



PATENT REFORM LAW CONTAINS KEY PROVISION WHICH BENEFITS BANKING COMMUNITY

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One of the first orders of business Congress undertook after returning to session this fall was to pass a comprehensive new reform of the patent system. Dubbed the “America Invents Act,” the new law, signed by President Obama on September 16, 2011, makes sweeping changes to the patent system that have been haggled and negotiated for more than a decade. The core change to the U.S. patent system in this new law is from a “first to invent” system to a “first to file” system. This modification will grant a patent to the first applicant rather than the first person to invent the patented thing.

The major provision of the Act that has significant impact for financial institutions is Section 18, which creates a post-grant review procedure within the United States Patent and Trademark Office (“USPTO”) for certain business method patents, known as “Transitional Review.” The Transitional Review is intended for “post-grant” review of patents, which means it provides a tool for banks that have been sued in a patent infringement lawsuit to challenge the patent alleged by the plaintiff to have been infringed. Another facet to Section 18 is that it only allows post-grant Transitional Review of “covered business method patents,” which the Act currently defines 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...” Therefore, the new review process only focuses on business method patents that relate to the financial services industry. At first glance this would appear to be a negative for the financial services industry. A bit of background may be necessary to understand the history of Section 18.

Although Section 18 appears to permit challenges to financial services related patents and, therefore, may not appear to be in the best interests of banks and the banking community, the opposite is true. Opportunist business interests with cadres of plaintiff’s attorneys and financial resources have patented business processes that the banking community argues are ordinary and have been in existence for years. Nonetheless, the owner of these business method patents can sue banks for patent infringement if they do not now pay a royalty fee or cease using the patented processes. The primary example of such business practice is a company which owns (among others) a business method patent for the process of scanning checks to a digital database. Through this patent, and a few others, such company has extracted more than \$600 million in litigation settlements and licensing fees from banks.

The America Invents Act, while creating a major overhaul on the patent system in the United States, has also handed out a powerful benefit intended to help the financial services industry to defend against patent litigation. Now, if a bank is sued for infringing a business method patent, a defense exists which enables them to have the underlying patent invalidated entirely. Banks should keep this new legal defense in mind in case the need to use it arises. If you have any additional questions, please do not hesitate to contact Evan C. Pappas, Esquire (pappas@shumakerwilliams.com) or Keith A. Clark, Esquire (clark@shumakerwilliams.com).

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