internal control in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals. We recommended that the Director of USPTO develop guidance, such as documented procedures, for judges reviewing the Patent Trial and Appeal Board's decisions and the processes that lead to the decisions. USPTO agreed with our recommendation and stated that it has begun taking actions to address it.

In addition, to improve various aspects of its trial proceedings, the board has taken several steps to engage with stakeholders. USPTO's strategic plan states that the board should expand outreach to stakeholders by providing opportunities for interaction and updates on board operations and other important issues. The board has done so through several types of public outreach efforts, including participating in roundtables, webinars, and judicial conferences, among other activities. The board has made several changes to policies and procedures based on stakeholder feedback gathered through these mechanisms.

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## Stakeholders Agree the CBM Program Has Reduced Litigation, and Many See Value in Maintaining Aspects of the Program

Stakeholders we interviewed for our March 2018 report generally agreed the CBM program has reduced litigation involving business method patents because the CBM program allows these patents to be more easily challenged than in district courts, and many stakeholders said there is value in maintaining some aspects of the program. Stakeholders told us that fewer business method patent lawsuits are filed and that existing lawsuits are often dropped after patents have been through the CBM program. However, stakeholders also noted that the Supreme Court's 2014 decision in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l* has contributed to the reduced number of business method patent lawsuits.<sup>13</sup> Stakeholders

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<sup>13</sup>Patents that are eligible for review under the CBM program must be non-technological in nature and, according to stakeholders, these have often been computer-implemented inventions that are invalid under *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 189 L.Ed. 2d 296 (2014), in which the Supreme Court found that merely requiring generic computer implementation of an idea fails to transform that abstract idea into a patentable invention.

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told us that the CBM program has made it riskier to assert business method patents because, compared with district court, the program offers a cheaper and more efficient way for alleged infringers to challenge a patent's validity. In addition, according to stakeholders, patent owners are more focused on asserting business method patents that are higher quality and less vulnerable to challenge either under the CBM program or based on the Supreme Court's decision in *Alice*; these are patents that describe a technological invention that is not abstract and implemented on a generic computer.

Stakeholders we interviewed generally agreed the effects of the CBM program on innovation and investment have been minimal or mostly positive. More specifically, stakeholders told us that the CBM program is good for overall innovation and investment in financial technologies in that the program eliminates overly broad (non-specific), low-quality patents. Stakeholders told us they believe the existence and assertion of overly broad patents is bad for innovation, in part because defending against alleged infringement is expensive and time-consuming, even under the CBM program. Assertion of overly broad, unclear, or otherwise low-quality patents acts much like a tax on investment, according to stakeholders. Stakeholders also told us that removing such patents from the marketplace promotes innovation because it prevents these patents from blocking new innovation. According to stakeholders, innovation is represented by the quality of the patents issued rather than the quantity. A large number of patents in a technology space, according to stakeholders, can make it difficult to innovate within that crowded space.

Most stakeholders told us there was value in maintaining aspects of the CBM program, including the ability to challenge patents at the Patent Trial and Appeal Board on all four patentability requirements—subject matter; novelty; non-obviousness; and clarity and specificity. Stakeholders we interviewed pointed to inconsistencies in how federal courts interpret subject matter eligibility and clarity requirements, in particular. Stakeholders said that the federal courts and jurors do not necessarily have the expertise to interpret requirements for subject matter eligibility and clarity, and that the technically trained Patent Trial and Appeal Board judges were better suited to make patentability determinations on these grounds.

Stakeholders generally agreed that the ability to challenge a patent's validity on subject matter eligibility grounds remains important, although there was not broad agreement among stakeholders regarding how far that ability should extend beyond business method patents. Some

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stakeholders said subject matter eligibility challenges were important for a wider scope of patents than just business methods because concerns about subject matter eligibility that apply to business method patents extend to software-related patents in general. Similarly, stakeholders told us that patent clarity problems exist beyond business method patents.

Chairman Issa, Ranking Member Johnson, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

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## GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this statement, please contact John Neumann, Director, Natural Resources and Environment at (202) 512-3841 or [neumannj@gao.gov](mailto:neumannj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Rob Marek (Assistant Director), Michael Krafve, and Cynthia Norris. Additional staff who made key contributions to the report cited in this testimony are identified in the source product.

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