

PATENTLY ABSURD CHANGES THREATENING PATENT SYSTEM

The America Invents Act, which is likely to pass soon, would be a travesty for our innovation economy

Most VCs have strong feelings about the U.S. patent system—mainly frustration—about the three to eight-year waits to obtain patents, frivolous lawsuits, overly broad software patents, wrongful denials, etc.

The industry is mostly unaware that major patent reforms are about to make things go from bad to worse, and largely benefit big companies—the ones with the resources to lobby—to the detriment of smaller entrepreneurial startups and for whom patents were first created.

This topic is under-reported due to its complexity and obscurity, yet it has the potential to knock a few more percentage points off of the average IRRs as Sarbanes-Oxley did.

The America Invents Act passed the Senate in March, and the House version was approved by the House Judiciary Committee in April. As of this writing, it hasn't been scheduled for a vote in the House, but it is likely to pass soon. As is, it would be a travesty for our innovation economy due to three major changes:

- 1) Grace period eliminations,
- 2) Change from First-to-Invent (FTI) to First-to-File (FTF), and
- 3) Post-grant review.

Grace Period

The current grace period is the one-year period inventors have between public disclosure and filing deadline, enabling the time for fundraising, getting customer feedback and other acts that share information outside the company.

Under the new law, public use or offers for sale become an immediate bar against getting a patent. This law would have precluded the Wright brothers from patenting the airplane due to public use at Kitty Hawk. Similarly, Hewlett and Packard would have been denied a patent due to their offering their first product, an audio oscillator, for sale at a trade show, despite the key innovations being concealed inside the instrument's case.

This requires being careful to not publicly use nor offer products for sale before filing. What's particularly insidious is that, many years from now, defendants' discovery could use these provisions to disallow patents asserted against them if they can obtain evidence of early use or offers.

First-to-File

For 200+ years, the U.S. has had an FTI patent system that served us well. Everyone else uses FTF, and the results have been bad for entrepreneurship. Canada changed in 1989, and the adverse effects on small companies have been proven.

The main problem with FTF is the new secrecy required prior to filing due to the fact that if someone else learns of the invention, that party can apply for the patent—and prevail—unless the original inventor can prove that it was derived from him or her without the benefit of discovery.

This creates an unparalleled reward system for corporate espionage and hacking. The Chinese Google attack and China's passing the U.S. in patent applications in 2009 should give us pause.

FTF also means that innovators must apply early and often, which will flood the patent office with higher quantities of lower-quality patents, as it did in Canada. This will worsen the delays to issuance. While a selling point of the new bill is that delays will be lessened by ending congress's diversions of money from the PTO, the fact is that only \$65 million has been diverted over the past six years, which is insignifi-



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cant relative to the PTO's 2010 budget of \$2.3 billion.

The combination of the grace period restrictions and the change to FTF will require secrecy and close down the open-innovation model we enjoy in America. It will also force companies to file sooner, before fundraising — a Catch-22.

Review Process

Post-Grant Review would be the ability of a third-party to challenge a patent that just issued and cause it to be unassertable while being adjudicated—potentially for years. (See PatentAssassins.com)

Not all sectors benefit from patents, but many crucial ones do (for example, clean-tech and medical). This article could only scratch the surface of this critical issue. Please consider urging your congressman and the **National Venture Capital Association** to oppose these provisions.

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