America Invents, At Least For Now

An Analysis of The Latest Patent Reform Initiative Before Congress

by Bill Loginov D'85

With economic crisis, terrorism and war topping the headlines and Congress' agenda, there is little discussion in the mainstream press of the issue of patent reform. For years congress has wrestled with the prospect of reforming the patent system to "streamline" some of its inefficiencies and curb some purported systemic abuses. A series of "patent reform" bills have been introduced in successive congresses only to die a quiet death without passage. This time may be different, as the most recent effort at patent reform, H.R. 1249, known as the *Leahy-Smith America Invents Act*, has gained passage in both houses of Congress, and now awaits reconciliation for slight differences between the two versions. Most observers believe that this will lead to enactment of some form of the reconciled bill this year, as the President has indicated he will sign it.

Should the Act pass, it will be the most significant change in U.S. patent law in more than fifty years and will, no doubt, have a profound effect on the way businesses and entrepreneurial individuals pursue patent protection for their innovations. While some aspects of the Act may be welcome changes for inventive community, the majority of the Act promises a negative impact on innovation, particularly for smaller, less well-funded entities. In a nutshell, here are the major changes and their possible impacts on smaller businesses as they seek to protect their innovations.

First to File:

If passed, this patent reform bill would dramatically shift the way patent protection is obtained. The United States would fall in line with most foreign nations by moving from a system favoring the inventors (i.e. "first to invent" where the first inventor gets the right) to one that favors the first entity to file the patent application regardless of the first inventor. This is the old "race to the patent office" scenario that allowed Bell to win out in patenting the telephone. Inventors are currently allowed a one-year grace period to file after their own public use or sale of products embodying the subject matter of the patent. In most cases this would go away and a patent application would have to be filed as soon as possible after the concept was ready to patent and before any public use or sale. Ostensibly, this change simplifies the filing process and eliminates the complex process known as "interference" in which two inventors must litigate in the Patent Office to determine who invented first. First to file a patent application on a concept wins—period.

Fee diversion:

One of the few positive aspects of the Act is the new fee diversion rules. Fee diversion allows the federal government to siphon off some of the patent fees sent to the U.S. Patent and Trademark Office to other government agencies and uses. This policy has contributed to the 3.5-year backlog of patent applications awaiting examination by the inadequately small corps of patent examiners.

- Ending fee diversion, and allowing the USPTO to use its own fees to hire more examiners could substantially lessen the current backlog.

It is important to note that different versions of the bill passed by the House and Senate differ on fee diversion. It may not survive reconciliation as a result. If so, score one more for the other side.

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Business Methods:

A highly-debated provision allows financial institutions to further challenge patents based on business methods. This was pushed-for by large financial service entities—enough said.

Along with these key changes are some other provisions that are both good and bad. For example, the basis upon which a third party (i.e. your competitor) can request the Patent Office to reconsider the allowance or the grant of a patent have been expanded. This is a boon for larger companies, which can track the activities of smaller ones and search for prior art that weakens the smaller company's patent. It also increases the smaller company's potential cost of obtaining a patent in potentially needing to defend the patent allowance/grant against such requests. Also, the damages available in a patent infringement suit would be more limited and more controlled. In particular, willful infringement—the punitive damages awarded for deliberate infringement of another's patent right would be harder to prove. This could reduce the value of an individual patent and therefore the value of the company possessing it. On the plus side the vexatious "best mode" requirement in which a patent must state the best mode of carrying out the invention would be relaxed. Often an inventor neglects to tell me the best circuit or glue to use with their device. This could give rise to an invalid patent. More practically, the Act makes it easier for an inventor to withhold a trade secret that makes a product work well, while still obtaining an enforceable patent on the product. Another small plus is the limitation on who can sue for "false marking," that is, the placement of an incorrect patent number or "patent pending" designation on a product. Mistakes like this happen, and can cost you. More on this subject in our upcoming "trolls" article.

What It All Means

Focusing on the bigger changes brought about by the Act, larger companies will benefit from the use of their in-house patent attorneys and the ability to access a sizable army of patent attorneys in large firms. This will allow large companies to expedite the filing process and win the race to file, meaning they can potentially obtain more patent rights than a smaller enterprise that must budget patent costs carefully and select the most important concepts to protect. In general, individuals and smaller enterprises have benefited greatly from first to invent, as it allows them to carry out research and development, keeping good records of inventions and their respective dates and eventually consulting a patent attorney to file the appropriate patent applications. In the time between invention and patent-filing, the enterprise could secure funding, ensure that the inventions were sound and perfect key aspects of the concepts being patented. In essence, it could be a relatively relaxed process (in most instances) where the enterprise could test the waters regarding a new concept and determine market viability before committing to thousands of dollars of patent costs. However, smaller enterprises and individuals are simply not equipped to divert the man hours and financial resources, at the drop of a hat, to focus on new patent opportunities. Further, smaller companies are generally unable to afford in-house counsel, and must reach out to a patent firm to process their applications with the speed required under the Act. This takes time, and some firms will invariably favor their more regular and established clients, or larger clients, by addressing their needs first. These factors could slow down the process for smaller enterprises—where timing is everything.

More particularly, after the Act it is likely that small enterprises may no longer be able to use their unpatented developments alone to attract investors. Instead, they would be required to incur the expense of filing and legal fees required to obtain a patent application before ever knowing whether or not their invention could be commercially viable. Likewise, after the Act, small enterprises will be faced with the dilemma of either dramatically increasing the number of patent applications filed early on in a product development, or losing much of their potential patent protection.

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The concerns raised above are echoed throughout the community of independent inventors, small business owners, manufacturers, angel investors, and venture capitalists who in many cases oppose the legislation, saying it favors larger corporations. "We are playing Russian roulette with the basis of the American economy, which is innovation," said Kevin Kearns, president of the U.S. Business and Industry Council (USBIC). http://www.theepochtimes.com/n2/united-states/patent-reform-favors-corporations-multinationals-58714.html

How to Prepare

The best advice I can give to an inventor or small enterprise in preparing for the probable passage of the Act is to begin ascertaining what concepts are ready for patenting. Are they sufficiently fleshed-out that a person of skill in your industry could make them work, at least at a basic level? If so, and if these concepts are commercially viable then it may be time to consult a patent practitioner. You should be ready to file when the Act's first to file provision takes effect. Consider the use of *well-drafted* provisional applications and/or "omnibus" patent applications that contain a wide range of concepts and variations. The key will be to describe as much of your inventive concept as possible in a patent application, and worry about specific claims later. Aside from this advice, contact your legislators and politely educate them on the potential downsides for the small business and those it employs—their constituents. Good luck!

Bill Loginov is a Dartmouth '85 graduating with a degree in Engineering, he received his JD from the Cornell Law School. He is the Principal Attorney of Loginov & Associates, PLLC. A registered US Patent Attorney with over 20 years of experience serving small and large clients in a variety of technical fields. He is an active participant in the DEN.