

July 31, 2014

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**Sent Via Email: [alice\\_2014@uspto.gov](mailto:alice_2014@uspto.gov)**

**RE: Comments on Examination Instructions and Guidance Pertaining to Patent-Eligible Subject Matter**

Commissioner Focarino:

Thank you for the opportunity to submit views to the United States Patent and Trademark Office (USPTO) regarding the opportunity for public comment on examination instructions in view of the Supreme Court decision in *Alice Corporation Pty. Ltd. V. CLS Bank International, et al.*

ACT | The App Association is the leading organization representing over 5,000 small and mid-sized software companies in the mobile app ecosystem. The app industry has seen astronomical growth in the last few years, from its emergence in 2008 to an estimated \$68 billion industry in 2014.<sup>1</sup> Our members build the apps consumers use every day, at home, at work, and at play.

While not all our members choose to file for patents, those that do find them tremendously valuable. Patents allow our members to protect the investment they make in innovation, attract venture capital, and level the playing field in dealings with established companies and competitors.

With the decision in *Alice*, the Supreme Court again stated that simply implementing an abstract idea on a generic computer is not enough to make something patentable.<sup>2</sup>

USPTO, however, must now implement *Alice* by instructing examiners as to its application. ACT appreciates the opportunity to comment on the preliminary examination instructions the USPTO published on June 30.<sup>3</sup>

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<sup>1</sup> Jonathan Godfrey and Morgan Reed, "App Store after Five Years," ACT (19 July 2013) available at <http://actonline.org/wp-content/uploads/2014/04/The-App-Store-After-Five-Years.pdf>.

<sup>2</sup> *Alice Corporation Pty. Ltd. v. CLS Bank International*, No. 13–298, slip op. at 10 (June 19, 2014)

<sup>3</sup> *Request for Comments and Extension of Comment Period on Examination Instruction and Guidance Pertaining to Patent-Eligible Subject Matter*, 79 Fed. Reg. 36786 (June 30, 2014).

## ACT Applauds Clear Guidance from the USPTO

ACT applauds the clarity and conclusions of the preliminary examination guidance. The direction given to examiners on how to implement the *Alice* decision is as transparent as possible and gives examiners clear and logical guidance.

The key to having a robust and fair patent system is a transparent, consistent, and predictable pre-grant process. In order to prevent the granting of patents which do not meet the standard of new, useful, and non-obvious, the clear *Alice* guidance ensures the legitimacy and fairness of – and confidence in – the patent system.

We look forward to working with the USPTO to continually improve and update guidance and training for patent examiners to promote continued improvements in patent quality.

## Software Patents are Important for Small Businesses in the Innovation Economy

As the USPTO preliminary guidance makes clear, the *Alice* decision does not eliminate a vast swath of patents or establish new hurdles to patentability. The USPTO’s examiner instructions definitively state that the decision “neither creates a *per se* excluded category of subject matter, such as software or business methods, nor imposes any special requirements for eligibility of software or business methods.” The USPTO’s guidance makes clear that the Court’s decision does not affect the patentability of software, which increasingly drives innovation across sectors of the economy from communications and productivity to medicine and manufacturing.

Today, patent protection is used by small software companies to protect their inventions, grow their businesses, and create jobs. Small businesses hold 41 percent of the patents in the U.S. and, on average, patents owned by small firms are more highly cited than those of large firms.<sup>4</sup> Studies show that “small innovative firms” have 16 times more patents per employee than large firms.<sup>5</sup> On average, small innovative businesses with fewer than 500 employees have 27 patents per 100 employees while large business have 1.6 patents per 100 employees.

Patenting plays a substantial role for high-technology small business startups in securing competitive advantage from their innovations.<sup>6</sup> Patents can allow small businesses to protect their businesses from larger competitors.<sup>7</sup> For example, software small businesses have used their patents to protect their product and code from a larger public company who tried to sell patented technology without a license.<sup>8</sup>

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<sup>4</sup> “Small Serial Innovators: The Small Firm Contribution to Technical Change” SBA Office of Advocacy (27 Feb 2003).

<sup>5</sup> Anthony Breitzman and Patrick Thomas, “Analysis of Small Business Innovation in Green Technology,” SBA Office of Advocacy (Oct 2011) *available at* <http://www.sba.gov/sites/default/files/rs389tot.pdf>.

<sup>6</sup> Stuart J.H. Graham, Robert P. Merges, Pam Samuelson, and Ted Sichelman, “High Technology Entrepreneurs and the Patent System: Results of the 2008 Berkeley Patent Survey,” 24 Berkley Tech. L.J. 1255, 1288 (2009)

<sup>7</sup> *Id.* at 1296.

<sup>8</sup> *Id.* at 1299.

In that instance the patent was able to provide the small business with the leverage to stop the infringement and negotiate a license.

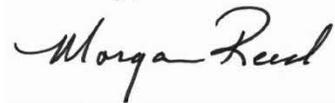
With patents, small businesses can also use that protection to attract investment. Investors, understanding how patents are used to secure businesses, often consider how firms have protected their IP before deciding to invest. “76% of startup managers report that VC investors consider patents when making funding decisions.”<sup>9</sup> Patents can serve as “quality signals for startup investors,” allowing small businesses to demonstrate their innovations and their commitment to protecting that investment.<sup>10</sup>

### Work Together To Better Equip the USPTO

Recent statutory changes and judicial developments have required training and other adjustments for USPTO and its examiner workforce. It is ACT’s view that now – more than ever – USPTO needs full funding to support the organization and its vital work. Without full funding, the USPTO will be understaffed and otherwise under-resourced, and will lack the ability to efficiently and effectively review patent applications and carry out other essential aspects of its mission.

Thank you for the opportunity to comment and we look forward to working with the USPTO on implementing the *Alice* decision.

Sincerely,



Morgan Reed

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<sup>9</sup> Arti Rai, Stuart Graham, Mark Doms, “Patent Reform: Unleashing Innovation, Promoting Economic Growth & Producing High-Paying Jobs,” U.S. Department of Commerce, pg. 2 (April 13, 2010) (emphasis removed).

<sup>10</sup> 24 Berkley Tech. L.J. at 1303.