

University Comments on Legislative Proposals to Curb Abusive Patent Practices

Patent Reform Roundtable: Priority Issues

Universities support goals of legislative proposals intended to curtail abusive practices in the patent system; such practices impair the ability of the U.S. patent system to foster innovation and economic competitiveness. Legitimate patent holders across the spectrum are victimized by these practices, including universities and their licensees, including particularly vulnerable start-up companies and small businesses. In seeking to address these abusive practices, the challenge is to avoid provisions that do more harm than good, to implement carefully crafted proposals that target abusive practices in ways that do not undermine the capacity of patent holders legitimately to enforce their patent rights. Failure to accomplish this critical balancing act could cripple the nation's innovation system.

Universities conduct roughly 60% of the nation's basic research; that research has yielded discoveries that have had far-reaching impact – the laser, MRI, life-saving drugs, defense technologies, breakthroughs in food and agriculture, and much more. University researchers make discoveries, but universities don't make the products and processes resulting from those discoveries. For that to happen, universities must be able to transfer the inventions resulting from their research into the commercial sector for development. Patents play a key role in this university technology transfer process. Because the discoveries arising from university research tend to produce early-stage, higher-risk patents, however, the university technology-transfer process must preserve a capacity for licensing high-risk/high-payoff patents for 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.

We are concerned that several proposals intended to target troll-like behavior do not in their current form meet the cost/benefit test of curbing abusive patent litigation practices without diminishing the value of patents.

Fee shifting: Fee shifting significantly increases the financial risk to universities of enforcing their patents. Patent litigation is extremely complex, and outcomes are notoriously unpredictable. As non-profit institutions lacking large litigation budgets, universities are ill-equipped to operate in a fee-shifting regimen. S. 1013, introduced by Senator Cornyn, includes a provision stipulating that fee shifting will not occur if the court determines that the non-prevailing party's actions are "objectively reasonable and substantially justified, or special circumstances make such an award unjust"; H.R. 3309 has similar language: "unless the court finds that the position and conduct of the nonprevailing party or parties were reasonably justified in law and fact or that special circumstances (such as severe economic hardship to a named inventor) make an award unjust." This would seem at first glance to be a reasonable threshold for requiring the loser to have to pay the winners costs; however –

- The burden always is on nonprevailing party to justify its conduct, and there is no judicial discretion: if the statutory prescriptions are met, fee shifting is mandatory.
- The experience of the government under the Equal Access to Justice Act, after which S. 1013 fee shifting is modeled, indicates that fee shifting is far from a rare occurrence.
- Thus, this provision poses a significant risk of a university being subjected to fee shifting; not only does this present a strong disincentive for universities to enforce their patents, but it will substantially increase the perceived risk to potential licensees and venture capitalists of investing in inventions resulting from university research, weakening the link between discoveries resulting from university basic research and the products and processes that can be developed from them.

Moreover, the Supreme Court has agreed to review two patent infringement cases concerning the award of attorney fees (*Octane* and *Highmark*), and the Federal Circuit (*Kilopass*) recently expanded the

interpretation of the current “exceptional circumstances” standard for fee shifting. Given the potential impact of a sweeping fee-shifting provision on universities, start-ups, small business, and independent inventors; and given the pending Supreme Court cases and the new Federal Circuit interpretation of exceptional circumstances, it would seem prudent for Congress to wait for these recent and pending court cases to play out before locking a sweeping fee-shifting provision into law.

Joinder: Under this provision, a university could be brought into a case over which it has had no control, effectively becoming a nonprevailing plaintiff subject to fee shifting. The scope of the joinder proposal in S. 1013 is extremely broad, covering *any* civil action arising under *any* Act of Congress relating to patents, which sweeps in at least 21 statutes and could apply to issues such as contract disputes having nothing to do with abusive patent practices.

As an apparent protection against seemingly limitless joinder, the defendant must show that the interest of the plaintiff is limited primarily to asserting the patent or a given patent claim in litigation. The intention of this provision is laudable, seeking to target abusers of the patent system, but the protection is much less robust than it may seem – there are a number of ways that a well-financed prevailing defendant could succeed in casting a patent holder legitimately seeking to enforce patent rights as a party whose primary interest is in asserting the patent or patent claim in litigation, causing joinder of an uninvolved party such as a university.

The combination of fee shifting and joinder is especially troubling to universities; we are very concerned that they could seriously damage the university technology transfer process by increasing the financial risk to universities and their licensees enforcing their patents and by discouraging potential licensees and venture capitalists from investing in the development of promising discoveries resulting from university research. Such consequences would move in the opposite direction of ongoing university/industry/government efforts to expand the breadth and pace of commercialization of inventions resulting from university research.

Expansion of covered business method (CBM) patents: Proposals for expanding this narrow and time-limited AIA transition program would sweep into the current CBM definition patentable subject matter that was not intended to be covered under the rubric of business method patents. Such an expansion would be harmful to patent holders, including universities and their licensees, increasing patent uncertainty, reducing the incentive for early challenges to patents, and upsetting the careful balance between the post-grant and inter partes procedures codified in the AIA.

It may be possible to modify these provisions so that they achieve their intended purpose of curbing abusive patent practices without undermining the ability of patent holders legitimately to enforce their patents. We applaud the deliberative process the Senate Judiciary Committee has undertaken, and sessions such as this roundtable, which can provide the time and attention needed to work through these complicated provisions.

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