

**Hearing before
The House of Representatives
Committee on the Judiciary**

**Implementation of the
Smith-Leahy America Invents Act**

**Rayburn House Office Building
Wednesday, May 16, 2012
10:00 A.M.**

**Testimony of Timothy A Molino
Director of Government Relations**

The Business Software Alliance

Good morning Chairman Smith, Ranking Member Conyers and other distinguished members of the Committee, I am Tim Molino, and I am the Director of Government Relations at the Business Software Alliance or “BSA.”¹ Thank you for the opportunity to testify at this very important hearing to draw attention to the strong work being done to implement the America Invents Act (“AIA”) and how those efforts can be refined to help both government and the private sector.

Intellectual property rights are the cornerstones of innovation—giving creators confidence that it is worth the risk to invest time and money in developing and commercializing new ideas. Patents are an indispensable part of these protections.

The Business Software Alliance is the leading global advocate for the software industry. BSA members have worked closely with this Committee for many years to modernize the patent system. Because of your leadership, Chairman Smith and Ranking Member Conyers, patent reform became a reality last year. The Business Software Alliance believes the America Invents Act is a substantial step forward in bringing our patent system into the twenty-first century. The AIA modernizes our patent laws to take into account the current state and global nature of our patent system. It provides clarity and better certainty for both patent owners and those looking to manufacture or provide new services.

Current efforts by the Patent and Trademark Office (“PTO”) to implement the AIA follow this Committee’s goal of making the U.S. patent regime the best and most efficient patent system in the world. We support the PTO’s proposed rules, with some clarifying changes, because they will enhance the patent system and promote innovation in computers and software.

¹ BSA represents nearly 100 world-class companies that invest billions of dollars annually to create software solutions that spark the economy and improve modern life. BSA members include software and computer companies that collectively hold hundreds of thousands of patents around the world. Every one of them relies on intellectual property protection for the viability of its business.

Overall, BSA believes that the PTO has done an excellent job in establishing the proposed regulations called for under the AIA. The PTO is being very open and transparent during the drafting of the current proposed rules. Under Secretary Kappos and the entire PTO team deserve a great deal of credit for their hard work and commitment to implementing this groundbreaking law.

BSA, along with many other organizations, citizens, and private companies, submitted comments to the PTO on the Office's proposed rules for implementing the AIA. I ask that BSA's comments to the PTO be made part of the record in this hearing. Most of our suggestions would clarify the proposed rules to provide additional guidance to both examiners and applicants. Our suggestions aim to strike a fair balance between intellectual property owners and those seeking to challenge an application or issued patent.

BSA believes there are three areas in which the proposed rules can be modified and improved.

Our suggestions center on the Transitional Program for Covered Business Method Patents, *Inter partes* Review ("IPR"), and Post-Grant Review ("PGR"). The purpose of these programs is to remove "low quality" patents from the system that may have inadvertently been issued by the Patent Office. Removing such low quality patents from the system will provide greater certainty and confidence in the system for both patent owners and responsible businesses that in good faith try to avoid infringing on the inventions of others.

With respect to the Transitional Program for Covered Business Method Patents, which focuses on patents in the financial services sector, BSA believes the PTO should better define which patents will potentially be subject for review under this program. The PTO's proposed

definition of technological invention in § 42.301(b) provides that eligibility for review will be determined on a case-by-case basis using only two criteria: 1) whether the claimed subject matter as a whole recites a technological feature that is novel; and 2) whether it is unobvious over the prior art and solves a technical problem using a technical solution.

We believe that using only these criteria would potentially allow the definition of “covered business method patent” to include anything used in the provision of financial services. As a result, it could be interpreted to cover a significant number of general software and computing technology patents that have little or nothing to do with business methods. These include patents covering general-purpose servers, email clients, and basic spreadsheet applications.

The availability of method patents benefits a broad array of industries. Broad inclusion of these patents in the Transitional Program would be an unfortunate and unintended consequence of the proposed definition. We are concerned that the proposed definition could result in the term “covered business method” being applied to a much broader scope of patents than was intended. This could produce effects beyond financial services and create unwelcome uncertainty, chill innovation, and reduce investment in bringing new technologies to American consumers and creating jobs here in America. While we recognize the financial industry’s strong interests in this area, solutions must be found that accommodate their interests without harming innovation and the many other industries that benefit from patent protection. Thus, it is important that the PTO strikes the right balance in determining which patents fall under this program.

At the same time, the proposed definition needs further clarification to account for the relationship between the invention and its use in the practice, administration or management of a

financial service or product. It is possible that covered business method patents may qualify for the exception when one looks only at the technological contribution in isolation by ignoring the field to which the inventive contribution of the patent is directed or in which it is predominantly used.

BSA has suggested a four factor balancing test to determine whether a patent should be reviewed under this program. Details of the balancing test can be found in BSA's submission to the PTO. It provides safeguards against the inclusion of general software and computer technology patents while providing context so that patents directed to financial services or products are not excluded by looking at their technological contributions in isolation. By adopting the test, the PTO would provide clarity as to which patents fall under this program and which do not.

BSA's other suggestions relate to the procedures for *Inter partes* Review and Post-Grant Review. We support the direction of the proposed rules, and our suggestions aim to provide additional clarity and efficiency. We believe minor changes to the timelines, scope of discovery, page limits and process for resolving claim disputes can be made to better circumscribe and more properly apportion the respective burdens on the petitioner and the patent owner:

- The basic timeline for IPR and PGR should be modified to provide more time for the petitioner
- Patentees should be required to announce their intent to rely on secondary considerations early and produce secondary considerations documents immediately if they intend to rely on such evidence
- The PTO should eliminate the proposed Rule 42.51(b)(3) for routine discovery of information that is inconsistent with a position
- The "sequencing" of "trial," which amounts to discovery under the proposed rules, must be revised to account for third party testimony and production of documents

- Providing documents ahead of time under proposed Rule 42.53(c)(3) should not apply to cross examination
- The proposed rules should include a process commonly used by district courts to resolve claim interpretation disputes
- Page limits under proposed Rule 42.42(a) for petitions should not include claim charts

Our suggestions, if adopted, would also allow for more efficient administration by the PTO.

Finally, we would offer a comment on a vital issue of long-standing importance to the Committee, that of ensuring the PTO has sufficient resources to accomplish its mission. Overall, BSA supports PTO's fee changes, with a few modifications. Some of the fee increases, however, especially in the traditional preparation and prosecution categories, may cause BSA members to reassess their patent strategies. Therefore, BSA believes that the PTO should continue to review the fee increases to ensure that the prices charged are commensurate with the work being performed.

In thinking about fees, we believe it is important to consider the time and effort PTO is expected to devote each particular task. For example, the fees set by the PTO for *Inter partes* Review and Post-Grant Review, while high, we believe are reasonable in view of the substantial work required from the Patent Trial and Appeal Board.

Again, the Business Software Alliance appreciates this opportunity to testify. I look forward to answering your questions.