August 5, 2009

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

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

Dear Senators Reid and McConnell:

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. 515*, the *Patent Reform Act of 2009*. 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 most dynamic and innovative sector of the economy, generating over 90 percent of the country's net new jobs since 1989. They employ more scientists and engineers than large companies (32 to 27 percent) and generate five times more patents per research and development dollar than large companies. Small-business innovators "produce 13 to 14 times more patents per employee than their larger counterparts, and… these patents are more likely to be cited in other patenting applications," according to a recent paper from the U.S. Small Business Administration.

While appreciative of the improvement to *S. 515* from its earlier iterations, NSBA remains strongly opposed to two key elements of the bill. The conversion from first-to-invent to first-to-file remains highly problematic to America's entrepreneurs. Meanwhile, changes to the previous provisions pertaining to post-grant patent challenges have resulted in a bill even more tilted in favor of large incumbent multinational firms at the expense of America's small-business innovators.

While *S. 515* includes several provisions that specifically disadvantage innovative small firms, the following provisions are still our chief concern:

1. *Repeal of first inventor's priority rights and the transition to First-to-File*

The small-business innovators of NSBA oppose the transition away from the American first-to-invent patent priority system, without a thorough study and understanding of how such a change may negatively impact America's small firms. At present, the effect of such a change on innovative entrepreneurs is far from clear. 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.

An antecedent of *S. 515* in the 110th Congress explicitly tied the transition to a first-to-invent system to a reciprocal conversion in the patent law systems of major foreign nations of a limited public disclosure "grace period." This harmonization *quid pro quo* was removed from *S. 515*. The resulting one-sided unconditional "harmonization" only will benefit other countries, to the detriment of America's entrepreneur inventors.

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. 515* repeals the private disclosure one-year grace period and its transition away from 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 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 patentee than in first-to-file countries. It is demonstrable and 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, 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.

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 inventor will lose the race to the patent office under *S. 515*.

NSBA urges the Congress to study and *find* the likely economic effects on small U.S. innovative businesses before enacting sweeping changes to America's 200 year-old patent priority laws. Any purported benefits from the transition away from the American first-to-invent system must be clearly identified, quantified, and balanced against the harm identified in this letter.

2. *Post-Grant Patent Challenges*

NSBA opposes the proposed post-grant review (PGR) procedures because they are too easily manipulated to the detriment of small businesses. The PGR language in *S. 515* fails to address adequately the problem of infringers who make repeated challenges to issued patents. Instead, the proposed PGR provisions add an extra chance for infringers to challenge patents. Under *S. 515*, mere commencement of a PGR proceeding would eliminate the statutory presumption of validity essential to a patent's enforceability. Small business' ability to rely on issued patents will be diminished. The PGR provisions permit an incumbent competitor to initiate a PGR challenge merely because a patent issues, which will force the patentee to chose between simply allowing the patent to be revoked or spending several hundred thousand dollars to defend a costly PGR proceeding.

While NSBA appreciates efforts to reform the U.S. patent system, its small-business members view *S. 515* as woefully deficient and 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 not been explored. Barring significant alterations to the aforementioned provisions, NSBA must respectfully oppose *S. 515*.

Sincerely,

Todd O. McCracken
President

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