

**Statement from the Higher Education Community on
S. 1720, the “Patent Transparency and Improvements Act of 2013”**

We write to communicate the views of the higher education community on S. 1720, the “Patent Transparency and Improvement Act of 2013.” We commend Chairman Leahy and his original co-sponsors Senators Lee, Whitehouse, and Klobuchar for introducing legislation effectively focused on curbing abusive patent litigation practices while preserving the ability of patent holders effectively to enforce their patent rights.

The passage of the America Invents Act (AIA), which our associations strongly supported, strengthened and harmonized U.S. patent law to the benefit of the nation’s innovation system. S. 1720 effectively extends the enhancements of the AIA by targeting abusive litigation practices that corrode the capacity of the patent system to exploit the AIA enhancements to innovation and economic competitiveness.

Universities are a key component of the nation’s innovation system, conducting the preponderance of the nation’s fundamental research – research that expands the frontiers of basic knowledge and understanding and, in so doing, yields discoveries that have extraordinary, far-reaching impact – the laser, MRI, life-saving drugs, defense technologies, food and agriculture, and so much more. The US patent system plays a critical role in the transfer of discoveries resulting from university research into the commercial sector for development into products and processes that benefit society. Because the discoveries arising from university research tend to produce early-stage patents, the university technology-transfer process must preserve a capacity for licensing such high-risk/high-payoff patents for further commercial development. And the innovation process also needs to sustain a climate in which the startup companies that are the frequent licensees of such patents can gain a financial footing and grow.

Two consequences follow from this process of commercialization of the largely publicly funded university research that has produced extraordinary benefits to this nation:

- 1) the not-for-profit universities and their often undercapitalized startup companies are vulnerable to abusive patent litigation practices, but
- 2) measures to curb abusive litigation practices must target those practices in ways that do not undermine the ability of universities and their licensees to enforce their patent rights.

The capacity of university patents to encourage investment is dependent on their right to exclude others. Patents are often the most critical assets of startups and small businesses. It is critical that legislation addressing patent litigation balance the value of protection from abusive litigation practices against the need to preserve the strength of patents to foster innovation.

For these reasons, we were very concerned about several provisions in the Innovation Act (H.R. 3309) that recently passed the House. In our judgment, H.R. 3309 failed to meet the balance between reducing abusive

litigation practices and preserving the strength of patents, and we therefore were obliged to oppose the bill despite its worthy goals. We commend Chairman Leahy for omitting in S. 1720 the following provisions which, however well-intentioned, would entail greater cost than benefit by undermining the ability of universities and their licensees to enforce their patent rights:

- Fee shifting and joinder: These proposals as constructed in H.R. 3309 are especially problematic for not-for-profit universities and undercapitalized licensees, due not only to the prospect of the substantial financial burdens that could result from litigation not initiated or controlled by universities, but, perhaps even more problematically, the prospect of such outcomes gravely chilling the ability of universities to transfer their early-stage patents into the commercial sector because of the major new financial confronting potential licensees. The chilling effects range from dampening the willingness of inventors to disclose their inventions and support the transfer of those inventions throughout the commercialization process, to discouraging passive investors from investing their funds in development of new technology dependent on effective patent protection. These problems are caused by the overbroad language of these provisions in H.R. 3309. If fee shifting and joinder provisions are included in S. 1720, we would like to offer language to address these problems. The U.S. Supreme Court, however, is currently reviewing two cases concerning appropriate standards for awarding attorneys' fees under 35 U.S.C. § 285; it would seem prudent to withhold statutory treatment of fee shifting and joinder pending resolution of these cases.
- Expansion of covered business method (CBM) patents: Proposals for expanding this narrow and time-limited AIA transition provision would sweep into the current CBM definition patentable subject matter that was not intended to be covered under the rubric of business method patents. The amplitude of such an expansion would negatively impact patent owners, including universities and their non-profit technology transfer organizations, adding uncertainty to patent holders, reducing the incentive for early challenges to patents, and upsetting the balance between the post-grant and inter partes procedures codified in the AIA.
- Detailed Statutory Instructions to Courts on Pleading and Discovery: The discretion of the courts to continue management of individual cases on their merits should be preserved. Case-specific situations vary widely, so the courts should be able to continue their management of cases, with adjustments as warranted, such as Judge Rader's model discovery rules, court review and correction of perceived abuses.

The Patent Transparency and Improvement Act includes a number of provisions that would curb abusive litigation in ways that sustain ability of patent holders to defend their patents; of particular relevance to universities are the following two:

- Assuring transparency of patent ownership will go a long way to limiting the ability to conduct abusive litigation practices by hiding behind "shell" companies,
- Protecting end-user customers from unwarranted infringement allegations can help innocent retail companies and small businesses far removed from the product manufacturer.

Each of these provisions, however, should be modified to assure that they do not override their abuse-curtailling benefits with unintended consequences due to overly broad and costly requirements for transparency, and opportunities for collusion among entities in the product chain from manufacturers to end-point customers in the customer stay provisions.

USPTO funding: Among the many achievements of the landmark Leahy-Smith America Invents Acts, one of the greatest disappointments was the inability to include reliable full funding of USPTO. As former USPTO Director David Kappos has testified, providing the USPTO with full fee access is essential for the USPTO to

fulfill the potential of the AIA to strengthen the U.S. patent system and its capacity to support invention, innovation, and economic development. We strongly encourage the inclusion of such a USPTO funding provision in S. 1720.

We thank the Chairman and his co-sponsors for their effective work in addressing the costly and corrosive problem of abusive patent litigation. We believe that S. 1720 goes a long way toward effectively addressing this problem while preserving the ability of patent owners legitimately to enforce their patent rights. We are committed to working with the Chairman and the Judiciary Committee to achieve the shared goal of building on the substantial achievements of the AIA to further strengthen the U.S. patent system and its capacity to nurture the innovative capacity of the nation and enrich the lives of its citizens.

December 11, 2013