February 15, 2011

The Honorable Harry Reid
United States Senate
Washington, DC 20510

Dear Senator Reid:

On behalf of the National Small Business Association (NSBA), I would like to express the objection of America's entrepreneurs and small-business innovators to key provisions of *S. 23*, the *Patent Reform Act of 2011*. Established in 1937 and reaching 150,000 small businesses across the nation, NSBA is the country's oldest, nonpartisan small-business advocacy organization.

It is imperative that any effort to modernize and improve America's patent system carefully consider the effect on the nation's small businesses. America's small businesses are the fount of breakthrough innovation in America—and the source of most new jobs. Small patenting companies produce five times as many patents per revenue dollar as large patenting companies and 20 times as many as universities—and more small-business innovations are commercialized. According to studies commissioned by the U.S. Small Business Administration, small entity patents cover more original and broader technologies than large patenting firms, as their measured impact level across downstream technologies is broader than that of large entity patents. Small business patenting entities are also more likely to develop emerging technologies than large firms. In the U.S., small businesses and startups rely on patent protection for their survival much more than large, patenting firms. It is, therefore, imperative that Congress heed their concerns.

While appreciative of efforts to enhance the legislation from earlier iterations, *S. 23* does not contain substantive improvements to the key elements of the legislation that NSBA and other small-business and startup organizations previously have opposed—namely, its provisions pertaining to post-grant patent challenges and its radical weakening of the American grace period—in the form of the conversion of the U.S. patent system from a first-to-invent to a first-to-file system. NSBA contends that the bill's provisions on post-grant patent challenges, and its effective elimination of the American grace period, would put small-business patentees at greater risk than the current system and would result in a U.S. patent system strongly titled in favor of large incumbent firms at the expense of America's small-business innovators.

The small-business innovators of NSBA continue to be extremely troubled by the complete lack of consideration of how the radical transformation to a first-to-file invention priority system—which effectively guts the American grace period—would affect small, innovative firms and independent inventors.

NSBA repeatedly has warned that any effort to modify America's patent system should carefully consider its effect on the nation's small businesses. Yet, this analysis has never been performed, let alone considered. While the *Patent Reform Act of 2011* requires that a study on the subject be performed, the legislation preempts any findings by unconditionally adopting an irreversible transition to a first-to-file system, rending the study impotent.

NSBA believes that America's unique patent system—and its singular ability to harness and protect the country's small-business inventors—has played a fundamental role in helping America achieve its status as the global leader in technological innovation.

A purported justification for transitioning away from the first-to-invent is international "harmonization." U.S. patent laws allow inventors a "grace period," so that they can perfect their invention and begin

commercialization for up to a year before filing a first patent application. Other nations have been reluctant to "harmonize" with this important feature of U.S. patent law.

S. 23 does not promote harmonization. Rather than induce other nations to adopt a grace period, it unilaterally weakens the American grace period. By offering nothing in the way of an inducement to other nations to institute governmental patent fee discounts to small entities, as American patent law provides since 1982, the legislation also fails to make international patent protection and enforcement more affordable to American small businesses. Foreign entities continue to benefit from small-business patenting discounts in the U.S., while American small businesses must incur patenting fee costs in a single foreign patenting body that are 5-10 times more expensive than their domestic patenting fees. The result is a one-sided "harmonization" that will only benefit foreign firms and penalize small, innovative American firms.

According patent priority to the invention date rather than the filing date has protected U.S. small business patentees who are diligent (within their limited means) in reducing their invention to practice prior to filing their application. *S. 23* repeals the private disclosure one-year grace period and its transition away from protecting the first-to-invent will cause small-business inventors to lose valuable priority rights, weakening or invalidating their patents by "prior art" that is actually after their invention dates. The American first-to-invent grace period patent system has been a major mechanism for the dynamism of small-business innovation. It guarantees that only carefully and well-developed inventions are patented and at much less expense to the applicant than in first-to-file countries. It is clear that the weak or (entirely absent) grace periods used in the rest of the world's first-to-file patent system throttles small-business innovation and job creation.

By repealing the invention date as the priority date, compared to prior art, the pressure to establish filing date priority will require applicants to file more frequently, at every stage of development, without perfecting their inventions. The costs of increased filings—more frequent invention reviews, earlier and more frequent hiring of outside patent attorneys, and new patenting costs—will be felt most strongly by small businesses. Some small firms will lose their patent protection altogether, as they will be unable to afford a doubling of their application filing rate.

In contrast, large firms and multinational companies often have on-staff patent attorneys who can file multiple applications at each stage of a company's invention process at substantially lower cost per patent than small businesses. Consequently, more often than not, an entrepreneurial startup inventor will lose the filing-date race to the patent office under *S. 23*. This very well may be the result that some large-firm proponents of *S. 23* seek are seeking, but it would cause great harm to the U.S. economy.

Large patenting firms have very little expertise in how small-business patenting firms operate, set priorities, balance resources, and file patent applications. On these matters, the Senate ought to defer to the innovative, small firms and independent inventors that are supplying the U.S. with its most important breakthrough technologies and new jobs, and not the large, multinational firms that are trying to gut the American grace period.

NSBA continues to oppose the radical weakening the America grace period through the implementation of a first-to-file conversion. While NSBA appreciates efforts to reform the U.S. patent system, its small-business members view *S. 23* as potentially devastating to America's most productive yet vulnerable innovators. The effect this legislation would have on America's entrepreneurs has not been examined and the needs of the small-business community simply have been ignored. Barring significant alterations to the aforementioned provisions, NSBA must respectfully oppose *S. 23.*

Sincerely,

Todd O. McCracken
President