

October 22, 2009

The Honorable Gary Locke
Secretary
U.S. Department of Commerce
1401 Constitution Ave., NW
Washington, DC 20230

Dear Mr. Secretary:

We write as the presidents of six higher education associations to comment on the Congressional effort to reform U.S. patent law and the views of the Administration as expressed in your letter of October 5, 2009 to Senate Judiciary Chairman Leahy and Ranking Member Sessions.

Our associations represent America's universities, colleges, medical schools and teaching hospitals, the principal sources of the fundamental research that expands the frontiers of knowledge and educates succeeding generations of scientists and scholars who will carry forward that capacity for creation and discovery in the education sector, in industry, and government. As a key component of the nation's innovation system, universities employ the patent system to transfer discoveries made through university research into the private sector for development into useful products and processes that benefit society.

Since it began its current effort to reform the U.S. patent system, Congress has made significant progress in developing legislation that would enhance the capacity of the patent system to promote innovation and strengthen America's economic competitiveness in the 21st century. However, resolution of a number of difficult issues had stalled the process earlier this year. Then, last April, the Senate Judiciary Committee adopted a comprehensive amendment that incorporated a balanced compromise on several key issues, including two critical issues of concern for universities. Accordingly, we endorsed S. 515, the "Patent Reform Act of 2009" as reported out of committee, but noted that certain modifications would further improve the bill and that we would continue to seek modifications that would strengthen the bill without undoing the careful compromise among competing interests represented by the bill as reported.

Thus, our basic position on S. 515 is in accord with the view stated in your October 5th letter: "We believe S. 515 incorporates the essential elements of patent reform; and, therefore, the Department of Commerce supports the bill with additional recommendations..."

In what follows, we will state our views on key aspects of patent legislation as they affect universities and comment on Department of Commerce recommendations, indicating those with which we agree and those which raise concerns.

Over the course of the Congressional patent reform effort, Congress has effectively addressed a number of concerns raised by universities. The two major areas of remaining concern for universities, which were fully addressed by S. 515 as reported, were: 1) the determination of damages in cases of patent infringement, and 2) the scope of eligible evidence in the modified *inter partes* reexamination procedure.

Damages: Universities were very concerned with earlier language on damages that we believe would have skewed the determination of damages inappropriately toward small awards. Biasing the procedure toward small awards would reduce the deterrent effect on infringement that results from appropriate compensatory damages. Such a result would be particularly problematic for universities. Our institutions often secure early-stage patents, which would be especially vulnerable to the increased uncertainty resulting from inappropriately small compensatory awards. The result would be to impair universities' ability to license their patents into the private sector for development. We believe that judges have ample discretion under current law to assess the relative value of patented technology in determining damages. We strongly support S. 515's treatment of the determination of damages. The bill's provisions eliminate the prior language that would skew the damage assessment toward small awards, and adds "gatekeeper" language that will produce a more consistent, systematic judicial process. We are pleased to note that you support the compromise gatekeeper provisions contained in S. 515.

Inter partes reexamination: Although universities strongly support the new 12-month post-grant review procedure that provides an efficient, lower-cost administrative alternative to court to challenge patent validity, we were opposed to the post-grant "second window" contained in earlier versions of legislation, which would have provided an overly broad capacity to challenge patents throughout their terms, reducing patent certainty and impeding the ability of universities to license their patents into the private sector for development. However, we understood the interest in some sectors of the patent community for an effective administrative challenge procedure that would extend beyond the first year of a patent's term. We participated in the negotiations during the 110th Congress to develop a modified *inter partes* reexamination procedure, and supported the compromise reexamination procedure that resulted from those negotiations.

An important part of the modified reexamination procedure as negotiated was the continued limitation of eligible evidence in reexaminations to patents and printed publications. However, both Senate and House bills introduced in the 111th Congress expanded the evidence available in an *inter partes* reexamination to evidence that the claimed invention was "in public use or on sale." This expansion of the evidence would have opened the procedure to a wide range of subjective, anecdotal information that would have required costly and complicated discovery and necessitated adjudication procedures appropriate for courts but not the USPTO. S. 515 as reported eliminates the public use/on sale language, limiting eligible evidence to patents and printed publications. This critical change not only narrows the scope of this procedure, thereby limiting its impact on patent certainty, but also greatly reduces the administrative burden on the USPTO.

Serial challenges: As we noted in endorsing S. 515 as reported, we believe that certain modifications of the legislation would further improve it. The principal modifications that universities seek are adjustments of the post-grant procedures that would reduce the capacity of those procedures to support serial challenges to patents — the "abusive challenges" that your letter appropriately asserts should be prevented. Indeed, we concur with your assessment of S. 515's post-grant review procedure:

“The Administration supports the establishment of a phased-in post-grant review procedure, as well as phased-in changes to *inter partes* reexamination, to reduce costs and increase certainty by offering a lower-cost and faster alternative to litigation as a means of reviewing questions of patent validity. Such a procedure also would provide a check on patent examination, ultimately resulting in higher-quality patents. It is important that post-grant review procedures be designed to prevent delay and abusive challenges.”

We believe that the two most important changes to reduce or eliminate abusive serial challenges in the post-grant review procedure as specified in S. 515 are to: 1) increase the threshold for granting an *inter partes* reexamination, and 2) add provisions that will substantially reduce the capacity to use post-grant review procedures or civil actions to mount serial challenges to patents.

- Under the current threshold of a significant new question of patentability, over 90% of reexamination requests are granted. As a law firm through its now-infamous “Patent Assassins” website [<http://www.patentassassins.com/>] brazenly testifies, there are entities which seek to protect their markets by stifling competition through abusive challenges to valid patents. Raising the threshold for granting a reexamination request by requiring stronger evidence that an issued patent’s validity should be challenged would provide the dual benefit of reducing the ability to mount abusive serial challenges and reducing the administrative burden on USPTO.
- In addition to raising the threshold for granting reexamination requests, we encourage the addition of provisions that will substantially reduce the capacity to mount abusive serial challenges within and between the *inter partes* and ex parte reexamination procedures and between reexamination procedures and civil actions.

We understand that the negotiations underway within the Senate Judiciary Committee have as one of their areas of focus the new post-grant review procedures of S. 515. As you have noted in your letter, these procedures have great potential to provide a lower-cost, faster alternative to litigation that can increase patent certainty and patent quality. We are hopeful that the current negotiations will produce an outcome that allows these new procedures to achieve their potential while eliminating the capacity for abusive serial challenges and simultaneously reducing the administrative burden on USPTO.

Prior user rights: Your letter states that the Administration supports “extending the existing prior user rights defense for patent infringement.” We understand this to be a reference to the provision of S. 515 that extends to affiliates the limited prior user rights for business method patents that exists in current law, an extension that we supported. However, we strongly opposed proposals included in earlier versions of patent reform legislation that would have vastly expanded prior user rights from business method patents to all patents and from a requirement that the product has been “commercially used” for at least one year to a demonstration only that the product has undergone “substantial preparations for commercial use.” Such a massive expansion of immunity from patent infringement for products developed through trade secret processes would undermine the Constitutionally based U.S. patent system, which provides the right to exclude others from a patented product’s market based on a quid pro quo to society of teaching about the innovation underlying the product through disclosure. In contrast, prior user rights provide trade secret products with immunity from infringement with no quid pro quo to society,

coupled with the capacity to harm inventions developed through the patent system's pact with society. The effect would be additional uncertainty that would vitiate the value of patents and impair the ability of universities to license their patents to the private sector for public benefit.

First-inventor-to-file and prior art review: We recognize that moving from a first-to-invent to a first-to-file system would harmonize U.S. patent law with that of other countries to a significant degree and add greater clarity to the U.S. system by replacing the often-subjective determination of the first inventor with the objective identification of the first inventor to file, thereby limiting the unpredictable and often substantial costs of interferences and litigation associated with determining the first inventor. However, such a move potentially raises problems for universities, whose faculty inventors often publish in academic journals first and only later decide to file for a patent, and whose basic discoveries may take some time to evaluate for commercial applications. We believe it imperative that a move to a first-inventor-to-file procedure be accompanied by an effective grace period that continues to support broad dissemination of research results through publications in academic journals and conference presentations. We believe S. 515 provides such a grace period. We would like to work with the Department of Commerce and USPTO to understand your goals in making "various adjustments to implementing provisions regarding the scope and application of prior art and the grace period," so that we can assure a continued ability of university faculty to publish without impairing their subsequent ability to file for a patent.

USPTO fee setting authority: We recognize the importance of a fee-setting authority that allows USPTO to recover the costs of services and believe that the provisions of S. 515 provide appropriate flexibility to USPTO, accompanied by checks and balances through the Patent Public Advisory Committee, public comment, and Congressional review. In exercising such fee-setting authority, it is important that USPTO incorporate as appropriate the reduced-fee provisions of current law that apply to small businesses, independent inventors, and nonprofit organizations. We also have and will continue to support efforts to prohibit fee diversion.

Rulemaking authority: We have grave concerns about the Administration's call for providing USPTO with "substantive rulemaking authority." We recognize the importance of providing the USPTO Director with the tools necessary to manage the agency effectively in pursuit of its public purposes. However, we believe that for an agency that is largely self-funded and must engage with multiple constituencies in an exceedingly complex system, granting substantive rulemaking authority could have the unintended consequence of engaging USPTO in legal principles involving constitutionally derived property rights that are better left to the legislative and judicial branches of government. It may be that some form of narrowly proscribed procedural rulemaking authority over proceedings of the agency would facilitate agency management without creating a pathway for agency engagement in legislative and judicial functions.

Like the Administration, our associations strongly support Congress's patent reform effort and believe that S. 515 has brought us very close to the final legislation that will improve an already strong U.S. patent system and enhance the ability of that system to promote innovation and strengthen our economic competitiveness. We have tried throughout the patent reform process to support reforms that are in the best interest of the nation, and to be mindful of the many constituencies engaged in this process and their legitimately, sometimes conflicting interests and goals. Indeed, we supported S. 515 as reported because we believe that it provides an effective, carefully balanced compromise to accommodate competing interests in ways that maximize the capacity of the U.S. patent system to promote innovation. With some additional modifications, we

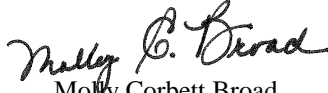
believe S. 515 will achieve the goals you state in your letter: “The Administration seeks reforms that fairly balance the interests of innovation and competition across all industries and technologies without favoring one industry or any particular area of technology over another.”

We look forward to working with you and with Congress to bring this critically important, promising patent reform effort to a successful completion.

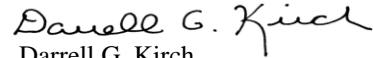
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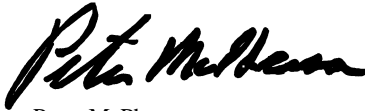
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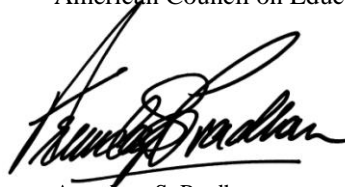
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cc: The Honorable Patrick J. Leahy
The Honorable Jefferson B. Sessions, III