November 4, 2011

The Honorable David Kappos
Under Secretary of Commerce for Intellectual Property &
Director of the United States Patent and Trademark Office (USPTO)
Co: Ms. Elizabeth Shaw, Esq.
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Dear Under Secretary Kappos:

I am writing with respect to the report required from the United States Patent and Trademark Office (USPTO) by Section 3(m) of the recently enacted "Leahy-Smith America Invents Act" (Leahy-Smith Act).1 The report at issue directs the USPTO to report on the operation of prior user rights in selected countries in the industrialized world and on constitutional and legal issues in the United States associated with placing trade secret law in the patent law, among other purposes.

Recently, the USPTO filed a Notice of Public Hearing and Request for Comments on the Study of Prior User Rights2 requesting public comment in furtherance of Section 3(m) of the Leahy-Smith Act seeking comment on, among other things: the effect of prior user rights on innovation rates; the correlation, if any, between prior user rights and start-up enterprises, as well as the ability to attract venture capital to start new companies; the effect of prior user rights, if any, on small businesses, universities, and individual inventors; and whether or not the change to a first-to-file patent system creates any particular need for prior user rights.

I had an opportunity to attend the public hearing held by the USPTO on October 25, 20113.

No small inventors or researchers or venture capitalists were heard from.

All of the public witnesses - representatives of large manufacturing companies and the professional bar - supported the expansion of prior user rights contained in the Leahy-Smith Act. Yet, very little non-anecdotal evidence was offered to support their conclusions. Indeed, most conceded that they had "not analyzed prior user rights and the effect on small business, universities, and inventors."4

Witnesses at the USPTO hearing cited 1994 Senate testimony to suggest prior user rights were good for small business. Yet, the 1994 testimony in question centered on a manufacturing process that was later patented by a third party who, to that point, had not even enforced the patent against the prior user.5

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1 http://www.gpo.gov/fdsys/pkg/PLAW-112publ29/pdf/PLAW-112publ29.pdf

2 http://www.gpo.gov/fdsys/pkg/FR-2011-10-07/html/2011-26154.htm
3 http://www.uspto.gov/aia_implementation/index.jsp
4 http://www.uspto.gov/aia_implementation/index.jsp
5 http://patentreform.info/Emails%20from%20JM/House%20hearing%20August%209,%201994.pdf

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Testimony before the USPTO also posited that the expansion of prior user rights was necessitated by the need to safeguard trade secrets governing the manufacturing processes for many innovative commercial goods.

Yet, Section 5 of the Leahy-Smith Act implies the expansion of prior use well beyond the manufacturing processes, which I believe is the major concern.

I believe that the Leahy-Smith Act's statutory changes to prior user rights, if not appropriately cabined, will have large, altering effects on the scientific research, innovation, and the patent community as well as the ability for new and small businesses to obtain the capital required to transfer the result of research to commercialization.

I have personal experience working with small companies and venture capital organizations and have directly observed the value of a patent as the major asset in the decision to invest capital to change the potential energy created by the patent into kinetic energy manifested by a product.

Consideration was regularly given to whether or not the patent provided sufficient protection to prevent a larger more well capitalized organization from taking over the newly created market and, thereby, putting at risk the initial investment .

By way of background, I have been involved in the development of technology that has brought forth new capabilities and strengthened the US's economic and national security capability for over 40 years. I have founded small companies and have worked as CTO in very large companies such as Ford and LORAL. In addition I have had several positions as a Department of Defense (DOD) government employee all in the high technology fields.

Most recently I served as the Director of the Defense Advanced Research Projects Agency (DARPA) from 2001 to 2009. DARPA is the principal agency within the Department of Defense for research, development and demonstration of concepts, devices and systems that provide highly advanced military capabilities. DARPA's mission is to maintain the technological superiority of the U.S. military and prevent technological surprise from harming our national security by sponsoring revolutionary, high-payoff research bridging the gap between fundamental discoveries and their military use. As Director, I was responsible for management of the Agency's projects for high-payoff, innovative research and development.

Prior to my appointment as Director of DARPA, I held the position of CEO and President of The Sequoia Group, which I founded in 1996, which I reestablished when I left the DOD as the Director DARPA in February 2009. The Sequoia Group provides program management and strategy development services to government and industry. Presently, I also serve as a Distinguished Fellow with the Council on Competitiveness, a non-partisan organization comprised of CEOs, university presidents, and labor leaders working to ensure U.S. prosperity.

The views expressed herein are my personal views and not the views of the Council or any other organization.

My views are based on my stated experience working with early stage research and development, which has fostered the growth of small companies resulting in significant impact on the US economy. This experience provides me a unique insight into what stimulates small businesses which are acknowledged to be the historical economic engine of the US prosperity.

The expansion implied by Section 5 of the Leahy-Smith Act takes prior use well beyond the manufacturing processes and will create doubt concerning the value of the patent asset owned by new and small companies. This will result in investments being held back, dampening the engine which has been behind US economic and national security growth.

The U.S. economy is dependent on patents and other IP assets for stability and growth. According to the President's 2008 Economic Report6, intellectual property accounts for 33 percent of the value of U.S. corporations, with patents representing one third of this value. In total, U.S. intellectual property is worth an estimated $5 trillion, which represents more than a third of our country's GDP. The IP component of the U.S. economy, which may be its largest sector, is greater in value than the entire GDP of any other nation.

A strong patent system is transformative in its ability to fuel local investments in knowledge-based industries and revitalize struggling state and regional economies. Strong patent rights drive technology transfer and private capital investments in home grown innovative technologies. Strong patent rights facilitate and encourage technology sharing among universities, national laboratories and private firms.

Patent fueled technology transfer and investments facilitate "disruptive" innovation empower smaller firms to force technological change within manufacturing and other traditional sectors, and encourage incumbents to improve existing product lines and business units.

Small innovative firms produce proportionately more, higher quality patents than large firms, and they rely more heavily on patents to protect their innovations. Patents also build new businesses around emerging fields of technology, which might otherwise be ignored by large firms.

It is based on the appreciation for the link between strong patent protection and the eventual commercialization of research and discoveries that I base my concern about the expansion of the prior user rights defense beyond the manufacturing process.

The Leahy-Smith Act also gives multinational corporations an incentive to keep innovations secret and creates uncertainty around the value derived from filing for patents by small companies if the subject matter in question is possibly being used in secret. Recently, two prominent Members of Congress expressed similar concerns stating that prior user rights could be disastrous for entrepreneurs and innovators because it rewards secrecy and challenges the foundation of our patent system-exclusivity.7

I believe that Congress' decision to expand prior user rights as part of the Leahy-Smith Act was a rash one. Over time it will prove to degrade the patent system by substantially reducing patent certainty and it will seriously impair the process by which commercialization takes place.

There is something fundamentally unfair about allowing something that is secret to erode a patent right. The inventor who seeks to patent and is thereby required to disclose could never have known about what is kept secret. In the United States, we have historically embraced the quid-pro-quo of granting exclusive rights to inventors in exchange for disclosure. It has proven effective to our economy for generations.

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6 http://www.gpoaccess.gov/eop/tables08.html

7 http://sensenbrenner.house.gov/News/DocumentSingle.aspx?DocumentID=266494

I implore you and the USPTO, to make very clear as part of the report to Congress and in any future rules concerning agency's position on Section 5 that the prior use defense is limited – and should remain limited – to commercial manufacturing process patents.

It does not – and should not be extended to - apply to commercial end products or other patents that are not manufacturing-related process patents.

I believe this is well within the USPTO's authority. The scope and limits of Section 5 of the Leahy-Smith Act may be unclear to the marketplace. A perceived lack of specificity concerning for the limits of - and the stated justification for - Section 5 IS DANGEROUS.

Any proposal from the USPTO suggesting Section 5 should be expanded beyond the manufacturing process will weaken patent protections and create uncertainty resulting in small companies encountering more headwinds in their search for funding. Technological advance will slow.

There is considerable talk on both ends of Pennsylvania Avenue about the need for more jobs, but Section 5 of the Leahy-Smith Act may well wind up crippling one of our most effective economic job stimulants – patents – if steps are not taken to insure that Section 5's prior user defense is limited to the manufacturing process.

Sincerely,

Tony Tether

Dr. Tony Tether

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