# AMERICA INVENTS ACT

## HEARING

BEFORE THE

SUBCOMMITTEE ON
INTELLECTUAL PROPERTY,
COMPETITION, AND THE INTERNET

OF THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

ON

**H.R. 1249**

MARCH 30, 2011

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# AMERICA INVENTS ACT

**WEDNESDAY, MARCH 30, 2011**

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTELLECTUAL PROPERTY,
COMPETITION, AND THE INTERNET,
COMMITTEE ON THE JUDICIARY,
*Washington, DC.*

The Subcommittee met, pursuant to call, at 1:32 p.m., in room 2141, Rayburn House Office Building, the Honorable Bob Goodlatte (Chairman of the Subcommittee) presiding.

Present: Representatives Goodlatte, Smith, Coble, Sensenbrenner, Chabot, Chaffetz, Reed, Griffin, Marino, Adams, Quayle, Watt, Conyers, Berman, Chu, Deutch, Sánchez, Lofgren, and Waters.

Staff Present: (Majority) Blaine Merritt, Subcommittee Chief Counsel; Vishal Amin, Counsel; Olivia Lee, Clerk; and Stephanie Moore, Minority Subcommittee Chief Counsel.

Mr. GOODLATTE. Folks, we are going to just make an announcement. We will begin the hearing after this series of votes. We want to spend a little bit of time on our opening statements. So it is probably not enough time to get it in before the votes.

Also, at 2:30 p.m., there is a briefing by some of our country's leaders regarding the situation in Libya, and so that all Members can participate, we are going to recess the hearing at 2:30 p.m. And then we will come back later on.

So this is going to be a herky-jerky afternoon, it sounds like. But we will get this hearing done, and we will welcome the testimony of all our witnesses.

So the Committee will stand in recess.

[Recess.]

Mr. GOODLATTE. Take two. The Subcommittee will come to order, and I recognize myself for an opening statement.

For the better part of the past decade, this Committee has been working to update our patent laws to ensure that the incentives our Framers envisioned when they wrote article 1, section 8 of our Constitution remain meaningful and effective. The U.S. patent system must work efficiently if America is to remain the world leader in innovation.

It is only right that as more and more inventions with increasing complexity emerge, we examine our Nation's patent laws to ensure that they still work efficiently and that they still encourage and not discourage innovation.

The core principles that have guided our efforts have been to ensure that quality patents are issued by the PTO in the first place and to ensure that our patent enforcement laws and procedures do not create incentives for opportunists with invalid claims to exploit, while maintaining strong laws that allow legitimate patent owners to enforce their patents effectively. H.R. 1249 addresses these principles.

With regard to ensuring the issuance of quality patents, this legislation allows third parties to submit evidence of prior art prior to the examination process, which will help ensure examiners have the full record before them when making decisions. In addition, after the PTO issues a patent, this legislation creates a new post grant opposition system in which third parties can raise objections to a patent immediately after its issuance, which will both help screen out bad patents while bolstering valid ones.

The bill also increases patent quality by eliminating fee diversion, which will allow the PTO to keep all the fees it collects from inventors. This fee diversion provision is crucial to allowing PTO to accomplish the mission we are asking it to do with this bill and will allow the PTO to allocate resources with certainty.

H.R. 1249 also includes provisions to ensure that patent litigation benefits those with valid claims, but not those opportunists who seek to abuse the litigation process. Many innovative companies, including those in the technology and other sectors, have been forced to defend against patent infringement lawsuits of questionable legitimacy.

When such a defendant company truly believes that the patent being asserted is invalid, it is important for it to have an avenue to request the PTO to take another look at the patent in order to better inform the district court of the patent's validity. This legislation retains an inter partes re-exam process, which allows innovators to challenge the validity of a patent when they are sued for patent infringement.

The Senate bill placed many restrictions on the use of the re-exam procedure, and the House bill relaxes some of those restrictions in order to maintain the usefulness of the inter partes re-exam process.

H.R. 1249 is the culmination of years of work in both the House and the Senate from Democrats and Republicans, and it is important to note that the House and the Senate, over four Congresses, we have held dozens of hearings, met with numerous stakeholders from every industry sector, as well as small and large businesses and individual inventors, watched judicial decisions in the courts, and produced several pieces of legislation.

By giving the necessary tools to the Patent Office to issue strong patents and procedures that will help ensure certainty for patentable inventions, we are paving the way for independent inventors as well as small, medium, and large-sized enterprises to raise capital and grow. I believe this legislation will spur innovation, economic growth, and jobs.

However, I also believe some work still needs to be done on this bill. Specifically, I agree that the PTO needs to have more certainty with respect to its fee-setting authority. I want to ensure, however,

that Congress maintains strong oversight over the PTO as it uses that authority.

I also have concerns about the supplemental exam provisions in the bill and believe further work may need to be done on the inter partes re-exam procedure to make sure we are striking the right balance there.

I look forward to hearing from our experts today, many of whom have been working on this effort for a long, long time.

It is now my pleasure to recognize the Ranking Member of the Committee, the gentleman from North Carolina, Mr. Watt.

[The text of the bill, H.R. 1249, follows:]

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I

112TH CONGRESS
1ST SESSION

# H. R. 1249

To amend title 35, United States Code, to provide for patent reform.

IN THE HOUSE OF REPRESENTATIVES

MARCH 30, 2011

Mr. SMITH of Texas (for himself, Mr. GOODLATTE, and Mr. ISSA) introduced the following bill; which was referred to the Committee on the Judiciary, and in addition to the Committee on the Budget, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

## A BILL

To amend title 35, United States Code, to provide for patent reform.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

(a) SHORT TITLE.—This Act may be cited as the "America Invents Act".

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

Sec. 1. Short title; table of contents.
Sec. 2. First inventor to file.
Sec. 3. Inventor's oath or declaration.
Sec. 4. Defense to infringement based on earlier inventor.
Sec. 5. Post-grant review proceedings.
Sec. 6. Patent Trial and Appeal Board.
Sec. 7. Preissuance submissions by third parties.
Sec. 8. Venue.
Sec. 9. Fee setting authority.
Sec. 10. Fees for patent services.
Sec. 11. Supplemental examination.
Sec. 12. Funding agreements.
Sec. 13. Tax strategies deemed within the prior art.
Sec. 14. Best mode requirement.
Sec. 15. Marking.
Sec. 16. Advice of counsel.
Sec. 17. Ownership; assignment.
Sec. 18. Transitional program for covered business method patents.
Sec. 19. Clarification of jurisdiction.
Sec. 20. Technical amendments.
Sec. 21. Travel expenses and payment of administrative judges.

Sec. 22. Patent and Trademark Office funding.
Sec. 23. Satellite offices.
Sec. 24. Patent Ombudsman Program for small business concerns.
Sec. 25. Priority examination for technologies important to American competitiveness.
Sec. 26. Designation of Detroit satellite office.
Sec. 27. Effective date.
Sec. 28. Budgetary effects.

**SEC. 2. FIRST INVENTOR TO FILE.**

(a) DEFINITIONS.—Section 100 of title 35, United States Code, is amended by adding at the end the following:

"(f) The term 'inventor' means the individual or, if a joint invention, the individuals collectively who invented or discovered the subject matter of the invention.

"(g) The terms 'joint inventor' and 'coinventor' mean any 1 of the individuals who invented or discovered the subject matter of a joint invention.

"(h) The term 'joint research agreement' means a written contract, grant, or cooperative agreement entered into by 2 or more persons or entities for the performance of experimental, developmental, or research work in the field of the claimed invention.

"(i)(1) The term 'effective filing date' for a claimed invention in a patent or application for patent means—

"(A) if subparagraph (B) does not apply, the actual filing date of the patent or the application for the patent containing a claim to the invention; or

"(B) the filing date of the earliest application for which the patent or application is entitled, as to such invention, to a right of priority under section 119, 365(a), or 365(b) or to the benefit of an earlier filing date under section 120, 121, or 365(c).

"(2) The effective filing date for a claimed invention in an application for reissue or reissued patent shall be determined by deeming the claim to the invention to have been contained in the patent for which reissue was sought.

"(j) The term 'claimed invention' means the subject matter defined by a claim in a patent or an application for a patent.".

(b) CONDITIONS FOR PATENTABILITY.—

(1) IN GENERAL.—Section 102 of title 35, United States Code, is amended to read as follows:

**"§ 102. Conditions for patentability; novelty**

"(a) NOVELTY; PRIOR ART.—A person shall be entitled to a patent unless—

"(1) the claimed invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention; or

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

"(b) EXCEPTIONS.—

"(1) DISCLOSURES MADE 1 YEAR OR LESS BEFORE THE EFFECTIVE FILING DATE OF THE CLAIMED INVENTION.—A disclosure made 1 year or less before the effective filing date of a claimed invention shall not be prior art to the claimed invention under subsection (a)(1) if—

"(A) the disclosure was made by the inventor or joint inventor or by another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor; or

"(B) the subject matter disclosed had, before such disclosure, been publicly disclosed by the inventor or a joint inventor or another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor.

"(2) DISCLOSURES APPEARING IN APPLICATIONS AND PATENTS.—A disclosure shall not be prior art to a claimed invention under subsection (a)(2) if—

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

"(B) the subject matter disclosed had, before such subject matter was effectively filed under subsection (a)(2), been publicly disclosed by the inventor or a joint inventor or another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor; or

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

"(c) COMMON OWNERSHIP UNDER JOINT RESEARCH AGREEMENTS.—Subject matter disclosed and a claimed invention shall be deemed to have been owned by the same person or subject to an obligation of assignment to the same person in applying the provisions of subsection (b)(2)(C) if—

"(1) the subject matter disclosed was developed and the claimed invention was made by, or on behalf of, 1 or more parties to a joint research agreement that was in effect on or before the effective filing date of the claimed invention;

"(2) the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and

"(3) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement.

"(d) PATENTS AND PUBLISHED APPLICATIONS EFFECTIVE AS PRIOR ART.—For purposes of determining whether a patent or application for patent is prior art to a claimed invention under subsection (a)(2), such patent or application shall be considered to have been effectively filed, with respect to any subject matter described in the patent or application—

"(1) if paragraph (2) does not apply, as of the actual filing date of the patent or the application for patent; or

"(2) if the patent or application for patent is entitled to claim a right of priority under section 119, 365(a), or 365(b), or to claim the benefit of an earlier filing date under section 120, 121, or 365(c), based upon 1 or more prior filed applications for patent, as of the filing date of the earliest such application that describes the subject matter.".

(2) CONTINUITY OF INTENT UNDER THE CREATE ACT.—The enactment of section 102(c) of title 35, United States Code, under paragraph (1) of this subsection is done with the same intent to promote joint research activities that was expressed, including in the legislative history, through the enactment of the Cooperative Research and Technology Enhancement Act of 2004 (Public Law 108–453; the "CREATE Act"), the amendments of which are stricken by subsection (c) of this section. The United States Patent and Trademark Office shall administer section 102(c) of title 35, United States Code, in a manner consistent with the legislative history of the CREATE Act that was relevant to its administration by the United States Patent and Trademark Office.

(3) CONFORMING AMENDMENT.—The item relating to section 102 in the table of sections for chapter 10 of title 35, United States Code, is amended to read as follows:

"102. Conditions for patentability; novelty.".

(c) CONDITIONS FOR PATENTABILITY; NONOBVIOUS SUBJECT MATTER.—Section 103 of title 35, United States Code, is amended to read as follows:

**"§ 103. Conditions for patentability; nonobvious subject matter**

"A patent for a claimed invention may not be obtained, notwithstanding that the claimed invention is not identically disclosed as set forth in section 102, if the differences between the claimed invention and the prior art are such that the claimed invention as a whole would have been obvious before the effective filing date of the claimed invention to a person having ordinary skill in the art to which the claimed invention pertains. Patentability shall not be negated by the manner in which the invention was made.".

(d) REPEAL OF REQUIREMENTS FOR INVENTIONS MADE ABROAD.—Section 104 of title 35, United States Code, and the item relating to that section in the table of sections for chapter 10 of title 35, United States Code, are repealed.

(e) REPEAL OF STATUTORY INVENTION REGISTRATION.—

(1) IN GENERAL.—Section 157 of title 35, United States Code, and the item relating to that section in the table of sections for chapter 14 of title 35, United States Code, are repealed.

(2) REMOVAL OF CROSS REFERENCES.—Section 111(b)(8) of title 35, United States Code, is amended by striking "sections 115, 131, 135, and 157" and inserting "sections 131 and 135".

(3) EFFECTIVE DATE.—The amendments made by this subsection shall take effect upon the expiration of the 18-month period beginning on the date of the enactment of this Act, and shall apply to any request for a statutory invention registration filed on or after that effective date.

(f) EARLIER FILING DATE FOR INVENTOR AND JOINT INVENTOR.—Section 120 of title 35, United States Code, is amended by striking "which is filed by an inventor or inventors named" and inserting "which names an inventor or joint inventor".

(g) CONFORMING AMENDMENTS.—

(1) RIGHT OF PRIORITY.—Section 172 of title 35, United States Code, is amended by striking "and the time specified in section 102(d)".

(2) LIMITATION ON REMEDIES.—Section 287(c)(4) of title 35, United States Code, is amended by striking "the earliest effective filing date of which is prior to" and inserting "which has an effective filing date before".

(3) INTERNATIONAL APPLICATION DESIGNATING THE UNITED STATES: EFFECT.—Section 363 of title 35, United States Code, is amended by striking "except as otherwise provided in section 102(e) of this title".

(4) PUBLICATION OF INTERNATIONAL APPLICATION: EFFECT.—Section 374 of title 35, United States Code, is amended by striking "sections 102(e) and 154(d)" and inserting "section 154(d)".

(5) PATENT ISSUED ON INTERNATIONAL APPLICATION: EFFECT.—The second sentence of section 375(a) of title 35, United States Code, is amended by striking "Subject to section 102(e) of this title, such" and inserting "Such".

(6) LIMIT ON RIGHT OF PRIORITY.—Section 119(a) of title 35, United States Code, is amended by striking "; but no patent shall be granted" and all that follows through "one year prior to such filing".

(7) INVENTIONS MADE WITH FEDERAL ASSISTANCE.—Section 202(c) of title 35, United States Code, is amended—

(A) in paragraph (2)—

(i) by striking "publication, on sale, or public use," and all that follows through "obtained in the United States" and inserting "the 1-year period referred to in section 102(b) would end before the end of that 2-year period"; and

(ii) by striking "prior to the end of the statutory" and inserting "before the end of that 1-year"; and

(B) in paragraph (3), by striking "any statutory bar date that may occur under this title due to publication, on sale, or public use" and inserting "the expiration of the 1-year period referred to in section 102(b)".

(h) DERIVED PATENTS.—

(1) IN GENERAL.—Section 291 of title 35, United States Code, is amended to read as follows:

**"§ 291. Derived Patents**

"(a) IN GENERAL.—The owner of a patent may have relief by civil action against the owner of another patent that claims the same invention and has an earlier effective filing date if the invention claimed in such other patent was derived from the inventor of the invention claimed in the patent owned by the person seeking relief under this section.

"(b) FILING LIMITATION.—An action under this section may be filed only before the end of the 1-year period beginning on the date of the issuance of the first patent containing a claim to the allegedly derived invention and naming an individual alleged to have derived such invention as the inventor or joint inventor.".

(2) CONFORMING AMENDMENT.—The item relating to section 291 in the table of sections for chapter 29 of title 35, United States Code, is amended to read as follows:

"291. Derived patents.".

(i) DERIVATION PROCEEDINGS.—Section 135 of title 35, United States Code, is amended to read as follows:

**"§ 135. Derivation proceedings**

"(a) INSTITUTION OF PROCEEDING.—An applicant for patent may file a petition to institute a derivation proceeding in the Office. The petition shall set forth with particularity the basis for finding that an inventor named in an earlier application derived the claimed invention from an inventor named in the petitioner's application and, without authorization, the earlier application claiming such invention was filed. Any such petition may be filed only within the 1-year period beginning the date of the first publication of a claim to an invention that is the same or substantially the same as the earlier application's claim to the invention, shall be made under oath, and shall be supported by substantial evidence. Whenever the Director determines that a petition filed under this subsection demonstrates that the standards for instituting a derivation proceeding are met, the Director may institute a

derivation proceeding. The determination by the Director whether to institute a derivation proceeding shall be final and nonappealable.

"(b) DETERMINATION BY PATENT TRIAL AND APPEAL BOARD.—In a derivation proceeding instituted under subsection (a), the Patent Trial and Appeal Board shall determine whether an inventor named in the earlier application derived the claimed invention from an inventor named in the petitioner's application and, without authorization, the earlier application claiming such invention was filed. The Director shall prescribe regulations setting forth standards for the conduct of derivation proceedings.

"(c) DEFERRAL OF DECISION.—The Patent Trial and Appeal Board may defer action on a petition for a derivation proceeding until the expiration of the 3-month period beginning on the date on which the Director issues a patent that includes the claimed invention that is the subject of the petition. The Patent Trial and Appeal Board also may defer action on a petition for a derivation proceeding, or stay the proceeding after it has been instituted, until the termination of a proceeding under chapter 30, 31, or 32 involving the patent of the earlier applicant.

"(d) EFFECT OF FINAL DECISION.—The final decision of the Patent Trial and Appeal Board, if adverse to claims in an application for patent, shall constitute the final refusal by the Office on those claims. The final decision of the Patent Trial and Appeal Board, if adverse to claims in a patent, shall, if no appeal or other review of the decision has been or can be taken or had, constitute cancellation of those claims, and notice of such cancellation shall be endorsed on copies of the patent distributed after such cancellation.

"(e) SETTLEMENT.—Parties to a proceeding instituted under subsection (a) may terminate the proceeding by filing a written statement reflecting the agreement of the parties as to the correct inventors of the claimed invention in dispute. Unless the Patent Trial and Appeal Board finds the agreement to be inconsistent with the evidence of record, if any, it shall take action consistent with the agreement. Any written settlement or understanding of the parties shall be filed with the Director. At the request of a party to the proceeding, the agreement or understanding shall be treated as business confidential information, shall be kept separate from the file of the involved patents or applications, and shall be made available only to Government agencies on written request, or to any person on a showing of good cause.

"(f) ARBITRATION.—Parties to a proceeding instituted under subsection (a) may, within such time as may be specified by the Director by regulation, determine such contest or any aspect thereof by arbitration. Such arbitration shall be governed by the provisions of title 9, to the extent such title is not inconsistent with this section. The parties shall give notice of any arbitration award to the Director, and such award shall, as between the parties to the arbitration, be dispositive of the issues to which it relates. The arbitration award shall be unenforceable until such notice is given. Nothing in this subsection shall preclude the Director from determining the patentability of the claimed inventions involved in the proceeding.".

(j) ELIMINATION OF REFERENCES TO INTERFERENCES.—(1) Sections 134, 145, 146, 154, 305, and 314 of title 35, United States Code, are each amended by striking "Board of Patent Appeals and Interferences" each place it appears and inserting "Patent Trial and Appeal Board".

(2)(A) Sections 146 and 157(a) of title 35, United States Code, are each amended—

(i) by striking "an interference" each place it appears and inserting "a derivation proceeding"; and

(ii) by striking "interference" each additional place it appears and inserting "derivation proceeding".

(B) The subparagraph heading for section 154(b)(1)(C) of title 35, United States Code, is amended to read as follows:

"(C) GUARANTEE OF ADJUSTMENTS FOR DELAYS DUE TO DERIVATION PROCEEDINGS, SECRECY ORDERS, AND APPEALS.—".

(3) The section heading for section 134 of title 35, United States Code, is amended to read as follows:

**"§ 134. Appeal to the Patent Trial and Appeal Board"**.

(4) The section heading for section 146 of title 35, United States Code, is amended to read as follows:

**"§ 146. Civil action in case of derivation proceeding"**.

(5) The items relating to sections 134 and 135 in the table of sections for chapter 12 of title 35, United States Code, are amended to read as follows:

"134. Appeal to the Patent Trial and Appeal Board.

"135. Derivation proceedings.".

(6) The item relating to section 146 in the table of sections for chapter 13 of title 35, United States Code, is amended to read as follows:

"146. Civil action in case of derivation proceeding.".

(k) STATUTE OF LIMITATIONS.—

(1) IN GENERAL.—Section 32 of title 35, United States Code, is amended by inserting between the third and fourth sentences the following: "A proceeding under this section shall be commenced not later than the earlier of either the date that is 10 years after the date on which the misconduct forming the basis for the proceeding occurred, or 1 year after the date on which the misconduct forming the basis for the proceeding is made known to an officer or employee of the Office as prescribed in the regulations established under section 2(b)(2)(D).".

(2) REPORT TO CONGRESS.—The Director shall provide on a biennial basis to the Judiciary Committees of the Senate and House of Representatives a report providing a short description of incidents made known to an officer or employee of the Office as prescribed in the regulations established under section 2(b)(2)(D) of title 35, United States Code, that reflect substantial evidence of misconduct before the Office but for which the Office was barred from commencing a proceeding under section 32 of title 35, United States Code, by the time limitation established by the fourth sentence of that section.

(3) EFFECTIVE DATE.—The amendment made by paragraph (1) shall apply in any case in which the time period for instituting a proceeding under section 32 of title 35, United State Code, had not lapsed before the date of the enactment of this Act.

(l) SMALL BUSINESS STUDY.—

(1) DEFINITIONS.—In this subsection—

(A) the term "Chief Counsel" means the Chief Counsel for Advocacy of the Small Business Administration;

(B) the term "General Counsel" means the General Counsel of the United States Patent and Trademark Office; and

(C) the term "small business concern" has the meaning given that term under section 3 of the Small Business Act (15 U.S.C. 632).

(2) STUDY.—

(A) IN GENERAL.—The Chief Counsel, in consultation with the General Counsel, shall conduct a study of the effects of eliminating the use of dates of invention in determining whether an applicant is entitled to a patent under title 35, United States Code.

(B) AREAS OF STUDY.—The study conducted under subparagraph (A) shall include examination of the effects of eliminating the use of invention dates, including examining—

(i) how the change would affect the ability of small business concerns to obtain patents and their costs of obtaining patents;

(ii) whether the change would create, mitigate, or exacerbate any disadvantages for applicants for patents that are small business concerns relative to applicants for patents that are not small business concerns, and whether the change would create any advantages for applicants for patents that are small business concerns relative to applicants for patents that are not small business concerns;

(iii) the cost savings and other potential benefits to small business concerns of the change; and

(iv) the feasibility and costs and benefits to small business concerns of alternative means of determining whether an applicant is entitled to a patent under title 35, United States Code.

(3) REPORT.—Not later than the date that is 1 year after the date of the enactment of this Act, the Chief Counsel shall submit to the Committee on Small Business and Entrepreneurship and the Committee on the Judiciary of the Senate and the Committee on Small Business and the Committee on the Judiciary of the House of Representatives a report regarding the results of the study under paragraph (2).

(m) REPORT ON PRIOR USER RIGHTS.—

(1) IN GENERAL.—Not later than the end of the 4-month period beginning on the date of the enactment of this Act, the Director shall report, to the Committee on the Judiciary of the Senate and the Committee on the Judiciary of the House of Representatives, the findings and recommendations of the Director on the operation of prior user rights in selected countries in the industrialized world. The report shall include the following:

(A) A comparison between patent laws of the United States and the laws of other industrialized countries, including members of the European Union and Japan, Canada, and Australia.

(B) An analysis of the effect of prior user rights on innovation rates in the selected countries.

(C) An analysis of the correlation, if any, between prior user rights and start-up enterprises and the ability to attract venture capital to start new companies.

(D) An analysis of the effect of prior user rights, if any, on small businesses, universities, and individual inventors.

(E) An analysis of legal and constitutional issues, if any, that arise from placing trade secret law in patent law.

(F) An analysis of whether the change to a first-to-file patent system creates a particular need for prior user rights.

(2) CONSULTATION WITH OTHER AGENCIES.—In preparing the report required under paragraph (1), the Director shall consult with the United States Trade Representative, the Secretary of State, and the Attorney General.

(n) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this section, the amendments made by this section shall take effect upon the expiration of the 18-month period beginning on the date of the enactment of this Act, and shall apply to any application for patent, and to any patent issuing thereon, that contains or contained at any time—

(A) a claim to a claimed invention that has an effective filing date as defined in section 100(i) of title 35, United States Code, that is on or after the effective date described in this paragraph; or

(B) a specific reference under section 120, 121, or 365(c) of title 35, United States Code, to any patent or application that contains or contained at any time such a claim.

(2) INTERFERING PATENTS.—The provisions of sections 102(g), 135, and 291 of title 35, United States Code, as in effect on the day before the date of the enactment of this Act, shall apply to each claim of an application for patent, and any patent issued thereon, for which the amendments made by this section also apply, if such application or patent contains or contained at any time—

(A) a claim to an invention having an effective filing date as defined in section 100(i) of title 35, United States Code, that occurs before the effective date set forth in paragraph (1) of this subsection; or

(B) a specific reference under section 120, 121, or 365(c) of title 35, United States Code, to any patent or application that contains or contained at any time such a claim.

**SEC. 3. INVENTOR'S OATH OR DECLARATION.**

(a) INVENTOR'S OATH OR DECLARATION.—

(1) IN GENERAL.—Section 115 of title 35, United States Code, is amended to read as follows:

**"§ 115. Inventor's oath or declaration**

"(a) NAMING THE INVENTOR; INVENTOR'S OATH OR DECLARATION.—An application for patent that is filed under section 111(a) or commences the national stage under section 371 shall include, or be amended to include, the name of the inventor for any invention claimed in the application. Except as otherwise provided in this section, each individual who is the inventor or a joint inventor of a claimed invention in an application for patent shall execute an oath or declaration in connection with the application.

"(b) REQUIRED STATEMENTS.—An oath or declaration under subsection (a) shall contain statements that—

"(1) the application was made or was authorized to be made by the affiant or declarant; and

"(2) such individual believes himself or herself to be the original inventor or an original joint inventor of a claimed invention in the application.

"(c) ADDITIONAL REQUIREMENTS.—The Director may specify additional information relating to the inventor and the invention that is required to be included in an oath or declaration under subsection (a).

"(d) SUBSTITUTE STATEMENT.—

"(1) IN GENERAL.—In lieu of executing an oath or declaration under subsection (a), the applicant for patent may provide a substitute statement under the circumstances described in paragraph (2) and such additional circumstances that the Director may specify by regulation.

"(2) PERMITTED CIRCUMSTANCES.—A substitute statement under paragraph (1) is permitted with respect to any individual who—

"(A) is unable to file the oath or declaration under subsection (a) because the individual—

"(i) is deceased;

"(ii) is under legal incapacity; or

"(iii) cannot be found or reached after diligent effort; or

"(B) is under an obligation to assign the invention but has refused to make the oath or declaration required under subsection (a).

"(3) CONTENTS.—A substitute statement under this subsection shall—

"(A) identify the individual with respect to whom the statement applies;

"(B) set forth the circumstances representing the permitted basis for the filing of the substitute statement in lieu of the oath or declaration under subsection (a); and

"(C) contain any additional information, including any showing, required by the Director.

"(e) MAKING REQUIRED STATEMENTS IN ASSIGNMENT OF RECORD.—An individual who is under an obligation of assignment of an application for patent may include the required statements under subsections (b) and (c) in the assignment executed by the individual, in lieu of filing such statements separately.

"(f) TIME FOR FILING.—A notice of allowance under section 151 may be provided to an applicant for patent only if the applicant for patent has filed each required oath or declaration under subsection (a) or has filed a substitute statement under subsection (d) or recorded an assignment meeting the requirements of subsection (e).

"(g) EARLIER-FILED APPLICATION CONTAINING REQUIRED STATEMENTS OR SUBSTITUTE STATEMENT.—

"(1) EXCEPTION.—The requirements under this section shall not apply to an individual with respect to an application for patent in which the individual is named as the inventor or a joint inventor and who claims the benefit under section 120, 121, or 365(c) of the filing of an earlier-filed application, if—

"(A) an oath or declaration meeting the requirements of subsection (a) was executed by the individual and was filed in connection with the earlier-filed application;

"(B) a substitute statement meeting the requirements of subsection (d) was filed in the earlier filed application with respect to the individual; or

"(C) an assignment meeting the requirements of subsection (e) was executed with respect to the earlier-filed application by the individual and was recorded in connection with the earlier-filed application.

"(2) COPIES OF OATHS, DECLARATIONS, STATEMENTS, OR ASSIGNMENTS.—Notwithstanding paragraph (1), the Director may require that a copy of the executed oath or declaration, the substitute statement, or the assignment filed in the earlier-filed application be included in the later-filed application.

"(h) SUPPLEMENTAL AND CORRECTED STATEMENTS; FILING ADDITIONAL STATEMENTS.—

"(1) IN GENERAL.—Any person making a statement required under this section may withdraw, replace, or otherwise correct the statement at any time. If a change is made in the naming of the inventor requiring the filing of 1 or more additional statements under this section, the Director shall establish regulations under which such additional statements may be filed.

"(2) SUPPLEMENTAL STATEMENTS NOT REQUIRED.—If an individual has executed an oath or declaration meeting the requirements of subsection (a) or an assignment meeting the requirements of subsection (e) with respect to an application for patent, the Director may not thereafter require that individual to make any additional oath, declaration, or other statement equivalent to those required by this section in connection with the application for patent or any patent issuing thereon.

"(3) SAVINGS CLAUSE.—A patent shall not be invalid or unenforceable based upon the failure to comply with a requirement under this section if the failure is remedied as provided under paragraph (1).

"(i) ACKNOWLEDGMENT OF PENALTIES.—Any declaration or statement filed pursuant to this section shall contain an acknowledgment that any willful false statement made in such declaration or statement is punishable under section 1001 of title 18 by fine or imprisonment of not more than 5 years, or both.".

(2) RELATIONSHIP TO DIVISIONAL APPLICATIONS.—Section 121 of title 35, United States Code, is amended by striking "If a divisional application" and all that follows through "inventor.".

(3) REQUIREMENTS FOR NONPROVISIONAL APPLICATIONS.—Section 111(a) of title 35, United States Code, is amended—

(A) in paragraph (2)(C), by striking "by the applicant" and inserting "or declaration";

(B) in the heading for paragraph (3), by inserting "OR DECLARATION" after "AND OATH"; and

(C) by inserting "or declaration" after "and oath" each place it appears.

(4) CONFORMING AMENDMENT.—The item relating to section 115 in the table of sections for chapter 11 of title 35, United States Code, is amended to read as follows:

"115. Inventor's oath or declaration.".

(b) FILING BY OTHER THAN INVENTOR.—

(1) IN GENERAL.—Section 118 of title 35, United States Code, is amended to read as follows:

**"§ 118. Filing by other than inventor**

"A person to whom the inventor has assigned or is under an obligation to assign the invention may make an application for patent. A person who otherwise shows sufficient proprietary interest in the matter may make an application for patent on behalf of and as agent for the inventor on proof of the pertinent facts and a showing that such action is appropriate to preserve the rights of the parties. If the Director grants a patent on an application filed under this section by a person other than the inventor, the patent shall be granted to the real party in interest and upon such notice to the inventor as the Director considers to be sufficient.".

(2) CONFORMING AMENDMENT.—Section 251 of title 35, United States Code, is amended in the third undesignated paragraph by inserting "or the application for the original patent was filed by the assignee of the entire interest" after "claims of the original patent".

(c) SPECIFICATION.—Section 112 of title 35, United States Code, is amended—

(1) in the first undesignated paragraph—

(A) by striking "The specification" and inserting "(a) IN GENERAL.—The specification"; and

(B) by striking "of carrying out his invention" and inserting "or joint inventor of carrying out the invention";

(2) in the second undesignated paragraph—

(A) by striking "The specification" and inserting "(b) CONCLUSION.—The specification"; and

(B) by striking "applicant regards as his invention" and inserting "inventor or a joint inventor regards as the invention";

(3) in the third undesignated paragraph, by striking "A claim" and inserting "(c) FORM.—A claim";

(4) in the fourth undesignated paragraph, by striking "Subject to the following paragraph," and inserting "(d) REFERENCE IN DEPENDENT FORMS.—Subject to subsection (e),";

(5) in the fifth undesignated paragraph, by striking "A claim" and inserting "(e) REFERENCE IN MULTIPLE DEPENDENT FORM.—A claim"; and

(6) in the last undesignated paragraph, by striking "An element" and inserting "(f) ELEMENT IN CLAIM FOR A COMBINATION.—An element".

(d) CONFORMING AMENDMENTS.—

(1) Sections 111(b)(1)(A) is amended by striking "the first paragraph of section 112 of this title" and inserting "section 112(a)".

(2) Section 111(b)(2) is amended by striking "the second through fifth paragraphs of section 112," and inserting "subsections (b) through (e) of section 112,".

(e) EFFECTIVE DATE.—The amendments made by this section shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and shall apply to any patent application that is filed on or after that effective date.

**SEC. 4. DEFENSE TO INFRINGEMENT BASED ON EARLIER INVENTOR.**

Section 273 of title 35, United States Code, is amended as follows:

(1) Subsection (a) is amended—

(A) in paragraph (1), by striking "use of a method in" and inserting "use of the subject matter of a patent in or outside" ;

(B) by striking paragraph (3); and

(C) by redesignating paragraph (4) as paragraph (3).

(2) Subsection (b) is amended—

(A) in paragraph (1), by striking "for a method";

(B) in paragraph (2), by striking "patented method" and inserting "patented process";

(C) in paragraph (3)—

(i) by striking subparagraph (A);

(ii) by redesignating subparagraphs (B) and (C) as subparagraph (A) and (C), respectively; and

(iii) by adding at the end the following:

"(D) FUNDING.—

"(i) DEFENSE NOT AVAILABLE IN CERTAIN CASES.—A person may not assert the defense under this section if the subject matter of the patent on which the defense is based was developed pursuant to a funding agreement under chapter 18 of this title or by a nonprofit institution of higher education, or a technology transfer organization affiliated with such an institution, that did not receive funding from a private business enterprise in support of that development.

"(ii) DEFINITIONS.—In this subparagraph—

"(I) the term 'institution of higher education' has the meaning given that term in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)); and

"(II) the term 'technology transfer organization' means an organization the primary purpose of which is to facilitate the commercialization of technologies developed by one or more institutions of higher education."; and

(D) by amending paragraph (6) to read as follows:

"(6) PERSONAL DEFENSE.—

"(A) IN GENERAL.—The defense under this section may be asserted only 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 shall not 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 business to which the defense relates.

"(B) EXCEPTION.—Notwithstanding subparagraph (A), any person may, on the person's own behalf, assert a defense based on the exhaustion of rights provided under paragraph (2), including any necessary elements thereof.".

**SEC. 5. POST-GRANT REVIEW PROCEEDINGS.**

(a) INTER PARTES REVIEW.—Chapter 31 of title 35, United States Code, is amended to read as follows:

## "CHAPTER 31—INTER PARTES REVIEW

"Sec.
"311. Inter partes review.
"312. Petitions.
"313. Preliminary response to petition.
"314. Institution of inter partes review.
"315. Relation to other proceedings or actions.
"316. Conduct of inter partes review.
"317. Settlement.
"318. Decision of the Board.
"319. Appeal.
"320. Request for stay of certain proceedings.

### "§ 311. Inter partes review

"(a) IN GENERAL.—Subject to the provisions of this chapter, a person who is not the owner of a patent may file with the Office a petition to institute an inter partes review of the patent. The Director shall establish, by regulation, fees to be paid by the person requesting the review, in such amounts as the Director determines to be reasonable, considering the aggregate costs of the review.

"(b) SCOPE.—A petitioner in an inter partes review may request to cancel as unpatentable 1 or more claims of a patent only on a ground that could be raised under section 102 or 103 and only on the basis of prior art consisting of patents or printed publications.

"(c) FILING DEADLINE.—A petition for inter partes review shall be filed after the later of either—

"(1) the date that is 12 months after the grant of a patent or issuance of a reissue of a patent; or

"(2) if a post-grant review is instituted under chapter 32, the date of the termination of such post-grant review.

**"§ 312. Petitions**

"(a) REQUIREMENTS OF PETITION.—A petition filed under section 311 may be considered only if—

"(1) the petition is accompanied by payment of the fee established by the Director under section 311;

"(2) the petition identifies all real parties in interest;

"(3) the petition identifies, in writing and with particularity, each claim challenged, the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim, including—

"(A) copies of patents and printed publications that the petitioner relies upon in support of the petition; and

"(B) affidavits or declarations of supporting evidence and opinions, if the petitioner relies on expert opinions;

"(4) the petition provides such other information as the Director may require by regulation; and

"(5) the petitioner provides copies of any of the documents required under paragraphs (2), (3), and (4) to the patent owner or, if applicable, the designated representative of the patent owner.

"(b) PUBLIC AVAILABILITY.—As soon as practicable after the receipt of a petition under section 311, the Director shall make the petition available to the public.

**"§ 313. Preliminary response to petition**

"(a) PRELIMINARY RESPONSE.—If an inter partes review petition is filed under section 311, the patent owner shall have the right to file a preliminary response within a time period set by the Director.

"(b) CONTENT OF RESPONSE.—A preliminary response to a petition for inter partes review shall set forth reasons why no inter partes review should be instituted based upon the failure of the petition to meet any requirement of this chapter.

**"§ 314. Institution of inter partes review**

"(a) THRESHOLD.—The Director may not authorize an inter partes review to commence unless the Director determines that the information presented in the petition filed under section 311 and any response filed under section 313 shows that a substantial new question of patentability exists.

"(b) TIMING.—The Director shall determine whether to institute an inter partes review under this chapter pursuant to a petition filed under section 311 within 3 months after—

"(1) receiving a preliminary response to the petition under section 313; or

"(2) if no such preliminary response is filed, the last date on which such response may be filed.

"(c) NOTICE.—The Director shall notify the petitioner and patent owner, in writing, of the Director's determination under subsection (a), and shall make such notice available to the public as soon as is practicable. Such notice shall include the date on which the review shall commence.

"(d) NO APPEAL.—The determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable.

**"§ 315. Relation to other proceedings or actions**

"(a) INFRINGER'S CIVIL ACTION.—

"(1) INTER PARTES REVIEW BARRED BY CIVIL ACTION.—An inter partes review may not be instituted if, before the date on which the petition for such a review is filed, the petitioner, real party in interest, or privy of the petitioner filed a civil action challenging the validity of a claim of the patent.

"(2) STAY OF CIVIL ACTION.—If the petitioner, real party in interest, or privy of the petitioner files a civil action challenging the validity of a claim of the patent on or after the date on which the petitioner files a petition for inter partes review of the patent, that civil action shall be automatically stayed until either—

"(A) the patent owner requests to lift the stay;

"(B) the patent owner files a civil action or counterclaim alleging that the petitioner, real party in interest, or privy of the petitioner has infringed the patent; or

"(C) the petitioner, real party in interest, or privy of the petitioner requests to dismiss the civil action.

"(3) TREATMENT OF COUNTERCLAIM.—A counterclaim challenging the validity of a claim of a patent does not constitute a civil action challenging the validity of a claim of a patent for purposes of this subsection.

"(b) PATENT OWNER'S ACTION.—An inter partes review may not be instituted if the petition requesting the proceeding is filed more than 9 months after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent. The time limitation set forth in the preceding sentence shall not apply to a request for joinder under subsection (c).

"(c) JOINDER.—If the Director institutes an inter partes review, the Director, in his or her discretion, may join as a party to that inter partes review any person who properly files a petition under section 311 that the Director, after receiving a preliminary response under section 313 or the expiration of the time for filing such a response, determines warrants the institution of an inter partes review under section 314.

"(d) MULTIPLE PROCEEDINGS.—Notwithstanding sections 135(a), 251, and 252, and chapter 30, during the pendency of an inter partes review, if another proceeding or matter involving the patent is before the Office, the Director may determine the manner in which the inter partes review or other proceeding or matter may proceed, including providing for stay, transfer, consolidation, or termination of any such matter or proceeding.

"(e) ESTOPPEL.—

"(1) PROCEEDINGS BEFORE THE OFFICE.—The petitioner in an inter partes review under this chapter, or the real party in interest or privy of the petitioner, may not request or maintain a proceeding before the Office with respect to a claim on any ground that the petitioner raised or reasonably could have raised during an inter partes review of the claim that resulted in a final written decision under section 318(a).

"(2) CIVIL ACTIONS AND OTHER PROCEEDINGS.—The petitioner in an inter partes review under this chapter, or the real party in interest or privy of the petitioner, may not assert either in a civil action arising in whole or in part under section 1338 of title 28 or in a proceeding before the International Trade Commission under section 337 of the Tariff Act of 1930 that a claim in a patent is invalid on any ground that the petitioner raised or reasonably could have raised during an inter partes review of the claim that resulted in a final written decision under section 318(a).

**"§ 316. Conduct of inter partes review**

"(a) REGULATIONS.—The Director shall prescribe regulations—

"(1) providing that the file of any proceeding under this chapter shall be made available to the public, except that any petition or document filed with the intent that it be sealed shall, if accompanied by a motion to seal, be treated as sealed pending the outcome of the ruling on the motion;

"(2) setting forth the standards for the showing of sufficient grounds to institute a review under section 314(a);

"(3) establishing procedures for the submission of supplemental information after the petition is filed;

"(4) in accordance with section 2(b)(2), establishing and governing inter partes review under this chapter and the relationship of such review to other proceedings under this title;

"(5) setting a time period for requesting joinder under section 315(c);

"(6) setting forth standards and procedures for discovery of relevant evidence, including that such discovery shall be limited to—

"(A) the deposition of witnesses submitting affidavits or declarations; and

"(B) what is otherwise necessary in the interest of justice;

"(7) prescribing sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding, such as to harass or to cause unnecessary delay or an unnecessary increase in the cost of the proceeding;

"(8) providing for protective orders governing the exchange and submission of confidential information;

"(9) providing for the filing by the patent owner of a response to the petition under section 313 after an inter partes review has been instituted, and requiring that the patent owner file with such response, through affidavits or declarations, any additional factual evidence and expert opinions on which the patent owner relies in support of the response;

"(10) setting forth standards and procedures for allowing the patent owner to move to amend the patent under subsection (d) to cancel a challenged claim

or propose a reasonable number of substitute claims, and ensuring that any information submitted by the patent owner in support of any amendment entered under subsection (d) is made available to the public as part of the prosecution history of the patent;

"(11) providing either party with the right to an oral hearing as part of the proceeding; and

"(12) requiring that the final determination in an inter partes review be issued not later than 1 year after the date on which the Director notices the institution of a review under this chapter, except that the Director may, for good cause shown, extend the 1-year period by not more than 6 months, and may adjust the time periods in this paragraph in the case of joinder under section 315(c).

"(b) CONSIDERATIONS.—In prescribing regulations under this section, the Director shall consider the effect of any such regulation on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to timely complete proceedings instituted under this chapter.

"(c) PATENT TRIAL AND APPEAL BOARD.—The Patent Trial and Appeal Board shall, in accordance with section 6, conduct each proceeding authorized by the Director.

"(d) AMENDMENT OF THE PATENT.—

"(1) IN GENERAL.—During an inter partes review instituted under this chapter, the patent owner may file 1 motion to amend the patent in 1 or more of the following ways:

"(A) Cancel any challenged patent claim.

"(B) For each challenged claim, propose a reasonable number of substitute claims.

"(2) ADDITIONAL MOTIONS.—Additional motions to amend may be permitted upon the joint request of the petitioner and the patent owner to materially advance the settlement of a proceeding under section 317, or as permitted by regulations prescribed by the Director.

"(3) SCOPE OF CLAIMS.—An amendment under this subsection may not enlarge the scope of the claims of the patent or introduce new matter.

"(e) EVIDENTIARY STANDARDS.—In an inter partes review instituted under this chapter, the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.

**"§ 317. Settlement**

"(a) IN GENERAL.—An inter partes review instituted under this chapter shall be terminated with respect to any petitioner upon the joint request of the petitioner and the patent owner, unless the Office has decided the merits of the proceeding before the request for termination is filed. If the inter partes review is terminated with respect to a petitioner under this section, no estoppel under section 315(e) shall apply to that petitioner. If no petitioner remains in the inter partes review, the Office may terminate the review or proceed to a final written decision under section 318(a).

"(b) AGREEMENTS IN WRITING.—Any agreement or understanding between the patent owner and a petitioner, including any collateral agreements referred to in such agreement or understanding, made in connection with, or in contemplation of, the termination of an inter partes review under this section shall be in writing and a true copy of such agreement or understanding shall be filed in the Office before the termination of the inter partes review as between the parties. If any party filing such agreement or understanding so requests, the copy shall be kept separate from the file of the inter partes review, and shall be made available only to Federal Government agencies upon written request, or to any other person on a showing of good cause.

**"§ 318. Decision of the Board**

"(a) FINAL WRITTEN DECISION.—If an inter partes review is instituted and not dismissed under this chapter, the Patent Trial and Appeal Board shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner and any new claim added under section 316(d).

"(b) CERTIFICATE.—If the Patent Trial and Appeal Board issues a final written decision under subsection (a) and the time for appeal has expired or any appeal has terminated, the Director shall issue and publish a certificate canceling any claim of the patent finally determined to be unpatentable, confirming any claim of the patent determined to be patentable, and incorporating in the patent by operation of the certificate any new or amended claim determined to be patentable.

"(c) DATA ON LENGTH OF REVIEW.—The Office shall make available to the public data describing the length of time between the institution of, and the issuance of a final written decision under subsection (a) for, each inter partes review.

**"§ 319. Appeal**

"A party dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 318(a) may appeal the decision pursuant to sections 141 through 144. Any party to the inter partes review shall have the right to be a party to the appeal.

**"§ 320. Request for stay of certain proceedings**

"If a party seeks a stay of a civil action alleging infringement of a patent under section 281, or a proceeding before the International Trade Commission under section 337 of the Tariff Act of 1930, relating to an inter partes review under this chapter, the court shall decide whether to enter a stay based on—

"(1) whether a stay, or the denial thereof, will simplify the issues in question and streamline the trial;

"(2) whether discovery is complete and whether a trial date has been set;

"(3) whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and

"(4) whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.".

(b) CONFORMING AMENDMENT.—The table of chapters for part III of title 35, United States Code, is amended by striking the item relating to chapter 31 and inserting the following:

"31. Inter Partes Review ..... 311."

(c) REGULATIONS AND EFFECTIVE DATE.—

(1) REGULATIONS.—The Director shall, not later than the date that is 1 year after the date of the enactment of this Act, issue regulations to carry out chapter 31 of title 35, United States Code, as amended by subsection (a) of this section.

(2) APPLICABILITY.—

(A) IN GENERAL.—The amendments made by subsection (a) shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and shall apply to any patent issued before, on, or after that effective date.

(B) GRADUATED IMPLEMENTATION.—The Director may impose a limit on the number of inter partes reviews that may be instituted under chapter 31 of title 35, United States Code, during each of the first 4 1-year periods in which the amendments made by subsection (a) are in effect, if such number in each year equals or exceeds the number of such inter partes reexaminations that are ordered in the last fiscal year ending before the effective date of the amendments made by subsection (a).

(d) POST-GRANT REVIEW.—Part III of title 35, United States Code, is amended by adding at the end the following:

**"CHAPTER 32—POST-GRANT REVIEW**

"Sec.
"321. Post-grant review.
"322. Petitions.
"323. Preliminary response to petition.
"324. Institution of post-grant review.
"325. Relation to other proceedings or actions.
"326. Conduct of post-grant review.
"327. Settlement.
"328. Decision of the Board.
"329. Appeal.
"330. Request for stay of certain proceedings.

**"§ 321. Post-grant review**

"(a) IN GENERAL.—Subject to the provisions of this chapter, a person who is not the patent owner may file with the Office a petition to institute a post-grant review of a patent. The Director shall establish, by regulation, fees to be paid by the person requesting the review, in such amounts as the Director determines to be reasonable, considering the aggregate costs of the post-grant review.

"(b) SCOPE.—A petitioner in a post-grant review may request to cancel as unpatentable 1 or more claims of a patent on any ground that could be raised under paragraph (2) or (3) of section 282(b) (relating to invalidity of the patent or any claim).

"(c) FILING DEADLINE.—A petition for a post-grant review may only be filed not later than the date that is 12 months after the date of the grant of the patent or of the issuance of a reissue patent (as the case may be).

**"§ 322. Petitions**

"(a) REQUIREMENTS OF PETITION.—A petition filed under section 321 may be considered only if—

"(1) the petition is accompanied by payment of the fee established by the Director under section 321;

"(2) the petition identifies all real parties in interest;

"(3) the petition identifies, in writing and with particularity, each claim challenged, the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim, including—

"(A) copies of patents and printed publications that the petitioner relies upon in support of the petition; and

"(B) affidavits or declarations of supporting evidence and opinions, if the petitioner relies on other factual evidence or on expert opinions;

"(4) the petition provides such other information as the Director may require by regulation; and

"(5) the petitioner provides copies of any of the documents required under paragraphs (2), (3), and (4) to the patent owner or, if applicable, the designated representative of the patent owner.

"(b) PUBLIC AVAILABILITY.—As soon as practicable after the receipt of a petition under section 321, the Director shall make the petition available to the public.

**"§ 323. Preliminary response to petition**

"(a) PRELIMINARY RESPONSE.—If a post-grant review petition is filed under section 321, the patent owner shall have the right to file a preliminary response to the petition within 2 months after the date on which the petition is filed.

"(b) CONTENT OF RESPONSE.—A preliminary response to a petition for post-grant review shall set forth reasons why no post-grant review should be instituted based upon the failure of the petition to meet any requirement of this chapter.

**"§ 324. Institution of post-grant review**

"(a) THRESHOLD.—The Director may not authorize a post-grant review to commence unless the Director determines that the information presented in the petition filed under section 321, if such information is not rebutted, would demonstrate that it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable.

"(b) ADDITIONAL GROUNDS.—The determination required under subsection (a) may also be satisfied by a showing that the petition raises a novel or unsettled legal question that is important to other patents or patent applications.

"(c) TIMING.—The Director shall determine whether to institute a post-grant review under this chapter pursuant to a petition filed under section 321 within 3 months after—

"(1) receiving a preliminary response to the petition under section 323; or

"(2) if no such preliminary response is filed, the last date on which such response may be filed.

"(d) NOTICE.—The Director shall notify the petitioner and patent owner, in writing, of the Director's determination under subsection (a) or (b), and shall make such notice available to the public as soon as is practicable. The Director shall make each notice of the institution of a post-grant review available to the public. Such notice shall include the date on which the review shall commence.

"(e) NO APPEAL.—The determination by the Director whether to institute a post-grant review under this section shall be final and nonappealable.

**"§ 325. Relation to other proceedings or actions**

"(a) INFRINGER'S CIVIL ACTION.—

"(1) POST-GRANT REVIEW BARRED BY CIVIL ACTION.—A post-grant review may not be instituted under this chapter if, before the date on which the petition for such a review is filed, the petitioner, real party in interest, or privy of the petitioner filed a civil action challenging the validity of a claim of the patent.

"(2) STAY OF CIVIL ACTION.—If the petitioner, real party in interest, or privy of the petitioner files a civil action challenging the validity of a claim of the pat-

ent on or after the date on which the petitioner files a petition for post-grant review of the patent, that civil action shall be automatically stayed until either—

"(A) the patent owner requests to lift the stay;

"(B) the patent owner files a civil action or counterclaim alleging that the petitioner, real party in interest, or privy of the petitioner has infringed the patent; or

"(C) the petitioner, real party in interest, or privy of the petitioner requests to dismiss his civil action.

"(3) TREATMENT OF COUNTERCLAIM.—A counterclaim challenging the validity of a claim of a patent does not constitute a civil action challenging the validity of a claim of a patent for purposes of this subsection.

"(b) PRELIMINARY INJUNCTIONS.—If a civil action alleging infringement of a patent is filed within 3 months after the date on which the patent is granted, the court may not stay its consideration of the patent owner's motion for a preliminary injunction against infringement of the patent on the basis that a petition for post-grant review has been filed under this chapter or that such a post-grant review has been instituted under this chapter.

"(c) JOINDER.—If more than 1 petition for a post-grant review under this chapter is properly filed against the same patent and the Director determines that more than 1 of these petitions warrants the institution of a post-grant review under section 324, the Director may consolidate such reviews into a single post-grant review.

"(d) MULTIPLE PROCEEDINGS.—Notwithstanding sections 135(a), 251, and 252, and chapter 30, during the pendency of any post-grant review under this chapter, if another proceeding or matter involving the patent is before the Office, the Director may determine the manner in which the post-grant review or other proceeding or matter may proceed, including providing for the stay, transfer, consolidation, or termination of any such matter or proceeding. In determining whether to institute or order a proceeding under this chapter, chapter 30, or chapter 31, the Director may take into account whether, and reject the petition or request because, the same or substantially the same prior art or arguments previously were presented to the Office.

"(e) ESTOPPEL.—

"(1) PROCEEDINGS BEFORE THE OFFICE.—The petitioner in a post-grant review under this chapter, or the real party in interest or privy of the petitioner, may not request or maintain a proceeding before the Office with respect to a claim on any ground that the petitioner raised or reasonably could have raised during a post-grant review of the claim that resulted in a final written decision under section 328(a).

"(2) CIVIL ACTIONS AND OTHER PROCEEDINGS.—The petitioner in a post-grant review under this chapter, or the real party in interest or privy of the petitioner, may not assert either in a civil action arising in whole or in part under section 1338 of title 28 or in a proceeding before the International Trade Commission under section 337 of the Tariff Act of 1930 that a claim in a patent is invalid on any ground that the petitioner raised during a post-grant review of the claim that resulted in a final written decision under section 328(a).

"(f) REISSUE PATENTS.—A post-grant review may not be instituted under this chapter if the petition requests cancellation of a claim in a reissue patent that is identical to or narrower than a claim in the original patent from which the reissue patent was issued, and the time limitations in section 321(c) would bar filing a petition for a post-grant review for such original patent.

**"§ 326. Conduct of post-grant review**

"(a) REGULATIONS.—The Director shall prescribe regulations—

"(1) providing that the file of any proceeding under this chapter shall be made available to the public, except that any petition or document filed with the intent that it be sealed shall, if accompanied by a motion to seal, be treated as sealed pending the outcome of the ruling on the motion;

"(2) setting forth the standards for the showing of sufficient grounds to institute a review under subsections (a) and (b) of section 324;

"(3) establishing procedures for the submission of supplemental information after the petition is filed;

"(4) in accordance with section 2(b)(2), establishing and governing a post-grant review under this chapter and the relationship of such review to other proceedings under this title;

"(5) setting forth standards and procedures for discovery of relevant evidence, including that such discovery shall be limited to evidence directly related to factual assertions advanced by either party in the proceeding;

"(6) prescribing sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding, such as to harass or to cause unnecessary delay or an unnecessary increase in the cost of the proceeding;

"(7) providing for protective orders governing the exchange and submission of confidential information;

"(8) allowing the patent owner to file a response to the petition after a post-grant review has been instituted, and requiring that the patent owner file with such response, through affidavits or declarations, any additional factual evidence and expert opinions on which the patent owner relies in support of the response;

"(9) setting forth standards and procedures for allowing the patent owner to move to amend the patent under subsection (d) to cancel a challenged claim or propose a reasonable number of substitute claims, and ensuring that any information submitted by the patent owner in support of any amendment entered under subsection (d) is made available to the public as part of the prosecution history of the patent;

"(10) providing either party with the right to an oral hearing as part of the proceeding; and

"(11) requiring that the final determination in any post-grant review be issued not later than 1 year after the date on which the Director notices the institution of a proceeding under this chapter, except that the Director may, for good cause shown, extend the 1-year period by not more than 6 months, and may adjust the time periods in this paragraph in the case of joinder under section 325(c).

"(b) CONSIDERATIONS.—In prescribing regulations under this section, the Director shall consider the effect of any such regulation on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to timely complete proceedings instituted under this chapter.

"(c) PATENT TRIAL AND APPEAL BOARD.—The Patent Trial and Appeal Board shall, in accordance with section 6, conduct each proceeding authorized by the Director.

"(d) AMENDMENT OF THE PATENT.—

"(1) IN GENERAL.—During a post-grant review instituted under this chapter, the patent owner may file 1 motion to amend the patent in 1 or more of the following ways:

"(A) Cancel any challenged patent claim.

"(B) For each challenged claim, propose a reasonable number of substitute claims.

"(2) ADDITIONAL MOTIONS.—Additional motions to amend may be permitted upon the joint request of the petitioner and the patent owner to materially advance the settlement of a proceeding under section 327, or upon the request of the patent owner for good cause shown.

"(3) SCOPE OF CLAIMS.—An amendment under this subsection may not enlarge the scope of the claims of the patent or introduce new matter.

"(e) EVIDENTIARY STANDARDS.—In a post-grant review instituted under this chapter, the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.

**"§ 327. Settlement**

"(a) IN GENERAL.—A post-grant review instituted under this chapter shall be terminated with respect to any petitioner upon the joint request of the petitioner and the patent owner, unless the Office has decided the merits of the proceeding before the request for termination is filed. If the post-grant review is terminated with respect to a petitioner under this section, no estoppel under section 325(e) shall apply to that petitioner. If no petitioner remains in the post-grant review, the Office may terminate the post-grant review or proceed to a final written decision under section 328(a).

"(b) AGREEMENTS IN WRITING.—Any agreement or understanding between the patent owner and a petitioner, including any collateral agreements referred to in such agreement or understanding, made in connection with, or in contemplation of, the termination of a post-grant review under this section shall be in writing, and a true copy of such agreement or understanding shall be filed in the Office before the termination of the post-grant review as between the parties. If any party filing such agreement or understanding so requests, the copy shall be kept separate from the file of the post-grant review, and shall be made available only to Federal Government agencies upon written request, or to any other person on a showing of good cause.

**"§ 328. Decision of the Board**

"(a) FINAL WRITTEN DECISION.—If a post-grant review is instituted and not dismissed under this chapter, the Patent Trial and Appeal Board shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner and any new claim added under section 326(d).

"(b) CERTIFICATE.—If the Patent Trial and Appeal Board issues a final written decision under subsection (a) and the time for appeal has expired or any appeal has terminated, the Director shall issue and publish a certificate canceling any claim of the patent finally determined to be unpatentable, confirming any claim of the patent determined to be patentable, and incorporating in the patent by operation of the certificate any new or amended claim determined to be patentable.

"(c) DATA ON LENGTH OF REVIEW.—The Office shall make available to the public data describing the length of time between the institution of, and the issuance of a final written decision under subsection (a) for, each post-grant review.

**"§ 329. Appeal**

"A party dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 328(a) may appeal the decision pursuant to sections 141 through 144. Any party to the post-grant review shall have the right to be a party to the appeal.

**"§ 330. Request for stay of certain proceedings**

"If a party seeks a stay of a civil action alleging infringement of a patent under section 281, or a proceeding before the International Trade Commission under section 337 of the Tariff Act of 1930, relating to a post-grant review under this chapter, the court shall decide whether to enter a stay based on—

"(1) whether a stay, or the denial thereof, will simplify the issues in question and streamline the trial;

"(2) whether discovery is complete and whether a trial date has been set;

"(3) whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and

"(4) whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.".

(e) CONFORMING AMENDMENT.—The table of chapters for part III of title 35, United States Code, is amended by adding at the end the following:

"32. Post-Grant Review ..... 321."

(f) REGULATIONS AND EFFECTIVE DATE.—

(1) REGULATIONS.—The Director shall, not later than the date that is 1 year after the date of the enactment of this Act, issue regulations to carry out chapter 32 of title 35, United States Code, as added by subsection (d) of this section.

(2) APPLICABILITY.—

(A) IN GENERAL.—The amendments made by subsection (d) shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and, except as provided in section 18 and in paragraph (3), shall apply to any patent that is described in section 2(n)(1).

(B) LIMITATION.—The Director may impose a limit on the number of post-grant reviews that may be instituted under chapter 32 of title 35, United States Code, during each of the 4 years following the effective date set forth in subparagraph (A).

(3) PENDING INTERFERENCES.—

(A) PROCEDURES IN GENERAL.—The Director shall determine, and include in the regulations issued under paragraph (1), the procedures under which an interference commenced before the effective date set forth in paragraph (2) is to proceed, including whether such interference—

(i) is to be dismissed without prejudice to the filing of a petition for a post-grant review under chapter 32 of title 35, United States Code; or

(ii) is to proceed as if this Act had not been enacted.

(B) PROCEEDINGS BY PATENT TRIAL AND APPEAL BOARD.—For purposes of an interference that is commenced before the effective date set forth in paragraph (2), the Director may deem the Patent Trial and Appeal Board to be the Board of Patent Appeals and Interferences, and may allow the Patent Trial and Appeal Board to conduct any further proceedings in that interference.

(C) APPEALS.—The authorization to appeal or have remedy from derivation proceedings in sections 141(d) and 146 of title 35, United States Code, and the jurisdiction to entertain appeals from derivation proceedings in section 1295(a)(4)(A) of title 28, United States Code, shall be deemed to extend to any final decision in an interference that is commenced before the effective date set forth in paragraph (2) of this subsection and that is not dismissed pursuant to this paragraph.

(g) CITATION OF PRIOR ART AND WRITTEN STATEMENTS.—

(1) IN GENERAL.—Section 301 of title 35, United States Code, is amended to read as follows:

**"§ 301. Citation of prior art and written statements**

"(a) IN GENERAL.—Any person at any time may cite to the Office in writing—

"(1) prior art consisting of patents or printed publications which that person believes to have a bearing on the patentability of any claim of a particular patent; or

"(2) statements of the patent owner filed in a proceeding before a Federal court or the Office in which the patent owner took a position on the scope of any claim of a particular patent.

"(b) OFFICIAL FILE.—If the person citing prior art or written statements pursuant to subsection (a) explains in writing the pertinence and manner of applying the prior art or written statements to at least 1 claim of the patent, the citation of the prior art or written statements and the explanation thereof shall become a part of the official file of the patent.

"(c) ADDITIONAL INFORMATION.—A party that submits a written statement pursuant to subsection (a)(2) shall include any other documents, pleadings, or evidence from the proceeding in which the statement was filed that addresses the written statement.

"(d) LIMITATIONS.—A written statement submitted pursuant to subsection (a)(2), and additional information submitted pursuant to subsection (c), shall not be considered by the Office for any purpose other than to determine the proper meaning of a patent claim in a proceeding that is ordered or instituted pursuant to section 304, 314, or 324. If any such written statement or additional information is subject to an applicable protective order, it shall be redacted to exclude information that is subject to that order.

"(e) CONFIDENTIALITY.—Upon the written request of the person citing prior art or written statements pursuant to subsection (a), that person's identity shall be excluded from the patent file and kept confidential.".

(2) CONFORMING AMENDMENT.—The item relating to section 301 in the table of sections for chapter 30 of title 35, United States Code, is amended to read as follows:

"301. Citation of prior art and written statements.".

(3) EFFECTIVE DATE.—The amendments made by this subsection shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and shall apply to any patent issued before, on, or after that effective date.

(h) REEXAMINATION.—

(1) DETERMINATION BY DIRECTOR.—

(A) IN GENERAL.—Section 303(a) of title 35, United States Code, is amended by striking "section 301 of this title" and inserting "section 301 or 302".

(B) EFFECTIVE DATE.—The amendment made by this paragraph shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and shall apply to any patent issued before, on, or after that effective date.

(2) APPEAL.—

(A) IN GENERAL.—Section 306 of title 35, United States Code, is amended by striking "145" and inserting "144".

(B) EFFECTIVE DATE.—The amendment made by this paragraph shall take effect on the date of the enactment of this Act and shall apply to any appeal of a reexamination that is pending before the Board of Patent Appeals and Interferences or the Patent Trial and Appeal Board on or after the date of the enactment of this Act.

**SEC. 6. PATENT TRIAL AND APPEAL BOARD.**

(a) COMPOSITION AND DUTIES.—

(1) IN GENERAL.—Section 6 of title 35, United States Code, is amended to read as follows:

**"§ 6. Patent Trial and Appeal Board**

"(a) IN GENERAL.—There shall be in the Office a Patent Trial and Appeal Board. The Director, the Deputy Director, the Commissioner for Patents, the Commissioner for Trademarks, and the administrative patent judges shall constitute the Patent Trial and Appeal Board. The administrative patent judges shall be persons of competent legal knowledge and scientific ability who are appointed by the Secretary, in consultation with the Director. Any reference in any Federal law, Executive order, rule, regulation, or delegation of authority, or any document of or pertaining to the Board of Patent Appeals and Interferences is deemed to refer to the Patent Trial and Appeal Board.

"(b) DUTIES.—The Patent Trial and Appeal Board shall—

"(1) on written appeal of an applicant, review adverse decisions of examiners upon applications for patents pursuant to section 134(a);

"(2) review appeals of reexaminations pursuant to section 134(b);

"(3) conduct derivation proceedings pursuant to section 135; and

"(4) conduct inter partes reviews and post-grant reviews pursuant to chapters 31 and 32.

"(c) 3-MEMBER PANELS.—Each appeal, derivation proceeding, post-grant review, and inter partes review shall be heard by at least 3 members of the Patent Trial and Appeal Board, who shall be designated by the Director. Only the Patent Trial and Appeal Board may grant rehearings.

"(d) TREATMENT OF PRIOR APPOINTMENTS.—The Secretary of Commerce may, in the Secretary's discretion, deem the appointment of an administrative patent judge who, before the date of the enactment of this subsection, held office pursuant to an appointment by the Director to take effect on the date on which the Director initially appointed the administrative patent judge. It shall be a defense to a challenge to the appointment of an administrative patent judge on the basis of the judge's having been originally appointed by the Director that the administrative patent judge so appointed was acting as a de facto officer.".

(2) CONFORMING AMENDMENT.—The item relating to section 6 in the table of sections for chapter 1 of title 35, United States Code, is amended to read as follows:

"6. Patent Trial and Appeal Board.".

(b) ADMINISTRATIVE APPEALS.—Section 134 of title 35, United States Code, is amended—

(1) in subsection (b), by striking "any reexamination proceeding" and inserting "a reexamination"; and

(2) by striking subsection (c).

(c) CIRCUIT APPEALS.—

(1) IN GENERAL.—Section 141 of title 35, United States Code, is amended to read as follows:

**"§ 141. Appeal to the Court of Appeals for the Federal Circuit**

"(a) EXAMINATIONS.—An applicant who is dissatisfied with the final decision in an appeal to the Patent Trial and Appeal Board under section 134(a) may appeal the Board's decision to the United States Court of Appeals for the Federal Circuit. By filing such an appeal, the applicant waives his or her right to proceed under section 145.

"(b) REEXAMINATIONS.—A patent owner who is dissatisfied with the final decision in an appeal of a reexamination to the Patent Trial and Appeal Board under section 134(b) may appeal the Board's decision only to the United States Court of Appeals for the Federal Circuit.

"(c) POST-GRANT AND INTER PARTES REVIEWS.—A party to a post-grant or inter partes review who is dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 318(a) or 328(a) may appeal the Board's decision only to the United States Court of Appeals for the Federal Circuit.

"(d) DERIVATION PROCEEDINGS.—A party to a derivation proceeding who is dissatisfied with the final decision of the Patent Trial and Appeal Board in the proceeding may appeal the decision to the United States Court of Appeals for the Federal Circuit, but such appeal shall be dismissed if any adverse party to such derivation proceeding, within 20 days after the appellant has filed notice of appeal in accordance with section 142, files notice with the Director that the party elects to have all further proceedings conducted as provided in section 146. If the appellant does not, within 30 days after the filing of such notice by the adverse party, file a civil

action under section 146, the Board's decision shall govern the further proceedings in the case.".

(2) JURISDICTION.—Section 1295(a)(4)(A) of title 28, United States Code, is amended to read as follows:

"(A) the Patent Trial and Appeal Board of the United States Patent and Trademark Office with respect to a patent application, derivation proceeding, reexamination, post-grant review, or inter partes review at the instance of a party who exercised that party's right to participate in the applicable proceeding before or appeal to the Board, except that an applicant or a party to a derivation proceeding may also have remedy by civil action pursuant to section 145 or 146 of title 35; an appeal under this subparagraph of a decision of the Board with respect to an application or derivation proceeding shall waive the right of such applicant or party to proceed under section 145 or 146 of title 35;".

(3) PROCEEDINGS ON APPEAL.—Section 143 of title 35, United States Code, is amended—

(A) by striking the third sentence and inserting the following: "In an ex parte case, the Director shall submit to the court in writing the grounds for the decision of the Patent and Trademark Office, addressing all of the issues raised in the appeal. The Director shall have the right to intervene in an appeal from a decision entered by the Patent Trial and Appeal Board in a derivation proceeding under section 135 or in an inter partes or post-grant review under chapter 31 or 32."; and

(B) by striking the last sentence.

(d) EFFECTIVE DATE.—The amendments made by this section shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and shall apply to proceedings commenced on or after that effective date, except that—

(1) the extension of jurisdiction to the United States Court of Appeals for the Federal Circuit to entertain appeals of decisions of the Patent Trial and Appeal Board in reexaminations under the amendment made by subsection (c)(2) shall be deemed to take effect on the date of enactment of this Act and shall extend to any decision of the Board of Patent Appeals and Interferences with respect to a reexamination that is entered before, on, or after the date of the enactment of this Act;

(2) the provisions of sections 6, 134, and 141 of title 35, United States Code, as in effect on the day before the date of the enactment of this Act shall continue to apply to inter partes reexaminations that are requested under section 311 of such title before the effective date of the amendments made by this section;

(3) the Patent Trial and Appeal Board may be deemed to be the Board of Patent Appeals and Interferences for purposes of appeals of inter partes reexaminations that are requested under section 311 of title 35, United States Code, before the effective date of the amendments made by this section; and

(4) the Director's right under the fourth sentence of section 143 of title 35, United States Code, as amended by subsection (c)(3) of this section, to intervene in an appeal from a decision entered by the Patent Trial and Appeal Board shall be deemed to extend to inter partes reexaminations that are requested under section 311 of such title before the effective date of the amendments made by this section.

**SEC. 7. PREISSUANCE SUBMISSIONS BY THIRD PARTIES.**

(a) IN GENERAL.—Section 122 of title 35, United States Code, is amended by adding at the end the following:

"(e) PREISSUANCE SUBMISSIONS BY THIRD PARTIES.—

"(1) IN GENERAL.—Any third party may submit for consideration and inclusion in the record of a patent application, any patent, published patent application, or other printed publication of potential relevance to the examination of the application, if such submission is made in writing before the earlier of—

"(A) the date a notice of allowance under section 151 is given or mailed in the application for patent; or

"(B) the later of—

"(i) 6 months after the date on which the application for patent is first published under section 122 by the Office, or

"(ii) the date of the first rejection under section 132 of any claim by the examiner during the examination of the application for patent.

"(2) OTHER REQUIREMENTS.—Any submission under paragraph (1) shall—

"(A) set forth a concise description of the asserted relevance of each submitted document;

"(B) be accompanied by such fee as the Director may prescribe; and

"(C) include a statement by the person making such submission affirming that the submission was made in compliance with this section.".

(b) EFFECTIVE DATE.—The amendments made by this section shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and shall apply to any patent application filed before, on, or after that effective date.

**SEC. 8. VENUE.**

(a) TECHNICAL AMENDMENTS RELATING TO VENUE.—Sections 32, 145, 146, 154(b)(4)(A), and 293 of title 35, United States Code, and section 21(b)(4) of the Trademark Act of 1946 (15 U.S.C. 1071(b)(4)), are each amended by striking "United States District Court for the District of Columbia" each place that term appears and inserting "United States District Court for the Eastern District of Virginia".

(b) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act and shall apply to any civil action commenced on or after that date.

**SEC. 9. FEE SETTING AUTHORITY.**

(a) FEE SETTING.—

(1) IN GENERAL.—The Director may set or adjust by rule any fee established, authorized, or charged under title 35, United States Code, or the Trademark Act of 1946 (15 U.S.C. 1051 et seq.), for any services performed by or materials furnished by, the Office, subject to paragraph (2).

(2) FEES TO RECOVER COSTS.—Fees may be set or adjusted under paragraph (1) only to recover the aggregate estimated costs to the Office for processing, activities, services, and materials relating to patents (in the case of patent fees) and trademarks (in the case of trademark fees), including administrative costs of the Office with respect to such patent or trademark fees (as the case may be).

(b) SMALL AND MICRO ENTITIES.—The fees set or adjusted under subsection (a) for filing, searching, examining, issuing, appealing, and maintaining patent applications and patents shall be reduced by 50 percent with respect to the application of such fees to any small entity that qualifies for reduced fees under section 41(h)(1) of title 35, United States Code, and shall be reduced by 75 percent with respect to the application of such fees to any micro entity as defined in section 123 of that title (as added by subsection (f) of this section).

(c) REDUCTION OF FEES IN CERTAIN FISCAL YEARS.—In each fiscal year, the Director—

(1) shall consult with the Patent Public Advisory Committee and the Trademark Public Advisory Committee on the advisability of reducing any fees described in subsection (a); and

(2) after the consultation required under paragraph (1), may reduce such fees.

(d) ROLE OF THE PUBLIC ADVISORY COMMITTEE.—The Director shall—

(1) not less than 45 days before publishing any proposed fee under subsection (a) in the Federal Register, submit the proposed fee to the Patent Public Advisory Committee or the Trademark Public Advisory Committee, or both, as appropriate;

(2)(A) provide the relevant advisory committee described in paragraph (1) a 30-day period following the submission of any proposed fee, in which to deliberate, consider, and comment on such proposal;

(B) require that, during that 30-day period, the relevant advisory committee hold a public hearing relating to such proposal; and

(C) assist the relevant advisory committee in carrying out that public hearing, including by offering the use of the resources of the Office to notify and promote the hearing to the public and interested stakeholders;

(3) require the relevant advisory committee to make available to the public a written report setting forth in detail the comments, advice, and recommendations of the committee regarding the proposed fee; and

(4) consider and analyze any comments, advice, or recommendations received from the relevant advisory committee before setting or adjusting (as the case may be) the fee.

(e) PUBLICATION IN THE FEDERAL REGISTER.—

(1) PUBLICATION AND RATIONALE.—The Director shall—

(A) publish any proposed fee change under this section in the Federal Register;

(B) include, in such publication, the specific rationale and purpose for the proposal, including the possible expectations or benefits resulting from the proposed change; and

(C) notify, through the Chair and Ranking Member of the Committees on the Judiciary of the Senate and the House of Representatives, the Congress of the proposed change not later than the date on which the proposed change is published under subparagraph (A).

(2) PUBLIC COMMENT PERIOD.—The Director shall, in the publication under paragraph (1), provide the public a period of not less than 45 days in which to submit comments on the proposed change in fees.

(3) PUBLICATION OF FINAL RULE.—The final rule setting or adjusting a fee under this section shall be published in the Federal Register and in the Official Gazette of the Patent and Trademark Office.

(4) CONGRESSIONAL COMMENT PERIOD.—A fee set or adjusted under subsection (a) may not become effective—

(A) before the end of the 45-day period beginning on the day after the date on which the Director publishes the final rule adjusting or setting the fee under paragraph (3); or

(B) if a law is enacted disapproving such fee.

(5) RULE OF CONSTRUCTION.—Rules prescribed under this section shall not diminish—

(A) the rights of an applicant for a patent under title 35, United States Code, or for a trademark under the Trademark Act of 1946; or

(B) any rights under a ratified treaty.

(f) RETENTION OF AUTHORITY.—The Director retains the authority under subsection (a) to set or adjust fees only during such period as the Patent and Trademark Office remains an agency within the Department of Commerce.

(g) MICRO ENTITY DEFINED.—

(1) IN GENERAL.—Chapter 11 of title 35, United States Code, is amended by adding at the end the following new section:

**"§ 123. Micro entity defined.**

"(a) IN GENERAL.—For purposes of this title, the term 'micro entity' means an applicant who makes a certification that the applicant—

"(1) qualifies as a small entity, as defined in regulations issued by the Director;

"(2) has not been named as an inventor on more than 4 previously filed patent applications, other than applications filed in another country, provisional applications under section 111(b), or international applications filed under the treaty defined in section 351(a) for which the basic national fee under section 41(a) was not paid;

"(3) did not, in the calendar year preceding the calendar year in which the examination fee for the application is being paid, have a gross income, as defined in section 61(a) of the Internal Revenue Code of 1986, exceeding 3 times the median household income for that preceding calendar year, as reported by the Bureau of the Census; and

"(4) has not assigned, granted, or conveyed, and is not under an obligation by contract or law to assign, grant, or convey, a license or other ownership interest in the application concerned to an entity that, in the calendar year preceding the calendar year in which the examination fee for the application is being paid, had a gross income, as defined in section 61(a) of the Internal Revenue Code of 1986, exceeding 3 times the median household income for that preceding calendar year, as most recently reported by the Bureau of the Census.

"(b) APPLICATIONS RESULTING FROM PRIOR EMPLOYMENT.—An applicant is not considered to be named on a previously filed application for purposes of subsection (a)(2) if the applicant has assigned, or is under an obligation by contract or law to assign, all ownership rights in the application as the result of the applicant's previous employment.

"(c) FOREIGN CURRENCY EXCHANGE RATE.—If an applicant's or entity's gross income in the preceding year is not in United States dollars, the average currency exchange rate, as reported by the Internal Revenue Service, during the preceding year shall be used to determine whether the applicant's or entity's gross income exceeds the threshold specified in paragraphs (3) or (4) of subsection (a).

"(d) PUBLIC INSTITUTIONS OF HIGHER EDUCATION.—

"(1) IN GENERAL.—For purposes of this section, a micro entity shall include an applicant who certifies that—

"(A) the applicant's employer, from which the applicant obtains the majority of the applicant's income, is an institution of higher education, as de-

fined in section 101 of the Higher Education Act of 1965 (20 U.S.C. 1001), that is a public institution; or

"(B) the applicant has assigned, granted, conveyed, or is under an obligation by contract or law to assign, grant, or convey, a license or other ownership interest in the particular application to such State public institution.

"(2) DIRECTOR'S AUTHORITY.—The Director may, in the Director's discretion, impose income limits, annual filing limits, or other limits on who may qualify as a micro entity pursuant to this subsection if the Director determines that such additional limits are reasonably necessary to avoid an undue impact on other patent applicants or owners or are otherwise reasonably necessary and appropriate. At least 3 months before any limits proposed to be imposed pursuant to this paragraph shall take effect, the Director shall inform the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate of any such proposed limits.".

(2) CONFORMING AMENDMENT.—Chapter 11 of title 35, United States Code, is amended by adding at the end the following new item:

"123. Micro entity defined.".

(h) ELECTRONIC FILING INCENTIVE.—

(1) IN GENERAL.—Notwithstanding any other provision of this section, a fee of $400 shall be established for each application for an original patent, except for a design, plant, or provisional application, that is not filed by electronic means as prescribed by the Director. The fee established by this subsection shall be reduced by 50 percent for small entities that qualify for reduced fees under section 41(h)(1) of title 35, United States Code. All fees paid under this subsection shall be deposited in the Treasury as an offsetting receipt that shall not be available for obligation or expenditure.

(2) EFFECTIVE DATE.—This subsection shall take effect upon the expiration of the 60-day period beginning on the date of the enactment of this Act.

(i) EFFECTIVE DATE.—This section and the amendments made by this section shall take effect on the date of the enactment of this Act.

**SEC. 10. FEES FOR PATENT SERVICES.**

(a) GENERAL PATENT SERVICES.—Subsections (a) and (b) of section 41 of title 35, United States Code, are amended to read as follows:

"(a) GENERAL FEES.—The Director shall charge the following fees:

"(1) FILING AND BASIC NATIONAL FEES.—

"(A) On filing each application for an original patent, except for design, plant, or provisional applications, $330.

"(B) On filing each application for an original design patent, $220.

"(C) On filing each application for an original plant patent, $220.

"(D) On filing each provisional application for an original patent, $220.

"(E) On filing each application for the reissue of a patent, $330.

"(F) The basic national fee for each international application filed under the treaty defined in section 351(a) entering the national stage under section 371, $330.

"(G) In addition, excluding any sequence listing or computer program listing filed in an electronic medium as prescribed by the Director, for any application the specification and drawings of which exceed 100 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium), $270 for each additional 50 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium) or fraction thereof.

"(2) EXCESS CLAIMS FEES.—

"(A) IN GENERAL.—In addition to the fee specified in paragraph (1)—

"(i) on filing or on presentation at any other time, $220 for each claim in independent form in excess of 3;

"(ii) on filing or on presentation at any other time, $52 for each claim (whether dependent or independent) in excess of 20; and

"(iii) for each application containing a multiple dependent claim, $390.

"(B) MULTIPLE DEPENDENT CLAIMS.—For the purpose of computing fees under subparagraph (A), a multiple dependent claim referred to in section 112 or any claim depending therefrom shall be considered as separate dependent claims in accordance with the number of claims to which reference is made.

"(C) REFUNDS; ERRORS IN PAYMENT.—The Director may by regulation provide for a refund of any part of the fee specified in subparagraph (A) for any claim that is canceled before an examination on the merits, as pre-

scribed by the Director, has been made of the application under section 131. Errors in payment of the additional fees under this paragraph may be rectified in accordance with regulations prescribed by the Director.

"(3) EXAMINATION FEES.—

"(A) IN GENERAL.—

"(i) For examination of each application for an original patent, except for design, plant, provisional, or international applications, $220.

"(ii) For examination of each application for an original design patent, $140.

"(iii) For examination of each application for an original plant patent, $170.

"(iv) For examination of the national stage of each international application, $220.

"(v) For examination of each application for the reissue of a patent, $650.

"(B) APPLICABILITY OF OTHER FEE PROVISIONS.—The provisions of paragraphs (3) and (4) of section 111(a) relating to the payment of the fee for filing the application shall apply to the payment of the fee specified in subparagraph (A) with respect to an application filed under section 111(a). The provisions of section 371(d) relating to the payment of the national fee shall apply to the payment of the fee specified in subparagraph (A) with respect to an international application.

"(4) ISSUE FEES.—

"(A) For issuing each original patent, except for design or plant patents, $1,510.

"(B) For issuing each original design patent, $860.

"(C) For issuing each original plant patent, $1,190.

"(D) For issuing each reissue patent, $1,510.

"(5) DISCLAIMER FEE.—On filing each disclaimer, $140.

"(6) APPEAL FEES.—

"(A) On filing an appeal from the examiner to the Patent Trial and Appeal Board, $540.

"(B) In addition, on filing a brief in support of the appeal, $540, and on requesting an oral hearing in the appeal before the Patent Trial and Appeal Board, $1,080.

"(7) REVIVAL FEES.—On filing each petition for the revival of an unintentionally abandoned application for a patent, for the unintentionally delayed payment of the fee for issuing each patent, or for an unintentionally delayed response by the patent owner in any reexamination proceeding, $1,620, unless the petition is filed under section 133 or 151, in which case the fee shall be $540.

"(8) EXTENSION FEES.—For petitions for 1-month extensions of time to take actions required by the Director in an application—

"(A) on filing a first petition, $130;

"(B) on filing a second petition, $360; and

"(C) on filing a third or subsequent petition, $620.

"(b) MAINTENANCE FEES.—

"(1) IN GENERAL.—The Director shall charge the following fees for maintaining in force all patents based on applications filed on or after December 12, 1980:

"(A) Three years and 6 months after grant, $980.

"(B) Seven years and 6 months after grant, $2,480.

"(C) Eleven years and 6 months after grant, $4,110.

"(2) GRACE PERIOD; SURCHARGE.—Unless payment of the applicable maintenance fee under paragraph (1) is received in the Office on or before the date the fee is due or within a grace period of 6 months thereafter, the patent shall expire as of the end of such grace period. The Director may require the payment of a surcharge as a condition of accepting within such 6-month grace period the payment of an applicable maintenance fee.

"(3) NO MAINTENANCE FEE FOR DESIGN OR PLANT PATENT.—No fee may be established for maintaining a design or plant patent in force.".

(b) DELAYS IN PAYMENT.—Subsection (c) of section 41 of title 35, United States Code, is amended—

(1) by striking "(c)(1) The Director" and inserting:

"(c) DELAYS IN PAYMENT OF MAINTENANCE FEES.—

"(1) ACCEPTANCE.—The Director"; and

(2) by striking "(2) A patent" and inserting "(2) EFFECT ON RIGHTS OF OTHERS.—A patent".

(c) PATENT SEARCH FEES.—Subsection (d) of section 41 of title 35, United States Code, is amended to read as follows:

"(d) PATENT SEARCH AND OTHER FEES.—

"(1) PATENT SEARCH FEES.—

"(A) IN GENERAL.—The Director shall charge the fees specified under subparagraph (B) for the search of each application for a patent, except for provisional applications. The Director shall adjust the fees charged under this paragraph to ensure that the fees recover an amount not to exceed the estimated average cost to the Office of searching applications for patent either by acquiring a search report from a qualified search authority, or by causing a search by Office personnel to be made, of each application for patent.

"(B) SPECIFIC FEES.—The fees referred to in subparagraph (A) are—

"(i) $540 for each application for an original patent, except for design, plant, provisional, or international applications;

"(ii) $100 for each application for an original design patent;

"(iii) $330 for each application for an original plant patent;

"(iv) $540 for the national stage of each international application; and

"(v) $540 for each application for the reissue of a patent.

"(C) APPLICABILITY OF OTHER PROVISIONS.—The provisions of paragraphs (3) and (4) of section 111(a) relating to the payment of the fee for filing the application shall apply to the payment of the fee specified in this paragraph with respect to an application filed under section 111(a). The provisions of section 371(d) relating to the payment of the national fee shall apply to the payment of the fee specified in this paragraph with respect to an international application.

"(D) REFUNDS.—The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131.

"(E) APPLICATIONS SUBJECT TO SECRECY ORDER.—A search of an application that is the subject of a secrecy order under section 181 or otherwise involves classified information may be conducted only by Office personnel.

"(F) CONFLICTS OF INTEREST.—A qualified search authority that is a commercial entity may not conduct a search of a patent application if the entity has any direct or indirect financial interest in any patent or in any pending or imminent application for patent filed or to be filed in the Office.

"(2) OTHER FEES.—

"(A) IN GENERAL.—The Director shall establish fees for all other processing, services, or materials relating to patents not specified in this section to recover the estimated average cost to the Office of such processing, services, or materials, except that the Director shall charge the following fees for the following services:

"(i) For recording a document affecting title, $40 per property.

"(ii) For each photocopy, $.25 per page.

"(iii) For each black and white copy of a patent, $3.

"(B) COPIES FOR LIBRARIES.—The yearly fee for providing a library specified in section 12 with uncertified printed copies of the specifications and drawings for all patents in that year shall be $50.".

(d) FEES FOR SMALL ENTITIES.—Subsection (h) of section 41 of title 35, United States Code, is amended to read as follows:

"(h) FEES FOR SMALL ENTITIES.—

"(1) REDUCTIONS IN FEES.—Subject to paragraph (3), fees charged under subsections (a), (b), and (d)(1) shall be reduced by 50 percent with respect to their application to any small business concern as defined under section 3 of the Small Business Act, and to any independent inventor or nonprofit organization as defined in regulations issued by the Director.

"(2) SURCHARGES AND OTHER FEES.—With respect to its application to any entity described in paragraph (1), any surcharge or fee charged under subsection (c) or (d) shall not be higher than the surcharge or fee required of any other entity under the same or substantially similar circumstances.

"(3) REDUCTION FOR ELECTRONIC FILING.—The fee charged under subsection (a)(1)(A) shall be reduced by 75 percent with respect to its application to any entity to which paragraph (1) applies, if the application is filed by electronic means as prescribed by the Director.".

(e) TECHNICAL AMENDMENTS.—Section 41 of title 35, United States Code, is amended—

(1) in subsection (e), in the first sentence, by striking "The Director" and inserting "WAIVER OF FEES; COPIES REGARDING NOTICE.—The Director";

(2) in subsection (f), by striking "The fees" and inserting "ADJUSTMENT OF FEES.—The fees";

(3) by repealing subsection (g); and

(4) in subsection (i)—

(A) by striking "(i)(1) The Director" and inserting the following:

"(i) ELECTRONIC PATENT AND TRADEMARK DATA.—

"(1) MAINTENANCE OF COLLECTIONS.—The Director";

(B) by striking "(2) The Director" and inserting the following:

"(2) AVAILABILITY OF AUTOMATED SEARCH SYSTEMS.—The Director";

(C) by striking "(3) The Director" and inserting the following:

"(3) ACCESS FEES.—The Director"; and

(D) by striking "(4) The Director" and inserting the following:

"(4) ANNUAL REPORT TO CONGRESS.—The Director".

(f) ADJUSTMENT OF TRADEMARK FEES.—Section 802(a) of division B of the Consolidated Appropriations Act, 2005 (Public Law 108–447) is amended—

(1) in the first sentence, by striking "During fiscal years 2005, 2006 and 2007,", and inserting "Until such time as the Director sets or adjusts the fees otherwise,"; and

(2) in the second sentence, by striking "During fiscal years 2005, 2006, and 2007, the" and inserting "The".

(g) EFFECTIVE DATE, APPLICABILITY, AND TRANSITION PROVISIONS.—Section 803(a) of division B of the Consolidated Appropriations Act, 2005 (Public Law 108–447) Division B of Public Law 108–447 is amended by striking "and shall apply only with respect to the remaining portion of fiscal year 2005 and fiscal year 2006".

(h) ELECTRONIC FILING INCENTIVE.—

(1) IN GENERAL.—Notwithstanding any other provision of this section, a fee of $400 shall be established for each application for an original patent, except for a design, plant, or provisional application, that is not filed by electronic means as prescribed by the Director. The fee established by this subsection shall be reduced by 50 percent for small entities that qualify for reduced fees under section 41(h)(1) of title 35, United States Code. All fees paid under this subsection shall be deposited in the Treasury as an offsetting receipt that shall not be available for obligation or expenditure.

(2) EFFECTIVE DATE.—This subsection shall take effect upon the expiration of the 60-day period beginning on the date of the enactment of this Act.

(i) REDUCTION IN FEES FOR SMALL ENTITY PATENTS.—The Director shall reduce fees for providing prioritized examination of utility and plant patent applications by 50 percent for small entities that qualify for reduced fees under section 41(h)(1) of title 35, United States Code, so long as the fees of the prioritized examination program are set to recover the estimated cost of the program.

(j) EFFECTIVE DATE.—Except as provided in subsection (h), this section and the amendments made by this section shall take effect on the date of the enactment of this Act.

**SEC. 11. SUPPLEMENTAL EXAMINATION.**

(a) IN GENERAL.—Chapter 25 of title 35, United States Code, is amended by adding at the end the following:

**"§ 257. Supplemental examinations to consider, reconsider, or correct information**

"(a) REQUEST FOR SUPPLEMENTAL EXAMINATION.—A patent owner may request supplemental examination of a patent in the Office to consider, reconsider, or correct information believed to be relevant to the patent, in accordance with such requirements as the Director may establish. Within 3 months after the date a request for supplemental examination meeting the requirements of this section is received, the Director shall conduct the supplemental examination and shall conclude such examination by issuing a certificate indicating whether the information presented in the request raises a substantial new question of patentability.

"(b) REEXAMINATION ORDERED.—If the certificate issued under subsection (a) indicates that a substantial new question of patentability is raised by 1 or more items of information in the request, the Director shall order reexamination of the patent. The reexamination shall be conducted according to procedures established by chapter 30, except that the patent owner shall not have the right to file a statement pursuant to section 304. During the reexamination, the Director shall address each substantial new question of patentability identified during the supplemental examina-

tion, notwithstanding the limitations in chapter 30 relating to patents and printed publication or any other provision of such chapter.

"(c) EFFECT.—

"(1) IN GENERAL.—A patent shall not 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 of the patent if the information was considered, reconsidered, or corrected during a supplemental examination of the patent. The making of a request under subsection (a), or the absence thereof, shall not be relevant to enforceability of the patent under section 282.

"(2) EXCEPTIONS.—

"(A) PRIOR ALLEGATIONS.—Paragraph (1) shall not apply to an allegation pled with particularity, or set forth with particularity in a notice received by the patent owner under section 505(j)(2)(B)(iv)(II) of the Federal Food, Drug, and Cosmetic Act (21 U.S.C. 355(j)(2)(B)(iv)(II)), before the date of a supplemental examination request under subsection (a) to consider, reconsider, or correct information forming the basis for the allegation.

"(B) PATENT ENFORCEMENT ACTIONS.—In an action brought under section 337(a) of the Tariff Act of 1930 (19 U.S.C. 1337(a)), or section 281 of this title, paragraph (1) shall not apply to any defense raised in the action that is based upon information that was considered, reconsidered, or corrected pursuant to a supplemental examination request under subsection (a), unless the supplemental examination, and any reexamination ordered pursuant to the request, are concluded before the date on which the action is brought.

"(d) FEES AND REGULATIONS.—

"(1) FEES.—The Director shall, by regulation, establish fees for the submission of a request for supplemental examination of a patent, and to consider each item of information submitted in the request. If reexamination is ordered under subsection (b), fees established and applicable to ex parte reexamination proceedings under chapter 30 shall be paid, in addition to fees applicable to supplemental examination.

"(2) REGULATIONS.—The Director shall issue regulations governing the form, content, and other requirements of requests for supplemental examination, and establishing procedures for reviewing information submitted in such requests.

"(e) RULE OF CONSTRUCTION.—Nothing in this section shall be construed—

"(1) to preclude the imposition of sanctions based upon criminal or antitrust laws (including section 1001(a) of title 18, the first section of the Clayton Act, and section 5 of the Federal Trade Commission Act to the extent that section relates to unfair methods of competition);

"(2) to limit the authority of the Director to investigate issues of possible misconduct and impose sanctions for misconduct in connection with matters or proceedings before the Office; or

"(3) to limit the authority of the Director to issue regulations under chapter 3 relating to sanctions for misconduct by representatives practicing before the Office.".

(b) CONFORMING AMENDMENT.—The table of sections for chapter 25 of title 35, United States Code, is amended by adding at the end the following new item:

"257. Supplemental examinations to consider, reconsider, or correct information.".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and shall apply to any patent issued before, on, or after that effective date.

**SEC. 12. FUNDING AGREEMENTS.**

(a) IN GENERAL.—Section 202(c)(7)(E)(i) of title 35, United States Code, is amended—

(1) by striking "75 percent" and inserting "15 percent"; and

(2) by striking "25 percent" and inserting "85 percent".

(b) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of enactment of this Act and shall apply to any patent issued before, on, or after that date.

**SEC. 13. TAX STRATEGIES DEEMED WITHIN THE PRIOR ART.**

(a) IN GENERAL.—For purposes of evaluating an invention under section 102 or 103 of title 35, United States Code, any strategy for reducing, avoiding, or deferring tax liability, whether known or unknown at the time of the invention or application

for patent, shall be deemed insufficient to differentiate a claimed invention from the prior art.

(b) DEFINITION.—For purposes of this section, the term "tax liability" refers to any liability for a tax under any Federal, State, or local law, or the law of any foreign jurisdiction, including any statute, rule, regulation, or ordinance that levies, imposes, or assesses such tax liability.

(c) EXCLUSIONS.—This section does not apply to that part of an invention that—

(1) is a method, apparatus, technology, computer program product, or system, that is used solely for preparing a tax or information return or other tax filing, including one that records, transmits, transfers, or organizes data related to such filing; or

(2) is a method, apparatus, technology, computer program product, or system used solely for financial management, to the extent that it is severable from any tax strategy or does not limit the use of any tax strategy by any taxpayer or tax advisor.

(d) RULE OF CONSTRUCTION.—Nothing in this section shall be construed to imply that other business methods are patentable or that other business-method patents are valid.

(e) EFFECTIVE DATE; APPLICABILITY.—This section shall take effect on the date of enactment of this Act and shall apply to any patent application pending, and any patent issued, on or after that date.

**SEC. 14. BEST MODE REQUIREMENT.**

(a) IN GENERAL.—Section 282 of title 35, United State Code, is amended in its second undesignated paragraph by striking paragraph (3) and inserting the following:

"(3) Invalidity of the patent or any claim in suit for failure to comply with—

"(A) any requirement of section 112, except that the failure to disclose the best mode shall not be a basis on which any claim of a patent may be canceled or held invalid or otherwise unenforceable; or

"(B) any requirement of section 251.".

(b) CONFORMING AMENDMENT.—Sections 119(e)(1) and 120 of title 35, United States Code, are each amended by striking "the first paragraph of section 112 of this title" and inserting "section 112(a) (other than the requirement to disclose the best mode)".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect upon the date of the enactment of this Act and shall apply to proceedings commenced on or after that date.

**SEC. 15. MARKING.**

(a) VIRTUAL MARKING.—

(1) IN GENERAL.—Section 287(a) of title 35, United States Code, is amended by striking "or when," and inserting "or by fixing thereon the word 'patent' or the abbreviation 'pat.' together with an address of a posting on the Internet, accessible to the public without charge for accessing the address, that associates the patented article with the number of the patent, or when,".

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to any case that is pending on, or commenced on or after, the date of the enactment of this Act.

(b) FALSE MARKING.—

(1) CIVIL PENALTY.—Section 292(a) of title 35, United States, Code, is amended by adding at the end the following: "Only the United States may sue for the penalty authorized by this subsection.".

(2) CIVIL ACTION FOR DAMAGES.—Subsection (b) of section 292 of title 35, United States Code, is amended to read as follows:

"(b) A person who has suffered a competitive injury as a result of a violation of this section may file a civil action in a district court of the United States for recovery of damages adequate to compensate for the injury.".

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to any case that is pending on, or commenced on or after, the date of the enactment of this Act.

**SEC. 16. ADVICE OF COUNSEL.**

(a) IN GENERAL.—Chapter 29 of title 35, United States Code, is amended by adding at the end the following:

**"§ 298. Advice of counsel**

"The failure of an infringer to obtain the advice of counsel with respect to 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.".

(b) CONFORMING AMENDMENT.—The table of sections for chapter 29 of title 35, United States Code, is amended by adding at the end the following:

"298. Advice of counsel.".

**SEC. 17. OWNERSHIP; ASSIGNMENT.**

The fourth undesignated paragraph of section 261 of title 35, United States Code, is amended by inserting before the period the following: "and identifies all real parties in interest and those entities that control, directly or indirectly, such real parties in interest".

**SEC. 18. TRANSITIONAL PROGRAM FOR COVERED BUSINESS METHOD PATENTS.**

(a) REFERENCES.—Except as otherwise expressly provided, wherever in this section language is expressed in terms of a section or chapter, the reference shall be considered to be made to that section or chapter in title 35, United States Code.

(b) TRANSITIONAL PROGRAM.—

(1) ESTABLISHMENT.—Not later than the date that is 1 year after the date of the enactment of this Act, the Director shall issue regulations establishing and implementing a transitional post-grant review proceeding for review of the validity of covered business method patents. The transitional proceeding implemented pursuant to this subsection shall be regarded as, and shall employ the standards and procedures of, a post-grant review under chapter 32, subject to the following:

(A) Section 321(c) and subsections (b), (e)(2), and (f) of section 325 shall not apply to a transitional proceeding.

(B) A person may not file a petition for a transitional proceeding with respect to a covered business method patent unless the person or the person's real party in interest has been sued for infringement of the patent or has been charged with infringement under that patent.

(C) A petitioner in a transitional proceeding who challenges the validity of 1 or more claims in a covered business method patent on a ground raised under section 102 or 103, as in effect on the day before the date of the enactment of this Act, may support such ground only on the basis of—

(i) prior art that is described by section 102(a) (as in effect on the day before the date of the enactment of this Act); or

(ii) prior art that—

(I) discloses the invention more than 1 year before the date of the application for patent in the United States; and

(II) would be described by section 102(a) (as in effect on the day before the date of the enactment of this Act) if the disclosure had been made by another before the invention thereof by the applicant for patent.

(D) The petitioner in a transitional proceeding, or the petitioner's real party in interest, may not assert, either in a civil action arising in whole or in part under section 1338 of title 28, United States Code, or in a proceeding before the International Trade Commission, that a claim in a patent is invalid on any ground that the petitioner raised during a transitional proceeding that resulted in a final written decision.

(E) The Director may institute a transitional proceeding only for a patent that is a covered business method patent.

(2) EFFECTIVE DATE.—The regulations issued under paragraph (1) shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and shall apply to any covered business method patent issued before, on, or after such effective date, except that the regulations shall not apply to a patent described in the first sentence of section 5(f)(2) of this Act during the period that a petition for post-grant review of that patent would satisfy the requirements of section 321(c).

(3) SUNSET.—

(A) IN GENERAL.—This subsection, and the regulations issued under this subsection, are repealed effective upon the expiration of the 4-year period beginning on the date that the regulations issued under to paragraph (1) take effect.

(B) APPLICABILITY.—Notwithstanding subparagraph (A), this subsection and the regulations issued under this subsection shall continue to apply,

after the date of the repeal under subparagraph (A), to any petition for a transitional proceeding that is filed before the date of such repeal.

(c) REQUEST FOR STAY.—

(1) IN GENERAL.—If a party seeks a stay of a civil action alleging infringement of a patent under section 281 relating to a transitional proceeding for that patent, the court shall decide whether to enter a stay based on—

(A) whether a stay, or the 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 the denial thereof, would unduly prejudice the nonmoving 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.

(2) REVIEW.—A party may take an immediate interlocutory appeal from a district court's decision under paragraph (1). The United States Court of Appeals for the Federal Circuit shall review de novo the district court's decision to ensure consistent application of established precedent.

(d) VENUE OF INFRINGEMENT ACTIONS.—Notwithstanding section 1400(b) of title 28, United States Code, an action for infringement under section 281 of title 35, United States Code, of a covered business method patent may be brought only in a judicial district—

(1) where the defendant has its principal place of business or is incorporated;

(2) where the defendant has committed acts of infringement and has a regular and established place of business;

(3) where the defendant has agreed or consented to be sued; or

(4) for foreign defendants that do not meet the requirements of paragraphs (1) or (2), in accordance with section 1391(d) of title 28, United States Code.

(e) ATTORNEY'S FEES AND COSTS.—In an action for infringement under section 281 of title 35, United States Code, of a covered business method patent, the prevailing party shall be entitled to reasonable attorney's fees and costs.

(f) ATM EXEMPTION FOR VENUE PURPOSES.—In an action for infringement under section 281 of title 35, United States Code, of a covered business method patent, an automated teller machine shall not be deemed to be a physical facility for purposes of section 1400(b)(2) of title 28, United States Code.

(g) DEFINITION.—

(1) IN GENERAL.—For purposes of this section, the term "covered business method patent" means a patent 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 the term does not include patents for technological inventions.

(2) REGULATIONS.—To assist in implementing the transitional proceeding authorized by this subsection, the Director shall issue regulations for determining whether a patent is for a technological invention.

(h) RULE OF CONSTRUCTION.—Nothing in this section shall be construed as amending or interpreting categories of patent-eligible subject matter set forth under section 101.

**SEC. 19. CLARIFICATION OF JURISDICTION.**

(a) STATE COURT JURISDICTION.—Section 1338(a) of title 28, United States Code, is amended by striking the second sentence and inserting the following: "No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights.".

(b) COURT OF APPEALS FOR THE FEDERAL CIRCUIT.—Section 1295(a)(1) of title 28, United States Code, is amended to read as follows:

"(1) of an appeal from a final decision of a district court of the United States, the District Court of Guam, the District Court of the Virgin Islands, or the District Court of the Northern Mariana Islands, in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents or plant variety protection;".

(c) REMOVAL.—

(1) IN GENERAL.—Chapter 89 of title 28, United States Code, is amended by adding at the end the following new section:

**"§ 1454. Patent, plant variety protection, and copyright cases**

"(a) IN GENERAL.—A civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights may be removed to the district court of the United States for the district and division embracing the place where the action is pending.

"(b) SPECIAL RULES.—The removal of an action under this section shall be made in accordance with section 1446 of this chapter, except that if the removal is based solely on this section—

"(1) the action may be removed by any party; and

"(2) the time limitations contained in section 1446(b) may be extended at any time for cause shown.

"(c) CLARIFICATION OF JURISDICTION IN CERTAIN CASES.—The court to which a civil action is removed under this section is not precluded from hearing and determining any claim in the civil action because the State court from which the civil action is removed did not have jurisdiction over that claim.

"(d) REMAND.—If a civil action is removed solely under this section, the district court—

"(1) shall remand all claims that are neither a basis for removal under subsection (a) nor within the original or supplemental jurisdiction of the district court under any Act of Congress; and

"(2) may, under the circumstances specified in section 1367(c), remand any claims within the supplemental jurisdiction of the district court under section 1367.".

(2) CONFORMING AMENDMENT.—The table of sections for chapter 89 of title 28, United States Code, is amended by adding at the end the following new item:

"1454. Patent, plant variety protection, and copyright cases.".

(d) TRANSFER BY COURT OF APPEALS FOR THE FEDERAL CIRCUIT.—

(1) IN GENERAL.—Chapter 99 of title 28, United States Code, is amended by adding at the end the following new section:

**"§ 1632. Transfer by the Court of Appeals for the Federal Circuit**

"When a case is appealed to the Court of Appeals for the Federal Circuit under section 1295(a)(1), and no claim for relief arising under any Act of Congress relating to patents or plant variety protection is the subject of the appeal by any party, the Court of Appeals for the Federal Circuit shall transfer the appeal to the court of appeals for the regional circuit embracing the district from which the appeal has been taken.".

(2) CONFORMING AMENDMENT.—The table of sections for chapter 99 of title 28, United States Code, is amended by adding at the end the following new item:

"1632. Transfer by the Court of Appeals for the Federal Circuit.".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to any civil action commenced on or after the date of the enactment of this Act.

**SEC. 20. TECHNICAL AMENDMENTS.**

(a) JOINT INVENTIONS.—Section 116 of title 35, United States Code, is amended—

(1) in the first undesignated paragraph, by striking "When" and inserting "(a) JOINT INVENTIONS.—When";

(2) in the second undesignated paragraph, by striking "If a joint inventor" and inserting "(b) OMITTED INVENTOR.—If a joint inventor"; and

(3) in the third undesignated paragraph—

(A) by striking "Whenever" and inserting "(c) CORRECTION OF ERRORS IN APPLICATION.—Whenever"; and

(B) by striking "and such error arose without any deceptive intent on his part,".

(b) FILING OF APPLICATION IN FOREIGN COUNTRY.—Section 184 of title 35, United States Code, is amended—

(1) in the first undesignated paragraph—

(A) by striking "Except when" and inserting "(a) FILING IN FOREIGN COUNTRY.—Except when"; and

(B) by striking "and without deceptive intent";

(2) in the second undesignated paragraph, by striking "The term" and inserting "(b) APPLICATION.—The term"; and

(3) in the third undesignated paragraph, by striking "The scope" and inserting "(c) SUBSEQUENT MODIFICATIONS, AMENDMENTS, AND SUPPLEMENTS.—The scope".

(c) FILING WITHOUT A LICENSE.—Section 185 of title 35, United States Code, is amended by striking "and without deceptive intent".

(d) REISSUE OF DEFECTIVE PATENTS.—Section 251 of title 35, United States Code, is amended—

(1) in the first undesignated paragraph—

(A) by striking "Whenever" and inserting "(a) IN GENERAL.—Whenever"; and

(B) by striking "without any deceptive intention";

(2) in the second undesignated paragraph, by striking "The Director" and inserting "(b) MULTIPLE REISSUED PATENTS.—The Director";

(3) in the third undesignated paragraph, by striking "The provisions" and inserting "(c) APPLICABILITY OF THIS TITLE.—The provisions"; and

(4) in the last undesignated paragraph, by striking "No reissued patent" and inserting "(d) REISSUE PATENT ENLARGING SCOPE OF CLAIMS.—No reissued patent".

(e) EFFECT OF REISSUE.—Section 253 of title 35, United States Code, is amended—

(1) in the first undesignated paragraph, by striking "Whenever, without any deceptive intention," and inserting "(a) IN GENERAL.—Whenever"; and

(2) in the second undesignated paragraph, by striking "In like manner" and inserting "(b) ADDITIONAL DISCLAIMER OR DEDICATION.—In the manner set forth in subsection (a),".

(f) CORRECTION OF NAMED INVENTOR.—Section 256 of title 35, United States Code, is amended—

(1) in the first undesignated paragraph—

(A) by striking "Whenever" and inserting "(a) CORRECTION.—Whenever"; and

(B) by striking "and such error arose without any deceptive intention on his part"; and

(2) in the second undesignated paragraph, by striking "The error" and inserting "(b) PATENT VALID IF ERROR CORRECTED.—The error".

(g) OWNERSHIP; ASSIGNMENT.—The fourth undesignated paragraph of section 261 of title 35, United States Code, is amended by inserting before the period the following: "and identifies all real parties in interest".

(h) PRESUMPTION OF VALIDITY.—Section 282 of title 35, United States Code, is amended—

(1) in the first undesignated paragraph—

(A) by striking "A patent" and inserting "(a) IN GENERAL.—A patent"; and

(B) by striking the third sentence;

(2) in the second undesignated paragraph, by striking "The following" and inserting "(b) DEFENSES.—The following"; and

(3) in the third undesignated paragraph—

(A) by striking "In actions involving the validity or infringement of a patent" and inserting "(c) NOTICE OF ACTIONS; ACTIONS DURING EXTENSION OF PATENT TERM.—In an action involving the validity or infringement of patent, the party asserting infringement shall identify, in the pleadings or otherwise in writing to the adverse party, all of its real parties in interest, and"; and

(B) by striking "Claims Court" and inserting "Court of Federal Claims".

(i) ACTION FOR INFRINGEMENT.—Section 288 of title 35, United States Code, is amended by striking ", without deceptive intention,".

(j) REVISER'S NOTES.—

(1) Section 3(e)(2) of title 35, United States Code, is amended by striking "this Act," and inserting "that Act,".

(2) Section 202 of title 35, United States Code, is amended—

(A) in subsection (b)(3), by striking "the section 203(b)" and inserting "section 203(b)"; and

(B) in subsection (c)(7)—

(i) in subparagraph (D), by striking "except where it proves" and all that follows through "small business firms; and" and inserting: "except where it is determined to be infeasible following a reasonable inquiry, a preference in the licensing of subject inventions shall be given to small business firms; and"; and

(ii) in subparagraph (E)(i), by striking "as described above in this clause (D);" and inserting "described above in this clause;".

(3) Section 209(d)(1) of title 35, United States Code, is amended by striking "nontransferrable" and inserting "nontransferable".

(4) Section 287(c)(2)(G) of title 35, United States Code, is amended by striking "any state" and inserting "any State".

(5) Section 371(b) of title 35, United States Code, is amended by striking "of the treaty" and inserting "of the treaty.".

(k) UNNECESSARY REFERENCES.—

(1) IN GENERAL.—Title 35, United States Code, is amended by striking "of this title" each place that term appears.

(2) EXCEPTION.—The amendment made by paragraph (1) shall not apply to the use of such term in the following sections of title 35, United States Code:

(A) Section 1(c).
(B) Section 100.
(C) Section 101.
(D) Subsections (a) and (b) of section 105.
(E) The first instance of the use of such term in section 111(b)(8).
(F) Section 157(a), in the matter preceding paragraph (1).
(G) Section 161.
(H) Section 164.
(I) Section 171.
(J) Section 251(c), as so designated by this section.
(K) Section 261.
(L) Subsections (a), (g), and (h) of section 271.
(M) Section 287(b)(1).
(N) Section 289.
(O) The first instance of the use of such term in section 375(a).

(l) EFFECTIVE DATE.—The amendments made by this section shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and shall apply to proceedings commenced on or after that effective date.

**SEC. 21. TRAVEL EXPENSES AND PAYMENT OF ADMINISTRATIVE JUDGES.**

(a) AUTHORITY TO COVER CERTAIN TRAVEL RELATED EXPENSES.—Section 2(b)(11) of title 35, United States Code, is amended by inserting ", 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 non-federal employees attending such programs" after "world".

(b) PAYMENT OF ADMINISTRATIVE JUDGES.—Section 3(b) of title 35, United States Code, is amended by adding at the end the following:

"(6) ADMINISTRATIVE PATENT JUDGES AND ADMINISTRATIVE TRADEMARK JUDGES.—The Director has the authority to fix the rate of basic pay for the administrative patent judges appointed pursuant to section 6 of this title 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. The payment of a rate of basic pay under this paragraph shall not be subject to the pay limitation of section 5306(e) or 5373 of title 5.".

**SEC. 22. PATENT AND TRADEMARK OFFICE FUNDING.**

(a) DEFINITION.—In this section, the term "Fund" means the United States Patent and Trademark Office Public Enterprise Fund established under subsection (c).

(b) FUNDING.—

(1) IN GENERAL.—Section 42 of title 35, United States Code, is amended—

(A) in subsection (b), by striking "Patent and Trademark Office Appropriation Account" and inserting "United States Patent and Trademark Office Public Enterprise Fund"; and

(B) in subsection (c), in the first sentence—

(i) by striking "To the extent" and all that follows through "fees" and inserting "Fees"; and

(ii) by striking "shall be collected by and shall be available to the Director" and inserting "shall be collected by the Director and shall be available until expended".

(2) EFFECTIVE DATE.—The amendments made by paragraph (1) shall take effect on the later of—

(A) October 1, 2011; or

(B) the first day of the first fiscal year that begins after the date of the enactment of this Act.

(c) USPTO REVOLVING FUND.—

(1) ESTABLISHMENT.—There is established in the Treasury of the United States a revolving fund to be known as the "United States Patent and Trademark Office Public Enterprise Fund". Amounts shall be deposited in the Fund as an offsetting receipt and shall be available for use by the Director without fiscal year limitation.

(2) DERIVATION OF RESOURCES.—There shall be deposited into the Fund, on and after the effective date set forth in subsection (b)(2)—

(A) any fees collected under sections 41, 42, and 376 of title 35, United States Code, except that—

(i) notwithstanding any other provision of law, if such fees are collected by, and payable to, the Director, the Director shall transfer such amounts to the Fund; and

(ii) no funds collected pursuant to section 9(h) of this Act or section 1(a)(2) of Public Law 111–45 shall be deposited in the Fund; and

(B) any fees collected under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113).

(3) EXPENSES.—Amounts deposited into the Fund under paragraph (2) shall be available, without fiscal year limitation, to cover—

(A) all expenses to the extent consistent with the limitation on the use of fees set forth in section 42(c) of title 35, United States Code, including all administrative and operating expenses, determined in the discretion of the Director to be ordinary and reasonable, incurred by the Director for the continued operation of all services, programs, activities, and duties of the Office relating to patents and trademarks, as such services, programs, activities, and duties are described under—

(i) title 35, United States Code; and

(ii) the Trademark Act of 1946; and

(B) all expenses incurred pursuant to any obligation, representation, or other commitment of the Office.

(d) ANNUAL REPORT.—Not later than 60 days after the end of each fiscal year, the Director shall submit a report to Congress which shall—

(1) summarize the operations of the Office for the preceding fiscal year, including financial details and staff levels broken down by each major activity of the Office;

(2) detail the operating plan of the Office, including specific expense and staff needs for the upcoming fiscal year;

(3) describe the long-term modernization plans of the Office;

(4) set forth details of any progress towards such modernization plans made in the previous fiscal year; and

(5) include the results of the most recent audit carried out under subsection (f).

(e) ANNUAL SPENDING PLAN.—

(1) IN GENERAL.—Not later than 30 days after the beginning of each fiscal year, the Director shall 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 in accordance with section 605 of the Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006 (Public Law 109–108; 119 Stat. 2334).

(2) CONTENTS.—Each plan under paragraph (1) shall—

(A) summarize the operations of the Office for the current fiscal year, including financial details and staff levels with respect to major activities; and

(B) detail the operating plan of the Office, including specific expense and staff needs, for the current fiscal year.

(f) AUDIT.—The Director shall, on an annual basis, provide for an independent audit of the financial statements of the Office. Such audit shall be conducted in accordance with generally acceptable accounting procedures.

(g) BUDGET.—The Fund shall prepare and submit each year to the President a business-type budget in a manner, and before a date, as the President prescribes by regulation for the budget program.

**SEC. 23. SATELLITE OFFICES.**

(a) ESTABLISHMENT.—Subject to available resources, the Director shall, by not later than the date that is 3 years after the date of the enactment of this Act establish 3 or more satellite offices in the United States to carry out the responsibilities of the Patent and Trademark Office.

(b) PURPOSE.—The purpose of the satellite offices established under subsection (a) are to—

(1) increase outreach activities to better connect patent filers and innovators with the Patent and Trademark Office;

(2) enhance patent examiner retention;

(3) improve recruitment of patent examiners; and

(4) decrease the number of patent applications waiting for examination and improve the quality of patent examination.

(c) REQUIRED CONSIDERATIONS.—

(1) IN GENERAL.—In selecting the location of each satellite office to be established under subsection (a), the Director—

(A) shall ensure geographic diversity among the offices, including by ensuring that such offices are established in different States and regions throughout the Nation;

(B) may rely upon any previous evaluations by the Patent and Trademark Office of potential locales for satellite offices, including any evaluations prepared as part of the Office's Nationwide Workforce Program that resulted in the 2010 selection of Detroit, Michigan, as the first ever satellite office of the Office.

(2) OPEN SELECTION PROCESS.—Nothing in paragraph (1) shall constrain the Patent and Trademark Office to only consider its evaluations in selecting the Detroit, Michigan, satellite office.

(d) REPORT TO CONGRESS.—Not later than the end of the first 3 fiscal years that begin after the date of the enactment of this Act, the Director shall submit a report to Congress on—

(1) the rationale of the Director in selecting the location of any satellite office required under subsection (a);

(2) the progress of the Director in establishing all such satellite offices; and

(3) whether the operation of existing satellite offices is achieving the purposes required under subsection (b).

**SEC. 24. PATENT OMBUDSMAN PROGRAM FOR SMALL BUSINESS CONCERNS.**

Subject to available resources, the Director may establish in the Office a Patent Ombudsman Program. The duties of the Program's staff shall include providing support and services relating to patent filings to small business concerns.

**SEC. 25. PRIORITY EXAMINATION FOR TECHNOLOGIES IMPORTANT TO AMERICAN COMPETITIVENESS.**

Section 2(b)(2) of title 35, United States Code, is amended—

(1) in subparagraph (E), by striking "and" after the semicolon;

(2) in subparagraph (F), by inserting "and" after the semicolon; and

(3) by adding at the end the following:

"(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;".

**SEC. 26. DESIGNATION OF DETROIT SATELLITE OFFICE.**

(a) DESIGNATION.—The satellite office of the United States Patent and Trademark Office to be located in Detroit, Michigan, shall be known and designated as the "Elijah J. McCoy United States Patent and Trademark Office".

(b) REFERENCES.—Any reference in a law, map, regulation, document, paper, or other record of the United States to the satellite office of the United States Patent and Trademark Office to be located in Detroit, Michigan, referred to in subsection (a) shall be deemed to be a reference to the "Elijah J. McCoy United States Patent and Trademark Office".

**SEC. 27. EFFECTIVE DATE.**

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

**SEC. 28. BUDGETARY EFFECTS.**

The budgetary effects of this Act, for the purpose of complying with the Statutory Pay-As-You-Go Act of 2010, shall be determined by reference to the latest statement titled "Budgetary Effects of PAYGO Legislation" for this Act, submitted for printing in the Congressional Record by the Chairman of the House Budget Com-

mittee, provided that such statement has been submitted prior to the vote on passage.

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Mr. WATT. Thank you, Mr. Chairman.

And at the outset, I am going to ask the Chairman for a little indulgence today to give a slightly longer statement than I usually do.

As late as yesterday afternoon, I had hoped to start this opening statement by proudly proclaiming that I was one of the many cosponsors of a broadly bipartisan, widely supported patent reform bill, which, while perhaps not perfected to the point of deserving final passage, the legislative counterpart to receiving an A rating on a first patent application review, would surely lead us ultimately to the long-awaited patent reform promised land.

I had hoped that making that broad-based bipartisan start would put us well on the way to our inter partes dispute resolution process with the Senate and ultimately to the President of the United States granting our patent. I mean, signing our legislation into law.

Unfortunately, we are not there yet. So I need to begin this opening statement at a much more basic place, with reminders of where this all starts and why it is so important.

I start with the Constitution. The Constitution gives Congress the power to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.

The objective of the Patent Act is to implement this constitutional authority by encouraging, supporting, and rewarding the ingenuity of our inventors by providing them exclusionary rights to their creation for a period of 20 years. In exchange, the inventor discloses to the public the details of his or her invention, setting off a ripple effect of further creativity and development.

This simple concept embedded in our Constitution—congressional promotion of innovation—finds itself in yet another term of Congress in search of a modern-day viable patent reform bill. Today, Chairman Smith introduced the America Invents Act to begin that process. I applaud him for his efforts.

And while I am encouraged by discussions with Chairmen Smith and Goodlatte and other Members of this Subcommittee, and the full Committee, to borrow a phrase from one of our earlier hearings, there is still work ahead of us to get comprehensive reform "across the finish line."

During the past debates on comprehensive patent reform, I don't need to tell most people in this room there have been numerous declarations to the effect that "the time is now for true patent reform." And yet the finish line has proven elusive, and reform efforts have dissipated or certainly failed to cross the finish line.

But we now have a unique opportunity to accomplish that goal and get across the finish line. Past debates have provided a solid foundation for optimism. Chairman Smith, Chairman Goodlatte, Mr. Conyers, Mr. Coble, Mr. Berman, and many other Members of

this Committee, past and present, have cosponsored bills over the years aimed at transforming our patent system into an efficient forum for America's inventors.

Their steadfast leadership has no doubt contributed to the widespread recognition of the importance of the patent system to our economy, job creation, and prominence in intellectual property advancement in the world.

Today, we find all three branches of Government taking an active interest and energetic role in modernizing the patent system. Both the Supreme Court and the Federal Circuit have taken on and resolved many of the litigation-related issues that animated earlier calls for legislative relief.

President Obama has made patent reform, along with education and intellectual property protection and enforcement activities, the centerpieces of his innovation agenda. Director Kappos has played a vital role in that agenda, convening special sessions with key stakeholders to mediate some of the competing concerns.

The Senate has passed a bill, and we have initiated the process of establishing a robust statutory framework that will stimulate innovation and growth, provide adequate safeguards against abuses, and shore up the PTO to meet its crucial responsibilities.

The question each participant in this process should now be asking is, "Will I allow all that hard work and momentum to dissipate because I don't get exactly what I want on every issue that impacts me?" If your personal answer to that question is yes, let me say unequivocally that I think you are in the wrong place.

The bill introduced by Chairman Smith definitively provides the resources the PTO earns and deserves by permanently ending the practice of fee diversion and by guaranteeing to the PTO access to all the user-generated fees it collects. This provision has universal support, and I thank the Chairman for accepting some language that we offered to ensure compliance with new House CUTGO rules. This provision will go a long way toward helping the PTO to stabilize and eventually eliminate its 700,000 backlog of applications.

Other provisions in the America Invents Act and some that have not been included I believe require further examination and, at this juncture, have less than universal support. But despite the appearance that may be projected by the failure to have a broad bipartisan bill at this point, these divisions are not partisan. I repeat, they are not partisan.

Rather, they consist of legitimate substantive differences and approaches based on a variety of factors. For example, conversion from a first-to-invent to a first-to-file system has been portrayed by some as necessary to harmonize U.S. practice with the international community. Others argue that true harmonization and, indeed, balancing the interest of first filers, who may not actually be first inventors, with real first inventors, who may not be first filers, requires that expansion of prior use rights comparable to that employed by the rest of the patent-issuing countries, with some exceptions, still needs to be implemented.

Still others have expressed the view that prior user rights have no place in our country that has a public university system unlike any other that engages in valuable public-private collaborative re-

search and development. Patent law currently affords first inventors a 1-year grace period during which an inventor can disclose, publish, or use his invention without fear of forfeiting his right to a patent, provided he applies before the expiration of the grace period.

The grace period is uncommon in the rest of the world and yet has become an integral part of the PTO patenting process and is coveted by most innovators. How the grace period will operate in a first-to-file system, i.e., whether the duration of the grace period should be adjusted upward or downward, is a legitimate, substantive question.

Finally, what mechanisms are necessary to afford effective and affordable post grant review procedures? Under current law, there are two tracks available to challenge a patent after it has been issued, each with its own limitations. Is a third track similar to the post grant reviews in other countries a necessary tool, or will it pile onto the already overburdened, understaffed PTO or add further unwarranted delays to getting final court determinations?

Again, I believe these are not frivolous questions. Many of these issues have been central to the debate in past Congresses, and yet we have already seen that a sea change in the judicial approach to patent law dispense with the need for the litigation-related reform proposals of old.

We should not allow this debate to become a missed opportunity to effectuate genuine, long-lasting, effective reform of what most consider an antiquated system by holding onto our selfish, sometimes myopic views and refusing to compromise.

Over the past few decades, our economy has shifted from a manufacturing economy to one rooted in intellectual property rights. It is extremely important that our patent system continue to incentivize ideas and protect engines of growth. Innovation will no doubt continue despite a sluggish patent system, as evidenced by the ongoing backlog and intake of applications.

But I believe we need to get this right. Unless we are prepared to relinquish our positions at the forefront of innovation, invention, and ingenuity, we must produce a bill that at a minimum exceeds even the best components of patent systems around the world.

I believe this Subcommittee, with an infusion of new blood on both sides of the aisle and the invaluable experience of our veterans, stands ready to negotiate a bipartisan product that we can all be proud of, one that embodies core features that will produce quality patents, efficient procedures, effective reviews, affordable processes, and safeguards against abuse and harassment.

In closing, Mr. Chairman, a little anecdote. In my district, I engage in a project called Trading Places. Maybe some of you are more familiar with the television show Undercover Boss. Both operate on the premise that you can acquire a deep appreciation of the other guy when you are required to experience life in his perspective.

If there is one important lesson that has been reinforced for me throughout my time in Congress is that progress requires compromise, simple give and take on everyone's views. In the practice of law, we always said that the definition of a good compromise was one that made all parties unhappy.

So I would encourage all of the stakeholders involved to optimize the results of this process by concentrating their efforts on the genuine, universal changes essential to making the patent process work for everybody. The alternative is, in the words of Yogi Berra, "deja vu all over again."

I thank the Chairman for his indulgence and yield back.

Mr. GOODLATTE. I thank the gentleman.

The Chair now recognizes the Chairman of the Judiciary Committee and the sponsor of this legislation, the gentleman from Texas, Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

And also, Mr. Chairman, I appreciated your opening statement and also appreciated Mr. Watt's opening remarks as well. While lengthy, he raised a number of good points, and I would only add to Mr. Watt's comment or his definition of compromise is that maybe we can come up with a compromise plus. Rather than making everybody equally unhappy, maybe we can make everybody just a little bit happy and come up with a good product in the end.

Mr. Chairman, the foresight of the Founders in creating an intellectual property system in the Constitution demonstrates their understanding of how patent rights ultimately benefit the American people. Technological innovation derived from our intellectual property is linked to three-quarters of America's economic growth, and American IP industries now account for over half of all U.S. exports. These industries also provide millions of Americans with well-paying jobs.

Our patent laws, which provide a time-limited monopoly to inventors in exchange for their creative talents, perpetuate this prosperity. The last major patent reform was nearly 60 years ago. Since then, American inventors have helped to put a man on the Moon, developed cell phones, and created the Internet.

But we cannot protect the technologies of today with the tools of the past. The current patent system is outdated and bogged down by frivolous lawsuits and uncertainty regarding patent ownership. Frivolous lawsuits that typically cost $5 million to defend prevent legitimate inventors and industrious companies from creating amazing products and generating high-paying jobs.

We must work with the Senate to enact a bill that enhances patent quality, discourages frivolous litigation, harmonizes international patent principles, and enforces core rights. The major problem plaguing the patent system is the lack of resources available to the PTO. The bill allows the director to adjust the fee schedule with appropriate congressional oversight and authorizes the agency to keep all the revenue it raises.

This will enable PTO to become more efficient and productive. Patent quality will improve on the front end, which will reduce litigation on the back end.

And while we are pleased with the Senate's action, the Senate bill doesn't make inter partes re-examination as user friendly as it might be. Every industry affected by patents, including finance, automotive, manufacturing, high tech, and pharmaceuticals, will benefit from these reforms.

The purpose of today's hearing is to identify common ground and establish priorities. For example, given the political context in

which we must legislate, I think we have been very fair to high tech. Also, the bill doesn't address many litigation reform issues because the courts are handing down decisions on damages, venue, and other subjects.

And we lengthened the filing deadlines for post grant opposition and inter partes re-exam, lowered the threshold trigger for inter partes, and enhanced prior user rights in response to tech request. Also, the bill includes a clear exclusion for the university community to prior user rights and a Bayh-Dole provision that allows universities to keep a greater share of their patent licensing revenue. It is a good deal for many in the university community.

However, it disappoints me that some stakeholders are only concentrating on what they don't have. Ultimately, this patent reform must strike a delicate balance. There is a reason why patent reform bills have not been enacted over the last four Congresses. It is impossible for any one group to get everything that they want.

This bill represents a fair compromise and creates a better patent system than exists today for inventors in our innovative industries. All of us should maintain a broader perspective if we want to enact a bipartisan, bicameral bill, and we must keep our common goal in mind.

Better patents increase productivity and lead to economic prosperity. A modernized patent system will rev the engine of American competitiveness, put inventors and innovators in gear, and drive economic growth and job creation.

Thank you, Mr. Chairman. Yield back.

Mr. GOODLATTE. Thank you, Mr. Chairman.

We are improvising as we move along here. As we announced earlier, the Committee is going to stand in recess for the briefing on Libya by some of our country's leaders.

However, I have just learned that Mr. Kappos has to be leaving the country shortly. So what I would like to do is I will stay, and anyone is invited to stay as well, to hear his testimony.

And then we will recess, and we will submit any questions we have in writing to you. When we return, we will begin with the second panel.

So, briefly, I will introduce the Honorable David J. Kappos, the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office. In this role, he advises the President, the Secretary of Commerce, and the Administration on intellectual property matters.

Before joining the PTO, Mr. Kappos led the intellectual property law department at IBM. He has served on the Board of Directors of the American Intellectual Property Law Association, the Intellectual Property Owners Association, and the International Intellectual Property Society. He has held various other leadership positions in intellectual property law associations in Asia and the United States and has spoken on intellectual property topics around the world.

Mr. Kappos received his Bachelor of Science degree in electrical and computer engineering from the University of California-Davis in 1983 and his law degree from the University of California at Berkeley in 1990.

Welcome, Mr. Kappos.

Mr. SENSENBRENNER. Mr. Chairman? If the Chairman will yield for a bit? Is Mr. Kappos going to be able to answer questions after his testimony, or is he just going to split?

Mr. GOODLATTE. He is going to have to leave, and we are going to submit questions to him in writing, which we will ask him to answer promptly.

Mr. SENSENBRENNER. Well, I hope he comes back because that is not acceptable.

Mr. GOODLATTE. I thank the gentleman.

Mr. Kappos, welcome.

**TESTIMONY OF THE HONORABLE DAVID J. KAPPOS, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR, THE UNITED STATES PATENT AND TRADEMARK OFFICE**

Mr. KAPPOS. Well, thank you, Chairman Goodlatte, Ranking Member Watt, and Chairman Smith, Members of the Subcommittee. Thank you for this opportunity to discuss the Department of Commerce's and the USPTO'S views on patent reform today.

Mr. Chairman, we commend you and your colleagues for introducing H.R. 1249. Reforming our patent system will support and encourage innovation that improves American competitiveness, economic prosperity, and job growth. It is past due.

We believe that enactment of the legislation now under consideration will significantly improve our patent processes, reduce litigation uncertainties and costs, and increase the value of patent rights for American innovators.

There are several critical proposals under consideration. We view the proposed transition to a first-inventor-to-file system as an essential feature of any final bill. The transition will simplify the process of acquiring rights while maintaining a 1-year grace period that protects innovators. It will reduce legal costs, improve fairness, objectivity, and transparency, and support U.S. innovators doing business abroad.

Some contend that the proposed transition will only benefit large patent owners to the disadvantage of independent inventors. This fear is unfounded and inconsistent with the facts.

In the past 7 years of over three million patent applications filed in the USPTO, only 25 patents were granted to small entities that were the second inventor to file but were able to prove they were first to invent. And of those 25, only one patent was granted to an independent inventor.

Thus, in the last 7 years, only one independent inventor's filing would have received a different outcome under the first-inventor-to-file system. That is 1 in 3 million.

Further, the cost of proving who is a first to invent under the current system is prohibitive. It costs an average of $400,000 to $500,000 in legal fees to engage in interference proceedings. Most independent inventors simply do not have the resources for these proceedings.

Mr. Chairman, the facts demonstrate that the current system actually favors those with deep pockets and works to the disadvantage of small companies and independent inventors with limited re-

sources. The new first-to-file system will instead benefit small entity filers by giving them a transparent, objective, simple system with no hidden traps or costs.

With respect to funding, we are pleased that the proposed legislation includes authority for the USPTO to establish and adjust its fees. Fee-setting authority would be accompanied by strong oversight and input from our advisory committees, by stakeholders, and by Congress, in addition to the oversight we receive from OMB and from the Department of Commerce.

Fee-setting authority, coupled with full availability of fee collections through a revolving fund, will permit the USPTO to achieve a stable funding model that supports long-term improvements in operations.

Mr. Chairman, we also support establishment of a new post grant review proceeding and the retooling of our existing post grant re-examination procedure. These review proceedings will minimize costs and increase certainty by offering efficient alternatives to litigation as a means of reviewing questions of patent validity. Several factors provided in this legislation will ensure manageable implementation, including the delayed effective dates, the authority to set fees and issue administrative and procedural regulations, and the authority to impose limits on the number of reviews during the first 4 years.

Also, we are confident that the provisions will prevent delay and abusive challenges while enabling challenges based on meritorious grounds.

Mr. Chairman, as a quality-focused measure, we support provisions that increase the opportunity for third parties to submit relevant prior art after publication and before examination. We are pleased to see that the legislative process has refocused to specifically address patent quality and patent operations improvements that can be implemented by the USPTO.

In light of recent court decisions relating to damages assessments, willfulness, and venue considerations, we support removal of related provisions in patent reform legislation. The House bill would also expand current prior user defense to all areas of technology and includes an exemption when this defense is raised in litigation against a university.

Expanding the prior user defense is pro-manufacturer, pro-small business, and on balance, good policy. But I am aware of university community concerns and would like to help address them.

Mr. Chairman, again, we commend you for introducing H.R. 1249. We look forward to working with you toward enactment of patent reform legislation that supports America's innovators and spurs economic growth and job creation.

Thank you.

[The prepared statement of Mr. Kappos follows:]

STATEMENT OF

**DAVID J. KAPPOS**

**UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY**
**AND**
**DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE**

BEFORE THE

**SUBCOMMITTEE ON INTELLECTUAL PROPERTY,**
**COMPETITION AND THE INTERNET**
**COMMITTEE ON THE JUDICIARY**
**U.S. House of Representatives**

**H.R.___, the "America Invents Act"**

**MARCH 30, 2011**

**Introduction**

Chairman Goodlatte, Ranking Member Watt, and Members of the Subcommittee:

Thank you for this opportunity to discuss the Department of Commerce's and the United States Patent and Trademark Office's (USPTO) views on patent reform legislation. The Administration supported the recent passage of S.23 and we look forward to working with the House to support moving your version of this important legislation forward. Patent reform will support and encourage innovation that improves American competitiveness, economic prosperity, and job growth. It is past due.

Innovation continues to be a principal driver of our nation's economic growth and job creation. Effective and efficient patent procedures and strong patent protection help deliver innovation to the marketplace. We at the USPTO are proud of the role we play in serving America's innovators and granting the patent rights they need to secure investment capital, build companies, and bring their products and services to the global marketplace. Our efforts support Secretary Locke and the Department of Commerce's mission to help make American businesses more innovative at home and more competitive abroad.

Mr. Chairman, we believe that enactment of the legislation currently under consideration will significantly improve our patent processes – namely, evaluating patent applications more quickly and improving the quality of issued patents -- reduce litigation uncertainties and costs, and increase the value of patent rights for American innovators. Many of the provisions in this legislation have been discussed over the course of four Congresses by a variety of stakeholders in our intellectual property system. Enactment of a fair and balanced bill is an important part of the Administration's goal of "out-innovating" our economic competitors – without adding to the deficit.

Our views on a few of the most critical patent reform proposals under discussion are as follows:

**First-Inventor-to-File**

We view the proposed transition of the U.S. to a first-inventor-to-file system as an essential feature of any patent reform legislation. The transition will simplify the process of acquiring rights while maintaining a one-year grace period that protects innovators. It will reduce legal costs, improve fairness, objectivity and transparency, and support U.S. innovators seeking to market their products and services in other countries. While more and more commerce is being conducted on a global basis, the U.S. remains alone today among industrialized countries – indeed all countries -- in maintaining a subjective first-to-invent patent system.

Some contend that the proposed transition will only benefit large patent owners, to the disadvantage of independent inventors, and would encourage a rush to the patent office with hastily drafted patent applications. This fear is unfounded, and inconsistent with the facts.

It is clear that the current first-to-invent system almost never benefits the independent inventor, especially in the one case where the independent inventor would be expecting a benefit where he or she is the first to invent but not first to file. In the past seven years, of over three million applications filed, only 25 patents were granted to small entities that were the second inventor to file but were able to prove they were first to invent. Of those 25, only one patent was granted to an individual inventor. Thus, in the last seven years, only one independent inventor's filing out of more than three million total patent filings would have received a different outcome under the first-inventor-to-file system.

Further, the cost of proving who was first to invent, under the current system, is prohibitive to small businesses and independent inventors. It costs an average of $400,000 to $500,000 in legal fees to engage in interference proceedings to determine who invented first. Those costs can double if a case is appealed. Most independent inventors simply do not have the resources to participate in these proceedings. So the facts demonstrate that the current system actually favors those with deep pockets and works to the disadvantage of small companies and independent inventors with limited resources. By contrast, under the legislation, a $110 provisional application will establish effective rights to an invention, securing first-inventor-to-file status with no risk of subsequent disputes.

Finally, those who oppose this provision suggest that the change will create a "race to the patent office" with hastily drafted applications, citing experience in Canada when it moved to first-inventor-to file. But Canada's adoption of a first-inventor-to-file system gives no support to this fear, and indeed supports the opposite view – that the transition will result in no substantial change in filing behavior by patent applicants. We recently confirmed with the Canadian Intellectual Property Office (CIPO) that the reaction to the adoption of a first-inventor-to-file system in Canada in 1990 was a moderate 5% increase in filings, which was consistent with a normal annual increase.

We believe that the certainty, predictability, and reduced costs of the first-inventor-to-file system will benefit all stakeholders, both small and large entities, regardless of the area of technology.

**USPTO Fee Setting and Funding**

We are pleased that legislative proposals include authority for the USPTO to establish and adjust its fees, as needed, to reflect changes in costs, demand, and workload, and to ensure full cost recovery at no taxpayer expense.

Fee setting authority will permit the USPTO to better address operational funding needs, and provide high quality, timely examination of patent applications. This authority is especially important in light of continuing financial challenges and unacceptable levels of pendency and backlog.

The fee setting authority as specified in the proposed legislation includes strong and fulsome oversight: 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. This oversight is in addition to the oversight the USPTO receives from the Office of Management and Budget, and from the Department of Commerce. Finally, as required by the proposed legislation, any proposal for a change in fees must be accompanied by the specific purpose for the change including benefits expected to result from the change. We support this package of oversight for USPTO fee-setting, as a comprehensive and appropriate set of mechanisms to ensure all fee changes are well-considered and well-calibrated.

USPTO's stakeholders pay fees for patent examination and maintenance and trademark registrations. USPTO is a 100% fee-funded operation. Under the existing funding system, however, USPTO only has access to the portion of its fee collections provided for in annual appropriations bills. Where actual fee collections have exceeded the level of spending authority provided, the additional fees have gone to other government programs and not to the processing of patents and trademarks. The establishment of a public enterprise revolving fund in the U.S. Treasury for USPTO will ensure that all fees collected support the processing efforts of the agency without fiscal year limitation.

Fee setting authority coupled with the availability of fee collections 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 that will significantly reduce pendency and backlog levels.

**Post-Grant Review Proceedings**

The Administration supports the establishment of a new post-grant review proceeding and the retooling of an existing post-grant reexamination procedure – *inter partes* reexamination. These review proceedings will serve to minimize costs and increase certainty by offering efficient and fast 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.

We understand that some question the ability of the USPTO to implement these procedures as proposed. However, we have considered their operational impact and we are confident they can be effectively implemented in a timely manner, and appropriately managed. Several factors will help ensure manageable implementation of these new procedures, including: the delayed effective dates, the authority to set fees and issue administrative and procedural regulations, the authority for the USPTO to retain and use all fees paid by users of the patent and trademark system (as described above) to ensure adequate resources are in place to administer the new and modified post grant processes, and the authority to impose limits on the number of *inter partes* reviews and post-grant reviews that may be instituted during each of the first four years after the effective date.

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 the

provisions contained in the proposed legislation – including those covering regulatory authority, threshold, and estoppel issues – will adequately address these concerns.

**Pre-issuance Submissions**

As a quality-focused measure, we support provisions that increase the opportunity for third parties to submit potentially relevant prior art after publication of an application and before examination. The provisions require a concise description of the relevance of any submitted document along with a fee prescribed by the Director. These provisions will assist in ensuring that our examiners have before them the best available prior art for consideration.

**Litigation-Related Issues**

In light of a number of recent court decisions relating to assessment of damages in patent infringement cases, determination of willfulness and appropriate venue considerations, we support removal of related provisions in patent reform legislation. It is our understanding that such removal is supported by most stakeholders. We are pleased to see that the legislative process has refocused to specifically address patent quality and patent operations improvements that can be implemented by the USPTO.

Another issue raised in the House version of patent reform is whether the current prior user defense available under the statute should be expanded to all areas of technology. The House bill includes an exemption for when this defense is raised in litigation against a university to address concerns the university community has raised. Expanding the prior user defense, I believe, is pro-manufacturer, pro-small business, and, on balance, good policy. I am also aware of the university community's concerns and would like to work with you and the university community to address their concerns. I am happy to discuss my views on this issue further.

**Conclusion**

Mr. Chairman, thank you again for this opportunity to provide the USPTO's and the Department of Commerce's views on patent reform legislation. We commend you for introducing H.R. ____, the "America Invents Act," as a bipartisan bill. We look forward to working with you toward final enactment of meaningful patent reform legislation that supports America's innovators and spurs economic growth and job creation.

# # #

Mr. GOODLATTE. Thank you, Mr. Kappos.

The Ranking Member and I have consulted. And in order to accommodate the concerns of the Chairman emeritus, I am going to ask him to take the Chair and ask the questions that he would like to ask. And then ask him to recognize the gentlewoman from California, Ms. Lofgren, who will ask some questions.

I believe that will just about use up your time and keep you on schedule, and the rest of us will submit our questions in writing.

We may want to defer to the Chairman of the Committee as well.

Mr. SENSENBRENNER [presiding]. Well, I thank the Chair of the Subcommittee for this minor modification of what is not acceptable. This is a pretty important bill. And simply to have Mr. Kappos here and answer questions from two or three Members of the Subcommittee and not have another shot at you, you know, I think gets this bill off to a very, very wrong foot.

And it is my hope that we do a little bit better job in terms of scheduling things so that we can get the issues on the table, which, in my opinion, is a necessary precondition in order to get the support to pass this bill.

Now, Mr. Kappos, I have got a big concern about prior user rights and the changes this bill proposes and which apparently the Administration supports. During my tenure as Chairman of both the Science and Judiciary Committees, I have learned firsthand the importance of publication and disclosure in the patent law.

And in 2007, I coauthored with Ms. Baldwin an amendment on the House floor to remove the prior user rights expansion from the patent reform bill then under consideration, and now it is back on the table. I fear that expanding prior user rights will harm inventors who share their knowledge and discovery and reward those who choose to stay silent, keep innovation secret, and don't contribute to the products of science.

Now the Obama administration has given an indication of support for section 4 of the America COMPETES Act, which significantly increases prior user rights, which goes directly opposite to the amendment that Ms. Baldwin and I offered. And that effectively puts trade secrecy in the patent law with a powerful incentive—a royalty-free statutory license.

Section 4 also confers its benefits outside the United States. So, for example, can the Chinese simply raise a prior user rights defense against a patent infringement claim, and how does that help America compete?

Mr. KAPPOS. Well, thank you very much, Representative Sensenbrenner. Thank you for giving me an opportunity to respond on prior user rights.

So, first of all, I want to point out there is no Administration position on prior user rights yet, with the bill just having been introduced.

Mr. SENSENBRENNER. When will there be because this is not a new issue to be debated?

Mr. KAPPOS. Well, now that the bill is introduced, we will be putting together a position here as quickly as possible. I would offer a few observations of my own, if that is okay? And those include, number one, that we are very concerned about university concerns

and university issues. We are listening to the universities and want to continue to work with them.

We want to have a prior user rights provision that meets the needs of America's important university community. So we stand very much with you on that point.

I believe there are, however, many incentives to file patent applications in front of the USPTO. We will receive more than 500,000 patent applications this year. And so, I do not view a prior user provision as being in conflict with all of the good reasons to file patent applications and with the disclosure incentive of the patent system.

I also think that prior user rights have the advantage of being very pro-American manufacturing. Currently, there is actually an incentive for American businesses to locate their factories overseas, whether it be China or any other country. And the reason is because all of those other countries have prior user rights.

And that means that if a patent is registered, if a patent is enforced in that country, it cannot be used against your manufacturing if your manufacturing facility qualifies for the prior user rights in those countries. The U.S., not having a prior user rights system, is at a comparative disadvantage with those other countries, and the message that we are sending to our manufacturers, especially small manufacturers, is that you are in jeopardy.

Even if you set up a manufacturing plant in this country and have it running for several years, you are in jeopardy of being attacked with a patent that is potentially filed much later than your manufacturing. And so, you can avoid that dilemma by locating your factory overseas. I would like to see that competitive advantage——

Mr. SENSENBRENNER. Well, I strongly disagree with you. I think that the prior user rights expansion is going to end up giving China a "get out of jail free" card. And I have spent a good part of the last 15 years yelling about Chinese piracy of intellectual property rights, and I am afraid that we are just legalizing that with the prior user rights expansion that is contained in the draft bill, and this very well could be a poison pill.

Now the other point that I want to make is I think that it would be very wise to separate out the ban on fee diversion so that can be passed independently of the base patent bill, which I think is going to become very controversial. I think everybody here agrees that getting rid of the fee diversion is a step in the right direction.

And there might be those that want to use that as a way to boost a bad bill to the goal line. I think that the thing to do is to free the fee diversion and let it be passed and signed, and then let the rest of the bill sink or swim.

My time is up. The gentlewoman from California, Ms. Lofgren?

Ms. LOFGREN. Thank you, Mr. Sensenbrenner.

And I agree that it would be terrific to have more time to discuss this with the director. I would like to say that this is the first time I have walked in on a patent hearing when we had to have an overflow room. So that was exciting.

You know, I have a number of questions. First, on the re-exam, inter partes re-exam. It is my understanding that from 1999 to the end of last year that the office issued decisions in the total of 221

re-exams. And that of those cases, 90 percent resulted in invalidation of at least one claim of the patent that was being challenged. Is that correct?

Mr. KAPPOS. Right offhand, that sounds like it is correct.

Ms. LOFGREN. So that would seem to say that in the overwhelming majority of these matters, the re-exams have some merit?

Mr. KAPPOS. Yes.

Ms. LOFGREN. And that allegations that the current system is being abused might be off the mark. Would you say that is correct?

Mr. KAPPOS. I would agree with that.

Ms. LOFGREN. Some have said that the current standard for initiation is too low. Now it seems to me that you should be able to require at least a prima facie showing of invalidity to move something forward. On the other hand, we don't want you, as the director, to make the decision before everything has been made. What is your thought on that issue?

Mr. KAPPOS. Right. Well, your statistics are, indeed, consistent with what we are seeing continuing into this year. We have processed now hundreds of inter partes re-examinations, and what we are finding is that our rate of what is called "false positives," or cases that get over the SNQ threshold, is relatively low.

Now that is new factual information that we have over the last few years that puts us in a position to be comfortable with the SNQ standard, both because we have become successful at implementing it, and because we have shown statistically that we don't have a high level of these false positives.

We also are cognizant, though, of the higher standard that has been proposed on the Senate side of a reasonable likelihood, and that standard does have an advantage built into it of enabling us to filter out more cases at the threshold and compress our timescale.

Ms. LOFGREN. Well, it might be easier on the office, but it is going to be harder on the system, and we will see more matters litigated at more expense to the American economy. It might be better to give you the resources to deal with it, wouldn't you say?

Mr. KAPPOS. Right. That is a fair point. My view is that, on balance, it is more costly to our economy to have false negatives.

Ms. LOFGREN. Right.

Mr. KAPPOS. Those are cases where we should be taking a substantive look at the patent, but we didn't because the threshold was set too high.

Ms. LOFGREN. Right. Well, and right now, I mean, there is significant disincentive to bring an action because in the litigation, anything that could have been raised can't be used. And therefore, I am assuming, just you have got 90 percent there is a problem, and yet this major disincentive to even using the system. That if we were to make this more accessible and give your office the resources to deal with it, that we would divert a lot of matters that could be dealt with successfully in this process. Wouldn't you say that is true?

Mr. KAPPOS. Well, that is right. If I can say that in my own words also, that I believe there are significant advantages for patentees who successfully go through the post grant system—in this

case, inter partes review—because of those estoppel provisions. Those estoppel provisions mean that your patent is largely unchallengeable again by the same party.

Ms. LOFGREN. Right.

Mr. KAPPOS. And so, there is a tremendous disincentive already built in against bringing frivolous inter parte——

Ms. LOFGREN. I am going to interrupt because I am almost out of time, and I want to ask you just one final question. The engineers have talked to me about third-party submission of prior art. A lot of them think that may be the most important part of this bill. It is an open-sourcing patent information.

But it looks like there is evidence that patent examiners already ignore a lot of information except what they find through their own search. If we have third-party submission of prior art that is vigorous and reenergized, how are you going to get your examiners to actually accept that information, take it seriously, and utilize it in a way that would optimize the submissions?

Mr. KAPPOS. Right. Well, that is a question of training, coaching, and incentives, and we are engaged in those very processes because we want our examiners to use the best art, no matter whether it is art they found or whether it is art that came in from some other source.

We have found, however, in the pilot that we are currently running on this third-party review system that the examiners really enjoy using it and that they are using the prior art that is coming in. So it may be that having this commentary and additional help from third parties that they are getting through the pilot gives examiners that kind of——

Ms. LOFGREN. My time is off, and maybe you could send us some more information on that pilot after the hearing? I would be very interested.

And I thank you, Mr. Chairman.

Mr. SENSENBRENNER. The gentleman from Texas, the Chairman of the Committee, Mr. Smith is recognized for 5 minutes.

Mr. SMITH. Thank you, Mr. Chairman.

Director Kappos, thank you for being here and also thank you for your good work at the PTO. It is appreciated by everybody who knows what you do.

I have two short questions. And if you could give me brief responses, I am going to yield the balance of my time to the gentleman from North Carolina, Mr. Watt. And then we will be able to get you to the airport on time.

First question is this. How do independent inventors and the smaller entities benefit specifically from this bill? The independent inventors and the smaller entities, how do they benefit specifically from this bill?

You talked in general terms. I just wondered if you could go into more detail?

Mr. KAPPOS. Sure. Yes, I would be happy to mention that.

Well, first and foremost—well, first anyway, independent inventors and small entities will benefit, micro entities will benefit from a new 75 percent discount on the fees that they pay. Secondly, independent inventors and small entities will benefit from the USPTO then being able to extend, or the legislation now extending,

50 percent discounts to new areas that we are implementing like our Track I examination system, which will provide 3-month turnaround to first office action and 1 year to completion of a patent application, which is something that the independent inventor and small entity community has been asking us for repeatedly.

We applaud the introduction in this legislation of a 50 percent discount. This gives USPTO the ability to give those kinds of discounts when we put in place new helpful measures for that community in the future.

Mr. SMITH. Okay. And second question is why should we give the PTO authority to set the patent fees?

Mr. KAPPOS. Well, you know, the processes of innovation are moving so fast, and the different ways that the innovation community is using our services are changing so fast that we need, at the USPTO, the ability to adjust our fees to keep up with what is going on.

Our cost to implement the various services that we perform change over time and sometimes change rather rapidly. The amount of demand for services changes, which requires us to put new infrastructure in place. All of that reflects itself in for us the cost of doing business, the cost of providing services.

And if we had the ability to adjust our fees, we would be able to meet the timeframes of the American innovation community and——

Mr. SMITH. The end result is better patents more quickly approved, I suspect. Okay.

Thank you. I will yield the balance of my time to Mr. Watt.

Mr. WATT. I think I have agreed to submit my questions in writing in the interest of Mr. Kappos's time. I understand, you know, he was the first witness. We had to recess for votes, and so he has got time problems. So I am content with that.

I will yield back, Mr. Chairman.

Mr. SENSENBRENNER. The classified briefing is supposed to end at 3:30 p.m., but usually they don't. So with that in mind, the Chair is going to recess the Committee, subject to the call of the Chair for the second panel.

Bon voyage and safe travels, Mr. Kappos. And without objection, the Committee is recessed, subject to the call of the Chair.

[Recess.]

Mr. GOODLATTE [presiding]. Take three. We have a very distinguished second panel of witnesses today, and each of the witnesses' written statements will be entered into the record in its entirety.

I ask that each witness summarize his testimony in 5 minutes or less. To help you stay within that time, there is a timing light on your table. When the light switches from green to yellow, you will have 1 minute to conclude your testimony. When the light turns red, it signals that the witness's 5 minutes have expired.

Before I introduce our first witness, I would like all of them to stand and be sworn.

[Witnesses sworn.]

Mr. GOODLATTE. Thank you, and be seated.

Our first witness is the Honorable Steve Bartlett. He will be testifying on behalf of the Financial Services Roundtable in his capac-

ity as president and CEO. The roundtable is comprised of 100 integrated financial services companies in the United States.

Mr. Bartlett has also served as a member of the Dallas City Council, a Member of Congress, and the Mayor of Dallas. He founded Meridian Products Corporation, a manufacturer of injection-molded plastics in 1976, divesting his interest in 1999.

Mr. Bartlett is a graduate of the University of Texas at Austin, later serving as adjunct professor at the LBJ School of Public Affairs.

Our next witness is Steven Miller, Procter & Gamble's vice president and general counsel for intellectual property. He has worked in a variety of positions for P&G since joining the company in 1984.

Mr. Miller has authored numerous P&G patents and patent applications and has participated in interferences, arbitrations, and litigation in the United States and abroad. He is a member of many intellectual property organizations and bar groups. Mr. Miller received his undergraduate and law degrees from the Ohio State University.

Our next witness is Mark Chandler, senior vice president, general counsel, and secretary for Cisco. He joined Cisco in 1996 after the company acquired StrataCom, where he served as general counsel. Earlier in his career, Mr. Chandler was vice president for corporate development and general counsel for Maxtor Corporation. Mr. Chandler was educated at Harvard and Stanford School of Law.

Our final witness is John Vaughn, executive vice president of the Association of American Universities, whose membership includes 60 U.S. and 2 Canadian universities with strong programs of research and graduate and professional education. Dr. Vaughn has responsibility for association activities in the area of intellectual property, information technology, research libraries, and scholarly communication.

Dr. Vaughn received his undergraduate degree from Eastern Washington State College and his Doctorate in Experimental Psychology from Minnesota. He was also awarded an NIH Post Doctoral Traineeship and served as a post doctoral fellow at Duke.

And I would now like to yield to the gentleman from Ohio, Mr. Chabot, who would like to also say something about the witness from Ohio.

Mr. CHABOT. Thank you very much, Mr. Chairman.

I would like to expound upon the great words that the Chairman already expressed relative to Mr. Miller. It is definitely a great honor to introduce one of the witnesses, Steve Miller.

He is here as vice president and general counsel of intellectual property for the Procter & Gamble Company, P&G, which is headquartered in Cincinnati, Ohio. And Procter & Gamble has an outstanding record, both locally and globally. Two small businessmen, William Procter and James Gamble, founded this company in Cincinnati all the way back in 1837 to sell candles and soap. Today, the company has grown to include 23 different brand names, with over $1 billion in annual sales in each.

Procter & Gamble employs 35,000 people throughout the United States, paying $4 billion in domestic wages annually. Additionally, P&G provides a positive example of a responsible charitable cor-

poration, donating approximately $100 million to charitable organizations every year.

Steve Miller has had a successful career as in-house counsel with P&G for over 25 years. He is now vice president and general counsel on intellectual property, where he oversees approximately 150 patent and trademark attorneys worldwide and advises P&G's senior management on IP issues.

Mr. Miller has also authored numerous P&G patents and patent applications and has also been involved in a number of license agreements, acquisitions, interferences, arbitrations, and litigation both in the U.S. and abroad.

Mr. Miller is also the current president of the Intellectual Property Owners Association Education Foundation, on the Board of Directors and past president of the Intellectual Property Association, and on the Board of Directors for the National Inventors Hall of Fame.

I know we look forward to learning more as we hear from Mr. Miller on patent reform this afternoon and the other witnesses as well.

And I thank the Chairman greatly for yielding.

Mr. GOODLATTE. I thank the gentleman.

Welcome to all of our witnesses, and we will begin with Mr. Bartlett.

**TESTIMONY OF THE HONORABLE STEVE BARTLETT, PRESIDENT AND CHIEF EXECUTIVE OFFICER, THE FINANCIAL SERVICES ROUNDTABLE**

Mr. BARTLETT. Thank you, Mr. Chairman.

Mr. Chairman, Ranking Member Watt, Mr. Coble, Mr. Chabot, it's good to be here.

This is a very important piece of legislation. It's a legislation that in some ways is long overdue. I commend the Committee and the present draft, and we're here—I'm here to support the present draft language of the House version in its current form.

I'm here to speak on behalf of the Financial Services Roundtable, as you noted, Mr. Chairman. But I should note up front that the roundtable has worked closely with other groups—the American Bankers Association, the Clearing House, credit unions, the ICBA, the community bankers, NAFCU, SIFMA, and others—to address this problem of nonpracticing entities that we believe exploit flaws in the current patent system.

My testimony today is consistent with the views of these other trades. These nonpracticing entities, Mr. Chairman, or NPEs, as they're called, have built an industry based on filing onerous lawsuits involving low-quality business method patents with the expectation of securing large settlements. These are widely described as meritless lawsuits and settlements—and the settlements then help to distort the marketplace.

Fundamental to the operation of the financial services sector is the interoperability of complex financial systems that facilitate the movement of data relating to every type of financial transaction. So it is this network of financial technology infrastructure that is so fundamental that it has been designated as a critical national infrastructure by the Department of Defense.

So given the importance of the financial services sector to the Nation's economy and infrastructure, it's important that the patent system work for everyone, and currently, it does not.

So, instead, the confluence of interoperability, forum shopping, and a lack of quality prior art, particularly in the area of business method patents, has conspired to leave financial firms, from the smallest community banks or local credit union or insurance agent to the largest global company, mired in what we believe are meritless litigation over patents of dubious quality. This litigation has a direct impact on consumers, as capital that could otherwise be deployed for business lending in our communities is tied up with court costs and settlements.

Historically, Mr. Chairman, business methods had not been patented in any significant quantity. This was profoundly changed in 1998 by the State Street decision. So between 1997 and 1998, new applications for business method patents tripled and have tripled again. So by the end of 2009, some 11,000 new applications for patents on business methods were being filed each and every year, with 40,000 pending in 2010.

According to a study by Harvard University, the proliferation of business method patents has resulted in a flood of patent litigation in the financial services industry, occurring at a rate of 39 times greater than the patents as a whole. Now, Mr. Chairman, other than NPEs, there's no reasonable explanation for a 39 times greater rate of patent litigation in the financial services industry.

These nonpracticing entities then are increasingly exploiting the current system to hold hostage entire classes of industry players in a single lawsuit, and thus, interoperability comes into play. Neither 90—nearly 90 percent of infringement cases against the top 20 banks, just as one data point, name multiple financial services companies as defendants, often including 20, 40, or even 60 institutions in a single action.

Now business method patents are not bad, per se, but they do lend themselves to abuse, given the current system. I could cite a number of examples. You've probably heard multiple examples.

One case, scores of banks and insurance companies were sued in the Eastern District of Texas for infringing on a business method patent related to marketing. The patents in this suit covered the printing of marketing materials at the bottom of the back of billing statements instead of on a separate statement stuffer. Now it's difficult to see anything novel or nonobvious in where you print the statement information that would have merited a patent with a 20-year property right.

The cost to all the sectors of the financial services industry and our customers continue to grow at an alarming rate. So, therefore, we support the House draft establishing an opposition proceeding at the PTO to review qualified business method patents against a best prior art.

Under this draft legislation, the PTO would determine whether a patent is qualified, would undertake a review for a maximum of no more than 1 year, and then, critically, examine the patent against the best available prior art, including the evidence of prior use, sale, or offer for sale.

The House bill improves the language related to a stay also of district court litigation by requiring the Federal Circuit to review the decision of the lower court de novo. It's our belief that this stay should be mandatory, but short of it being mandatory, this de novo language is essential to ensure that neither plaintiffs nor dependents—nor defendants bear the cost of parallel proceedings.

Mr. Chairman, with this provision included, we support the draft bill before the Committee. We would, as an industry, strongly oppose any efforts to weaken it.

I thank you, Mr. Chairman.

[The prepared statement of Mr. Bartlett follows:]

**The House Committee on the Judiciary**

**Subcommittee on Intellectual Property, Competition, and the Internet**

**March 30, 2011**

**Statement of The Honorable Steve Bartlett**

**for The Financial Services Roundtable**

**Hearing on the "America Invents Act"**

**Statement of The Honorable Steve Bartlett**

**for The Financial Services Roundtable**

I am pleased to submit these comments, on behalf of Financial Services Roundtable.

The Financial Services Roundtable (www.fsround.org) represents 100 of the largest diversified financial services companies providing banking, insurance, and investment products and services to American businesses and consumers. While I am here to speak on behalf of the Roundtable, it is worth noting up front that we have worked closely with the American Bankers Association, the Clearing House Association, the Credit Union National Association, the Independent Community Bankers Association, the National Association of Federal Credit Unions, and the Securities Industry and Financial Markets Association, and others to address the problem of non-practicing entities, or NPEs that exploit flaws in the current patent system.

These NPEs have built an industry based on filing onerous lawsuits involving low-quality business method patents with the expectation of securing large settlements. These meritless lawsuits and settlements distort the marketplace.

The modern financial services sector is highly dependent upon innovation for business growth and customer service.[1] We continuously engage in the creation and integration of technology into systems that provide our customers access to financial services and products they rely on every day, such as online and mobile banking, worldwide ATM networks and electronic exchanges capable of executing trades, virtually anywhere, anytime.

[1] *See, e.g.*, Robert C. Merton, *Financial Innovation and Economic Performance*, 4 J. Applied Corp. Fin. 12 (1992); Merton H. Miller, *Financial Innovation: The Last Twenty Years and the Next*, 21 Fin. and Quantitative Analysis 459 (1986).

Fundamental to the operation of the financial services sector is the interoperability of complex financial systems that facilitate the movement of data relating to every type of financial transaction, from accurate customer account information, to complex securities trades, to credit and debit card transactions, to over-night electronic transfers of funds, between and among financial institutions and the federal reserve, federal home loan banks and other global financial and monetary institutions.[2] The network of financial technology infrastructure is so fundamental that it has been designated as critical national infrastructure by the Department of Defense under the "Financial Services Defense Sector Critical Infrastructure Protection (CIP) Program." The CIP Program refers to the safeguarding of systems and assets essential to the minimum operation of the economy and government.[3]

Given the importance of the financial services sector to the nation's economy and infrastructure, it is important that the patent system work for this industry. Currently, it does not. Instead, the confluence of sector interoperability, frequent forum shopping, and a lack of quality prior art – particularly in the area of business method patents – has conspired to leave financial firms, from the smallest community bank, local credit union or insurance agent, to the largest global companies, mired in meritless litigation over patents of dubious quality. This litigation has a direct impact on consumers as capital that could be deployed in our communities is tied up in court costs and settlements.

Historically, traditional business methods and related systems to implement those business methods were not patented in any significant quantity.[4] This was profoundly changed by the Federal Circuit's 1998 decision in *State Street v. Signature Financial Group*.[5] In *State Street*, "the Federal Circuit held that the fact that an invention could be characterized as a 'business method' was not a bar to patentability, and thereby

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[2] Robert M. Hunt, *Business Method Patents and U.S. Financial Services*, Federal Reserve Bank of Philadelphia, Working Paper No. 08-10, at 6-10 (2009).
[3] Defense Finance and Accounting Service, http://www.dfas.mil/more/fsscip.html. In addition to banking and finance, the other industries deemed critical to national infrastructure under the CIP Program include telecommunications, energy, transportation, water systems and emergency services.
[4] For example, the Supreme Court had repeatedly held that using a computer to perform a business algorithm was generally not patentable. *E.g., Parker v. Flook*, 437 U.S. 584 (1978); *Gottschalk v. Benson*, 409 U.S. 63 (1972).
[5] 149 F.3d 1368 (1998).

laid to rest what had been the so-called business method exception to patentability."[6] As a result of this decision, the U.S. patent system has seen an explosion in applications for business method patents. "Between 1997 and 1999 new applications for business method patents tripled, and have more than tripled since then. By the end of 2009 some 11,000 new applications for patents on business methods were being filed each year, which suggests there will be a significant growth in the number of patents being granted. Over 40,000 of these applications are currently pending."[7]

This proliferation of business method patents has, in turn, resulted in a flood of patent litigation in the financial services industry.

Professor Josh Lerner of the Harvard Business School has empirically studied litigation in the financial services industry. He found that the "risk of patent litigation [in financial services] is far greater than that in other fields."[8] Specifically, Professor Lerner concluded:

> [F]inancial patents are being litigated at a rate 27 to 39 times greater than that of patents as a whole. Even relative to the most extensively litigated major category of patents (drugs and health), the rate is more than an order of magnitude higher. The rates are also far greater than that in the early years of an emerging industry where the extent and breadth of patent protection was initially ambiguous, biotechnology.[9]

What is more, due to the interoperability requirements referred to earlier, NPEs, are increasingly exploiting the current system to hold hostage entire classes of industry players in a single lawsuit. Nearly ninety percent of infringement cases against the top 20 banks name multiple financial services companies as defendants, often including as many as 20, 40 or even 60 institutions in a single action.

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[6] Stroock Special Bulletin, *Business Methods Under Attack – Is State Street in Jeopardy*, at 2 (Feb. 27, 2008) (available at http://www.stroock.com/SiteFiles/Pub592.pdf).
[7] Hunt, *supra* note 4, at 3.
[8] Josh Lerner, *The Litigation of Financial Innovations*, Harvard Business School, Working Paper 09-027, at 14 (2008).
[9] *Id.* at 2. Professor Lerner concluded that the rate of litigation of biotechnology patents in the early years of such litigation was one-fifth the rate of litigation in the financial services industry today. *Id.* at 14.

There is no shortage of evidence of abuse in this space, and while I would be happy to provide the committee with papers from our regulators, quotes from various courts including the United States Supreme Court or the words of the senior staff of the PTO, the facts have been well-established over the years and I'm not aware of anyone who disagrees with our analysis.

It is important to note that business method patents are not "bad" per se, but do lend themselves to abuse. An example I would share are patents asserted by Phoenix Licensing. In this case, scores of banks and insurance companies were sued in the Eastern District of Texas for infringing a method patent related to marketing. As I understand it, most if not all have settled, but the patents in suit covered printing marketing material at the bottom of or on the back of billing statements. For years, financial firms had been using statement stuffers and it was inevitable that some would migrate to printing the marketing material directly onto the statement. It is difficult to see anything novel or non-obvious that would have merited a 20 year property right.

The invalidating prior art in this case was "prior use," which is currently inadmissible at the PTO during reexaminations, so companies settled rather than bear the costs of lengthy court proceedings.

In this instance, as in many others, it is the combination of low quality business method patents, the structural requirements of the financial services industry and the emergence of NPEs who exploit shortcomings in the current patent system that has been so costly to all sectors of the financial services industry and our customers. These costs continue to grow at an alarming rate.

We were, therefore, very pleased that the House draft which was circulated last week (draft SLS_132) included language similar to language inserted into S. 23 establishing an opposition proceeding at the PTO to review qualified business method patents against the best prior art. Under the program, the PTO:

- Determines whether a patent is qualified business method patent;

- Undertakes a review in a maximum of one year;
- Examines the patent against the best available prior art, including evidence of prior use, sale or offer for sale; and
- Winds down the program after 4 years of establishment.

The Senate language created the strong presumption of a stay of district court litigation once the PTO agrees to undertake a review. The House draft bill improves on this "stay" language by requiring the Federal Circuit to review stay appeals "de novo". It is our belief that the stay should be mandatory, but short of that we appreciate this significant improvement designed to ensure that neither plaintiffs nor defendants bear the costs of parallel proceedings.

Mr. Chairman, in the run-up to the markup in the Senate, the Roundtable sent a strongly worded letter to committee members urging inclusion of the business-method patent program, while stating that the Roundtable would oppose any bill that does not include it. Our position is unchanged. We are therefore encouraged that the proposed House bill includes an enhanced version of the program.

Innovation is the engine that drives the American economy. The patent system enables this engine to work. However, the patent system must work for all sectors of the economy if America is to maintain its preeminent role as the world's leader in innovation. We commend the House for addressing the unique challenge business methods pose to the current patent system. We look forward to working with you to ensure this legislation becomes law.

Thank you for the opportunity to testify today. I would be happy to answer any questions.

Mr. GOODLATTE. I thank the gentleman.

Mr. Miller, welcome.

**TESTIMONY OF STEVEN W. MILLER, VICE PRESIDENT AND GENERAL COUNSEL FOR INTELLECTUAL PROPERTY, PROCTER & GAMBLE COMPANY**

Mr. MILLER. Thank you, Mr. Chairman and Members of the Subcommittee. I thank you for the opportunity to—-

Mr. GOODLATTE. Mr. Miller, you may want to turn on your microphone.

Mr. MILLER. Sorry about that.

Thank you, Mr. Chairman. I thank you for opportunity to testify on various aspects of patent law reform.

Although I am active in a number of professional organizations, I'm appearing today in my capacity as vice president and general counsel for intellectual property for the Procter & Gamble Company and its affiliates.

I'm a registered patent attorney with 26 years of patent law experience, including patent prosecution and litigation. I've negotiated with individual inventors, universities, startups, and companies of all sizes.

An essential reform for significantly simplifying the patent laws is the first inventor to file principle that is included in H.R. 1249. The adoption of the first inventor to file principle would make patentability determinations more transparent, based on objective criteria using publicly available information. It will benefit all American inventors and improve their global competitiveness.

H.R. 1249 would also make a number of other improvements in our patent law and the operation of the patent system. Curtailing the plague of false marking litigation, providing adequate funding for the USPTO, limiting the consequences of the subjective best mode requirement, expanding the opportunities for the public to submit relevant information to patent examiners, adding a robust time-limited opportunity to promptly challenge patents after grant, and providing for supplemental examination are among the many significant improvements H.R. 1249 would bring to our patent system.

There are, however, some features of H.R. 1249 that move in the opposite direction. P&G is concerned that the delicate compromises reached by numerous stakeholders after years of negotiations may be upset by a handful of the new provisions in the bill.

In particular, the following provisions are of such significance that they may cause stakeholders to withdraw the support for the bill. First is retaining their threshold for initiating reviews in second window proceedings.

Under this threshold, 95 percent of all requests are granted, resulting in a waste of limited USPTO resources. A higher threshold, a reasonable likelihood that the petitioner would prevail with respect to at least one claim, is far preferable.

Second is the addition of a new stay provision to both the first window and second window post grant procedures. Not only does listing such stay factors improperly constrain a court's and the International Trade Commission's freedom to decide the issue, it overly emphasizes the possibility that a stay should be granted.

P&G believes a stay should be granted only where it is clearly appropriate under existing case law as it evolves. Moreover, the ITC proceedings are designed to be expeditious and should not be stayed.

Third are three new provisions that have been added to the transitional program related to financial business method patents. The transitional program is very controversial and was agreed among stakeholders only after extensive negotiations. These new provisions unduly limit venue where an action may be brought, mandate de novo interlocutory appeals, and impose a loser pays regime involving such patents.

The injection of a controversial venue provision reintroduces a debate settled by the Federal Circuit. By also mandating de novo reviews of stayed decisions and introducing the highly charged issue of loser pays, H.R. 1249 could very well change what is at best reluctant acceptance of the transitional program into outright opposition.

Fourth is the expansion of prior user rights to all inventions. P&G is concerned that the opposition among various stakeholders to expanding prior user rights could place in jeopardy the passage of comprehensive patent reform.

Fifth is the change in time during which the new law issues post grant review procedure could be initiated. This procedure was conceived to allow patents to be promptly challenged after grant on any of the grounds of validity. This procedure should be as expeditious as possible.

Notwithstanding a growing consensus that 9 months is more than adequate time, the bill would extend this period by an additional 3 months to a total of 12 months, adding further unnecessary delay and uncertainty.

Thank you for the opportunity to present P&G's views. I'd be pleased to answer any questions.

[The prepared statement of Mr. Miller follows:]

**Statement of**

**Steven W. Miller**

**Vice President and General Counsel for Intellectual Property for**

**The Procter & Gamble Company**

**Before the**

**Subcommittee on Intellectual Property, Competition, and the Internet**

**United States House of Representatives**

**Washington, D.C.**

**On**

**The America Invents Act**

**H.R. ____**

**March 30, 2011**

Mr. Chairman and distinguished Members of the Committee:

I thank you for the opportunity to testify on various aspects of patent law reform including the America Invents Act. Although I am active in a number of professional organizations with interests in patent law reform, including the Patent Public Advisory Committee, the American Intellectual Property Law Association, the Coalition for 21st Century Patent Reform, and the Intellectual Property Owners Association, I am appearing today in my capacity as the Vice President and General Counsel for Intellectual Property for The Procter & Gamble Company ("Procter & Gamble" or "P&G) and its affiliates.

By way of introduction, I am a registered patent attorney with 26 years of experience in all aspects of patent law. In addition to drafting and prosecuting many patent applications, I have been involved in the re-examination and reissue of patents. I have also been involved in alternative dispute resolution, including mediation and arbitration, licensing, and litigation, both enforcing P&G patents and defending P&G against patent suits by others and before both judges and juries. I have advised my client on many patent issues throughout the world involving many technologies. Over the course of my career, I have negotiated or dealt with individual inventors, universities, start-ups, and companies of all sizes.

Four billion times a day, P&G brands touch the lives of people around the world. We have a strong portfolio of trusted, quality, leadership brands, including 24 billion dollar brands such as Pampers®, Tide®, Pantene®, Bounty®, Crest®, Olay®, and Gillette®. The P&G community includes approximately 127,000 employees working in over 80 countries. Business Week in 2008 selected P&G as the world's 8th most innovative company.

While many associate innovation with computer companies rather than consumer products companies, that association is too limited. At P&G, "Innovation is our lifeblood". Innovation is everything that we do that improves the value consumers get from trusting P&G brands, including new products and packaging designs to improvements to supply systems and organization productivity.

P&G invests over $2.2 billion dollars per year in Research & Development. We employ over 8900 scientists in 29 research centers in 13 countries.

Patents and trademarks protect this investment in R&D as well as ensure P&G maximizes its return on its investment. Without strong IP protection, the value of our brands can be significantly diminished. Competitors would be free to copy our technological and commercial innovation without making the same investment or incurring the same risks. IP provides us a competitive advantage that leads to increased value for shareholders and improved products for consumers. P&G

maintains over 41,000 active patents worldwide and over 125,000 trademarks worldwide.

Traditionally, P&G's success resulted from internal invention that led to innovation. In 2000, our then CEO, A.G. Lafley, challenged the Company to reinvent our innovation business model. Mr. Lafley understood that the key to future sustained growth was a new concept of open innovation – leveraging one another's innovation assets. He made it a key strategic goal to acquire 50% of P&G's innovation from outside the company. This year, P&G will exceed that goal. Through our Connect & Develop innovation model, our R&D productivity has increased by nearly 60% and our innovation success rate has more than doubled while the cost of innovation has fallen.

An important learning from our Connect & Develop program was the realization that innovation was increasingly being done at small and mid-size entrepreneurial companies, universities, government labs, and by individuals. These entities were eager to form partnerships with industry and to license and sell their intellectual property.

One critical aspect of our Connect & Develop program thus became the ability to create and optimize the value of Intellectual Property for both P&G and its partners through sale, licensing or alternate means of commercialization. We have restructured our thinking on ownership and utilization of Intellectual Property to better benefit all parties. In-licensing of technology provides P&G with access to other's IP to accelerate P&G's innovation. We do much more in-licensing of technology than we have ever done before.

We also out-license P&G's internally developed Intellectual Property. The out-licensing program results in a source of revenue, decreased costs, and new opportunities for licensing, joint ventures, and strategic alliances. Over $3 billion in sales by other companies is powered by P&G intellectual property.

In terms of patent litigation, P&G is typically about equally a plaintiff, enforcing its rights against infringers, and a defendant. Because we are in both positions, we take a very balanced viewpoint on litigation. As a defendant, patent assertions have some effect on our ability to innovate in that it diverts resources away from core research. However, given the time and effort we devote to avoiding issues with other patent owners before we market our products, this is a minimal cost compared to the overall R&D budget. Rather than hindering innovation, we often find that patents and patent litigation spur our competitors and us to find new and innovative ways to solve a problem by designing around the patented invention, often leading to a better and cheaper solution for consumers.

The need for patent reforms has not lessened since the National Academies' recommendations for patent law changes emerged in 2004. I believe that the substantial work of the House and Senate over the last seven years that led to the

passage by the Senate earlier this month of S. 23, The America Invents Act, can now be used by the House to conclude the effort to reform our patent law. We are now at the stage to take advantage of the progress made and finalize a bill that addresses the most urgent issues on which a broad consensus exists—transitioning the United States to a first-inventor-to-file system with clear, objective standards and efficient processes for determining patentability in a transparent process from publicly available information and assuring that the U.S. Patent and Trademark Office will have the resources it needs to provide a high-quality patent examination that can be completed in a timely fashion.

P&G's interest in patent law reform is to ensure that the patent system fairly rewards those who contribute to our society through the invention and development of new and useful products and processes. A fair, efficient and reliable patent system will continue to stimulate the investment in innovation that is necessary in today's technologically complex world to create the new products and processes that will lead to improving the lives of Americans and the rest of the world. In addition, the best promise for preserving and enhancing our place in an increasingly competitive global marketplace will be to stimulate U.S. investment in research-based industries. Appropriate patent reforms will maintain current jobs and create new jobs by continuing to encourage private sector R&D investment. Proposed changes that increase the likelihood that meritorious inventions will receive patent protection, and that resulting patents may be reliably enforced against infringers to promptly recover fair compensation should be favored, as these changes will have the greatest impact on stimulating R&D investment and job growth.

I especially appreciate your holding this hearing so quickly after the Senate has acted to pass S. 23. For too long now, many beneficial improvements to the patent system have been held hostage while solutions to difficult and highly controversial issues have been pursued. This afternoon, I will focus my remarks on how I believe the patent reform efforts in the last three Congresses can be melded together so that patent reform can become a reality in the 1st Session of the 112th Congress.

First-Inventor-To-File

An essential reform for significantly simplifying the patent laws, providing fairer outcomes for inventors, speeding final determinations of patentability, and reducing overall costs for procuring patents is the adoption of the first-inventor-to-file principle as recommended by NAS and originally proposed in H.R 2795 by Chairman Smith in 2005. This change in U.S. patent law would bring a much needed simplification of the process and reduce the legal costs imposed on U.S. inventors. It would also improve the fairness of our patent system, and would significantly enhance the opportunity to make real progress toward a more global, harmonized patent system in general.

Contrary to conventional wisdom, the current system frequently does not award patents to the first to invent. This is because it relies on a system based on complex proofs of invention, a system which is fundamentally unfair to independent inventors

and small entities due to its costs and complexities. The current system uniformly awards patents to the first-inventor-to-file for a patent, except where a second-to-file inventor can marshal sufficient, corroborated invention date proofs to overcome the presumption currently afforded under our patent law in favor of the inventor who filed first. Moreover, the expense and complexity of the first-to-invent system mean that an inventor can be first to make the invention and first to file a patent application, but still forfeit the right to a patent because the inventor cannot sustain the cost of the "proof of invention" system.

This was confirmed by former USPTO Commissioner Gerald J. Mossinghoff. Relying on USPTO data compiled over twenty years, he found that independent inventors, whose right to patent their inventions depended on their ability to prove that they were 'first to invent,' more often than not lost contests to determine who was first-to-invent.[1] In a follow-up paper, Mossinghoff found that the rate of loss by independent inventors had accelerated.[2] An analysis by Professors Mark A. Lemley and Colleen V. Chien suggested that the current first-to-invent contests are more often used by large entities to challenge the priority of small entities, not the reverse.[3] This evidence further supports Mossinghoff's conclusion that the first to invent system is not working to the benefit of small entities as many incorrectly believe.

Given the cost, complexity and demonstrable unfairness imposed by the present first-to-invent system, it is clear that a change to a first-inventor-to-file system in our patent law is justifiable simply on grounds that it is the best practice. In addition, with the adoption of a first-inventor-to-file rule, 35 U.S.C. §102 can be greatly simplified. Prior art would no longer be measured against a date of invention: if anticipatory information was reasonably and effectively accessible before the earliest effective filing date of a patent application, no patent issues. Similarly, the question of whether an inventor 'abandoned' an invention would no longer be relevant. And, of course, proofs of conception, diligence, and reduction to practice likewise become irrelevant. A first-inventor-to-file system will also clearly benefit businesses, both large and small. It will eliminate the present delays and uncertainty associated with resolution of lengthy interference proceedings that frustrate business planning. In addition, it will remove the potential cloud over important inventions that will always be present in a first-to-invent system.

With accompanying changes that bring objectivity to the determination of what information can be used to assess the patentability of an invention - patents, printed publications, or other publicly known information - the adoption of the first-inventor-to-file principle would allow the United States to join the world patent community and make patentability determinations on objective criteria using publicly available information. The public could more readily assess the patentability of granted patents and avoid

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[1] Gerald J. Mossinghoff, The First-to-Invent System Has Provided No Advantage to Small Entities, 88 J. Pat & Trademark Off. Soc'y 425 (2002).
[2] Gerald J. Mossinghoff, Small Entities and the 'First to Invent' System: An Empirical Analysis, Washington Legal Foundation (April 15, 2005) http://www.wlf.org/upload/0505WPMossinghoff.pdf.
[3] Are the U.S. Patent Priority Rules Really Necessary?, 54 Hastings Law Journal 1 (2003)

costly litigation. It would also facilitate making other reforms, especially the creation of a fair and effective opportunity to promptly challenge patents during a short period after grant to weed out any questionable patents that might have slipped through. Finally, adoption of first-inventor-to-file would encourage US inventors to file for patents more quickly, thereby preserving rightful priority for their inventions, both in the US and in countries around the world where priority is determined solely by who reaches the patent office first.

H.R. 2795 and H.R. 1908 (as introduced) would have transitioned from the current first-to-invent to a first-inventor-to-file principle at a date certain following the date of enactment of the Act. H.R 1908 was amended before it was passed by the House, however, to condition or trigger the first-inventor-to-file principle taking effect upon the "patenting authorities in Europe and Japan" adopting a grace period substantially the same as that contained in H.R. 1908. H.R. 1260 continued this trigger. S. 515, the Senate counterpart to H.R. 1260, did not contain such a trigger and S. 23 does not either.

Denying the benefit of a first-inventor-to-file system to U.S. inventors would be unwise and would not be effective in internationalizing a grace period. The patent law harmonization treaty discussions began over twenty-five years ago and a successful conclusion appears further away now than ever. Further, since 1995, foreign-based inventors have had the benefit of a change in U.S. patent law required by the TRIPs Agreement that has allowed them to prove dates of invention based on work in their countries. This change largely, if not totally, eliminated the clamor of other nations for the United States to adopt a first-inventor-to-file system. Thus, the "persuasive" force of using U.S. adoption of first-inventor-to-file as a negotiating chip to obtain a grace period is very limited. The likely effect of this provision would simply be to deny to U.S. inventors the advantages of a first-inventor-to-file system, perhaps indefinitely. For these reasons, I would urge the Subcommittee not to condition the effective date for first-inventor-to-file on other nations' adopting a grace period.

Post-Grant Reviews of Patents

Both the 2003 FTC Report and the 2004 NAS Study recommended, and H.R. 2795 included, an all-issues post-grant-review procedure in which a patent could be challenged promptly after a patent was granted on any of the issues of invalidity that could be considered in litigation. In the 110th Congress, this Committee crafted a constructive compromise for certain features in the post-grant review ("PGR") procedures in H.R. 1908 prior to its approval by the House. This compromise continued to provide the opportunity for a robust, "first window" post-grant proceeding during the initial 12 months after patent grant, followed by an *inter partes* reexamination ("second window") proceeding for the remainder of the life of the patent.

H.R. 1260 in the 111th Congress also provided for a prompt, robust post-grant proceeding and S. 23, as passed by the Senate, follows suit but adds some very

important safeguards that have been developed and refined during the consideration of post-grant proceedings. In the "first window" post-grant review (PGR) proceeding in S. 23 which is available during the initial nine months following patent grant:

- the threshold for initiating the proceeding requires that the information presented in the petition be sufficient to establish that it is more likely than not that at least 1 of the challenged claims is unpatentable;
- a petitioner cannot initiate a PGR if it has previously filed a civil action challenging the validity of the patent or more than six months after a petitioner is required to respond to a civil action filed by the patentee;
- a petitioner may not request or maintain a PGR with respect to a claim on any ground that the petitioner raised or reasonably could have raised during a PGR, and may not assert the invalidity of a claim in a civil action arising under section 1338 of title 28 on a ground raised during a PGR that resulted in a final written decision;
- if a patentee files an action alleging infringement within 3 months of patent grant the court may not stay its consideration of a motion for a preliminary injunction on the basis that a PGR has been filed or instituted;
- all PGRs will be conducted by the Administrative Patent Judges on the Patent Trial and Appeal Board ("PTAB"); and,
- a final determination in a PGR must be issued not later than 1 year after it is instituted (with a possible 6 month extension for complex cases).

In the compromise reached in H.R. 1908 for the "second window" inter partes reexamination proceeding, all issued patents, not just those issued after 1999, would be eligible for *inter partes* reexamination under sections 102 (novelty) and 103 (non-obviousness) based on prior patents, printed publications and certain written admissions of the patentee.[4] Although some suggested allowing inter partes reexamination based upon prior public uses and sales, that suggestion was rejected as both unworkable and unfair.

Unfortunately, however, this compromise was not followed for second window proceedings in H.R. 1260 in the 111th Congress. That bill would have added a new paragraph (3) to § 301 of title 35 that would have expanded the grounds upon which a second *inter partes* reexamination could be instituted to include consideration of public uses or sales in the United States. Challenges based on such acts – uses and sales that could have occurred many years in the past after memories have faded and evidence has become hard to find, would have made a fair and effective procedure nearly impossible to achieve in a timely and equitable fashion. S. 515, the Senate counterpart of H.R. 1260, originally contained similar language,[5] but after considering

[4] H.R. 1908, as passed, would have expanded *inter partes* reexamination procedures to permit consideration of "written statements of the patent owner filed in a proceeding before a Federal court or the Patent and Trademark Office in which the patent owner takes a position on the scope of one or more patent claims."

[5] S. 515 as introduced would have amended paragraph (1) of Section 301 to allow the citation of "evidence that the claimed invention was in public use or sale in the United States more than 1 year prior to the effective filing date of the application for patent in the United States."

the problems raised by the admission and proofs of such inherently unreliable grounds, the Senate Judiciary Committee voted to eliminate the "public use and sale" language in subsequent iterations of S. 515. The Senate Committee recognized that adding "prior public use or sale" to second window *inter partes* reexaminations in this procedural setting would severely disadvantage patentees. Challengers and patent owners should be given a full and fair opportunity to challenge and defend patents on a neutral playing field, preferably before the patentee has invested heavily in commercializing the invention. Adding prior public sale or use arguments in proceedings initiated many years after the alleged acts took place, without guaranteeing the right of the patent owner to take discovery and cross examine witnesses who might be available only through judicial process, would not provide a fair proceeding for patent owners. I believe the Senate correctly limited the grounds on which "second window" inter partes reexamination (IPR) proceedings could be initiated in S. 23 and would urge this Committee do so as well.

In addition to limiting the grounds on which such second window or IPR proceedings could be initiated, S. 23 also includes a number of important safeguards to avoid the problems experienced in the existing inter partes reexamination proceedings – problems such as taking more than three years to complete (excluding appeals) and the fact that two-thirds of the challenged patents are also being litigated, forcing patentees to defend in two forums simultaneously. The safeguards included in the "second window" IPR proceedings in S. 23 include:

- a higher threshold to initiate – a "reasonable likelihood that the [challenger] would prevail with respect to at least 1 of the claims challenged" as opposed to a "substantial new question of patentability affecting a claim of a patent;"
- strong estoppels (a challenger may not initiate a subsequent proceedings in the Office or in court on grounds that "the petitioner raised or reasonably could have raised");
- an IPR may not be instituted or maintained if the petitioner or real party in interest has filed a civil action challenging the validity of a claim of the patent;
- an IPR may not be instituted if requested more than 6 months after the date on which the petitioner or real party in interest is served with a complaint alleging infringement of the patent;
- an IPR would be conducted as an adversarial proceeding by three Administrative Patent Judges on the Patent Trial and Appeal Board rather than by a patent examiner as a typical back and forth examination; and,
- final determinations of IPRs would be required in one year (18 months in exceptional cases).

These safeguards will make IPRs quicker, fairer, and less burdensome for both patentees and challengers than existing *inter partes* reexamination proceedings.

Patent Marking

One of the more recent and pressing problems plaguing patent owners today is the explosion of false patent marking lawsuits against businesses whose conduct has harmed no one. Following a recent decision of the Federal Circuit which suggested that plaintiffs might recover up to $500 for each item falsely marked,[6] opportunistic plaintiffs have deluged federal district courts with false marking suits targeting high volume products. In the overwhelming majority of these cases, the accused businesses have done nothing more than continue to sell products bearing proper patent numbers after the expiration of one or more of the enumerated patents.

Notwithstanding the Federal Circuit's admonition that

> By allowing a range of penalties, the statute provides district courts the discretion to strike a balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties for small, inexpensive items produced in large quantities.

the possibility of a *qui tam* plaintiff finding a pot of gold at the end of a false marking action rainbow has proven irresistible. It has been noted, regarding the *Pequignot v. Solo Cup Co.* case,[7] that the maximum penalty could amount to a ten trillion dollar award for false marking."[8]

The origins of the marking provisions in Section 287 trace back to 1842[9] when it was difficult to determine whether an article of manufacture was patented unless the patent owner notified the public by placing the term "patent," together with the number of the patent, on the product itself. The notice function served by section 287 is as outdated in today's internet-enhanced, mass communication world as a horse and buggy would be on today's super highways.

Failure to modernize the marking statute, including elimination of the *qui tam* provision, has opened the door to this costly and unproductive litigation. The vast majority of these suits are based on situations where products marked with a valid patent number continued to be sold for a time after the patent's expiration. Given the time and difficulty involved in changing molds or other means by which a product is marked as patented, it is hardly surprising that some such sales occur for a period of time.

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[6] *Forest Group, Inc. v. Bon Tool Co.,* 590 F.3d 1295 (Fed. Cir. 2009).
[7] No. 2009-1547 (Fed. Cir., June 10, 2010)
[8] "The New Patent Marking Police: Answering Clontech and Forest Group," Justin E. Gray & Harold C. Wegner (available at http://www.grayonclaims.com/storage/MarkingPoliceVers4.pdf).
[9] 5 Stat. 544-45 (1842).

Statistics published by Justin E. Gray reveal that over 800 *qui tam* actions have been filed since the *Bon Tool* decision was handed down on December 28, 2009.[10] The *Bon Tool* decision stimulated such actions with its holding that the statute "requires courts to impose penalties for false marking on a per article basis." The Federal Circuit reinforced the incentive for *qui tam* actions in August 2010 by ruling that the phrase "Any person" in section 292(b) operates as a statutory assignment of the United States' rights even though the qui tam plaintiff has suffered no injury. [11]

If indeed there is any party that might suffer an injury, it would be the competitors of a patentee who failed to remove a patent number from a product. In line with this rationale, Representative Issa introduced H.R. 4954 in March 2010 to deter the deluge of false marking suits that have been filed in response to the new Federal Circuit standard. Representative Latta introduced similar legislation in September 2010 (H.R. 6352) and again in January 2011 (H.R. 243). Just two weeks ago, on March 14, Representative Issa introduced another approach to end the frenzy of false marking lawsuits. This measure, H.R. 1056, would totally preclude such suits involving properly marked products after the patent expires if no change is made in the manufacturing process or, if a change is made, the word "expired" is placed before the word "patent."

S. 23, passed by the Senate on March 8, 2011, would also rein-in such false marking suits. It tracks Representative Issa's earlier bill, H.R. 4954, and would provide a measure of balance by limiting such *qui tam* actions to those who have "suffered a competitive injury" as a result of the false marking. It would allow the United States to continue to seek the penalty, but would eliminate false marking litigation initiated by unrelated, private third parties primarily for personal gain. Competitors who do suffer actual competitive injury by virtue of a falsely marked patent could bring actions to recover damages adequate to compensate for their injury.

The revisions to the marking statute proposed by Representative Issa in H.R. 4954 and contained in S. 23 represent a fair and balanced solution that enjoys overwhelming support across all industries. I strongly urge that such provisions be incorporated into any patent reform bill this Subcommittee develops.

Adequately Funding the USPTO

One of the most critical problems facing the patent system today is the need to provide adequate and stable funding for the USPTO. Many of the criticisms and concerns about the patent system stem from the issuance of patents of questionable merit. While the provision in all of the patent reform bills to give the public a greater opportunity to submit relevant information to the Office will improve patent quality, it cannot compensate for the fact that the resources available to the USPTO have not kept pace with the growth in patent filings. In the past 20 years, the backlog of unexamined patent applications has grown from 104,179 in FY 1990 to 736,331 in FY

[10] see Gray on Claims, http://www.grayonclaims.com/
[11] *Stauffer v. Brooks Bros., Inc.*, Fed. Cir. App. No. 2009-1428, -1430, -1453

2010.[12] However, more thorough examination, more training for examiners, upgrades to the IT infrastructure needed to enhance efficiency and implementation of the enhanced mechanisms available in S. 23, e.g., 3rd party submission of prior art, the new PGR proceedings, etc. all require funding that the USPTO does not have.

Both the NAS and FTC recognized this problem and recommended providing the USPTO with the resources and capabilities necessary to cope with a workload that has grown dramatically both in size and complexity. As patent rights have become more central to our nation's economic growth and competitiveness, the failure to have a fully funded Patent and Trademark Office is no longer acceptable. I cannot emphasize enough the need to ensure that the Office be given the financing and operational flexibility required to carry out these reforms effectively and efficiently.

Contrast this with current activities in China where the State Intellectual Property Office ("SIPO") is embarking on an unprecedented surge in hiring of patent examiners to more quickly process the rapidly increasing patent filings across China. According to a recent SIPO report, China intends to roughly double the number of patent examiners to 9,000 within the next 4 years.[13] The US has only about 6,300 examiners. USPTO Director David J. Kappos is quoted in the NY Times article as stating that "The leadership in China knows that innovation is its future"...They are doing everything they can to drive innovation, and China's patent strategy is part of that broader plan."

Users of the patent system – large companies (such as P&G), small businesses, universities, and independent inventors - have long favored authorizing the Director to set fees charged by the Office as proposed in the 111th Congress by H.R. 1260, but only if coupled with a mechanism to ensure that the fees collected can be retained by the USPTO and spent for the purposes for which they were paid. This necessary step would have been achieved by H.R. 5322, introduced by the former Chairman, Mr. Conyers, and the former Ranking Member, Mr. Smith, late in the 111th Congress but unfortunately, this bill was only a funding measure and did not include the substantive revisions needed to improve the patent laws and procedures. This legislation would have established in the Treasury of the United States a revolving fund to be known as the "United States Patent and Trademark Office Public Enterprise Fund". Patent and trademark fees collected under the relevant sections of the patent and trademark laws would be deposited into the Fund and be available for use by the Director without any fiscal year limitation. This solution has been incorporated into S. 23 as passed by the Senate earlier this month. The House should now follow H.R. 5322 and S. 23.

Subjective factors in patent litigation

The NAS found that among the factors that increase the cost and decrease the predictability of patent infringement litigation are issues unique to U.S. patent

[12] United States Patent and Trademark Office Performance and Accountability Report, Fiscal Year 2010 http://www.uspto.gov/about/stratplan/ar/2010/USPTOFY2010PAR.pdf
[13] "When Innovation, Too, Is Made in China, *New York Times Magazine*, January1, 2011.

jurisprudence that depend on the assessment of a party's state of mind at the time of the alleged infringement or the time of patent application. These include whether a patent application included the "best mode" for implementing an invention, whether an inventor or patent attorney engaged in "inequitable conduct" by intentionally failing to disclose all prior art when applying for a patent, and whether someone "willfully" infringed a patent. The NAS concluded that reform in these areas would increase predictability of patent dispute outcomes and reduce the cost of litigation without substantially affecting the underlying principles that these aspects of the enforcement system were meant to promote.

One of these factors – willful infringement – was effectively addressed by the *en banc* decision of the Federal Circuit in *In re Seagate*[14] was stricken from S. 23 before Senate passage. On the topic of issues that are clearly no longer necessary because of Federal Circuit decisions, I would add damages in light of *Lucent Technologies, Inc. v. Gateway, Inc.*[15] and venue in light of *In re TS Tech USA Corporation.*[16]

Returning to the remaining subjective factors:

Best mode – The requirement in existing law for an inventor to disclose the "best mode" for carrying out the invention is one of the highly subjective aspects of current law that the NAS recommended be significantly limited or eliminated. It introduces unnecessary cost and unpredictability into patent infringement litigation, and does not provide the public with any better disclosure than that required by the written-description and enablement provisions of section 112.

Both H.R. 1260 and S. 515 (as introduced) would have only precluded the initiation of a PGR on the basis of the failure to disclose the "best mode;" neither bill would have eliminated it from the patent law. S. 23 would amend section 282(b) to remove failure to disclose the best mode as a defense to patent validity or enforceability. The elimination of this problematic feature as a basis for invalidating or rendering unenforceable a patent would reduce litigation costs and further harmonize US patent laws with those of the rest of the world. I would urge the Subcommittee to at least to so limit the best mode requirement or eliminate it altogether.

Inequitable conduct – The defense of unenforceability on the ground of inequitable conduct was originally intended to apply to egregious cases such as where a patent applicant intentionally misled the Office by, for example, failing to disclose prior art patents or publications that would have been fatal to obtaining a patent. NAS noted that the doctrine requires time-consuming, expensive, and ultimately subjective pretrial discovery, a principal source of soaring litigation costs. It has also resulted in patent applicants erring on the side of disclosing too much information of little value to the USPTO, burdening the examiner and not improving the quality of examination. NAS

[14] 497 F.3d 1360 (Fed. Cir. 2007) (en banc)
[15] 580 F.3d 1301 (Fed. Cir. 2009)
[16] 551 F.3d 1315 (Fed. Cir. 2008)

recommended that the "inequitable conduct" doctrine – which permits a court to refuse to enforce an entirely valid and clearly infringed patent – be eliminated or at least substantially curtailed. Neither S. 515 nor H.R. 1260 contained any provision to implement this NAS recommendation, and the Senate did not address it in S. 23.

Supplemental examination

The bipartisan Managers' Amendment to S. 515 contained a provision for "supplemental examination" which was continued in S. 23. This provision would allow a patent owner to ask the Office to consider or correct information believed relevant to patentability. If the information submitted raises a substantial new question of patentability, a reexamination will be ordered. Any patent emerging from such reexamination shall not be held unenforceable on the basis that such information had not been previously considered. While the "supplemental examination" does not correct the problems identified by NAS with the inequitable conduct doctrine, I believe the supplemental examination concept would be helpful to patent owners and would relieve the courts of unnecessary litigation.

Conclusion

Mr. Chairman, an effective and achievable patent reform bill is within our grasp. The problems identified by the NAS are satisfactorily addressed by S. 23 and the judicial rulings that I mentioned. Together, they provide solutions that will benefit the US patent system and the US Patent and Trademark Office, fairly balance the interests of the public, patent holders and patent challengers, and represent a balanced package of widely accepted improvements to the patent system. Given the hard work by Senate and House staffers and countless stakeholders over the past several years, the pieces are now in place. I pledge my full support to work with you to bring this difficult journey to fruition.



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Mr. GOODLATTE. Thank you, Mr. Miller.
Mr. Chandler, welcome.

**TESTIMONY OF MARK CHANDLER, SENIOR VICE PRESIDENT, GENERAL COUNSEL, AND SECRETARY, CISCO SYSTEMS, INC.**

Mr. CHANDLER. Thank you, Chairman Goodlatte, Ranking Member Watt, Members of the Subcommittee.

I'm Mark Chandler, senior vice president and general counsel of Cisco Systems.

I'm here representing technology companies with hundreds of thousands of employees in the United States and more than 75,000 U.S. patents and patent applications.

I'm here because I believe passionately that our patent system must not go astray in ways that will weaken our companies or weaken our country's technology leadership. I have four specific suggestions to offer regarding the bill before you. I've also provided a written statement. I'm grateful that that's being included in the record.

My company is the world's largest manufacturer of telecommunications equipment that powers the Internet, with over $40 billion in annual sales and more than 70,000 employees. Three-quarters of our engineers, more than half of all our employees are here in the United States.

The Coalition for Patent Fairness, for whom I speak today, includes hundreds of members, such as Apple, Autodesk, Dell, Google, Intel, Micron, Oracle, RIM, SAP, and Symantec. Our companies invest tens of billions of dollars in research and development, and we believe in the patent system.

We understand that the scope for action is limited, given the passage of S. 23. We also understand that this process is one of a combination of interests with diverse goals. We appreciate the work that Senator Leahy did in the Senate in driving toward patent legislation, though we were unable to support S. 23 in its final form.

With the suggestions we make today, we hope to be supporters, rather than opponents, of legislation and to see a law enacted.

Our four suggestions are as follows. First, hold your ground on the proposed prior user rights in conjunction with the move to a first-to-file system. Every developed country on Earth with a first-to-file system includes prior user rights.

Among U.S. industrial groups, support for prior user rights is virtually uniform. The AIPLA has testified in favor of prior user rights, and Gary Griswold, who's with us today, is chair of the 21st Century Patent Coalition, which sees many issues differently from the way we do, wrote an article entitled, "Prior User Rights: A Necessary Part of a First-to-File System." Here is why.

It's not practical to file a patent application on every change we make to a product. Where we enhance our products in a way which is unlikely to be copied by a competitor because the change is specific to our designs, the traditional view is that a patent makes no sense.

In the current first-to-invent system, no one else could get a patent that would be valid for those changes either. The patent would be invalid under 102(g). In a first-to-file system without prior user rights, however, we can expect patent mills and competitors here and abroad to file patent applications on unpatented inventions which they find in our products in order to hold us hostage, and there's nothing we could do about it. This is just not fair.

The alternative for us is to rush to massively increase our patent filings, not to exclude competitors from copying our products, but to protect ourselves against those who would use our own inven-

tions against us in court. That would be a totally unproductive distraction of ours and the PTO's resources.

Director Kappos, in his written testimony, while supporting prior user rights, states there was no rush to increase filings in Canada after the switch to a first-to-file system. Of course, there wasn't. For over a century, Canada has had a robust prior user rights system. Commend you to section 56 of the Canadian Patent Act in that regard.

It would be a tragedy if, in a rush to harmonize with the European and Chinese systems in the wake of the TRIPS accords, we ignored key protections for manufacturers that virtually every other country has.

We understand some groups oppose first-to-file in general. Absent prior user rights, we would join them. We believe the interests of universities are adequately met by exemptions for Bayh-Dole and other patents, which you thoughtfully included in the House legislation. So we strongly support what you've done in the legislation in that respect.

Second, some changes are needed to the inter partes review proposals to mitigate aspects of the Senate bill particularly that are a step backward from current law. The extension of the time period from 6 months to 9 months after service of litigation for introducing an inter partes re-exam is laudable. But a better approach would be to tie the deadline to the Markman ruling so that the review could reflect the claims interpretation that the district court made.

Also, if there isn't a mandatory stay, which we would support, as does the Financial Services Roundtable, we think that in the four factor test in the bill, the reference to clear tactical advantage to the moving party as the basis for denying a stay should be removed. The patent holder's interests are sufficiently addressed by the requirement that there be no undue burden.

And also, initiation of a declaratory judgment action on matters unrelated to an inter partes re-exam should not make it impossible to introduce an exam.

Our third suggestion is many stakeholders across the spectrum—and I believe you referred to this, Mr. Chairman—believe judicial action will obviate the need for the proposed supplemental review system for cases where patent applicants have been, shall we say, less than forthcoming with the Patent Office. We agree.

Nonetheless, if there is to be such a system, we think minor modifications would immeasurably improve it, and I'm happy to elaborate on that.

Fourth and finally, this bill presents an appropriate opportunity to coordinate better between the ITC and the courts. The bill should require the ITC to follow the Supreme Court's eBay holding in determining whether to grant an exclusion order.

With these changes, the bill would meet our minimum needs. It won't meet all our aspirations. It will reflect what's possible, given stakeholders with different interests and a patent system that desperately needs rejuvenation.

Thank you.

[The prepared statement of Mr. Chandler follows:]

**Committee on the Judiciary**
**United States House of Representative**

Hearing

**"America Invents Act"**

Prepared Statement of

**Mark Chandler**
Senior Vice President and General Counsel
Cisco Systems Inc.

March 30, 2011

**Prepared Statement of Mark Chandler**

Mr. Chairman and distinguished Members of the Subcommittee, thank you for the opportunity to testify on patent reform and the America Invents Act. Congress and the patent community have worked diligently to reform America's patent laws for the last six years.[1] Congress has scrutinized numerous bills and engaged in rigorous debate, making for a long process. Thanks to the extraordinary efforts of Chairmen Robert Goodlatte and Lamar Smith, Ranking Members John Conyers, Jr. and Melvin Watt, and Members Zoe Lofgren and Howard Berman, and of Undersecretary David Kappos, we have a chance to create patent legislation that will ensure some long-term fixes to our patent system. This legislation will address some issues that have tipped our patent system out of balance in recent years and have hindered innovation. While we were not ultimately able to support S. 23, we are grateful to Chairman Leahy and Ranking Member Grassley for helping to move this process forward. The draft House bill is a step forward. We appreciate the Committee's willingness to convene this hearing to examine the remaining issues that need to be addressed.

## I. Introduction to Cisco and the Coalition for Patent Fairness

As Senior Vice President and General Counsel of Cisco, I am responsible for the intellectual property policies of the world's largest manufacturer of the telecommunications equipment that powers the Internet, with over $40 billion in annual sales and over seventy thousand employees. Cisco's success as a company is a direct result of our ability to innovate. Our products originally were designed for communications within private or enterprise networks. When the public Internet emerged in the mid 1990s, our products found immediate application for worldwide use. Today's Cisco's networking equipment forms the core of the global Internet and most corporate and government networks. We have over 24,000 engineers, of which over 14,000 are here in the United States, as are the majority of our employees. We invest over $5 billion each year in research and development to create the next generation of networking equipment.

Cisco is but one of the technology firms that form the Coalition of Patent Fairness. The coalition represents a large cross section of America's technology industry. It consists of hundreds of members, including Apple, Autodesk, Dell, Google, Intel, Micron Technology Inc., Oracle, RIM, SAP, and Symantec.

[1] *See, e.g.*, Patent Reform Act of 2009, H.R. 1260, 111th Cong.; Patent Reform Act of 2007, H.R. 1098, 110th Cong.; Patent Reform Act of 2005, H.R. 2795, 109th Cong.

Together, we have more than 75,000 U.S. patents or pending patent applications. We are key users of the patent system, and we believe in it. Our companies invest billions of dollars into research and development and have helped create the innovative culture that drives the U.S. economy of today. I believe the Coalition's companies will allow the United States to maintain its competitive edge into the future.

## II. Patent System Failures and Court Reform

The American technology industry's success depends on a functional patent system that produces and protects quality patents. In recent years, this system has become increasingly difficult to navigate. The number of annual patent grants has risen from fewer than 80,000 in the early 1980s to more than 240,000 in 2010.[2] Consequently, our products are surrounded by "'patent thickets' – densely overlapping patent rights held by multiple patent owners."[3] Far too many of these patents never should have been granted.[4]

This thicket of poor-quality patents has spawned an entire litigation industry and impeded innovation. In the past couple of decades, for example, we have seen a rising tide of non-practicing entities and other patent owners bring suit based on poor-quality patents. *See* John R. Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants* 5 (Stanford Law School, John M. Olin Program in Law & Economics, Working Paper No. 398, Sept. 16, 2010) (finding that non-practicing entities acquire patents for the primary purpose of litigation); PriceWaterhouse Coopers, *2009 Patent Litigation Study* 4 (2009) (showing a tripling in the number of patent actions filed since 1991). These litigants have taken advantage of venue rules that encouraged forum shopping.[5] They have also benefitted from damages rules that create massive uncertainty about how to measure infringement awards, leading to unmeritorious settlements that distort the value of patents.[6] This litigation industry has enriched lawyers at the expense of

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[2] *See* U.S. Patent & Trademark Office, *U.S. Patent Statistics Chart: Calendar Years 1963 - 2010* (2010).

[3] Federal Trade Commission ("FTC"), *The Evolving IP Marketplace: Aligning Patent Notice & Remedies with Competition* 56 (Mar. 2011).

[4] *See* John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205-06 (1998).

[5] *See, e.g.*, Mark A. Lemley, *Where to File Your Patent Case*, 38 AIPLA Q.J. 1, 3 (2010).

firms who provide Americans with real technology and quality jobs. This abuse must stop.

Fortunately, the courts have begun to address some of these issues. For example, the Supreme Court and the Federal Circuit have heightened the standards for willful infringement and injunctive relief. *See eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (requiring courts to balance the equities to justify ordering an injunction, rather than relying on the then-default rule of granting an injunction); *in re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc) (increasing the legal standard for finding willful infringement). The Federal Circuit has recently issued rulings that have addressed the damages and venue issues. *See, e.g.*, *Uniloc USA, Inc. v. Microsoft Corp.*, -- F.3d. --, Nos. 2010-35, 2010-1055, 2011 WL 9738 (Fed. Cir. Jan. 4, 2011) (eliminating the so-called 25 percent "rule of thumb" for calculating a reasonable royalty rate); *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008) (ordering the transfer of a patent suit to a "far more convenient" venue). Although these issues were high on our agenda in earlier Congresses, these recent court decisions have improved the landscape for this country's innovators. In contrast to years past, the Coalition for Patent Fairness is now comfortable that the current legislation does not attempt to address issues such as damages, venue, willfulness, and injunctive relief. We feel confident that the courts will continue to issue rulings that promote innovation and help consumers purchase innovative products at lower prices.

However, courts can only do so much to change how the patent system works. Only Congress can reform the laws on which the patent system rests. We applaud the provisions in the proposed House bill that will better fund the U.S. Patent and Trademark Office's ("PTO"). The proposed bill will grant the PTO the authority to adjust its fees, ensuring that it has additional funding for processing, materials, and other services in an electronic age. A better funded and more efficient PTO will be able to better analyze patent applications and conduct reexaminations. We likewise support the proposed post-grant review system. Under current law, the PTO can reexamine patents based only on the basis of "patents or printed publications." 35 U.S.C. §§ 301, 302, 312. The proposed post-grant review procedure would expand the bases on which the PTO can evaluate the validity of a patent for at least a short period after the patent has issued. This

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[6] *See, e.g.*, *Imonex Servs., Inc. v. W.H. Munzprufer Dietmar Trenner GmbH.*, 408 F.3d 1374, 1379 (Fed. Cir. 2005) ("The entire market value rule permits recovery of damages based on the value of the entire apparatus containing several features, where the patent related feature is the basis for customer demand.") (internal quotation marks omitted).

expanded procedure will help weed out junk patents and allow America's innovators to produce technology at lower prices.

## III. Improving the Patent System Through Legislation

The House's current patent reform bill has improved on the Senate bill, S.23. However, the House must go further in promoting innovation by making several additional changes that I will detail below. If these changes are made, Cisco would strongly endorse the bill. Moreover, we believe these changes will not disrupt the interests of other stakeholders. These changes largely track discussions between my counterpart from a company in a different coalition and me. The discussions were conducted with the help and engagement of the Administration. As we have expressed before, we are very grateful to Secretary Locke, Undersecretary Kappos, and General Counsel Kerry for leading discussions that arose out of the CEO Summit President Obama led last December. Based on these discussions, we offer comments and suggest necessary changes on three specific topics: prior user rights, inter partes review, and supplemental examination.

### A. Prior User Rights

First, the House should ensure that prior user rights remain in any final legislation. Prior user rights are vital to a functional first-to-file system. These rights protect users who have already commercialized an invention, but were not the first to file a patent application. Every country in Europe, other than Cyprus, has a prior user right provision, as do Japan and Korea. The Senate bill, S.23, lacked such a provision. Fortunately, the current House draft provides for a prior user rights defense.

The House should ensure that this provision remains in the final legislation. Nearly all stakeholders agree that a first-to-file system must have a prior user defense. For example, in 1993, Gary Griswold, then-General Counsel of 3M and current Chairman of the Coalition for 21st Century Patent Reform, wrote a paper advocating prior user rights in a first-to-file system. *See* Gary L. Griswold & F. Andrew Ubel, Prior User Rights – A Necessary Part of a First-to-File System, 26 J. Marshall L. Rev. 567 (1993). Likewise, Robert Armitage of Eli Lilly has testified on behalf of the American Intellectual Property Law Association ("AIPLA") in

support of prior user rights.[7] As Undersecretary Kappos stated so well in his prepared statement for today's hearing, Expanding the prior user defense, I believe, is pro-manufacturer, pro-small business, and, on balance, good policy.

Notwithstanding the exemption of university patents from the scope of prior user rights, some university licensing organizations still oppose prior user rights

On the other hand, we understand some other groups oppose a first-to-file system regardless of how it is formulated. The Coalition for Patent Fairness would likewise oppose a first-to-file system if there were no prior user rights. We do not file patents on every aspect of our products, as many are specific to our products and are unlikely to be infringed by competitors. Without prior user rights, domestic opportunists and offshore adversaries will accelerate the patent mills they have today to file on every minor change in an American product, and then use our courts to try to extract damages from the true innovators here, or to block us from selling our own products. The effect would be to set off an enormous defensive patent filing race which our current system does not require and would divert the valuable resources of America's innovators.

In his testimony, Undersecretary Kappos refers to the Canadian patent system's shift to first-to-file in suggesting that an increase in the filing rate might not occur. Canada, however, has a prior user rights system. Section 56 of Canada's Patent Act provides, "Every person who, before the claim date of a claim in a patent has purchased, constructed or acquired the invention for which a patent is afterwards obtained under this Act, has the right to use and sell to others the specific article, machine, manufacture, or composition of material patented or so purchased, constructed or acquired without being liable to the patentee or the legal representatives of the patentee for doing so."

**B. Inter Partes Review**

Second, the House should amend the inter partes review section of the current bill. A long standing goal of patent reform has been to improve the PTO's administrative procedures for challenging poor quality patents through reexamination. This procedure, if effective, can be an important tool to avoid costly litigation and ensure the overall quality of patents, by encouraging

[7] *See Patent System Harmonization: Hearing Before the H. Comm. on the Judiciary*, 109th Cong. 15 (2006) (statement of Robert Armitage, Senior Vice President and General Counsel for Eli Lilly & Co.).

resolution of complex questions of patent validity by the experts at the PTO instead of lay jurors. The proposed House bill improves on S.23's inter partes review (1) by retaining the "substantial new question of patentability" threshold necessary to institute a review; and (2) by extending the deadline from six months to nine months within which defendants in district court patent litigation may seek inter partes review. Despite these improvements, the proposed House bill still imposes standards on inter partes review that are more restrictive than current law. Several critical changes must be made to the bill's inter partes review provisions to ensure that the procedure is available as a viable, efficient alternative to litigation for weeding out bad patents.

### 1. Provide a Meaningful Period of Time for a Defendant to File a Reexamination

The proposed 35 U.S.C. § 315(b) from the draft bill bars defendants in a district court patent litigation from seeking inter partes reexamination after nine months after service of the complaint. This provision creates an extremely compressed schedule for defendants to review the patents, search for invalidating prior art documents, and prepare a inter partes petition to the PTO. Many cases that those in the technology industry face now involve multiple patents and multiple defendants. For example, in *In re Katz Interactive Call Processing Litigation*, Nos. 2009-1450, -1451, -1452, -1468, -1469, 2010-1017, 2011 WL 607381 (Fed. Cir. Feb. 18, 2011), thirty one patents were at issue with 1,975 claims in a case involving sixty five different defendants. In such complex litigation, time bars on reexamination petitions simply closes the door to inter partes reexamination. Recent studies show that such complex litigation is becoming more common such that longer timelines are needed for dealing with these complex cases.

Additionally, the proposed House bill creates tension with many district court scheduling orders in patent litigation. It is often difficult for defendants to determine the likelihood of success in an inter partes examination – or even the relevant prior art documents to present in a petition – before the claims of the patent at issue have been interpreted. District courts, however, routinely wait to interpret the patent claims until after considerable discovery has been made in a case. For example, the District Court for Eastern District of Texas's local rules provide for hearings on patent claim construction more than nine months after institution of the case. *See* Local P.R. 4-6 (E.D. Tex.).

### 2. Omit any Provision Limiting an Accused Infringer's Ability to Petition for Inter Partes Reexamination

The proposed 35 U.S.C. § 315(a) in the draft bill would place strict limits on when an accused infringer could petition for inter partes review. Specifically, the provision would bar inter partes review whenever an accused infringer filed a declaratory judgment action of invalidity, even on a basis unavailable for inter partes review. Currently, a party may only request inter partes reexamination based on another patent, printed publication, or double patenting.[8] This short list excludes many bases for challenging patent validity, such as prior public use, prior sale or offer for sale, indefiniteness of the patent's claims, lack of written description, or lack of enablement. If proposed § 315(a) is passed, a party could file a "civil action challenging the validity of a claim of the patent" because the patent failed to describe the invention, only to later discover in good faith that another patent anticipates and that inter partes reexamination is foreclosed. Inter partes review should not trap litigants who act in good faith. Further, the patentee has the ability to avoid any such declaratory actions since the patentee can avoid declaratory jurisdiction by not accusing others of infringing its patent. The House should, therefore, strike this provision limiting an infringer's action.

### 3. A Necessary Automatic Stay Provision

Today, defendants in district court or International Trade Commission patent infringement actions often choose not to petition for inter partes reexamination, even though the PTO may be in a better position to assess complex patent validity arguments. One reason is that defendants are concerned that they will be forced to fight the patent on two fronts simultaneously: before both the court and the PTO. To alleviate this concern, end the prospect of inconsistent results, and promote efficient, non-duplicative use of government resources, the House should provide for a mandatory stay of the district court litigation if requested by any party. At a minimum, the proposed four-factor test for a stay that appears in the draft bill should be modified to avoid exceptions related to "tactical advantage" which in many cases could obviate the case for a stay.

A mandatory stay provision should be modeled after 28 U.S.C. § 1659(a), which provides for mandatory stays of district court litigation when the parties also are engaged in an International Trade Commission investigation on the same patents. The rationales behind § 1659(a) – ending duplicative litigation and

[8] *See* Manual of Patent Examining Procedure § 2658.

inconsistent results – apply equally to inter partes review. Additionally, any prejudice to the plaintiff from the stay during inter partes review is minimized. Section 316(a)(12) of the proposed House bill provides that a final determination in an inter partes review shall be issued within one year after institution, except for good cause. Thus, the delay to a multi-year patent case from a stay would be negligible.

**C. Supplemental Examination**

Third, the House should strike or substantially amend the supplemental examination section. Patent applicants "have a duty to prosecute patent applications in the Patent Office with candor, good faith, and honesty."[9] Under current case law, if a patent applicant breaches that duty by (1) failing to disclose material information or submitting materially false information to the PTO with (2) intent to mislead or deceive the examiner, then a court can hold a patent unenforceable.[10] Some defendants have abused this defense by asserting frivolous claims of inequitable conduct. The Federal Circuit has already limited this abuse by requiring pleading of the facts with particularity. *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1328 (Fed. Cir. 2009) ("In sum, to plead the 'circumstances' of inequitable conduct with the requisite 'particularity' under Rule 9(b), the pleading must identify the specific who, what, when, where, and how of the material misrepresentation or omission committed before the PTO."). In addition, the Federal Circuit is considering en banc the use of other measures to curb such abuse. *See Therasense, Inc. v. Becton, Dickinson & Co.*, 374 F. App'x 35 (Fed. Cir. 2010).

Instead of waiting for the courts to reform inequitable conduct, some have proposed a supplemental examination. The Coalition for Patent Fairness and other stakeholders across the spectrum believe that the Federal Circuit's decision in *Therasense* will obviate the need for the supplemental examination system. The House bill would undermine judicial developments by providing for supplemental examination. As drafted, supplemental examination effectively nullifies a patent applicant's duty of candor. Under this proposed examination, a "patent owner may request supplemental examination of a patent in the Office to consider, reconsider, or correct information believed to be relevant to the patent." This provides a patent

[9] *Honeywell Int'l Inc. v. Universal Avionics Sys. Corp.*, 488 F.3d 982, 999 (Fed. Cir. 2007).

[10] *See, e.g., Advanced Magnetic Closures, Inc. v. Rome Fastener Corp.*, 607 F.3d 817, 829 (Fed. Cir. 2010).

applicant with an incentive to conceal material information and wait to disclose it to the PTO only once the applicant realizes that it has been caught. Thus, supplemental examination would give a patent owner a second chance of being candid with the PTO after deceiving the office the first time around. Congress should not provide patent applicants with an incentive to deceive and cure that inequitable conduct through supplemental examination. Thus, the provisions on supplemental examination should be struck.

**Conclusion**

We appreciate the opportunity to appear before the Committee today. With modifications detailed above, Cisco believes your bill will meet our minimum needs. The bill will not meet all of our aspirations, but it will reflect what is possible in a world with many stakeholders who have different interests.

Mr. GOODLATTE. Mr. Vaughn, welcome.

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

Mr. VAUGHN. Chairman Goodlatte, Ranking Member Watt, Members of the Subcommittee, thank you for this opportunity to present the views of the university community on H.R. 1249.

Let me begin by saying how much the university community appreciates the dedication that you and your Judiciary colleagues have devoted to this extremely important issue. After more than 6 years, the collective effort is making great progress toward a balanced set of proposals that, indeed, will strengthen our present patent system to create jobs at home and strengthen our economic competitiveness abroad.

Universities use the patent system to license our inventions to a wide range of private sector companies. In order for this university technology transfer system to work, we need a level of patent certainty that will allow our licensees to develop these discoveries in confidence.

H.R. 1249 includes a number of key provisions that strengthen patent certainty. Among these are adoption of a first-inventor-to-file system, which will harmonize the U.S. patent system with that of our major trading partners; a new post grant opposition proceeding to challenge patents immediately after their issuance, eliminating patents that should not have been granted and strengthening those that survive the challenge; providing increased resources to the PTO through expanded fee-setting authority and provisions allowing the office to retain those fees that it collects; allowing third parties to submit prior art to the PTO concerning patents under examination.

However, we have two major concerns with the draft bill. First, we are very concerned about the broad expansion of prior user rights. From its origins in the Constitution, the U.S. patent system has effectively promoted the progress of science and the useful arts by establishing a quid pro quo of granting monopoly rights for an invention in return for disclosure to the public of information about that invention.

Universities believe that expanding prior user rights is an unwise expansion of immunity from the assertion of patent rights. Such expansion would reduce patent certainty, and that reduction in patent certainty would impair university technology transfer.

We are also concerned about the impact of expanding prior user rights on academic publishing. While the effective grace period included in H.R. 1249 would encourage publication by protecting inventors from others patenting their inventions, expanding prior user rights would have exactly the opposite effect.

Early publication would permit others to prepare a competing trade secret product that could be immune from a charge of infringement of a patented product or process emerging from that published research.

We do acknowledge and appreciate the attempt to address university concerns by providing a legislative carve-out for university patents under which the prior use defense could not be applied to university patents arising from Federal or university funding.

While such a carve-out could mitigate the harmful impact on university licensing, clear problems would remain.

Many companies to which universities license their patents intermingle university patents with their own in developing new products. The commercial prospects for those products would be at risk with the expansion of prior user rights since it would increase the vulnerability of nonexempt patents to a prior use defense by a competitor.

This problem would be especially acute for the small, often undercapitalized startup companies to which universities frequently license their inventions.

The second area which we believe needs to be addressed is the threshold by which an inter partes review can be initiated. The Senate bill, S. 23, includes two provisions that reduce the prospect of using the inter partes procedure to mount harassing serial challenges—first, by expanding the estoppel provisions to include issues that reasonably could have been raised and, second, by raising the threshold for initiating an inter partes review.

The House bill reduces the threshold to the lower current law standard. We appreciate the retention in the House bill of the broadened estoppel language, but urge the Judiciary Committee to reinstate the higher threshold for initiating an inter partes review.

Universities applaud the many strong provisions that are contained in H.R. 1249. We hope that we can work with the House Judiciary Committee and with relevant stakeholders to address the two concerns raised here so that the recent progress continues toward a successful completion of this extraordinarily important endeavor to enact comprehensive patent reform.

[The prepared statement of Mr. Vaughn follows:]

**STATEMENT OF**

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

**ON BEHALF OF THE**

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

**BEFORE THE**

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

**MARCH 30, 2011**

America's universities and medical colleges are the principal source of the basic research that expands the frontiers of knowledge and produces discoveries that enhance our national security, strengthen our economic competitiveness, and enrich the lives of our citizens; in 2008, according to the National Science Foundation, universities performed 56% of the nation's basic research. Although the primary means by which university research results are disseminated is through peer-reviewed publications, conferences, and other forms of open communication, the nation also benefits substantially when technology transfer processes facilitate the movement of fundamental discoveries from university research into the commercial sector for development into useful products and processes.

The landmark 1980 Bayh-Dole Act, which authorized universities and small businesses to retain patent and licensing rights to inventions resulting from federally funded research, has been an extraordinarily successful mechanism for facilitating the transfer of basic discoveries into the commercial sector for development. Prior to 1981, fewer than 250 patents were issued to U.S. universities annually and discoveries were seldom commercialized for the public's benefit. By contrast, according to the Association of University Technology Managers' most recent licensing survey, 3,417 U.S. patents were issued to U.S. universities during 2009 alone, while 596 new companies were formed and 658 new products were introduced based upon university inventions.

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

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

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

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

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

patent system. University inventors typically are faculty members who first publish in academic journals and later consider whether to file to obtain a patent. Before filing a patent application, universities often need time to consider the potential commercial application of a basic research finding, which may not be obvious at the point of discovery, and to assess the receptivity within the commercial sector to licensing any resultant patent for development. Moreover, the budgetary limitations on non-profit universities often constrain the resources they can devote to rapid filing of fully developed patent applications. All such practices are accommodated in a first-to-invent (FTI) system but could have been compromised in a FITF system.

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

Creation of a New Post-Grant Review Proceeding

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

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

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

Third-Party Submission of Prior Art

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

**Areas of Concern**

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

Expansion of Prior-User Rights

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

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

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

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

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

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

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

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

Lowered Threshold for *Inter Partes* Review

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

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

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

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

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

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Mr. GOODLATTE. Thank you, Mr. Vaughn.

As everyone can observe, we have 4 minutes and 45 seconds, now 36 seconds left in this vote. So the Committee will stand in recess,

and we will begin when we return with a brief opening statement, well into the hearing, from the Ranking Member of the full Committee and then immediately go into questions for the witnesses. If you all can remain, we appreciate your forbearance.

The Committee will stand in recess.

[Recess.]

Mr. GOODLATTE [presiding]. The Committee will reconvene for take four, and we hope this is the last stretch here.

We thank all of you for your patience all afternoon, and I will recognize myself for questions.

When Ranking Member Conyers gets here, we will allow him to give his opening statement a little late into the program. But still welcome.

Let me start with a question for you, Mr. Chandler. How would you address the concerns of those who argue that an overexpansion of inter partes would be used to harass independent inventors and small businesses?

Mr. CHANDLER. I'm sensitive to that concern. I think it's extremely important in the inter partes process to strike a balance between the need to ensure that there is a review process by which patents that shouldn't have been granted are looked at and, at the same time, not create undue cost or burdens or delay for patent holders, whether independent inventors or otherwise, who have the right to enforce their patents against those who are infringing.

And striking that balance is not easy, as we've seen in the process of putting this legislation together. I think there are several principles that are useful to keep in mind.

First, in the case of litigation, we—there should be a time period within which an inter partes review is initiated so that one does not litigate for years, try to get to a conclusion, and then, all of a sudden, find oneself in another forum back at the Patent Office.

It's our view that while moving from 6 months to 9 months in the legislation that's before you today was a move in the right direction, it's conceptually better to tie it to the Markman exam because then you have the claims construction as part of the review.

At the same time——

Mr. GOODLATTE. Is that in your testimony, when you said you had ideas for improving the supplemental exam provision in the bill, is that some other ideas you have there as well?

Mr. CHANDLER. Yes, on supplemental exam, I understand the concerns you raise about the process as a whole, given judicial action. But right now, it says that if supplemental—you can't use the results of a supplemental exam in pending litigation. We think that a supplemental exam procedure that also said you can't use a supplemental exam to cure a problem if you've been actively pursuing nonexclusive licensees in a way that would allow the potential licensee to file a DJ against you, you shouldn't be able to seek the supplemental exam in that case either.

So that people don't go out and start licensing programs to collect money on a patent where they know they weren't forthcoming, and then only when they're faced with litigation do they go in and cure the problem. But with that kind of modification, I think we could move forward with that supplemental exam.

Mr. GOODLATTE. Mr. Vaughn, can you speak to the universities' perspective on the prior user rights provision that includes an absolute exemption for universities and technology transfer organizations? And what changes would you make?

Mr. VAUGHN. Well, I—changes—there are some changes I think that could be made that——

Voice. Push your microphone button.

Mr. VAUGHN [continuing]. Would improve it. But I think our broader concern is just the impact on the system overall, independent of a university carve-out. The concern we have about a carve-out is that it would not cover, say, privately funded university patents, and frequently, funding for research projects includes a mix of Federal, university, and private funds.

We are also very concerned about the issue I mentioned of the intermingling of patents that would be exempt in a carve-out with patents in a product that wouldn't be exempt. And particularly, the concern about the impact of expanded prior user rights on the startups that often emerge out of university research that wouldn't be touched by in their own IP with—with a university carve-out.

So I mean, I think I want to be clear that——

Mr. GOODLATTE. You are clear, and I need to get one more question in here with my time.

Is the shift from first-to-invent to first inventor to file constitutional? And I will ask any of you this question. Is it true that our current filing system was created through the 1952 act and has not necessarily been the same since our Nation's founding?

Anybody want to take a stab at that? Mr. Miller?

Mr. MILLER. I'll be happy to, Mr. Chairman.

The Constitution says that the Congress shall grant to inventors, and a first-inventor-to-file system also includes that that person is an inventor. They are an inventor of the technology, and so it would be within the Constitution.

In fact, all of the studies that we've had since 1965 on haven't questioned the constitutionality of a first inventor to file provision. So I don't think that there's a real issue here at all because it's just a procedural mechanism as to determine who gets the rights as an inventor.

Mr. GOODLATTE. Thank you.

The gentleman from North Carolina, Mr. Watt, is recognized.

Mr. WATT. Thank you, Mr. Chairman.

Mr. Miller, I identified several issues that you and Mr. Bartlett and Mr. Chandler were at odds about, and I probably have forgotten some of them. But I do remember this whole stay provision was one of them.

I just wanted to give you the opportunity to give us your perspective on it, and then I would ask Mr. Chandler and Mr. Bartlett to do the same and see if there is some way we can reconcile what the three of you all are saying. I am in the reconciliation business, as you have probably gathered by now.

Mr. MILLER. Thank you, Mr. Watt.

You know, I think we're in the reconciliation business, too, and we've done a lot to try to get there. My concerns are by both lowering the standard for getting into an inter partes re-exam and really putting these stay provisions that a court has to look at, that

we allow abuse by serial infringers to come in and try to delay proceedings by taking the lower threshold, finding a new question of patentability, and then slowing down the litigation process as much as possible so that we don't get a quick resolution that Mr. Chandler was mentioning.

So that's my concern is that the combination of those two are going to give an advantage to an infringer to the detriment of patentees that need to quickly assert their patent rights.

Mr. WATT. And Mr. Chandler, and then I want to go back to Mr. Miller to see whether there is—well, you tell me what you have to say on this, and then I will listen to Mr. Bartlett. But at the end of this, my ultimate question is, is there a way to reconcile where the three of you are on this issue?

Mr. CHANDLER. Well, first of all, one of the key provisions in the currently considered legislation is—and this goes along with the funding for the Patent Office and the ability to keep the fees that we users of the system pay—is a commitment that re-exams will be completed within 12 months. And that's a very important part of the Administration of the re-exam process that is covered here. So we're not talking about a long delay. We're talking about coordinating processes between different bodies that have responsibility here.

Our view of the stay provision is four factors is the right number of factors if you don't make it an automatic stay. The provision bill is for a short-term stay to begin with, only through the period of the re-exam anyway.

If we were going to have four factors, we'd keep four factors. But on one of them, it says that there has to be a finding there is no undue burden to the patent holder and no clear tactical advantage to the movant. We simply want to say no undue burden to the patent holder because we think that standard of clear tactical advantage can be used by any judge to deny a stay since, obviously, there is an advantage to having a stay because you avoid getting a district court making a finding that's inconsistent with what the Patent Office is doing. That's why you're seeking the stay, and that's why you've sought the re-exam.

So that's mine.

Mr. WATT. All right. We are going to come back and reconcile this in a little bit.

Mr. Bartlett?

Mr. BARTLETT. Mr. Watt, in the efforts——

Mr. WATT. I am so used to seeing you over in Financial Services, I am feeling like you are out of place over here.

Mr. BARTLETT. I've been all over. It's my hope at the conclusion of the hearing that we will—we will see you as an original cosponsor of the legislation, Mr. Watt, as you started off at the beginning.

In an attempt to reconcile, first of all, it's my opinion, it's my belief that what we're talking about, which is the business method patent, is not applied to the topic of—the other topic of the mandatory stay. So this is carved out specifically for this.

The reason I think it is reconciled is that at least we had believed and still believe that the right answer would be a mandatory stay, an automatic stay, and we were not able to convince the bill's

sponsors of that. So, absent that, then a stay that is a de novo stay would make it work.

Without a de novo stay, it would be a meaningless right. Our attorneys have looked through the records, and without a de novo stay, it would revert to an abuse of discretion standard, and we can find no civil litigation which an abuse of discretion standard has been applied to apply for a stay. So we think that the—that the de novo stay is essential to make this work. Otherwise, it just doesn't work.

Mr. WATT. Why did I think the whole financial services community would be on the opposite side of business methods stuff? I thought the financial institutions would be the ones that would be developing business methods rather than the ones that were being attacked by these business methods patents, and I was just absolutely off base on that, I found out after I started studying this issue.

Mr. BARTLETT. Mr. Watt, this is a serious, serious issue for the financial services industry. It's overwhelmingly——

Mr. WATT. I shouldn't have gone there. That is all right. I ran out of time. I need to get this reconciled. That is another issue. I will talk to you about that one off record.

Reconcile you all's positions for me. Is there some way to reconcile?

Mr. MILLER. I'm not sure. We're going to have to sit down, and maybe you can help us with that, Mr. Watt.

Mr. WATT. All right.

Mr. CHANDLER. I think you might ask Mr. Kappos as well. I spent a good part of February locked in a room with Under Secretary Kappos, with the general counsel of the Commerce Department, and with one of my counterparts who is the general counsel of a large pharmaceutical company. And some of the language that Under Secretary Kappos has circulated was a reflection of those discussions, where we tried to be very, very reasonable in coming up with an approach that would——

Mr. WATT. I take it that is not in the Chairman's bill? That is not the language that is in the——

Mr. CHANDLER. It's not precisely, but we're happy to work further on that.

Mr. WATT. Thank you, Mr. Chairman. I'm sorry——

Mr. GOODLATTE. No problem. I thank the gentleman.

I now recognize the gentlewoman from Florida, Mrs. Adams, who does not have a question. We now yield to the Chairman of the full Committee, Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Chairman, first of all, I would like to thank all of our witnesses because they directly or indirectly had an impact and a positive impact on this bill. And we sat down, either with you all individually or with the organizations you represented, and appreciate your being willing to work with us.

Mr. Bartlett, let me direct my first question to you, which is going to be an easy question. I appreciate a former colleague being with us today as well.

You touched upon this in your opening statement. But basically, I just would like for you to say specifically how some provisions in

this bill positively impact financial institutions. And since I wasn't here for all of Mr. Watt's questions, maybe he already asked you that. And if so, we can fast forward to the next one.

But if you could be specific about how you find this bill helpful, that would be good.

Mr. BARTLETT. Thank you, Mr. Chairman.

Because the current law gums up the system particularly because it's interoperable. It involves multiple institutions all engaged in answering a telephone or check imaging or—so it's all interoperable. So they all get sued, basically, and the system just kind of stops without some kind of protection for a post grant review.

So what this draft legislation does is it provides a post grant review based on these new factors as a way of reviewing prior art to determine if it should be a valid patent or not. And without that, then, in essence, our companies end up just settling because of the enormous cost of litigation and the threat of losing because the odds are stacked against them. They can't get a review as to whether it's a valid patent in the first place.

So this legislation for our section of it allows a valid—a review that's a valid review of whether it's a valid patent.

Mr. SMITH. Okay. Thank you, Mr. Bartlett.

Mr. Miller, let me ask you a question. You are with Procter & Gamble, and you represent a certain segment of companies in America, in fact, a very large segment of companies in America. How does the bill positively impact you all? And if you could be specific, that would be helpful, too.

Mr. MILLER. Sure. Absolutely, Mr. Chairman, thank you.

The bill positively affects us because we deal with a lot of small inventors. We deal with universities. We have an open innovation program that I'd referred to my written testimony. And the first-inventor-to-file system is going to make our system more transparent, able for us to make better decisions on whether we're going to be willing to invest capital.

It also lets us get rid of the poorer patents, the poorer-quality patents that come out of the Patent Office, through a post grant review proceeding and even, if necessary, an inter partes review proceeding. It fixes the false marking problem that many of our companies have been subjected to, and it also allows the Patent Office to get full funding.

The Patent Office needs full funding to do its job, but it also needs these other tools. And so, I think those are the key provisions of this bill that are going to help all of us throughout the United States spur innovation and create more jobs.

Mr. SMITH. Okay. Thank you, Mr. Miller.

Mr. Vaughn, let me jump to you and say as a preliminary statement that the goal in drafting this bill—during the entire process of researching, talking, negotiating, and developing—was not to get a bill that is going to make people necessarily 100 percent happy. Because if you do that, you also have a lot of people who are zero percent happy.

Now the goal to me was to try to get most people about 60 to 70 percent happy and have them emphasize the positive rather than the 30 percent where they were unhappy.

We have done a lot in this legislation that I think is beneficial to the university communities, and I understand that they are not entirely happy. But they certainly should be appreciative of the carve-out that they received, which might be looked upon as benefitting them more than some others might benefit.

But I would like to ask you a similar question, which is in what ways do you see the university community benefited by this bill? And even though you may not approve of it 100 percent, I would like to suggest that at least it is about 70 percent helpful to the communities.

And I did hear your opening statement. I understand the three or four points that you would like for us to take a further look at. But if you would, in this instance, tell me the positive aspects of the bill?

Mr. VAUGHN. I'd be happy to, Mr. Smith.

I think, first of all, that universities will benefit——

Mr. GOODLATTE. Mr. Vaughn, you need to turn your microphone on.

Mr. VAUGHN [continuing]. Directly or indirectly from provisions that strengthen the system overall. So even though it is not directly to the universities, increasing resources to the PTO is going to be enormously helpful to everybody.

In 2005 when the decision was made to incorporate first inventor to file, we spent a lot of time working with this Committee, working with other stakeholders to adjust the grace period, which is so critical to university publishing, and that has been fit perfectly to a first inventor to file. That will be an enormous benefit for universities.

We think that the new post grant opposition procedure will be very useful. We won't use it. Universities don't very often get into court, litigate their own patents. But I think it's going to be very helpful to our startups. Sometimes it will be that their patents will be challenged, but if they're solid patents, coming through that is going to give them a strengthened patent going forward.

And we think that the—the third-party input of information during a patent examination is going to be helpful. We've actually been working with IBM on trying to find ways to organize the graduate students, engineers, law students to organize systematic input to the patent system for providing better information. That's going to improve the quality of patents, and that will help as well.

Mr. SMITH. Thank you, Mr. Vaughn.

To me, the standard against which this bill is measured is the status quo, not necessarily the ideal. And to the extent that it is better than the status quo, then I would argue that it deserves support. So I appreciate your comments.

Thank you, Mr. Chairman.

Mr. GOODLATTE. I thank the Chairman, and I am now pleased to recognize the gentlewoman from California, Ms. Lofgren.

Ms. LOFGREN. Thank you, Mr. Chairman.

Mr. GOODLATTE. Oh, I am sorry. If you would suspend, I have forgotten I promised the Ranking Member that he could make a unanimous consent request.

Mr. WATT. Mr. Chairman, I ask unanimous consent to submit for the record a letter from our former colleague Steve Largent, dated

March 29, 2011. He is now the president and CEO of the CTIA Wireless Association. A statement of Brian Fontes, dated March 30, 2011, and a 3-page statement from Claudio Ballard.

Mr. GOODLATTE. Without objection, it will be made a part of the record.

[The information referred to follows:]

CTIA
The Wireless Association®

Steve Largent
President/CEO

Expanding the Wireless Frontier

March 29, 2011

The Honorable Lamar Smith
Chairman
House Judiciary Committee
2409 Rayburn House Office Building
Washington, D.C. 20515

The Honorable John Conyers
Ranking Member
House Judiciary Committee
2426 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Smith and Ranking Member Conyers:

In 1996, the Federal Communications Commission ordered wireless carriers to provide mobile 911, the ability to determine the location of a wireless caller. Since that time, mobile E911 has saved countless lives and property and has become a vital public service. Over the past few years, we have become aware that patent lawsuits filed by different plaintiffs against all of the major wireless carriers all assert that the federally mandated provision of location based E911 infringes upon their patents.

While I express no opinion as to the validity of these patents, the ability of plaintiffs to assert (after so many years have passed since the service was created) that an essential, mandated government function such as E911 infringes upon any patents greatly concerns both CTIA's membership and public safety. We are confident you recognize the incredible harm to our citizens and our economy that would result from a significant disruption to or the loss of mobile E911 services.

It is my understanding that the House Judiciary Committee will soon be addressing the issue of patent reform in the context of the "America Invents Act." Fortunately, there is an existing federal statute, 28 U.S.C. 1498, which is relevant to the conditions I have outlined. CTIA strongly supports this solution and respectfully requests that it be incorporated as part of the Manager's Amendment to the "America Invents Act" so as to protect and strengthen one of the nation's most important assets – our E911 system.

Sincerely,

Steve Largent

Steve Largent
President and CEO

**STATEMENT OF**
**BRIAN FONTES, CEO**

**On Behalf of the**

**National Emergency Number Association**

**Before the**
**United States House of Representatives**
**Subcommittee on Intellectual Property, Competition and the Internet**
**Committee on the Judiciary**

**H.R. ____, the "America Invents Act"**

**March 30, 2011**

Chairman Goodlatte, Ranking Member Watt, Members of the Subcommittee, my name is Brian Fontes and I am CEO of the National Emergency Number Association (NENA). On behalf of our members, I thank you for the opportunity to submit testimony today on a patent reform issue of great importance to our current and future 9-1-1 emergency response system.

My testimony today represents not just a national organization, but the thousands of individual members, call takers, dispatchers, and industry partners who work tirelessly to help those who dial 9-1-1 in times of need. NENA represents over 7,000 dedicated 9-1-1 and emergency communications professionals who receive and manage nearly 250 million 9-1-1 calls annually. These public safety professionals are the first link in the emergency response chain that so many Americans rely on every day. Access to critical technologies that enable 9-1-1 calls from *all* communication devices is essential to quickly and effectively locate and respond to an emergency call.

Intellectual property rights, in general, and patent rights particularly, are often considered an esoteric subject. Today, however, I would like to share a personal view of these matters, and explain how this Subcommittee's work has a direct tangible impact on the health and safety of every American.

**Importance of Wireless Service to 9-1-1**

As of December last year, it was estimated that there were over 302 million active wireless user connections in the country. A 2010 Centers for Disease Control and Prevention National Health Interview Survey estimates that over 51 million Americans today live in a household that relies solely on a wireless communication device. Of those living in a wireless-only household, over 21 million are children. With near universal access to mobile phones, it's no wonder that the majority of 9-1-1 calls now originate from mobile devices, and the development of Enhanced 9-1-1 (E9-1-1) services, that transmit the caller's location alongside the 9-1-1 call, is of particular value to emergency responders who rely on this location information to effectively dispatch assistance.

**Connection to the Patent Reform Goals of the "America Invests Act"**

In 1996, the Federal Communications Commission (FCC) mandated that all wireless carriers provide Enhanced 9-1-1 services. NENA fully supports this mandate, which has proven critical to our members' ability to carry out their responsibilities for protecting human life, preserving property, and maintaining the security of our communities.

NENA understands that companies subject to the FCC's jurisdiction and other non-communications companies own patents that are directly relevant to the introduction and provision of today's 9-1-1 public safety services, and that in the future new innovative service such as text-to-9-1-1 and video to 9-1-1, which are part of what is commonly called "Next Generation" 9-1-1 services. Importantly, Next Generation 9-1-1 services will be particularly dependent upon the relationships among carriers, essential service vendors, and public safety officials. Indeed, no single party is responsible for 100% of the wireless 9-1-1 call delivery process. Only through coordination and cooperation do all of the pieces come together for 9-1-1 these services to work.

Recently, some wireless carriers and vendors have been targeted by "Patent Assertion Entities" (PAEs). According to the Federal Trade Commission, PAEs' business models are based on purchasing and asserting patents only; most conduct no research and file no patent applications of their own. The FTC's Intellectual Property Report, released earlier this month, highlights

PAE's potentially detrimental impact on innovation. Lawsuits targeting wireless carriers and vendors for complying with federal E91-1 mandates show how PAEs can also negatively impact public safety, if left unchecked.

NENA is not an expert organization on intellectual property, so we express no opinion as to the validity of the PAE's patents or the merits of the resulting lawsuits noted earlier. However, as guardians of public safety and homeland security, we are fundamentally concerned about the impact of a plaintiff's ability to assert against some of our members claims that essential, federally-mandated functions such as providing E9-1-1 location information infringe *any* patents. In addition to directly impacting a wireless carrier's and its vendors' ability to carry out this requirement, we are very concerned about the chilling effect such threats will have on the development and release of new, advanced technologies needed to provide long-awaited and much needed enhancements to existing wireless E9-1-1 service capabilities. We are confident the Committee will recognize the incredible harm to our citizens and our economy that would result from a significant disruption to or the loss of existing wireless E9-1-1 services.

The FCC's mandatory 9-1-1 requirement highlights a classic intellectual property problem that is faced when a government requires private companies to provide a service deemed essential to the public. Wireless carriers MUST offer 9-1-1 services. However, litigation-minded patent holders, such as PAE's, can use the FCC's rule against compliant carriers and their vendors, and attempt to force parties into licensing agreements. This problem is especially vexatious for smaller vendors who cannot afford to defend themselves or who must indemnify their carrier customers, often facing crippling litigation expenses.

Fortunately, it is our understanding that, 28 U.S.C. §1498, provides that when patents (and copyrights) are used "by or for the United States…the owner's remedy shall be by action against the United States …for the recovery of his reasonable and entire compensation…" This, in effect, permits the federal government to fairly license patents when a regulated company's performance under the relevant mandate is factually determined to be "by or for" the United States.

Some wireless public safety vendors and carriers have communicated to us their desire to bring new and innovative public safety and homeland security services to the public. However, without legislation establishing §1498 as a method for overcoming potentially crippling E9-1-1 infringement claims, vendors and carriers are unwilling, or financially unable, to risk committing to new technologies. This statute not only provides an appropriate remedy that improves government access to location-based services by protecting providers from frivolous and burdensome claims when complying with federally-mandated requirements, but also preserves the rights of deserving patent holders in a manner consistent with federal law.

While on its surface this may appear to be a minor problem among the many patent reform issues the Subcommittee aims to address in this bill, left unaddressed this problem could result in substantial and significant consequences to many of our members who require unfettered access to critical technologies in times of emergency. H.R. ___, the "America Invents Act" provides an important opportunity for the Committee to address this critical issue. The Act would remove a significant barrier to our members' ability to provide critical 9-1-1 services today, while ensuring that wireless carriers and their technology providers are not deterred from developing and releasing new advanced technologies necessary to improve wireless 9-1-1 emergency response capabilities.

NENA respectfully requests that the Committee include language in H.R. ___, the "America Invents Act" language clarifying that 28 U.S.C. §1498 applies to patent infringement claims based on patents alleged to cover the provision of federally-mandated E9-1-1 services.

I thank you again for the opportunity to submit testimony on this important issue and stand ready to work with you, the FCC, and others in public safety to ensure this issue is resolved, and that advanced life saving technologies continue to be available to our first responders and those that rely upon them in a time of emergency.

Thank you.

Prepared Statement of Claudio Ballard, Inventor and Entrepreneur

My name is Claudio Ballard. I am an inventor and entrepreneur. I am currently a board member or officer for several different companies, including DataTreasury Corporation, which I founded with several business partners in the late 1990s. I'm here today to talk about my personal history, to provide a real world example of the fact that America's patent system is the strongest in the world, and to explain why carving out one segment of business – specifically, banks – for special interest "patent reform" is bad policy and harms everyday Americans.

Looking back, my life has been what many people may look at as the American dream – a dream that will be increasingly difficult for others to obtain if the "America Invents Act" is passed in its current form. My story begins at my birthplace, in Vicenzia, Italy.

I was born overseas to an Italian mother and an American father. When I was a small child, we moved to the United States – in no small part because of the greater opportunities for me, their only child, to be educated and to build a better future. My mother was a very creative and beautiful person, who appeared several times on the "Late Show with David Letterman," and also starred in a *Broadway Danny Rose*. My father was an engineer and loved computers. I like to think that I was blessed with some of my mom's creativity and some of my father's love of computers. But I was also blessed with a good amount of opportunity because of this country's strong patent system.

I started my first technology business while I was in college in the late 1970s; I soon dropped out of school to be in the technology business full-time. By the mid 1990s, I had started several businesses, with varying degrees of success. I had already received one patent for my first invention. And most importantly, I had a big idea about removing paper from many aspects of American business, and replacing that paper with electronic images for faster and more cost-efficient business processing.

I built a prototype computer system to show my new idea to a few early stage investors. Based on their interest, I was able to raise enough money to do something very important – file patent applications to protect my inventions. After doing so, we began to generate significant interest in my new inventions from various companies. One industry in particular that asked for more information from us was the banking industry. After signing contracts that we thought would protect us from having these patent-pending concepts taken without our permission, we met with the banking industry and showed how my inventions could save banks billions of dollars by removing paper checks from the payment process, and replacing them with electronic digital images.

We never were able to sell my inventions to any banks in those early years. However, many everyday Americans were interested, and DataTreasury raised over $20 million to try to commercialize my inventions. I founded DataTreasury

from scratch, with two business partners, but soon we had hundreds of shareholders, ranging from wealthy families worth billions of dollars to plumbers and school teachers. Soon, however, I was met with a daunting reality – the reason we hadn't been able to sell my invention to the banking industry was because they had decided to take it and use it without paying DataTreasury a dime.

If not for our strong patent laws, the investment and dreams of both myself and hundreds of other Americans would have been dashed, without any recourse, by the banking industry's actions. However, because DataTreasury had been able to obtain several patents for my inventions, we didn't back down in pursuing our rights, even from this most powerful of industries. We filed several lawsuits against many of the largest banks in the nation for infringing our patents.

Those lawsuits started eight years ago. Amazingly, this litigation is still pending today. Why? Because over the last eight years, the banking industry has done everything imaginable to try to discredit my patents and invalidate my inventions. First, they asked the Patent Office to strike the patents down in a reexamination. The courts put a stay in the litigation, causing a delay for nearly two years while the Patent Office re-visited our patents. Ultimately, the patents were entirely validated by the Patent Office's reexamination.

After that reexamination, the banks went even further. In 2008, they asked Congress to pass special interest legislation, to give every bank in America immunity from paying damages for infringing my patents. Recognizing that bailing out an entire industry in such a special interest fashion was bad policy, the legislative effort of the banks failed in that Congressional session.

After failing to invalidate DataTreasury's patents in both the Patent Office and in Congress, one bank even took DataTreasury all the way to a jury verdict in federal court. Last year, a federal jury sided with DataTreasury, ruling that my patents were valid and were being willfully infringed by the banks.

During this odyssey through the Patent Office, Congress, and the courts, I have never lost faith in the fact that justice would ultimately prevail. I did the right things, followed the rules of the Patent Office, and was blessed enough to have a valuable idea that has been proven to be a valuable invention. Today, many industry leaders such as JP Morgan Chase, Bank of America, Citibank, Wells Fargo, and others have now licensed my patents and have paid DataTreasury royalties to use this patented technology.

Yet other banks refuse to pay royalties to use our technology, and even today, the financial services industry is asking this Congress for more roadblocks to my company's ability to monetize its most valuable asset. The special interest legislation they seek now comes in the form of Section 18 – the "transitional review" proceeding. The banks urge that this new law is needed on policy

grounds – to protect them from having to defend lawsuits against "invalid" and "poor quality" business method patents. Let the record be clear – as an inventor, I completely agree that meritless patents shouldn't be clogging up the court system. However, the banking industry has written Section 18 so broadly that it targets even proven, valid patents like mine.

Section 18 applies retroactively, to patents like mine that were issued over a decade ago. Section 18 gives the banks that continue to ignore DataTreasury's property rights over this valuable technology another way to inject delay and uncertainty into the court proceedings that are already underway. Perhaps most illogically, Section 18 allows these banks to get the courts to stop our cases and have the Patent Office do what it has already done in the past, and what a jury has done as well - - weigh in on the validity of my patents.

Where is the justification for so many bites at the proverbial apple? How many times must a small businessman and inventor like myself pay lawyers and experts to defend his inventions in so many different forums? Why aren't patents like mine, that have been validated time and again in so many places, excluded from the process created by Section 18 to weed out invalid patents?

Issues like these have a real-world harm to me and my company. These uncertainties cause delay and significant expense to us, as we seek to enforce our patents for the good of our shareholders that believed in us so many years ago. It seems so unfair that the small businessman and inventor should have to keep paying for these delays while the Wall Street banks get another day to use my inventions without paying any royalties.

In the years since developing my inventions that DataTreasury's patents cover, I've built several other companies and been awarded many other patents. One of my companies is developing a technologically-advanced sports car, which is designed and manufactured right here in the United States. Just last year, I was named the 2010 Inventor of the Year by the United States Business and Industry Council. In all of these endeavors, the one constant key to my success has been the backdrop of a patent system that protects all novel ideas equally and vigilantly, without regard to the financial status of either the inventor or the infringer. I can only hope that Section 18 gets removed or otherwise modified to account for my company, its shareholders, and others like us, who have valid and validated patents. The banking industry does not deserve the opportunities created through this special legislation if it comes to the detriment of valid American inventors. Thank you for giving me the opportunity to address this respected body today.

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Mr. GOODLATTE. And the gentlewoman is recognized.

Ms. LOFGREN. Thank you, Mr. Chairman.

And I will be brief, as this is the end of a long day, but not the end of a very long process that goes back. I think I first started

working on this in 1997, and I think all of us here have been working on this for—well, except for the new parties, but really this has been more than a decade's work. And we have made tremendous progress.

As the Chairman knows, I am not yet a cosponsor of this bill because I think there are a few areas where we could improve it even further. And I say that certainly without criticism of the Chairman of the Committee, who has worked tirelessly with me and the others for over a decade to get to where we are today.

I believe, listening to Mr. Chandler and the work that Mr. Kappos has put into this, I would like to see what kind of resolution was reached. Obviously, you don't bind anybody else. You are just one general counsel and general counsel for some company and the patent commissioner.

But I sense that the defects here could be resolved by the stakeholders in a way that would work for everyone. And so, I am really eager to work with Mr. Smith and Mr. Goodlatte to see if we can't take that one step further.

I also think that—and nobody has really mentioned the inequitable conduct provisions here, but I think we need a little more work there, honestly. I certainly don't want to give a broad grant of immunity to people, license to lie to the Patent Office. And I think that we could tweak the provisions here and make some improvements, and I think we would all be satisfied if we did that.

On the first-to-file, I realize there are other challenges that we will face in the House on the whole first-to-file issue. Not every person in America thinks it is a good idea. But if we are going to have first-to-file, clearly we have to have adequate prior user rights, and I think someone mentioned that the only country that doesn't have prior user rights with first-to-file is Cyprus, hardly a role model for the United States.

As you know, I come from Silicon Valley, and I got an email this morning. And I won't read the whole thing, but it is from the general counsel of Stanford University. And she says, "Universities in general are very supportive of the bill, appreciating the comprehensive reform with first-to-file. We know that some universities are opposed to any expansion of prior user rights, even with the carve-out for university inventions derived from federally sponsored research. However, Stanford is satisfied with the current language. The most important thing is to get the reform bill passed with the first-to-file and not have the bill die because of a dispute with high-tech companies over prior user rights, which would leave us with the status quo."

So I think it is very significant that Stanford, with its enormous patent portfolio, has been willing to step forward and say let's do this, understanding that, as the Chairman has said, nothing is necessarily perfect. But I am satisfied with this statement from Stanford that we have struck the right balance there.

I was a little bit concerned, Mr. Vaughn, about your testimony about publishing, and I am having a hard time understanding the point that you have made. I don't see how prior user rights could create problems for academic publishing.

Publication within the 1-year grace period for the filing would be protected from any prior use during that period, and a company

could not get a prior use right for something that was started in response to a publication in the grace period. And if the publisher published outside of the 1-year grace period, then the publication would become prior art that would prevent the idea from being patented in the first place.

So I am seeking to understand your point. And because if it were a chill on publication, obviously that would be of concern to all of us. Can you explain?

Mr. VAUGHN. Well, I think, Congresswoman, that, absent a carve-out, there is concern that the timing could be such and with the murky sort of records of trade secret processes that you could publish something that would give somebody an idea, and they could develop that based on work that they had already started——

Ms. LOFGREN. I see.

Mr. VAUGHN [continuing]. And be able to show that they had developed the product within the time period. Having a carve-out would help that, although it wouldn't account for privately funded.

Ms. LOFGREN. I see that my time has expired, Mr. Chairman. I think, if I would just ask—I don't want to get in a debate. But I think the terms of the bill itself protect against the concern that you have expressed and would urge a further review of the language.

And I would yield back with my intention to work further with the Chairman of the Committee. I think that we can get to where we need to be, and I, for one, am willing to continue to work on it.

Thank you very much.

Mr. GOODLATTE. The Chair thanks the gentlewoman and thanks her for her commitment to this legislation.

And I am now pleased to recognize the gentleman from Pennsylvania, Mr. Marino, for 5 minutes.

Mr. MARINO. Thank you, Chairman.

Congressman, knowing that I have 5 minutes, my colleague, the Ranking Member, started to ask a question, and I am going to ask my question and perhaps you can elaborate on it and expand on it for a minute or two because I have another follow-up.

I notice a small, but significant difference between the House and the Senate bills that I would like for you to discuss. Under section 18 of the House bill, the standard of review for the interlocutory appeals is stronger, providing that the Federal Circuit shall review de novo the district court's decision to ensure consistent application of the established precedent.

Can you describe the significance of this and why it is important?

Mr. BARTLETT. Well, the reason—first of all, the fundamental reason it's important why the stay can be granted is because, otherwise, you're in two venues at once, and it gums up the whole works. So the post grant review becomes meaningless or at least more costly.

There have been several iterations. The iteration that came from the other body in the Committee, the Senate Judiciary Committee, was a mandatory stay of litigation, which was what we think ought to happen. That didn't survive the full body, and the draft legislation in front of you has a satisfactory solution, not as good as a mandatory stay, but it does have a solution that is, as I said ear-

lier, that is a de novo appeal. So we think if it's a de novo appeal, then a stay will be granted when it's warranted.

Without a de novo appeal, though, then it reverts to what's called an abuse of discretion, where to get a stay, you have to prove an abuse of discretion, and we find that to be—I find that to be, in my terms, a meaningless standard. It just simply cannot be achieved, and we haven't found it achieved anywhere else.

So we think that mandatory would be better. But with four factors and a de novo appeal, we think that works just fine.

Mr. MARINO. And my last question, I understand and support the goals of section 18 of the bill, which establishes a transitional review proceeding at PTO where certain financial service business methods, method patents can be examined. I also understand that the point of the transitional review program is to weed out spurious or invalid patents at an early stage.

My concern is in regards to certain patents that have, one, already been litigated to a jury verdict and found to be valid and/or, two, if the Patent Office has already completed a full re-examination of that particular patent and found it to be valid. Can you explain to me why it would be either fair or good policy to subject the transitional program in section 18 to a patent that has been found valid through ex parte re-examination or a full jury trial?

Is there room for some sort of limits on how far back or which patents this transitional program can reach so that we aren't relitigating and reevaluating patents that have been found again and again to be valid?

Mr. BARTLETT. In layman's terms, because this—this post grant review process would be the first—would be the first review under these terms, and the other processes that occurred didn't occur under these terms. So we think that this is a program to be administered by the Patent Office, and the Patent Office would do a post grant review based on prior art for 1 year, and we think it would help to clear out the system, as well as establish these new valid reviews.

So we don't think in those cases where there's been a prior review that it would obviate the need for this review.

Mr. MARINO. Mr. Miller, could you add anything to that?

Mr. MILLER. Well, I think it's just one more delay. If a court's already adjudicated the issue, I don't know why we'd want to go back to the Patent Office under this transitional provision and subject that person to another round of review. It seems like a waste of time and effort on both parties' side. You know, this isn't a good use of resources of the PTO or of the court.

Mr. MARINO. Thank you, and I yield my time, Chairman.

Mr. GOODLATTE. Thank the gentlemen, and the Chair yields to the gentleman from Florida, Mr. Deutch for 5 minutes.

Mr. DEUTCH. Thank you. Thank you, Mr. Chairman.

I would like to just continue that line of questions. I appreciate the hearing very much, Mr. Chairman, and there were a number of questions I wanted to ask. But since this last exchange reminds me of a specific situation with a Floridian, I would like to actually walk through, and I always find it helpful if there is some detail, some real-life experiences to draw on instead of speaking only in the abstract.

So, if I may, Mr. Chairman, let me just share the story of Claudio Ballard, who, in the mid 1990's, Claudio, who is a Floridian, had an invaluable idea that would improve businesses in the United States by replacing paper with electronic images. The change would save business money by being more efficient, promote faster processing.

He built a prototype of the computer system that would put his idea into effect. He showed the prototype to investors, began raising money to put the idea into effect, and filed patent applications to protect his idea and the invention.

Once the patent applications were filed, numerous companies began expressing interest in the invention. One industry that showed particularly strong interest in the product was the banking industry, which, Mr. Bartlett, is why I would like to focus on this particular example.

Claudio met with the industry and demonstrated that his invention could remove paper checks from the payment process and replace them with electronic images, change that could potentially save the industry billions of dollars. In an effort to protect his invention, he signed contracts that he thought would prevent his products that were still pending for patents from being taken without his permission.

As time went on, he was unable to sell his invention to any banks. He founded a company to raise capital, attempt to sell his invention. However, he became aware that the reason he couldn't sell the invention was because many banks had already decided to use the invention themselves without paying his company even one penny.

Now because Claudio had patents on his product, he filed lawsuits in Federal court against the banks for infringing on his patents. In response to the lawsuits, there was an effort made by the banks to invalidate the patents. First, a request that the Patent Office conduct a re-examination and strike the patents. The courts delayed the litigation during the 2 years that the Patent Office re-examined them, and ultimately, they found the patents were validated.

Next, one bank decided to continue to pursue the litigation, and last year, a jury verdict, after reviewing all of the evidence in the case, rendered a decision that the patents were valid. Jury also found the patents were being willfully infringed by the banks. And so, after 8 years, when the first lawsuit was filed, many of the banks have licensed his patents. They are using the technology he invented, and they are paying his company royalties for the use of the product.

So now, drawing back to today's hearing, section 18 of the legislation is a transitional program for business method patents. And again, this is following up on the last line of questioning. And while I fully support, Mr. Chairman, the purpose of section 18 and the creation of a transitional program to weed out invalid and poor-quality patents from the old system, I have got real concerns that the scope of the section could, in effect, invalidate patents that have been found valid by a jury in our court system.

And so, Mr. Bartlett, just now having added some specificity to this line of questions, if the purpose of the section, section 18 is to

target invalid patents, why is it—and I wasn't clear in your response, your last response—why is it that in cases in which a patent has already been re-examined by the Patent Office and found to be valid, and that it has been found valid by a jury, why should these patents be included within the scope specifically of this section 18 review?

And aren't we invalidating Federal court decisions and giving losing litigants—in the case of Claudio, the banking industry—another try at invalidating patents that have already been found valid by a jury and by the Patent Office?

Mr. BARTLETT. Well, first, this section only applies to business method patents and not to other patents, and it could well be that that was not a business method patent. But secondly——

Mr. DEUTCH. Let us assume that it is.

Mr. BARTLETT. Then for the record, I might be able to offer additional for the record on that. But, and the answer is because without this, then there has not been a post grant review based on best prior art. So perhaps a lot of other things were taken into account by the court or by the Patent Office, but there was never an authorization to examine it against best prior art.

So we think that what is needed here to clear out the system and to stop what is clearly to us the abuse is a review against best prior art. And that has not been permitted in prior cases.

Mr. DEUTCH. Mr. Chairman, if I could ask the other witnesses, if there is in a situation like this where the patent has been re-examined, a thorough examination by the Patent Office, are they precluded from looking at prior? Is there anything in that review that is problematic in a system that has existed now and has provided for this sort of thorough review? If someone else could speak to this?

Mr. MILLER. I'll be happy to try, Congressman.

I think this is the whole balancing issue that we have to really address with these provisions. We don't want to have legitimate inventions given to infringers to have second, third, and fourth bites at the apple. And unfortunately, this transitional provision, even though it's limited to narrow business method patents for financial institutions, in essence, gives a second or third bite at the apple to folks that have had to go through other processes.

And I think it's a good idea perhaps to look at building an estoppel, just like we built an estoppel into the post grant review and inter partes re-exam procedure.

Mr. DEUTCH. Mr. Chairman, I just would hope, as we move forward, that we look at different ways to create some sort of estoppel system for patents that have already been through re-examination by the office, found to be valid, and found to be valid by a court of law as well.

I yield back. Thank you, Mr. Chairman.

Mr. GOODLATTE. Good point. Thank you, Mr. Deutch.

The gentleman from New York, Mr. Reed, is recognized for his questions.

Mr. REED. Thank you, Mr. Chairman.

Thank you, gentlemen, for your testimony today.

I just want to focus on one area in particular. I have looked at some of the statistics and reports from the PTO, and I have con-

cerns. When we see that inter partes reviews are successful 90 percent of the time either invalidating or narrowing the patents, ex parte reviews are successful 77 percent of the time, you know, that begs the question to me why are we adding an additional administrative proceeding when it comes to post grant review?

But I think that has already come and gone, and that battle seems to be behind us, and we are moving forward on it. So I guess I raise the question about whenever we add a proceeding that can be utilized by litigation tactics and things like that, I am very sensitive to frivolous, exposing it to frivolous claims.

I am familiar with one that was sent to our office. One group called the "patent assassins," I have shared that information with Members of the Committee and others, where they market, in my opinion, their business model is to attack patents on a frivolous nature to essentially, my opinion, shake people down and corporations down for financial purposes.

But could you, I guess, Mr. Miller, I will direct the question to you. Could you just clarify or add your experience or testimony as to abuses you have seen with the existing inter partes system? It may be helpful to the——

Mr. MILLER. Yes, we had one particular—thank you for the question, Congressman Reed.

We had one particular case that we brought that was a pretty egregious infringement on a packaging for our Folger's coffee can, and we asked for a preliminary injunction. And the response was by the alleged infringer to immediately run to the Patent Office and ask for an inter partes re-exam and then ask for a stay in the proceeding in the district court.

And so, the whole litigation tactic was let's open a second front, where we can have a second bite at the apple against this, get the original litigation stayed, try to avoid a preliminary injunction, and then move forward.

Well, we took an appeal to that to the Federal Circuit. The Federal Circuit reversed and said you have to decide the preliminary injunction motion. You can't just stay the proceedings, and that's one of my concerns with stays. And lo and behold, the case settled after the court said that they had—we had to have a preliminary injunction hearing because the other party knew that they would probably be enjoined from further using the invention.

So, you know, I think that there are litigation abuses and litigation tactics that we have to control and have to be sensitive as we develop the procedures in this bill.

Mr. REED. Well, and that is where I look at the Senate bill, and I see higher thresholds for the post grant review and inter partes review language in those bills. I guess from your experience, would you see those helping to reduce that higher threshold, reducing those frivolous actions and abuses that you may have described there?

Mr. MILLER. I do. I do. I think that——

Mr. REED. And why is that? Why would that work?

Mr. MILLER. Well, I think that we see a lot of times where—and I say any good patent attorney worth its salt can find a new question of patentability by finding some reference that wasn't cited at the Patent Office. We ought to hold folks to the standard that there

is a reasonable likelihood that one claim is going to be invalid in the patent, and that ensures that there is actually something amiss with the patent, that there needs to be a correction that needs to be made.

And so, that we can go forward with the assurance of using all the resources that the PTO is going to use within this quick 1-year timeframe with all the estoppels to get this through and make sure that that problem is fixed. If we go to the lower standard, we may get to the point where we've gone through this whole procedure, and there are no problems. And that's wasting not only PTO resources, but both of the parties' time.

And that's why I think the higher threshold is extremely important in these.

Mr. REED. I understand, Mr. Chandler, you may have a different opinion on this issue. But do you see any risk to the post grant review process being opened up, if we lower the threshold or even went lower? I think in your testimony, you wanted to go lower on the threshold. Do you see any risk of that frivolous abuse that Mr. Miller is referring to?

Mr. CHANDLER. No, we—we're actually not in favor of lowering the threshold. We're in favor of maintaining current law, which is——

Mr. REED. Okay.

Mr. CHANDLER [continuing]. The question of patentability.

Mr. REED. Which is a lower threshold than what the Senate bill has?

Mr. CHANDLER. It is. But under the current threshold, the—there have been 1,115 inter partes re-exams since 1999, when the procedure was implemented. In 89 percent of the cases, at least one claim was invalidated. In 47 percent of the cases—that's almost half of them—the patent itself was thrown out completely.

So when you have 89 percent subject to change, and Mr. Miller advised me during the recess that about a quarter of those may have been more administrative fixes to patents, even if a quarter of them were that, when you get that level of result, it would seem that the threshold doesn't need to be raised.

And I think Director Kappos spoke directly to the question of whether it would be a use of resources, distraction of resources to leave the threshold where it is, and he seemed comfortable with that, given those percentages.

Mr. REED. So, essentially, you are saying the existing system works. Why go to the post grant review, if I am understanding your testimony correctly?

Mr. CHANDLER. And this, actually, is very relevant to the question Mr. Deutch posed a moment ago because the types of information that are allowed in as part of the re-exam are different under the post grant review, which is only available in the first year after issuance.

Mr. REED. Okay.

Mr. CHANDLER. Once you get past that, inter partes is a very narrowly constrained type of information that can be looked at related to other patents and published prior art. So they are different.

I would suggest coordinating them so that if someone wanted to start an inter partes review immediately after the patent granted, if litigation, for instance, was brought at that point, that the director could consolidate post grant and inter partes requests so that you don't have duplicative proceedings on the same patent. I think that would be a procedural improvement to the structure of what's in the legislation today.

Mr. REED. Thank you.

I see my time has expired. I will yield back. Thank you, Mr. Chairman.

Mr. GOODLATTE. Thank you, Mr. Reed.

The gentlewoman from California, Ms. Chu, is recognized for her questions.

Ms. CHU. Thank you.

Mr. Chandler, in his testimony, Mr. Miller characterized the changes to the inter partes process in the Senate bill as "safeguards." Do you agree with his characterization, and do you think the changes actually make the inter partes process more fair and less burdensome?

Mr. CHANDLER. Actually, I think that the Senate bill's provisions on inter partes are a step backward compared to current law. As Chairman Smith alluded to in his opening statement, there is an issue that affects technology community, particularly related to frivolous lawsuits. And that inter partes review is a major step that is used in order to have the Patent Office look at unmeritorious patents and invalidate them where required with the very high statistics that I cited.

So I don't think it makes it more fair, and I think certainly some of the changes that are reflected in the draft legislation today fix some of that, don't go quite far enough, and that's why I suggested a couple of other modifications that could move us to the position of being enthusiastic supporters of the bill.

I would say that the opportunity provided by the unusual schedule this afternoon facilitated a number of sidebar conversations during the recesses, and I think we're making progress on some of these issues.

Ms. CHU. Mr. Chandler, under the House bill, defendants would have only 9 months to file a request for inter partes re-exam after getting sued. What is the deadline under current law? Do you believe a deadline is necessary or actually improves the inter partes process?

Mr. CHANDLER. There is no deadline under current law, but I'm sensitive to the fact that patent holders ought to get some certainty with respect to their patents and be able to proceed with litigation. The commitment in the legislation having a 1-year period for inter partes review is very important for patent holders, and we're supportive of that requirement and the funding that facilitates it.

I think a time limit is a good idea. I think it is better calculated by the Markman examination, Markman determination by the judge rather than by an arbitrary time period. We have some litigation that involved tens of defendants, 61 patents, 1,975 different claims, this past litigation which you may be familiar with. And in those cases, it is very, very hard prior to Markman to figure out how to initiate an inter partes review.

And that would, I think, cause the patent holder as well to want to speed up the Markman so that there would be a clear claim interpretation. But we do not object to the idea that there should be a limiting event or time.

Ms. CHU. Mr. Miller?

Mr. MILLER. I'd just like to comment on one thing Mr. Chandler said. Waiting to a Markman hearing can be way too late. Some courts don't even hold a Markman hearing until maybe a week or so before the trial, and so you've already gone through discovery. You've already gone through getting ready for the trial, and then to file for an inter partes re-exam that late in the game just isn't fair to some patentees.

And so, our district courts vary on the times when Markman hearings are held. So I think it's a better policy to have a date certain as to when these have to be filed.

Ms. CHU. Mr. Chandler, how do you respond to that?

Mr. CHANDLER. As someone who is most often a defendant in these litigations, we do not find it advantageous to have the Markman hearing wait to before trial for exactly the judicial inefficiency aspects that Mr. Miller alluded to. And I think that with a change such as I proposed, both plaintiff and defendant would have an interest in pushing for a faster Markman proceeding, and that would have an impact then on the pace with which the district courts handle that.

Ms. CHU. Okay. And just switching topics, Mr. Vaughn, as you know, some startup companies, small businesses and independent inventors and universities are concerned that the grace period in the House and Senate bills may force them to publicly disclose their technology before they are ready to enter the marketplace.

Do you agree with this concern? Do you have recommendations for ways to improve the grace period to ensure that the patent system works for all inventors?

Mr. VAUGHN. Well, I've heard a lot of expressions about the grace period that suggest to me that there may not be a full understand of the changes that have been made. Because the grace—the grace period that is in the current legislation is fit to move to a first inventor to file, such that the publications of an inventor provide a 12-month period for that person to file a patent application, and that person's publication is not prior art. But it would be prior art for someone else trying to file a patent.

So I think you've kind of carved out a space to give yourself time, if you're a startup company, to explore the marketability of your patent, and the grace period protects that time.

Ms. CHU. Okay. Thank you, and I yield back.

Mr. GOODLATTE. Thank you, Ms. Chu.

I think that concludes our questions today, which also brings the hearing to an end.

And want to thank you all for your very helpful testimony. It has been very instructive. Who knows? We may have even made some progress.

And Mr. Chandler, if we can't make everybody enthusiastic, maybe we can at least make everybody feel better, and we will take that as a victory as well.

So thank you again very much. I appreciate your testimony, appreciate your being here.

Without objection, all Members will have 5 legislative days to submit to the Chair additional written questions for the witnesses, which we will forward and ask the witnesses to respond to as promptly as they can so that their answers may be made part of the record.

Without objection, all Members will have 5 legislative days to submit any additional materials for inclusion in the record.

We stand adjourned.

[Whereupon, at 6:04 p.m., the Subcommittee was adjourned.]

# APPENDIX

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## MATERIAL SUBMITTED FOR THE HEARING RECORD

**Statement of John Conyers, Jr.**
**Subcommittee on Intellectual Property, Competition, and the Internet**
**Hearing on H.R. 1249, "America Invents Act"**
**1:30 p.m., 2141 Rayburn**
**March 30, 2011**

I would like to thank Chairman Smith for working in a bipartisan way on this legislation so far. He has been good at reaching across the aisle and I believe that we are really getting close to a bill that I could support.

I like the fact that the bill does not contain provisions on calculation of damages, willfulness or venue. And I am happy that the bill includes language to create a revolving fund within the Treasury that allows the United States Patent and Trademark Office (USPTO) to keep all of the funds it raises until expended.

My biggest concern is that this bill provide full funding to the USPTO. At the same time that we work to make sure that the United States Patent Office (USPTO) is able to be adequately funded we must remember that Republican members of this Committee supported their budget proposal, H.R. 1, which would have proposed cutting $400 million dollars from the USPTO for the rest of this fiscal year. Every day the USPTO loses about $1 million dollars becasue we do not yet have a budget agreement. These types of cuts harm innovation and hurt USPTO's ability to process patent applications and would undercut the reforms in this bill.

*The inter partes* reexamination provisions in the bill draft before us today are better than the Senate bill but still worse than current law. The bill as currently drafted imposes a nine-month deadline for filing of an inter partes reexamination petition by a defendant in patent litigation, starting from service of the complaint. In many complex cases this is not enough time. We should consider including language that is not based on an arbitrary deadline but instead is based on the actual progress of litigation.

I also think that the language in the Smith bill should be removed that would bar a petition for inter partes reexamination if the same party has already filed a declaratory action challenging a patent's validity.

My last point about this bill is simple. What I do not want to do, and think it is unfair for the Congress to do, is apply these new rules to pending cases and ongoing disputes.

Just as the provision on post grant review in section 5 of the bill is prospective only, the provisions that would change the law regarding Qui Tam lawsuits under the False Marking statute and the Business Method specific post grant review proceeding should not have retroactive application - they also should be prospective only.

Congress should not step in with new rules to alter the outcome of these pending claims. That is unfair and unnecessary, and amounts to changing the rules of the game in the middle of disputes.

In the case of Business Method Specific post-grant review, it is perplexing to me that only for a subset of patents, only those in the area of financial services, would be the effect be retroactive, that ongoing disputes would be settled by Congress and not by ongoing litigation.

America needs us to work together to reform the patent system. It will be a critical component of our economic recovery, prosperity, and continuing technological advancement in the next decades.

I look forward to hearing from our witnesses today to determine what changes we need to make the introduced bill the best possible bill for innovation and job creation.

**Representative F. James Sensenbrenner, Jr.**
Questions for the Record

**David J. Kappos**
*Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office*

***Follow-up from IP Subcommittee Hearing on March 30, 2010, on the "America Invents Act"***

**Section 2 (Grace period and first-to-file)**

**2(a) If, as you assert, the number of cases affected by this proposed change is so small (number of interferences are only 0.01% of the number of applications), how could such a legislative change be so important so as to become "an *essential* feature of any patent reform legislation"?**

Whether instituted before the USPTO or arising during litigation, disputes over who was the first to invent have unnecessarily complicated and burdened the process of acquiring and asserting rights in an invention. Transitioning to a first-inventor-to-file system will dramatically simplify that process, significantly reduce the cost of acquiring and defending a patent, and put needed investment capital within the reach of small inventors much sooner. Under the Act, to establish priority in an invention, an inventor need only file a patent application disclosing that invention. One way to do this is to file a provisional application which costs only $110. By contrast, an interference proceeding costs upwards of $500,000.

Moreover, in this global economy, harmonization of U.S. laws with those of every other nation will further support U.S. innovators seeking to market their products and services overseas. That will also protect some individual inventors and small businesses from losing rights to their invention overseas. By changing to a first-inventor-to-file system, U.S. inventors unaware that our trading partners determine priority based on who files first, will not be mislead into believing that they can delay filing overseas and establish priority there based on earlier conception.

While the number of applications involved in interference proceedings is a small percentage of the total number of pending applications, the impact on innovators, both here and overseas, extends far beyond interferences. Transitioning to a first-inventor-to-file system, with appropriate safeguards to protect inventors whose work has been stolen and claimed by others, is an essential component of patent reform.

**2(b) What "facts" does the Office have which are "inconsistent" with small business, startups and individual inventors assertions that the weakening of the grace period will disadvantage them by harming their development process and their ability to raise funding for developing their inventions?**

The transition to first-inventor-to-file will make it easier for small business, startups and individual inventors to obtain rights and raise funding for developing their inventions. Even today, innovators armed with a pending patent application fare better in the system than those who have not yet submitted an application. With an early filing date, those applicants limit their litigation exposure and are more likely to secure funding to develop their invention. The first-inventor-to-file system would make it more certain that the inventor who filed first will be granted a patent, and even more likely to withstand a challenge in the USPTO or a court proceeding. The system encourages early disclosure of new inventions, making it easier for investors to plan their technology investments without fear of interceding rights holders.

As to an inventor's own disclosures, the Act provides a more transparent and certain 12-month grace period than under current law. Specifically, an inventor's public disclosure made within the 1-year grace period prior to filing a patent application will not prevent that inventor from obtaining a patent. This disclosure also serves to create prior art that can prevent others from obtaining rights on that same claimed invention. Finally, it is our nnderstanding that the legislative intent of the section is to ensure that an applicant will not lose any rights based on non-confidential disclosures – or even private offers to sell – to investors and venture capital companies during the grace period.

**2(c) What evidence does the Office have to show that this "fear is unfounded"? Please provide any studies or evidence collected by the Office that characterize the processes that small business and startups go through in developing their inventions, disclosing to strategic partners and raising money before filing their patent applications that shows that the "fear is unfounded."**

The Act is designed to benefit all, independent inventors and large patent owners alike. As to independent inventors and other small businesses, the current system exposes them to the risk of being pulled into an expensive and complex interference proceeding at the USPTO, that can cost upwards of $500,000. Litigating the issue in district court costs even more. By contrast, for the cost of filing a provisional application, a mere $110, under the Act an inventor can obtain a filing date without fear that his or her application will be challenged by a prior inventor who kept their invention secret. While small entities cannot always afford to patent every technical improvement they make, the Act's prior user rights will protect them from large competitors with extensive patent portfolios of later patent filings. Thus, the fear that the Act will only benefit large patent owners is unfounded. Similarly, there is no reason to believe that applicants will be so rushed to obtain an earlier filing date as to file incomplete applications.

Our position was informed based on countless meetings with stakeholders over the last 18 months, and recommendations by various academic and U.S. Government studies dating back to 1966. The 2004 National Academies, in its report "A Patent System for the 21st Century" recommended a shift to a first-inventor-to-file system to reduce uncertainties and unnecessary costs borne by innovators. Both reports on the patent system issned by the Federal Trade Commission – in 2003 and 2011 as the current legislative proposal was being discussed – also recommended the transitioning to a first-inventor-to-file system. And even earlier, the 1992 Advisory Commission Report on Patent Law Reform and the 1966 Report of the President's Commission on the Patent System made the same recommendation.

**2(d) Can you explain why it is so important to eliminate such evidentiary burdens and complexities in interferences only to adopt them in administrating prior user rights proceedings?**

By eliminating the evidentiary burdens required to establish prior invention, the first-inventor-to-file system simplifies the process of obtaining a patent and reduces legal costs. By allowing manufacturers who first adopt technology to continue making products that predate the filing of an application by another, these rights promote fairness, protect investments in manufacturing, encourage bnsinesses to invest in the U.S., protect small businesses and independent inventors from large competitors with extensive patent portfolios, and much more.

**Section 4 (Prior User Rights)**

**4(a) Please provide the data and reasoned analysis that supports your testimony that "prior user rights have the advantage of being very pro-American manufacturing."**

Currently, businesses enjoy stronger protection overseas, where the availability of a prior user defense in litigation protects capital expenditures in many other nations. Expanding the current prior user defense in the U.S. would level the playing field for those companies deciding whether to establish and maintain

manufacturing facilities in the U.S. Moreover, stakeholders have repeatedly expressed their view that prior user rights support American manufacturing.

Absent such a defense, the only alternative available to the prior user in litigation would be to engage in costly litigation to invalidate the patent. To prevent litigation abuse, the reported bill also goes further than current law to ensure that the prior user must both reduce to practice and commercialize his invention more than a year before the applicant files a patent application.

Finally, section 3(m) of the reported bill requires that within four months after enactment, the USPTO will submit a report to Congress with findings and recommendations on the operation of prior user rights in certain industrialized countries including the effect of prior user rights on innovation rates in those countries. We believe an analysis of the effect of prior user rights in other countries will show that they protect and even encourage investment in local manufacturing.

**4(b) Please provide an analysis of foreign prior user rights laws, indicate whether these laws are harmonized, and provide an analysis of how Section 4 of H.R. 1249 compares to these laws.**

With the exception of the United States, almost all of the countries in the world provide prior user rights as part of their patent laws. The implementation of prior user rights varies country-to-country, but, in each of these countries, prior user rights are designed to provide a limited, personal defense against charges of patent infringement by a second inventor, but do not invalidate the patent rights of the second inventor. Section 5 of H.R. 1249, as reported, entitled "Defense to Infringement Based on Earlier Inventor," similarly creates a limited, personal defense against charges of patent infringement by another inventor based on the accused infringer's earlier activities performed in the United States.

Section 3(m) of the reported bill further requires that the report on the operation of prior user rights in certain industrialized countries include a comparison of the laws of the U.S. with those of other industrialized countries. As required, we will provide the requested analysis in that report.

**4(c) Is it the position of this Administration that the prior user rights proposed in this legislation is "pro-manufacturer, pro-small business, and, on balance, good policy"?**

Yes, it is the position of this Administration that the prior user rights provision proposed in this legislation is pro-manufacturer, pro-small business, and, on balance, good policy. Prior user rights allow manufacturers to invest in technology with confidence and continue making products that predate a patent application filed later by another party. These rights will also protect small businesses, which may not be able to bear the cost of procuring a patent on every technical improvement they make, from large competitors with extensive portfolios of patents issued from later applications. These rights promote fairness, protect investments, encourage investment in the U.S., level the playing field against foreign competition, protect small businesses, and more. As such, their inclusion in the reported bill is, on balance, good policy.

**<u>Section 9 (Fee Setting Authority)</u>**

**Please provide the following:**

**9(a) The analysis and reasoning the Office relied on in promulgating the Track I examination fees under this new rule, showing how it derived an existence of PTO fee-setting authority to set examination fees in variance with those specified in § 41(a)(3).**

The Office agrees that its current authority to set fees does not permit the Office to change or set fees for services that are already specified in 35 U.S.C. § 41, including the examination fees at 35 U.S.C. § 41(a)(3). However, as you point out, under 35 U.S.C. § 41(d)(2), the Office has the authority to set fees for all other patent-related services "not specified" in section 41.

Track 1 examination fees would be used to cover the cost of allowing applicants to prioritize review of their application **without delaying** the examination of all other pending applications. To accomplish this objective, the Office must devote additional resources to build its overall capacity to work on prioritized applications. Hence, the authority for setting the fee for Track 1 is found in 35 U.S.C. § 41(d)(2), and is not in conflict with those fees specified in 35 U.S.C. § 41(a)(3). See *Federal Register*, Vol, 76, No. 64, page 18402 (Apr. 4, 2011).

**9(b) The aualysis aud reasoning that the Office relied on in concluding that it has the authority to divert resources (at least in FY 2011) and delay timely examination of applications of those who could not afford the higher fees of Track I in order to accelerate out-of-turn examination of applications of those who can afford to pay the extra $4,000 for Track I.**

As detailed in the *Federal Register* Notice announcing this initiative, the cost recovery fee was set to enable the Office to build examination capacity to prevent delay in the examination of non-Track I applications. Specifically, Track I requires funding to pay for the additional examination necessary to review Track I applications without delaying examination of non-Track I applications. Although Track I examination was scheduled to go into effect on May 4, 2011, due to funding limitations, the program has been put on hold until such time as the USPTO receives the necessary spending authority.

**9(c) The financial analysis under standard cost-accounting practices that shows that the cost of examining an application that is selected out of turn for Track I processing is $4,000 more than that for application that was left in the standard queue for examination, even though the average examination times expended on applications in either tracks are no different.**

The financial analysis supporting the calculation of the fee was accomplished in two steps. The Office first determined the estimated work required to prioritize applications. Next, the Office identified the direct cost for achieving that work required and applied the indirect-cost-burdening rate calculated from the Office's historical activity based on cost accounting information to calculate the full cost for implementing the prioritized examination process.

Track I participants are essentially paying to receive expedited review without impacting the review of non-expedited applications. Thus, Track I requires additional funding to pay for the examination of Track I applications, to pay for the hiring of new examiners and/or overtime, without delaying examination of non-Track I applications.

**9(d) An explanation of why the cost-accounting rationale and reasoning relied on in (c) above to explain the higher costs when PTO hires and trains an increased number of new examiners would not also compel the PTO to *reduce* the fees whenever it reduces or halts the hiring and training of new examiners.**

The cost recovery fee is charged to allow the Office to prioritize examination of an application, without impacting the examination of patent applications not being examined under the Track 1 program. This includes, but is not limited to, hiring and retaining more examiners to increase overall output. The same principle applies to the expedited examination of design applications from 37 C.F.R. § 1.155, discussed at 9(a), above. The § 1.155 service requires less staff time than the Track 1 service, so the fee is less, but it represents a similar need to hire additional people.

The Office currently lacks authority to adjust many of its fees which are defined by statute (see 35 U.S.C. §41) if overhead or other personnel costs go up or down over time. Fee setting authority, as provided in Section 10 of the reported bill, would enable the Office, in consultation with its stakeholders and public advisory committees, to make sense of and adjust a mix of statutory and regulatory fees.

**Statement of the Generic Pharmaceutical Association (GPhA)**
**House Judiciary Committee Hearing**
**"The America Invents Act"**
**Wednesday, March 30th, 2011**

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Chairman Goodlatte, Ranking Member Watt, and Members of the House Judiciary Committee. The Generic Pharmaceutical Association (GPhA) appreciates the opportunity to submit a written statement on behalf of our member companies. GPhA represents the manufacturers and distributors of finished generic pharmaceuticals, manufacturers and distributors of bulk pharmaceutical chemicals, and suppliers of other goods and services to the generic industry.

Our statement focuses on our concerns with Section 11 of the proposed bill – relating to the supplemental examination of patents – which we believe will significantly weaken the inequitable conduct defense, compromise the integrity of the current patent process, add unnecessary workload to the PTO, impact the ability of generic manufacturers to bring lower-cost generic drugs to the market, and will cost the American people hundreds of millions of dollars.

**About 75% of All Prescriptions Are Filled with Generic Drugs**

GPhA is proud of the fact that generic drugs are a proven cost saver – generating savings last year at the rate of $1 billion every three days. Once safe, equivalent generic drugs enter the market, prices can fall by as much as 75 to 80 percent, creating significant savings for the federal government, consumers, state governments, TRICARE, U.S. corporations, and millions of families. For the decade 2000 through 2009, the use of generic prescription drugs saved the nation's health care system more than $824 billion dollars. We believe that over time similar cost reductions can be achieved in the biologic marketplace. We are proud that nearly 75 percent of all the prescriptions dispensed in the U.S. are filled using generic drugs, but they consume just about 20 percent of all dollars spent on prescription medicines.

**"Supplemental Examination" Language will Weaken Patent Process**

We believe in protecting the integrity of the patent process while also ensuring that Americans have access to affordable generic medicines. It is clear to GPhA that if the integrity of the patent system is weakened, consumers and the federal government will pay a significant price rather than enjoy the benefits afforded under the current system.

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The "inequitable conduct" defense allows patent challengers to expose intentional misrepresentations and omissions of material information to the PTO during the patent application process. In the context of pharmaceuticals, this defense ensures that the PTO has the information it needs to determine if the patents were properly obtained. When the PTO approves a patent application based upon misrepresentations or key omissions, affordable generic medications can be kept off the market unnecessarily, thereby depriving consumers and taxpayers of these important medicines.

In that regard, the draft bill before you includes a provision on "supplemental examinations" which would allow a patent holder to ask the PTO to consider, reconsider or correct information that was not in existence when the original patent was granted. In other words, it would allow the patent holder to "cleanse" its patent, even if it engaged in deceptive conduct in obtaining its patent.

We believe that the language could be interpreted as allowing a patentee to use this procedure, even if they previously withheld or misrepresented the information giving rise to the request with intent to deceive the PTO. The proposal is also silent as to whether a claim of inequitable conduct can arise based on misconduct during the new procedure. The proposal contains no limits on who can make the request or a time limit for when it can be used. We believe that public policy should encourage patent applicants to be truthful and honest when the original patent is applied for, and that this process would weaken the integrity of the patent process. For these reasons, we urge that this language be striken from the bill as the process moves forward.

**PTO, Consumer Groups Views on Inequitable Conduct, Supplemental Examination Language**

The General Counsel of the Patent and Trademark Office, Bernard Knight, filed a brief on August 2, 2010, in the *Therasense-Abbott**/ case which stated that patent applicants engaging in "inequitable conduct before the agency hamper the PTOs ability to fulfill its mission." Mr. Knight noted that the patent system depends upon applicants acting with candor and good faith when conducting business before the PTO.

The general counsel referred to U.S. Supreme Court and other decisions which explained that "to be guilty of inequitable conduct, one must have intended to act inequitably . . . with an intent to deceive."**/ The brief explains that the current rules of the agency, Rule 56, and current law sets the proper approach for handling matters involving inequitable conduct. The PTO brief referred to U.S. Supreme Court cases where applicants "lied, cheated, and stole" to obtain patents. In *Keystone Driller v. General Excavator*, the Supreme Court warned that patents should not be enforced on behalf "of one who has acted fraudulently, or who by deceit or any unfair means has gained an advantage." 290 U.S. 240, at 245 (1933).

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**/ Therasense, Inc, and Abbott Diabetes Care v. Becton, Dikcinson and Company and Nova Biomedical Corp.*, in the US Dist. Court of Appeals for the Federal Circuit; appeals from the USDC, N. D. CA.

***/ Kingsdown Medical Consultants v. Hollister*, 863 F. 2d 867 (Fed. Cir 1988; *en banc*).

The U.S. Supreme Court in the Precision Instrument Case said it best: "The far-reaching social and economic consequences of a patent . . . give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud and other inequitable conduct." The federal courts have repeatedly said that adherence to the duty of honesty and good faith is essential to the proper functioning of the patent system.

In a March 11, 2011, letter to members of Congress, AARP (American Association of Retired Persons) and Consumers Union noted that, "Weakening the inequitable conduct defense would create barriers to generic competition – a step in the wrong direction on costs." We appreciate their concurrence with our concerns. We also note for the record that CBO recently indicated in its March 1st score of the S. 23, the Senate's patent reform bill, that this provision will cost $325 million over 5 years.

Taken together, these concerns from the PTO itself, consumer groups, and generic companies should give the Committee pause in allowing this provision to be included in any bill that is reported to the House. It is not clear why policymakers would want to encourage patent applicants to be less than truthful to the PTO, knowing that their deceptive conduct could later be covered up through a supplemental examination process.

**Conclusion**

We believe that current law is best, and we urge this Committee to keep the current inequitable conduct provisions as they currently exist. This will help preserve that duty of honesty and good faith that is essential to the proper functioning of the patent system. This will also help assure that affordable generics can come to the market.

Chairman Goodlatte, Ranking Member Watt, and Members of this Committee, we appreciate your consideration of our views on this important matter.

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