Effective date

Except as otherwise provided, the provisions of the bill take effect 1 year following the date of enactment and shall apply to any patent issued on or after that date.

Budgetary effects

The House bill retains a Senate provision that references a CBO PAYGO score in *The Congressional Record.*

Hearings

The Committee's Subcommittee on Intellectual Property, Competition, and the Internet held 1 day of hearings on H.R. 1249. The hearing took place on March 30, 2011. Testimony was received from the Honorable David Kappos, Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office; Steve Bartlett, President and CEO of The Financial Services Roundtable; Steven Miller, President and General Counsel (Intellectual Property) for Procter & Gamble; Mark Chandler, Senior Vice President, General Counsel, and Secretary for Cisco; and John Vaughn, Executive Vice President of the Association of American Universities.

The Subcommittee also conducted three separate but related hearings on January 25, 2011 ("How an Improved US Patent and Trademark Office Can Create Jobs," Serial No. 112–6), February 11, 2011 ("Crossing the Finish Line on Patent Reform—What Can and Should be Done," Serial No. 112–8), and March 10, 2011 ("Review of Recent Judicial Decisions on Patent Law," Serial No. 112–20).

Given that the bill is a 6-year work in progress, the legislative record should also reflect that the Subcommittee conducted related hearings on patent reform in the 109th through 111th Congresses. These hearings include the following: "H.R. 2795, the 'Patent Reform Act of 2005'" (June 19, 2005); "Committee Print Regarding Patent Quality Improvement (Part I)" (April 20, 2005, Serial No. 109–11); "Committee Print Regarding Patent Quality Improvement (Part II)" (April 28, 2005, Serial No. 109–11); "Review of US Patent and Trademark Office Operations" (September 8, 2005, Serial No. 109–48); "Patent Quality Enhancement in the Information-Based Economy" (April 5, 2006, Serial No. 109–99); "Patent Harmonization" (April 26, 2006, Serial No. 109–100); "Patent Trolls: Fact or Fiction?" (June 15, 2006, Serial No. 109–104); "Oversight Hearing on the US Patent and Trademark Office" (February 27, 2008, Serial No. 110–115); "The 'Patent Reform Act of 2007'" (April 26, 2007, Serial No. 110–65); "H.R. 1260, The 'Patent Reform Act of 2009'" (April 30, 2009, Serial No. 111–92); and "The US Patent and Trademark Office" (May 5, 2010, Serial No. 111–135).

Finally, the United States Senate Committee on the Judiciary devoted substantial process to patent reform over the same time period. Beginning in 2005, the Senate Judiciary Committee conducted eight hearings on the subject and reported separate bills in the 110th (S. 1145), 111th (S. 515), and 112th (S. 23) Congresses. The full Senate passed S. 23 on March 8, 2011, by a vote of 95–5. H.R. 1249 is substantially similar to S. 23.

Committee Consideration

On April 14, 2011, the Committee met in open session and ordered the bill H.R. 1249 favorably reported with an amendment, by a rollcall vote of 32 to 3, a quorum being present.

Committee Votes

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the Committee advises that the following rollcall votes occurred during the Committee's consideration of H.R. 1249.

1. Amendment #7 to the Manager's Amendment, offered by Ms. Lofgren. The amendment ties the commencement of an inter partes proceeding to a claims-construction order following a "Markman" hearing. Failed by a rollcall of 14–17.

ROLLCALL NO. 1

	Ayes	Nays	Present
Mr. Smith, Chairman		X	
Mr. Sensenbrenner, Jr.	X		
Mr. Coble			
Mr. Gallegly		X	
Mr. Goodlatte		X	
Mr. Lungren	X		
Mr. Chabot		X	
Mr. Issa		X	
Mr. Pence		X	
Mr. Forbes		X	
Mr. King		X	
Mr. Franks		X	
Mr. Gohmert		X	
Mr. Jordan			
Mr. Poe			
Mr. Chaffetz		X	
Mr. Griffin		X	
Mr. Marino		X	
Mr. Gowdy		X	
Mr. Ross		X	
Ms. Adams			
Mr. Quayle		X	
Mr. Conyers, Jr., Ranking Member	X		
Mr. Berman	X		
Mr. Nadler	X		
Mr. Scott	X		
Mr. Watt	X		
Ms. Lofgren	X		
Ms. Jackson Lee	X		
Ms. Waters	X		
Mr. Cohen	X		
Mr. Johnson	X		
Mr. Pierluisi		X	
Mr. Quigley			
Ms. Chu	X		
Mr. Deutch	X		
Ms. Sánchez			
Ms. Wasserman Schultz			
Total	14	17	

2. Amendment #11 to the Manager's amendment, offered by Ms. Chu. The amendment strikes the inter partes review threshold and

retains the lower threshold of a "substantial new questions of patentability." Failed by a rollcall of 7–21.

ROLLCALL NO. 2

	Ayes	Nays	Present
Mr. Smith, Chairman		X	
Mr. Sensenbrenner, Jr.		X	
Mr. Coble		X	
Mr. Gallegly		X	
Mr. Goodlatte		X	
Mr. Lungren		X	
Mr. Chabot		X	
Mr. Issa		X	
Mr. Pence		X	
Mr. Forbes		X	
Mr. King		X	
Mr. Franks		X	
Mr. Gohmert			
Mr. Jordan			
Mr. Poe			
Mr. Chaffetz		X	
Mr. Griffin			
Mr. Marino		X	
Mr. Gowdy		X	
Mr. Ross		X	
Ms. Adams		X	
Mr. Quayle		X	
Mr. Conyers, Jr., Ranking Member	X		
Mr. Berman	X		
Mr. Nadler	X		
Mr. Scott			
Mr. Watt	X		
Ms. Lofgren	X		
Ms. Jackson Lee			
Ms. Waters	X		
Mr. Cohen			
Mr. Johnson		X	
Mr. Pierluisi		X	
Mr. Quigley			
Ms. Chu	X		
Mr. Deutch		X	
Ms. Sánchez			
Ms. Wasserman Schultz			
Total	7	21	

3. Manager's amendment as amended to H.R. 1249. The manager's amendment revises the inter partes review proceeding, clarifies the application of the prior-user defense, and makes other improvements to H.R. 1249. Adopted by a rollcall of 29–2.

ROLLCALL NO. 3

	Ayes	Nays	Present
Mr. Smith, Chairman	X		
Mr. Sensenbrenner, Jr.		X	
Mr. Coble	X		
Mr. Gallegly	X		
Mr. Goodlatte	X		
Mr. Lungren	X		
Mr. Chabot	X		
Mr. Issa			
Mr. Pence	X		
Mr. Forbes	X		

ROLLCALL NO. 3—Continued

	Ayes	Nays	Present
Mr. King	X		
Mr. Franks	X		
Mr. Gohmert			
Mr. Jordan			
Mr. Poe	X		
Mr. Chaffetz	X		
Mr. Griffin			
Mr. Marino	X		
Mr. Gowdy	X		
Mr. Ross	X		
Ms. Adams	X		
Mr. Quayle	X		
Mr. Conyers, Jr., Ranking Member		X	
Mr. Berman	X		
Mr. Nadler	X		
Mr. Scott			
Mr. Watt	X		
Ms. Lofgren	X		
Ms. Jackson Lee			
Ms. Waters	X		
Mr. Cohen	X		
Mr. Johnson	X		
Mr. Pierluisi	X		
Mr. Quigley	X		
Ms. Chu	X		
Mr. Deutch	X		
Ms. Sánchez	X		
Ms. Wasserman Schultz			
Total	29	2	

4. Amendment #8 to H.R. 1249, offered by Mr. Goodlatte. The amendment precludes the use of supplemental examination by any patent holder who attempts to practice or practices fraud on the USPTO. The amendment passed by a rollcall of 21–9, with one vote recorded as "present" and one vote recorded as "pass."

ROLLCALL NO. 4

	Ayes	Nays	Present
Mr. Smith, Chairman			X
Mr. Sensenbrenner, Jr.		X	
Mr. Coble		X	
Mr. Gallegly		X	
Mr. Goodlatte	X		
Mr. Lungren	X		
Mr. Chabot		X	
Mr. Issa	X		
Mr. Pence		X	
Mr. Forbes	X		
Mr. King	X		
Mr. Franks	X		
Mr. Gohmert			
Mr. Jordan			
Mr. Poe			
Mr. Chaffetz	X		
Mr. Griffin	X		
Mr. Marino	X		
Mr. Gowdy	X		
Mr. Ross	X		
Ms. Adams	X		
Mr. Quayle	X		

ROLLCALL NO. 4—Continued

	Ayes	Nays	Present
Mr. Conyers, Jr., Ranking Member	X		
Mr. Berman	X		
Mr. Nadler	X		
Mr. Scott	X		
Mr. Watt	X		
Ms. Lofgren	X		
Ms. Jackson Lee		X	
Ms. Waters	X		
Mr. Cohen			Pass
Mr. Johnson		X	
Mr. Pierluisi		X	
Mr. Quigley			
Ms. Chu		X	
Mr. Deutch	X		
Ms. Sánchez			
Ms. Wasserman Schultz			
Total	21	9	

5. Amendment #15 to H.R. 1249, offered by Ms. Lofgren. The amendment strikes the supplemental examination provision from the bill. Failed by a rollcall of 8–21.

ROLLCALL NO. 5

	Ayes	Nays	Present
Mr. Smith, Chairman		X	
Mr. Sensenbrenner, Jr.			
Mr. Coble		X	
Mr. Gallegly		X	
Mr. Goodlatte		X	
Mr. Lungren		X	
Mr. Chabot		X	
Mr. Issa		X	
Mr. Pence			
Mr. Forbes			
Mr. King			
Mr. Franks		X	
Mr. Gohmert			
Mr. Jordan			
Mr. Poe			
Mr. Chaffetz		X	
Mr. Griffin		X	
Mr. Marino		X	
Mr. Gowdy		X	
Mr. Ross			
Ms. Adams		X	
Mr. Quayle		X	
Mr. Conyers, Jr., Ranking Member	X		
Mr. Berman	X		
Mr. Nadler	X		
Mr. Scott	X		
Mr. Watt	X		
Ms. Lofgren	X		
Ms. Jackson Lee		X	
Ms. Waters			
Mr. Cohen	X		
Mr. Johnson		X	
Mr. Pierluisi		X	
Mr. Quigley		X	
Ms. Chu		X	
Mr. Deutch		X	
Ms. Sánchez		X	

ROLLCALL NO. 5—Continued

	Ayes	Nays	Present
Ms. Wasserman Schultz	X		
Total	8	21	

6. Amendment #1 to H.R. 1249, offered by Mr. Conyers. The amendment limits the application of the business method patent program. Failed by a rollcall of 11–24.

ROLLCALL NO. 6

	Ayes	Nays	Present
Mr. Smith, Chairman		X	
Mr. Sensenbrenner, Jr.	X		
Mr. Coble		X	
Mr. Gallegly		X	
Mr. Goodlatte		X	
Mr. Lungren	X		
Mr. Chabot		X	
Mr. Issa		X	
Mr. Pence		X	
Mr. Forbes		X	
Mr. King		X	
Mr. Franks	X		
Mr. Gohmert		X	
Mr. Jordan		X	
Mr. Poe		X	
Mr. Chaffetz		X	
Mr. Griffin		X	
Mr. Marino		X	
Mr. Gowdy		X	
Mr. Ross		X	
Ms. Adams		X	
Mr. Quayle		X	
Mr. Conyers, Jr., Ranking Member	X		
Mr. Berman	X		
Mr. Nadler		X	
Mr. Scott		X	
Mr. Watt		X	
Ms. Lofgren	X		
Ms. Jackson Lee	X		
Ms. Waters			
Mr. Cohen	X		
Mr. Johnson			
Mr. Pierluisi		X	
Mr. Quigley	X		
Ms. Chu	X		
Mr. Deutch		X	
Ms. Sánchez	X		
Ms. Wasserman Schultz			
Total	11	24	

7. Reporting H.R. 1249 as amended. The bill bolsters funding for the USPTO, switches the United States to a first-to-file patent system, and makes further improvements to the Patent Act. Reported by a rollcall of 32–3.

ROLLCALL NO. 7

	Ayes	Nays	Present
Mr. Smith, Chairman	X		

ROLLCALL NO. 7—Continued

	Ayes	Nays	Present
Mr. Sensenbrenner, Jr.		X	
Mr. Coble	X		
Mr. Gallegly	X		
Mr. Goodlatte	X		
Mr. Lungren	X		
Mr. Chabot	X		
Mr. Issa	X		
Mr. Pence	X		
Mr. Forbes	X		
Mr. King		X	
Mr. Franks	X		
Mr. Gohmert	X		
Mr. Jordan	X		
Mr. Poe	X		
Mr. Chaffetz	X		
Mr. Griffin	X		
Mr. Marino	X		
Mr. Gowdy	X		
Mr. Ross	X		
Ms. Adams	X		
Mr. Quayle	X		
Mr. Conyers, Jr., Ranking Member		X	
Mr. Berman	X		
Mr. Nadler	X		
Mr. Scott	X		
Mr. Watt	X		
Ms. Lofgren	X		
Ms. Jackson Lee	X		
Ms. Waters			
Mr. Cohen	X		
Mr. Johnson			
Mr. Pierluisi	X		
Mr. Quigley	X		
Ms. Chu	X		
Mr. Deutch	X		
Ms. Sánchez	X		
Ms. Wasserman Schultz			
Total	32	3	

Committee Oversight Findings

In compliance with clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee advises that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

New Budget Authority and Tax Expenditures

Clause 3(c)(2) of rule XIII of the Rules of the House of Representatives is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

Congressional Budget Office Cost Estimate

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill, H.R. 1249, the following estimate and comparison prepared

by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, May 26, 2011.

Hon. LAMAR SMITH, CHAIRMAN,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1249, the "America Invents Act."

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Susan Willie.

Sincerely,

DOUGLAS W. ELMENDORF,
DIRECTOR.

Enclosure.

cc: Honorable John Conyers, Jr.
Ranking Member

H.R. 1249—America Invents Act.

SUMMARY

H.R. 1249 would amend the law that governs how the Patent and Trademark Office (PTO) awards patents. Among other things, the bill would alter the rule that prioritizes the award of a patent from the "first to invent" to the "first inventor to file." As a result, PTO would change certain procedures it follows in awarding patents. The bill also would establish new review procedures that would allow individuals to challenge the validity of a patent and would modify PTO's authority to collect and spend fees.

CBO estimates that enacting the bill would reduce net direct spending by $725 million and revenues by $8 million over the 2011–2021 period. Most of the change in direct spending would result from providing PTO with permanent authority to collect and spend certain fees. In total, the changes would decrease budget deficits by $717 million over the 2011–2021 period. Because enacting the legislation would affect direct spending and revenues, pay-as-you-go procedures apply. CBO estimates that implementing H.R. 1249 would have a discretionary cost of $446 million over the 2011–2016 period, assuming appropriation of the necessary amounts.

H.R. 1249 would impose both intergovernmental and private-sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA), on certain patent applicants and other entities. The bill also would preempt the authority of state courts to hear certain patent cases. Based on information from PTO, CBO estimates that the costs of complying with those mandates would exceed the annual threshold for private-sector mandates established in UMRA ($142 million in 2011, adjusted annually for inflation) in each of the first 5 years the mandate is in effect. CBO estimates that the cost to state, local, and tribal governments would fall below the annual threshold established in UMRA ($71 million in 2011, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1249 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

By Fiscal Year, in Millions of Dollars

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2011–2016	2011–2021
CHANGES IN DIRECT SPENDING													
Reclassification of PTO Spending													
Estimated Budget Authority	0	2,266	2,573	2,784	2,907	3,017	3,143	3,262	3,375	3,472	3,593	13,547	30,392
Estimated Outlays	0	1,869	2,486	2,743	2,883	2,995	3,119	3,238	3,353	3,453	3,571	12,976	29,710
New and Amended PTO Processes													
Estimated Budget Authority	0	43	92	99	113	123	129	134	141	149	157	470	1,180
Estimated Outlays	0	35	83	97	110	121	127	134	140	147	155	446	1,149
PTO Administrative Costs													
Estimated Budget Authority	0	8	7	3	0	0	0	0	0	0	0	18	18
Estimated Outlays	0	8	7	3	0	0	0	0	0	0	0	18	18
Reclassification of PTO Collections													
Estimated Budget Authority	0	–2,318	–2,672	–2,886	–3,019	–3,140	–3,272	–3,396	–3,516	–3,620	–3,750	–14,035	–31,589
Estimated Outlays	0	–2,318	–2,672	–2,886	–3,019	–3,140	–3,272	–3,396	–3,516	–3,620	–3,750	–14,035	–31,589
Electronic Filing Incentive													
Estimated Budget Authority	0	–3	3	–2	–2	–2	–1	–1	–1	–1	–1	–12	–17
Estimated Outlays	0	–3	–3	–2	–2	–2	–1	–1	–1	–1	–1	–12	–17
Funding Agreements													
Estimated Budget Authority	*	1	1	*	*	*	*	*	*	.....	*	2	4
Estimated Outlays	*	1	1	*	*	*	*	*	*	*	*	2	4
Total Changes in Direct Spending													
Estimated Budget Authority	*	–3	–2	–2	–1	–2	–1	–1	–1	0	0	–10	–12
Estimated Outlays	*	–408	–98	–45	–28	–26	–27	–25	–24	–21	–25	–605	–725
CHANGES IN REVENUES													
Estimated Revenues	–1	–3	–2	–1	*	*	*	*	*	*	*	–7	–8
NET INCREASE OR DECREASE (–) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND RECEIPTS													
Impact on Deficit	1	–405	–96	–44	–28	–26	–27	–25	–24	–21	–25	–598	–717
CHANGES IN SPENDING SUBJECT TO APPROPRIATION													
Estimated Authorization Level	0	–76	–37	5	44	76	n.a.	n.a.	n.a.	n.a.	n.a.	13	n.a.
Estimated Outlays	0	294	–8	16	55	88	n.a.	n.a.	n.a.	n.a.	n.a.	446	n.a.

Notes:
Components may not sum to totals because of rounding.
Negative numbers denote reductions in spending, revenues, and the deficit.
PTO = Patent and Trademark Office; * = between –$500,000 and $500,000; n.a. = not applicable.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted near the end of fiscal year 2011, the necessary amounts will be appropriated each year, and spending will follow historical patterns for the PTO. Further, CBO assumes that most of the bill's provisions would be effective 1 year after the date of enactment.

H.R. 1249 would change the basis that PTO uses to award patents. Under current law, where two or more persons independently develop identical or similar inventions at approximately the same time, the patent is awarded to the inventor PTO established to be first through PTO's examination process. H.R. 1249 would direct PTO, under the same circumstances, to award the patent to the inventor whose application to PTO had the earliest filing date.

H.R. 1249 also would provide PTO with permanent authority to collect and spend certain fees, shifting collections and spending out of the PTO appropriation account and into a revolving fund. Further, H.R. 1249 would direct PTO's collections to be recorded in the budget as offsetting receipts, that is, offsets to direct spending. Under current law, PTO is authorized to collect fees from the public for specific activities related to processing applications for patents and trademarks. The agency assesses and collects fees for a number of different activities, and the rate for each is set in law. Currently, authority to collect and spend those fees is provided in annual appropriation acts, and the fees are classified as offsets to the agency's discretionary spending levels. For 2011, PTO received a gross appropriation of $2,016 million, and CBO estimates the agency will collect fees of $2,198 million that year to more than offset that appropriation.

Direct Spending

Based on information from PTO and other agencies, CBO estimates that enacting H.R. 1249 would reduce net direct spending by about $0.7 billion over the 2012–2021 period. Provisions of the bill that would reclassify PTO spending and broaden the agency's workload would increase spending by $30.9 billion over the 2012–2021 period. Other provisions of the bill would decrease direct spending (by changing the amount of collections classified as offsets to direct spending) by $31.6 billion over the same period.

Reclassification of PTO Spending. Because PTO's spending would no longer be controlled by the availability of appropriated funds, H.R. 1249 would make all of the agency's fee collections permanently available for spending. Based on historical growth in the number of applications filed for patents and trademarks and historical spending patterns, we estimate that enacting those provisions of H.R. 1249 would increase gross direct spending by about $29.7 billion over the 2012–2021 period.

New and Amended PTO Processes. H.R. 1249 would establish two new procedures to review or update patents and amend one process already available under current law to review existing patents. PTO would be authorized to collect fees to offset much of the costs associated with those activities. Based on information from PTO, CBO estimates that those new and amended processes, taken together, would increase direct spending by $1.1 billion over the 2012–2021 period.

Specifically, the bill would:

- Establish a new procedure, known as post-grant review, to review the validity of a patent. This option generally would be available within 12 months of the date the patent was issued and would take place in a court-like proceeding in which both the challenger and the owner of the patent present information regarding the validity of a patent. CBO estimates that implementing this new process would increase direct spending by $140 million over the 2012–2021 period.
- Establish a new procedure that would allow patent holders to request that PTO review an existing patent to consider, reconsider, or correct information believed to be relevant to the patent. Should this supplemental review raise a new question of patentability, PTO would then reexamine the patent. CBO estimates that the supplemental reviews and the additional reexaminations that would result under the bill would increase direct spending by $758 million over the 2012–2021 period.
- Amend a process already existing under current law, inter partes reexamination, to expand the universe of patents that could be challenged through this proceeding but also limit the time period during which such a challenge could be raised. CBO estimates that implementing the changes to inter partes reexamination procedures would increase direct spending by $251 million over the 2012–2021 period.

PTO Administrative Costs. As a result of the switch to a "first-to-file" principle for granting patents, PTO would incur additional administrative costs, including updating its information technology systems, training staff, and preparing several reports for the Congress. Further, the bill would require PTO to establish at least three additional satellite offices in different regions throughout the country. CBO estimates that those changes would cost $18 million over the 2012–2021 period.

Reclassification of PTO Fees. As noted above, the bill would permanently authorize PTO to set and collect fees and would direct those collections to be recorded in the budget as offsetting receipts (credits against direct spending). Further, the bill would amend current law to permanently increase fee rates that have been temporarily authorized in annual appropriation acts since 2005 and authorize PTO, after specified public notice and comment periods, to set fee rates at levels sufficient to cover the agency's operating costs.

Based on information from PTO and historical patterns of collections, CBO estimates that enacting H.R. 1249 would result in collections of $31.6 billion over the 2012–2021 period. Most of that amount, about $30.5 billion, would stem from the reclassification of the fees from offsets to discretionary spending to offsetting receipts and from PTO's new authority to set fees to recover costs; the balance, about $1.1 billion, would result from increases in fee collections related to the increases in the agency's workload.

Electronic Filing Incentive. In addition to fees PTO collects under current law, H.R. 1249 would establish a new fee that would

be charged to patent applicants that do not use electronic means to file an application. Based on information from PTO, CBO estimates that about 5,000 paper applications, on average, would be filed per year, generating collections of about $17 million over the 2012–2021 period. The bill would direct those collections to be recorded as offsets to direct spending and would make them unavailable for spending by PTO.

Funding Agreements. H.R. 1249 would change the amount of royalties or income earned by certain contractors that is required to be remitted to the federal government. Under current law, funding agreements between the federal government and contractors operating government-owned, contractor-operated (GOCO) laboratories allow contractors to retain, up to a certain threshold, all royalty and other income earned from patents received as a result of work performed under the contract. Beyond that, 75 percent of royalties or income earned above the threshold must be returned to the U.S. Treasury. The royalties returned to the Treasury are recorded as offsetting receipts. H.R. 1249 would reduce the amount deposited into the Treasury to 15 percent.

Currently, only one entity operating a GOCO laboratory returns royalties and license fees to the federal government. Over the past several years, the Ames Laboratory, operated by Iowa State University, has returned to the Treasury approximately $1 million a year in license fees earned from patents awarded under its contract with the federal government. CBO estimates that reducing the percentage of income that is returned to the Treasury would reduce offsetting receipts (and thus increase direct spending) by about $4 million over the 2011–2021 period.

REVENUES

H.R. 1249 would change how certain patent cases, known as false marking cases, are handled by the court system. False marking cases are brought when a defendant is accused of incorrectly claiming a product's right to certain patent protection. Under current law, such cases can be brought by any person on behalf of the government; the government receives half of the value of any fines or amount paid as part of a court-mediated settlement, with the person bringing the case receiving the other. H.R. 1249 would permit competitors to recover damages for the competitive harm caused by a defendant's false marking but would eliminate the option for individuals to seek fines on behalf of the government by stating that only the United States can sue for a civil penalty. H.R. 1249 would further specify that a defendant would not be liable for a false marking suit if the patent involved either expired within 3 years of the alleged false marking or if the word 'expired' were added to the claim of patent protection.

Information from the Department of Justice (DOJ) indicates that in 2010, the government collected fines (recorded as revenues) of about $3 million from false marking cases. Under current law, CBO expects that a diminishing number of new cases will be filed through 2011 and beyond, as courts define stricter standards for proving 'intent to deceive' on the part of the defendant, and as companies rectify their patent marking procedures in response to the risk of litigation. Based on information from DOJ, CBO estimates that about a third of currently pending cases will eventually be set-

tled in court; we expect the rest to be dismissed with no monetary settlement. Thus, CBO estimates that under current law, by 2014, federal revenues from those cases will drop to less than $500,000 a year.

By changing both who can litigate and their incentives for doing so, H.R. 1249 would significantly reduce both the pending caseload and the number of future cases filed. Therefore, CBO estimates that enacting the bill would reduce federal revenues by $7 million over the 2011–2016 period and by $8 million over the 2011–2021 period.

Spending Subject to Appropriation

H.R. 1249 would provide PTO with permanent authority to collect fees and spend those collections thus changing the budgetary classification of those fees and spending. Under that permanent authority, PTO fees would be recorded as offsetting receipts rather than as offsets to discretionary spending. As a result of the reclassification, CBO estimates that this provision would decrease discretionary spending by $10.4 billion and offsetting collections by about $10.8 billion over the 2012-2016 period. On net, CBO estimates that implementing this provision would increase net discretionary spending by $445 million over the 5-year period, assuming that appropriation actions consistent with H.R. 1249 are enacted.

H.R. 1249 also would require the Small Business Administration to prepare a study of the effects on small businesses of eliminating the use of dates of invention for determining entitlement to a patent. The results of the study would be included in a report to the Congress due 1 year after enactment of the bill. In addition, H.R. 1249 would require the Government Accountability Office to conduct a study on the implementation of the bill's provisions by PTO; a report on the results of the study would be due 4 years after enactment of the bill. Based on information from the affected agencies, CBO estimates that those reporting requirements would cost $1 million over the 2012–2016 period, assuming availability of appropriated funds.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 1249 as ordered reported by the House Committee on the Judiciary on April 14, 2011

By Fiscal Year, in Millions of Dollars

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2011–2016	2011–2021
NET INCREASE OR DECREASE (–) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	1	–405	–96	–44	–28	–26	–27	–25	–24	–21	–25	–598	–717
Memorandum:													
Changes in Outlays	0	–408	–98	–45	–28	–26	–27	–25	–24	–21	–25	–605	–725
Changes in Revenues	–1	–3	–2	–1	0	0	0	0	0	0	0	–7	–8

Note: Components may not sum to totals because of rounding.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1249 would impose both intergovernmental and private-sector mandates, as defined in UMRA, on certain patent applicants and other entities. The bill also would preempt the authority of state courts to hear certain patent cases. Based on information from PTO, CBO estimates that the costs of complying with those mandates would exceed the annual threshold for private-sector mandates established in UMRA ($142 million in 2011, adjusted annually for inflation) in each of the first 5 years the mandate is in effect. CBO estimates that the costs to state, local, and tribal governments would fall below the annual threshold established in UMRA ($71 million in 2011, adjusted annually for inflation).

Mandates That Apply to Both Public and Private Entities

PTO fees. H.R. 1249 would impose a mandate on both public and private entities by allowing PTO to set or adjust certain fees and by permanently extending other fee increases that are set to expire at the end of fiscal year 2011. The requirement to pay those fees is a mandate because the federal government controls the patent and trademark systems, and no reasonable alternatives to the systems exist.

Based on information from PTO, CBO estimates that the total cost to comply with the mandate would range from about $220 million in 2013 to about $350 million in 2017, with less than $1 million of those costs accruing to public entities and the rest accruing to private entities.

Restricting Prior-Use Defense. H.R. 1249 would prohibit public and private entities from using the prior-use defense to patent infringement claims for business processes brought by a university or technology-transfer organization. Consequently, public and private entities that have been using business processes which are later patented by a university or technology-transfer organization would no longer be eligible to use those processes without permission from the patent holder. That restriction would be an intergovernmental and private-sector mandate. The cost of the mandate would be the cost to purchase a license from the patent holder, or the amount of net income the entity would lose as a result of no longer being able to use that patent commercially. Based on the small number of public entities that use business methods, CBO es-

timates that the cost to comply with the mandate would be small for public entities. According to information from industry experts, the prior-use defense has never been asserted in a recorded case and therefore it is likely that the use of such a defense would be uncommon. Consequently, CBO estimates that the cost to comply with the mandate for private entities would probably be small.

Mandate That Applies to Public Entities Only

H.R. 1249 would preempt the authority of state courts to hear certain patent cases. That provision would be an intergovernmental mandate as defined in UMRA. While it would limit the authority of state courts, CBO estimates that it would impose no duty on states that would result in additional spending.

Mandate That Applies to Private Entities Only

The bill also would impose a mandate on patent applicants by prohibiting certain tax strategies from being patented. The prohibition would apply to any application pending on the date of enactment and any application submitted for such a patent after that date. CBO has no basis for estimating the net income that would be forgone by a patent applicant for not receiving such a patent. Therefore, the cost to private entities to comply with this mandate is uncertain.

PREVIOUS CBO ESTIMATE

On March 8, 2011, CBO transmitted a pay-as-you-go estimate for S. 23, the America Invents Act, reflecting a number of amendments adopted prior to Senate passage of the bill. One amendment would provide permanent authority to PTO to collect and spend fees. CBO estimated that enacting S. 23 would reduce budget deficits by $750 million over the 2011–2021 period.

On March 1, 2011, CBO transmitted a cost estimate for S. 23, the Patent Reform Act of 2011, as ordered reported by the Senate Committee on the Judiciary on February 3, 2011. That version of the legislation would not provide permanent authority to PTO to collect and spend fees. CBO's estimates of the House and Senate bills reflect those differences. The mandates contained in both the House and Senate bills are the same, except for the mandate regarding prior-use defense, which is only in H.R. 1249.

ESTIMATE PREPARED BY:

Federal Spending: Susan Willie
Federal Revenue: Kalyani Parthasarathy
Impact on State, Local, and Tribal Governments: Elizabeth Cove Delisle
Impact on the Private Sector: Paige Piper/Bach

ESTIMATE APPROVED BY:

Theresa Gullo
Deputy Assistant Director for Budget Analysis
Frank Sammartino
Assistant Director for Tax Analysis

Performance Goals and Objectives

The Committee states that pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, H.R. 1249 modernizes US patent law to improve the operations of the US Patent and Trademark Office, inhibit frivolous patent lawsuits, protect the rights of all inventors, and spur innovation as a means to create American jobs and raise standards of living.

Advisory on Earmarks

In accordance with clause 9 of rule XXI of the Rules of the House of Representatives, H.R. 1249 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9(e), 9(f), or 9(g) of Rule XXI.

Section-by-Section

Section 1. Short title; table of contents.

This Act may be cited as the "America Invents Act."

Section 2. Definitions.

Section 2 defines the following terms: "Director," "Office," "Patent Public Advisory Committee," "Trademark Act of 1946," and "Trademark Public Advisory Committee".

Section 3. First inventor to file.

Subsection (a)—§ 100 is amended to include definitions for additional terms, including "effective filing date."

Subsection (b)—§ 102 is amended to make an invention's priority date its effective filing date. This change moves the United States to the first-to-file system. New section 102(b) preserves the grace period, ensuring that during the year prior to filing, an invention will not be rendered unpatentable based on any of the inventor's own disclosures, or any disclosure made by any party after the inventor has disclosed his invention to the public. Section 102(c) recodifies the CREATE Act, and section 102(d) defines the effective filing date of a patent or application that is cited as prior art to a claimed invention.

Subsection (c)—§ 103 is amended consistent with moving to a first-to-file system. Existing subsection (a) is amended slightly; subsection (b) is deleted because it is no longer needed; subsection (c), which is the CREATE Act, has been moved to § 102.

Subsection (d)—Repeals § 104 (Inventions Made Abroad).

Subsection (e)—Repeals § 157 (Statutory Invention Registration).

Subsection (f)—Amends § 120 related to filing dates to conform with the CREATE Act.

Subsection (g)—Makes various conforming amendments.

Subsections (h), (i) & (j)—Repeals interference proceeding and makes conforming changes to § 291. Amends § 135(a) and provides for a "derivation proceeding," designed to determine the inventor with the right to file an application on a claimed invention. An applicant requesting a derivation proceeding must set forth the basis for finding that an earlier applicant derived the claimed invention and without authorization filed an application claiming such invention. The request must be filed within 1 year of the date of first

publication of an application for a claim that is substantially the same as the claimed invention. The Patent Trial and Appeal Board (the "Board") shall determine the right to patent and issue a final decision thereon. Decisions of the Board may be appealed to the Federal Circuit, or to district court pursuant to § 146.

Subsection (k)—Paragraph (1) amends § 32 of the Patent Act ("suspension or exclusion from practice") by placing time limitations on the commencement of a proceeding. Paragraph (2) imposes a reporting requirement on the Director regarding instances of misconduct before the agency and how they were addressed.

Subsection (l)—Contains a provision for a study regarding first-to-file to be conducted by the Small Business Administration and the USPTO.

Subsection (m)—Requires a study of prior user rights.

Subsection (n)—Contains an effective date provision.

Subsection (o)—Contains a study of patent litigation and its effect on the patent system.

Subsection (p)—Sets forth the sense of Congress that the first-to-file system promotes the purposes of Article I, section 8, clause 8, of the US Constitution.

Subsection (q)—Sets forth the sense of Congress that the first-to-file system promotes harmonization of the US and other patent systems.

Section 4. Inventor's oath or declaration.

The section streamlines the requirement that the inventor submit an oath as part of a patent application, and makes it easier for patent owners to file applications.

Subsection (a)—Section 115 is amended to permit an applicant to submit a substitute statement in lieu of the inventor's oath or declaration in certain circumstances, including if the inventor is (i) unable to do so, or (ii) unwilling to do so and is under an obligation to assign the invention. A savings clause provides that failure to comply with the requirements of this section will not be a basis for invalidity or unenforceability of the patent if the failure is remedied by a supplemental and corrected statement. False substitute statements are subject to the same penalties as false oaths and declarations.

Subsection (b)—Section 118 is amended to allow the person to whom the inventor has assigned (or is under an obligation to assign) the invention to file a patent application. A person who otherwise shows sufficient proprietary interest in the invention may file a patent application as an agent of the inventor to preserve the rights of the parties.

Section 5. Defense to infringement based on earlier inventor.

Section 5 amends § 273 of the Patent Act, which addresses prior-user rights, as follows:

The prior-use defense may be asserted against any patent (not just methods), provided the person asserting the defense reduced the subject matter of the patent to practice and commercially used the subject matter at least 1 year before the effective filing date of the patent. However, the defense cannot be asserted if the subject matter was derived from the patent holder or persons in privity with the patent holder. Nor can the defense be asserted unless the

prior user both reduced the subject matter of the patent to practice and commercially used it at least 1 year before the effective filing date of the patent or the date that the patentee publicly disclosed the invention and invoked the § 102(b) grace period, whichever is earlier.

Section 5 also clarifies that a person may not assert the defense if the subject matter of the patent on which the defense is based was developed pursuant to a funding agreement under Chapter 18 of the Patent Act (patent rights in inventions made with Federal assistance) or by a university or a technology transfer organization affiliated with a university that did not receive private business funding in support of the patent's development.

Finally, Section 5 states that the defense may only be asserted by the person who performed or caused the performance of the acts necessary to establish the defense, as well as any other entity that controls, is controlled by, or is under common control with such person; and except for any transfer to the patent owner, the right to assert the defense cannot be licensed or assigned or transferred to another person except as an ancillary and subordinate part of a good faith assignment or transfer for other reasons of the entire enterprise or line of bsiness to which the defense relates.

Section 6. Post-grant review proceedings.

Subsections (a) and (d) enact new chapters 31 and 32, which create adjudicative systems of post-grant and inter partes review. The parallel sections of these new chapters are as follows:

§§ 311 and 321. Inter partes review may be sought on the basis of patents and printed publications any time after a post-grant review is concluded or, if no such review is instituted, after the time for seeking such review has expired. Post-grant review may be sought on any invalidity ground during the first 12 months after a patent is issue or reissued.

§§ 312 and 322. Petitions for review shall explain the basis for seeking review, shall identify the petitioner's real parties in interest and privies, and shall be made publicly available as soon as is practicable.

§§ 313 and 323. Patent owners may file a response to a petition for reviewing explaining why a review should not be instituted.

§§ 314 and 324. Inter partes review shall not be instituted unless the information in the petition and response shows that there is a reasonable likelihood that a claim would be found invalid. Post-grant review shall not be instituted unless the information presented in the petition, if not rebutted, shows that it is more likely than not that a claim would be found invalid, or the petition raises a novel or unsettled legal question that is important to other patents or applications.

§§ 315 and 325. (a) Review may not be instituted if the petitioner has previously filed a civil action challenging the validity of the patent. The petitioner may, however, file a declaratory-judgment action challenging the validity of one or more claims in the patent on or after the day that he files the review petition, but such action is automatically stayed until the patent owner countersues for infringement.

(b) Inter partes review must be sought by a party within 12 months of the date when the party is served with a complaint for infringement. If a patent owner sues for infringement within 3 months of the patent's issue, a pending petition for post-grant review or the institution of such a proceeding may not serve as a basis for staying the court's consideration of the patent owner's motion for a preliminary injunction.

(c) The Director may allow other petitioners to join an inter partes or post-grant review.

(d) The Director may consolidate multiple proceedings or matters concerning the same patent and decline requests for repeated proceedings on the same question.

(e) Inter partes and post-grant petitioners are estopped from raising in a subsequent Office proceeding any issue that they raised or reasonably could have raised in the inter partes or post grant review, and inter partes petitioners are also estopped from raising in civil litigation or an ITC proceeding any issue that they raised or could have raised in the inter partes review. Post-grant petitioners are only estopped from raising in civil litigation or ITC proceedings those issues that they actually raised in the post-grant review.

(f) Post-grant review may not be used to challenge claims in a reissue patent that are the same as or narrower than claims in the original patent if the time for seeking review of the original patent has lapsed.

§§ 316 and 326. (a) The Director shall prescribe regulations that make the file in proceedings public; define standards for instituting reviews; allow submission of additional information; establish and govern review and its relationship to other proceedings; set a time limit for requesting joinder in inter partes review; set standards for discovery; prescribe sanctions for abuse of the proceedings; provide for protective orders for confidential information; allow the patent owner to file a response after an inter partes review has been instituted; allow the patent owner to amend the patent; provide either party with the right to an oral hearing; and set a 1-year time limit for completion of the proceeding, with a 6-month extension for good cause; and provide the petitioner with at least one opportunity to file written comments after the proceeding is instituted.

(b) In prescribing regulations, the Director shall consider the integrity of the patent system and the efficient operation of the Office.

(c) The Patent Trial and Appeal Board shall conduct review proceedings.

(d) The patent owner may submit one amendment with a reasonable number of substitute claims, and additional amendments either as agreed to by the parties for settlement, for good cause shown in post-grant review, or as prescribed in regulations by the Director in inter partes review.

(e) The challenger shall have the burden of providing unpatentability by a preponderance of the evidence.

§§ 317 and 327. Parties may agree to settle review proceedings, in which case estoppel shall not apply and a copy of the settlement agreement shall be filed in the Office.

§§ 318 and 328. The Patent Trial and Appeal Board shall issue a final written decision and a certificate cancelling, confirming, or incorporating claims.

§§ 319 and 329. A party dissatisfied with a final written decision may appeal to the U.S. Court of Appeals for the Federal Circuit.

Subsections (b) and (e) of section 5 make technical and conforming amendments.

Subsections (c) and (f) require the Director to issue regulations implementing the new reviews within 1 year, and create transition provisions for proceedings pending between the enactment of the Act and the full implementation of the new reviews.

Subsection (g) amends § 301 to include written statements of the patent owner filed in a proceedings before a Federal court or the Office as citable prior art. The section is further amended to provide rules for submitting such statements and the limitations on their use.

Subsection (h) amends § 303 to provide that the Director may determine whether to initiate reexamination on the Director's own initiative based on citations by any person other than the owner of the patent under section 301 or 302. Also, § 306 is amended to conform to the changes made by § 4605 of the American Inventors Protection Act of 1999, Public Law 106–113, to §§ 134 and 141 of title 35.

Section 7. Patent Trial and Appeal Board.

The Board of Patent Appeals and Interferences is replaced with the new Patent Trial and Appeal Board ("Board"). The Board is charged with (i) reviewing adverse decisions of examiners on applications and reexamination proceedings, (ii) conducting derivation proceedings, and (iii) conducting the post-grant review proceedings. This section also updates the various appeals statutes.

Section 8. Preissuance submissions by third parties.

This section amends § 122 to create a mechanism for third parties to submit timely pre-issuance information relevant to the examination of the application, including a concise statement of the relevance of the submission.

Section 9. Venue.

The venue for certain district court challenges of USPTO decisions is changed from the District of Columbia to the Eastern District of Virginia, the district where the USPTO resides.

Section 10. Fee-setting authority.

This section gives the Director rulemaking authority to set or adjust any fee under §§ 41 and 376, and section 1113 of title 15, provided that such fee amounts are set to reasonably compensate the USPTO for the services performed. The Director may also reduce such fees. The Director shall consult with the patent and trademark advisory committees as provided for in this section. Any proposal for a change in fees (including the rationale, purpose, and

possible expectations or benefits that will result) shall be published in the *Federal Register* and shall seek public comment for a period of not less than 45 days. The Director shall notify Congress of any final proposed fee change and Congress shall have up to 45 days to consider and comment before any proposed fee change becomes effective.

Rules of construction are provided.

Section 11. Fees for patent services.

The Act includes the current patent fee schedule in the text. This schedule represents a reference point for any future adjustments to the fee schedule by the Director.

Section 12. Supplemental examination.

This section authorizes a new § 257 of the Patent Act that addresses the "supplemental examination" of a patent to correct errors or omissions in proceedings before the Office. Information that was not considered or was inadequately considered or was incorrect can be presented to the Office.

Under new subsection (a) of § 257, the Director must initially determine whether a petitioner's request for supplemental examination of one or more items in the request raises a new question of patentability. The Director must make this determination within 3 months of receiving a request for supplemental examination.

Under new subsection (b), if the Director issues a certificate affirming that this threshold is met, a reexamination shall be ordered and will be conducted according to the procedures under Chapter 30 of the Patent Act (ex parte reexamination).

New Subsection (c) of § 257 stipulates that a patent cannot be held unenforceable on the basis of conduct relating to information that had not been considered, was inadequately considered, or was incorrect in a prior examination if the information was considered, reconsidered, or corrected during the supplemental examination. Challengers may still argue in court that the Office's conclusion in supplemental examination was erroneous and that the information renders the patent invalid, but the information cannot be used to render the patent invalid or unenforceable on the basis of inequitable conduct.

New subsection (c) also enumerates three exceptions to these terms: (1) prior allegations involving certain new drug applications (21 USC § 355(j)); (2) patent enforcement actions before the International Trade Commission or a US district court, unless the supplemental examination was concluded before the date on which the action is brought; and (3) instances in which fraud on the USPTO was practiced or attempted.

New subsection (d) of § 257 authorizes the Director to establish fees, by regulation, to help defray the cost of a supplemental examination, in addition to those charged pursuant to Chapter 30.

Finally, new subsection (e) clarifies that nothing in Section 12 limits the application of criminal or antitrust laws or the ability of the USPTO Director to investigate and sanction persons or their representatives for misconduct before the Office.

Section 13. Funding agreements.

Clause (i) of § 202(c)(7)(E) is amended to permit a nonprofit organization that has a funding agreement for the operation of a Government-owned-contractor-operated facility to retain 85%, rather than 25% under current law, of licensing royalties in excess of the amount equal to 5% of the annual budget of the facility.

Section 14. Tax strategies deemed within the prior art.

This section provides that strategies for reducing, avoiding, or deferring tax liability shall be deemed insufficient to differentiate an invention from the prior art. In other words, applicants will no longer be able to rely on the novelty or non-obviousness of a tax strategy embodied in their claims in order to distinguish their claims from the prior art under the statutory novelty and non-obviousness requirements of those provisions.

Under the provision, the term "tax liability" refers to any liability for a tax under any Federal, State, or local law, or law of any foreign jurisdiction, including any statute, rule, regulation, or ordinance that levies, imposes, or assesses such tax liability.

The provision is directed to tax strategies, which are a subset of business methods, and is not intended to deny patent protection for an invention that consists of tax preparation software or other tools used solely to enter data on tax or information returns or any other filing required by a tax authority. Thus, a software program that is novel and non-obvious as software would not be affected by this section even though the software is used for a tax purpose. A prior-art software program, however, could not overcome the section 102 and 103 hurdles by implementing a novel and non-obvious strategy for reducing, avoiding, or deferring taxes.

There may be situations in which some aspects of an invention are separable from the tax strategy. In this case, any claim that encompasses a tax strategy will be subject to the provision and the novelty or non-obviousness of the tax strategy will be deemed insufficient to differentiate that claim from the prior art. However, any claim that does not involve a tax strategy would not be within the scope of the provision. In such a case, if the invention includes claims that are separable from the tax strategy, such claims could, if otherwise enforceable, be enforced.

Inventions that fall within the scope of the provision include those especially suitable for use with tax-favored structures that must meet certain requirements, such as employee benefit plans, tax-exempt organizations, or any other entities that must be structured or operated in a particular manner to obtain certain tax consequences. Thus, the provision applies if the effect of an invention is to aid in satisfying the qualification requirements for the desired tax-favored entity status, to take advantage of the specific tax benefits offered in a tax-favored structure, or to allow for tax reduction, avoidance, or deferral not otherwise automatically available in such entity or structure.

In general, the USPTO may seek advice and assistance from Treasury and the IRS to better recognize tax strategies. Such consultations should help ensure that patents do not infringe on the ability of others to interpret the tax law and that implementing such interpretations remains in the public domain, available to all taxpayers and their advisors.

Section 15. Best Mode Requirement.

This section amends § 282(b) by removing the failure to disclose the best mode under section 112 as a basis for canceling or holding either invalid or unenforceable a patent claim.

Section 16. Marking.

Subsection (a) addresses virtual marking. The provision allows a patent holder to satisfy the requirements of § 287 of the Patent Act by affixing to a patented article the word "patent" or the abbreviation "pat." together with an Internet address that the public can access free of charge to determine the status of the patent. The USPTO is also instructed to submit a report to Congress on the effectiveness of virtual marking that is due no later than 3 years after the date of enactment.

Subsection (b) addresses false marking in the following ways: (1) Only the United States may sue for the qui tam penalty under the subsection. (2) A person who has suffered a competitive injury as a result of a violation may still bring a civil action in US district court for compensatory damages. (3) Persons or companies otherwise liable under § 292 (the false marking statute) are protected during a 3-year window beginning on the date the patent at issue expires. Beyond the 3-year window, persons or companies are also protected if they place the word "patent" or "patented", the abbreviation "pat.", or the patent number either on the article or through an Internet posting, consistent with the amendments in subsection (a).

Section 17. Advice of Counsel.

Section 17 creates a new § 298 of the Patent Act that states that the failure of an infringer to obtain the advice of counsel regarding any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.

Section 18. Transitional program for covered business method patents.

Section 18 creates a transitional program to allow post-grant review of the validity of business method patents.

Under subsection (a), the Director is authorized to establish regulations governing the use of the new proceeding, which will be modeled after post-grant review as set forth in Section 6 (new Chapter 32 of the Patent Act). The proceeding is limited in certain respects. A petition cannot be accepted unless the petitioner or his real party in interest has been sued for infringement of the patent or has been charged with infringement. Nor can the petitioner or his real party in interest later assert invalidity before the ITC or a Federal court on a ground that was considered and resulted in a written decision by the agency in the course of a transitional proceeding.

The program takes effect 1 year following the date of enactment and applies to any covered business method patent issued before, on, or after the effective date, with the exception of a patent that satisfies the requirements of § 321(c) of the Patent Act as set forth in Section 6 of the bill. The program sunsets after 10 years.

Subsection (b) addresses requests for a stay of a civil action alleging infringement under § 281 of the Patent Act. A US district court shall decide to grant a stay based on prescribed criteria: (A) whether a stay (or denial thereof) will simplify the issues in question and streamline the trial; (B) whether discovery is complete and whether a trial date has been set; (C) whether a stay (or a denial thereof) would unduly prejudice the non-moving party or present a clear tactical advantage for the moving party; and (D) whether a stay (or the denial thereof) will reduce the burden of litigation on the parties and on the court. A party may seek an interlocutory appeal of the US district court's decision, which the Federal Circuit shall review to ensure consistent application of established precedent, and such review may be de novo.

Subsection (c) deems that in an action for infringement under § 281 of a covered business method patent, an automated teller machine ("ATM") shall not be considered a regular and established place of business for purposes of the patent venue statute.[63]

Subsection (d) defines "covered business method patent" as one that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that it does not include patents for technological inventions.

Finally, subsection (e) clarifies that nothing in Section 18 shall be construed as amending or interpreting categories of patent-eligible subject matter under § 101 of the Patent Act.

Section 19. Jurisdiction and procedural matters.

Subsection (a) through (d) enact the so-called *Holmes Group* fix (H.R. 2955, 109th Congress), which the House Judiciary Committee reported favorably in 2006. The Committee Report accompanying H.R. 2955 (House Rep. 109–407), which we reaffirm, explains the bill's reasons for abrogating *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.,* 535 U.S. 826 (2002), and more fully precluding state court jurisdiction over patent legal claims.

Subsection (e) creates a new § 299 of the Patent Act that addresses joinder of accused infringers in patent actions or trials not involving certain drugs and biologics. Parties accused as defendants may be joined in one action as defendants or counterclaim defendants only if: (1) any right to relief is asserted against the parties jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences relating to the making, using, importing into the United States, offering for sale, or selling of the same accused product or process; and (2) questions of fact common to all defendants or counterclaim defendants will arise in the action.

For purposes of subsection (e), accused infringers may not be joined based solely on allegations that they each have infringed the patent or patents in suit.

The changes set forth in Section 19 shall apply to any civil action commenced on or after the date of enactment of the Act.

[63] 28 USC § 1400(b).

Section 20. Technical amendments.

This section sets forth technical amendments consistent with this Act.

Section 21. Travel expenses and payment of administrative judges.

Subsection (a) authorizes the USPTO to expend funds to cover the subsistence and travel-related expenses of non-Federal employees attending intellectual property programs hosted by the agency.

Subsection (b) authorizes the Director to fix the rate of basic pay for administrative patent and trademark judges at a rate not greater than that payable for level III of the Executive Pay Schedule under 5 USC § 5314.

Section 22. Patent and Trademark Office funding.

Subsections (a) defines the "United State Patent and Trademark Office Public Enterprise Fund" ("the Fund") that replaces the existing "Patent and Trademark Office Appropriation Account."

Subsection (b) clarifies the USPTO Director's authority under the new Fund to collect all patent and trademark user fee revenue, which shall be available to the agency until expended. This change shall take effect on the later of October 1, 2011, or the first day of the first fiscal year that begins after the date of the enactment of the Act.

Subsection (c) establishes the Fund as a revolving fund in the US Treasury. Any amounts in the Fund shall be available for use by the Director without fiscal year limitation. Patent and trademark fees deposited in the Fund shall be recorded as offsetting receipts. Amounts deposited in the Fund shall be available, without fiscal year limitation, to cover all expenses determined in the discretion of the Director to be ordinary and reasonable.

Subsection (d) requires the Director, not later than 60 days after the end of each fiscal year, to submit a report to Congress that summarizes the USPTO operations for the preceding fiscal year, details the operating plan of the agency, describes its long-term modernization plans as well as any progress made toward modernization efforts in the previous fiscal year, and includes the results of the most recent audit as carried out by subsection (f).

Not later than 30 days after the beginning of each fiscal year, subsection (e) instructs the Director to notify the Committees on Appropriations of both houses of Congress of the plan for the obligation and expenditure of the total amount of the funds for that fiscal year under Public Law 109–108.

Subsection (f) mandates that the Director annually shall provide for an independent audit of the financial statement of the USPTO.

Subsection (g) requires the Director to prepare and submit to the President an annual "business-type" budget for the Fund as the President prescribes by regulation for the Federal Budget.

Section 23. Satellite offices.

Pursuant to subsection (a), and subject to available resources, the Director shall establish three or more satellite offices in the United States to carry out the responsibilities of the USPTO. The Director has 3 years after the date of enactment of the Act to complete the task.

Subject (b) enumerates the purposes of the satellite offices, including efforts to increase outreach activities, enhance patent examiner retention, and improve the quality of patent examination.

Subsection (c) details the required considerations the Director must invoke in selecting each location. Among the criteria are geographic diversity among the offices and reliance upon previous evaluations.

Not later than three fiscal years after the date of enactment of the Act, Subsection (d) requires the Director to submit a report to Congress on the rationale of the Director in selecting the location of any satellite office, the progress in establishing any satellite offices so selected, and whether the operation of any existing satellite office is achieving the purposes set forth in subsection (b).

Section 24. Designation of the Detroit satellite office.

Section 24 designates the USPTO satellite office to be located in Detroit, Michigan, as the "Elijah J. McCoy United States Patent and Trademark Office."

Section 25. Patent Ombudsman Program for small business concerns.

Section 25 states that, using available resources, the Director shall establish and maintain in the USPTO a Patent Ombudsman Program, whose staff shall provide support and services relating to patent filings to small business concerns.

Section 26. Priority examination for technologies important to American competitiveness.

Section 26 amends § 2(b)(2) of the Patent Act by permitting the USPTO to prioritize the examination of applications for products, processes, or technologies that are important to the national economy or national competitiveness without recovering the aggregate extra cost of providing such prioritization.

Section 27. Calculation of 60-day period for application of patent term extension.

Subsection (a) clarifies USPTO "counting" rules that are used to determine whether an applicant has submitted an application to the agency in a timely manner under § 156(d)(1) of the Patent Act. If the application is transmitted after 4:30 pm, EST, on a business day, or is transmitted on a day that is not a business day, the product addressed by the application shall be deemed to receive "permission" on the next business day. "Business day" means any Monday, Tuesday, Wednesday, Thursday, or Friday, excluding any legal holiday under 5 USC § 6103.

Subsection (b) states that subsection (a) shall apply to any application for extension of term under § 156 of the Patent Act that is pending on, filed after, or as to which a decision regarding the application is subject judicial review on, the date of enactment of the Act.

Section 28. Study on implementation.

Subsection (a) requires the Director to conduct a study on the manner in which the Act is being implemented by the USPTO, along with a review of patent policies and practices of the Federal

Government with respect to patent rights, US innovation, access by small business to capital, and other issues as the Director deems appropriate.

Subsection (b) stipulates that the Director shall submit the results of the study along with his recommendations for any changes to the Senate and House Judiciary Committees not later than 4 years after the date of enactment of the Act.

Section 29. Pro bono program.

Section 29 requires the Director to work with and support intellectual law associations across the country to establish pro bono programs to assist financially under-resourced independent inventors and small businesses.

Section 30. Effective date.

Except as otherwise provided, this Act takes effect 12 months after the date of enactment and applies to any patent issued on or after that effective date.

Section 31. Budgetary effects.

Section 31 references text from S. 23 regarding the budgetary effects of the Act as it pertains to PAYGO compliance.

Agency Views

UNITED STATES DEPARTMENT OF COMMERCE
The Secretary of Commerce
Washington, D.C. 20230

May 31, 2011

The Honorable Lamar Smith
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am pleased to provide the views of the U.S. Department of Commerce on the "America Invents Act," H.R. 1249 as reported by the House Committee on the Judiciary on April 14, 2011. As the Chairman and Ranking Member and I have discussed on several occasions, passage of needed reforms to our patent laws has been a high priority for me during my time as Secretary of Commerce because of its importance to America's competitiveness and our economic growth.

The Administration continues to strongly support the bipartisan efforts of Congress to enact patent reform legislation that will accelerate innovation, and create new jobs, new industries and new economic opportunities for Americans. Enactment of a balanced bill is an important part of the Administration's goal of "out-innovating" our economic competitors and winning the future – and it can be done with no cost to taxpayers and no addition to the deficit.

Accordingly, we supported passage of the Senate's recent patent reform legislation, S. 23, and welcome the House Judiciary Committee's timely consideration and approval of an amended version of H.R. 1249. These two bills are identical in many respects, and we are confident that the variations between the two can be resolved and that enactment of a bipartisan consensus bill is within reach. We look forward to working with Congress toward prompt passage of legislation that will enable more timely and quality-focused examination of patent applications, establish a secure funding mechanism for the United States Patent and Trademark Office (USPTO), and reduce litigation uncertainties and costs.

Our views on certain key provisions of H.R. 1249, as reported, that are important to our goals of an appropriately funded and well-functioning USPTO and successful passage of a balanced bill are as follows.

First Inventor to File

We strongly support the proposed transition of the United States to a first-inventor-to file system. It is an essential feature of any final bill that will simplify the process of acquiring rights while protecting innovators. The first-inventor-to-file provision is consistent with the practices of our economic competitors, and would benefit U.S. businesses by providing a more transparent and cost-effective process that puts them on a level playing field with the rest of the world. The proposed legislation provides a more transparent and certain grace period (a key feature of U.S. law) and a definite filing date that enables inventors to promote, fund and market their technology while making them less vulnerable to costly patent challenges, which disadvantage small entity inventors. These changes, as outlined in H.R. 1249, will benefit all stakeholders, both small and large, regardless of the field of innovation.

USPTO Fee Setting and Funding

We are pleased that H.R. 1249 includes fee-setting authority for the USPTO, an essential provision that will allow the agency to establish and adjust its fees – subject to oversight – to reflect changes in costs, demand, and workload and thereby ensure full cost recovery at no expense to America's taxpayers. Moreover, it will allow the USPTO to process applications more quickly and produce higher-quality patents that are less likely to be subject to a court challenge.

This bill includes strong oversight of the USPTO in addition to that which the agency currently receives from the U.S. Department of Commerce and the Office of Management and Budget under existing law. The legislation incorporates a deliberative and transparent review process, input and oversight by the Patent and Trademark Public Advisory Committees, by stakeholders through public hearings and *Federal Register* notices with comment periods, and by Congress in a 45-day comment period. We support this package as a comprehensive and appropriate set of mechanisms to ensure all fee changes are well-considered and well-calibrated.

Fee-setting authority, coupled with the right to use all fees paid by patent applicants without fiscal year limitation, will permit the USPTO to engage in multi-year budget planning and achieve a stable funding model that supports future investments and improvements in operations. This structure is critical to enable the USPTO to better meet the needs of America's innovators. We would like to work with the Committee to provide technical changes to the legislation needed to ensure that the USPTO can make interim fee adjustments so it can best use this new authority on day one, as it transitions to a thoughtful and transparent process to adjust its fees.

Post-Grant Review Proceedings

The Administration supports establishing a new post-grant review proceeding and retooling the existing post-grant *inter partes* reexamination procedure. These proceedings will serve to minimize costs and increase certainty by offering efficient and timely alternatives to litigation as a means of reviewing questions of patent validity. Such proceedings also will provide a check on patent examination, ultimately resulting in higher quality patents. It is important that post-grant review proceedings be designed to prevent delay and abusive challenges, but still enable valid challenges based on meritorious grounds.

We believe that the provisions contained in H.R. 1249 – including those covering regulatory authority, threshold and estoppel issues – will adequately address these concerns. Various safeguards and flexibilities are included in the proposed proceedings to enable USPTO to effectively implement and manage them. The bill also establishes a time-limited transitional post-grant review proceeding, which would enable the USPTO, upon petition, to review the validity of a limited range of business method patents to address particular challenges faced in this technology area as a result of case law developments.

Pre-issuance Submissions

Further measures to increase the quality of patents include the provision in H.R. 1249 that increases the opportunity for third parties to submit potentially relevant prior art to the USPTO after publication of an application and before examination. This provision will help to ensure that USPTO's examiners have before them the best available prior art for consideration.

Prior User Defense

H.R. 1249 includes provisions to expand the current prior user defense to all areas of technology. As a matter of fairness, we believe that innovators who independently create and commercialize technology should not be penalized for, or deprived of, their investment. As a result, we believe that the availability of a prior user defense is, on balance, good policy. We recognize, however, that some in the university community have raised concerns about the provision, and we stand ready to work with the Committee on any proposed revisions.

Again, we are grateful for the Committee's timely consideration of H.R. 1249, and we look forward to working with you toward final enactment of historic patent reform legislation in support of America's innovators, job creation and economic growth across the United States.

The Office of Management and Budget has advised that there is no objection to the transmittal of these views from the standpoint of the Administration's program. If you have any questions, please contact me or April Boyd, Assistant Secretary for Legislative and Intergovernmental Affairs, at 202-482-3663.

Sincerely,

Gary Locke

Changes in Existing Law Made by the Bill, as Reported

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

TITLE 35, UNITED STATES CODE

PART I—UNITED STATES PATENT AND TRADEMARK OFFICE

CHAPTER 1—ESTABLISHMENT, OFFICERS AND EMPLOYEES, FUNCTIONS

Sec.
1. Establishment.
* * * * * * *
[6. Board of Patent Appeals and Interferences.]
6. Patent Trial and Appeal Board.
* * * * * * *

§ 2. Powers and duties

(a) * * *

(b) SPECIFIC POWERS.—The Office—

(1) * * *

(2) may establish regulations, not inconsistent with law, which—

(A) * * *

* * * * * * *

(E) shall recognize the public interest in continuing to safeguard broad access to the United States patent system through the reduced fee structure for small entities under section 41(h)(1) [of this title; and];

(F) provide for the development of a performance-based process that includes quantitative and qualitative measures and standards for evaluating cost-effectiveness and is consistent with the principles of impartiality and competitiveness; *and*

(G) may, subject to any conditions prescribed by the Director and at the request of the patent applicant, provide for prioritization of examination of applications for products, processes, or technologies that are important to the national economy or national competitiveness without recovering the aggregate extra cost of providing such prioritization, notwithstanding section 41 or any other provision of law;

* * * * * * *

(11) may conduct programs, studies, or exchanges of items or services regarding domestic and international intellectual property law and the effectiveness of intellectual property protection domestically and throughout the world*, and the Office*

is authorized to expend funds to cover the subsistence expenses and travel-related expenses, including per diem, lodging costs, and transportation costs, of persons attending such programs who are not Federal employees;

* * * * * * *

§ 3. Officers and employees

(a) * * *

(b) OFFICERS AND EMPLOYEES OF THE OFFICE.—

(1) * * *

* * * * * * *

(6) ADMINISTRATIVE PATENT JUDGES AND ADMINISTRATIVE TRADEMARK JUDGES.—The Director may fix the rate of basic pay for the administrative patent judges appointed pursuant to section 6 and the administrative trademark judges appointed pursuant to section 17 of the Trademark Act of 1946 (15 U.S.C. 1067) at not greater than the rate of basic pay payable for level III of the Executive Schedule under section 5314 of title 5. The payment of a rate of basic pay under this paragraph shall not be subject to the pay limitation under section 5306(e) or 5373 of title 5.

* * * * * * *

(e) CARRYOVER OF PERSONNEL.—

(1) * * *

(2) OTHER PERSONNEL.—Any individual who, on the day before the effective date of the Patent and Trademark Office Efficiency Act, is an officer or employee of the Department of Commerce (other than an officer or employee under paragraph (1)) shall be transferred to the Office, as necessary to carry out the purposes of [this Act,] *that Act,* if—

(A) * * *

* * * * * * *

[§ 6. Board of Patent Appeals and Interferences

[(a) ESTABLISHMENT AND COMPOSITION.—There shall be in the United States Patent and Trademark Office a Board of Patent Appeals and Interferences. The Director, the Commissioner for Patents, the Commissioner for Trademarks, and the administrative patent judges shall constitute the Board. The administrative patent judges shall be persons of competent legal knowledge and scientific ability who are appointed by the Secretary of Commerce, in consultation with the Director.

[(b) DUTIES.—The Board of Patent Appeals and Interferences shall, on written appeal of an applicant, review adverse decisions of examiners upon applications for patents and shall determine priority and patentability of invention in interferences declared under section 135(a). Each appeal and interference shall be heard by at least three members of the Board, who shall be designated by the Director. Only the Board of Patent Appeals and Interferences may grant rehearings.

[(c) AUTHORITY OF THE SECRETARY.—The Secretary of Commerce may, in his or her discretion, deem the appointment of an administrative patent judge who, before the date of the enactment