

NO. 19-1018

**IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

BOZEMAN FINANCIAL, LLC,

Appellant,

v.

FEDERAL RESERVE BANK OF ATLANTA, FEDERAL RESERVE
BANK OF BOSTON, FEDERAL RESERVE BANK OF CHICAGO,
FEDERAL RESERVE BANK OF CLEVELAND, FEDERAL RESERVE
BANK OF DALLAS, FEDERAL RESERVE BANK OF KANSAS CITY,
FEDERAL RESERVE BANK OF MINNEAPOLIS, FEDERAL RESERVE
BANK OF NEW YORK, FEDERAL RESERVE BANK OF
PHILADELPHIA, FEDERAL RESERVE BANK OF RICHMOND,
FEDERAL RESERVE BANK OF SAN FRANCISCO, FEDERAL
RESERVE BANK OF ST. LOUIS,

Appellees.

Appeal from the United States Patent Trial and Appeal Board,
Case Nos. CBM2017-00035 and CBM2017-00036

**BOZEMAN FINANCIAL, LLC'S
PETITION FOR REHEARING EN BANC**

Scott E. Gant
BOIES SCHILLER FLEXNER LLP
1401 New York Avenue, NW
Washington, DC 20005
202-237-2727
sgant@bsflp.com

Counsel for Appellant Bozeman Financial, LLC

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Bozeman Financial, LLC

v. FEDERAL RESERVE BANK
OF ATLANTA ET AL.

No. 19-1018

CERTIFICATE OF INTEREST

Counsel for the Appellant Bozeman Financial, LLC certifies the following
(use “None” if applicable; use extra sheets if necessary):

1. The full name of every party or amicus represented by me is:

Bozeman Financial, LLC.

2. The name of the real party in interest (please only include any real party in interest not identified in Question 3) represented by me is: None.

3. Parent corporations and publicly held companies that own 10 percent or more of stock the party: None.

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court (and who have not or will not enter an appearance in this case) are:

- MAIORINO LAW GROUP LLC: Thomas Maiorino; and
- FERENCE & ASSOCIATES LLP: John W. Goldschmidt, Jr.

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by

this court's decision in the pending appeal. See Fed. Cir. R. 47.4(a)(5) and 47.5(b): Companion Case 19-1020 ; Bozeman Financial LLC v Federal Reserve Bank.

Dated: October 18, 2018

/s/ Thomas Maiorino

Thomas Maiorino
MAIORINO LAW GROUP LLC
224 Amberfield Dr
Mt Laurel, NJ 08054
Telephone: 609-760-7360
Fax: 267-750-7360
tmaiorinolaw@comcast.net

Cc; Counsel of Record

TABLE OF CONTENTS

RULE 35(b) STATEMENT.....	vii
INTRODUCTION	1
BACKGROUND.....	2
ARGUMENT FOR REHEARING <i>EN BANC</i>	3
I. The Panel’s Holding That The Banks Are “Persons” Because They Are “Distinct” From The Government “For Purposes of the AIA” Is Both Wrong And Important	3
A. The Banks Are Part of the Federal Government.....	4
1. The Banks Were Created To Further Governmental Purposes	6
2. The Banks Are Subject to Government Control	9
B. The Panel’s Problematic Test Does Not Effectively Identify Governmental Entities.....	12
II. The Panel’s Decision Has Implications Beyond The Federal Reserve Banks.....	18
CONCLUSION	19

TABLE OF AUTHORITIES

Cases

<i>Advanced Software Design Corp. v. Fed. Reserve Bank of St. Louis</i> , 583 F.3d 1371 (Fed. Cir. 2009)	14
<i>Am. Bankers Assoc. v. United States</i> , 932 F.3d 1375 (Fed. Cir. 2019)	7, 10-11
<i>Becker v. Gallaudet Univ.</i> , 66 F. Supp. 2d 16 (D.D.C. 1999)	10
<i>Berini v. Fed. Reserve Bank of St. Louis, Eighth Dist.</i> , 420 F. Supp. 2d 1021 (E.D. Mo. 2005).....	5
<i>Cherry Cotton Mills v. United States</i> , 327 U.S. 536 (1946)	13
<i>Davis v. Mich. Dep’t of Treasury</i> , 489 U.S. 803 (1989)	12
<i>Dep’t of Transp. v. Assoc. of Am. R.R.</i> , 575 U.S. 43 (2015)	13
<i>FDIC v. Meyer</i> , 510 U.S. 471 (1994)	14
<i>Fed. Reserve Bank of Bos. v. Comm’r of Corps. & Taxation of Com. of Mass.</i> , 499 F.2d 60 (1st Cir. 1974)	1, 7, 12
<i>Fed. Reserve Bank of Bos. v. Stambler</i> , No. IPR-2013-409 (P.T.A.B. 2013).....	18
<i>Fed. Reserve Bank of St. Louis v. Metrocentre Improvement Dist. # 1</i> , 657 F.2d 183 (8th Cir. 1981).....	7

Fed. Reserve Bank of St. Louis v. Metrocentre Improvement Dist. # 1,
455 U.S. 995 (1982) 7

Freytag v. Comm’r,
501 U.S. 868 (1991) 16

Lebron v. Nat’l R.R. Passenger Corp.,
513 U.S. 374 (1995) 4, 5, 13

Lee Const. Co. v. Fed. Reserve Bank of Richmond,
558 F. Supp. 165 (D. Md. 1982) 10

Martin v. Occupational Safety & Health Review Comm’n,
499 U.S. 144 (1991) 17

Meridian Invs., Inc. v. Freddie Mac,
855 F.3d 573 (4th Cir. 2017) 5

Rainwater v. United States,
356 U.S. 590 (1958) 5, 14

Reconstruction Fin. Corp. v. J.G. Menihan Corp.,
312 U.S. 81 (1941) 14

Reiter v. Cooper,
507 U.S. 258 (1993) 15-16

Research Triangle Inst. v. Bd. of Governors of the Fed. Reserve Sys.,
132 F.3d 985 (4th Cir. 1997) 12

Return Mail, Inc. v. United States Postal Service,
139 S. Ct. 1853 (2019) *passim*

Starr Int’l Co., Inc. v. Fed. Reserve Bank of N.Y.,
742 F.3d 37 (2d Cir. 2014) 7

Starr Int’l Co. v. Fed. Reserve Bank of N.Y.,
906 F. Supp. 2d 202 (S.D.N.Y. 2012) 12

Taft v. Agric. Bank of China Ltd.,
 No. 15-CV-5321, 2016 WL 2766661 (S.D.N.Y. May 12, 2016) 7-8

Thacker v. TVA,
 139 S. Ct. 1435 (2019) 12

United States v. Hollingshead,
 672 F.2d 751 (9th Cir. 1982) 11, 17

United States v. Orleans,
 425 U.S. 807 (1976) 5

United States v. Wells Fargo & Co.,
 943 F.3d 588 (2d Cir. 2019) 11

Statutes

5 U.S.C. § 103 13

12 U.S.C. § 244..... 16

12 U.S.C. § 248(j) 17

12 U.S.C. § 248(k) 17

12 U.S.C. § 289(a)(3)(B)..... 17

12 U.S.C. § 341..... 12, 14

12 U.S.C. § 374a..... 7

12 U.S.C. § 391..... 2

12 U.S.C. § 483..... 7

12 U.S.C. § 531..... 12

12 U.S.C. § 635(a)(1)..... 15

12 U.S.C. § 1498(a) 15

12 U.S.C. § 1818(t)(5)(A) 16

12 U.S.C. § 1819(a) 15

12 U.S.C. § 5497(a)(1)..... 16

28 U.S.C. § 1498(a) 14

28 U.S.C. § 2401(a) 5

29 U.S.C. § 1302(b)(1)..... 15

31 U.S.C. § 714(a) 16

Rules

Fed. R. App. P. 35(a)(2) 18

Legislative and Administrative Materials

Kevin R. Kosar, Cong. Research Serv., RL30365, FEDERAL
GOVERNMENT CORPORATIONS: AN OVERVIEW (2011) 13

Gov’t Accountability Office, GAO-10-97, FEDERALLY CREATED
ENTITIES: AN OVERVIEW OF KEY ATTRIBUTES (2009) 18-19

S. Rep. No. 63-133 (1913) 7

Other Authorities

BD. OF GOVERNORS OF THE FED. RESERVE SYS., THE FEDERAL RESERVE SYSTEM: PURPOSES & FUNCTIONS (10th ed. 2016).....	6, 7, 8
PETER CONTI-BROWN, THE POWER AND INDEPENDENCE OF THE FEDERAL RESERVE (2016)	9-10
Neel Kashkari, <i>COVID-19 and the Minneapolis Fed: What we’re doing, how we’re working</i> , Fed. Reserve Bank of Minneapolis (Mar. 17, 2020), https://www.minneapolisfed.org/article/2020/covid-19-and-the-minneapolis-fed-what-were-doing-how-were-working	9
ALLAN H. MELTZER, A HISTORY OF THE FEDERAL RESERVE (VOLUME 1: 1913-1951) (2003)	6
ALLAN H. MELTZER, A HISTORY OF THE FEDERAL RESERVE (VOLUME 2, BOOK 2: 1970-1986) (2009).....	10
<i>New York Fed Actions Related to COVID-19</i> , Fed. Reserve Bank of N.Y., https://www.newyorkfed.org/markets/new-york-fed-actions-related-to-covid-19 (last visited Apr. 28, 2020).....	9

RULE 35(b) STATEMENT

Based on my professional judgment, this appeal requires an answer to a precedent-setting question of exceptional importance: how to determine, and whether, our nation’s regional Federal Reserve banks are part of the Federal Government, and thus do not qualify as “persons” under the America Invents Act (AIA) in light of *Return Mail, Inc. v. United States Postal Service*, 139 S. Ct. 1853, 1865 (2019) (the federal government “is not a ‘person’ who may petition for post-issuance review under the AIA”).

/s/ Scott E. Gant
Attorney of Record for
Bozeman Financial LLC

INTRODUCTION

In *Return Mail, Inc. v. United States Postal Service*, the Supreme Court held that the “Federal Government” is not a “person” under the America Invents Act—a term not defined in the Act. 139 S. Ct. 1853, 1861-62 (2019); *id.* at 1861 (“The patent statutes do not define the term ‘person.’”). The Panel in this case held that our nation’s regional Federal Reserve banks, the “operating arms” of the Federal Reserve System, are “persons” under the AIA because they are “distinct” from the Federal Government for purposes of the Act, even though “there may be circumstances where the structure of the Banks does not render them distinct from the government for purposes of statutes other than the AIA.” Doc. 70 (“Op.”); *cf. Fed. Reserve Bank of Bos. v. Comm’r of Corps. & Taxation of Com. of Mass.*, 499 F.2d 60, 62 (1st Cir. 1974) (“Their interests seem indistinguishable from those of the sovereign”). The Panel’s decision is wrong in both its approach and outcome. *En banc* review of this important precedential decision is warranted.

BACKGROUND

This appeal grows out of the Banks’ petition for CBM review of two patents relating to the detection of financial fraud owned by Bozeman. No. 19-1018 at JA 19. The Patent Trial and Appeal Board instituted proceedings and invalidated both patents. No. 19-1020 at JA 46 (concluding ’840 patent was directed at an abstract idea and lacked an inventive concept); No. 19-1018 at JA 41 (concluding ’640 patent-ineligible under § 101). Bozeman timely filed this appeal. Doc. 1.

In October 2018, with this appeal pending, the Supreme Court granted certiorari in *Return Mail* to decide “[w]hether the government is a ‘person’ who may petition to institute review proceedings under the AIA.” 139 S. Ct. 397 (2018). On December 13, 2018, Bozeman moved this Court to stay the appeal pending the Supreme Court’s consideration of *Return Mail* because a dispositive issue in the instant appeal was the “whether the Federal Reserve Banks (agents of the United States Treasury according to 12 U.S.C. § 391) are AIA-qualified persons.” Doc. 13. The Court denied Bozeman’s stay request. Doc. 17.

On June 10, 2019, the Supreme Court held in *Return Mail* that the federal government “is *not* a ‘person’ who may petition for post-

issuance review under the AIA.” 139 S. Ct. at 1867 (emphasis added). Soon thereafter Bozeman filed a motion for supplemental briefing to address the impact of *Return Mail* on this appeal, and the Court granted each party permission to file a ten-page supplemental brief. Doc. 55. The parties filed supplemental briefs in August 2019, Docs. 56, 57, and the Panel heard oral argument on November 6, 2019, Doc. 68.

On April 10, 2020, the Panel issued its decision. While acknowledging “there may be circumstances where the structure of the Banks does not render them distinct from the government,” Op. at 7, the Panel held that “the Banks are ‘persons’ capable of petitioning for post-issuance review under the AIA.” *Id.* The Panel entered judgment affirming the Board’s decision. Doc. 71.

ARGUMENT FOR REHEARING *EN BANC*

I. The Panel’s Holding That The Banks Are “Persons” Because They Are “Distinct” From The Government “For Purposes of the AIA” Is Both Wrong And Important

“The patent statutes do not define the term ‘person.’” *Return Mail*, 139 S. Ct. at 1861. In *Return Mail* this Court, and then the Supreme Court, was confronted with the question whether the government is a “person” that may request post-issuance review under

the AIA. Reversing a decision by this Court, the Supreme Court held that the federal government “is not a ‘person’ who may petition for post-issuance review under the AIA.” *Id.* at 1867. In reaching that holding, the Supreme Court invoked a “longstanding interpretive presumption” that the term “person” does not include the Federal Government. *Id.* at 1861-62.

In this case, the Panel appropriately acknowledged *Return Mail’s* determination that the government is not a “person” for purposes of the AIA (Op. at 5), but the Panel erred in both approach and outcome in concluding that the Banks are “persons” under the AIA.

A. The Banks Are Part of the Federal Government

The AIA is silent about whether the Banks are “persons” under the statute. The Panel filled this void by fashioning a formalistic test at odds with the Supreme Court’s functional approach in other cases, focusing on purpose and control to assess whether an entity is part of the federal government. *See, e.g., Lebron v. Nat’l R.R. Passenger Corp.*, 513 U.S. 374, 397-99 (1995) (corporation is “part of the Government” for constitutional purposes if created for governmental objectives and

operates under governmental direction and control);¹ *United States v. Orleans*, 425 U.S. 807, 815 (1976) (whether entity is part of the government for purposes of the Federal Tort Claims Act determined by analysis of whether its “day-to-day operations are supervised by the Federal Government”); *Rainwater v. United States*, 356 U.S. 590, 591-92 (1958) (engaging in functional analysis to determine that Commodity Credit Corporation was part of the Government for purposes of the False Claims Act); see also *Berini v. Fed. Reserve Bank of St. Louis, Eighth Dist.*, 420 F. Supp. 2d 1021, 1030 (E.D. Mo. 2005) (examining principles of federal control and supervision in determining that the Bank “is an instrumentality of the federal government, and, hence, its employee benefit plans are government plans which are exempt from coverage under ERISA”). The Panel also ignored numerous salient facts about the purposes and operation of the Federal Reserve System which make clear it is not “distinct” from the federal government.

¹ While the *Lebron* test was created to evaluate a constitutional question, courts have applied the principles of *Lebron* for statutory interpretation purposes. See *Meridian Invs., Inc. v. Freddie Mac*, 855 F.3d 573, 579 (4th Cir. 2017) (applying *Lebron* to Freddie Mac for statute-of-limitations purposes under 28 U.S.C. § 2401(a)).

1. The Banks Were Created To Further Governmental Purposes

The Banks perform a vital *public* function. The Federal Reserve System is the nation’s central bank, and the Banks “are the operating arms” of that System. BD. OF GOVERNORS OF THE FED. RESERVE SYS., THE FEDERAL RESERVE SYSTEM: PURPOSES & FUNCTIONS 12 (10th ed. 2016) (“PURPOSES & FUNCTIONS”). While “[t]he Federal Reserve began operations in 1914 as a peculiar hybrid, a partly public, partly private institution . . . [b]y 1951 the Federal Reserve System had become a central bank with its headquarters in Washington” and “[t]he **semiautonomous regional banks were now part of a unified system.**” ALLAN H. MELTZER, A HISTORY OF THE FEDERAL RESERVE (VOLUME 1: 1913-1951) 725-26 (2003) (emphasis added).

The Banks concede they perform a quintessential public function. As the Banks themselves argued in a related action, “the Federal Reserve Banks carry out the nationwide, operational responsibilities of the nation’s central bank and perform a myriad of important public functions designed to develop, implement and foster the monetary and fiscal policies of the United States.” Complaint ¶ 14, *Fed. Reserve Bank of Atlanta et al v. Bozeman Fin. LLC*, No. 17-CV-00389 (N.D. Ga. Feb. 1,

2017), ECF No. 1. Just last year, this Court noted that the Banks were intended to serve as “guardians of the public welfare”—in a case where the United States was the named defendant based on the actions of the Banks. *Am. Bankers Assoc. v. United States*, 932 F.3d 1375, 1384 (Fed. Cir. 2019) (quoting S. Rep. No. 63-133, at 10 (1913)).

These functions include serving as lenders of last resort and providing a variety of “key financial services that undergird the nation’s payment system.” PURPOSES & FUNCTIONS, *supra*, at 2. Courts have thus appropriately described the Banks as “conduct[ing] important governmental functions.” *See Starr Int’l Co., Inc. v. Fed. Reserve Bank of N.Y.*, 742 F.3d 37, 40 (2d Cir. 2014) (quoting *Fed. Reserve Bank of St. Louis v. Metrocentre Improvement Dist. # 1*, 657 F.2d 183, 185–86 (8th Cir. 1981), *aff’d mem.*, 455 U.S. 995 (1982)); *see also Fed. Reserve Bank of Bos.*, 499 F.2d at 62 (“Their interests seem indistinguishable from those of the sovereign”).

The Banks also exercise government functions as a supervisor and regulator of private financial institutions—and possess the legal authority to impose fines for violations of federal law. *See, e.g.*, 12 U.S.C. §§ 374a, 483; *Taft v. Agric. Bank of China Ltd.*, No. 15-CV-5321,

2016 WL 2766661, at *14 (S.D.N.Y. May 12, 2016) (Banks are “Federal supervisory agenc[ies]” under the Bank Secrecy Act). Specifically, the Banks supervise and examine state-chartered banks, bank and thrift holding companies, and nonbank financial institutions with systemic importance. PURPOSE & FUNCTIONS, *supra*, at 14. The Banks also enforce compliance with federal consumer protection and fair lending laws. *Id.* These are quintessential governmental responsibilities and powers.

The reality that the Banks are fundamentally public institutions is on full display during economic crises. For example, the Federal Reserve Bank of New York (“FRBNY”) described to this Court its efforts “to stabilize” failing insurance giant AIG during the Financial Crisis of 2008, including its “assistance in the form of the largest rescue loan in history, an \$85 billion credit facility.” Brief for FRBNY as Amicus Curiae Supporting Defendant-Cross-Appellant at 2, *Starr Int’l Co. v. United States*, 856 F.3d 953 (Fed. Cir. 2017) (No. 15-5103). Explaining its role, FRBNY made one point crystal clear: “There was no prospect of a private rescue; no private entity had the capacity to stabilize AIG” *Id.* Indeed, it took the government—including FRBNY—to

save AIG.

Similarly, the Banks are acting on behalf of the federal government during the current crisis to “achieve the goals Congress has assigned [them]: maximum employment and price stability” by taking “critical actions . . . to support our nation’s economy” during the COVID-19 pandemic. Neel Kashkari, *COVID-19 and the Minneapolis Fed: What we’re doing, how we’re working*, Fed. Reserve Bank of Minneapolis (Mar. 17, 2020), <https://www.minneapolisfed.org/article/2020/covid-19-and-the-minneapolis-fed-what-were-doing-how-were-working>; *see also* New York Fed Actions Related to COVID-19, Fed. Reserve Bank of N.Y. (“The New York Fed, as part of the Federal Reserve System, is . . . implementing monetary policy as directed by the” FOMC and “administering a number of Federal Reserve facilities that provide liquidity to a range of markets”), <https://www.newyorkfed.org/markets/new-york-fed-actions-related-to-covid-19> (last visited Apr. 28, 2020).

2. The Banks Are Subject To Government Control

The Banks are under the direction and ultimate control of federal governmental appointees—specifically, the Board of Governors of the Federal Reserve System. While the Banks “began their lives as private

corporations roughly dedicated to a public function,” PETER CONTI-BROWN, *THE POWER AND INDEPENDENCE OF THE FEDERAL RESERVE* 104 (2016), “[t]he Banking Acts of 1933 and especially 1935 greatly reduced Reserve bank autonomy, greatly reduced the role of the bank’s outside directors, and centralized control in Washington.” ALLAN H. MELTZER, *A HISTORY OF THE FEDERAL RESERVE (VOLUME 2, BOOK 2: 1970-1986)* 1218 (2009).

Indeed, “despite the ostensibly private ownership of Federal Reserve Banks and despite the private election of six of the nine members of the board of directors of each Bank, the affairs of each Federal Reserve Bank are conducted under the close supervision and *ultimate control* of the Board [of Governors], an independent federal regulatory agency.”² *Lee Const. Co. v. Fed. Reserve Bank of Richmond*, 558 F. Supp. 165, 177 (D. Md. 1982) (emphasis added); *see also Am. Bankers Assoc.*, 932 F.3d at 1386 (describing banks’ ownership of FRB

² Where Congress has subjected the decisions of “private” members of a corporate board to government control—as it has with the Banks—it is necessary to “examine the governing structure of the [corporation] from a functional perspective, as opposed to comparing the number of public and private members on the Board.” *Becker v. Gallaudet Univ.*, 66 F. Supp. 2d 16, 21 n.6 (D.D.C. 1999).

stock as mere “regulatory scheme”); *United States v. Hollingshead*, 672 F.2d 751, 754 (9th Cir. 1982) (“Further evidence of the federal character of the federal reserve banks is seen in the fact that the Federal Reserve Board exercises general supervision over the banks. Consequently, all federal reserve bank expenditures are subject to Federal Reserve Board approval and control.” (citation omitted)). Even in finding that the Federal Reserve Banks are not subject to the False Claims Act, the Second Circuit noted “Congress has transferred functional ownership and control of the FRBs to the Treasury and to the Board” of Governors, the officers of the Banks’ boards must be appointed by the Board, and selection of the Banks’ presidents is subject to Board approval. *United States v. Wells Fargo & Co.*, 943 F.3d 588, 597, 605 n.20 (2d Cir. 2019).

The Panel did not consider any specifics about the Board of Governors’ control over the Banks—confining itself to a curious remark about the government’s “limited control over the operation of the Banks.” Op. at 7. But the government’s control is anything but “limited.”³

³ The Banks invited the Panel to consider whether they are “distinct from the sovereign.” Doc. 57 at 2. They are not. Congress waived the

B. The Panel’s Problematic Test Does Not Effectively Identify Governmental Entities

The Panel’s conclusion that the Banks are “distinct” from the federal government flowed from an arbitrary, formalistic and misguided three-factor test of its own creation. Op. at 6-7. Applying this three-factor test, the Panel took as dispositive the following: first, that the Banks are “chartered corporate instrumentalities of the United States” instead of being “part of an executive agency,” Op. at 6; second, that “the Banks are subject to suit for patent infringement in any court,” *id.*; and, third, “[t]he Banks are not structured as government agencies,” *id.*

Banks’ sovereign immunity in enacting their organic statute. See *Starr Int’l Co. v. Fed. Reserve Bank of N.Y.*, 906 F. Supp. 2d 202, 247 n.35 (S.D.N.Y. 2012) (noting “statutory waiver of sovereign immunity for Federal Reserve Banks, codified at 12 U.S.C. § 341 (Fourth)"); *Research Triangle Inst. v. Bd. of Governors of the Fed. Reserve Sys.*, 132 F.3d 985, 989 (4th Cir. 1997) (same); see also *Thacker v. TVA*, 139 S. Ct. 1435, 1438 (2019) (without “sue and be sued” clause in TVA’s organic statute, “the TVA (as an entity of the Federal Government) would have enjoyed sovereign immunity from suit”). Similarly, the Banks enjoy immunity from state taxation **because they are part of the sovereign**. See 12 U.S.C. § 531 (waiving immunity only as to real estate taxes); *Fed. Reserve Bank of Bos.*, 499 F.2d at 63 (“[A] state tax affecting one of the twelve federal reserve banks calls directly into question the sovereign interest of the United States.”); see also *Davis v. Mich. Dep’t of Treasury*, 489 U.S. 803, 811 (1989) (“[I]ntergovernmental tax immunity bar[s] only those taxes that [are] imposed directly on one sovereign by the other or that discriminate[] against a sovereign or those with whom it deal[s].”).

at 7. None of the Panel’s adopted factors, individually or together, provide a reasonable basis for the Panel’s extraordinary and counterintuitive holding that the Banks are “distinct” from the federal government for purposes of the AIA.

1. The fact that an entity is organized as a corporation does not mean that it is “distinct” from the federal government. As the Supreme Court has explained, that label is not determinative: “That the Congress chose to call it a corporation does not alter its characteristics so as to make it something other than what it actually is, an agency selected by Government to accomplish purely Governmental purposes.” *Cherry Cotton Mills v. United States*, 327 U.S. 536, 539 (1946); *Lebron*, 513 U.S. at 393 (quoting *Cherry Cotton Mills*). In addition, Congress has created many government corporations. *See generally* 5 U.S.C. § 103 (defining “government corporation”); Kevin R. Kosar, Cong. Research Serv., RL30365, FEDERAL GOVERNMENT CORPORATIONS: AN OVERVIEW (2011). And the Supreme Court has made clear that a corporation can be part of the federal government. *See, e.g., Dep’t of Transp. v. Assoc. of Am. R.R.*, 575 U.S. 43, 55 (2015) (National Railroad Passenger Corporation, known as Amtrak, “is a governmental entity”);

FDIC v. Meyer, 510 U.S. 471, 486 (1994) (*Bivens* action could not lie against Federal Deposit Insurance Corporation because it was a federal agency); *Rainwater*, 356 U.S. at 592 (Commodity Credit Corporation is “part of the Government of the United States”); *Reconstruction Fin. Corp. v. J.G. Menihan Corp.*, 312 U.S. 81, 83 (1941) (Reconstruction Finance Corporation is a “corporate agency of the government” that “acts as a governmental agency in performing its functions”). The Panel provides no explanation why Congress’s decision to organize an agency as a corporation warrants differential treatment under the AIA.

2. The Panel is wrong to suggest the Banks should be deemed “persons” under the AIA because Congress permits them to sue and be sued for patent infringement in any court of law for a broad range of remedies.⁴ Op. at 6 (citing 12 U.S.C. § 341 (Fourth), which states that the Banks may “sue and be sued . . . in any court of law or equity”).

⁴ This Court has held that remedies against the Banks are limited by 28 U.S.C. § 1498(a) in at least some contexts. *Advanced Software Design Corp. v. Fed. Reserve Bank of St. Louis*, 583 F.3d 1371, 1378 (Fed. Cir. 2009). As the Panel noted, the *Advanced Software* Court “declined to resolve whether the Banks themselves are considered government agencies in a patent infringement suit,” Op. at 7 n.3, because neither party in that case contended the Banks were part of the government.

Most obviously, the Panel ignores that Congress permits many *government* entities to sue and be sued in any court of law. *E.g.* 12 U.S.C. §§ 1819(a) (Fourth) (FDIC may “sue and be sued . . . in any court of law or equity”), § 635(a)(1) (Export-Import Bank may sue and be sued in any court of competent jurisdiction); 29 U.S.C. § 1302(b)(1) (Pension Benefit Guarantee Corporation may “sue and be sued . . . in any court, State or Federal”).

The Panel also fails to consider that the patents at issue relate to activities supervised and directed by the Federal Reserve Board, which is unquestionably not a “person” under the AIA. Under the Panel’s view, the “operating arms” of the Federal Reserve System may avail themselves of post-issuance review before the PTAB while the other parts of that System, including the Board of Governors, may not. Nothing in the AIA supports that strange outcome. And it is a recipe for mischief: if the Banks can initiate post-issuance reviews, the Board of Governors may direct the Banks to do so—even though the Board is clearly not a “person” permitted to initiate those proceedings itself. The Panel’s decision is the kind of “odd result” courts must avoid when engaging in statutory interpretation. *Reiter v. Cooper*, 507 U.S. 258,

267 (1993).

3. The Panel wrongly bases its holding on the notion that the Banks are “not structured as government agencies.”

As a preliminary matter, the Panel ignores that some statutes define the Banks as “agencies.” *See, e.g.*, 31 U.S.C. § 714(a) (including “Federal reserve banks” in definition of “agency”); 12 U.S.C. § 1818(t)(5)(A) (describing a Federal Reserve Bank as a “Federal banking agency”); *see also Freytag v. Comm’r*, 501 U.S. 868, 887 n.4 (1991) (describing the Federal Reserve Bank as “one of the principal agencies” of the federal government).

In addition, the Panel relies on certain arbitrary facts to distinguish the Banks from the government when those same facts are also true of other entities that Congress unquestionably understands to be a part of the government. For example, the Panel notes that “[t]he Banks do not receive congressionally appropriated funds” and instead receive funding from the Board of Governors. *Op.* at 7 (citing 12 U.S.C. § 244). But the same is true of the Consumer Financial Protection Bureau, which is clearly part of the government. § 5497(a)(1). It is also a distinction without a difference, as the Banks are required to transfer

all “profits” to the Treasury, § 289(a)(3)(B), and may not expend any of their own money without approval from the Board of Governors. *Hollingshead*, 672 F.2d at 754 (citing § 248(j)).

Similarly, the Panel notes that “the Banks cannot promulgate regulations with the force of law,” Op. at 7, because § 248(k) provides that the Board of Governors may only delegate functions “other than those relating to rulemaking or pertaining principally to monetary and credit policies” to the Banks. But there are other governmental entities that lack authority to promulgate regulations with the force of law. *E.g.* *Martin v. Occupational Safety & Health Review Comm’n*, 499 U.S. 144, 154 (1991) (commission lacked rulemaking authority).

* * *

In sum, the Panel provides no principled basis to conclude that the three factors it considered, alone or together, are the appropriate test for evaluating the Banks’ governmental character under the AIA. Had the Panel employed a more appropriate test, it should have reached the conclusion that the Banks are not “persons” under the AIA. Indeed, even the Panel found that “there may be circumstances where the structure of the Banks does not render them distinct from the

government,” Op. at 7, but it reached the opposite conclusion with respect to the AIA without identifying anything in or about the AIA which justifies that result.

II. The Panel’s Decision Has Implications Beyond The Federal Reserve Banks

That the Panel’s decision “involves a question of exceptional importance,” Fed. R. App. P. 35(a)(2), is conceded by the Banks. Doc. 53 at 6 (“The question whether the Banks qualify as ‘person[s]’ is concededly an important one.”). In addition to this case, the Banks are, and will continue to be, involved in “multiple pending and future patent litigations.” Op. at 5. And the Banks have previously sought post-issuance review before the PTAB—see *Fed. Reserve Bank of Bos. v. Stambler*, No. IPR-2013-409 (P.T.A.B. 2013)—and presumably will in the future, emboldened by the Panel’s decision.

The Panel’s decision also has implications beyond the Banks and the AIA, notwithstanding the Panel’s attempt to portray its decision as “narrow” and “limited.” Op. at 5. There are hundreds of federally-created entities, including dozens of government corporations, whose status under the AIA may be affected by the Panel’s decision. Gov’t Accountability Office, GAO-10-97, *FEDERALLY CREATED ENTITIES: AN*

OVERVIEW OF KEY ATTRIBUTES (2009).

The Panel’s decision may also have repercussions beyond the AIA. In *Return Mail*, the Supreme Court confronted a statute that did not define the term “person.” Thus, out of necessity, the Court applied the longstanding presumption that the federal government is not a “person.” Here, the Panel held the Banks are “persons” under the AIA based on factors independent of the AIA, and almost entirely independent of patent law. The Panel’s decision is likely to be invoked in cases involving neither the Banks nor the AIA—making it all the more important that it be reconsidered by the *en banc* Court.

CONCLUSION

Bozeman respectfully submits that the panel decision should be reconsidered by the *en banc* Court.

Respectfully submitted,

/s/ Scott E. Gant

Scott E. Gant
BOIES SCHILLER FLEXNER LLP
1401 New York Avenue, NW
Washington, DC 20005
202-237-2727
sgant@bsflp.com

**CERTIFICATE OF COMPLIANCE WITH TYPE-VOLUME
LIMITATION, TYPEFACE REQUIREMENTS,
AND TYPE-STYLE REQUIREMENTS**

1. This petition complies with Federal Rule of Appellate Procedure 35(b)(2)(A) because it contains 3,899 words, as determined by the word-count function of Microsoft Word 2013, excluding the parts of the petition exempted by Federal Rule of Appellate Procedure 32(f), pursuant to Federal Rule of Appellate Procedure 32(c)(2);

and

2. This petition complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type-style requirements of Federal Rule of Appellate Procedure 32(a)(6), pursuant to Federal Rule of Appellate Procedure 32(c)(2), because this petition has been prepared in a proportionally spaced typeface using Microsoft Word 2013 in 14 point Century Schoolbook font.

Respectfully submitted,

/s/ Scott E. Gant

FED. CIR. R. 35(e)(2)(G) ADDENDUM

**United States Court of Appeals
for the Federal Circuit**

BOZEMAN FINANCIAL LLC,
Appellant

v.

**FEDERAL RESERVE BANK OF ATLANTA,
FEDERAL RESERVE BANK OF BOSTON,
FEDERAL RESERVE BANK OF CHICAGO,
FEDERAL RESERVE BANK OF CLEVELAND,
FEDERAL RESERVE BANK OF DALLAS, FEDERAL
RESERVE BANK OF KANSAS CITY, FEDERAL
RESERVE BANK OF MINNEAPOLIS, FEDERAL
RESERVE BANK OF NEW YORK, FEDERAL
RESERVE BANK OF PHILADELPHIA, FEDERAL
RESERVE BANK OF RICHMOND, FEDERAL
RESERVE BANK OF SAN FRANCISCO, FEDERAL
RESERVE BANK OF ST. LOUIS,**
Appellees

2019-1018

Appeal from the United States Patent and Trademark
Office, Patent Trial and Appeal Board in No. CBM2017-
00035.

BOZEMAN FINANCIAL LLC,
Appellant

v.

**FEDERAL RESERVE BANK OF ATLANTA,
FEDERAL RESERVE BANK OF BOSTON,
FEDERAL RESERVE BANK OF CHICAGO,
FEDERAL RESERVE BANK OF CLEVELAND,
FEDERAL RESERVE BANK OF DALLAS, FEDERAL
RESERVE BANK OF KANSAS CITY, FEDERAL
RESERVE BANK OF MINNEAPOLIS, FEDERAL
RESERVE BANK OF NEW YORK, FEDERAL
RESERVE BANK OF PHILADELPHIA, FEDERAL
RESERVE BANK OF RICHMOND, FEDERAL
RESERVE BANK OF SAN FRANCISCO, FEDERAL
RESERVE BANK OF ST. LOUIS,**
Appellees

2019-1020

Appeal from the United States Patent and Trademark
Office, Patent Trial and Appeal Board in No. CBM2017-
00036.

Decided: April 10, 2020

SCOTT E. GANT, ERIC J. MAURER, Boies, Schiller &
Flexner, LLP, Washington, DC, argued for appellant. Also
represented by THOMAS MAIORINO, Maiorino Law Group
LLC, Mt. Laurel, NJ; JOHN W. GOLDSCHMIDT, JR., Ference
& Associates LLC, Philadelphia, PA.

JEFFREY S. BUCHOLTZ, JOSHUA NATHANIEL MITCHELL,
King & Spalding LLP, Washington, DC, argued for

appellees. Also represented by NATASHA HORNE MOFFITT, Atlanta, GA.

Before LOURIE, DYK, and MOORE, *Circuit Judges*.

MOORE, *Circuit Judge*.

Bozeman Financial LLC appeals from the Patent Trial and Appeal Board’s covered business method (CBM) review decisions holding all of the claims of U.S. Patent Nos. 6,754,640 and 8,768,840 ineligible under 35 U.S.C. § 101.¹ On appeal, Bozeman challenges the Board’s authority to decide the petitions because it argues the Banks² are not “persons” under the America Invents Act (AIA). It further challenges the Board’s eligibility decisions. We have jurisdiction under 28 U.S.C. § 1295(a)(4)(A).

For the reasons set forth below, we hold that the Banks are “persons” who may petition for post-issuance review under the AIA. We further hold that claims 21–24 of the ’640 patent and 1–20 of the ’840 patent are ineligible under § 101. Accordingly, the Board’s decisions are affirmed.

I

Bozeman filed a supplemental brief arguing that the Banks are not “persons” under the AIA, and therefore they may not petition for post-issuance review under the AIA. Bozeman contends that the Banks are government entities,

¹ The Board also determined that claims 1–20, 25, and 26 of the ’640 patent are unpatentable under § 112, but Bozeman does not challenge that decision on appeal.

² The petitioners and now appellees are a set of Federal Reserve banks from Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, San Francisco, and St. Louis (the Banks).

which the Supreme Court held in *Return Mail, Inc. v. U.S. Postal Serv.*, are not “persons” under the AIA. 139 S. Ct. 1853 (2018). The Banks argue that Bozeman waived this argument by not raising it to the Board or in its opening brief. Additionally, they argue that *Return Mail* is inapplicable because the Banks are distinct from the United States government.

The general rule is “that a federal appellate court does not consider an issue not passed upon below.” *Singleton v. Wulff*, 428 U.S. 106, 120 (1976). We generally do not consider arguments not raised to the Board. *See In re Baxter*, 678 F.3d 1357, 1362 (Fed. Cir. 2012); *In re DBC*, 545 F.3d 1373 (Fed. Cir. 2008). We similarly consider arguments not raised in an appellant’s opening brief waived absent exceptional circumstances. *SmithKline Beecham Corp. v. Apotex Corp.*, 439 F.3d 1312, 1319 (Fed. Cir. 2006). There are circumstances where we will exercise our discretion to consider an issue despite its not being raised below or in an appellant’s opening brief, however. *See Interactive Gift Exp., Inc. v. Compuserve, Inc.*, 256 F.3d 1323, 1344–45 (Fed. Cir. 2001); *L.E.A. Dynatech, Inc. v. Allina*, 49 F.3d 1527, 1531 (Fed. Cir. 1995); *Cemex, S.A. v. United States*, 133 F.3d 897, 902 (Fed. Cir. 1998); *Becton Dickinson & Co. v. C.R. Bard, Inc.*, 922 F.2d 792, 800 (Fed. Cir. 1990). Here, we find that the circumstances warrant deviating from the general rule of waiver.

Whether the Banks are “persons” for purposes of the AIA is an issue of statutory interpretation, a purely legal question. Resolving this issue is limited to interpretation of provisions of the AIA that apply to the Board, an issue that would only be appealable to this court, even if addressed by the Board in the first instance. Patent law questions of this sort fall squarely within the role of this court to create a uniform body of patent law. Reaching the issue is unlikely to substantially prejudice the parties. Bozeman moved for supplemental briefing to address the Supreme Court’s decision in *Return Mail*, which the Banks opposed,

arguing that Bozeman forfeited its argument by not raising that argument in its opening brief. That motion was granted and the parties were given the opportunity to brief the issue. While resolution of this issue may not have a large impact (beyond this case) on pending post-issuance proceedings before the Board, it is pertinent to multiple pending and future patent litigations involving the Banks. Oral Arg. at 23:08–12. Because the issue is narrow and legal, and the parties are not prejudiced by our resolution, we exercise our discretion to reach the issue. We note that this decision is limited to the status of the Banks and does not prejudice other entities whose status as “persons” under the AIA may separately be questioned.

Turning to the merits, we hold that the Banks are “persons” under the AIA and the Board had authority to resolve the issues raised in their petitions. In *Return Mail*, the Supreme Court held that federal agencies are not “persons” able to seek post-issuance review of a patent under the AIA. 139 S. Ct. at 1858. The Court held that the government was not a “person,” such that it was capable of petitioning for any of the three post-issuance proceedings before the USPTO—*inter partes* review, post-grant review, and CBM review. The Banks argue that they are distinct from the government for purposes of the AIA, such that they are “persons” capable of bringing petitions for post-issuance review under the AIA. We agree.

Bozeman argues that the Banks are operating members of the nation’s Federal Reserve System, which is a federal agency, meaning they are government entities. According to Bozeman, the Banks implement the monetary and fiscal policies of the United States, conduct important governmental functions, and any profit generated by the Banks is transferred to the United States Treasury. *See* 12 U.S.C. § 289. For these reasons, Bozeman argues that the Banks are not private financial institutions, but are instead fundamentally public, government institutions whose equity interest remains with the United States.

The Banks respond that the Federal Reserve Banks are chartered corporate instrumentalities of the United States, which are distinct from the sovereign because they are not part of any executive agency or department. They argue that they are corporations that are not government-owned and are operationally distinct from the federal government. We agree that the Banks are “persons” and as such are capable of petitioning the USPTO.

The Federal Reserve Banks were established as chartered corporate instrumentalities of the United States under the Federal Reserve Act of 1913. *See* 12 U.S.C. § 221 *et seq.* Unlike the Postal Service, which was at issue in *Return Mail*, the Banks’s enabling statute does not establish them as part of an executive agency, but rather each bank is a “body corporate.” 12 U.S.C. § 341. Like any other private corporation, the Banks each have a board of directors to enact bylaws and to govern the business of banking. *Id.* Moreover, the Banks may sue or be sued in “any court of law or equity.” *Id.*

It is significant that the Banks are subject to suit for patent infringement in any court. The Supreme Court recognized that federal agencies face less risk for patent infringement than do private entities, and recognized that lessened risk as a reason for Congress to treat federal agencies differently. *Return Mail*, 139 S. Ct. at 1867. A patent owner’s remedy is limited when it sues the government rather than private entities.³ 28 U.S.C. § 1498(a). Patent

³ Although this court has held that § 1498(a) applied to the Banks in *Advanced Software Design Corp. v. Fed. Reserve Bank of St. Louis*, 583 F.3d 1371, 1378 (Fed. Cir. 2009), that decision arose in an unusual posture. The court held that the Banks’ acts of infringement were only “for the Government” because a government agency, the Treasury, had authorized and consented to the use of the infringing software. *Id.* at 1377–78. The court specifically declined

owners' ability to sue the Banks in any district court, and to seek remedies they would be prohibited from in a suit against the government, favors a finding that the Banks are separate from the government and Congress intended the Banks have access to post-issuance proceedings.

The Banks are not structured as government agencies. The Banks do not receive congressionally appropriated funds. 12 U.S.C. § 244. No Bank official is appointed by the President or any other Government official. 12 U.S.C. § 341. Moreover, the government exercises limited control over the operation of the Banks. Instead, the "direct supervision and control of each Bank is exercised by its board of directors." 12 U.S.C. § 301. And the Banks cannot promulgate regulations with the force of law. *Scott v. Fed. Reserve Bank*, 406 F.3d 532, 535 (8th Cir. 2005).

For these reasons, we conclude that the Banks are distinct from the government for purposes of the AIA. We recognize that there may be circumstances where the structure of the Banks does not render them distinct from the government for purposes of statutes other than the AIA. For purposes of the AIA, however, we conclude the Banks are "persons" capable of petitioning for post-issuance review under the AIA. The Board therefore had authority to decide the CBM petitions at issue here.

II

Having determined that the Board had the authority to resolve the petitions before it, we now turn to Board's determinations holding ineligible the claims of the '840 and '640 patents. The '840 and '640 patents are directed to methods for authorizing and clearing financial transactions to detect and prevent fraud. *See, e.g.*, '640 patent at

to resolve whether the Banks themselves are considered government agencies in a patent infringement suit. *Id.* at 1379.

Abstract. The '840 patent is a continuation of a divisional application, which was a continuation-in-part of the application that issued as the '640 patent. Claim 1 of the '840 patent is representative:

1. A computer implemented method for detecting fraud in financial transactions during a payment clearing process, said method comprising:

receiving through one of a payer bank and a third party, a first record of an electronic financial transaction from at least one of the following group: a payer, a point-of-sale terminal, an online account and a portable electronic device;

storing in a database accessible by each party to said payment clearing process of said electronic financial transaction, said first record of said electronic financial transaction, said first record comprising more than one parameter;

receiving at said database at least a second record of said electronic financial transaction from one or more of a payee bank and any other party to said payment clearing process as said transaction moves along said payment clearing process, wherein said second record comprises at least one parameter which is the same as said more than one parameter of said first record;

each of said first and second records received at said database comprise at least two of the same said more than one parameters;

determining by a computer when there is a match between at least two of said parameters of said second record of said first financial transaction received at said database and the same parameters of said first record of said financial transaction stored in said database, and wherein any party to said payment clearing process is capable of

verifying said parameters at each point along said financial transaction payment clearing process;

sending a notification to said payee bank participant with authorization to process said electronic financial transaction when said parameters match; and

sending a notification to said payee bank participant to not process said electronic financial transaction when said parameters do not match.

The Banks petitioned for CBM review of claims 1–26 of the '640 patent and claims 1–20 of the '840 patent. The Board determined that the '640 patent's claims are directed to the abstract idea of “collecting, displaying, and analyzing information to reconcile check information against a ledger.” No. 2019-1018 at J.A. 34. The Board further found that the claims do not contain an inventive concept to render them eligible under § 101. The Board noted, and rejected, Bozeman's attempt to incorporate by reference arguments related to the '840 patent's CBM rather than offer any argument in its Patent Owner Response. The Board also found that claims 1–20, 25, and 26 are unpatentable under § 112.

The Board determined that the '840 patent claims are directed to the abstract idea of “collecting and analyzing information for financial transaction fraud or error detection.” No. 2019-1020 at J.A. 33. The Board found that the claims do not contain an inventive concept to render them eligible under § 101. It found that the claims recite generic computer technology and that the claim elements considered individually and as an ordered combination merely “apply the abstract concept of collecting, storing, analyzing, and communicating information to reconcile financial information.” *Id.* at J.A. 47. The Board concluded that claims 1–20 of the '840 patent are ineligible under § 101.

Bozeman appeals the Board's decisions that the claims of the '640 and '840 patents are ineligible under § 101.⁴

A. Eligibility

The Banks argue that Bozeman waived any separate eligibility arguments related to the claims of the '640 patent. In its patent owner response, Bozeman's argument was limited to a single sentence incorporating by reference its eligibility arguments in the '840 patent CBM proceeding stating, "the '640 Patent would fall under the same Section 101 Patentability as the child parent, the '840." No. 19-1018 at J.A. 188. The Board found that Bozeman "offer[ed] no arguments in its Patent Owner Response" in the '640 patent CBM proceeding. *Id.* at J.A. 37. It also determined that Bozeman's attempt to incorporate by reference its arguments in the separate CBM proceeding violated the Board's rules. *Id.* (citing 37 C.F.R. § 42.6(a)(3)). The Board nevertheless viewed as applicable the reasoning it provided in the CBM related to the '840 patent and held ineligible the claims of the '640 patent. *Id.* at J.A. 38.

Bozeman's failure to separately argue the eligibility of the '640 patent claims before the Board precludes it from doing so for the first time on appeal. Bozeman concedes that the appeal is limited to the eligibility of claims 21–24 of the '640 patent. We limit our review to the only argument Bozeman made to the Board, that the '640 patent

⁴ At oral argument, Bozeman's counsel acknowledged that only the Board's ineligibility decisions as to claims 21–24 of the '640 patent are at issue on appeal. Oral Arg. at 17:55–18:13. Bozeman did not appeal the Board's decision that claims 1–20, 25, and 26 of the '640 patent were invalid under § 112. Thus, our review of the Board's ineligibility decision is limited to claims 21–24 of the '640 patent and claims 1–20 of the '840 patent.

claims are eligible for the same reasons as the '840 patent claims.

We review the Board's legal conclusions de novo and its factual findings for substantial evidence. *Samsung Elecs. Co. v. Elm 3DS Innovations, LLC*, 925 F.3d 1373, 1380 (Fed. Cir. 2019). Eligibility under § 101 is a question of law, based on underlying facts. *SAP Am., Inc. v. InvestPic, LLC*, 898 F.3d 1161, 1166 (Fed. Cir. 2018). Section 101 states that “[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.” 35 U.S.C. § 101. Abstract ideas are not patent eligible. *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 573 U.S. 208, 216 (2014). We apply the two-step framework set forth in *Alice* to determine patent-eligibility under § 101. *Id.* at 217. We first determine whether the claims are directed to a “patent-ineligible concept,” such as an abstract idea. *Id.* If so, we “consider the elements of each claim both individually and ‘as an ordered combination’ to determine whether the additional elements ‘transform the nature of the claim’ into a patent-eligible application.” *Id.* (quoting *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 78–79 (2012)).

1. *Alice* Step One

At step one, we determine whether the claims are directed to an abstract idea. *Alice*, 573 U.S. at 217. “[F]undamental economic practice[s] long prevalent in our system of commerce” are examples of abstract ideas, which are ineligible subject matter. *Bilski v. Kappos*, 561 U.S. 593, 611 (2010). The Board determined that the claims of the '840 patent are directed to the abstract idea of “collecting and analyzing information for financial transaction fraud or error detection.” No. 19-1020 at J.A. 33. We agree.

Claim 1 of the '840 patent claims a method of receiving data from two financial records, storing that data,

comparing that data, and displaying the results. As the specification explains, “[t]he present invention relates to a Universal Positive Pay Database method, system, and/or computer useable medium to reduce check fraud and verify checks, other financial instruments and documents.” ’840 patent at 1:22–25; *see id.* at 5:29–53. Verifying financial documents to reduce transactional fraud is a fundamental business practice that, without more, is not eligible for patent protection. The ’840 patent’s claimed method, which implements basic computer equipment to achieve this verification, is similar to methods we have held directed to abstract ideas. *See Credit Acceptance Corp. v. Westlake Servs.*, 859 F.3d 1044, 1054–56 (Fed. Cir. 2017); *Fairwarning IP, LLC v. Iatric Sys., Inc.*, 839 F.3d 1089, 1093 (Fed. Cir. 2016); *Content Extraction & Transmission LLC v. Wells Fargo Bank, National Assoc.*, 776 F.3d 1343 (Fed. Cir. 2014).

In *Credit Acceptance*, we held claims directed to “a system for maintaining a database of information about the items in a dealer’s inventory, obtaining financial information about a customer from a user, combining these two sources of information to create a financing package for each of the inventoried items, and presenting the financing packages to the user” were directed to an abstract idea. 859 F.3d at 1054. We explained that the claims there were directed to the abstract idea of processing an application for a financial purchase, which was not meaningfully distinct from the types of financial industry practices held ineligible by the Supreme Court. *Id.* (citing *Alice*, 134 S. Ct. at 2356; *Bilski*, 561 U.S. at 611). The claims here likewise obtain information from financial databases and present results of a comparison of those pieces of financial information.

Our recent decision in *Solutran, Inc. v. Elavon, Inc.* held claims like the claims of the ’840 patent ineligible. 931 F.3d 1161 (Fed. Cir. 2019). In *Solutran*, the claims recited a method for electronic check processing that involved,

among other things, receiving purchase data at a point of sale and comparing that information to the paper check to verify the accuracy of the transaction, and crediting a merchant's account while processing the check. *Id.* at 1166–67. We held that crediting a merchant's account as early as possible was a long-standing commercial practice, and that the claims directed to that commercial practice were directed to an abstract idea. *Id.* The '840 patent claims similarly recite a method of reducing check fraud by receiving financial transaction data from two sources including the point of sale and comparing that data to verify a transaction. And like the claimed subject matter in *Solutran*, verifying a transaction to avoid fraud, in particular check fraud, is a long-standing commercial practice. Moreover, the use of well-known computer components to collect, analyze, and present data, in this case to verify financial transactions, does not render these claims any less abstract. *See Elec. Power Grp., LLC v. Alstom S.A.*, 830 F.3d 1350, 1352 (Fed. Cir. 2016). We see no meaningful distinction between the claims of the '840 patent and our precedent that would lead us to conclude that these claims are not directed to an abstract idea.

Bozeman argues that the claimed method is a physical process that improves handling and processing of checks, not an abstract idea. It argues that because the process involves tangible steps, it cannot be an abstract idea, even if the claims additionally involve or include otherwise abstract concepts. As we explained in *Solutran*, “the physicality of the paper checks being processed and transported is not by itself enough to exempt the claims from being directed to an abstract idea” *Id.*; *see In re Marco Guldenaar Holding B.V.*, 911 F.3d 1157, 1161 (Fed. Cir. 2018) (“[T]he abstract idea exception does not turn solely on whether the claimed invention comprises physical versus mental steps.”). Moreover, recording or extracting data from physical documents, such as paper checks, is not alone sufficient to render claims not abstract. *Content Extraction*, 776 F.3d

at 1347. In *Content Extraction*, we explained that “data collection, recognition, and storage is undisputedly well-known. Indeed, humans have always performed these functions. And banks have, for some time, reviewed checks, recognized relevant data such as the amount, account number, and identity of account holder, and stored that information in their records.” *Id.* Despite the presence of physical documents from which data was collected, we held that the claims were directed to the abstract idea of “1) collecting data, 2) recognizing certain data within the collected data set, and 3) storing that recognized data in a memory.” *Id.* The claims of the ’840 patent, however, do not even limit the method steps to processing a physical check. These claims are directed to the abstract idea of collecting and analyzing information for financial transaction fraud or error detection.

2. *Alice* Step Two

At *Alice* step two, we “consider the elements of each claim individually and ‘as an ordered combination’ to determine whether the additional elements ‘transform the nature of the claim’ into a patent-eligible application.” *Alice*, 573 U.S. at 218 (quoting *Mayo*, 566 U.S. at 78–79). The Board determined that the ’840 patent claims do not contain an inventive concept sufficient to “transform the nature of the claims into patent-eligible applications of an abstract idea.” No. 19-1020 at J.A. 42. We agree that there is nothing additional in the claims of the ’840 patent that would render the claims patent-eligible.

The ’840 patent specification explains that methods for inhibiting check fraud and verifying financial transactions were well-known. *See* ’840 patent at 1:57–2:46. The specification further demonstrates that the technological components recited in claim 1 of the ’840 patent were conventional, off-the-shelf computer components. *Id.* at 9:30–47. As the Board found, “[n]othing in the claims, understood in light of the specification, appears to require

anything more than off-the-shelf, conventional computer, storage, network, and display technology for collecting the data related to financial transactions, and displaying the data to the users.” No. 19-1020 at J.A. 43. Indeed, Bozeman does not argue that the claimed computer components provide the inventive concept.

Bozeman instead argues that the ordered combination of the elements in claim 1 of the '840 patent is a specific implementation of an invention that was not routine or conventional. But Bozeman fails to identify what about the ordering of the steps in claim 1 provides an inventive concept. It argues that “the claim elements describe a new combination of steps, in an ordered sequence, that was never found before in the prior art and was found to be a non-obvious improvement over the prior art by the USPTO examiner.” No. 19-1020, Appellant’s Br. at 44. Bozeman does not provide any evidence to contradict the Board’s finding that, “the claims only recite a logical sequence of steps for receiving and storing information, analyzing that information, and sending a notification upon completion of that analysis.” No. 19-1020 at J.A. 46.

Bozeman further argues that the claims meet the machine-or-transformation test by transforming a paper check into financial data. “While the Supreme Court has explained that the machine-or-transformation test can provide a ‘useful clue’ in the second step of *Alice*, passing the test alone is insufficient” to satisfy step two. *Solutran*, 931 F.3d at 1169 (citing *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245, 1256 (Fed. Cir. 2014)). In any event, we do not agree that the claims of the '840 patent satisfy the machine-or-transformation test. As explained in *Solutran*, “[m]erely using a general-purpose computer and scanner to perform conventional activities in the way they always have, as the claims do here, does not amount to an inventive concept.” *Id.* (citing *Content Extraction*, 776 F.3d at 1348–49; *Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709, 716–17 (Fed. Cir. 2014)). Bozeman’s use of a digital-image

scanner to create a digital electronic record of a check, therefore, does not meet the machine-or-transformation test.

Based on the foregoing, we conclude that the claims of the '840 patent are directed to the abstract idea of “collecting and analyzing information for financial transaction fraud or error detection,” and the claims do not include an inventive concept that would otherwise render the claims eligible. The claims are therefore not directed to patent-eligible subject matter under § 101. As discussed, Bozeman has not preserved any eligibility arguments related to claims 21–24 of the '640 patent separate from the claims of the '840 patent. The Board’s holdings that claims 21–24 of the '640 patent and claims 1–20 of the '840 patent are ineligible are therefore affirmed.

III

We have considered Bozeman’s remaining arguments and find them unpersuasive. We hold that the Banks are “persons” who may petition for post-issuance review under the AIA. We further hold that claims 21–24 of the '640 patent and 1–20 of the '840 patent are ineligible under § 101.

AFFIRMED

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

CERTIFICATE OF SERVICE

I certify that I served a copy on counsel of record on April 30, 2020
by:

- U.S. Mail
- Fax
- Hand
- Electronic Means (by E-mail or CM/ECF)

Scott E. Gant

/s/ Scott E. Gant

Name of Counsel

Signature of Counsel

Law Firm	<u>Boies Schiller Flexner LLP</u>
Address	<u>1401 New York Avenue, NW</u>
City, State, Zip	<u>Washington, DC 20005</u>
Telephone Number	<u>202-237-2727</u>
Fax Number	<u>202-237-6131</u>
E-Mail Address	<u>sgant@bsflp.com</u>

NOTE: For attorneys filing documents electronically, the name of the filer under whose log-in and password a document is submitted must be preceded by an "/s/" and typed in the space where the signature would otherwise appear. Graphic and other electronic signatures are discouraged.

Reset Fields