

Mrs. FEINSTEIN.

I know the bill has contained these provisions for some time now, and I acknowledge I have voted for different versions of it that contain these provisions. However, I have heard more and more in the past 2 years from small inventors, startup companies, small businesses, venture capitalists, and, yes, even large companies from all around our country, but especially in my State of California, that this proposed transition from our first-to-invent system to a first-to-file system would be severely harmful to innovation, and especially burdensome on small inventors, startups, and small businesses. And I have become convinced it is the wrong thing to do.

For the benefit of my colleagues who have not been so embroiled in this rather technical issue, let me provide a little background. For over a century, our country has awarded patents to the first inventor to come up with an idea, even if somebody else beat them to the Patent Office--a first-to-invent system. And we have done very well under the first-to-invent system. This bill would change that, so that the first person to file an application for a patent for a particular invention would be entitled to that patent, even if another person actually created the invention first. This is what is known as the first-to-file system.

Now, the argument that is made for transitioning to first-to-file is that the rest of the world follows first-to-file, and that will harmonize our system with theirs. This is supported by big companies that have already made it, that have an international presence. Therefore, I understand their support for first-to-file. But under first-to-invent, we have been the world's leader in innovation, and the first-to-file countries have been playing catchup with our technological advances. So with all due respect, I wouldn't trade America's record of innovation for that of virtually any other country or certainly any first-to-file country.

The genius of America is inventions in small garages and labs, in great ideas that come from inspiration and perspiration in such settings and then take off. So many of America's leading companies--Hewlett Packard, Apple, Google, even AT&T arising from Alexander Graham Bell's lab, for example--started in such settings and grew spectacularly, creating jobs for millions of Americans and lifting our economy and standard of living.

A coalition of affected small business groups, including the National Small Business Association and others, recently said first-to-file ``disrupts the unique American start-up

ecosystem that has led to America's standing as the global innovation leader . . ."

I believe it is critical that we continue to protect and nurture this culture of innovation, and preserving the first-to-invent system that has helped foster it is essential to do this.

Moreover, this bill would not actually harmonize our patent priority system with that of the rest of the world. Many first-to-file countries allow more extensive use of prior art to defeat a patent application and provide for greater prior user rights than this bill would provide. Europe does not provide even the limited 1-year publication grace period this bill does.

An important part of this debate is the change the bill makes to the so-called grace period that inventors have under U.S. current law. Presently, a person's right to their invention is also protected for 1 year from any of the following: No. 1, describing their invention in a printed publication; No. 2, making a public use of the invention; or, No. 3, offering the invention for sale. This is called the grace period, and it is critical to small inventors.

Mr. President, 108 startups and small businesses wrote last year that

U.S. patent law has long allowed inventors a 1-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 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.

S. 23 eliminates this grace period from offering an invention for sale or making a public use of it, leaving only a grace period from "disclosure" of the invention.

There are two problems with this. First, "disclosure" is not defined in the bill. This will generate litigation while the courts flesh out that term's meaning. While this plays out in the courts, there will be uncertainty about whether many inventions are patentable. This uncertainty will, in turn, chill investment, as venture capitalists will be reluctant to invest until they are confident that the inventor will be able to patent and own their invention.

Secondly, because of this lack of definition, some patent lawyers interpret "disclosure" to mean a disclosure that is sufficiently detailed to enable a person of ordinary skill in the particular art to make the invented item. In practical terms, this means a patent

application or a printed publication.

Now, this does provide some protection to universities, it is true. They often publish about their inventions. However, it is scant protection for the small inventor. They don't publish about their inventions, until they file a patent application. As the 108 small businesses put it, "no business willingly publishes complete technical disclosures that will tip-off all competitors to a company's technological direction. Confidentiality is crucial to small companies."

The grace period from offering for sale or public use is critical for their protection; eliminating it will have the effect, in the words of these small businesses, of "practically gutting the American 1-year grace period." The National Small Business Association wrote recently:

The American first-to-invent grace period patent system has been a major mechanism for the dynamism of small business innovation. It is clear that the weak or (entirely absent) [sic] grace periods used in the rest of the world's first-to-file patent system throttles small-business innovation and job creation.

Our amendment would preserve America's world-leading system.

I am also very concerned that first-to-file would proportionately disadvantage small companies and startups with limited resources. I have become convinced that this change would impede innovation and economic growth in our country, particularly harming the small, early-stage businesses that generate job growth.

Obviously, the process of innovation starts with the generation of ideas. Small California companies and inventors have described to me how most of these ideas ultimately do not pan out; either testing or development proves they are not feasible technologically, or they prove not to be viable economically.

Unfortunately, first-to-file incentivizes inventors to "race to the Patent Office," to protect as many of their ideas as soon as possible so they are not beaten to the punch by a rival. Thus, first-to-file will likely result in significant overfiling of these "dead end" inventions, unnecessarily burdening both the Patent and Trademark Office and inventors. As Paul Michel, former chief judge of the Court of Appeals for the Federal Circuit, and Gregory Junemann, president of the International Federation of Professional and Technical Engineers, put it in a recent letter to the committee:

As Canada recently experienced, a shift to a first-to-file system can stimulate mass filing of premature applications as inventors rush to beat the effective date of the shift or later, filings by competitors.

This presents a particular hardship for independent inventors, for startups, and for small

businesses, which do not have the resources and volume to employ in-house counsel but must instead rely on more-costly outside counsel to file their patents. This added cost and time directed to filing for ideas that are not productive will drain resources away from the viable ideas that can build a patent portfolio--and a business.

At a time when the Patent and Trademark Office has a dramatic backlog of over 700,000 patents waiting to be examined and a pendency time of some 3 years, Congress should be careful to ensure that any legislative changes will not increase patent filings that are unfruitful.

The counter-argument is made that a small inventor could file a cheap "provisional patent application," and that is sufficient protection. However, patent lawyers who work with small clients have said that they advise their clients not to treat a provisional application any less seriously than a full patent application. If there is part of an invention that is left out of the provisional application, that will not be protected. And the parts that are included in the provisional application will be vulnerable too, under an attack that the inventor failed to disclose the "best mode" of the invention by leaving out necessary information.

The argument is made that first to file will establish a simple, clear priority of competing patent applications. Proponents of first to file argue that it will eliminate costly, burdensome proceedings to determine who actually was the first to invent, which are known as "interference proceedings."

However, the reality is that this is not a significant problem under our current system. There are only about 50 "interference proceedings" a year to resolve who made an invention first. This is out of about 480,000 patent applications that are submitted each year--in other words, one-one hundredth of 1 percent of patent applications.

Another problem with the bill's first to file system is the difficulty of proving that someone copied your invention.

The bill's proponents assert that it protects against one person copying another person's invention by allowing the first inventor to prove that "such other patent was derived from the inventor of the invention"

Currently, you as a first inventor can prove that you were first by presenting evidence that is in your control--your own records contemporaneously documenting the development of your invention. But to prove that somebody else's patent application came from you under the bill, was "derived" from you, you would have to submit documents showing this copying. Only if there was a direct relationship between the two parties will the first inventor have such documents.

If there was only an indirect relationship, or an intermediary--for example, the first inventor described his invention at an angel investor presentation where he didn't know the identities of many in attendance--the documents that would show "derivation"--

copying--are not going to be in the first inventor's possession; they would be in the second party's possession. You would have to find out who they talked to, e-mailed with, et cetera to trace it back to your original disclosure. But the bill doesn't provide for any discovery in these ``derivation proceedings," so the first inventor can't prove their claim.

For these reasons, and many others, the first to invent system, which I believe has made our Nation the leader in the world, which our amendment would preserve, is supported by numerous people and businesses around the country, including the National Small Business Association; Coalition for Patent Fairness, a coalition of large high-tech companies; IEEE, Institute of Electrical and Electronics Engineers, which has 395,000 members; the International Federation of Professional and Technological Engineers, AFL-CIO; the University of California System; the University of Kentucky; Paul Michel--Former Chief Judge of the U.S. Court of Appeals for the Federal Circuit, which plays the critical role of hearing appeals in patent cases; the U.S. Business and Industry Council; American Innovators for Patent Reform; National Association of Patent Practitioners; Professional Inventors Alliance USA; CONNECT, a trade association for small technology and life science businesses; and many small inventors, as represented, for instance, in a letter signed by 108 startups and small businesses from all over the country.

Mr. President, I ask unanimous consent that a copy of this letter be printed in the **RECORD** following my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.
(See exhibit 1.)

Mrs. FEINSTEIN. Mr. President, I don't often agree with the organization Gun Owners of America, a group that thinks the National Rifle Association is too liberal. But I do agree with them on this issue. They are part of a coalition of 23 conservative organizations that wrote to the leaders about this, arguing: ``Our competitors should have to `harmonize up' to our superior intellectual property regime, rather than our having to weaken our patent system and `harmonize down' to their levels." Other signatories on this letter include Phyllis Schlafly of the Eagle Forum; Edwin Meese III, former Attorney General under President Reagan; the American Conservative Union; and the Christian Coalition.

I think this is really a battle between the small inventors beginning in the garage, like those who developed the Apple computer that was nowhere, and who, through the first-to-invent system, were able to create one of the greatest companies in the world. America's great strength is the cutting-edge of innovation. The first-to-invent system has served us well. If it is not broke, don't fix it. I don't really believe it is broke.

I am delighted to see that my cosponsor, the distinguished Senator from California, is also on the floor on this matter, and I welcome her support.

I yield the floor.

Exhibit 1

June 1, 2010. Re Effective repeal of the one-year "grace period" under S. 515, the Patent Reform Act of 2010.

Hon. *Harry Reid, Majority Leader, U.S. Senate, Washington, DC.*
Hon. *Mitch McConnell, Minority Leader, U.S. Senate, Washington, DC.*

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.

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, *(Signed by 108 Companies)*.

The PRESIDING OFFICER. The Senator from Utah.

Mr. HATCH. Mr. President, I ask unanimous consent that the Senator from California be permitted to speak, and then I ask that the remaining time be granted to me.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mrs. BOXER. Mr. President, will the Chair cut me off at 1 minute?

The PRESIDING OFFICER. Yes.

Mrs. BOXER. Mr. President, I thank Senator *Hatch* so much. I thank my friend and colleague, Senator *Feinstein*, for this critical amendment.

Mr. President, I rise in support of the amendment offered by my dear friend and colleague, Senator *Feinstein*.

The amendment would strike the first-to-file provision in the patent reform bill.

I was pleased to work with my colleague, Dr. *Coburn*, in support of his amendment to allow the patent office to keep its user fees, which was accepted into the managers' amendment that passed yesterday.

To me, that was one of the most important reforms we could enact in this legislation--giving the PTO the resources it needs to serve the public.

I support efforts to improve our patent system. And there are some good things in this bill, including efforts to help small businesses navigate the PTO.

But I strongly disagree with changing the core principle of our patent system--awarding a patent to the true inventor--for the sake of perceived administrative ease.

Unlike other countries, our patent system is rooted in our Constitution. We are the only country in the world whose Constitution specifically mentions ``inventor."

Article I, section 8 states ``The Congress shall have the power To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

Our system recognizes the complete process of invention--from conception to completion.

The United States is still the heart of innovation in the world, and its patent system is its soul.

Despite our rich history, the bill before us today seeks to erase over 200 years of invention and achievement, and replace it with a weaker system.

Let's talk about those changes.

Section 2 of the bill awards a patent to the first person to file, regardless of whether that person was the true inventor--the one who first conceived and developed the invention to completion.

That goes directly against the express language of the Constitution, which awards patents to the inventor, not the fastest to the PTO.

Section 2 of the bill also provides a weaker grace period than current law. This is a big change that will have a significant economic effect on startups, entrepreneurs and individual inventors.

I believe it is a change that we cannot afford, especially in these tough economic times when we need our small businesses to create new jobs.

Current law allows an inventor to obtain a patent if an application is filed within a year of a public use, sale or publication of information about the invention.

That year is called the grace period, during which an inventor's right to apply is protected from disclosures or applications by others related to his invention.

The grace period is important because it allows smaller entities, like startups or individual inventors, time to set up their businesses, seek funding, offer their inventions for sale or license, and prepare a thorough patent application.

Put another way, the grace period is an integral part of the formation of a small business.

The grace period has been a part of our patent system since 1839, and it was implemented to encourage inventors to engage in commercial activity, such as demonstrations and sales negotiations, without fear of being beaten to the patent office by someone with more resources.

The new grace period in the bill, however, would no longer cover important commercial activities such as sales or licensing negotiations.

The new provision also contains vague, undefined terms that will inject more uncertainty into the system at a time when inventors and investors need more certainty.

Proponents of first-to-file will argue that there have been studies or reports that show that a first-to-file system does not harm small entities. For example, they often mention the report of the National Academies of Science that reached that conclusion.

However, those studies and reports only analyzed the rare cases where two parties claimed to be the first inventor.

Do you know how rare those cases are? Last year, there were 52 cases out of over 450,000 applications filed-- .01 percent of all applications ended up in a contest.

I do not think we should change over 170 years of protection for small entities based on cases that happen with the frequency of a hole in one in golf-- 1 out of 12,500, or .01

percent.

Listen to the conclusion of a report analyzing the business effects of Canada's switch to a first-to-file system:

The divergence between small entities and large corporations in patenting after the Reforms supports the idea that a switch to a first-to-file system will result in relatively less inventive activity being carried out by independent inventors as well as small businesses, and more being channeled through large corporations instead.

In closing, I believe there are things we can do to improve our patent system.

But I also believe that the foundation of our Constitution-based system--a patent is awarded to the inventor--has worked well for over 220 years, and we should not change that core.

It has produced inventors such as Thomas Edison, the Wright Brothers, and George Washington Carver.

We should not change the core of our system, and I urge my colleagues to vote for the Feinstein amendment.

Mr. President, I will conclude in this way. The Feinstein amendment is necessary. It is necessary because the first person to invent should get the protection from the Patent Office. We believe that if this amendment does not pass, it goes against the express language of the Constitution which awards patents to the inventor, not the fastest one to run down to the Patent Office. Senator *Feinstein* has explained why this is a matter of fairness and is better for consumers. I am hopeful that the amendment passes.

I thank the Chair.