May 17, 2011

Memorandum

To: Association Constituencies

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Subject: Patent reform: Support H.R. 1249, the America Invents Act

We write to update you on the six-year effort to reform U.S. patent law, and to urge your support for H.R. 1249, the America Invents Act, as the bill moves to the House floor for a vote. Over the past six years, substantial progress has been made to pass legislation that would significantly improve the U.S. patent system, with both direct and indirect benefits accruing to universities through a number of these improvements. There is widespread concurrence, although not unanimous agreement, within our community that the current legislation is worthy of our support. Further, the nature of Washington is such that there comes a point when deliberation on any given issue must be brought to a conclusion in order to protect the progress that has already been made. It is our considered judgment that now is the time for the higher education community to support H.R. 1249, the America Invents Act, with the modifications discussed below.

The Senate passed S. 23, its version of patent reform legislation, on March 8th by a vote of 95-5. The House Judiciary Committee approved its version, H.R. 1249, on April 14th by a vote of 32-3. Consideration of H.R. 1249 by the full House of Representatives is expected in mid-June.

An attached comparison of S. 23 with H.R. 1249 shows that the two bills are substantially the same on most key features (Attachment 1). Thus, passage of H.R. 1249 would leave a very achievable next step of reconciling the two bills for signature by the President, a near certain outcome given the Administration’s strong support for the substantial improvements in U.S. patent law contained in these two bills.

We believe this legislation will benefit universities and strengthen the U.S. patent system overall, enhancing the capacity of the system to promote invention, innovation, and U.S. economic
competitiveness in the increasingly competitive global environment of the 21st century. Among the key features of H.R. 1249 that will strengthen the U.S. patent system are:

- **adopting a first-inventor-to-file system**, which will harmonize the U.S. patent system with that of our major trading partners in determining the priority of patent applications, enabling U.S. inventors to compete more effectively and efficiently in the global marketplace;

- **improving patent quality** by allowing third parties to submit information to the U.S. Patent and Trademark Office (USPTO) concerning patents under examination; by creating a new supplemental examination that would supplement or correct prior information, strengthening the emerging patents; and by creating an efficient, effective post-grant opposition proceeding, available for one year after a patent has been granted, providing an early alternative to using the courts to challenge patents, thereby allowing challengers to eliminate weak patents that should not have been granted and strengthening those patents that survive the challenge;

- **reducing patent litigation costs** by eliminating the litigation surrounding the determination of the first inventor; by establishing the new post-grant procedure noted above; and by significantly improving the current *inter partes* review procedure, which will provide a lower-cost alternative to civil litigation to challenge patents throughout their lifetimes, while substantially reducing the capacity to use this procedure to mount harassing serial challenges; and

- **providing USPTO with critically needed resources** by providing this fee-funded agency with facilitated fee-setting authority, subject to Congressional and Patent Public Advisory Committee oversight, and assuring that the fees collected can be retained by USPTO rather than being diverted by Congressional Appropriations Committees for other purposes, a practice carried out all too often in past years.

We have attached an expanded description of the beneficial new provisions noted above (Attachment 2).

H.R. 1249 as introduced contained two provisions of concern to universities: 1) an expansion of prior user rights from applying, under current law, only to business method patents, to applying to all patents; and 2) a reduction of the elevated threshold contained in the Senate bill for initiating an *inter partes* review to the lower threshold of current law. However, during the House Judiciary Committee’s April 14 markup of the bill, the Committee adopted major improvements to both provisions and continues to work on further refinements.

**Prior user rights**: Prior user rights provide a defense against a charge of patent infringement under certain circumstances for unpatented products or processes that were in commercial use before a later-patented product or process that they would otherwise infringe. Universities have opposed an expansion of prior user rights since the outset of the Congressional patent reform effort in 2005, arguing that a broad expansion of prior user rights would be antithetical to the basic tenets of the patent system of providing monopoly protection for patented inventions in return for the inventor’s disclosure to the public of information about that invention. In addition, universities have expressed concerns about university-specific impacts of prior user rights:

- a broad expansion of products and processes immune from the assertion of patent rights could impair the ability of universities to license their patents, and

- such an expansion would be a strong disincentive for academic publishing.
The Information Technology (IT) sector has argued that prior user rights are a necessary accompaniment to a switch from a first-to-invent to a first-inventor-to-file patent priority system, noting that all other major patent systems operate under a first-inventor-to-file system, and they all have some form of prior user rights.

Recognizing university concerns, H.R. 1249 as introduced included a university “carve-out” — a prohibition against the assertion of a prior user rights defense for university patents which result from research funded by the federal government or the university and which also do not include any private funds. During the markup of H.R. 1249, three major improvements to the prior user rights provisions were adopted: 1) requiring that commercial use must be established in the U.S., 2) requiring that any product or process eligible for the assertion of prior user rights must have been in commercial use for at least one year before the effective filing date of a patent against which the defense could be asserted; and 3) requiring that any product or process eligible for prior user rights must also have been in commercial use for at least a year before a disclosure that qualifies for the one-year grace period before filing for a patent.

These changes have eliminated any possibility that academic publishing could lead to the development of unpatented or trade-secret-developed products or processes immune from the assertion of patent rights by subsequent patents arising from that published research.

We are continuing to work with the House Judiciary Committee and with the Senate Judiciary Committee to develop further improvements to the prior user rights provisions. In particular, we believe there is broad agreement to change the definition of university patents exempt from the assertion of a prior user rights defense from the current formulation, which excludes from the exemption any university patents resulting from any private sector funding, to exempting all university patents resulting from research that included any federal funding. This formulation would exempt all patents resulting from mixed-source funding so long as federal funds were part of the mix, and it would simplify recordkeeping since universities must track federal funds under the requirements of Bayh-Dole.

The exemption from an assertion of a prior rights defense for university patents will inhere in the patent, so that the exemption will extend to any licensee, such as a start-up company or small business.

These modifications of the prior user rights provisions effectively address major university concerns while continuing to provide the provisions the IT sector seeks to operate in a first-inventor-to-file system, including providing protections from the growing problem of patent trolls. We note that the companies seeking these provisions include those with which many of our universities collaborate in joint research initiatives, companies which also have worked diligently through advocacy efforts such as the Task Force on American Innovation to promote federal support for university research. Achieving a mutually acceptable set of legislative provisions is an important goal for both sectors.

*Inter partes* review: The Senate bill, S. 23, increased the threshold for initiating an *inter partes* review from the current standard of “a substantial new question of patentability” to “a reasonable likelihood that the petitioner will prevail with respect to at least one of the claims challenged in the petition.” Under the current standard, 95% of petitions for *inter partes* reexamination have been granted. Universities and other groups have been concerned about the capacity for *inter partes*
review to be used to mount harassing serial challenges to patents. At the House Judiciary markup of H.R. 1249, the Committee reinstated the Senate bill’s elevated threshold.

Thus, we believe that the House Judiciary Committee has substantially addressed the major concerns of universities and is developing a bill that, like the Senate bill, contains a number of provisions that will substantially harmonize the U.S. system with the other major patent systems around the world, improve patent quality, reduce patent litigation costs, and provide critically needed resources for the USPTO.

We are aware that not all universities agree with our analysis of H.R. 1249. Understandably, we have had disagreements among universities throughout the six-year patent reform effort. The significant improvements in the Senate’s bill brought the preponderance of universities together in support of that legislation. The two major changes in the House bill – the expansion of prior user rights and the lowering of the *inter partes* threshold — raised serious concerns for all of us. The House Judiciary Committee has fully restored the Senate *inter partes* provisions supported by universities, but some universities believe that the actions taken by the House Judiciary Committee concerning prior user rights have been insufficient, and we are continuing to work with the Committee on this issue. We believe that actions already taken by the House Judiciary Committee, and its continuing work on prior user rights, will result in sound legislation that universities should strongly support.

The patent community is an extremely heterogeneous community, and any feasible, comprehensive patent reform legislation will necessarily require compromises for all sectors. But we believe the protracted effort to achieve a comprehensive reform of U.S. patent law, as called for by the National Academies and many university leaders, is very close to completion, and the resultant U.S. patent system will provide significant benefits for universities while effectively improving the system overall.