

*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*

*COGR Council on Governmental Relations*

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### **University Views on S. 1145, the Patent Reform Act of 2007**

Five associations representing university 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, and the Council on Governmental Relations—have been working for over two years with Congress and other members of the patent community on the important effort to reform U.S. patent law.

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

S. 1145 *as introduced* contained a number of provisions that we support but also included provisions that were of considerable concern for universities, impairing their ability to contribute to society through the patent system. S. 1145 *as reported* effectively addresses a number of these issues. We very much appreciate the responsiveness of the Senate Judiciary Committee to our concerns, particularly given the daunting task of addressing legitimate but often competing interests across the diverse sectors of the patent community.

Despite the improvements in S. 1145 as reported, significant problems remain for universities. The following provides a description of the provisions of S. 1145 as introduced that we have supported from the outset, concerns with that bill that have been resolved, and our remaining concerns.

#### **Provisions of S. 1145 as introduced 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 Patent and Trademark Office (PTO) administrative procedure, which will provide an efficient and less costly alternative to court;
- Third-party submission of prior art to the PTO prior to a decision on a given patent application, which will promote patent quality and validity by assisting patent examiners in evaluating patent applications; and
- Publication of all patent applications 18 months after filing, which encourages disclosure in return for proprietary control over one's intellectual property.

- In addition, S. 1145 carries forward the CREATE Act and conforms it to a first-inventor-to-file system. The CREATE Act, enacted in 2004, facilitates research collaborations among universities and between universities and industry.

### **Status of concerns raised by the university associations:**

#### Issues resolved in S. 1145 as reported:

- Several aspects of a first-inventor-to-file system are potentially problematic for universities. S. 1145 includes three conditions requested by universities in order to accept a move from a first-to-invent to a first-inventor-to-file system: an effective grace period, a strong inventor's oath or declaration requirement, and a continuation of provisional applications.
- The university associations expressed strong concerns over the expansion of prior user rights as a defense to infringement. That expansion would have greatly expanded the ability of companies to employ trade secret procedures to develop products that would be immune from the assertion of patent rights. The expansion of prior user rights has been eliminated.
- The associations were among those groups expressing concern about the broad expansion of PTO rulemaking authority provided in S. 1145 as introduced. The current Senate bill eliminates the expansion of PTO rulemaking authority.
- The new derivation procedure of S. 1145 required that the party requesting the proceeding had filed an application no later than 18 months after the effective filing date of the challenged application. Since applications only publish within 18 months of filing, that requirement could have the unintended effect of limiting the ability of a junior applicant to challenge a senior application through a derivation proceeding. The requirement has been deleted.

#### Remaining issues of concern:

- The associations believe the damages language in S. 1145 as introduced was skewed too far in the direction of an apportionment of damages methodology that would have resulted in a preponderance of inappropriately low damage awards, reducing the deterrence effect on infringement that results from awarding appropriate compensatory damages. The bill as reported provides a more balanced direction to courts for employing the methods of entire market value, marketplace licensing, or apportionment. However, more work is needed. Among other changes, we believe that damages should be determined through a case-by-case analysis using an economic rather than technical valuation, and should be based on the value of the patented invention at the time of infringement rather than at the time of the patent application.
- S. 1145 includes a very problematic provision—Applicant Quality Submissions—which calls for mandatory submission from patent applicants of prior art and other material relevant to patentability. While a call for patent applicants to submit prior art known to them in return for a 20-year monopoly license might seem reasonable—and indeed, most patent applicants submit prior art known to them—this provision would produce a massive cost-shifting from the federal government to patent applicants and yield highly variable results. Moreover, the

procedure could expose patent applicants to litigation based on charges of inequitable conduct or failure of duty of candor for not having conducted sufficiently exhaustive searches. It could thus discourage inventors from pursuing patents on inventions in exceptionally complex areas of technology. The associations believe this provision should be deleted.

- Although the associations strongly support the post-grant review “first window” for challenging patents within the first 12 months of issuance, we raised serious concerns about the open-ended post-grant review “second window” of S. 1145 as introduced. This provision would have permitted a broad range of challenges to patents over their lifetime, increasing patent uncertainty and impairing the ability of universities to license their patents. S. 1145 as reported includes several provisions that substantially improve the second window, raising the threshold for engaging the procedure and narrowing its scope. The House bill, H.R. 1908, has replaced the post-grant second window with an improved *inter partes* reexamination procedure. The associations have endorsed that procedure; a major reason for that endorsement is that the *inter partes* procedure would limit challenges to published prior art, thereby avoiding the complicated and costly discovery associated with challenges on any issue of patentability. If the Senate retains a second window, the associations believe it should be restricted to issues of published prior art.
- In addition to these concerns, some universities have raised other issues, including inequitable conduct and venue. Although the associations have not taken a position on these issues, we recognize the validity of the university concerns.

We commend the Senate Judiciary Committee for its responsiveness to concerns raised by the university associations and by individual universities. Significant progress has been made, and we believe the remaining concerns we have raised are resolvable in ways that would be broadly acceptable within the patent community. We appreciate the continuing efforts by the Judiciary Committee staff to resolve the concerns of stakeholders through individual and collective discussions and negotiations, and we urge all parties to continue to work in good faith to seek effective, balanced resolutions to the relatively few, but critical, remaining issues so that this important legislation can be passed into law to enhance the ability of U.S. patent law to foster innovation and strengthen the nation’s international competitiveness.

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