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**From:** Andrea Belz <andrea@belzconsulting.com>  
**Sent:** Monday, November 07, 2011 6:51 PM  
**To:** IP Policy  
**Subject:** Prior User Rights

Thank you for the opportunity to respond to your request for information. I am an expert on technology commercialization, providing guidance to VCs and groups including Caltech, HRL, NASA's JPL, UCLA, and others. I serve on the board of Caltech spinoff Ondax and on the Advisory Board of UCLA spinoff Tribogenics. You can learn more about me at [www.belzconsulting.com](http://www.belzconsulting.com).

### 1. Prior user rights and start-up enterprises, and the ability to attract venture capital.

Prior user rights threaten the addressable market of a patent and therefore add risk, thus making it less likely for VCs to invest in "just a patent". The most likely prior user would be exactly the prospective customer of a patent holder, since the prior user is trying to solve the same problem.

From the prior user perspective, it is also difficult to attract venture capital. Any company that claims that it are not infringing based on having prior user rights will not attract venture capital either, because VCs are not equipped to assess trade secrets as easily as patents. Furthermore, it is difficult to trade deals between VCs if you can't direct someone to the patent. The venture industry and its famed "deal flow" depend on the flow of significant amounts of information; patents are often the core of this information transfer to syndicate deals.

In general, companies will have to advance further in making a product profitably before attracting venture capital. Expect investment to decrease in very early-stage companies.

To quantify this, go through the NVCA or the ACA and look at the fraction of deals in which the investment was made because of the patent, and then ask if it would have been made without the patent and with a trade secret instead. (A separate study would be to assess how the patent was related to the company's success.) Do not go through IP law firms because patent prosecution is their bread-and-butter, and thus they "have a dog in the fight."

### 2. Prior user rights and universities, small businesses, and individual inventors.

These should not be grouped in the same category, as universities often manage significantly larger legal budgets than small businesses and individual inventors. Small businesses cannot afford large prosecution budgets and thus will be strapped if they are forced into a first-to-file system. In addition, it is easier to defend against a patent than a prior use system, as small businesses have notoriously bad record-keeping. In fact, the patent prosecution is probably the highest level of organization that a small business achieves. Defending as a prior user will be nearly impossible for a small business.

Today universities are basically outsourced corporate R&D arms and thus are better equipped to defend against any infringement. The technology transfer function is an integrator of innovation; prior user rights would distribute this function back to university laboratories. This will make it difficult for a university legal counsel to exercise prior user rights. Furthermore, a tech transfer officer's fear that others have prior user rights will make it difficult for them to spin off technologies to small companies (see point #1 above); instead, the natural inclination would be to try to transfer technologies into large organizations with higher resources.

To measure this, go through AUTM and ask members who would be equipped to defend prior user rights. You could also assess how many companies would have been created in the absence of patents and with trade secrets, relative to the current portfolio. For small businesses and individual inventors, you could go through the state bar associations and look to sole practitioners, as they are often called on by inventors because they are more affordable, and ask them similar questions.

In summary, prior user rights threaten small businesses looking to raise money. These rights do protect small companies who intend to stay small as they need not prosecute patents, but they are not well-organized to exercise their prior user rights either.

Regards,  
Andrea Belz

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