

January 30, 2014

The Honorable Patrick Leahy
Chairman, Committee on the Judiciary
United States Senate
Washington, D.C. 20510

The Honorable Chuck Grassley
Ranking Member, Committee on the Judiciary
United States Senate
Washington, D.C. 20510

Dear Chairman Leahy and Ranking Member Grassley,

On behalf of industry groups, professional organizations, university associations, and leading companies in America's most innovative industries, including technology, communications, manufacturing, consumer products, energy, financial services, medical devices, software, pharmaceuticals, and biotechnology, we are writing to encourage you to not include measures to expand the "covered business method" (CBM) patent program as you move forward with patent reform legislation. Expanding the CBM program will hurt America's innovators – both small and large - and weaken America's competitive advantage around the world, at a time when we can least afford it.

Last month the House of Representatives passed The Innovation Act (HR 3309). When originally introduced, this legislation contained a provision expanding the CBM program. However, before markup in the Judiciary Committee, the provision was removed because it had become clear that maintaining the measure was creating a roadblock to passing any legislation. We believe the same is true in the Senate. Expanding the CBM program is not just ill-advised from a political standpoint, but from a policy perspective as well. It's worth recalling the auspices under which the CBM program was enacted.

Under Section 18 of the America Invents Act ("AIA"), transitional post-grant review proceedings for "covered business method patents" (CBM program) allow the USPTO to take a second look at a patent after that patent's grant or reissuance, in order to determine its validity. A "covered business method patent" is a business method patent that relates to a "financial product or service." Unlike regular post-grant review proceedings, which require that a proceeding must be requested no later than nine months from a patent's grant date or reissuance date, a request for a "covered business method patent" proceeding can be made at any time until September 16, 2020 – the date the transitional program is scheduled to sunset.

During Congressional consideration of the AIA, proponents of Section 18 argued that it was a necessary and temporary measure to review a very narrow class of financial-services-related patents. However, recently-introduced legislation proposes to make the transitional proceedings of Section 18 permanent and expand the definition of "covered business method patent" to include data processing patents used in any "enterprise, product, or service." This means that any party sued for or charged with infringement can *always* challenge an extremely broad range of patents at the USPTO. The request for a proceeding need not be related to financial products or services and can be submitted any

time over the life of the patent. This proposal would eviscerate the delicate balance that was struck with the other new post grant review programs in the AIA to ensure that patents would not be devalued by limiting serial challenges during the patent's life.

This would have far-reaching implications, because data processing is integral to everything from cutting-edge cancer therapies to safety systems that allow cars to respond to road conditions in real time to prevent crashes. Subjecting data processing patents to the CBM program would thus create uncertainty and risk that discourage investment in any number of fields where we should be trying to spur continued innovation.

The US patent system for more than 200 years has succeeded spectacularly in promoting "the progress of science and useful arts," as the Founders intended, in part because it has always provided the same incentives for all types of inventions. To expand and make permanent the CBM program would be to turn ill-advisedly and irrevocably in a new direction — discriminating against an entire class of technology innovation.

Supporters of expansion frequently argue that a less expensive alternative to litigation is needed to test the validity of patents covering areas other than financial services throughout their term. Unfortunately, this broad rhetoric ignores another key reform included in the AIA: the Inter Partes Review (IPR) process which is available to all patents, including the ones sought to be covered by expanded CBM, and which provides just such an alternative PTO review. While some have suggested that IPR leaves out certain other grounds for review, these other grounds typically involve witness testimony about prior use or sale events rather than the traditional published prior art. For long-issued and presumptively valid patents, such factfinding should in any event remain consigned to 12 jurors in a Federal district court rather than to three PTO administrative judges.

Moreover, expanding the CBM program could inadvertently undermine many valid patents by giving infringers a new procedural loophole to delay enforcement. Because of the way Section 18 works, infringers would be able to delay legitimate lawsuits they face in district court by initiating CBM proceedings at the PTO. This would buy time to gain market share on innovative, patent-holding competitors.

Expanding Section 18 will not only stymie innovation at home, but it could also impact the relationship of the United States with its trading partners. We have already received questions from our colleagues abroad regarding how this expansion could be justified as compatible with the obligation of the United States under the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS") to make patents "available and patent rights enjoyable without discrimination as to . . . the field of technology." Apart from this question, however, it is clear that if this discriminatory treatment of a select category of patents opposed by special interests in the United States were to be made a permanent feature of U.S. law, it would create a harmful precedent for our trading partners to enact exceptions in their laws to protect special interests in their countries. It would also significantly undermine the longstanding efforts of numerous U.S. government agencies to persuade some of our major trading partners to modify their laws to provide patent protection

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for important computer-implemented inventions and become compliant with their own obligations under the TRIPS Agreement.

As innovators, educators, researchers, developers and US employers, we hope Congress will not include the proposals related to expanding the CBM program as it considers smart and targeted legislation to further improve our patent system.

We look forward to working with you to achieve those goals.

Sincerely,

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American Intellectual Property Law Association
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