

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*

COMMENTS ON H.R. 1908 AND S. 1145, THE PATENT REFORM ACT OF 2007

America's universities are the principal source of the basic research that expands the frontiers of knowledge and produces discoveries that enhance our national security, strengthen our economic competitiveness, and enrich the lives of our citizens. Although the primary means by which university research results are disseminated is through peer-reviewed publications, conferences, and other forms of open communication, the nation also benefits substantially from university research through technology transfer processes where fundamental discoveries are moved into the commercial sector for development into useful products. The landmark 1980 Bayh-Dole Act, which authorized universities and small businesses to retain patent and licensing rights to inventions resulting from federally funded research, has been an extraordinarily successful mechanism for facilitating the transfer of basic discoveries into the commercial sector for development. The U.S. patent system is an integral part of this process.

Universities play a critical role in the innovation process and have a strong interest in the means by which the patent system advances this process. These institutions welcome the opportunity to examine the patent system and promote reforms that will enhance the capacity of that system to support invention, innovation, and development in the U.S. and worldwide.

The fundamental goal guiding the comments of our five associations on H.R. 1908 and S. 1145, the Patent Reform Act of 2007 (hereafter "the bill"), is enhancing the capacity of the U.S. patent system to support innovation. Our comments also draw heavily on the National Research Council's report, *A Patent System for the 21st Century*. A number of the recommendations in this report are intended to improve the patent system and enhance patent quality through the reduction of subjective elements of current law which, however well intentioned, have had the effect of reducing patent quality and increasing litigation costs. We strongly support the principles underlying these recommendations.

Our comments address those aspects of the bill that significantly affect the capacity of universities to maintain and strengthen their role in the innovation process.

First Inventor to File

The first-inventor-to-file process specified in Section 3 of the bill, which was recommended by the National Research Council's report, would harmonize U.S. patent law with that of other countries to a significant degree, add greater clarity to the patent system by replacing the subjective determination of the first inventor with the objective identification of the first filer, and reduce or eliminate the unpredictable and often substantial costs of interferences and litigation associated with determining the first inventor.

The associations do not oppose the U.S. patent system moving from a first-to-invent to a first-inventor-to-file system. Such a move would provide significant benefits to the U.S. patent system as well as to universities, but it does raise concerns among some members of the university community about their ability to operate effectively under such a patent system.

As faculty members, university inventors may in some cases first publish in academic journals and only later decide to file for a patent. Before filing a patent application, universities often need time to consider the potential commercial application of a basic research discovery, which may not be obvious at the point of discovery, and to assess the receptivity within the commercial sector to licensing any resultant patent for development. Moreover, the budgetary limitations on nonprofit universities often constrain the resources they can devote to rapid filing of fully developed patent applications. All such practices are accommodated in a first-to-invent system but could be compromised in a first-inventor-to-file system.

If Congress elects to move to a first-inventor-to-file system, we believe it is imperative that U.S. patent law maintain three components of the current U.S. patent system: (1) the opportunity to file provisional applications, (2) an effective grace period for publishing articles containing a disclosure of the invention, and (3) the requirement that an applicant sign an oath that he or she is an inventor of the claimed invention.

Provisional applications: The bill preserves the provisional application procedure, and we simply note here the importance of preserving that procedure in any patent reform legislation that is enacted.

Grace period: We commend the inclusion in Section 3 of the bill of a 12-month grace period intended to encourage the early publication of research without precluding subsequent filing of a patent application. Sections 102(a) & (b) should be constructed to encourage early publication in two ways: 1) assuring that the publication or other disclosure of an invention by an inventor who files a patent application within one year of that disclosure is not treated as prior art to that patent application, and 2) providing that any subsequent publications or other disclosures in the same subject area by others are not treated as disqualifying prior art to the inventor's patent application within the one-year grace period window.

We have attached proposed language modifying the grace period provisions of the bill to accomplish these two objectives (Attachment 1).

In addition, we urge the committee to request the Administration to seek adoption of a comparable grace period by other countries which lack or have a different grace period. Most other countries operate under some form of first-to-file system; adoption by the U.S. of the first-inventor-to-file system proposed in the bill would increase the harmonization of international patent laws. Similarly, adoption by other countries of the grace period proposed in the attached language would further harmonize international patent laws and promote worldwide dissemination of research results. We note that the National Research Council's report recommends that the U.S. encourage other countries to adopt a grace period.

Inventor's oath or declaration: Current law requires that the individual filing an application, or on whose behalf an application is filed, must sign an oath or declaration asserting the belief that he or she is an inventor of the claimed invention. This requirement, which underscores the importance of a government grant of a property right, should apply in a first-inventor-to-file system. To assure that the same obligation for accuracy and truthfulness that applies to the oath or declaration also applies to the substitute statement, we urge that Sec. 115(d) be amended to specify that the substitute statement also be made under oath or declaration. This change will put both the inventor's oath or declaration and the substitute statement on equal footing in terms of requirements for truthfulness and of penalties for fraudulent statements as specified in 18 U.S.C. § 1001.

An amendment to accomplish this leveling of the treatment of the oath or declaration and the substitute statement is attached (Attachment 2).

In summary, the associations recognize the benefits of a first-inventor-to-file system and do not oppose the proposed move to such a system. Three provisions of current U.S. patent law—provisional applications, an effective 12-month grace period, and the signing of an oath by the applicant—are important properties of patent law to be included in a first-inventor-to-file system.

Post-Grant Opposition Procedure

The associations strongly support the creation of an administrative post-grant opposition procedure. An opposition procedure that is of finite, predictable duration and that allows third parties to challenge a patent based on the full array of issues of patentability, utility, and adequacy of written descriptions would improve patent quality by providing a comparatively low-cost alternative to litigation to establish patent validity. The post-grant review proceedings specified in Section 6 contain a number of effective components, including the requirement that all cancellation petitioners identify themselves (§323(2)).

However, we urge the elimination of the provisions for “second window” included in the bill (§322(2) & (3)). These provisions would permit a patent to be challenged at any time during the life of the patent in three ways: 1) the petitioner “establishes a substantial reason to believe that the continued existence of the challenged claim causes or is likely to cause the petitioner significant economic harm,” 2) the petitioner receives notice alleging infringement, or 3) the patent owner consents to the proceeding. Permitting a patent to be administratively challenged throughout the life of the patent undermines the patent certainty that is critical to an effective patent system. In particular, permitting the subjectively based challenge of a belief that the patent’s existence will or is likely to cause economic harm would inject significant uncertainty into the patent system. The bill improves the ability of patent examiners and third parties to examine patent claims and challenge issued patents early in the life of the patent through such provisions as third-party submissions and a post-grant opposition “first window”; any benefits from adding additional challenges throughout the life of the patent are more than offset by the resultant uncertainty that would weaken patents.

Section 325 leaves to the USPTO Director the determination of what information must be submitted to determine whether there are sufficient grounds to proceed with the cancellation petition. We recommend specifying in statute that the cancellation petitioner be required to submit all issues as to patentability known to it and that failure to do so would preclude the petitioner being able to raise such issues in any subsequent proceeding before the Office. An amendment to accomplish this change is attached (Attachment 3).

Provision of sufficient resources: It will be critical for the United States Patent and Trademark Office (USPTO) to receive the resources necessary to implement successfully a post-grant opposition procedure, which will add additional administrative responsibilities. Failure to do so could cause significant increases in patent pendency, undermining the considerable benefits that an effective post-grant opposition procedure could bring to the patent system.

Prior User Rights

The associations strongly oppose the expansion of prior user rights contained in Section 5(b) of the bill. As a practical matter, any assertion of prior user rights vitiates the value of patents. We understand the legitimacy of commercial entities choosing to develop products under trade secret procedures as opposed to a public

patent process. However, the Constitutionally based patent system of the United States 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. Trade secret product development provides a right to exclude with no comparable quid pro quo to society, coupled with the capacity to harm inventions developed through the patent system's pact with society. The result will be additional uncertainty that will weaken the ability of universities to license their inventions for public benefit and economic development. Moreover, expanding the scope of prior user rights beyond business method patents and expanding the prior user rights defense from a demonstration that an invention had been "commercially used" to a claim of "substantial preparations for commercial use" not only significantly weakens the value of patents but introduces the sort of subjectivity into the patent system that the current patent reform effort should seek to eliminate. We recommend deleting Section 5(b) DEFENSE TO INFRINGEMENT BASED ON EARLIER INVENTOR.

18-Month Publication

The associations support the requirement in the bill that all applications be published 18 months after their effective filing date. Currently, patent applications are published after 18 months unless an applicant requests non-publication and is not intending to file in another country that has an 18-month publication rule. There is some evidence that even the current, limited 18-month publication requirement has reduced the abuse of continuation applications through the use of submarine patents. The bill's requirement for publication of all patent applications after 18 months may well further discourage submarine patents. But the strongest reason for requiring publication of all patent applications after 18 months is its congruity with a fundamental purpose of patent law: to encourage disclosure in return for limited proprietary control over one's intellectual property. Such a requirement is fully consistent with the academic mission of full and open communication of research results at the earliest feasible opportunity.

Apportionment of Damages

Section 5(a) attempts to codify the complex circumstances surrounding the apportionment of damages. Since judges have ample discretion under current law to assess the relative value of a patented technology in determining damages, we believe this provision is unnecessary and should be deleted.

Submissions by Third Parties

The associations support the Section 7 provision allowing pre-issuance submissions by third parties. This provision will promote patent quality and validity by assisting patent examiners to gather all relevant evidence in evaluating patent applications.

The CREATE Act

The associations strongly support provisions in the bill that retain the CREATE Act, which was enacted in 2004 with the strong support and assistance of both the House and Senate Judiciary Committees. The CREATE Act is intended to facilitate research collaboration, and we appreciate the inclusion of provisions carrying forward this important legislation, including the "continuity of intent" provisions of Section 13 (b).

Derivation Proceeding

We recommend that Section 135(a)(2) be changed to require filing of an application by the challenger within 18 months of *the publication* of the challenged patent. The bill replaces current patent interferences with a derivation procedure, an appropriate and desirable consequence of the move from a first-to-invent to a first-inventor-to-file system. However, we believe the timing of the derivation procedure can have the unintended effect of limiting the ability of a junior applicant to challenge a senior application through a derivation proceeding. Section 135(a)(2) requires that the party requesting the proceeding has 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, this provision will often result in a very narrow window of time for the junior inventor to file an application necessary for commencing the derivation proceeding.

Rulemaking Authority

We believe the bill would grant overly broad rulemaking authority to the USPTO Director. We support providing the Director with the tools necessary to manage the agency effectively in pursuit of its public purposes, but believe the rulemaking authority granted in Sec. 9(e)(5) is too broad and unchecked. Recent changes proposed by USPTO in patent practice rules, such as limits on continuation applications, do not inspire confidence in the agency's ability to exercise expanded authority in the best interests of the patent system.

Experimental Research Exemption

We believe that the Committee should give careful consideration, in consultation with all parties with an interest in the patent system, to inclusion of an experimental research exemption in any patent reform legislation that is enacted. Such an exemption should be carefully crafted to promote experimental research, while advancing the goals of the patent system and the larger society it serves, rather than any specific sector of society.

The exemption should at a minimum allow research on a patented product or process—research that specifically examines the nature of a patented invention—to determine whether it functions as claimed, to better understand its operation under various conditions, to discover something unknown about it, or, under appropriate circumstances, to improve it. A narrowly crafted exemption for research on the functioning of a patented invention could provide a fuller understanding of a patent without threatening the market for the patent, thereby advancing the fundamental goal of the patent system to promote innovation through a combination of disclosure and proprietary protection.

Crafting a research exemption that advances broad societal interests without intruding into the proprietary protections intended by the patent system is a difficult process, but we believe the potential benefits to society of an appropriately developed research exemption that is congruent with the goals of the patent system warrants thorough examination. We welcome the opportunity to work with the Committee and other appropriate parties to carry out such an examination.

May, 2007

AMENDMENT TO SECTION 3 OF H.R. SECTION
SECTION 102 GRACE PERIOD LANGUAGE

§ 102. Conditions for patentability; novelty

“(a) NOVELTY; PRIOR ART.—A patent for a claimed invention may not be obtained if—

“(1) the claimed invention was patented, described in a printed publication, ~~or in public use or on sale otherwise publicly known—~~

“(A) more than one year before the effective filing date of the claimed invention; or

“(B) one year or less before the effective filing date of the claimed invention, other than through disclosures made by the inventor or a joint inventor or by others who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor; or

“(2) the claimed invention was described in a patent issued under section 151, or in an application for patent published or deemed published under section 122(b), in which the patent or application, as the case may be, names another inventor and was effectively filed before the effective filing date of the claimed invention.

“(b) EXCEPTIONS.—

“(1) PRIOR INVENTOR DISCLOSURE EXCEPTION.—Subject matter that would otherwise qualify as prior art based upon a disclosure under subparagraph (B) of subsection (a)(1) shall not be prior art to a claimed invention under that subparagraph if the subject matter had, before ~~the applicable date under such subparagraph (B) such disclosure~~, been publicly disclosed by the inventor or a joint inventor or others who obtained the subject matter disclosed directly or indirectly from the inventor, or a joint inventor, or applicant.

“(2) DERIVATION, PRIOR DISCLOSURE AND COMMON ASSIGNMENT EXCEPTIONS.—Subject matter that would otherwise qualify as prior art only under subsection (a)(2), after taking into account the exception under paragraph (1), shall not be prior art to a claimed invention if—

“(A) the subject matter was obtained directly or indirectly from the inventor or a joint inventor;

“(B) the subject matter had been publicly disclosed by the inventor or a joint inventor or others who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor before the date on which the application or patent referenced in subsection (a)(2) was effectively filed; or

“(B) ~~C~~ the subject matter and the claimed invention, not later than the effective filing date of the claimed invention, were owned by the same person or subject to an obligation of assignment to the same person.

**AMENDMENT TO SECTION 115 (d) OF H.R. 1908
OATH OR DECLARATION FOR SUBSTITUTE STATEMENTS**

On page 15, lines 22-23, strike the words "In lieu of executing an oath or declaration under subsection (a), the" and insert in lieu thereof "The";

on page 15, line 24, insert "oath or declaration as to the provisions set forth in paragraph (3) and pursuant to" after the word "under";

on page 16, lines 22-23, strike the words "in lieu of oath or declaration under subsection (a)"; and

on page 20, line 6, add the words "under oath or declaration" after the word "application".

AMENDMENT TO SECTION 325 OF H.R. 1908
SUBMISSION OF ALL PATENTABILITY ISSUES KNOWN TO CANCELLATION PETITIONER

Within such time as may be prescribed by regulation, the cancellation petitioner shall file all issues as to patentability known to it and any material information known to it that supports its allegation of unpatentability of any challenged claim or the cancellation petitioner shall not be permitted to raise such issues or submit the information in any subsequent proceeding before the Office involving the cancellation petitioner under this title. A cancellation petitioner is charged with knowledge to the extent of the actual knowledge of its representatives engaged in the cancellation petition. The request for a post-grant proceeding shall identify with particularity the reasons why the claims the cancellation petitioner is seeking to cancel do not comply with the requirements of this title as specified in Section 311, and shall identify the evidence that supports the reasons set forth in the request. The Patent Trial and Appeal Board shall not institute a post-grant review proceeding unless it determines that the information presented provides sufficient grounds to proceed. If the Patent Trial and Appeal Board does not institute a post-grant review proceeding under this section then the cancellation petitioner may not assert the same grounds against the same claims in any other proceeding with the Office.