



Issue Memo

Vote “No” on any Amendment to Extend the Transitional Program for Covered Business Method Patents (“CBM” or “Sec. 18”)

Overview

The PATENT Act (S.1137) reduces the financial incentive for bad actors to bring predatory patent suits through measures to curb the excessive cost of litigation, rein in discovery abuse, make patent cases more efficient, and require plaintiffs to be precise in their claims of infringement. The thoughtful reforms in the bill enjoy broad support across industry sectors and among public interest groups.

As the Committee moves forward with legislation that can gain full Senate approval and reach the President’s desk, it should avoid injecting controversial measures that upset the balance of the PATENT Act. In this regard, any proposal to extend the “Transitional Program for Covered Business Method (CBM) Patents” should be rejected.

Extending the temporary CBM program is unwarranted, would disrupt the patent system itself, undermine incentives to innovate in highly competitive areas of technology that involve data processing (software), and impede economic growth in the US by harming the ability to protect software innovations. BSA member companies’ software is ubiquitous in our economy: it is used for everything from word processing and spreadsheet calculations to designing bridges, diagnosing diseases, and managing our energy infrastructure. Software is increasingly the path to innovation in all industries – in aviation, automobiles, medical devices, semiconductors, and manufacturing. Most of the technologies that improve our lives and inspire and protect us every day — from cellular phones and antilock brakes to airplane flight controls and pacemakers — are developed and implemented in software.

As patent litigation reform legislation moves forward, incentives for software innovation should be preserved, and the temporary CBM program should be allowed to expire as Congress intended.

Key Reasons to Vote “No” on CBM Extension

- **The CBM program has strayed from its original purpose and is harming software innovation.** The CBM program established by the 2011 Leahy-Smith America Invents Act was designed to provide a temporary alternative to litigation to challenge patents claiming widely-known financial services business methods asserted by non-practicing entities. In the less than three years of its existence, the program has been used much more broadly and in unintended ways, with harmful consequences. Software patents -- which were beyond the intended scope of the program -- have been subject to challenge because USPTO’s implementation has failed to observe safeguards meant to distinguish poor quality financial services business method patents from innovative software patents. Further, the program is being used by large companies to attack small companies’ patents that are not directed to business methods and have only the barest connection to financial services or products, the limitation on the CBM program established by Congress. In the years since 2011, Supreme Court rulings and the demonstrated effectiveness of non-discriminatory administrative review programs at the Patent Office (e.g., *Inter Partes* Review) have eliminated any basis for continuing this special program.
- **The case for extending the CBM program has not been made.** As its name makes clear, the “Transitional” CBM program, less than three years old, was intended as temporary and to sunset in 2020. The USPTO was directed by the

AIA to study the program and its effectiveness, and will submit its report to Congress in late 2015. Contrary to the claims of proponents of extension, there is no evidence that extension of this special program is warranted or necessary, especially in light of the availability and effectiveness of other AIA review programs. Without so much as an assessment of the program by the expert agency charged with its implementation, there can be no justification for CBM extension.

- **Effective Alternatives to CBM Exist**– The CBM program is not necessary as a tool to challenge weak patents. Alternatives exist that are more efficient, cost-effective, and do not discriminate against software innovation. Proponents claim CBM should be extended because the program allows additional bases for challenging patents, beyond those available in Post-Grant Review or *inter partes* Review. In practice, the bases being used and relied upon by CBM petitioners are the very ones available in those other review programs – meaning that alternative review programs could be just as effective for them. In the case of patent eligibility, this basis could be more expeditiously and efficiently addressed in district court. This will most certainly be the case if the litigation reform provisions of the PATENT Act become law. Congress should not extend a program that devalues millions of software patents based on arguments that are rarely used, or which are more efficiently decided in court.
- **CBM unfairly gives infringers two bites at the apple.** In contrast to *inter partes* Review, CBM challenges may raise arguments regarding patent eligibility under Section 101. Unlike obviousness and novelty issues, these eligibility arguments are often resolved more efficiently at the motion to dismiss or summary judgment stage of infringement litigation. Allowing defendants to make the same invalidity argument at the early stages of litigation and then – if unsuccessful -- again in a CBM review subjects patent owners to multiple validity challenges and gives defendants an unnecessary second bite at the apple, driving up costs and eroding efficiencies.
- **Extending CBM endangers badly needed reform.** S. 1137 and its efforts to end abuses in patent litigation enjoy broad, bipartisan support. There is near-universal recognition that abuses in patent litigation demand legislative action. CBM extension, on the other hand, is highly controversial and divides the bill’s proponents, creating yet another obstacle to reaching consensus. Injecting the CBM controversy at this point in the process will – at a minimum – weaken support for the bill and unnecessarily complicate enactment of sensible and badly needed reform.
- **The CBM program is inherently discriminatory.** Extending the CBM program would continue to subject inventions involving data-processing and only peripherally related to financial services to a special review process under terms more favorable to challengers than other post-grant challenge proceedings. These patents are often owned by individual inventors or small enterprises. As noted above, USPTO has implemented the program broadly to encompass far more than a limited set of business method patents, and its implementation has swept in other cutting-edge software technologies that are at the core of America’s rapidly evolving information economy. Prolonging a program that prejudices innovation in this area threatens America’s global technology leadership and the jobs that rely on it.
- **Discrimination causes uncertainty and harm.** The prospect of having a data-processing patent revoked at any point in the patent’s lifetime through a process favoring challengers more than any other PTO proceeding has created a “cloud” over software patents that devalues them. This prospect and the uncertainty it creates can make investors more hesitant to back new technologies and new entrants in the software field. In this way, the CBM program and its prejudicial treatment of software innovation harms U.S. innovators of all sizes, but especially fledgling businesses that need relative certainty around the value of IP assets to attract essential investment.
- **Our trading partners are watching.** America’s most innovative companies have seen a rise in efforts by other governments to establish regulatory regimes that favor their domestic industries at the expense of US interests. Increasingly, these efforts target the intellectual property rights of US companies and attempt to restrict the availability of protection, erode its effectiveness, or compel the licensing and transfer of cutting-edge technologies. The US government, through the diligent efforts of trade and related agencies, works hard to combat these discriminatory programs abroad. Maintaining in our own patent law a program that embraces discriminatory treatment for a vital and vibrant area of technology in which America is the global leader invites foreign governments to do the same, to the detriment of US innovators, job creators, and our economy as a whole.