



October 5, 2012

Ms. Susy Tsang-Foster  
Legal Advisor  
Office of Patent Legal Administration  
U.S. Patent and Trademark Office  
P.O. Box 1450  
Alexandria, VA 22313-1450

Re: Comments of NSBA in Connection with the U.S. Department of Commerce, Patent and Trademark Office's (USPTO) Proposed Rule: *Changes to Implement the First Inventor to File Provisions of the Leahy-Smith America Invents Act*

Dear Ms. Tsang-Foster:

The National Small Business Association (NSBA) is the nation's oldest nonpartisan small business advocacy organization, with more than 65,000 small business members in virtually every industry across the country. Having strongly opposed the *Leahy-Smith America Invents Act (AIA)*<sup>1</sup>, we appreciate the opportunity to comment on this public rulemaking, but would nevertheless like to express our serious concerns with key elements of the proposed rule, as well as other related matters. Therefore, on behalf of the NSBA, I would like to submit the following comments on the U.S. Patent and Trademark Office's (USPTO) Proposed Rule: *Changes to Implement the First Inventor to File Provisions of the Leahy-Smith America Invents Act*.<sup>2</sup>

This letter discusses our concerns regarding:

1. The USPTO's failure to designate this rulemaking as economically significant, pursuant to Executive Order 12866<sup>3</sup>;
2. The USPTO's inappropriate certification under the *Regulatory Flexibility Act (RFA)*<sup>4</sup> that the proposed rules will not have a significant impact on small business concerns; and
3. The failure of the USPTO, in conjunction with the U.S. Small Business Administration's (SBA) Office of Advocacy, to comply with the AIA and conduct a study on the potential effects of the new first inventor to file provisions on small business concerns<sup>5</sup>.

### *The Leahy-Smith America Invents Act*

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<sup>1</sup> *Leahy-Smith America Invents Act* (Public law 112-29, 125 Stat. 284 (2011))

<sup>2</sup> U.S. Department of Commerce, Patent and Trademark Office (USPTO) Notice of Proposed Rulemaking titled *Changes To Implement the First Inventor to File Provisions of the Leahy-Smith America Invents Act* (FR Doc. 2012-18121; Filed 7-25-12)

<sup>3</sup> *Executive Order 12866* (58 FR 51735)

<sup>4</sup> *Regulatory Flexibility Act* (5 U.S.C. §§601-612, in relevant parts)

<sup>5</sup> See Section 3 of the *Leahy-Smith America Invents Act* (Public law 112-29, 125 Stat. 284 (2011))

On September 16, 2011, after years of hearings and discussions on how best to modernize and improve America's patent system, President Obama signed into law the *Leahy-Smith America Invents Act*. The AIA is the most comprehensive overhaul of the U.S. patent system since its inception, and significantly alters the patenting landscape in favor of large, multinational corporations at the expense of the nation's independent investors, technology startups, and innovative small businesses.

Throughout the entire legislative process, NSBA argued and continues to argue that it is imperative that any effort to reform America's patent system must carefully consider the effect such changes would have on innovation and job creation within America's small-business community. This letter discusses our concerns with the implementation of Section 3 of the AIA, which converts the U.S. patent system from a "first to invent" to a "first inventor to file" system, as well as other related matters.

### *General Discussion of Proposed Rule*

On July 26, 2012, the U.S. Patent and Trademark Office (USPTO) published proposed rule changes to implement the first inventor to file provisions of the AIA.<sup>6</sup> The proposed rulemaking seeks to "amend the rules of practice in patent cases to implement the changes to the conditions of patentability in the AIA, and to eliminate the provisions pertaining to statutory invention registrations."<sup>7</sup> The implementation of these rules will have broad, negative effects on small firms and independent inventors, and by virtue of the same, our economy as a whole.

### *USPTO's Failure to Designate this Rulemaking as Economically Significant, Pursuant to Executive Order 12866*

The USPTO erroneously failed to designate this rulemaking as economically significant, pursuant to Executive Order 12866.<sup>8</sup> Under Executive Order 12866, a "significant regulatory action" is defined as "any regulatory action that is likely to result in a rule that may: (1) [h]ave an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities... [or] (3) [m]aterially alter the budgetary impact of entitlements, grants, user fees or loan programs or the rights and obligations of recipients thereof..."<sup>9</sup> The USPTO facially contradicts itself as it admits that paperwork burden alone would be \$288,749,300 per year.<sup>10</sup>

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<sup>6</sup> USPTO Notice of Proposed Rulemaking (NPRM) titled Changes To Implement the First Inventor to File Provisions of the Leahy-Smith America Invents Act (*FR Doc. 2012-18121; Filed 7-25-12*)

<sup>7</sup> *Id.*

<sup>8</sup> *Id.* The proposed rule states: "[t]his rulemaking is not economically significant as that term is defined in Executive Order 12866."

<sup>9</sup> Executive Order 12866 Section 3(f)(1) and 3(f)(3).

<sup>10</sup> 77 Fed. Reg. 43754

Small businesses are America's economic engine and are the most dynamic and innovative sector of the U.S. economy. They comprise 99.7% of all domestic employer firms, employ approximately 50% of all private sector employees, and have created roughly 65% of America's net new jobs over the past 17 years.

Small firms produce 16 times more patents per employee than larger firms, and outperform their larger counterparts in almost every category, including citation impact, inventor awards, licensing revenue and increased profits and sales, as well as in "patent generality, originality, and patent growth."<sup>11</sup> According to the referenced study from the SBA Office of Advocacy, 42 percent of small firms (those having less than 500 employees) were granted 15 or more patents in the five-year period from 2005 – 2009, and have average sales of approximately \$46.5 million (an average of \$330,075 in sales per employee).<sup>12</sup>

By repealing the invention date as the priority date, compared to prior art, the AIA will dramatically increase the pressure on small businesses to establish filing date priority and require them to file more frequently and at every stage of development without the opportunity to perfect their inventions. The costs of these filings (including the hiring of patent attorneys, new patenting costs, etc.) and the considerable amount of time involved with more frequent invention reviews, preparation and related filings will be felt most strongly by the small business community. Large, multinational corporations have the resources to file more applications quicker and earlier in the development process and will have a disproportionate advantage over their independent and smaller counterparts. The implementation of this rule will deliver a critical blow to small-business patentees and place them at a significant disadvantage in the patenting process.

Clearly, this proposed rulemaking would "adversely affect in a material way the economy [or] a sector of the economy [and]"<sup>13</sup> would be contradictory to the sense of Congress.<sup>14</sup> So, how can the implementation of a bill, described by Members from both sides of the aisle and the President as being critical to innovation, job creation, and economic competitiveness, not be "economically significant?"

Executive Order 12866 requires that "[f]or each matter identified as, or determined by the Administrator of OIRA to be, a significant regulatory action, the issuing agency shall provide to OIRA... (ii) An assessment of the potential costs and benefits of the regulatory action, including an explanation of the manner in which the regulatory action is consistent with a statutory mandate and, to the extent permitted by law, promotes the

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<sup>11</sup> U.S. Small Business Administration, Office of Advocacy Study: Analysis of Small Business Innovation in Green Technologies (Contract No. SBAHQ-09-M-02)

<sup>12</sup> *Id.*

<sup>13</sup> Executive Order 12866 Section 3(f)(1).

<sup>14</sup> Section 30 of the *Leahy-Smith America Invents Act* (Public law 112-29, 125 Stat. 284 (2011)), which states: "It is the sense of Congress that the patent system should promote industries to continue to develop new technologies that spur growth and create jobs across the country which includes protecting the rights of small businesses and inventors from predatory behavior that could result in the cutting off of innovation."

President's priorities and avoids undue interference with State, local, and tribal governments in the exercise of their governmental functions.<sup>15</sup>

Executive Order 12866 further requires that “[f]or those matters identified as, or determined by the Administrator of OIRA to be, a significant regulatory action within the scope of section 3(f)(1), the agency shall also provide to OIRA the following additional information developed as part of the agency’s decision-making process (unless prohibited by law):

- (i) An assessment, including the underlying analysis, of benefits anticipated from the regulatory action (such as, but not limited to, the promotion of the efficient functioning of the economy and private markets, the enhancement of health and safety, the protection of the natural environment, and the elimination or reduction of discrimination or bias) together with, to the extent feasible, a quantification of those benefits;
- (ii) An assessment, including the underlying analysis, of costs anticipated from the regulatory action (such as, but not limited to the direct cost both to the government in administering the regulation and to businesses and others in complying with the regulation, and any adverse effects the efficient functioning of the economy, private markets (including productivity, employment, and competitiveness), health, safety, and the natural environment), together with, to the extent feasible, a quantification of those costs; and
- (iii) An assessment, including the underlying analysis, of costs and benefits of potentially effective and reasonable feasible alternatives to the planned regulation, identified by the agencies or the public (including improving the current regulation and reasonable viable nonregulatory actions), and an explanation why the planned regulatory action is preferable to the identified potential alternatives.<sup>16</sup>

The goal of Executive Order 12866 was and is to “enhance planning and coordination with respect to both new and existing regulations; to reaffirm the primacy of Federal agencies in the regulatory decision-making process; to restore the integrity and legitimacy of regulatory review and oversight; and to make the process more accessible and open to the public.<sup>17</sup>” To date, the USPTO has failed to designate this rulemaking as economically significant and failed to provide an assessment (including its underlying analysis) of the potential costs and benefits of the regulatory action. NSBA strongly recommends that USPTO reconsider its classification of this rulemaking and declare it economically significant.

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<sup>15</sup> Executive Order 12866 Section 6(a)(3)(b).

<sup>16</sup> Executive Order 12866 Section 6(a)(3)(c).

<sup>17</sup> Executive Order 12866.

*USPTO's Inappropriate Certification Under the Regulatory Flexibility Act (RFA) that the Proposed Rule Will Not Have a Significant Impact on Small Business Concerns*

By requiring federal agencies to consider the affect their regulations have on small entities, the Regulatory Flexibility Act (RFA)<sup>18</sup> helps to level the playing field and alleviate the disproportionate burden federal regulations have on small businesses. Under the RFA, when a federal agency publishes a notice of proposed rulemaking (as is the case before us) it is required to “prepare and make available for public comment an initial regulatory flexibility analysis.”<sup>19</sup>

Section 603(b) lays out what each initial regulatory flexibility analysis is required to include. Specifically, “each regulatory flexibility analysis required under this section shall contain –

- (1) a description of the reasons why action by the agency is being considered;
- (2) a succinct statement of the objectives of, and legal basis for, the proposed rule;
- (3) a description of and, where feasible, an estimate of the number of small entities to which the proposed rule will apply;
- (4) a description of the proposed reporting, record keeping and other compliance requirements of the proposed rule, including an estimate of the classes of small entities which will be subject to the requirement and the type of professional skills necessary for preparation of the report or record; [and]
- (5) an identification, to the extent practicable, of all relevant Federal rules which may duplicate, overlap or conflict with the proposed rule.”<sup>20</sup>

Section 603(c) requires additional analysis to be included. In particular, Section 603(c) requires “each initial regulatory flexibility analysis... [to] contain a description of any significant alternatives to the proposed rule which accomplish the stated objectives of applicable statutes and which minimize any significant economic impact of the proposed rule on small entities.”<sup>21</sup>

There is, however, a loophole in the RFA. Section 605(b) of the RFA states in pertinent part: “Sections 603 and 604 of this title shall not apply to any proposed or final rule if the hed of the agency certifies that the rule will not, if promulgated, have a significant economic impact on a substantial number of small entities.”<sup>22</sup>

As previously mentioned, small firms produce 16 times more patents per employee than larger firms, outperform their larger counterparts in almost every category (i.e. inventor awards, licensing revenue, an citation impact), and have average sales of approximately \$46.5 million (an average of \$330,075 in sales per employee) per year. Additionally, 42 percent of small firms (those having less than 500 employees) were granted 15 or more patents in the five-year period from 2005 – 2009. According to a recent study by the U.S. Small Business Administration’s (SBA) Office of Advocacy, “in both smart grids and

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<sup>18</sup> Regulatory Flexibility Act (5 U.S.C. §§ 601-612)

<sup>19</sup> *Id.* At § 603.

<sup>20</sup> *Id.* Section 603(b).

<sup>21</sup> *Id.* Section 603(c).

<sup>22</sup> *Id.* Section 605(b).

solar energy, small firms account for more than 32 percent of all patents... more than 15 percent of the patents in batteries and fuel cells, [and] in all green technologies combined, small firms account for 14 percent of the patents...<sup>23</sup>,

Given that small firms account for more than 32 percent of all green technology patents, it is inconceivable that the USPTO would determine that the conversion of the U.S. patent system from a “first to invent” to a “first inventor to file” system, arguably one of the most comprehensive overhauls of the U.S. patent system since its inception, would not have a “significant economic impact on a substantial number of small entities.”<sup>24</sup> NSBA strongly recommends that USPTO reconsider its determination that this rulemaking would not have “a significant economic impact on a substantial number of small entities,” and meet the applicable statutory requirements associated therewith.

*USPTO’s and U.S. Small Business Administration (SBA) Office of Advocacy’s Failure to Issue a Study of the Effects of the First Inventor to File Patent System on Small Business Concerns, pursuant to Section 3 of the AIA*

The USPTO, in conjunction with the SBA Office of Advocacy, have failed to issue a study on the effects of the first inventor to file system on small business concerns, as required by the AIA. NSBA recommends that the requisite parties consult and issue the referenced study in the immediate future.

Section 3 of the AIA requires the Chief Counsel of the SBA’s Office of Advocacy, in consultation with the General Counsel of the USPTO, to conduct a study on the effects of the first inventor to file system on small business concerns and issue the study no later than September 16, 2012.<sup>25</sup> It is the NSBA’s understanding that as of the date of this filing no such report has been conducted or submitted to Congress, as required under the AIA. This study would examine, among other things, how the new patent system would “affect the ability of small business concerns to obtain patents and their costs of obtaining patents... whether the change would create, mitigate, or exacerbate any disadvantages for applicants for patents that are small business concerns [, and]...the feasibility and costs and benefits to small business concerns of alternative means of determining whether an applicant is entitled to a patent under title 35.”<sup>26</sup>

As the President has stated time and time again, small businesses are the backbone of our economy. Unfortunately, if the proposed rule is allowed to go into effect without an economic impact analysis as required by Executive Order 12866, an initial regulatory flexibility analysis as required by the RFA, and the joint USPTO-SBA Office of Advocacy study on the effects of the first inventor to file system on small businesses, this many no longer be the case. Again, we appreciate the opportunity to comment on the proposed rule and encourage the USPTO to conduct the requisite analysis and formulate a rule that reflects the unique needs and limitations of small business.

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<sup>23</sup> SBA Advocacy Study Cite

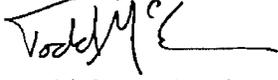
<sup>24</sup> *Id.* Section 605(b).

<sup>25</sup> Section 3 of the *Leahy-Smith America Invents Act* (Public law 112-29, 125 Stat. 284 (2011)).

<sup>26</sup> *Id.*

We look forward to working with you as this process moves forward.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd McCracken". The signature is stylized with a large, looped "M" and a long horizontal stroke at the end.

Todd O. McCracken  
President