APPENDIX: HOW THE AMERICA INVENTS ACT CHANGES PATENT LAW

The bill tilts the playing field in favor of multinational corporations and market incumbents. The bill shifts from today's emphasis on disclosure and disruptive innovation to favor trade secret and market incumbency, in the following ways.

- The § 102(a) grace period is totally repealed. Every inventor will be in a race against all other possible disclosures—no inventor will have the time to perfect and test an invention before filing. All companies will be forced to file before an invention is fully understood or tested. That will be expense for your clients and trouble for you as an attorney, and reduce patent quality.
- Inventors, entrepreneurs, and startups use the grace period of § 102(a) to meet with investors, do the trial-and-error of R&D, and test their inventions. Under today's law, the implied obligations of confidentiality in conversations with investors and early-stage partners give sufficient protection to permit these ordinary business activities. The bill repeals all these protections, and replaces them with a flimsy grace period that creates unacceptable risk of loss of patent rights, that no business can rely on—though adds strong protections for large companies that can raise all their financing, and do all their manufacturing and testing in-house. Inventors won't be able to talk to investors without a patent, and won't be able to file an application without an investor.
- The bill states that an inventor can recover patent rights if he can prove that all other disclosures originated with the inventor—but the bill neglects to create a procedural forum for showing derivation in cases where the leak is not embodied in a patent application, or where the leak neglects to attribute the original inventor. As a practical business matter, the bill leaves no commercially-feasible grace period, an integral part of U.S. patent law since 1839.—you will have to file every application as soon as possible, often long before the invention is ready.
- Today's law gives Americans several advantages over foreign inventors (under the "*Hilmer* rule"). The bill removes these advantages, and instead places American inventors at a disadvantage to foreign inventors. Consider this fact pattern:
  - A German inventor files a patent application in Europe, and later in the U.S. under a bilateral treaty
  - Shortly after the German's first filing, an American files a patent application in the U.S. on a similar (not identically the same) invention, and then under the same treaty in Europe

  Under the proposed legislation, the German's patent application will be prior art that blocks the American in the U.S. If we switch them around, so that the American files first, then the American *does not* block the German in Europe. The bill does not "harmonize" the law, and the difference disfavors Americans.
- The bill provides that all disclosures within and by a single company do not create bars. This is great for multinational companies, with large in-house staffs, but totally useless for a startup or small company that has to partner with outsiders. Startups use and need the options and protections of current law, but the new bill cuts them away.
- A single offer for sale or public demonstration one day before filing a patent application will irretrievably destroy patent rights, if the poorly-drafted language is interpreted literally.
- The § 102(b) grace period is cut back—it no longer protects against activities by third parties, but only the inventor's own activities.
- A new "post grant review" procedure allows a competitor, at a time of his own choosing, to start a half-million dollar proceeding against a patent holder that has threatened no one. Existing, more modest versions of this procedure have already put companies out of business.
- As a patent attorney, you will no longer have time to do a good job preparing a patent application, you'll be "forced to file" prematurely. This will expose you to risks and destroy your weekends. Poor initial applications will drive up post-filing prosecution costs. The stricter and earlier filing deadlines will place you at a blocking point for many of your clients' business activities, harming your client relationships. Where good patent attorneys are allies in creating value for businesses today, the bill will move you to being a cost—at a much lower billing rate.

The bill destroys commercial certainty and corrupts the incentives in the system:

- Various statutory requirements that an applicant act "without deceptive intention" are repealed—in the future, applicants will have incentive to act *with* deceptive intent.

- Key terms of art are redefined—you've spent a career learning the meaning of "on sale" and "public use," but the legislative history fundamentally redefines these terms. It will take decades for courts to establish new precedent to provide any meaningful commercial certainty.
- The *Metallizing Engineering* "secret commercial use" bar is repealed—a company will be able to use an invention as a trade secret, and then spring a patent on the public years later. That favors market incumbents, but makes innovation harder for everyone else.
- The "best mode" requirement is reduced to a sham: a patentee will be permitted to disclose only a fictitious embodiment, while holding the best as a trade secret.
- The bill gives companies the right to patent and repatent inventions for years, to keep them locked up, neither using them nor permitting them to be used, for far longer than 20 years.
- Several aspects of the "first-inventor-to-file" provision—the ones that give patents to second inventors, and to companies that kept inventions in secret for years before filing patent applications—violate constitutional limits on Congress' authority—years more litigation and commercial uncertainty.
- The Act allows Wall Street banks to attack "business method" patents that they are infringing. This doesn't extend to any other industry, only business methods—another Wall Street giveaway.

The bill is out of committee—further amendments are unlikely. It is literally impossible to alter the bill to meet the needs of startups through an amendment strategy at this late date. The multinationals and their congressional allies smell victory. They see no reason to allow any weakening of their preferred bill through amendments favoring small businesses. The only option at this point is to vote it down.

Typical inventor activities that no longer "work"

Most startups, and many inventions at established companies, go through at least one of two "stories." They're reasonable commercial practice under today's law, but not under the bill:

- An entrepreneur with nothing but an idea typically has to present his idea to dozens of venture capitalists and potential manufacturing or marketing partners, without formal confidentiality agreements, to get a company started. (VC's *never* sign confidentiality agreements for first meetings.) This works under today's law, because of the implied obligation of confidentiality and the protection of § 102(a), but under the bill, these conversations will create commercially-unacceptable risks *to the investor and partner*. U.S. inventors will be under the same "Catch-22" as European inventors—unable to talk to potential investors until a patent application is filed, but unable to file a patent application without an investor. Startups will die before being born.
- Companies that need a long "invention incubation" period—trial and error, conceive, test and discard, until finding the "magic combination" of techniques—use the § 102(a) grace period to do their R&D in confidence, and file patent applications only when it's clear which inventions are valuable, and how they work. Under the bill, a company will have to file a continuous stream of patent applications, many directed to inventions that are dumped under current law. This will increase patent costs remarkably.

Almost every startup goes through one of these two, many through both, as new companies create new wealth and new jobs under today's law. Inventors wait to file quality patent applications until they have quality inventions. America's unique and strong *right to file in the future*, after the inventor and investor know whether the invention is valuable, makes business easy, and prevents wasted costs for inventions that prove worthless.

The "America Invents Act" revokes this historic right. Property rights turn on non-business legal technicalities created to satisfy bureaucrats, technicalities that will cost $1 billion annually. The bill requires a company to file premature, hasty, and expensive patent applications on every baby-step idea to preserve rights against third parties who are dabbling in the field without intent to develop a commercial product. The America Invents Act makes these two stories nonviable for startups—because the authors "didn't think" about them, or didn't want to.

In 2010, the Kauffman Foundation and Census Bureau released two studies on job creation. Both found that "net job growth occurs in the U.S. economy only through start up firms." If creating new jobs is Congress's Job One, then killing the America Invents Act is a good place to start.

The proponents' arguments do not survive scrutiny

Proponents suggest that the bill does away with complex and costly interferences. That's true, but irrelevant. Under 100 applications per year end up in interferences. In contrast, the change to today's "§ 102(a)" grace period affects commercial decisions and raises costs for *hundreds of thousands* of inventions per year, during the time *before* filing, by giving inventors and patent attorneys time to get it right the first time. Because the Patent Office has no insight into the pre-filing process of invention, it simply hasn't taken into account the realities of invention incubation and the costs of its proposal. Further, the proposed replacement, "derivation proceedings," are the most costly disputes in patent law in those jurisdictions where they exist.

Second, proponents argue that provisional applications will be a cheap way to preserve rights. But that isn't true under the new law. Under current law, a cheap provisional is useful to show conception and diligence. But under Patent Reform, a provisional application only provides legal benefit if prepared with full § 112 ¶ 1 care and completeness. For a typical startup invention, the cost in attorney fees and inventor time for a provisional application is $10,000 or more—a formidable barrier to an entrepreneur's first conversation with an investor.

Third, proponents argue, "The bill locks in rights if you publish a disclosure of the invention." But all companies rely on secrecy for their future plans. No company publishes its most sensitive and advanced technology years before introduction. This argument ignores business reality.