

STATEMENT OF

**JOHN C. VAUGHN
EXECUTIVE VICE PRESIDENT
ASSOCIATION OF AMERICAN UNIVERSITIES**

ON BEHALF OF THE

**ASSOCIATION OF AMERICAN UNIVERSITIES
AMERICAN COUNCIL ON EDUCATION
ASSOCIATION OF AMERICAN MEDICAL COLLEGES
ASSOCIATION OF PUBLIC AND LAND-GRANT UNIVERSITIES
ASSOCIATION OF UNIVERSITY TECHNOLOGY MANAGERS
COUNCIL ON GOVERNMENTAL RELATIONS**

BEFORE THE

**HOUSE JUDICIARY SUBCOMMITTEE ON INTELLECTUAL
PROPERTY, COMPETITION AND THE INTERNET**

MARCH 30, 2011

America's universities and medical colleges 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; in 2008, according to the National Science Foundation, universities performed 56% of the nation's basic research. 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 when technology transfer processes facilitate the movement of fundamental discoveries from university research into the commercial sector for development into useful products and processes.

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. Prior to 1981, fewer than 250 patents were issued to U.S. universities annually and discoveries were seldom commercialized for the public's benefit. By contrast, according to the Association of University Technology Managers' most recent licensing survey, 3,417 U.S. patents were issued to U.S. universities during 2009 alone, while 596 new companies were formed and 658 new products were introduced based upon university inventions.

The U.S. patent system plays a critical role in enabling universities to promote innovation through technology transfer. Our six associations have been actively engaged over the course of the past six years in seeking to promote a strong, balanced set of proposals for comprehensive patent reform that will enhance the capacity of the patent system to support invention, innovation, and U.S. economic competitiveness in the increasingly competitive global environment of the 21st century.

We commend the Judiciary Committee for introducing legislation that goes a long way toward reforming the U.S. patent system to more effectively advance U.S. innovative capacity. The recently introduced "America Invents Act" contains a number of key provisions that will support this goal:

Adoption of a First-Inventor-to-File System (FITF)

Adoption of a FITF system for determining patent priority, which was recommended by the National Academies National Research Council in its seminal report, *A Patent System for the 21st Century*, would harmonize U.S. patent law with that of our major trading partners, add greater clarity to our patent system by replacing the subjective determination of the first inventor with the objective identification of the first filer, and eliminate the unpredictable and substantial costs of interferences and litigation associated with determining the first inventor.

Although moving to a FITF system would provide significant benefits to the U.S. patent system as well as to universities, when first proposed it raised concerns among some members of the university community about their ability to operate effectively in such a

patent system. University inventors typically are faculty members who first publish in academic journals and later consider whether to file to obtain a patent. Before filing a patent application, universities often need time to consider the potential commercial application of a basic research finding, 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 non-profit 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 (FTI) system but could have been compromised in a FITF system.

Accordingly, we asked that U.S. patent law maintain three components of the current U.S. patent system: (1) a 12-month grace period for publishing articles containing a disclosure of the invention, (2) the opportunity to file provisional applications, and (3) the requirement of current U.S. patent law that an applicant sign an oath that he or she is an inventor of the claimed invention. All three provisions have been included in all subsequent versions of patent reform legislation, including the “America Invents Act.”

Creation of a New Post-Grant Review Proceeding

Also recommended by the National Research Council, the new post-grant opposition procedure provides an efficient, effective mechanism for challenging a patent for up to 12 months after issuance on any issue of invalidity. This new review procedure provides an early opportunity to challenge patents through a less costly alternative to litigation, eliminating patents that should not have been issued from the system and strengthening those patents that survive the challenge.

Increased Resources for the U.S. Patent and Trademark Office

The Patent and Trademark Office (PTO) is seriously underfunded, and the “America Invents Act” provides the Office with increased financial sources in two important ways. First, the bill provides the PTO with expanded fee-setting authority, subject to Congressional and Patent Public Advisory Committee oversight. This provision will allow a more accurate and timely adjustment of fees than can be accomplished by going through Congress. Second, the bill includes a provision that assures that the fees collected can be retained by the PTO to carry out its critical functions, including reducing the backlog of over 700,000 patent applications.

Third-Party Submission of Prior Art

Third parties are given expanded opportunity to submit relevant prior art before patent issuance. The provision of increased information available to patent examiners will enhance the quality of issued patents.

Areas of Concern

The university community has two serious concerns with the “America Invents Act”: (1) the expansion of prior-user rights, and (2) the lowering of the threshold to initiate an *inter partes* review.

Expansion of Prior-User Rights

Universities strongly oppose any expansion of the prior-user rights defense in patent reform legislation. Prior-user rights provide a defense against patent infringement in certain circumstances for products or processes developed under trade secret procedures. Under current law, prior-user rights apply only to business methods; if a patent has been granted for a business method that is functionally comparable to a pre-existing business method developed under trade secret procedures, prior-user rights provide a defense against infringement for the method developed as a trade secret. Arguments have been advanced that if the U.S. patent system is to transition from a FTI to a FITF process for determining patent priority, the prior-user rights defense should be expanded beyond business methods to apply to all technologies, thereby providing all technologies with a potential defense to infringement of later-filed patents.

Universities believe that expanding prior-user rights is an unwise expansion of immunity from the assertion of patent rights. Such an expansion would degrade the patent system overall by substantially reducing patent certainty, and any reduction in patent certainty could seriously impair the process by which universities transfer their discoveries into the commercial sector for development.

There is no apparent reason why adoption of the FITF system should call for such expansion; we believe that expanding prior-user rights would be bad patent policy and bad public policy under both the FTI and FITF systems. Over the six-year effort to reform U.S. patent law, every House and Senate legislative proposal has included the adoption of a FITF system, and every proposal for an expansion of prior-user rights has been rejected.

The patent system is premised on a quid pro quo of granting monopoly rights to an invention in return for disclosure to the public of information about that invention. This quid pro quo has effectively implemented its Constitutional intent “[to] promote the progress of science and the useful arts.” Enhanced ability to withhold information about new technologies would subvert the purposes of the patent system.

The expanded prior-user rights provisions in the bill provide a legislative “carve-out” for university patents under which the prior-use defense could not be applied to university patents arising from federal or university funding that does not include funding from private business. While such a carve-out would certainly mitigate the harmful impact on university licensing of a broad expansion of prior-user rights, clear problems would remain. Many companies to which universities license their patents intermingle university patents with their own patents in developing new products. The commercial

prospects for those products would be at risk with the expansion of prior-user rights, even with a university carve-out, since it would increase the vulnerability of non-exempt patents to assertions of a prior use defense by a competitor.

We are also concerned about the impact of expanded prior user rights on academic publishing. University researchers actively publish their research findings, including discoveries that could prove to be patentable inventions. Such results often are published well in advance of applying for patents on inventions arising from that research. Expansion of prior-user rights creates a powerful disincentive to publish potentially patentable research results. While the effective grace period included in S. 23 and prior House patent reform bills would encourage publication by protecting inventors from others patenting their inventions, expanded prior-user rights would have exactly the opposite effect: early publication could permit others to prepare a competing trade secret product that would be immune from a charge of infringement of a patented product or process emerging from that published research. It is true that someone may not assert a prior-user rights defense if the subject matter was derived from the patentee, and the person asserting the defense must have reduced the subject matter to practice at least one year before the effective filing date, and commercially used the subject matter before the filing date of the patent in question. But the uncertainties and subjectivity surrounding the derivation determinations and timing of reduction to practice and commercial use generate a disincentive to publish and raise the prospect of subjective elements of dispute comparable to those surrounding the determination of the first inventor, aspects of U.S. patent law that this bill properly seeks to eliminate.

But most fundamentally, the proposed expansion of prior user rights undermines the successful operation of the U.S. patent system and its balancing of patent protection through the assertion of patent rights with the powerful benefit of disclosure to the public and its creators and inventors. Companies should be free to choose to develop products via a trade secret route, but they should do so with a clear understanding of the risks and benefits. We believe there is far more lost than gained by the proposed expansion of prior-user rights.

Lowered Threshold for *Inter Partes* Review

Universities are very concerned with the lowering of the threshold for initiating an *inter partes* review in the House bill. Earlier in the patent reform process, an extended debate about a proposal to create a broad “second window” procedure for administratively challenging patents over their lifetimes resulted in a compromise procedure for strengthening the current *inter partes* reexamination procedure. Much of this was carried out through extensive negotiations moderated by the House Judiciary Committee, resulting in substantial improvements to the procedure, including having the reviews conducted by a panel of three Administrative Patent Judges rather than patent examiners, and limiting evidence to patents and printed publications.

The Senate, in S. 515, further improved the *inter partes* review procedure by expanding the estoppel provisions governing subsequent challenges to include issues that

“reasonably could have been raised” as well as issues actually raised. In addition, the Senate provisions included raising the threshold for initiating an *inter partes* review from the “substantial new question of patentability” standard of current law to a “reasonable likelihood that that the petitioner will prevail with respect to at least one of the claims challenged in the petition.” Under the current-law standard of a substantial new question of patentability, 95% of petitions for reexamination are granted; the higher threshold can prevent unwarranted challenges yet keep the procedure accessible for legitimate actions. Together, the expanded estoppel and higher threshold establish the revised *inter partes* procedure as an effective instrument for serious challenges to patents throughout their lifetimes, but greatly reduce the prospect of using the procedure to mount harassing serial challenges.

We appreciate the retention in the House bill of the broadened estoppel language, but urge the Judiciary Committee to reinstate the higher threshold for initiating an *inter partes* review.

The House “America Invents Act” is a commendable bill containing a number of strong provisions that effectively address weaknesses in the current U.S. patent system and build a robust framework for 21st century U.S. economic competitiveness. After six years of dedicated work by Congress, enormous progress has recently been made in enacting balanced, comprehensive patent reform. This progress has required compromises by all stakeholders in the heterogeneous patent community. Universities applaud the many good provisions of the “America Invents Act.” We have serious concerns with the two issues discussed above. We hope that we can work with the House Judiciary Committee and with relevant stakeholders to address these concerns satisfactorily so that the recent progress continues to successful completion of this promising and extraordinarily important endeavor.