June 14, 2011

Memorandum

To: Association Constituencies

From: Hunter R. Rawlings III, President, AAU
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Subject: Support H.R. 1249, the America Invents Act

We write to urge your prompt, active support for H.R. 1249, the America Invents Act. This bill, the culmination of a more than six-year effort to reform U.S. patent law, includes a number of provisions that will benefit universities and strengthen the U.S. patent system overall. The bill tracks closely S. 23, the Senate bill that passed 95-5 in March. The common provisions of the two bills will increase patent quality, reduce patent litigation costs, and provide the USPTO with critically needed financial resources. These increased resources will allow the USPTO to reduce the enormous backlog of patent applications and enable the Office to streamline operations and incorporate new initiatives that will significantly increase the capacity of the U.S. patent system to foster innovation and increase the nation's economic competitiveness.

For the first time in the six-year patent reform effort, all major patent stakeholders are supporting the balanced, comprehensive reform of the U.S. patent system that would be enacted by H.R.1249 and its expected adoption by the Senate, to be signed into law by the President.

The bill is expected to go to the House floor for a vote this Thursday. We request that you contact your House delegations and any other House members with whom your institution has a relationship as soon as possible to express your institution's support for the legislation and to ask them to vote for H.R. 1249.

We wrote to you on May 17, urging your support of H.R. 1249 in anticipation of further improvements on the primary issue of concern, the expansion of prior user rights. After extensive negotiations, a compromise set of prior user rights provisions has been agreed to by universities, the Coalition for Patent Fairness – the IT sector group seeking expanded prior user rights, the Coalition for 21st Century Patent Reform, and both House and Senate Judiciary staffs. With the resolution of concerns about prior user rights, all outstanding university issues have been fully addressed, leaving a strong, balanced, comprehensive patent reform bill that warrants university support.

Among the key features of H.R. 1249 that will strengthen the U.S. patent system are:

- adopting a first-inventor-to-file system, which will harmonize the U.S. patent system with that of our major trading partners in determining the priority of patent applications, simplifying and clarifying the patent application process and enabling U.S. inventors to compete more effectively and efficiently in the global marketplace;

- improving patent quality by allowing third parties to submit information to the U.S. Patent and Trademark Office (USPTO) concerning patents under examination; by creating a new supplemental examination that would supplement or correct prior information, strengthening the emerging patents; and by creating an efficient, effective post-grant opposition proceeding, available for one year after a patent has been granted, providing an early alternative to using the courts to challenge patents, thereby allowing challengers to eliminate weak patents that should not have been granted and strengthening those patents that survive a challenge;

- reducing patent litigation costs by eliminating the litigation surrounding the determination of the first inventor; by establishing the new post-grant procedure noted above; and by significantly improving the current *inter partes* review procedure, which will provide a lower-cost alternative to civil litigation to challenge patents throughout their lifetimes, while substantially reducing the capacity to use this procedure to mount harassing serial challenges; and

- providing USPTO with critically needed resources by providing this fee-funded agency with facilitated fee-setting authority, subject to Congressional and Patent Public Advisory Committee oversight, and creating a new revolving fund that will assure that the fees collected by USPTO can be retained by the Office rather than being diverted by Congressional Appropriations Committees for other purposes, a practice carried out often in past years.

We have attached an expanded description of the key provisions noted above (Attachment 1). We have also included information on the two most serious but rebuttable criticisms currently being raised against H.R. 1249. Those criticisms are:

1) the claim that a first-inventor-to-file system violates the Constitution (Attachment 2), and

2) opposition to creation of the USPTO revolving fund on the basis that it constitutes mandatory spending lacking sufficient Congressional oversight and control (Attachment 3).

We appreciate your assistance and urge your immediate action on this important piece of legislation.

MAJOR IMPROVEMENTS TO U.S. PATENT LAW CONTAINED IN H.R. 1249

Adoption of a first-inventor-to-file (FITF) system

Adoption of a FITF system for determining patent priority, which was recommended by the National Academies in its seminal report, *A Patent System for the 21st Century*, would harmonize U.S. patent law with that of our major trading partners in determining the priority of patent applications, 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.

Moving to a FITF system raised concerns among some members of the university community about their ability to operate effectively in such a system. Accordingly, we asked that U.S. patent law maintain three components of the current U.S. patent system: (1) an effective 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 S. 23 and H.R. 1249.

Some opponents of FITF have charged that it is unconstitutional; **Attachment 2** provides three rebuttals to this charge.

Creation of a New Post-Grant Review Proceeding

Also recommended by the National Academies, 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 patent validity. 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. The provision includes a high threshold for initiating the procedure – more than likely that at least one claim of the challenged patent is invalid – to assure that procedure cannot be used for unwarranted challenges to a patent.

Increased Resources for the U.S. Patent and Trademark Office (USPTO)

USPTO is seriously underfunded, struggling with a backlog of over 700,000 patent applications. H.R. 1249 provides the Office with increased financial resources in two important ways. First, the bill provides USPTO 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 creates a new revolving fund that assures that the fees collected can be retained by USPTO rather than being diverted

by Congressional Appropriations Committees for other purposes, a practice carried out all too often in the past.

The USPTO revolving fund has been criticized by House Budget Committee Chairman Paul Ryan (R-WI) and Appropriations Committee Chairman Harold Rodgers (R-KY) and others as mandating spending without proper Congressional control, but the revolving fund does not draw on taxpayer funding but instead allows USPTO to keep the fees it receives from participants in the U.S. patent and trademark programs in order to provide needed services to the participants in those programs. It is noteworthy that all major patent stakeholders not only support H.R. 1249 overall but specifically and strongly support the USPTO revolving fund. **Attachment 3** includes the Ryan-Rodgers letter, a letter from Senator Coburn to Congressmen Ryan and Rodgers rebutting their charges, and a letter of support for the provision from those stakeholders.

Improved *inter partes* Review Procedure

H.R. 1249 includes significant improvements to the current *inter partes* reexamination procedure, an administrative procedure carried out by USPTO for challenging a patent throughout its lifetime. In addition to having the reviews conducted by a panel of three Administrative Patent Judges rather than patent examiners, H.R. 1249 has incorporated two significant changes of S. 23 that will make *inter partes* reviews an effective instrument for legitimate challenges to patents while substantially reduce the prospect that the procedure can be used for mounting harassing serial challenges:

- reinstatement of a broad estoppel against raising in any subsequent challenge to the patent issues that "reasonably could have been raised" as well as issues actually raised, and

- raising the threshold for initiating an *inter partes* review from the current "substantial new question of patentability" to a "reasonable likelihood that the petitioner will prevail with respect to at least one of the claims challenged in the petition."

Third-Party Submission of Prior Art

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

Supplemental Examination

H.R. 1249 as introduced contained a supplemental examination provision, identical to that in S. 23, which would allow a patent owner voluntarily to disclose additional information to the USPTO that would supplement or correct prior information considered in the initial examination. This proceeding would promote patent quality by allowing defective patents or claims to be canceled if warranted, or narrowed or otherwise

corrected, strengthening the emerging patent and promoting investment, licensing, and innovation by removing uncertainties that may surround some issued patents.

At the House Judiciary Committee markup of H.R. 1249, the Committee adopted an amendment intended to prevent supplemental examination from being used by bad actors to circumvent a charge of fraud. This amendment, while well intended, would drive honest patent owners away from using supplemental examination, nullifying its potential to improve patent quality through a carefully structured procedure and to increase investment, R&D, and job creation spurred by strong patents. Moreover, the USPTO has existing mechanisms for responding to cases of fraudulent behavior. A satisfactory compromise has been reached on this amendment.