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AUTM Discussions Technology Transfer Office Directors FEEDBACK | QUESTIONS

Patent Reform

From: Carl Gulbrandsen

To: Technology Transfer Office Directors

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Subject: Patent Reform

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Message:

Dear fellow AUTM members and colleagues:

I am writing in response to the letter sent out by the AUTM board on May 17, 2011 (the "AUTM Letter") encouraging the membership to support H.R. 1249, the House of Representatives patent reform bill. As director of an office that has been extensively involved in working with Congress and a number of stakeholders in the patent reform effort, I was very disappointed

to read the AUTM Letter. The letter does not fairly represent the impact the proposed legislation will have on universities, start-up companies, small businesses and independent inventors (hereafter, collectively, "innovators") if it becomes law. The bill does represent a compromise as indicated by the AUTM Letter, as do all bills; and compared to the legislation as originally proposed, it is an improvement. But compared to the present patent law, it is anything but an improvement. Rather than benefit universities and strengthen patents as claimed in the AUTM Letter, H.R. 1249 promises to increase the cost of obtaining, maintaining and enforcing patents. Directly and indirectly this proposed legislation would weaken patents and greatly reduce the incentive for licensing, changes that will frustrate innovation by favoring big business over innovators. It conflicts with the statutory objectives and spirit of the Bayh-Dole Act and is of dubious constitutionality.

The reform proposed in this legislation includes the most significant changes to the U.S. patent law in over a century - and they are not good changes. There are five major changes proposed which individually and in concert weaken patents and make it more difficult and expensive for universities to obtain, maintain, license and enforce patents.

First, the proposed legislation moves the U.S. patent system from a first to invent system to a first inventor to file system. The AUTM Letter states that this enables "U.S. inventors to compete more effectively and efficiently in the global marketplace." How does moving from a first to invent, which has been part of the U.S. patent system from its beginning, to a race to the patent office make U.S. inventors more competitive? It doesn't. Moving to a first to file system favors large businesses and in particular, well-financed, large foreign businesses over innovators. Operating effectively in a first to file system requires financial and staffing resources that are generally not available to universities or other small entities. Most universities today need a licensee willing and able to pay the patent cost before an application is filed. Under a first to file system, that will often mean the university loses the race.

Second, the proposed legislation weakens the grace period that has been such an important and valuable right for U.S. inventors. For universities the grace period has been particularly important. Under present law, the inventor need not do anything affirmative other than having made the invention to be entitled to the grace period. The inventor is entitled to swear behind any prior art created during the grace period and still be entitled to obtain a patent. Under the proposed law, the inventor must affirmatively disclose the invention to be entitled to a grace period. Thus under the proposed law, a disclosure of the invention not made by the inventor or another acting on information from the inventor will act as a bar even if within a year of filing the application. Moreover, if the purpose of the proposed legislation is harmonization with the rest of the world, then the disclosure grace period is effectively non-existent. A disclosure before filing acts as an absolute bar in most jurisdictions outside the United States so the grace period only becomes useful if one does not intend to file globally.

Third, the proposed legislation effectively shifts the constitutional balance between trade secrets and patents to favor trade secrets. Under present law, a person needs to choose between protecting an invention through trade secret and filing a patent application. If the inventor chooses trade secret, the law today holds that the inventor abandons his right to obtain a patent.

Under section 35 U.S.C. section 102(c), a person is barred from receiving a patent if that person has abandoned the invention. The proposed legislation does away with section 102(c), so if this proposed legislation becomes law, a person can keep the invention a trade secret until it becomes clear that it would be better to have a patent and then file a patent application effectively extending that person's competitive advantage 20 years.

Fourth, the proposed legislation further shifts the constitutional balance in favor of trade secrets by expanding prior user rights. Under present law, a patent owner holding a patent covering a trade secret that is not a business method can sue the trade secret user, and if successful, receive just compensation including in some circumstances an injunction. Under the proposed legislation, the trade secret owner could assert the prior user defense and if successful receive a free, paid-up license under the patent for the patented invention and any products made using the patented invention. In essence, the trade secret holder receives a free ride on the rights of the patent owner and what was thought by the patent owner to be exclusive rights as required by the Constitution becomes non-exclusive. Of course, if the trade secret owner is a large company able to control the market, the patent rights may become commercially worthless to the patent owner. As open environments, universities ordinarily do not deal in trade secrets, which is one of the reasons why WARF has consistently opposed expansion of prior user rights. AUTM, until the letter of May 17, was a partner in opposing expansion of prior user rights, but now has shifted sides for reasons stated in the AUTM letter-reasons we believe are largely political and not in the best interests of universities.

Fifth, the proposed legislation adds more opportunities to challenge the validity of patents. Today, patent validity can be challenged through reexamination (ex parte and inter partes) and through infringement litigation. Currently, it is more difficult to challenge a U.S. patent than a foreign patent, which we believe is good for U.S. universities and for U.S. innovation because it means that U.S. patents are considerably stronger than foreign patents. Strong patents are critical to start-up companies trying to raise venture dollars. Strong patents are also good for licensing. The proposed legislation, however, adds both a post grant review procedure where patents during the 12 months following issuance can be challenged on any grounds and an enhanced inter partes reexamination procedure. The net result is valuable patents will be more subject to challenge which increases costs for the patent owner, weakens the value of the patent, and makes it more difficult to license or raise capital funds necessary to starting a company and creating jobs.

As stated above, each of these changes acts to weaken our patent system to the disadvantage of innovators and especially university innovators. Taken together, these changes strike a terrible blow to innovation in the United States. Times are hard enough as is to start a company. The last thing investors want is uncertainty, which is exactly what will happen if this proposed legislation becomes law.

This uncertainty is enhanced by legitimate questions of the constitutionality of this law. In shifting the constitutional balance, the expansion of prior user rights runs counter to the constitutional purpose of our patent law which is to promote the progress of the useful arts by securing for a limited time exclusive rights to the inventor in return for disclosure of the invention. It

also fails to respect the express limitations in Article 1, Section 8, clause 8 of the U.S. Constitution. The movement to a first inventor to file from the present first to invent system may also be constitutionally prohibited (see attached article by Jonathan Massey). Any patent reform that runs counter to the constitutional text and underlying purpose will face legal challenges that will call into question the validity of any patents granted under that legislation. These concerns decrease the value of patents, make it more difficult to license and increase the cost of enforcement, which impacts innovators disproportionately more than large companies.

We encourage you to take a hard look at the legislation in light of what you and your offices are trying to do to commercialize university inventions. I believe this proposed legislation strikes at the heart of what we are all trying to do and I am convinced it will make our jobs significantly more difficult. We have attached materials that add additional information to the comments made above. If you share our concerns, now is the time to act. The Chairman of the House Judiciary Committee has stated publicly that he expects H.R. 1249 will be scheduled for consideration by the full House of Representatives during the middle of June. Please ask your congressional representatives to oppose the bill or if you cannot do that directly, ask your governmental affairs people to do so for you. Feel free to provide a copy of this letter to anyone you believe will be interested and helpful. For example, provide a copy of this letter to the start-up companies you are working with, other local entrepreneurs and venture capitalists and ask that they oppose this legislation for the reasons stated in this letter. Any assistance at all that you can provide will be very much appreciated. Thank you for taking the time to read and carefully consider this letter.

Sincerely,

Carl E. Gulbrandsen
Managing Director
Wisconsin Alumni Research Foundation
614 Walnut Street
Madison, Wisconsin 53726

Phone: 608-263-9395
e-mail: carl@warf.org
web site: www.warf.org

Carl Gulbrandsen PhD JD
Wisconsin Alumni Research Foundation
Managing Director
Madison WI
