April, 2010

Letter on loss of grace period

Ron D Katznelson, *Bi-Level Technologies*

June 1, 2010

The Honorable Harry Reid,
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

CC: The Honorable Patrick Leahy, Chair, Senate Judiciary Committee
The Honorable Jeff Sessions, Ranking Member, Senate Judiciary Committee
The Honorable Mary Landrieu, Chair, Senate Committee on Small Business and Entrepreneurship

Re: Effective repeal of the one-year "grace period" under S. 515, the Patent Reform Act of 2010.

Dear Senators,

On behalf of the undersigned companies and organizations whose survival and new job creations depend on patent protection, we are writing regarding the patent reform legislation, S. 515. We write today to draw renewed attention to a proposed rewrite of 35 U.S.C. § 102, which effectively eliminates the American one-year grace period during which current law permits an inventor to test and vet an invention, publically demonstrate it to obtain advance sales revenue and seek investors before filing the patent application. No representatives of small business were called to testify during five years of Senate hearings on patent legislation. This issue has been overshadowed by the debate on other provisions of S. 515, but it is no less disruptive to the technology investments fostered by the patent system. The proposed sweeping changes in § 102 is another issue where some large, incumbent firms are seeking a change to the detriment of small companies, new entrants, startup innovators, independent inventors, and future businesses.

U.S. patent law has long allowed inventors a one-year "grace period," so that they can develop, vet, and perfect their invention, begin commercialization, advance sales, seek investors and business partners, and obtain sufficient funds to prosecute the patent application. During the grace period, many inventors learn about starting a technology-based business for the first time. They must obtain investment capital and often must learn from outside patent counsel (at considerable expense) about patenting and related deadlines and how to set up confidentiality agreements. Many startups or small businesses are in a race against insolvency during this early stage. The grace period protects them during this period from loss of patent rights due to any activities, information leaks or inadvertent unprotected disclosures prior to filing their patent applications.

Small businesses and startups are significantly more exposed than large firms in this regard because they must rely on far greater and earlier private disclosure of the invention to outside parties. This is often required for raising investment capital and for establishing strategic marketing partnerships, licensing and distribution channels. In contrast, large established firms have substantial patenting experience, often have in-house patent attorneys and often use internal R&D investment funds. They can also use their own marketing, sales and distribution chains. Therefore, they seldom need early disclosure of their inventions to outside parties.

S. 515 amends § 102 to confer the patent right to the first-inventor-to-file as opposed to the first-to-invent as provided under current law. This change is purportedly made for the purpose of eliminating costly contests among near-simultaneous inventors claiming the same subject matter, called "interferences." The goal of eliminating interferences is achievable by simple amendment of only § 102(g) to a first-inventor-to-file criterion. However, under the heading of First-Inventor-To-File, S.515 does far more, it changes ***all*** of § 102, redefining the prior art and practically gutting the American one-year grace period.

Without the grace period, the patent system would become far more expensive and less effective for small companies. It would create the need to "race to the patent office" more frequently and at great expense before every new idea is fully developed or vetted. The pressure for more filings will affect all American inventors –

not only a few that end up in interferences under current law. Because filing decisions must be made based on information that will be preliminary and immature, the bill forces poor patenting decisions. Applicants will skip patent protection for some ultimately valuable inventions, and will bear great costs for applications for inventions that (with the additional information that is developed during the grace period year of current law) prove to be useless, and subsequently abandoned. The evidence for this high abandonment trend under systems having no grace period is readily available from European application statistics.[1]

The proponents of S. 515 suggest that the harm of the weak grace period of proposed § 102(b) can be overcome if an inventor publishes a description of the invention, allowing filing within a year following such publication. Underlying this suggestion are two errors. First, no business willingly publishes complete technical disclosures that will tip-off all competitors to a company's technological direction. We generally do not, and will not, publish our inventions right when we make them, some 2.5 years before the 18-month publication or 5-7 years before the patent grant. Confidentiality is crucial to small companies.

Second, even if we were to avail ourselves of such conditional grace period by publishing first before filing, we would instantly forfeit all foreign patent rights because such publication would be deemed prior art under foreign patent law. No patent attorney will advise their client to publish every good idea they conceive in order to gain the grace period of S. 515. The publication-conditioned "grace period" in S. 515 is a useless construct proposed by parties intent on compelling American inventors to "harmonize" *de facto* with national patent systems that lack grace periods. S. 515 forces U.S. inventors to make the "Hobson's Choice" of losing their foreign patent rights or losing the American grace period. It should be clear that ***the only way for American inventors to continue to benefit from a grace period and be able to obtain foreign patent rights, is to keep intact the current secret grace period that relies on invention date and a diligent reduction to practice***.

The American grace period of current law ensures that new inventions originating in American small companies and startups – the sector of the economy that creates the largest number of new jobs – receive patent protection essential for survival and that American small businesses' access to foreign markets is not destroyed. We urge you to amend S. 515 so that § 102 remains intact in order to preserve the American grace period in its full scope and force.

Thank you for your consideration of our views and concerns

Sincerely,

[*Signatories on next page*]

[1] Statistics from the European Patent Office ("EPO") in Slide 16 at http://j.mp/SB-Coalition-Letter-to-SBA shows that 58% of applications filed under first-to-file-pressures in the EPO become useless to their owners and are abandoned before they are taken up for examination. In contrast, only 12% of applications filed at the EPO without being subject to such pressure are abandoned. Coupling this with the examination rate in each category, this means that applicants' rush to file under the first-to-file pressures, results in having to file ***more than twice*** the number of applications compared to a system that does not have such pressures, in order to obtain one surviving application worthy of examination. Based on these trends and on the U.S. provisional applications abondenment rate during the same period (40%) and the number of U.S. first-filings (about 1/2 of all U.S. applications including provisionals), one obtains a composite estimate that the weak grace period of S. 515, will force applicants to file about 37% more applications per year including provisionals.

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