

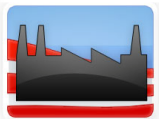







**PIAUSA.org**
**Professional Inventors Alliance USA**

**U.S. Business and Industry Council**



Fighting for American companies
Fighting for American jobs

U.S. House of Representatives
Washington, DC 20515

March 29, 2011

Dear Representative,

Our organizations represent America's ***small businesses***, ***start-up entrepreneurs***, ***independent inventors***, and ***technical professionals*** employed by companies of all sizes. We write to clarify our objections to the House version of the America Invents Act, in its current form. While the current bill makes important progress in efforts to fund the U.S. Patent Office, the bill contains troubling provisions pertaining to matters that are critical to small businesses. The current proposals will inflict substantial harm on our members, who need strong reliable patents to build our businesses and create jobs. The proposed Act has several features that will ***increase*** our costs sharply and reduce our access to the patent system, ***increase*** the Patent Office's delay and backlog, and ***decrease*** our ability to enforce our patents. By making patents less certain, and adding costs and delay, the bill impairs our members' ability to raise capital.

The weakening of the grace period, as part of the "first inventor to file" section of the bill, raises risk of loss of patent rights by our members, as it impedes the important process of incubating and vetting inventions. The proposed Act provides a grace period only for early publication by the inventor, which our members seldom risk due to competitive reasons. The Act limits the grace period to that which is commercially similar to a failed system that the U.S. abandoned in 1839, when the U.S. recognized that inventors need a commercially-reliable opportunity to work and market their inventions before the deadline for patenting. Current law provides inventors a pre-filing grace period, permitting inventors to share ideas without fear of leaks and piracy, to raise capital, to refine those ideas, and to discard the ones that prove worthless, before the legal deadline forces the investment of tens of thousands of dollars in a patent application. The proposed Act disrupts the unique American start-up ecosystem that has led to America's standing as the global innovation leader—the ecosystem that is vital to our businesses, but with which large firms have less expertise. Within the "first to file" section, the change to

the filing grace period disadvantages small companies, startups and independent inventors that must seek outside financing and strategic partners, in favor of firms that can arrange all of their investment, testing, manufacturing and marketing internally. It is this necessary step of early disclosure of inventions to outside third parties prior to filing an application that will put our members at greater risk under the proposed weakened grace period.

Proponents of the bill argue that the first-to-file eliminates uncertainty of factual determinations in interference proceedings, while at the same time argue for adopting prior user right defenses. The prior user rights system, however, is merely a recharacterization of interference practice; it will impose many of the same evidentiary burdens and complexities that are characteristic of interference practice, which the bill purports to eliminate. Moreover, constitutionality of the "first to file" provision has been questioned among legal scholars; this complex constitutional legal question and its uncertainty will disrupt investment until it is decided.

In addition to the issues raised above, many of the organizations that have signed this letter have serious concerns with other provisions of the proposed Act including but not limited to post-grant review. Increased filings driven by the Act's "use it or lose it" grace period rules and by post-grant review will further burden the U.S. Patent & Trademark Office (PTO) at a time when its backlogs are unacceptable. The attachment sheet lists materials from our respective organizations, with our concerns for the legislation's changes, harms to our members, and backlog increases for PTO.

America's patent system has always focused on the needs of inventors, integrating the patent application process within their normal course of research and development. For nearly two centuries, it has demonstrated its singular ability to foster and grow the country's small-business inventors, to help America achieve its status as the global leader in technological innovation and job creation. Changing U.S. patent law to be like the less-successful patent systems of the rest of the world cannot be regarded as positive "reform."

All stakeholders want to see our Patent Office rehabilitated by ending the tax on innovation, the diversion into the general fund of patent application user fees. There is a uniform consensus that an end to user fee diversion is urgently needed, and is an essential step in bringing down the huge backlog of unexamined applications, in which new jobs are buried.

We urge Congress to shift its attention away from the broad and technically difficult America Invents Act, and instead pass a streamlined, targeted bill that focuses only on long-term PTO funding. Furthermore, both chambers of Congress should renew their oversight of PTO operations, to ensure that new funding is properly administered, and that PTO addresses its operational challenges. If (and only if) increased examination quality does not result from increased funding and operational oversight, should Congress revisit broader patent reform. We urge that the proposed Act not be enacted in its current form, and that the Congress shift its focus to putting PTO on a sound financial footing.

Sincerely,

American Innovators for Patent Reform
CONNECT
IEEE-USA
IP Advocate
National Association of Patent Practitioners
National Congress of Inventor Organizations
National Small Business Association
Professional Inventors Alliance USA
U.S. Business and Industry Council

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**American Innovators for Patent Reform**

The ***American Innovators for Patent Reform*** (AIPR) is a coalition of inventors, small patent owners, researchers, engineers, entrepreneurs, licensing executives, patent agents and attorneys, and others involved in creating or protecting innovation and advocating for stronger patent protection. www.aminn.org

http://www.aminn.org/patent-legislation

**CONNECT**

***CONNECT*** is a non-profit organization dedicated to creating and sustaining the growth of innovative technology and life science businesses in San Diego. Since 1985, CONNECT has assisted in the formation and development of over 2,000 companies and is widely regarded as one of the world's most successful regional programs linking inventors and entrepreneurs with the resources they need for success. www.connect.org

**IEEE-USA Institute of Electrical and Electronic Engineers**

***IEEE*** (the Institute for Electrical and Electronic Engineers) is the world's largest professional association of technology professionals. With 210,000 members, IEEE-USA's mission is to recommend policies and implement programs specifically intended to serve and benefit the members, the profession, and the public in the United States in appropriate professional areas of economic, ethical, legislative, social and technology policy concern.

http://www.ieeeusa.org/policy/policy/2011/021511a.pdf

**IP Advocate**

***IP Advocate*** is a non-profit organization representing the academic research community. We educate our members in the complex flow of policy, law and procedure, and provide practical entrepreneurial advice for technology transfer and commercialization of intellectual property.

www.ipadvocate.org

http://www.ipadvocate.org/mibj/index.cfm

**National Association of Patent Practitioners**

The ***National Association of Patent Practitioners*** (NAPP) is a professional organization of patent practitioners, that is people who assist inventors and small businesses (and sometimes larger corporations) to obtain patents. NAPP members overwhelmingly believe in maintaining a strong US patent system that can produce strong patents to benefit emerging businesses. www.napp.org.

https://www.napp.org/resources/NAPP-PartialOppTo2009SenateBill.pdf

**National Congress of Inventor Organizations**

The ***National Congress of Inventor Organizations*** (NCIO) is an educational organization that provides independent inventors and entrepreneurs with resources, guidance, articles, and how-to information along the path to commercialization. NCIO also offers support through its web site and newsletter to entrepreneur and independent inventor groups. NCIO web sites attract 150,000+ unique visitors annually with an email broadcast outreach estimated at 10,000 per broadcast.

http://www.nationalcongressofinventororganizations.org

**National Small Business Association**

The ***National Small Business Association*** (NSBA) is a national nonprofit membership organization. Established in 1937 and reaching 150,000 small businesses across the nation, NSBA is proud to be the country's oldest, nonpartisan small-business advocacy organization. www.nsba.biz

http://www.nsba.biz/docs/patent_reform.pdf

**Professional Inventors Alliance USA**

The ***Professional Inventors Alliance USA*** (PIAUSA) is a national organization promoting inventor-entrepreneur and small business interests since 1993. PIAUSA works to protect American invention and encourage innovation by providing the nation's independent inventors a united voice to improve public policy. www.piausa.org, http://truereform.piausa.org

**U.S. Business and Industry Council**

The ***U.S. Business and Industry Council*** is non-profit business association founded in 1933 to represent the concerns of America's small and medium-sized businesses. Member companies are typically family-owned or privately held, mostly in the manufacturing sector. They are often the major employers in their home communities and the mainstays of the local economy. www.americaneconomicalert.org,

http://thehill.com/blogs/congress-blog/economy-a-budget/141663-leahy-patent-bill-litigation-not-innovation.

# Further Clarification:

**The weakened grace period embedded in the "first to file" provision**

One of two separate effects of the "first inventor to file" of the proposed Act is to accelerate the filing deadline for filing of patent applications, by replacing the "grace period" of current law with a much shorter set of deadlines for filing patent applications. The Act provides a grace period only if the inventor publishes a disclosure of the invention. However, very few startups publically disclose their invention right after they make them. The Act proposes features that return to an antiquated system that provides no grace period for non-disclosing public-use and on-sale activity, ignoring inventors' need to work and market their inventions before the deadline for patenting. Proposed Section 102(a) includes public-use and on-sale bars which have no counterpart exception for grace in proposed 102(b). This is a bad system part of

which has been tried in the U.S. and was abandoned in the Patent Act of 1839, which established a grace period for such activity.

Today's patent law provides all inventors with time to allow their inventions to incubate before they must apply for a patent application, for a time period called the 'grace period," This grace period permits U.S. innovators to refine their ideas as they search for funding required to patent, develop and commercialize them, before bearing the costs of filing a patent application (even for a provisional application, averaging about $5000 in attorney fees, plus the diversion of the inventor's time). This one-year period is used far more often by small companies and early-stage innovators, and is critical because it reflects and accommodates the complexities and idea incubation process of early-stage innovation. This grace period is a key reason that the U.S. patent system is the best in the world at generating innovation, at building industries from computers to biotech to blossom here as nowhere else. Recently the process of innovation was accurately described by the FTC as "a series of steps from idea to innovation through development to commercialization, each of which can be expensive, risky, and unpredictable."[1] The FTC then stated unequivocally that "The goal of the patent system is to promote innovation in the face of that expense and risk." Current law fits hand-in-glove with the innovation process, the systems of other countries, which this bill seeks to emulate, does not.

The patent system works most effectively and efficiently for inventors, scientific innovation, and for the Patent Office, when the steps of innovation, and the invention is reasonably mature and vetted, ***before*** a patent application is filed, not after. If patents or general publication of an idea is required too early in the process, the cost will be felt most acutely on under-resourced independent innovators and researchers. If inventors are forced into an early use-it-or-lose-it regime, as the Act proposes, the Patent Office will be flooded with more applications, and these new applications will be poorly prepared and harder to examine.

Because of increased costs and uncertainty, independent inventors, researchers and universities will find it much harder to license or transfer their technology.

The risks of the new law arise when an inventor must look outside the walls of a company for investment, manufacturing, or testing. Large firms that do not require financial support from outsiders can file after their ideas are ripened and ready to patent. The change in grace period has features that favor foreign and multinational firms over American start-up firms that often seek an initial foothold in U.S. domestic markets. The bill favors market incumbents over new entrants with disruptive new technologies.

Global harmonization is not preferable to American exceptionalism. Patent property rights should be available to all innovators, large and small. Installing a new system that will favor global incumbents at the expense of new and disruptive innovation is a just another recipe for the self-interest of a small slice of the IP universe. But because it will disrupt pioneering innovation it also is a recipe for economic disaster.

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[1] Federal trade Commission, The Evolving IP Marketplace Aligning Patent Notice and Remedies With Competition, http://www.ftc.gov/os/2011/03/110307patentreport.pdf (March 2011)

Moreover the Act's first-inventor-to-file proposal will further burden our already over-burdened Patent Office by forcing inventors to submit increased number of often useless but always costly patent applications. Presently, more than 700,000 patent applications, many of which will create new American jobs, must wait in line for review and approval. The empirical data from Canada and Europe are clear, that this change will increase the number of applications filed by 50,000 to 100,000 per year (15% to 30%), and they will be of poorer quality and harder to examine. The Patent Office needs more efficiency, not more patent filings submitted simply because the deadline is pulled in by a year.

The proponents point to an entirely different provision of the bill, that changes the tie-breaker rule to decide between two inventors who invent the same thing and both file patent applications at about the same time, from first-to-invent to first-to-file (35 U.S.C. § 102(g) of current statute). That's a completely separate issue than the grace period of concern to us, which effects about half of all applications filed, 35 U.S.C. § 102(a)-(f). Congress should not allow a tiny tie-breaker tail, which affects under 100 inventions per year, to wag a grace-period dog that's 10,000 times larger.

**Entrenching market incumbents at the expense of the public's right to practice old inventions, and creation of legal uncertainty**

A Senate colloquy made public only after the Senate vote states that a crucial "or" in the bill is to be interpreted to mean "and." This has profound effects, as it changes the meaning.

First, under this interpretation, it would permit market incumbents to use an invention in secret and then patent it years later, and then sue other members of the public that may have made use of the invention before the patent was filed. For example, upon inventing a compound, a company can patent the compound but keep secret the method of its production. The company can use the method in secret and extend the monopoly by filing for a patent application for the method of making the compound 10-20 years later, thereby evergreening the monopoly. Current law bars an inventor from obtaining a patent on a secret invention that was used for more than one year before the application. Startups, who have no such history, receive no benefit at all. This is a profound rebalancing of rights in favor of big companies that can afford to patent every small innovation, and against the public's right to continue to use existing inventions.

Further, the Senate colloquy states an intent to overrule long-established law, including Supreme Court decisions reaching back to the 1820's, and to fundamentally change the meaning of two of the most important terms in the patent law, "on sale" and "public use." This bill is profoundly disruptive to settled legal expectations, and will create literally decades of litigation and billions of dollars of commercial uncertainty.

# Additional materials

For studies of empirical data that amplify our concerns, we refer you to the following:

**Shih-Tse Lo & Dhanoos Sutthiphisal**, *Does it Matter Who Has the Right to Patent: First-to-Invent or First-to-File? Lessons from Canada*, NBER Working Papers, No. W14926 (April 2009), at http://ssrn.com/abstract=1394833. This paper by two economists at McGill University (one of Canada's

two premier universities) studied the economic effects of a very similar switch in Canada from first-to-invent to first-inventor-to-file in 1989. They obtained extensive economic and patent filing data to conclude as follows—the change contemplated in the proposed Act will harm American inventors (employees of any size firm), small firms, and independent inventors:

> VI. CONCLUSION
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> A switch from a first-to-invent to a first-to-file patent regime may be imminent in the U.S. To understand how such a policy change may affect U.S. inventive activity, we examine a similar policy change that took place in Canada in 1989. We find that the adoption of the first-to-file rule ***did not induce additional R&D efforts*** made by Canadian inventors. Nor did such a policy change have any effects on Canada's overall inventive output whether measured as patenting at home or abroad. …. However, the new patent regime seemed to have a small adverse effect on Canadian domestic-oriented industries. The policy shift also appeared ***unfavorable to independent inventors and small businesses***, and it channeled inventive activity towards large corporations.
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> The fact that Canada's adoption of a first-to-file system had ***virtually no positive effect on its overall inventive activity*** but a ***negative impact on its domestic-oriented industries as well as independent inventors and small firms challenges the merits of the proposed 2007 U.S. Patent Reform Act***. The U.S. relies even more heavily on its domestic markets than Canada. In addition, as independent inventors and small firms rarely have comparable resources to compete with large corporations in the race to the Patent Office, a switch to a first to file system contradicts the very essence of the longstanding U.S. patent laws: making patent protection equally accessible to anybody. More importantly, independent inventors and small firms have played an important role in the U.S. technological leadership since its independence. … It is therefore crucial to provide an unbiased legal environment for invention and innovation, which helps these independent inventors and small firms to prosper, and the first-to-invent rule apparently serves such a purpose better than its first-to-file counterpart

**David E. Boundy & Matthew J. Marquardt,** *Patent Reform's Weakened Grace Period: Its Effects On Startups, Small Companies, University Spin-Offs And Medical Innovators*, Medical Innovation and Business Journal, Vol. 2 no. 2 (Summer 2010). At http://bit.ly/MIBJ-Grace-Period

> Boundy & Marquardt discuss the differences between the ways small companies and large companies use the patent system, and how the Patent Reform bill disadvantages small companies. ***Empirical data*** from the Canadian Patent Office show that the loss of a useful grace period will add over ***$1 billion per year in patent costs for small companies***, while partial "harmonization" will provide comparatively negligible benefit for large companies. If data from Canada and Europe extrapolate to the U.S., Patent Reform will increase the numbers of applications filed, and reduce their quality, worsening the Patent Office's backlog.

**Small Business Coalition on Patent Legislation**, letter to the U.S. Small Business Administration, provides rich analyses of empirical data from U.S. universities, European Patent Office and Canada, statistics on the use of the grace period, and the adverse effects of the change as proposed in S. 23. At http://bit.ly/SB-Coalition-Letter-to-SBA