

AAU Association of American Universities
ACE American Council on Education
NASULGC National Association of State Universities and Land-Grant Colleges
AAMC Association of American Medical Colleges
AUTM The Association of University Technology Managers
COGR Council on Governmental Relations

University Views on S. 515, the Patent Reform Act of 2009

America's universities are the principal source of the basic research that expands the frontiers of knowledge and produces discoveries that enhance our national security, strengthen our economic competitiveness, and enrich the lives of our citizens. The U.S. patent system is an integral part of the process by which universities transfer fundamental discoveries into the commercial sector for development into useful products and processes.

Six associations representing higher education interests in patent reform—the Association of American Universities, the American Council on Education, the National Association of State Universities and Land Grant Colleges, the Association of American Medical Colleges, the Association of University Technology Managers, and the Council on Governmental Relations—have been working with Congress and other participants in the U.S. patent system since the inception of the current effort to reform U.S. patent law in 2004.

We strongly support Congress' efforts on patent reform, believing that our U.S. patent system, although robust and productive in many respects, can be improved significantly to be an even more effective instrument for supporting this nation's competitiveness in the 21st century global economy.

S. 515, the Patent Reform Act of 2009, contains a number of provisions that we support but also includes two provisions that are of considerable concern and would impair the ability of universities to contribute to society through the patent system.

Problem areas:

- **Determination of Damages:** The damages provisions in S. 515 have been carried forward from S. 1145, the patent reform bill reported by the Judiciary Committee in the 110th Congress. The higher education associations believe this language would result in a preponderance of inappropriately low damage awards, reducing the deterrent effect on infringement that results from awarding appropriate compensatory damages. Courts have ample discretion under current law to assess the relative value of a patented technology in determining damages. Several alternative approaches have been suggested to provide more balanced treatment of the determination of damages based on the facts of a given case. We believe that such a balanced treatment should include clearer statutory instructions to courts – “gatekeeper” language – to produce a more consistent, systematic judicial process that involves a case-by-case analysis using an

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economic rather than technical valuation, with the value of the claimed invention being assessed at the time of infringement rather than at the time of the patent application.

- Post-Grant Procedures: The associations oppose the modified *inter partes* reexamination procedure included in S. 515. As noted below, the associations strongly support the post-grant review “first window” for challenging patents within the first 12 months of issuance, a procedure carried forward from S. 1145. However, we raised serious concerns about the open-ended post-grant review “second window” included in S. 1145. This overly expansive procedure for challenging patents throughout their lifetime would have increased patent uncertainty and impaired the ability of universities to transfer their inventions to the private sector for development.

H.R. 1908, passed by the House in the 110th Congress, replaced the post-grant second window with an improved *inter partes* reexamination procedure that resulted from broad, extensive negotiations. The associations endorsed that procedure.

S. 515 has incorporated the *inter partes* provisions of H.R. 1908 but, unfortunately, expands the eligible evidence that may be used beyond patents and printed publications to include evidence that the claimed invention was “in public use or on sale.” This expansion opens up the procedure to a wide range of subjective, anecdotal information that will require costly and complicated discovery and necessitate adjudication procedures appropriate for courts but not the United States Patent and Trademark Office (USPTO). Limiting challenges to objective, verifiable evidence as was done in H.R. 1908 obviates the complicated and costly discovery associated with challenges based on any issue of patentability and conforms the administrative procedure to one appropriate to the USPTO rather than the courts. Challenging the validity of a patent in court would remain an available option throughout the life of a patent.

The associations can support the *inter partes* procedure of S. 515 if eligibility of “in public use or on sale” evidence is removed. Other acceptable formulations of the *inter partes* reexamination procedure may emerge from current deliberations as well.

S. 610, introduced by Senator Kyl, includes a very thoughtfully constructed post-grant review procedure that should be given strong consideration as an alternative to the post-grant first window and *inter partes* reexamination procedures of S. 515. Among a number of desirable attributes, the post-grant review procedure of S. 610 includes both a first and second window, employs an opposition procedure that would effectively address the delays inherent in the *inter partes* reexamination procedure, allows any invalidity argument to be presented in the first window but limits the second window to arguments based on patents and printed publications, and establishes an elevated threshold for bringing a subsequent second-window challenge to any patent that has already been subject to a second-window challenge.

The post-grant review procedure of S. 610 provides an efficient mechanism for challenging patents while including protections against use of the procedure to harass a patent owner or delay the establishment of patent validity. Moreover, it is designed to be effectively administered by the USPTO.

Provisions of S. 515 that would improve patent quality, reduce litigation, and facilitate research collaborations include:

- a post-grant review procedure for challenging patents within the first 12 months of issuance through a USPTO administrative procedure, which will provide an efficient and less costly alternative to court;
- third-party submission of prior art to the USPTO before a decision on a given patent application, which will promote patent quality and validity by assisting patent examiners in evaluating patent applications; and
- conforming the Cooperative Research and Technology Enhancement (CREATE) Act of 2004 to a first-inventor-to-file system. The CREATE Act facilitates research collaborations among universities and between universities and industry.

Prior concerns effectively addressed in S. 515:

- S. 1145 included an extremely problematic provision—Applicant Quality Submissions—which called for mandatory submission from patent applicants of prior art and other material relevant to patentability. This provision would have produced a massive cost-shifting from the federal government to patent applicants, yielded highly variable results, exposed patent applicants to new sources of litigation, and discouraged inventors from pursuing patents particularly on inventions in exceptionally complex areas of technology. S. 515 eliminates this provision.
- The higher education associations expressed strong concerns in the past over the inclusion in prior legislation of the expansion of prior user rights as a defense to infringement. That expansion would have greatly increased the ability of companies to employ trade secret procedures to develop products that would be immune from the assertion of patent rights, increasing patent uncertainty and thereby impairing the ability of universities to transfer their inventions to the private sector for development. The expansion of prior user rights was removed from S. 1145 as reported by the Senate Judiciary Committee, and S. 515 omits those provisions as well.
- The associations were among those groups expressing concern about the broad expansion of USPTO rulemaking authority provided in S. 1145. S. 515 eliminates the expansion of USPTO rulemaking authority.

Other issues for consideration:

- 1) Venue: The venue provisions in S. 515 mirror last session's S. 1145. They allow universities and foundations that provide patent management for a university to file suit in their own judicial districts. These provisions, however, do not include private non-profit research entities. It would be desirable for these non-profit research institutions, critical players in the innovation economy and often joint inventors with universities, to be provided treatment comparable to universities with respect to venue. Such language was included in H.R. 1908 as passed by the House.

- 2) Inequitable conduct: S. 515 omits language modifying the inequitable conduct provisions of current law. The National Academies' report¹ recommended eliminating or substantially modifying inequitable conduct provisions because, in the words of one judge, "the habit of charging inequitable conduct in almost every major patent case has become an absolute plague." It would be desirable to include language that establishes a "but for" standard for a finding of inequitable conduct – *i.e.* misinformation or withholding of information of sufficient significance that the patent examiner would not have issued the patent but for that inequitable conduct.
- 3) Patent Fees: S. 515 grants the USPTO the authority to set fees for the filing or processing of any submission "provided that such fee amounts are set to reasonably compensate the Office for the services performed." It is clearly important to provide adequate resources to the USPTO. The fee-setting provisions of S. 515 provide the USPTO with the flexibility to set fees and include effective checks and balances.

In addition, it would be highly desirable for Congress to include in patent reform legislation some feasible means for preventing fee diversion, which siphons necessary funds away from the USPTO.

¹ The National Research Council, *A Patent System for the 21st Century*.