Comprehensive Legislative History of the Leahy-Smith America Invents Act

Compiled, Edited, And Abridged by

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COMPREHENSIVE LEGISLATIVE HISTORY OF THE LEAHY-SMITH AMERICA INVENTS ACT

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Editor's Notes:

This comprehensive legislative history is provided for the purpose of researching the legislative history of the Leahy-Smith America Invents Act, (AIA) signed into law on September 16, 2012, in an effort to gain a better understanding of the intent of Congress in enacting the law. The AIA was the culmination of years of Congressional hearings and legislative debate. The portions of the legislative history provided herein are those relevant to the language that has been included in the AIA. Portions of the legislative history and debate that do not pertain to the AIA have been redacted. Congressional hearings are not included insofar as they reflect the opinions of interested parties other than Congress, and consequently, would not necessarily reflect the intent of Congress in passing the AIA.

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Berman Introduction of Patent Reform Act of 2007 (153 Cong. Rec. E773-E775)

THE PATENT REFORM ACT OF 2007
HON. HOWARD L. BERMAN
OF CALIFORNIA
IN THE HOUSE OF REPRESENTATIVES
Wednesday, April 18, 2007

Mr. BERMAN. Madam Speaker, today, I introduce "The Patent Reform Act of 2007", a product of both bicameral and bipartisan effort to reform the patent system to meet the challenges of the 21st century. I would especially like to thank Senator LEAHY for his dedication to addressing many of the inadequacies in our current patent system. Furthermore, I appreciate my past and present partners in this area—especially Congressman RICK BOUCHER, with whom I've worked closely to increase patent quality for the past several years, and Congressman LAMAR SMITH, who championed this issue last Congress.

Introduction of this legislation follows a number of recent judicial opinions and many hearings conducted over the past several years by the Subcommittee on Intellectual Property which ascertained that the current patent system is flawed. Over the last 5 years, there have been numerous attempts to define the challenges facing the patent system today. Among the most notable contributions to this discourse are the Patent and Trademark Office's Twenty-First Century Strategic Plan, the Federal Trade Commission's report entitled "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy," The National Research Council's compilation of articles "A Patent System for the 21st Century" and the book titled "Innovation and Its Discontents," authored by two respected economists. These studies offer a number of recommendations for increasing patent quality and ensuring that patent protection promotes— rather than inhibits—economic growth and scientific progress. Consistent with the goals and recommendations of those reports, and based on past patent bills, the Patent Reform Act contains a number of provisions designed to improve patent quality, deter abusive practices by patent holders, provide meaningful, low-cost alternatives to litigation for challenging the patent validity and harmonize U.S. patent law with the patent law of most other countries.

Past attempts at achieving comprehensive patent reform have met with stiff resistance. However, the time to reform the system is way past due. The New York Times has noted, "Something has gone very wrong with the United States patent system." The Financial Times has stated, "It is time to restore the balance of power in U.S. patent law." Therefore, we are introducing this bill as a first step to restoring the necessary balance in our patent system.

I firmly believe that robust patent protection promotes innovation. However, I also believe that the patent system is strongest, and that incentives for innovation are greatest, when patents protect only those inventions that are truly innovative. When functioning properly, the patent system should encourage and enable inventors to push the boundaries of knowledge and possibility. If the patent system allows questionable patents to issue and does not provide

adequate safeguards against patent abuses, the system may stifle innovation and interfere with competitive market forces.

This bill represents our latest perspectives in an ongoing discussion about legislative solutions

to patent quality concerns, patent litigation abuses, and the need for harmonization. We have considered the multitude of comments received concerning prior patent bills and over the course of numerous negotiations between the parties. We acknowledge that the problems are difficult and, as yet, without agreed-upon solutions. It is clear, however, that introduction and movement of legislation will focus and advance the discussion. It is also clear that the problems with the patent system have been exacerbated by a decrease in patent quality and an increase in litigation abuses. With or without consensus, Congress must act to address these problems. Thus, we introduce this bill with the intent of passage in the 110th Congress.

There are a number of issues which we have chosen not to include in the bill, primarily because we hope they will be addressed without the need for legislation. For instance, the Supreme Court recently resolved questions regarding injunctive relief. In that category, we include amendments to Section 271(f) and the obviousness standard as both issues are currently before the Supreme Court. If either of those issues are left unresolved, Congress may need to reevaluate whether to include them in a patent bill.

The bill does contain a number of initiatives designed to harmonize U.S. law with the law of other countries, improve patent quality and limit litigation abuses, thereby ensuring that patents remain positive forces in the marketplace. I will highlight a number of them below. Section 3 converts the U.S. patent system from a first-to-invent system to a first-inventor to file system. The U.S. is alone in granting priority to the first inventor as opposed to the first inventor to file a patent. There is consensus from many global companies and academics that the switch in priority mechanisms provide the U.S. with greater international consistency, and eliminate the costly and complex interference proceedings that are currently necessary to establish the right to obtain a patent. While cognizant of the enormity of the change that a “first inventor to file” system may have on many small inventors and universities, we have maintained a grace period to substantially reduce the negative impact to these inventors. However, we need to maintain an open dialogue to ensure that the patent system will continue to foster innovation from individual inventors.

Section 5 addresses both the topic of apportionment and wilfullness. Patents are provided to promote innovation by allowing owners to realize the value of their inventions. However, many have argued that recent case law has tilted towards overcompensation, which works against the primary goal of promoting innovation. “Excessive damages awards effectively allow inventors to obtain proprietary interests in products they have not invented, promote patent speculation and litigation and place unreasonable royalty burdens upon producers of high technology products. Such consequences may ultimately slow the process of technological innovation and dissemination the patent system is intended to foster.” While preserving the right of patent owners to receive appropriate damages, the bill seeks to provide a formula to ensure that the patent owner be rewarded for the actual value of the patented invention.

Furthermore, this Section seeks to curb the unfair incentives that currently exist for patent holders who indiscriminately issue licensing letters. Patent proprietors frequently assert that another party is using a patented invention and for a fee, offer to grant a license for such use. Current law does little to dissuade patent holders from mailing such licensing letters. Frequently these letters are vague and fail to identify the particular claims of the patent being infringed and the manner of infringement. In fact, the law tacitly promotes this strategy since a recipient, upon notice of the letter, may be liable for treble damages as a willful infringer. Section 5 addresses this situation by ensuring that recipients of licensing letters will not be exposed to liability for willful infringement unless the letter clearly states the acts that allegedly constitute infringement and identifies each particular patent claim to the product or process that the patent owner believes is being infringed.

Section 6 provides a needed change to the inter-partes reexamination procedure. Unfortunately, the inter-partes reexamination procedure is rarely used, but the changes we introduce should encourage third parties to make better use of the opportunity to request that the PTO Director reexamine an issued patent of questionable validity. Primarily though, Section 6 creates a post-grant opposition procedure. In an effort to address the questionable quality of patents issued by the USPTO, the bill establishes a check on the quality of a patent immediately after it is granted, or in circumstances where a party can establish significant economic harm resulting from ssertion of the patent. The post-grant procedure is designed to allow parties to challenge a granted patent through a expeditious and less costly alternative to litigation. Many have expressed concerns about the possibility of harassment of patent owners who want to assume quiet title over their invention. In an effort to address those concerns, the bill prohibits multiple bites at the apple by restricting the cancellation petitioner to opt for only one window one time. The bill also requires that the Director prescribe regulations for sanctions for abuse of process or harassment. During the legislative process we will likely provide more statutory guidance for the Director in establishing regulations guiding the post-grant opposition. We appreciate that this is an extremely complicated and new procedure and therefore we look forward to working with various industries to ensure the proceeding is balanced, fair and efficient. Part of the goal of this Section is to also address the quality problem in patents which have already been issued and are at the heart of the patent reform discussion.

Section 9 permits third parties a limited amount of time to submit to the USPTO prior art references relevant to a pending patent application. Allowing such third party submissions will increase the likelihood that examiners have available to them the most relevant “prior art,” hereby constituting a front-end solution for strengthening patent quality. The bill also addresses changes to venue to address extensive forum shopping, provides for interlocutory appeals to help clarify the claims of the inventions early in the litigation process, establishes regulatory authority for the USPTO to parallel the authority of other agencies, and expands prior user rights to accommodate in part for the switch to first-inventor-to-file.

When considering these provisions together, we believe that this bill provides a balanced package of reforms that successfully accounts for the interests of numerous stakeholders in the patent system, including individual inventors, small enterprises, universities, and the varied industry groups, and that are necessary for the patent system to achieve its primary goal of advancing innovation.

This bill is the latest iteration of a process started many years ago. Deserving of thanks are the many constitutional scholars, policy advocates, private parties, and government agencies that have and continue to contribute their time, thoughts, and drafting talents to this effort, including, of course, the legislative counsel. I am pleased that finally, we have a critical mass of interested parties who understand the need for reform.

Though we developed this bill in a highly deliberative manner, using many past bills as the foundation for the provisions, I do not want to suggest that it is a "perfect" solution. This bill is merely the first step in a process. Thus, I remain open to suggestions for amending the language to improve its efficacy or rectify any unintended consequences. Furthermore, there are a host of issues or varied approaches to patent reform which are likely not even covered by the bill but may be considered at a later time. I hope to work with the many cosponsors and the diverse industry, university and inventor groups to reach further consensus as we move this bill towards final passage.

As I have said previously, "The bottom line in this is there should be no question that the U.S. patent system produces high quality patents. Since questions have been raised about whether this is the case, the responsibility of Congress is to take a close look at the functioning of the patent system." High patent quality is essential to continued innovation. Litigation abuses, especially ones committed by those which thrive on low quality patents, impede the promotion of the progress of science and the useful arts. Thus, we must act quickly during the 110th Congress to maintain the integrity of the patent system.

House Floor Debate (153 Cong. Rec. H10270-H10307)

(Friday, September 7, 2007)]
PATENT REFORM ACT OF 2007

The SPEAKER pro tempore. Pursuant to House Resolution 636 and rule XVIII, the Chair declares the House in the Committee of the Whole House on the State of the Union for the consideration of the bill, H.R. 1908.

In the Committee of the Whole

Accordingly, the House resolved itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H.R. 1908) to amend title 35, United States Code, to provide for patent reform, with Ms. Solis in the chair.

The Clerk read the title of the bill.

The CHAIRMAN. Pursuant to the rule, the bill is considered read the first time. The gentleman from Michigan (Mr. Conyers) and the gentleman from Texas (Mr. Smith) each will control 30 minutes.

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The Chair recognizes the gentleman from Michigan.

Mr. CONYERS. Madam Chairman, I yield myself such time as I may consume.

Members of the House, I am proud and privileged to be the chairman of the Judiciary Committee for this historic consideration of the Patent Reform Act of 2007.

I can't help but begin by commending those members of Judiciary who were in this battle before I became chairman, namely, Lamar Smith of Texas; namely, Howard Berman of California; namely, Mr. Coble of North Carolina, all who have worked in a remarkable way. Even when the leadership changed in the committees and Smith became ranking and Berman became Chair, the cooperation and bipartisanship continued. I think it is important to lay that groundwork because of the intense cooperation in which we have sought to consult with every conceivable organization, individual, all stakeholders in this matter; and I think it has had a very telling effect on a bill that brings us all together here this afternoon.

After all, patent reform is enshrined in the Constitution, isn't it? Article I, section 8. After all, we have had a patent office pursuant to constitutional direction since 1790. So for a couple hundred years, this has been the driving force for American competition, creativity, inventiveness, and a prosperous economy. Thomas Jefferson was the first patent examiner in our American history. So I am humbly standing in the well to tell you that the continued robustness of the patent concept is very important. It has been estimated that the value of intellectual property in the United States amounts to $5 trillion, and much of that is in the value of the patents that come from the legislation produced by this bill.

Well, if it is so great, why are we here? Well, because certain things have happened over the course of years that need some re-examination. One of them is the trolling situation in which patents of less than high quality, they have created a whole legal industry, as some will continue to describe here today, in which, with very little pretext or excuse, patents are challenged and create a huge nuisance value. They flood the courts with unnecessary litigation. There are abusive practices that have grown up around the concept of patents, and there are certain inefficiencies where, for example, we use the first- to-invent system of granting patents, while most of the active and creative inventors in other countries use the first-inventor-to-file system, and we harmonize that in this legislation.

So there are problems, and they have been addressed with great care, because sometimes they go against the grain or to the detriment of the rest of the people, the stakeholders in this great legal activity of granting patents.

So I am here to tell you that we finally closed the circle, and I am proud of this, being from the highly organized State of Michigan, that with our friends in Labor we have been able to work out differences that they had originally had with this measure. All the consumer groups, there are several of them that have now joined with us. The United States Public Interest Research Group has come in. The pharmaceuticals have mostly come in. The Association of Small Inventors has come in.

We have done a great job, and we have created a manager's amendment to which we have allotted 20 minutes to discuss separately from the bill itself. I am proud, as you can tell, of the bipartisan nature of this work, because that is what it takes to make some 22 changes in the manager's amendment, more than two dozen changes in the underlying bill; and dealing with the question of damages and post grant opposition are stories that can only be told by the gentleman from California with his appropriate brevity. So it is in this spirit that we begin this final discussion of this measure.

I thank all the Members of the Congress not on the Judiciary Committee who have helped us in so many different ways.

Madam Chairman, I reserve the balance of my time.

Mr. SMITH of Texas. Madam Chairman, I yield myself such time as I may consume.

I strongly endorse H.R. 1908, the Patent Reform Act of 2007, and I urge my colleagues to support American inventors, American businesses, and the American people by voting for this bill today.

Last year we laid a substantial foundation for patent reform. It was a good start, but we need to finish the job now. The Patent Reform Act is the most significant and comprehensive update to patent law since the 1952 act was enacted. The Judiciary Committee has undertaken such an initiative because changes to the patent system are necessary to bolster the U.S. economy and improve the quality of living for all Americans.

There are two major reasons the committee wrote the bill: first, too many patents of questionable integrity have been approved. Second, holders of these weak patents discovered a

novel way to make money, not by commercializing the patents but by suing manufacturing companies whose operations might incorporate the patents. This combination of weak patents and "seat-of-the-patents" litigation has hurt the economy.

Most companies don't want to risk shutting down their operations in response to a questionable lawsuit. Nor do they have much faith in a legal system in which juries and even judges become confused by the complexities of patent law. The result: legalized extortion in which companies pay a lot of money to use suspect patents.

The bill will eliminate legal gamesmanship from the current system that rewards lawsuit abuses. It will enhance the quality of patents and increase public confidence in their legal integrity. This will help individuals and companies obtain money for research, commercialize their inventions, expand their businesses, create new jobs, and offer the American people a dazzling array of products and services that continue to make our country the envy of the world.

All businesses, small and large, will benefit. All industries directly or indirectly affected by patents, including finance, automotive, manufacturing, high tech, and pharmaceuticals, will profit.

Given the scope of H.R. 1908, it is impossible to satisfy completely every interested party. But the committee has made many concessions to accommodate many individuals and many businesses.

The bill has not been rushed through the process. Over the past 3 years, our committee has conducted 10 hearings with more than 40 witnesses representing a broad range of interests and views.

The Patent Reform Act was amended at different stages of the process to address criticisms of the bill. Still, not all interests have endorsed the bill. I think their response is mostly resistance to change, any change.

This bill is not intended to favor the interests of one group over another. It does correct glaring inequities that encourage individuals to be less inventive and more litigious.

Supporters of the bill run the educational, consumer and business spectrum. The Business Software Alliance, the Information Technology Industry Council, the American Association of Universities, the American Bankers Association, the Consumer Federation of America, the Computer and Communications Industry Association, and the Financial Services Roundtable, again, they all endorse this bill.

Article I, section 8, as the chairman mentioned a while ago, of the Constitution empowers Congress, "to promote the progress of science and the useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

The foresight of the founders, in creating an intellectual property system, demonstrates their understanding of how patent rights ultimately benefit the American people. Nor was the value of patents lost when one of our greatest Presidents, Abraham Lincoln, himself a patent owner, Lincoln described the patent system as adding "the fuel of interest to the fire of genius."

Few issues are as important to the economic strength of the United States as our ability to create and protect intellectual property. American IP industries account for over half of all U.S. exports, represent 40 percent of the

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country's economic growth, and employ 18 million Americans. A recent study valued U.S. intellectual property at $5 trillion, or about half of the U.S. gross domestic product.

The Patent Reform Act represents a major improvement to our patent system that will benefit Americans for years to come.

Madam Chairman, this bill has been a bipartisan effort. We would not be here now without the steady hand and gentle suggestions made by our chairman, Mr. Conyers.

I also want to acknowledge the indispensable contributions of Congressman Howard Berman and Congressman Howard Coble, among others. All three of us have been chairmen of the Intellectual Property Subcommittee over the past number of years, and we have worked together on developing this bill. But it is Mr. Berman's good fortune and a testament to his legislative ability that we are on the House floor today, and I congratulate him for that achievement.

Madam Chairman, I reserve the balance of my time.

Mr. CONYERS. Madam Chairman, part of the Smith-Berman-Coble trio is the chairman now of the Courts, Intellectual Property and Internet Subcommittee. His indefatigable commitment to patent reform is now well known by all of the House, and I'm pleased to yield 2\1/2\ minutes to the gentleman from California (Mr. Berman).

Mr. BERMAN. Madam Chairman, first I have to say that we wouldn't be here, not only for his substantive contributions to this legislation, but because of his suggestions about the approach we should take, whether it was in full committee or as we move towards the floor in terms of working out problems that existed, and that's Chairman Conyers. He played a critical role in getting us to this point.

Lamar Smith, Howard Coble, Rick Boucher, who I started this with, Darrell Issa, Zoe Lofgren, Adam Schiff, Bob Goodlatte, a number of people played key roles in all this. I don't have too much time. The staff, on an issue like this, was indispensable; they made incredible contributions. This is really complicated stuff. Perry Apelbaum who demonstrated great leadership and guidance on many issues, George Elliott, a detailee from the Patent Office who is a great resource, Karl Manheim, who decided to spend his sabbatical helping on patent reform, Eric Gorduna who spent his summer working on the committee report, countless other staff, and of course my Chief Counsel Shanna Winters.

But the question is why, why are we doing this? And here are the things we are told by groups like the National Academy of Sciences and so many other organizations that are tremendously respected for their understanding of science and of our economy:

One, there are serious problems in the patent system; Two, many poor-quality patents have been issued, which cheapen the value of patents generally; Three, there have been a variety of abuses in patent litigation rules that have taken valuable resources away from research and innovation; Four, U.S.-based businesses are disadvantaged because our patent laws aren't harmonized with the rest of the world. Many organizations, many groups have argued for these reforms.

A quick statement about support. Every major consumer group in this country has endorsed this legislation. There is tremendous support in the financial services sector, in the high technology sector. The universities have now, University of California, which is one of the critical magnets of research and development, have supported passage of this legislation through the House. The American Association of Universities has supported moving the bill forward.

And one last comment. There is one very controversial issue, aside from the ones addressed by the amendments that we have seen that are not fully dealt with, and that particularly relates to the issue of damages and the apportionment of damages. It is our commitment, my commitment, the chairman's commitment, Mr. Smith's commitment, Mr. Coble's commitment, to work with people who are concerned about that language to reach an appropriate middle ground that reforms the way damages are calculated between now and the conference committee and when this comes back to deal with that controversy.

I urge strong support for this bill so we can make this historic effort, first in 60 years, move forward to ultimate enactment.

I include short list of the range of groups that support this bill.

The Business Software Association, The Financial Services Roundtable, Small Business & Entrepreneurship Council, TechNet, Consumer Federation of America, Consumer Union, Electronic Frontier Foundation, Knowledge Ecology International, Public Knowledge, United States Public Interest Research Group, American Corn Growers Association, American Agricultural Movement, Federation of Southern Cooperatives, National Family Farm Coalition, National Farmers Organization, Rural Coalition, Securities Industry and Financial Markets Association, Computer and Communications Industry Association, Computing Technology Industry Association, Illinois IT Association, Information Technology Association of America, Information Technology Industry Council, Software & Information Industry Association, St. Jude Medical, Massachusetts Technology Leadership Council, Inc., Hampton Roads Technology Council, Northern Virginia Technology Council.

Mr. SMITH of Texas. Madam Chairman, I yield 5 minutes to my friend from North Carolina (Mr. Coble), the ranking member and former chairman of the Intellectual Property Subcommittee.

Mr. COBLE. I thank the gentleman from Texas for yielding.

Madam Chairman, I recall several years ago, when we were discussing proposed patent legislation before a crowded hearing room, and I remember one Member saying to the crowd, he said, I have friends for this bill, I have friends opposed to this bill, and I want to make it clear, he said to that group, I'm for my friends. Well, we don't do it quite that easily; easier said than done. But as has been mentioned before, the distinguished gentleman from California (Mr.

Berman) and I, along with the gentleman from Texas and the gentleman from Michigan, we've plowed this field before. And I've heard many argue that H.R. 1908 undermines everything that we accomplished in 1999 when the American Inventors Protection Act was implemented.

Madam Chairman, this is simply inaccurate. Mr. Berman and I shepherded that legislation which, among other things, created patent reexamination, banned deceptive practices, clarified the term for patents, required that patents be published before they're granted, and made the Patent Office independent within the Department of Commerce, among other things.

As our domestic economy becomes increasingly dependent on the global economy, Madam Chairman, so, too, does our patent system.

Other challenges stem from the marketplace. As our domestic economy becomes increasingly dependent on the global economy, so does the patent system. In many international markets, patent protection is one certainty on which American manufacturers can rely when they are trying to compete internationally.

H.R. 1908 addresses these challenges in several respects. First, the bill implements a first-to-file patent system, which is in line with other countries and will streamline the patent review and issuance process.

Other provisions in the bill dealing with willful infringement, post-grant opposition, publication, inequitable conduct and best mode will also help improve patent issuance and patent quality.

By improving patent quality, patent disputes and litigation should be reduced, and patent examiners' ability to perform the daunting task of searching scores of records and files should improve greatly.

Unfortunately, H.R. 1908 has not enjoyed universal support. Several key stakeholders have voiced concerns and objections which cannot be overlooked. And I understand that many, if not all, of the changes in the manager's amendment will address many concerns, but I am still troubled that another key coalition may not endorse H.R. 1908 at the end of today's debate. Many of these companies in this coalition, unfortunately for me, are either located in or near my district, and I'm concerned that anything in H.R. 1908 would adversely affect them.

So while I urge my colleagues to support H.R. 1908, I do not mean to cast

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any aspersions upon those who may very well have meritorious concern, particularly dealing with applicant responsibility and how any change to the rule for calculating infringement damages could impact the value of their patents.

That being said, Madam Chairman, I know that Chairman Berman, the distinguished gentleman from California, the distinguished gentleman from Texas, the Ranking Member Smith, have accepted all criticisms in good faith and have worked diligently to forge some sort of compromise where it has been possible. I hope that after today we will continue to pursue

compromise so that with some good fortune we may convince all stakeholders to support what I believe is needed patent reform.

And I say to the gentleman from Texas, I thank you for having yielded.

Mr. CONYERS. Madam Chairman, I am pleased to yield to the gentleman from Virginia (Mr. Boucher). He is the last Member on this side that's getting 3 minutes.

(Mr. BOUCHER asked and was given permission to revise and extend his remarks.)

Mr. BOUCHER. I thank the gentleman from Michigan for yielding this time. I also want to commend the gentleman from Michigan for the very fine and persistent work that he has performed in bringing this measure to the House floor today.

Mr. Berman and I introduced an earlier version of this patent reform fully 5 years ago. And building on that early effort, Mr. Berman has worked tirelessly to build broad support for the patent reform, support externally and bipartisan support in this Chamber, to fine-tune the bill's provisions and to obtain Judiciary Committee approval of the measure earlier this year. That is truly an impressive accomplishment.

There is an urgent need to improve the patent system. Patent examiners are burdened with many applications and are encouraged to move quickly on each one of them. And as they do their work, they are isolated from an important source of highly relevant information. That information source is the knowledge that individuals may have that the work that is the subject of the patent application may, in fact, not be original, that someone else, in fact, may have invented that particular object, and that that object has been in use prior to the time that the application was filed. That information we call "prior art." The existing patent process contains no avenue for third parties who may possess information about prior art to submit that to the patent examiner while the application is being examined. Our reform bill corrects that flaw, and in so doing, will broadly operate to improve patent quality.

Also in aid of patent quality is the provision which significantly strengthens the post-grant interparty's reexamination process through which the Patent Office can be required to take a more careful look at the patent and the application that accompanies it before that patent is issued in final form by the Patent Office.

Our goal with this provision is to ensure that before a patent is issued, parties who contest its validity will have a full and complete opportunity to do so within the confines of the Patent Office itself. That should prove to be a very effective and less costly alternative than litigating the validity of the patent in the court process.

Across its range of provisions, the reform measure before us makes long-needed changes that will improve the quality of patents, adjust aspects of the litigation process to the benefit of patent holders and those who license for use patented items.

The bill before us contains a provision which I offered as an amendment in committee in partnership with my Virginia colleague, Mr. Goodlatte. Our provision prohibits prospectively the award of patents for tax planning methods.

Madam Chairman, I strongly encourage that the bill, with that amendment, be approved.

I thank the gentleman from Michigan for yielding this time to me, and I commend him on his effective work, which brings the patent reform measure to the House floor today.

Mr. Berman and I introduced an earlier version of this reform 5 years ago.

Building on that early effort Mr. Berman has worked tirelessly to build broad support for patent reform, to fine tune the bills provisions, and to obtain Judiciary Committee approval of this measure.

It is a truly impressive achievement. There is an urgent need to improve the patent system. Patent examiners are burdened with many applications and are encouraged to conclude each one quickly. And as they do that work they are isolated from an important source of highly relevant information.

That information source is the knowledge individuals may have, that the subject of the patent application is not original, that in fact, the object may have previously been invented by someone else. We call that prior art.

And the existing patent process contains no avenue for third parties to submit evidence of prior art to the patent examiner. Our reform bill correct that flaw, and in so doing will help to improve overall patent quality. Also in aid of patent quality is the provision which significantly threatens the past grant inter partes reexamination process through which the Patent Office can be required to take a more careful look at the proposed patent prior to its final issuance.

Our goal with this provision is to assure that before a patent is issued, parties who contest its validity will have a full and complete opportunity to make their case. A meaningful Inter Pates proceeding can also be an expeditious, less costly alternative to litigating the validity of the patent in the courts.

Across its range of provisions, the reform measure before us makes long-needed changes, which will improve the quality of patents and adjust aspects of the litigation process to the mutual benefit of patent holders and those who license for use patented items.

The bill before us contains a provision which I offered as an amendment in committee along with my Virginia colleague, Mr. Goodlatte. Our provisions prohibits prospectively the award of patent for tax planning methods. Approximately 60 such patents have been issued and at least 85 more are pending at the Patent Office. These patents limit the ability of taxpayers, and the tax professionals they employ, to read the tax laws and find the most efficient means of lessening or avoiding tax liability (contrary to said public policy). If someone else has previously read the tax law, found the same means of reducing tax liability and received a patent for it, that person is entitled to a royalty if anyone else tries to reduce his taxes by the same means. I frankly think that is outrageous. No one should have to pay a royalty to pay their taxes. No one should have sole ownership of how taxes are paid. Such a barrier to the ability of every American to find creative lawful ways to lessen tax liability is contrary to said public policy.

Our amendment, now a part of the bill before us, will bar the future award of such patents, and I would encourage the Patent Office to reexamine those that have been issued to date.

I also want to thank the bipartisan leadership of the Ways and Means Committee for expressing support for our provision on tax planning strategies.

Mr. Chairman, I urge approval of the bill.

Mr. SMITH of Texas. Madam Chair, I yield a full 4 minutes to my friend from California (Mr. Rohrabacher) on the condition, of course, that he is not too critical of this legislation and that he is dispassionate in his remarks.

Mr. ROHRABACHER. I thank my friend from Texas.

I rise in strong opposition to H.R. 1908. The proponents suggest that it is the most fundamental and comprehensive change of American patent law in over a half century. Well, that's true, and that's why it should be defeated, because the changes are almost all aimed at undermining the technological creators and strengthening the hand of foreign and domestic thieves and scavengers who would exploit America's most creative minds and use our technology against us. It would be a disaster for individual inventors, with an impressive coalition strongly opposing this legislation: universities, labor unions, biotech industries, pharmaceuticals, nanotech, small business, traditional manufacturers, electronics and computer engineers, as well, of course, the patent examiners themselves who are telling us this will have a horrible impact on our patent system. They are all begging us to vote "no." This so-called reform will

make them vulnerable to theft by foreign and domestic technology thieves. Our most

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cutting-edge technology will be available to our enemies and our competitors. That is why I call this the Steal American Technologies Act. The billionaires in the electronics industry and the financial industries who are supporting H.R. 1908, many of them already have built their factories in China, would do away with the patent system altogether if they could. They are so powerful and arrogant that they have set out to fundamentally alter our traditional technology protection laws, laws that have served America well for over 200 years.

Yes, this is an issue vital to the well-being of the American people, to our standard of living; yet we find ourselves with a severely limited debate. There is only 1 hour of debate. Those of us who are opposing this legislation haven't even been given the right, which is traditional in this body, to control our own time. Yes, the way we are handling this debate is a disgrace. There will be 12 minutes available for those of us who oppose a bill that they claim is so important for the future of our country.

What do we know about this bill? It is a horror story for American inventors and a windfall for foreign and domestic thieves. We don't even know what is in the bill. The manager's amendment has been changed even after the committee did its business. So it wasn't even fully debated in the committee and much less fully debated at the subcommittee level. No, what we are doing is a power play here. That is what we are witnessing. The opposition doesn't even get

the chance to argue our case adequately before this body or before the American people. Our inventors and our innovators are begging us not to pass this legislation. Foreign and domestic technology thieves are licking their chops. Let's not let the big guys beat down and smash the little guys, which is what the purpose of this legislation is.

There are problems in the Patent Office, that is true, that can be fixed without having to fundamentally alter the principles that are the basis of our patent system, which is what this legislation does. This legislation, in the name of reform, is being used as a cover to basically destroy the patent system that has served us so well. In the long term, it will destroy American competitiveness and the standard of living of our working people. That is what is at stake here. Overseas, the people in India, China, Japan and Korea are waiting. We have quotes from newspapers suggesting that as soon as this bill passes, they will have a greater ability to take American technology even before a patent is granted and put it into commercial use against us.

This is a shameful, shameful proposal. The American people have a right to know. We are watching out for their interests. I don't care what the billionaires in the electronics industry and the financial industry say. We should have more debate on this. We should have had 2 or 3 hours of debate on this if it is as important as they say. Instead, we have been muzzled, and it is a power grab. Vote against H.R. 1908.

Mr. CONYERS. Madam Chairman, I yield 10 seconds to my colleague from California (Mr. Berman).

Mr. BERMAN. I thank the gentleman for yielding.

Madam Chairman, just because the gentleman says it is so, doesn't mean it is so. I have letters from the AFL-CIO, the university community, and the major centers of innovation and research in this country that directly contradict his assertion that they are opposed to the passage of this bill. The Members of this body should understand that.

Mr. CONYERS. Madam Chairman, I am pleased now to yield 2\1/2\ minutes to the gentleman from Illinois (Mr. Emanuel).

Mr. EMANUEL. Right before our break, we passed and sent to the President comprehensive innovation legislation that allowed America to maintain its lead in the area of technology and investment in the R&D of this country. With this legislation, the patent reform, we are taking the second step in assuring that America, American companies and America's innovation, maintains its leadership in the world and the companies that are producing the jobs and well-paying manufacturing jobs here in this country.

I have only a small assortment of letters from the CEO and managements of these companies: Mr. Chambers from Cisco, Safra Catz from Oracle, the president and chief financial officer, the CEOs from Palm and the Micron company, and other companies.

Just to read the sense of what they are saying: "As a company with several thousand patents, Cisco believes deeply in strong protection for intellectual property. Unfortunately, as you found during the hearing process, there are clear signs the current patent system is not functioning properly."

This is from Mr. Chambers, the chairman and CEO of Cisco: These reforms you are debating today, this legislation will allow us to continue to innovate and help maintain our Nation's position as the world's technology leader.

This is essential legislation for American companies, America's innovation, and its ability to produce jobs for the future. Major CEOs from major companies that have maintained and also built America's leadership in the high-tech field all support this legislation, in addition to leaders of every major consumer group. So it is both good for consumers and good for business and good for the companies that are producing the jobs here in this country.

I would like to submit into the Record these letters from just an assortment of the companies that support this legislation because of what we are doing to maintain America's leadership in the production of new jobs, new technology, and new companies here in the country, formation of new capital, venture capital funding, et cetera. This, though, is the most important step to ensure that when people invent things and design patents that they have the notion and the integrity that those patents and their ideas are going to be protected.

Today we are taking a major step, forward as the CEOs have said in their own letters, in maintaining America's leadership in the production of not only new companies but the most innovative jobs and high-paying jobs that are the future of this country. I want to commend the leadership for producing this legislation and having it on the floor today for a vote.

Cisco Systems. Inc.,
San Jose, CA, September 6, 2007.

Hon. John Conyers, Jr.,
Chairman, Committee on the Judiciary, Rayburn House Office Building, Washington, DC.
Hon. Howard L. Berman,
Chairman, Committee on the Judiciary, Subcommittee on Courts, the Internet and Intellectual Property, Rayburn House Office Building, Washington, DC.
Hon. Lamar S. Smith,
Ranking Member, Committee on the Judiciary, Rayburn House Office Building, Washington, DC.
Hon. Howard Coble,
Ranking Member, Committee on the Judiciary, Subcommittee on Courts, the Internet and Intellectual Property, Rayburn House Office Building, Washington, DC.

Dear Chairman Conyers, Ranking Member Smith, Chairman Berman, and Ranking Member Coble: I am writing to applaud your tireless efforts to pass H.R. 1908, the Patent Reform Act of 2007. As the House prepares to debate this bill, I want to reiterate to you Cisco's strong support for the legislation.

In bringing the issue of patent reform to the floor, the House of Representatives and the sponsors of H.R. 1908, have demonstrated a genuine commitment to promoting innovation. As a company with several thousand patents, Cisco believes deeply in strong protection for intellectual property. Unfortunately, as you found during the hearing process, there are clear signs the current patent system is not functioning properly. H.R. 1908 provides a series of needed reforms, which will modernize and restore balance to the patent system. These reforms will allow us to continue to innovate and help maintain our nation's position as the world's technology leader.

Passage of comprehensive patent reform is Cisco's number one legislative priority for 2007. We have made this issue a priority because we believe a modernized and balanced patent system will promote innovation throughout our economy and thus improve our nation's ability to compete in the global economy.

I believe the time has come for patent reform legislation, and I deeply appreciate your commitment to passing H.R. 1908.

Kind Regards,

John Chambers,
Chairman and CEO, Cisco.

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Oracle,

Washington DC, September 6, 2007.

Hon. Nancy Pelosi,
Speaker, House of Representatives, Washington, DC.
Hon. John Boehner,
Republican Leader, House of Representatives, Washington, DC.

Dear Madam Speaker and Republican Leader Boehner: I am so pleased to see that the House of Representatives will soon begin debate and vote on H.R. 1908, the Patent Reform Act. I can't emphasize enough the significance of this upcoming vote—it is perhaps the single most important vote for our innovation-driven industry in the last few years.
Our economy historically has been at the forefront of each new wave of innovation for one simple reason: our intellectual property laws, starting with our nation's Constitution, reward innovation. However, today's U.S. patent system has not kept pace with the growth of highly complex information management systems—the cornerstone of an innovation wave that is truly global in scope. As a result, we have seen a significant increase in low quality patents, which has sparked a perverse form of patent litigation innovation. Some of our nation's most creative companies have been forced to spend tens of millions of dollars to defend themselves against frivolous lawsuits that extract settlements that are in the hundreds of millions of dollars.

This is not news to you and your colleagues. A bipartisan effort, led by Congressmen Howard Berman and Lamar Smith, has been underway for several years now, and after numerous public hearings and discussions with key stakeholders, a balanced blueprint for reform has been produced and approved by the House Judiciary Committee. In addition to long-sought reforms in patent quality, H.R. 1908 will bring certainty, fairness and equity to key stages of the patent litigation process, including determinations of venue, willful infringement and the calculation of damages.

In short, H.R. 1908 is designed to strengthen and bring our patent system back to basic principles: to reward innovation, and preserve our economy's creative and competitive leadership.

We at Oracle thank you and your colleagues for the tremendous work to advance this essential legislation, and we look forward to seeing H.R. 1908 become law in the 110th Congress.

Sincerely,

Safra Catz,
President and Chief Financial Officer.

Palm Inc.,
Sunnyvale, CA, September 5, 2007

Hon. Howard Berman,
House of Representatives, Rayburn Building,
Washington, DC.

Dear Congressman Berman: On behalf of Palm, Inc., thank you for your work in bringing the Patent Reform Act of 2007 to the House floor for a vote this Friday, September 7, 2007.

This legislation is extremely important to Palm as well as other companies beyond the technology industry. By updating the current patent system, including changes that affect the litigation process, Palm will be able to continue to effectively innovate in ways that will benefit the consumer and the U.S. economy. We are proud to work with a diverse, multi-industry national coalition that has advanced this critical patent reform legislation over the past six years and we appreciate your leadership in providing a strong opportunity for passage.

I thank you for your time and commitment on this critical issue.

Sincerely,

Edward T. Colligan,
Chief Executive Officer, Palm, Inc.

Micron Technology, Inc.,
Boise, ID, September 6, 2007.

Hon. Nancy Pelosi,
Speaker, House of Representatives,
Washington, DC.

Dear Madam Speaker: As H.R. 1908 the Patent Reform Act of 2007, led by Chairman John Conyers, Ranking Member Lamar Smith, Representatives Berman and Coble, is considered in the House of Representatives, I would like to take this opportunity to thank you and all the bill's supporters who have worked in a bipartisan fashion to help move this legislation forward.

Patent reform is a top legislative priority for the high-tech industry. Like many other supporters of this legislation, Micron Technology, Inc. is one of the world's top patent holders. Protecting our intellectual property is critical to our success. However, the U.S. patent system has not kept pace with the demands of rapidly evolving and complex technologies, and the global competitiveness of U.S. technology companies has suffered as a result. H.R. 1908 would balance many of the imbalances that currently plague our patent system. It would promote innovation, yet safeguard the rights of innovators, thereby restoring fairness to the patent system in our nation.

Thank you again for recognizing that now is the time to move forward on this important legislation.

Sincerely,

Steven R. Appleton,
Chairman and CEO, Micron Technology, Inc.

Autodesk, Inc.,
San Rafael, CA, September 6, 2007.

Hon. Nancy Pelosi,
Speaker of the House, House of Representatives,
Washington, DC.

Dear Madam Speaker: I want to thank you and your colleagues

in the House leadership for scheduling H.R. 1908, The Patent Reform Act of 2007, for consideration this week on the floor of the House of Representatives. This legislation is my company's top legislative priority this year and is important to the innovation economy of the country. It has been thoughtfully drafted in a bipartisan manner to accommodate many diverse perspectives. I applaud the House for taking decisive action on this critical bill, and look forward to its passage and ultimate enactment into law.

Sincerely,

Carl Bass,
President & CEO, Autodesk, Inc.

Kalido,
Burlington, MA, September 6, 2007.

Hon. Nancy Pelosi,
Speaker of the House, House of Representatives, Washington, DC.
Hon. Steny Hoyer,
Majority Leader, House of Representatives, Washington, DC.
Hon. Howard Berman,
Chairman, Subcommittee on Courts, the Internet and Intellectual Property, Committee on the Judiciary, House of Representatives, Washington, DC.

Dear Madam Speaker, Majority Leader Hoyer, and Chairman Berman: Thank you for bringing the Patent Reform Act of 2007 to the House floor for a vote this Friday, September 7, 2007.

This legislation is extremely important to the livelihood of my company as well as companies beyond the technology industry. By updating the current patent system, including changes that affect the litigation process, Kalido will be able to continue to innovate in ways that will benefit the consumer and the U.S. economy.

As a software company, our business is our intellectual property, and protecting software companies also protects the large multinational firms that benefit from our innovation. It is extremely important not only to protect our intellectual capital, but to motivate our investors, employees, and ultimately, our customers.

Understanding the challenges in advancing this critical patent reform legislation over the past six years, we appreciate your leadership for providing a strong opportunity for passage.

I thank you for your time and commitment on this issue.

Sincerely,

William M. Hewitt,
President & CEO.

Authoria, Inc.,

Waltham, MA, September 6, 2007.

Hon. Nancy Pelosi, Speaker of the House, House of Representatives, Washington, DC.

Speaker Pelosi: I look forward to seeing you again at TechNet Day this Spring.

Thank you for bringing the Patent Reform Act of 2007 to the House floor for a vote this Friday.

This legislation is extremely important to the livelihood of my company as well as tens of thousands of other high-growth companies.

By updating the current patent system, including changes that affect the litigation process, Authoria will be able to continue to innovate in ways that will benefit the consumer and the U.S. economy.

Understanding the challenges in advancing this critical patent reform legislation over the past six years, we appreciate your leadership for providing a strong opportunity for passage.

I thank you for your time and commitment on this issue.

Sincerely,

Tod Loofbourrow,

President, Founder & CEO Authoria, Inc.

Mr. SMITH of Texas. Madam Chairman, I yield 4 minutes to my friend from Virginia (Mr. Goodlatte), the ranking member of the Agriculture Committee, the chairman of the House High Tech Caucus, and a senior member of the Judiciary Committee.

Mr. GOODLATTE. I thank the gentleman, and I thank him for his leadership on the Judiciary Committee and for years of leadership on this legislation, along with Howard Berman, the chairman of the Intellectual Property Subcommittee, and their staffs for this legislation.

Madam Chairman, article I, section 8 of our Constitution lays the framework for our Nation's patent laws. It grants Congress the power to award inventors, for limited periods of time, exclusive rights to their inventions. The Framers had the incredible foresight to realize that this type of incentive was crucial to ensure that America would become the world's leader in innovation and creativity.

These incentives are just as important today as they were at the founding of our country. It is only right that as more and more inventions with increasing complexity emerge, we should examine our Nation's patent laws to

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ensure that they still work efficiently and that they still encourage, and not discourage, innovation, so America will remain the world's leader in innovation.

The solution involves both ensuring that quality patents are issued in the first place and ensuring that we take a good hard look at patent litigation and enforcement laws to make sure that they do not contain loopholes for opportunists with invalid claims to exploit. H.R. 1908 addresses both of these concerns.

First, the bill helps ensure that quality patents are being issued by the U.S. Patent and Trademark Office. The PTO, like any other large government agency, makes mistakes. H.R. 1908 creates a

post-grant opposition procedure to allow the private sector to challenge a patent just after it is approved to provide an additional check on the issuance of bogus patents. Better quality patents mean more certainty and less litigation for patent holders and businesses.

In addition, H.R. 1908 contains important litigation reforms to rein in abusive lawsuits and forum shopping so that aggressive trial lawyers do not make patent litigation their next gold mine like they did for asbestos lawsuits, class action lawsuits and the like. Specifically, the bill tightens the venue provisions in the current patent law to prevent forum shopping.

H.R. 1908 also prohibits excessive damage awards. Believe it or not, there is no current requirement that damage awards in patent cases be limited to the value the patent added to the overall product. The courts have created a virtual free-for-all environment in this area. H.R. 1908 contains provisions to help ensure that damages are proportional to the value the invention added to the product, which will inject certainty into this area and allow businesses to devote their resources to R&D and innovating.

The bill also creates clearer standards for “willful infringement” by requiring greater specificity in notice letters alleging infringement of patent claims and requiring courts to include in the record more information about how they calculate damage awards.

Furthermore, the bill contains an important amendment that Congressman Boucher and I added during the Judiciary Committee markup to prevent individuals and companies from filing patents to protect tax strategies. Since 1998, when the Federal Circuit Court of Appeals held that business methods were patentable, 51 tax strategy patents have been granted covering such topics as estate and gift tax strategies, pension plans, charitable giving and the like. Over 80 additional tax strategy patents are pending before the USPTO.

When one individual or business is given the exclusive right to a particular method of complying with the Tax Code, it increases the cost and complexity for every other citizen or tax preparer to comply with the Tax Code. No one should have to pay royalties to file their taxes. H.R. 1908 renders these tax strategy patents unpatentable so that citizens can be free to comply with the Tax Code in the most efficient manner without asking permission or paying a royalty.

Our patent laws were written over 50 years ago and did not contemplate our modern economy where many products involve hundreds and even thousands of patented inventions. H.R. 1908 provides a much-needed update to these laws, and I urge my colleagues to support this litigation.

Mr. CONYERS. Madam Chairman, I am pleased to add to that trio in the Judiciary that has worked for so long on patent reform. Her name is Zoe Lofgren, and she is a subcommittee Chair; but she stayed with patent reform. I yield her 2\1/2\ minutes.

Ms. ZOE LOFGREN of California. Thank you, Mr. Conyers, Mr. Berman, Mr. Smith for your hard work.

I rise in support of the bill which brings much-needed reform to our system. We have worked hard really over the past half decade to come to this floor today with this legislation.

I want to talk about one issue, and that is venue. Due to a flawed Federal Court decision in 1990, B.E. Holdings, patent trolls have been able to file cases more or less wherever they choose in the United States. And that decision has led to forum shopping as plaintiffs filed in jurisdictions where they knew they stood a better chance of winning, and where they would get more money if they did win.

For example, filings in eastern Texas went from 32 cases a year 4 years ago to over 234 cases last year with a projected 8 percent increase this year. Patent holders win 27 percent more often there, and the awards are much bigger. The presiding judge himself describes the district as a "plaintiff-oriented district." It has led to the formation of entities that exist solely to bring patent cases. For example, the Zodiac Conglomerate is formed of several smaller companies. None of the companies create any technology. They don't produce any products. All of those companies are incorporated in either Texas or Delaware. They exist for one purpose only, to bring patent cases. So far the Zodiac Conglomerate has sued 357 different companies, mostly in the Eastern District of Texas.

Manufacturing venue leads to overly aggressive litigation behavior, which deters legitimate innovation. This manager's amendment is going to correct the problem. The bill will allow cases to be filed where the defendant is located or has committed acts relevant to the patent dispute.

We give the freest rules to independent inventors and to individual inventors and universities, noting their special role in this system. Corporate plaintiffs can only bring cases where the facilities are located if they have engaged in activities relevant to the patent dispute.

In sum, the bill restores fairness and clarity to patent litigation by removing the most glaring instances of forum shopping by patent trolls.

I represent Silicon Valley, which has a diversity of high tech. Biotech, large companies, small companies, universities, small inventors, pharmaceutical companies, we have got them all, including small inventors working out of a garage. A balanced approach to innovation is essential to all of these entities. H.R. 1908 provides that balance. We need to pass this bill today. I urge my colleagues to do so.

Mr. SMITH of Texas. I yield 2 minutes to my friend, the gentleman from Ohio (Mr. Chabot), the ranking member of the Small Business Committee, ranking member of the Anti-Trust Task Force, and a senior member of the Judiciary Committee.

Mr. CHABOT. Mr. Chairman, I rise in reluctant opposition to H.R. 1908, the Patent Reform Act, that we are considering here now. While this bill has been improved since its introduction back in April, the scheduling of this bill for consideration today makes one question whether reform really is the majority's objective.

Why else would we push a bill through on a Friday afternoon under a structured rule that will only allow a few selected amendments even to be considered? In fact, since this bill was reported from the Judiciary Committee in July, several of us, as well as the stakeholders, have asked the leadership to slow this bill down to ensure that we have a true reform bill that is fair and equitable to all who use the patent system.

I believe the bill in its current form, and even if the manager's amendment is adopted, fails to strengthen the system Congress created to foster and protect innovation. In fact, more than 100 companies, unions, universities, coalitions and other organizations have voiced their concerns with this bill.

These entities, users of the patent system, believe that the changes proposed by this act and the amendments we are considering today will be harmful to their respective businesses, will be bad for the economy, and could threaten our status as the number one patent system in the world. If that is even possible, why would we rush to pass a bill that could jeopardize the very industries and employees that have made this Nation what it is today?

Innovation is the heart and soul of this country. What has made the U.S. the strongest patent system in the world is its ability to adapt to different business models and innovations, protecting those who invent, while at the same time encouraging public dissemination.

Of course, our patent system is not perfect. The Small Business Committee that I happen to be the ranking member of held a hearing on March 29th,

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2007, examining how small businesses use the patent system and the impact that this patent reform would have on them. The most revealing aspect of the hearing was the consensus among members and panelists that Congress should be very careful in making significant change to the system.

Mr. Chairman, I urge my colleagues to oppose this.

Mr. CONYERS. Mr. Chairman, I am pleased to yield 2 minutes to the gentleman from North Carolina (Mr. Watt), who has worked continuously on this bill to improve it.

Mr. WATT. I thank the gentleman for yielding.

Mr. Chairman, when you practice law for 22 years, as I have before coming to Congress, and served on the Judiciary Committee for 15 years and never even in all that time dealt with patents, you are tempted to think of patent lawyers and the law of patents as a bunch of technocrats and elevate constitutional considerations and criminal law and other civil rights matters to a higher position. It has been an eye-opening experience for me, the first time to serve on this subcommittee and to see how important patent law is to stimulating, encouraging innovation, and to see how difficult and precise the law needs to be and how far behind the patent law has become in adapting to changes.

One of the changes that I think hasn't gotten much attention in this bill that I was surprised at as a member of the Financial Services Committee that has so many regulators of the various parts of our financial system which can promulgate rules, it seemed to me when I found out that the Patent and Trade Office really didn't have the authority to promulgate any meaningful rules, that that was contributing to the problem, because innovations and ideas and inventions and communications are traveling so fast that the law can't always keep up with them. It is in that context that meaningful regulation is important. So I wanted to point to that particular aspect.

Mr. SMITH of Texas. Mr. Chairman, I yield 3 minutes to my friend, the gentleman from Illinois (Mr. Manzullo), the former chairman of the Small Business Committee.

Mr. MANZULLO. Mr. Chairman, if we had to patent the way Congress is considering this bill, no one would claim to be its inventor. This is a disgrace. One of the most important bills to come before this Nation in 60 years concerning manufacturing and patentability of articles and processes is so limited that the Democrats have given just 4 minutes of their 30 to two people on the other side. They owe them an apology. They owe them at least another hour of debate. The American people deserve a lot more debate than that.

An amendment was filed at 2:46 yesterday before the Rules Committee, the manager's amendment. One of the groups that contacted us representing pharmacies and labor unions and Caterpillar and all kinds of manufacturing organizations got a hold of it, finally had to analyze it overnight because of the complexity of the issues, and said, my gosh, this could destroy the system of patent law and protection of patent holders in this country.

What we are asking for is the opportunity to be able to explain it. Members of Congress should not be placed in the position of choosing between innovation.

Let me give you an example. Caterpillar is on one side, in Peoria, Illinois, Phil Hare's district. Hundreds of thousands of suppliers across the country, including the Midwest. Research in Motion, the maker of the BlackBerry, is on the other side of the issue, in favor of it. But inside of the BlackBerry is this motherboard. It is magnesium. It is made by Chicago White Metals. They have the finest processes for magnesium hot-chamber diecasting, a company that is the only diecasting company in the country that is rated ISO 14001 for its higher environmental standards.

You have to get on the inside of these machines to understand the importance of this law. You have to be able to take every single word that is added at the last minute and be able to study it to see the impact upon American innovation. That is what this debate is about. It is simply asking for more time.

The first thing we learn as Members of Congress is do no harm. Why should we place ourselves in the position of choosing winners and losers in something as important as patent law, with the excuse that we have to harmonize and we have to adopt Asian and European standards of patent law? What is wrong with the American system? We are the innovators, we are the ones with the great minds. It is our system that is placed, in effect, in the entire world, all the products and the processes and the ideas that have made us free.

I would therefore ask the Members, even if you lean towards this bill, to vote against it as a matter of free speech principle. The American people are entitled to more debate, because they need to know more about this bill.

Mr. CONYERS. Mr. Chairman, I yield myself 10 seconds.

I just want to tell the previous speaker that we have had to accommodate about 20 different parts of our American industry and society, and, of course, everybody is not equally happy. Apparently you are one of those.

Mr. Chairman, I yield 2 minutes to the distinguished gentleman from Georgia (Mr. Johnson).

(Mr. JOHNSON of Georgia asked and was given permission to revise and extend his remarks.)

Mr. JOHNSON of Georgia. I thank the chairman.

Mr. Chairman, I rise in support of H.R. 1908, the Patent Reform Act of 2007. I want to commend the Chair of the Judiciary Committee, John Conyers, as well as all the members of the Subcommittee on Courts, the Internet and Intellectual Property, especially Chairman Howard Berman, and also Ranking Member Howard Coble, for their hard work in bringing this important piece of legislation to the floor. It is a bipartisan effort.

Although I am a new member to this subcommittee, I am well aware that Congress has been debating patent reform for several years. This area of the law has not been updated for 55 years, yet patents touch upon so many different sectors, from agriculture to biotechnology to manufacturing and computer technology.

In order to continue to stimulate growth and reward inventors in these various sectors, we in Congress are charged with finding the right balances between protecting inventions and stimulating innovation. Our Founding Fathers realized it was so important to protect inventions and promote innovation that they wrote that protection into our Constitution in article I, section 8.

For more than half a century, the United States has led the world in research and innovation, partly due to the fact that the U.S. rewards its inventors and protects their ideas. But since the last update to our system over 55 years ago, technology has rapidly changed and has revolutionized our economy. In order to keep up with these changes, Congress has stepped forward to update this important body of law.

This bill makes several important changes, including moving from a first-to-invent to a first-to-file system. It places certain limitations on willful infringement, it creates a new process of post-grant review, and it addresses changes of venue to address the issue of forum shopping.

This bill is not perfect, but I ask that the Members of this body pass this bill.

Now this bill is not perfect, and Members as well as many representatives from various industries have come to my office with their concerns about the damages section of HR 1908.

During the House Judiciary Committee markup, Congressman Feeney and I were able to craft an amendment that I believe struck a balance, giving juries the ability to come to a deliberate decision while giving them the flexibility within the law to assess damages.

Our intent is also included in the Congressional Record; the case law used in assessing damages, also known as the fifteen Georgia Pacific factors, may still be considered when courts are assessing damages. We have diligently tried to meet the concerns of a wide spectrum of industries and while this bill is not perfect, it is a bipartisan effort to update the patent system.

Mr. Chairman, it is my hope that although there are continued concerns, we can work on them through the conference committee process in a continued bi-partisan fashion and we can all come to a compromise.

Mr. SMITH of Texas. Mr. Chairman, I yield 2 minutes to my friend and colleague, the gentleman from Texas (Mr.

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Gohmert), the deputy ranking member of the Crime Subcommittee of the Judiciary Committee.

(Mr. GOHMERT asked and was given permission to revise and extend his remarks.)

Mr. GOHMERT. I thank the ranking member.

Mr. Chairman, there are some things that need repair in the U.S. patent system, but something about this bill kept troubling me. When I read the provision regarding the transfer of venue, I began to realize something was very wrong. The provision said the court may transfer an action only to a district where "the defendant had substantial evidence or witnesses."

I could not believe it. That provision did not even allow a judge to consider fairness or justice or caseloads or time delays or whether the plaintiff was a small entrepreneur with only a few patents who could be led to bankruptcy by being forced to file in a court where it had a 5-year delay. I would have been absolutely staggered during my years as a judge to see a venue provision like this. Many agreed and realized that was grossly overreaching and proponents of the bill immediately recognized that and were willing to work.

But patent cases increased in the Eastern District of Texas when companies like Texas Instruments realized they could get a trial within 18 months in front of some of the best judges in the country and get fairness. Initially, there were more plaintiff victories, but, as I understand, the last year or so it has been 50-50, which there is nowhere in the country comparable to that.

I began to realize something was very wrong and one-sided when something like that could get into a bill, and especially the manager's amendment, without being noticed. And who would want something like that? Then you realize, it is big companies who do not want others to have the opportunities that they did.

So that made me look again at the damage provision that was being completely changed. I realized to whom that was helping and whom that would destroy, and I realized that the language for that must have come from the same type source who did not want anything but a small cookie cutter or mold to consider damages when, for years now, there have been many more factors that needed to be considered. You have drug cases. You have objects that are patented. You have concepts. The Comprehensive Patent Reform bill being pushed at this time has some good features.

There are some things that need repair in the U.S. patent system.

But, something about this bill kept troubling me.

When I read the provision regarding the transfer of venue, I began to realize something was very wrong. The provision said that the court may transfer an action only to a district where "the defendant has substantial evidence or witnesses." That provision did not even allow the judge to consider fairness, or justice, or case loads and time delays of other courts or whether the plaintiff was a small entrepreneur with only a few patents who will be destroyed if the case is transferred to a court with a 5-year wait to trial. In my days as a trial judge, I would have been absolutely staggered to see a venue rule so incredibly one-sided. It was grossly overreaching and proponents of the bill immediately recognized that when it was pointed out, but they just had not noticed that. They then agreed to changes that prevent the language from being quite so egregious.

As our colleague from the high tech area of California pointed out moments ago, there have been patent cases filed in the Eastern District of Texas in my district. That began happening when Texas Instruments, not some small patent troll, along with others who had patents being infringed, could not get a prompt trial elsewhere, realized the Eastern District of Texas had some of the best judicial minds who were rarely ever reversed, and they could receive a trial within 2 years instead of 5. So lawsuits were filed there. As far as the rates of victories by plaintiffs to defendants, she cited old data and the new data shows that the district being excoriated in the past year probably has had more equality of verdicts than anywhere else in the country, which means the issue is a red herring for something else to get passed that is potentially deadly to invention.

I agreed we needed to do something about patent trolls who buy patents so they can sue to try to hold up a company for cash. I agreed that's not right. I was willing to help fix it. But after proposing solutions to that which were met by a desire to use that issue only as an excuse to make comprehensive, devastating changes to two centuries of patent law, I realized something inappropriate was at work here. I began to realize something was very wrong for a terribly one-sided provision to make its way into the official bill being considered as a Manager's Amendment at the full Judiciary Committee. I began to think about who must have written or at least pushed to get that type of totally one-sided provision in there. It was not anyone interested in fairness. It was someone interested in really tilting the playing field completely one way. That had to be from huge defendants who wanted to drag small entrepreneurs into dilatory situations so that their invention or component could be usurped without proper compensation, even though it might mean the bankruptcy of the inventor and the destruction of the opportunity for the little guys with the inventive vision and spirit, which actually spurred some of the greatest developments and wealth we know and have in this country. So when I looked again at the damage provision that was being completely changed, I realized whom that was helping and whom that would destroy and I realized that language came from the same type source. It is extremely one-sided and completely abrogates the ability of a court to use factors or standards that are applicable in the vast variety of patent cases which arise. Patents are obtained for so many different types of objects, drugs, and even concepts. To try to force such a huge spectrum of patents into one small specific type of cookie cutter or mold is of great concern to so many.

Then, I remembered also something about this "comprehensive" type approach—that's what was being said about immigration reform!! In the case of Immigration, "Comprehensive Reform" was being used to make some changes most of us could probably agree on in order to mask within those acceptable provisions other problematic provisions unacceptable to most Americans

which could probably not pass by themselves. After finding examples of inappropriately oppressive language that was being stuffed or hidden in a large comprehensive bill, I am left wondering why not just fix the limited areas that are agreeable and not shove a brand new comprehensive, revolutionary change—that some say will absolutely set over 200 years of patent law on its head—that may give some of the largest corporations in the country the ability to prevent others from having the same opportunities they had to become large.

It is real easy to continue to excoriate these horrid “patent trolls”, which could easily be addressed by very small changes to a very limited provision. If you want to limit patent trolls, then restrict the abilities of those who purchase the patents or rights to sue as secondary holders of patents. If that is not enough, there are other limited ways to handle it, though one must be careful not to destroy principal patent assets after a company is bought out by another. But I would humbly submit that when an easy fix is rejected to such a problem because some desire the issue to mask an effort that may well denigrate or destroy the adequate ability to preserve such assets—something is amiss in Washington, DC.

As objections from many areas have grown, the private interests pushing this bill have realized they may have pushed too far too fast, so have sought to appear less draconian, but we must review what this bill does. The bill before us today completely changes: The damages or compensation that may be obtained from a wrongdoer for stealing or usurping someone else’s patent; the law on where such suits for infringement may be filed; the effect of a patent; the law on administrative review of patents and privacy issues of the patent before it is final. Is it any wonder that the worst thieves nationally and internationally of U.S. intellectual property are hoping we pass this bill.

It is also important to point out that we have heard here today promises about things that will be fixed between now and when the law were to become law. We’ve been told that our input is welcome toward such fixes. The trouble is, we were told the same thing at the full committee. I was one who was called by name to help the group work on fixes to major problems. Though I am not questioning motivation at this juncture, I have made myself available to meet and have offered suggestions, but the group that was going to meet and work on the changes before today never met that I was advised. My staff says they were never advised. So much for getting in that valuable input. The question remains: do we need this much of a complete change to a system that has spurred, nurtured and protected the greatest advancements in the history of mankind. I would submit that it is imperative that we back up, vote this down, and come back with non-comprehensive provisions that do not include provisions that will tilt the playing field and so dramatically change our laws to protect intellectual property rights. We should borrow from the old Code in Medicine to first do no harm!

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Mr. CONYERS. Mr. Chairman, I yield 2\1/4\ minutes to the gentlewoman from Texas (Ms. Jackson-Lee).

(Ms. JACKSON-LEE of Texas asked and was given permission to revise and extend her remarks.)

Ms. JACKSON-LEE of Texas. Mr. Chairman, let me first of all thank the toiling committee chaired by Chairman Conyers and Ranking Member Smith. This has been a long journey. As a new member of the Subcommittee on Intellectual Property, let me also thank both the chairman and ranking member for a tough, tough challenge.

It is important to express that this is a significant change in patent law, but it is done to protect, if you will, the very treasure that has propelled America into an economic engine and that we must insist continue.

I think the changes that have been made certainly to some may be startling, but the effort was to bring all parties together. I am delighted that even though there are questions about, for example, the first-to-file over the first-to-invent, this committee saw fit to add my amendment which means that there will be periodic review so Congress will be instructed on whether or not this works on behalf of all inventors big and small.

Then when we look at the workings in section 5 dealing with first-to-file and dealing with damages. Rather than passing this law forever and ever, an amendment I added will give us an opportunity to study it to assess who is it helping and who is it hurting. We certainly want to ensure that all are given an opportunity.

I am very glad that the manager's amendment has impacted the damages provision. The original bill seemed to require all apportionment in all cases. But in this instance the manager's amendment has made it as one of the factors. Therefore, when you look at a Post-it sticker, you can determine how much the glue has helped the Post-it sticker. This is apportionment of damages in case there was a lawsuit. I know that there are many groups, such as Innovation Alliance, that I look forward to working with as we make our way through to ensure that this bill answers the questions big and small and fuels the economic engine of manufacturing, universities, pharmaceuticals and others, like small inventors. I ask my colleagues to consider this bill and support it. It has a meaningful response to changing patent law for all involved.

Mr. Chairman, as an original co-sponsor and member of the Judiciary Subcommittee on the Courts, Intellectual Property, and the Internet, I rise in strong support of H.R. 1908, the Patent Reform Act of 2007. I am proud to Support this legislation because in many ways the current patent system is flawed, outdated, and in need of modernization. Under the visionary leadership of Chairman Conyers and Subcommittee Chairman Berman, joined by Mr. Smith and Mr. Coble, their counterparts on the minority side, the Judiciary Committee labored long and hard to produce legislation that reforms the American patent system so that it continues to foster innovation and be the jet fuel of the American economy and remains the envy of the world.

Mr. Chairman, Article I, Section 8, clause 8 of the Constitution confers upon the 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.

In order to fulfill the Constitution's mandate, we must examine the patent system periodically. The legislation before us represents the first comprehensive review of the patent system in more than a generation. It is right and good and necessary that the Congress now reexamine the patent

system to determine whether there may be flaws in its operation that may hamper innovation, including the problems described as decreased patent quality, prevalence of subjective elements in patent practice, patent abuse, and lack of meaningful alternatives to the patent litigation process.

On the other hand, Mr. Chairman, we must always be mindful of the importance of ensuring that small companies have the same opportunities to innovate and have their inventions patented and that the laws will continue to protect their valuable intellectual property. The role of venture capital is very important in the patent debate, as is preserving the collaboration that now occurs between small firms and universities. We must ensure that whatever improvements we make to the patent laws are not done so at the expense of innovators and to innovation. The legislation before us, while not perfect, does a surprisingly good job at striking the right balance. Mr. Chairman, the subject of damages and royalty payments, which is covered in Section 5 of the bill, is a complex issue. The complexity stems from the subject matter itself but also interactive effects of patent litigation reform on the royalty negotiation process and the future of innovation. Important innovations come from universities, medical centers, and smaller companies that develop commercial applications from their basic research. These innovators must rely upon the licensing process to monetize their ideas and inventions. Mr. Chairman, the innovation ecosystem we create and sustain today will produce tomorrow's technological breakthroughs. That ecosystem is comprised of many different operating models. It is for that reason that we evaluated competing patent reform proposals thoroughly to ensure that sweeping changes in one part of the system do not result in unintended consequences to other important parts. Let me discuss briefly some of the more significant features of this legislation, which I will urge all members to support.

Section 3: Right of the First Inventor to File H.R. 1908 converts the U.S. patent system from a first-to-invent system to a first-inventor-to file system. The U.S. is alone in granting priority to the first inventor as opposed to the first inventor to file a patent. H.R. 1908 will inject needed clarity and certainty into the system. While cognizant of the enormity of the change that a "first inventor to file" system may have on many small inventors and universities, a grace period is maintained to substantially reduce the negative impact to these inventors. Moreover, the legislation incorporates an amendment that I offered during the full committee markup that requires the Department of Commerce Undersecretary for Intellectual Property and Director of the Patent and Trademark Office director to conduct a study every seven years on the effectiveness of revisions made in the bill to the patent derivation litigation system and submit the report to the House and Senate Judiciary committees. In embracing this constructive addition to the bill, the Committee Report notes:

[T]he amendments in section 3 of the bill serve to implement a fundamental change in the operation of the United States patent system. Such change, while well-reasoned, requires a mechanism for monitoring its long-term effects.

Section 5: Formula for Calculating Fair and Equitable Remedies

Section 5 of the bill provides useful clarification to courts and juries designed to ensure inventors are compensated fairly, while not discouraging innovation with arbitrary or excessive damage awards. While preserving the right of patent owners to receive appropriate damages, the bill

provides a formula to ensure that the patent owner be rewarded for the actual value of the patented invention. Computing damages in patent cases is an exceedingly complex task. The complexity stems not from the unwillingness of competing interests to find common ground but from the interactive effects of patent litigation reform on the royalty negotiation process and the future of innovation.

To illustrate, consider this frequently cited hypothetical. A new turbine blade for a jet engine is invented which enables the plane to achieve a 40 percent increase in gas mileage. What is fair compensation for the holder of the patent? Damages could fairly be based on the number of turbine blades used, the number of jet engines employing those turbine blades, or on a percentage of the savings of the cost of jet fuel used, or the number of miles flown by aircraft using engines employing the turbine blades, or even, if the higher efficiency of aircraft using the turbine blades was the basis for the market demand for the jet, the jet itself.

The original version of the bill was susceptible to a reasonable interpretation that apportionment would be required in all cases. But as marked up and amended, apportionment is only one of the several methods a court can use in awarding damages, including the use of the current approach established in Georgia-Pacific v. United States Plywood Corp., 318 F.Supp. 116 (S.D.N.Y. 1970), which provides that reasonable royalty damages are ascertained by looking to what the infringer would have paid, and what the patent owner would have accepted, for a license, had one been negotiated at the time the infringement began.

Moreover, apportionment no longer applies to damages based on lost profits. Another change allows plaintiff to recover the enhanced value of previously known elements where their combination in the invention adds value or functionality to the prior art. This is a very important and helpful compromise on the issue of patent case damages. We must keep in mind that important innovations come from universities, medical centers, and smaller companies that develop commercial applications from their basic research. These innovators must rely upon the licensing process to monetize their ideas and inventions.

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Thus, it is very important that we take care not to harm this incubator of tomorrow’s technological breakthroughs. The bill before us strikes the proper balance.

In addition, it should also be pointed out that included in the bill is another of my amendments adopted during the full committee markup requiring the PTO Director to conduct a study on the effectiveness and efficiency of the amendments to section 5 of the bill, and submit to the Committees on the Judiciary of the House of Representatives and the Senate a report on the results of the study. The report must include any recommendations the Director may have on amendments to the law add any other recommendations the Director may have with respect to the right of the inventor to obtain damages for patent infringement. The study must be done not later than the end of the 7-year period beginning on the date of enactment of this Act and at the end of every 7-year period after the date of the first study. In adopting this amendment, the Judiciary Committee reported that:

[T]he amendments in section 5 of the bill will have many positive effects on the patent system, but that the changes are sufficiently significant to require periodic monitoring. By examining the effects of these changes on a regular basis, and by paying attention to such feedback as may be obtained through these studies, Congress can ensure that any unforeseen negative consequences that may arise can be dealt with through future legislation or other mechanisms.

Willful Infringement and Prior Use Rights

The legislation also contains certain limitations on willful infringement. A court may only find willful infringement if the patent owner shows, by clear and convincing evidence, that (1) the infringer, after receiving detailed written notice from the patentee, performed the acts of infringement, (2) the infringer intentionally copied the patented invention with knowledge that it was patented, or (3) after having been found by a court to have infringed a patent, the infringer engaged in conduct that again infringed on the same patent. An allegation of willfulness is subject to a "good faith" defense. H.R. 1908 also expands the "prior user rights" defense to infringement, where an earlier inventor began using a product or process (although unpatented) before another obtained a patent for it.

Post-Grant Procedures and Other Quality Enhancements

Another beneficial feature of H.R. 1908 is that it cures the principal deficiencies of re-examination procedures and creates a new, post-grant review that provides an effective and efficient system for considering challenges to the validity of patents. Addressing concerns that one seeking to cancel a patent could abuse a post -grant review procedure, the bill establishes a single opportunity for challenge that must be initiated within 12 months of the patent being granted. It also requires the PTO Director to prescribe rules for abuse of discovery or improper use of the proceeding, limits the types of prior art which may be considered, and prohibits a party from reasserting claims in court that it raised in post-grant review.

Venue and Jurisdiction

Finally, the bill also addresses changes to venue, to address extensive forum shopping and provides for interlocutory appeals to help clarify the claims of the inventions early in the litigation process. H.R. 1908 would restore balance to this statute by allowing cases to be brought in a variety of locales—including where the defendant is incorporated or has its principal place of business or has committed a substantial portion of the acts of infringement and has a physical facility controlled by the defendant. H.R. 1908 makes patent reform litigation more efficient by providing the Federal Circuit jurisdiction over interlocutory decisions, known as Markman orders, in which the district court construes the claims of a patent as a matter of law.

Conclusion

In short, Mr. Chairman, the argument for supporting H.R. 1908 can be summed up as follows: For those who are confident about the future, the bill, as amended, offers vindication. For those who are skeptical that the new changes will work, the Jackson-Lee amendments added to the bill will provide the evidence they need to prove their case. And for those who believe that maintaining the status quo is intolerable, the legislation before us offers the best way forward. I urge all members to join me in supporting passage of this landmark legislation.

Mr. SMITH of Texas. Mr. Chairman, I reserve the balance of my time. Mr. CONYERS. Mr. Chairman, I am pleased to call on my neighbor and friend, Marcy Kaptur from Toledo, Ohio; and I recognize her for 2 minutes.

Ms. KAPTUR. Mr. Chairman, I thank my good friend from the great State of Michigan, the chairman of the committee, for yielding. Unfortunately, I have to disagree with him on this bill and urge my colleagues to vote "no" on H.R. 1908 because we don't want to weaken the U.S. patent system. This is surely not the time with a trillion-dollar trade deficit to do more selling out of America and to try to harmonize our standards down to some of the worst intellectual property pirates like China.

This bill essentially makes it easier for infringers to steal U.S. inventions, and it is truly sad that we are only given a few seconds to talk about this. That alone should tell our colleagues, vote "no," give us a chance to open this up and talk about how this is going to affect jobs in America.

This bill affects two-thirds to 80 percent of the asset value of all U.S. firms. Most industrial companies in this country oppose it. Over 200 organizations across this country oppose it, including the electronics industry, pharmaceuticals, small inventors, and universities. And, yet, we just get a few seconds here. Let me tell you what is going on. Mr. Emanuel was down here earlier reading a list of the big semiconductor companies, the high-tech firms. This bill does heavily benefit them because they are some of the worst intellectual property infringers.

What this bill does is it supports those large transnational corporations that repeatedly infringe on the patents of others, and they are looking to reduce what they have to pay in the courts. Now, they have had to pay about $3.5 billion in fines over the last couple of years, and it was deserved. But that represents less than 1 percent of their revenues. What they are trying to do is use this bill to make it harder for small inventors and others to file. What does this bill change? It says to an inventor, unlike since 1709 in this country, when we say if you are first to invent, that patent belongs to us, they want to change it to first-to-file. In other words, they can file it anywhere else in the world and someone else can take that and infringe on that invention. It is not first-invention anymore, it is first-to-file. Boy, there is a lot more to say and our time should not be squashed in this House on an issue of such vital importance to the industrial and the commercial base of this country. Mr. CONYERS. Mr. Chairman, I yield 2 minutes to the gentleman from Maine (Mr. Michaud).

Mr. MICHAUD. Mr. Chairman, I thank the gentleman for yielding. Today I rise in strong opposition to the Patent Reform Act of 2007. While I appreciate all of the hard work that Chairman Berman did on this bill, I think this bill is bad for our manufacturing industry. We have been told that the manager's amendment significantly improves the bill. It actually is worse than the underlying bill, especially with respect to the damages section in the bill. This bill is fundamentally flawed. It can't be fixed by the manager's amendment. This bill will weaken patent protection by making patents less reliable, easier to challenge, and cheaper to infringe. This bill severely threatens American innovation, jobs and competitiveness and ought to be opposed.

Hundreds of companies and organizations around the country have written Congress to raise their strong opposition and their strong objections to certain provisions of this bill.

Manufacturers, organized labor, biotech, nanotech, pharmaceuticals, small businesses, universities, and economic development organizations have serious concerns about this legislation.

Foreign companies are watching this legislation and are eager to attack U.S. patents. The Economic Times reports that Indian companies see an opportunity to challenge our patents; and by doing so, they will leave our businesses in a litigation crisis.

We are compromising many of our industries by passing this bill. We are creating a litigation nightmare. We need to proceed to get a better bill, and I urge my colleagues to defeat this legislation so we can move forward on legislation with more people who will support patent reform which has to be changed. I urge my colleagues to defeat this legislation.

Mr. CONYERS. Mr. Chairman, I take 5 seconds to assure my distinguished friend from Maine that I have more industry in my State than he does, and I am protecting them pretty much. Mr. SMITH of Texas. Mr. Chairman, I yield the balance of my time to Mr.

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Issa, a member of the Judiciary Committee and the holder of 37 U.S. patents.

Mr. ISSA. Mr. Chairman, for those who may be interested, some of my patents have expired and more will.

I am no longer a day-to-day inventor; but I will always have the soul of an inventor, the belief that in fact if you have an idea, you can go to the Patent Office and for a relative de minimis amount of money you can in fact protect that idea for a period of 20 years from the time you ask the Patent Office to protect your invention and give you an opportunity to make a small or not-so-small fortune off of it. I don't think there is anyone in the Congress who owes their reason for being here to the success of patents more than myself. My company grew and thrived because we were able to protect our intellectual property, patents, copyrights and trademarks. So since I have been here as a non-attorney coming to the Congress and asking to be on the Judiciary Committee, a little bit like Sonny Bono, that is where the things he knew about were legislated. He knew about copyrights and songs; I know a little bit about patents, and a lot about the flaws in the system.

And, Mr. Chairman, there are many flaws in the system. This bill has been the best work by the best minds, both by Members of Congress, but also by staff, trade associations and industry, to bring out those mistakes and to try to find solutions.

Today you have heard a lot of anger and rancor about China. Nobody could want America to prosper more than I do. But, in fact, by next year more than half of all patents in the U.S. will be granted to non-U.S. companies. This is not a debate about protecting patents against foreigners. Foreigners are patenting in our country, and we invite that innovation. It has often led to prosperity in all aspects of America. I include a long letter from UCSD CONNECT, an organization founded by Bill Otterson and the University of California at San Diego, in which they, along with California Healthcare Institute, BIOCOM, Gen-Probe, Invitrogen, Pfizer, Qualcomm and others who all say this is a good bill, but we have some additional areas we

would like to find compromise on. Some of the things in this letter of yesterday are included in the manager's amendment. Some will be included in amendments that will be heard on the floor in a few minutes.

CONNECT,
September 5, 2007.
Hon. Darrell Issa, Washington, DC.

Dear Representative Issa: We greatly appreciate the time you spent meeting with CONNECT last week to discuss the Patent Reform Act, H.R. 1908. Thank you for your efforts to improve the bill and, in particular, your ongoing work on the post-grant review provision.

Given the immediacy of the House floor consideration, this letter and ensuing draft language serves as a follow-up to our recent meeting. On behalf of the San Diego innovation community and CONNECT members, we request your continued leadership and strongly urge your consideration of the following improvements to the bill.

Apportionment of Damages

As you well know, the damages provision in the patent statute is a critical part of patent law and a vital part of strong patent protection, which CONNECT supports. We believe our patent system must have appropriate consequences that serve as a deterrent for stealing intellectual property. However, we do not want the law modified to the point where patent infringement is simply a cost of doing business. Per our meeting, we have worked with your staff to develop the draft language at the end of this letter to address this important matter.

Further, the courts must have flexibility in the assessment of damages. The bill takes away this flexibility. The judicial system is working. A judge either accepts a jury decision or not, and the appeals system is in place to handle additional grievances. We encourage you to avoid binding the court with a prescribed mechanism and ask you to consider the language following this letter that preserves judges' flexibility.

Rulemaking

The existing rulemaking language in the bill is too expansive and gives the U.S. Patent and Trademark Office (PTO) unparalleled authority. Congress is expressly given authority in the U.S. Constitution to safeguard intellectual property. In addition, we believe this excessively broad rulemaking power could lead to instability in the patent system. Congress is better equipped to develop standards through legislative means. As such, we urge you to follow the Senate's lead and remove the PTO rulemaking provision from the House bill.

User fees

The diversion of user fees has long been a concern because it hinders the PTO's ability to hire examiners and eliminate the backlog of patents. It now takes approximately 31 months for a patent to be issued, and a 2005 congressional report stated that without fee diversion the patent backlog would lower to about 22 months.

Given this, we respectfully ask that you include language, identical to Senator Coburn's amendment to S. 1145, to prevent the diversion of fees collected by the PTO for general revenue purposes by cancelling the appropriations account for PTO fees and creating a new account in the U.S. Treasury for the fees to be deposited.

Venue

We favor balanced venue language with respect to the parties that is also symmetrical in terms of transfer. Venue should be proper in a district or division: (1) in which either party resides or (2) where the defendant has committed acts of infringement and has a regular and established place of business. Specifically, we urge a return to the pre-markup venue provision in H.R. 1908.

Thank you, again, for your consideration of our views and the accompanying draft language. Though we do not support the bill as currently written, we want to work with you to make the legislation a means to strengthen the patent system to advance innovation, promote entrepreneurship and boost job growth. We look forward to continuing to work with you to achieve these goals.

Sincerely,

CONNECT, AMN Healthcare, California Healthcare Institute,

BIOCOM, Gen-Probe, Invitrogen, Pfizer, QUALCOMM, San Diego State University Research Foundation Tech Transfer Office, Tech Coast Angels, Townsend and Townsend and Crew.

Draft Damages Language

SEC. 5. RIGHT OF THE INVENTOR TO OBTAIN DAMAGES.

(a) Damages.—Section 284 is amended—

(1) in the first paragraph—

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

Upon";

(B) by designating the second undesignated paragraph as subsection (c); and

(C) by inserting after subsection (a) (as designated by subparagraph (A) of this paragraph) the following:

"(b) Reasonable Roalty.—

"(1) In general.—An award pursuant to subsection (a) that is based upon a reasonable royalty shall be determined in accordance with this subsection. Based on the facts of the case, the court shall consider the applicability of paragraph (2), (3) and (5) in calculating a reasonable royalty. The court shall identify the factors that are relevant to the determination of a reasonable royalty

under the applicable paragraph, and the court or jury, as the case may be, shall consider only those factors in making the determination.

“(2) Relationship of damages to contributions over prior art.—If an infringer shows evidence that features not covered by the claimed invention contribute economic value to the accused product or process, an analysis may be conducted to ensure that a reasonable royalty under subsection (a) is applied only to that economic value properly attributable to the claimed invention. The court, or the jury, as the case may be, may exclude from the analysis the economic value properly attributable to features not covered by the claimed invention that contribute economic value to the infringing product or process.

“(3) Entire market value.—If the claimant shows that the claimed invention is the predominant basis for market demand for a product or process that has a functional relationship with the claimed invention, damages may be based upon the entire market value of the products or professes involved that satisfy that demand.

“(4) Combination inventions.—For purposes of paragraphs

(2) and (3), in the case of a combination product or process the elements of which are present individually in the prior art, the patentee may show that the economic value attributable to the infringing product includes the value of the additional function resulting from the combination, as well as the enhanced value, if any, of some or all of the prior art elements resulting from the combination.

“(5) Other factors.—In determining a reasonable royalty, the court may also consider, or direct the jury to consider, the terms of any nonexclusive marketplace licensing of the invention, where appropriate, as well as any other relevant factors under applicable law.”

Mr. Chairman, this is a work in process; but since when does this body say that in fact the good will be sacrificed in search of the perfect? We have never done that. Every bill that goes through here is by definition the best work we can do as a continuous body, one that will come back after this bill becomes law and continue working on refinements.

I would like to quickly say there will be amendments that will be offered that will deal with some of the very issues that people have said today are an outrage because they are not there. I hope that my colleagues, even if they

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do not vote for the final bill, will come and support the amendments that make this bill better because as a body what we do best is we take the best ideas from the best places we can get them, we bring them together and we create the best bill we possibly can. That is what we have done here today. It is the best work available. People who are dissenting today, we welcome on a bipartisan basis their input to find language that will make it better. Mr. Chairman, in closing, the one thing I would say is we are past the point of compromise. What we are into is finding win/wins. We are looking to take issues in which one side is for and one side is against and find real middle ground, and we have done that in a couple of areas, and we will continue to want to do that. I am a small inventor. I want to make sure that the small inventor is protected. That is

why this bill is going to maintain the right of the small inventor, or any inventor, to retain the secrecy of their invention if they are not granted a patent. That is why we are going to limit the regulatory authority of the PTO so that for a time, as long as we need to, every time they propose a rule, we will have a right and an obligation to consider it and if even one Member of this body opposes it, to bring to a vote that opposition to the rule. These kinds of compromises and win/wins and thoughtful legislation are unusual in this body. That is why I believe that this will win overwhelming support here. We will continue to work to find an even better bill in conference with the Senate because, in fact, we are a bicameral body. We have to, in fact, get something that both sides can live with.

In closing, I want to thank Mr. Berman, Mr. Conyers, and certainly Mr. Smith and Mr. Coble because they have made this the best bill we can possibly have.

Mr. Chairman, I rise in support of H.R. 1908, the Patent Reform Act of 2007. While we will continue to improve the bill as this process moves forward, I support the product before us and look forward to ongoing efforts to strengthen this legislation. As the holder of 37 United States patents, I came to Congress with the desire to tackle elements I found awry in our patent laws. While in the private sector, I litigated several patent cases before our district courts and the United States Court of Appeals for the Federal Circuit. Through these experiences, I learned a great deal about patent law, both what was right with the law and areas that could use improvement.

One area in need of improvement is in the ability of district court judges to hear patent cases effectively. I am gratified that the House passed legislation I authored to address this problem in the last two congresses. However, we are here today to deal with the substance of patent law, not our judges' ability to master it. There are strong arguments in favor of reform, as well as strong arguments in favor of caution as we move forward. Our patent laws have not had an overhaul in many decades, while technology has advanced exponentially. Not all of our patent laws fit today with the advancements we have seen in electronics, biotechnology, and many other areas. Importantly, many commentators and practitioners are concerned with the preponderance of over-zealous litigation and what some deem exaggerated damages awards.

Both of these issues are addressed in part in this bill. The creation of a post grant review procedure at the Patent Office will help direct some conflicts away from court to an administrative remedy, hopefully saving vast resources in time and money. Damages awards are addressed in encouraging courts to look toward apportioning damages more often, or allowing damages that represent the value of an infringed invention in a product into which the invention is incorporated. With damages and several other issues in this legislation, there is still work to be done. But to keep this process moving, to keep parties negotiating in good faith, I believe we must support this bill today and commit to improving it in the weeks to come. I am offering two amendments today to help address issues that opponents of this legislation have highlighted over the forgoing negotiation process. The first maintains the ability of patent applicants to keep their application from going public until action is taken by the patent office. Opponents of the current bill argue that, because the legislation before us eliminates this option, entities at home and abroad will steal an applicant's ideas. My amendment solves this problem.

The second amendment focuses on the ability of the United States Patent and Trademark Office to promulgate rules. The PTO currently has limited ability to do so, and opponents of this legislation argue that the very ability of the United States to compete in a global economy could be adversely affected by a bad rule put forth by the PTO. My amendment requires a 60-day delay before PTO rules take effect so that Congress may have the opportunity to review these rules. If Congress finds the rule unacceptable, it has the ability to vote on a Joint Resolution of Disapproval nullifying the PTO's action. If Congress does nothing, the rule takes effect. Therefore, this amendment helps to ameliorate concerns over possible PTO action that could harm innovation in the United States.

Even opponents of the underlying bill should support these amendments. While my amendments do not cure all ills in the legislation as seen by its opponents, they do address two very controversial problems in the bill.

I thank Judiciary Committee Ranking Member Lamar Smith and Subcommittee Chairman Howard Berman for all of their effort on this legislation, and I especially thank them for their indulgences in hearing my thoughts on these issues as we have worked over the years on patent reform. We have worked long and hard on this bill, and I have the full intention to continue our work together after today's votes. Mr. CONYERS. Mr. Chairman, I now introduce for our closing speaker the distinguished gentleman from Florida, Mr. Bob Wexler, to have the balance of our time.

Mr. WEXLER. Mr. Chairman, a co-chair of the Congressional Caucus on Intellectual Property Promotion, I rise in strong support of this patent reform legislation because it is critical for the continued growth of American businesses and the creation of high-paying jobs in America.

This bill will nurture and protect inventors, thereby promoting future Alexander Graham Bells and tomorrow's Microsofts. For more than 200 years, strong patent protection, along with timely examination of patent applications, has helped secure the economic success of the United States by empowering inventors and encouraging the development of American business both large and small.

Every day, Americans rely on the innovation that comes from our patent system. From new computer technologies to medicines for America's seniors, the American patent system provides the fuel for our most important technological accomplishments. In America today, our capacity to come up with new ideas actually outstrips the value of the goods we make. The licensing of U.S. patents contributes approximately $150 billion to our annual economy, and intellectual property, including patents, is the only economic area where the United States maintains a solid trade surplus with the rest of the world.

A well-functioning patent system is vital to America's commercial and scientific entrepreneurs and preserves the incentives for innovation guaranteed under the United States Constitution. This legislation will make America more competitive in the global marketplace, not less. We need to support Mr. Berman and Mr. Conyers in their effort to produce what I would respectfully suggest is the most important economic legislation that this House will pass. This is excellent for America's workers; it's excellent for America's universities and our economy at large.

Ms. HIRONO. Mr. Chairman, I rise in reluctant opposition to H.R.

1908, the Patent Reform Act.

I applaud the House Judiciary Committee and the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property for their efforts in putting together this comprehensive bill. However, I cannot in good conscience support the Patent Reform Act in its current form given the concerns that continue to be raised from organizations in my district and at least 100 companies nationwide. Organizations in my district, such as the Hawaii Science & Technology Council and University of Hawaii's Office of Technology Transfer and Economic Development, have raised concerns regarding the provisions on mandatory publication, prior user rights, apportionment of damages, and post-grant review, which may discourage investment in innovative technologies, harm inventors, and reduce publication and collaborative activities among academic scientists. I want to make sure that the final bill that becomes law protects the interests of Hawaii's burgeoning high technology industry and small inventors.

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This bill remains a work-in-progress that certainly requires more debate. Our patent system serves as the basis for America's innovation. It is my hope that the concerns and needs of our inventors will be addressed in conference should this bill pass the House as I very much want to be able to support the final conference report. Mr. ETHERIDGE. Mr. Chairman, I rise in opposition to H.R. 1908, Patent Reform Act of 2007.

While I recognize the need for some reform of the United States' patent process, I believe we must proceed carefully and with the goal of improvement for the many stakeholders affected by the patent system. We should continue to work towards an efficient system that issues high-quality patents and places reasonable limits on patent challenges. Although there are some provisions in H.R. 1908 that could prove beneficial, this far-reaching bill could do serious harm to many of the important employers in my district.

North Carolina benefits greatly from its strong university system. Institutions including the University of North Carolina at Chapel Hill and North Carolina State University in my district serve as engines for research and innovation that help to drive the state's economy. In addition, the 2nd Congressional District of North Carolina contains a number of pharmaceutical companies and biotechnology companies that provide thousands of jobs and are helping to transform our economy. Along with many of the traditional manufacturing companies in North Carolina, the lifeblood of these institutions is the value of the patents they hold. These entities have expressed opposition to any measure that would weaken their patent portfolios. H.R. 1908 in its current form would endanger the value of their patents and harm their ability to continue fueling our economy.

Our patent system has long been a wonderful tool that has helped to foster innovation and reward American ingenuity. Patents, and their value and validity, serve as the backbone for thousands of companies and help form the basis of our economy. Congress should continue to work to reform the system in a way that benefits all of the varied interests that keep our economy strong. I hope the conference committee on H.R. 1908 can correct its shortcomings so I can support and

Congress can enact comprehensive reform of our patent process. Ms. EDDIE BERNICE JOHNSON of Texas. Mr. Chairman, I rise today to commend Chairman Conyers and the House Leadership for their diligence in addressing the issue of patent reform, and to express why I unfortunately must oppose this bill in its current form. There is an overwhelming need to move patents through the approval process quickly, fairly, and economically. I commend this bill on many of the positive changes it makes to the reform system, but I remain concerned about provisions that may dramatically restrict damages payable by infringers. It is my fear that this bill will alter the current system in favor of defendants resulting in further backlogs. These changes to the current system would ultimately hurt existing patent owners.

In addition, this bill implements a post grant review process that will lead to duplicative challenges, resulting in an increase to the cost of patent ownership and significantly decreasing the enforceability, predictability and value of all patents. Numerous technology firms, both large and small are opposed to this bill, as well as, many universities. These are the people on the forefront of our technological future and their voice and opposition need to be heard.

Innovation and advancement are key to the future of America. It is my concern that this bill will tilt the legal balance in favor of patent infringers and discourage innovation and investment in research and development. We must protect our innovators and allow them to pursue concise and necessary action in the court of law. Ms. MATSUI. Mr. Chairman, I rise today in support of the progress to our Nation's competitiveness that the Patent Reform Act represents. Patents are vital to our universities, our large and small companies, our entrepreneurs, and our economy. Our advances in technology are clearly demonstrated by the vast increase in patent applications submitted. Our policies and procedures governing the United States patent process must be updated to keep pace with our inventors. The Patent Reform Act takes significant steps towards that goal. I appreciate the extensive patent portfolio that is generated by the cutting-edge research at the University of California. These innovations provide the intellectual property that businesses depend on to develop new products. I have heard from numerous constituents in my district on this issue who benefit from the technology transfer process. I am happy to represent their interests by supporting patent reform. This is an incredibly complex topic, as we face the challenge of legislating a single patent system to meet the needs of many industries.

I commend Subcommittee Chairman Berman, Chairman Conyers, Ranking Member Smith, and the entire House Judiciary Committee for their diligence. They have worked tirelessly with hundreds of stakeholders to reach the carefully crafted bill that we have on the floor today. I thank the committee and its staff for their long commitment to patent reform. The product of their years of work, the Patent Reform Act, will improve our nation's competitiveness and start moving our country's patent system into the 21st century.

Mrs. BONO. Mr. Chairman, today I rise in support of the Patent Reform Act of 2007. I would like to commend Congressman Berman, Congressman Smith and the many Members of the House, on both sides of the aisle, who have worked diligently to bring this legislation before us. As one who cares deeply about the importance of strong legal protections for copyright and other intellectual property rights, I look forward to supporting this bill today.

My experience with the importance of intellectual property rights has been in the field of entertainment, specifically music. The greatest protection that the innovators of these songs and

performances have is their ability to copyright. To continue encouraging involvement and growth in the area of entertainment and the myriad of jobs that are tied to the industry, it is critical that patents are protected, in order to support the many creative individuals who bring music to the masses.

Many of the issues that we address in Congress from telecommunications to energy to health care advancements all have their basis in a few core concepts—the ability for small and large inventors to pursue a unique idea through the patent process. With that pursuit brings the need for related capital that is often required from outside investors to further the research and development that brings the patent holder's idea to consumers across the world. California is home to some of the most impressive and entrepreneurial high-tech, bio-tech and entertainment industries that rely heavily on patent protection and copyright laws. Each of these industries, and their hundreds of thousands of employees, will be greatly impacted by these changes. This basic concept of innovation is as critical in the high-tech field as it is in the health sciences and biotech realm. However, as many of my colleagues have pointed out today, the interaction between competitors and the role of patent protections differs greatly between fields. There is no one-size-fits-all solution. As this legislation moves forward and is considered in conference, it is my hope that the conferees will be aware of the concerns that have been expressed by the biotech industry and take these concerns into consideration. Again, I would like to reiterate my support of this long awaited legislation. There has been remarkable bipartisan work on this legislation over the past several years and I am proud to cast my vote in support of it.

Mr. UDALL of Colorado. Mr. Chairman, while I have some concerns about this bill, I will vote for it because I think on balance it deserves to be approved as a necessary step toward needed improvements in the current law.

I am far from expert in the intricacies of patent law, so I have listened carefully to those with more knowledge, including several companies employing substantial numbers of Coloradans that utilize patents in various fields. While they are not unanimous, most of them have urged support for the legislation.

I have also noted that the passage of the legislation, as a step toward needed improvements in the current law, is supported by the Consumers Federation of America, Consumers Union, the Electronic Frontier Foundation, and other groups including the Financial Services Roundtable.

At the same time, I have listened to the concerns expressed by others who have raised a number of objections to the bill and think that its defects are so serious as to merit rejection of the legislation in its current form.

I take those objections seriously, but I have decided that nonetheless the better outcome today is for the House to pass the bill and for further discussion of the points they raise to occur in the context of debate in the Senate and then a conference between that body and the House of Representatives.

Mrs. McCARTHY of New York. Mr. Chairman, I will support H.R. 1908 with some reservations.

Our patent laws need to be updated to address the concerns of a 21st Century global economy. For decades, the law has reacted to innovation rather than anticipating it. H.R. 1908 contains many positive provisions that will make it easier for us to compete. I, therefore, want the process to move forward.

The American economy is strong in part because it is diverse. We do not depend on only one segment for our income. Some countries grow crops. Others rely on tourism. Still other countries depend on finite natural resources. Some specialize in manufacturing or providing specific services. We are fortunate enough to

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be able to conduct all these businesses and more. A revised patent law must protect and encourage all segments of our economy. We cannot favor high tech over manufacturing. We cannot discourage biotech research while encouraging financial services. If our economic foundation remains strong and diversified, we will be able to retain our preeminent role in the world's economy. However, if our patent laws inhibit invention and innovation in manufacturing and basic research, then we would be undermining the very strength of our national economy.

As the legislative process continues, I hope that the authors of H.R. 1908 and the members of the other body will remember one important point. The purpose of our patent law is to protect and promote American innovation. Innovation by Americans and for Americans is the keystone to our domestic economic vitality and strength. The final version of patent reform must address the legitimate interests of manufacturing, biotech, and small inventors. My vote on a final patent reform bill will depend on how well those interests are met.

Ms. ESHOO. Mr. Chairman, I rise in strong support of this legislation which I am proud to cosponsor, and I congratulate Chairman Berman for his exceptional leadership and on this complex issue. I am proud to represent Silicon Valley, which is known worldwide for the innovation and developing technologies that continue to change and improve our lives. Nowhere in America—nowhere in the world—are ideas, invention, and intellectual property more important. Patents and IP are the cornerstone of the Information Economy, and it is essential that the United States patent system continue to foster the ideas and innovation which fuel our economy and keep America competitive.

The patent system, unfortunately, has been subject to abuse, and unscrupulous opportunists have exploited the rights granted to legitimate patent holders to target innovative companies and file groundless lawsuits based on dubious patents. The rapid pace of innovation and increasingly complex patent filings have strained the Patent and Trademark Office and patent claims of questionable validity have been granted.

Loopholes and shortcomings in the disposition of patent cases also allow baseless claims of infringement to create unnecessary litigation and extort nuisance settlements, sapping billions from economic growth, and creating a drag on real innovation.

Technology companies have become particularly enticing targets for this litigation because of the broad importance of patents to technology products. Just a single piece of high-tech equipment

can contain hundreds of patents, and any one of them can now be used to sue for the value of the entire product.

One company in Silicon Valley—Cisco Systems—spent $45 million this year to defend patent infringement cases.

It is time to implement reforms to the patent system and ensure that we reward truly novel ideas and cutting edge innovation, not successful litigation strategies.

This bipartisan legislation enjoys broad support throughout the technology industry, major universities including the University of California, as well as major consumer groups such as Consumer Federation of America, Consumers Union, and U.S. PIRG. I urge my colleagues to support this bill which will restore balance to our patent system.

Ms. WOOLSEY. Mr. Chairman, the patent reform bill before us today is a necessary step to modernize and streamline our patent process to ensure American innovation will keep our country competitive. It's been over 50 years since we have updated our patent process. That's before the Internet, before personal computers, and before digital music. Actually, it's 5 years before they launched Sputnik. So, there can be no doubt that reforming the system to accommodate a new era of innovation is needed.

Although this bill isn't perfect, I think that it does move the ball forward in terms of reforming the system. Clearly, additional patent reform is needed in the pharmaceutical and biomedical industry as there are many issues left unresolved by H.R. 1908. Hopefully these issues can be addressed in conference with the Senate. Mr. Chairman, I commend my colleagues on the Judiciary committee for all of their hard work on this bill, it's been fifty-five years in the making, and it's time for an update.

Mr. CANNON. Mr. Chairman, I urge you to support the Patent Reform Act of 2007, H.R. 1908.

Certain aspects of our patent system have not been amended since 1954, but our economy has changed dramatically since then and it's time our patent system caught up.

H.R. 1908 was introduced and is supported by the bipartisan leadership of the Judiciary Committee and was approved by the committee in a unanimous voice vote.

For the sake of our Nation's ability to innovate, grow and compete, we must pass this legislation.

The danger of not reforming our patent system is real and we are witnessing its effects today.

Patents of questionable validity are limiting competition and raising prices for consumers—a fact noted by the Federal Trade Commission in a 2003 report.

In addition, current interpretations of patent law by district and appellate courts have veered far from what Congress originally intended.

The result is that companies are diverting resources from R&D to pay for legal defense.

Because interpretations of patent law are so off-course, the U.S. Supreme Court has had to intervene in an unusually high number of patent cases in recent years.

In one case, the Court explicitly called for Congress to take action. We have been debating patent reform for years. Such issues as post-grant review and damages apportionment have been components of various patent reform bills in the House and Senate over the course of the last several sessions and have been discussed at length in nearly every forum, from Congressional hearings to the media. One issue that generated the most debate in previous Congresses—injunctions—was resolved by the U.S. Supreme Court in 2006 in much the same way as proposed legislation would have done. Yet despite predictions from some that reforming the standards for granting injunctions would grind innovation to a halt, patent holders still are granted injunctions today to protect their intellectual property. In fact, the patent system is healthier as a result. H.R. 1908 will restore fairness and common sense to the standards for awarding reasonable damages.

Today, patent holders regularly are awarded damages based on the value of an entire product, even if the patent in question is one of literally thousands of other patented components comprising the product.

Additionally, H.R. 1908 will give trained patent examiners greater ability to review patents and enhance patent quality. Innovation is indeed threatened not by changes to the system, but by the status quo.

After years of debate, it's time for action.

One area of particular interest to me is the language in the manager's amendment dealing with venue reform. I am pleased the Chairman included venue reform language in the manager's amendment.

At the Judiciary Committee, Representative Zoe Lofgren of California offered an amendment that I cosponsored that would inject sanity into the patent litigation system.

The venue reform language will create a real and substantial relationship between the parties and the acts of infringement by denying the ability to manufacture venue for hopes of gaming the judicial system.

During years of efforts on litigation reform, we have learned about what some have referred to as Judicial Hell Holes. These locations are where judges apply laws and procedures in an unfair and unbalanced manner.

The underlying legislation's intent is to bring fairness and balance into the patent system.

And the venue language will bring fairness and balance to patent litigation.

This amendment will not close the court house door on any plaintiff.

But it will require legitimate nexus for where claims may be brought. The nexus requirements of the amendment will prevent groups or entities from artificially manipulating presence in a judicial district just to game the system to file suit.

Swift passage of H.R. 1908 will stimulate innovation, competition and growth—great news for consumers, workers and our global economic leadership.

I urge support of H.R. 1908.

Mrs. TAUSCHER. Mr. Chairman, I rise today to commend the work of my colleague, Chairman Howard Berman, on the Patent Reform Act of 2007. This bill is a necessary step forward in the modernization of a patent system that has not been meaningfully updated for decades. I urge my colleagues to show their support for reform by casting a vote for this bill.

This bill will result in higher quality patents emerging from the Patent and Trademark Office.

It will harmonize our patent system with that of our major trading partners.

And it will improve fairness in litigation by preventing "patent trolls" from shopping around for friendly courts. At the same time, I look forward to working with Congressman Berman to fine-tune a number of provisions in this bill.

In my State of California, our economy is based on the incredible advances made by

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university researchers, the high-tech sector, and the life sciences industry.

Innovations in all sectors must be afforded the strongest possible protection.

This has particular importance for small venture-backed firms whose patents are their only asset.

With this in mind, I look forward to seeing improvements to provisions governing the way damage awards are calculated in patent suits.

The inequitable conduct defense and the issue of continuations also deserve further review and revision.

I again applaud Chairman Berman for his efforts, and urge my colleagues to support H.R. 1908.

The Acting CHAIRMAN (Mr. Ross). All time for general debate has expired.

Pursuant to the rule, the amendment in the nature of a substitute printed in the bill shall be considered as an original bill for the purpose of amendment under the 5-minute rule and shall be considered read.

The text of the amendment in the nature of a substitute is as follows:

H.R. 1908

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 "Patent Reform Act of 2007".

(b) Table of Contents.--The table of contents of this Act is as follows:

Sec. 1. Short title; table of contents.
Sec. 2. Reference to title 35, United States Code.
Sec. 3. Right of the first inventor to file.
Sec. 4. Inventor's oath or declaration.
Sec. 5. Right of the inventor to obtain damages.
Sec. 6. Post-grant procedures and other quality enhancements.
Sec. 7. Definitions; patent trial and appeal board.
Sec. 8. Study and report on reexamination proceedings.
Sec. 9. Submissions by third parties and other quality enhancements.
Sec. 10. Tax planning methods not patentable.
Sec. 11. Venue and jurisdiction.
Sec. 12. Additional information; inequitable conduct as defense to infringement.
Sec. 13. Best mode requirement.
Sec. 14. Regulatory authority.
Sec. 15. Technical amendments.
Sec. 16. Study of special masters in patent cases.
Sec. 17. Rule of construction.

SEC. 2. REFERENCE TO TITLE 35, UNITED STATES CODE.

Whenever in this Act a section or other provision is amended or repealed, that amendment or repeal shall be considered to be made to that section or other provision of title 35, United States Code.

SEC. 3. RIGHT OF THE FIRST INVENTOR TO FILE.

(a) Definitions.—Section 100 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 an invention.

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

"(h) The 'effective filing date of a claimed invention' is—

"(1) the filing date of the patent or the application for

patent containing the claim to the invention; or

"(2) if the patent or application for patent is entitled to a right of priority of any other application under section 119, 365(a), or 365(b) or to the benefit of an earlier filing date in the United States under section 120, 121, or 365(c), the filing date of the earliest such application in which the claimed invention is disclosed in the manner provided by section 112(a).

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

"(j) The term 'joint invention' means an invention resulting from the collaboration of inventive endeavors of two or more persons working toward the same end and producing an invention by their collective efforts.".

(b) Conditions for Patentability.—

(1) In general.—Section 102 is amended to read as follows:

Sec. 102. Conditions for patentability; novelty
"(a) Novelty; Prior Art.—A patent for a claimed invention may not be obtained if—

"(1) the claimed invention was patented, described in a printed publication, in public use, or on sale—

"(A) more than one year before the effective filing date

of the claimed invention; or

"(B) one year or less before the effective filing date of the claimed invention, other than through disclosures made by the inventor or a joint inventor or by others who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor; 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) Prior inventor disclosure exception.—Subject matter that would otherwise qualify as prior art based upon a disclosure under subparagraph (B) of subsection (a)(1) shall not be prior art to a claimed invention under that subparagraph if the subject matter had, before such disclosure, been publicly disclosed by the inventor or a joint inventor or others who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor.

"(2) Derivation, prior disclosure, and common assignment exceptions.—Subject matter that would otherwise qualify as prior art only under subsection (a)(2) shall not be prior art to a claimed invention if—

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

“(B) the subject matter had been publicly disclosed by the inventor or a joint inventor or others who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor before the date on which the application or patent referred to in subsection (a)(2) was effectively filed; or

“ (C) the subject matter 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.

“(3) Joint research agreement exception.—

“(A) In general.—Subject matter 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 paragraph (2) if—

“(i) the claimed invention was made by or on behalf of parties to a joint research agreement that was in effect on or before the effective filing date of the claimed invention;

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

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

“(B) For purposes of subparagraph (A), the term ‘joint research agreement’ means a written contract, grant, or cooperative agreement entered into by two or more persons or entities for the performance of experimental, developmental, or research work in the field of the claimed invention.

“(4) Patents and published applications effectively filed.—A patent or application for patent is effectively filed under subsection (a)(2) with respect to any subject matter described in the patent or application—

“(A) as of the filing date of the patent or the application for patent; or

“(B) 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 one or more prior filed applications for patent, as of the filing date of the earliest such application that describes the subject matter.”.

(2) Conforming amendment.—The item relating to section 102 in the table of sections for chapter 10 is amended to read as follows:

“102. Conditions for patentability; novelty.”.

(c) Conditions for Patentability; Non-Obvious Subject Matter.--Section 103 is amended to read as follows:

"Sec. 103. Conditions for patentability; nonobvious subject matter

"A patent for a claimed invention may not be obtained though 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, and the item relating to that section in the table of sections for chapter 10, are repealed.

(e) Repeal of Statutory Invention Registration.—

(1) In general.—Section 157, and the item relating to that section in the table of sections for chapter 14, are repealed.

(2) Removal of cross references.—Section 111(b)(8) is amended by striking "sections 115, 131, 135, and 157" and inserting "sections 131 and 135".

(f) Earlier Filing Date for Inventor and Joint Inventor.—

Section 120 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 is amended by striking "and the time specified in section 102(d)".

(2) Limitation on remedies.—Section 287©(4) 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 is amended by striking "except as otherwise provided in section 102(e) of this title".

(4) Publication of international application: effect.—

Section 374 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) 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) 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) is amended—

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(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(a) would end before the end of that 2-year period”; and

(ii) by striking “the statutory” and inserting “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(a)”.

(h) Repeal of Interfering Patent Remedies.—Section 291, and the item relating to that section in the table of sections for chapter 29, are repealed.

(i) Action for Claim to Patent on Derived Invention.—

(1) In general.—Section 135(a) is amended to read as follows:

“(a) Dispute Over Right to Patent.—

“(1) Institution of derivation proceeding.—

“(A) Request for proceeding.—An applicant may request initiation of a derivation proceeding to determine the right of the applicant to a patent by filing a request that sets forth with particularity the basis for finding that another applicant derived the claimed invention from the applicant requesting the proceeding and, without authorization, filed an application claiming such invention. Any such request—

“(i) may only be made within 12 months after the earlier of—

“(I) the date on which a patent is issued containing a claim that is the same or substantially the same as the claimed invention; or

“(II) the date of first publication of an application containing a claim that is the same or is substantially the same as the claimed invention; and

“(ii) must be made under oath, and must be supported by substantial evidence.

“(B) Determination of director.—Whenever the Director determines that patents or applications for patent naming different individuals as the inventor interfere with one another because of a dispute over the right to patent under section 101 on the basis of a request under subparagraph (A), the Director shall institute a derivation proceeding for the purpose of determining which applicant is entitled to a patent.

"(2) Determination by patent trial and appeal board.—In any proceeding under this subsection, the Patent Trial and Appeal Board—

"(A) shall determine the question of the right to patent;

"(B) in appropriate circumstances, may correct the naming of the inventor in any application or patent at issue; and "(C) shall issue a final decision on the right to patent. "(3) Derivation proceeding.—The Patent Trial and Appeal Board may defer action on a request to initiate a derivation proceeding for up to three months after the date on which the Director issues a patent to the applicant that filed the earlier application.

"(4) Effect of final decision.—The final decision of the Patent Trial and Appeal Board in a derivation proceeding, if adverse to the claim of an applicant, shall constitute the final refusal by the Patent and Trademark Office on the claims involved. The Director may issue a patent to an applicant who is determined by the Patent Trial and Appeal Board to have the right to a patent. The final decision of the Board, if adverse to a patentee, shall, if no appeal or other review of the decision has been or can be taken or had, constitute cancellation of the claims involved in the patent, and notice of such cancellation shall be endorsed on copies of the patent distributed after such cancellation by the Patent and Trademark Office."

(2) Conforming amendments.--(A) Section 135 is further amended—

(i) in subsection (b)--

(I) by striking "(b)(1) A claim" and inserting the following:

"(b) Same Claims.—

"(1) Issued patents.—A claim"; and

(II) by striking "(2) A claim" and inserting the following:

"(2) Published applications.—A claim"; and

(III) moving the remaining text of paragraphs (1) and (2) 2 ems to the right;

(ii) in subsection (c)--

(I) by striking "(C) Any agreement" and inserting the following:

"(c) Agreements To Terminate Proceedings.—

"(1) In general.—Any agreement";

(II) by striking "an interference" and inserting "a derivation proceeding";

(III) by striking "the interference" each place it appears and inserting "the derivation proceeding";

(IV) in the second paragraph, by striking “The Director” and inserting the following:

“(2) Notice.—The Director”;

(V) by amending the third paragraph to read as follows:

“(3) Judicial review.—Any discretionary action of the Director under this subsection shall be reviewable under chapter 7 of title 5.”; and

(VI) by moving the remaining text of paragraphs (1) and (2) of subsection © 2 ems to the right; and

(iii) in subsection (d)--

(I) by striking “(d) Parties” and inserting “(d)

Arbitration.—Parties”;

(II) by striking “a patent interference” and inserting “a derivation proceeding”; and

(III) by striking “the interference” and inserting “the derivation proceeding”.

(j) Elimination of References to Interferences.--(1)

Sections 41(a)(6), 134, 141, 145, 146, 154, 305, and 314 are each amended by striking “Board of Patent Appeals and Interferences” each place it appears and inserting “Patent Trial and Appeal Board”.

(2) Section 141 is amended—

(A) by striking “an interference” and inserting “a derivation proceeding”; and

(B) by striking “interference” each additional place it appears and inserting “derivation proceeding”.

(3) Section 146 is amended—

(A) in the first paragraph—

(i) by striking “Any party” and inserting “(a) In General.—Any party”;

(ii) by striking “an interference” and inserting “a derivation proceeding”; and

(iii) by striking “interference” each additional place it appears and inserting “derivation proceeding”; and

(B) in the second paragraph, by striking “Such suit” and inserting “(b) Procedure.—A suit under subsection (a)”

(4) The section heading for section 134 is amended to read as follows:

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

(5) The section heading for section 135 is amended to read as follows:

"Sec. 135. Derivation proceedings".

(6) The section heading for section 146 is amended to read as follows:

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

(7) Section 154(b)(1)(C) is amended by striking "interferences" and inserting "derivation proceedings".

(8) The item relating to section 6 in the table of sections for chapter 1 is amended to read as follows:

"6. Patent Trial and Appeal Board.".

(9) The items relating to sections 134 and 135 in the table of sections for chapter 12 are amended to read as follows:

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

"135. Derivation proceedings."

(10) The item relating to section 146 in the table of sections for chapter 13 is amended to read as follows:

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

(11) Certain Appeals.—Subsection 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 patent applications, derivation proceedings, and post-grant review proceedings, at the instance of an applicant for a patent or any party to a patent interference (commenced before the effective date provided in section 3(k) of the Patent Reform Act of 2007), derivation proceeding, or post-grant review proceeding, and any such appeal shall waive any right of such applicant or party to proceed under section 145 or 146 of title 35;".

(k) Effective Date.—

(1) In general.—The amendments made by this section—

(A) shall take effect 90 days after the date on which the President transmits to the Congress a finding that major patenting authorities have adopted a grace period having substantially the same effect as that contained under the amendments made by this section; and

(B) shall apply to all applications for patent that are filed on or after the effective date under subparagraph (A).

(2) Definitions.—In this subsection:

(A) Major patenting authorities.—The term “major patenting authorities” means at least the patenting authorities in Europe and Japan.

(B) Grace period.—The term “grace period” means the 1-year period ending on the effective filing date of a claimed invention, during which disclosures of the subject matter by the inventor or a joint inventor, or by others who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor, do not qualify as prior art to the claimed invention.

(C) Effective filing date.—The term “effective filing date of a claimed invention” means, with respect to a patenting authority in another country, a date equivalent to the effective filing date of a claimed invention as defined in section 100(h) of title 35, United States Code, as added by subsection (a) of this section.

(l) Review Every 7 Years.—Not later than the end of the 7-year period beginning on the effective date under subsection (k), and the end of every 7-year period thereafter, the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office (in this subsection referred to as the “Director”) shall—

(1) conduct a study on the effectiveness and efficiency of the amendments made by this section; and

(2) submit to the Committees on the Judiciary of the House of Representatives and the Senate a report on the results of the study, including any recommendations the Director has on amendments to the law and other recommendations of the Director with respect to the first-to-file system implemented under the amendments made by this section.

SEC. 4. INVENTOR’S OATH OR DECLARATION.

(a) Inventor’s Oath or Declaration.--

(1) In general.--Section 115 is amended to read as follows:

Sec. 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), that commences the national stage under section 363, or that is filed by an inventor for an invention for which an application has previously been filed under this title by that inventor shall include, or be amended to include, the name of the inventor of any claimed invention in the application. Except as otherwise provided in this section, each individual who is the inventor or a

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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 by an individual under subsection (a) shall contain statements that—

“(1) the application was made or was authorized to be made

by individual; and

“(2) the 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 and 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.—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 that claims the benefit of an earlier filing date under section 120 or 365(C), if—

"(1) 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;

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

"(3) 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.

"(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, such additional statements shall be filed in accordance with regulations established by the Director.

"(2) Supplemental statements not required.—If an individual has executed an oath or declaration under 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.—No patent shall 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 under this section must contain an acknowledgment that any willful false statement is punishable by fine or imprisonment, or both, under section 1001 of title 18.".

(2) Relationship to divisional applications.—Section 121 is amended by striking "If a divisional application" and all that follows through "inventor.".

(3) Requirements for nonprovisional applications.—Section 111(a) is amended—

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

(B) in the heading for paragraph (3), by striking “and oath”; and

(C) by striking “and oath” each place it appears.

(4) Conforming amendment.—The item relating to section 115 in the table of sections for chapter 11 is amended to read as follows:

“115. Inventor’s oath or declaration.”.

(b) Filing by Other Than Inventor.--Section 118 is amended to read as follows:

Sec. 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.”.

(C) Specification.—Section 112 is amended—

(1) in the first 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”; and

(2) in the second 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 paragraph, by striking “A claim” and inserting “© Form.—A claim”;

(4) in the fourth paragraph, by striking “Subject to the following paragraph,” and inserting “(d) Reference in Dependent Forms.—Subject to subsection (e),”;

(5) in the fifth paragraph, by striking “A claim” and inserting “(e) Reference in Multiple Dependent Form.—A claim”; and

(6) in the last paragraph, by striking “An element” and inserting “(f) Element in Claim for a Combination.—An element”.

(d) Effective Date.—The amendments made by this section—

(1) shall take effect at the end of the 1-year period beginning on the date of the enactment of this Act; and

(2) shall apply to any application for patent, or application for reissue patent, that is filed on or after the effective date under paragraph (1).

SEC. 5. RIGHT OF THE INVENTOR TO OBTAIN DAMAGES.

(a) Damages.—Section 284 is amended—

(1) in the first paragraph, by striking “Upon” and inserting “(a) In General.—Upon”;

(2) by designating the second undesignated paragraph as subsection ©;

(3) by inserting after subsection (a) (as designated by paragraph (1) of this subsection) the following:

“(b) Reasonable Royalty.—

“(1) In general.—An award pursuant to subsection (a) that is based upon a reasonable royalty shall be determined in accordance with this subsection. Based on the facts of the case, the court shall determine whether paragraph (2), (3), or (5) will be used by the court or the jury in calculating a reasonable royalty. The court shall identify the factors that are relevant to the determination of a reasonable royalty under the applicable paragraph, and the court or jury, as the case may be, shall consider only those factors in making the determination.

“(2) Relationship of damages to contributions over prior art.—The court shall conduct an analysis to ensure that a reasonable royalty under subsection (a) is applied only to that economic value properly attributable to the patent’s specific contribution over the prior art. The court shall exclude from the analysis the economic value properly attributable to the prior art, and other features or improvements, whether or not themselves patented, that contribute economic value to the infringing product or process.

“(3) Entire market value.—Unless the claimant shows that the patent’s specific contribution over the prior art is the predominant basis for market demand for an infringing product or process, damages may not be based upon the entire market value of the products or processes involved that satisfy that demand.

“(4) Combination inventions.—For purposes of paragraphs (2) and (3), in the case of a combination invention the elements of which are present individually in the prior art, the

patentee may show that the contribution over the prior art may include the value of the additional function resulting from the combination, as well as the enhanced value, if any, of some or all of the prior art elements resulting from the combination.

“(5) Other factors.—In determining a reasonable royalty, the court may also consider, or direct the jury to consider, the terms of any nonexclusive marketplace licensing of the invention, where appropriate, as well as any other relevant factors under applicable law.”;

(4) by amending subsection (C) (as designated by paragraph

(1) of this subsection) to read as follows:

“(C) Willful Infringement.—

“(1) Increased damages.—A court that has determined that the infringer has willfully infringed a patent or patents may increase the damages up to three times the amount of damages found or assessed under subsection (a), except that increased damages under this paragraph shall not apply to provisional rights under section 154(d).

“(2) Permitted grounds for willfulness.—A court may find that an infringer has willfully infringed a patent only if the patent owner presents clear and convincing evidence that—

“(A) after receiving written notice from the patentee—

“(i) alleging acts of infringement in a manner sufficient to give the infringer an objectively reasonable apprehension of suit on such patent, and

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“(ii) identifying with particularity each claim of the patent, each product or process that the patent owner alleges infringes the patent, and the relationship of such product or process to such claim,

the infringer, after a reasonable opportunity to investigate, thereafter performed one or more of the alleged acts of infringement;

“(B) the infringer intentionally copied the patented invention with knowledge that it was patented; or

“(C) after having been found by a court to have infringed that patent, the infringer engaged in conduct that was not colorably different from the conduct previously found to have infringed the patent, and that resulted in a separate finding of infringement of the same patent.

“(3) Limitations on willfulness.--(A) A court may not find that an infringer has willfully infringed a patent under paragraph (2) for any period of time during which the infringer had an informed good faith belief that the patent was invalid or unenforceable, or would not be infringed by the conduct later shown to constitute infringement of the patent.

"(B) An informed good faith belief within the meaning of subparagraph (A) may be established by—

"(i) reasonable reliance on advice of counsel;

"(ii) evidence that the infringer sought to modify its conduct to avoid infringement once it had discovered the patent; or

"(iii) other evidence a court may find sufficient to establish such good faith belief.

"(C) The decision of the infringer not to present evidence of advice of counsel is not relevant to a determination of willful infringement under paragraph (2).

"(4) Limitation on pleading.—Before the date on which a court determines that the patent in suit is not invalid, is enforceable, and has been infringed by the infringer, a patentee may not plead and a court may not determine that an infringer has willfully infringed a patent. The court's determination of an infringer's willfulness shall be made without a jury."; and

(5) in the third undesignated paragraph, by striking "The court" and inserting "(d) Expert Testimony.—The court".

(b) Defense to Infringement Based on Earlier Inventor.—

Section 273 is amended—

(1) in subsection (a)--

(A) in paragraph (1)--

(i) by striking "of a method"; and

(ii) by striking "review period;" and inserting "review period; and";

(B) in paragraph (2)(B), by striking the semicolon at the end and inserting a period; and

(C) by striking paragraphs (3) and (4);

(2) in subsection (b)--

(A) in paragraph (1)--

(i) by striking "for a method"; and

(ii) by striking "at least 1 year before the effective filing date of such patent, and" and all that follows through the period and inserting "and commercially used, or made substantial preparations for commercial use of, the subject matter before the effective filing date of the claimed invention.";

(B) in paragraph (2)--

(i) by striking “The sale or other disposition of a useful end product produced by a patented method” and inserting “The sale or other disposition of subject matter that qualifies for the defense set forth in this section”; and

(ii) by striking “a defense under this section with respect to that useful end result” and inserting “such defense”;

(C) in paragraph (3)--

(i) by striking subparagraph (A); and

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

(D) in paragraph (7), by striking “of the patent” and inserting “of the claimed invention”; and

(3) by amending the heading to read as follows:

“Sec. 273. Special defenses to and exemptions from infringement”.
(C) Table of Sections.—The item relating to section 273 in the table of sections for chapter 28 is amended to read as follows:

“273. Special defenses to and exemptions from infringement.”.

(d) 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.

(e) Review Every 7 Years.—Not later than the end of the 7-year period beginning on the date of the enactment of this Act, and the end of every 7-year period thereafter, the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office (in this subsection referred to as the “Director”) shall—

(1) conduct a study on the effectiveness and efficiency of the amendments made by this section; and

(2) submit to the Committees on the Judiciary of the House of Representatives and the Senate a report on the results of the study, including any recommendations the Director has on amendments to the law and other recommendations of the Director with respect to the right of the inventor to obtain damages for patent infringement.

SEC. 6. POST-GRANT PROCEDURES AND OTHER QUALITY ENHANCEMENTS.

(a) Citation of Prior Art.--

(1) In general.--Section 301 is amended to read as follows:

Sec. 301. Citation of prior art

“(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) 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.

"(b) Submissions Part of Official File.—If the person citing prior art or written submissions under subsection (a) explains in writing the pertinence and manner of applying the prior art or written submissions to at least one claim of the patent, the citation of the prior art or written submissions (as the case may be) and the explanation thereof shall become a part of the official file of the patent.

"(C) Procedures for Written Statements.—

"(1) Submission of additional materials.—A party that submits written statements under subsection (a)(2) in a proceeding shall include any other documents, pleadings, or evidence from the proceeding that address the patent owner's statements or the claims addressed by the written statements.

"(2) Limitation on use of statements.—Written statements submitted under subsection (a)(2) shall not be considered for any purpose other than to determine the proper meaning of the claims that are the subject of the request in a proceeding ordered pursuant to section 304 or 313. Any such written statements, and any materials submitted under paragraph (1), that are subject to an applicable protective order shall be redacted to exclude information subject to the order.

"(d) Identity Withheld.—Upon the written request of the person citing prior art or written statements under subsection (a), the person's identity shall be excluded from the patent file and kept confidential.".

(b) Reexamination.—Section 303(a) is amended to read as follows:

"(a) Within three months after the owner of a patent files a request for reexamination under section 302, the Director shall determine whether a substantial new question of patentability affecting any claim of the patent concerned is raised by the request, with or without consideration of other patents or printed publications. On the Director's own initiative, and at any time, the Director may determine whether a substantial new question of patentability is raised by patents and publications discovered by the Director, is cited under section 301, or is cited by any person other than the owner of the patent under section 302 or section 311. The existence of a substantial new question of patentability is not precluded by the fact that a patent or printed publication was previously cited by or to the Office or considered by the Office.".

(C) Conduct of Inter Partes Proceedings.—Section 314 is amended—

(1) in the first sentence of subsection (a), by striking

"conducted according to the procedures established for initial examination under the provisions of sections 132 and 133" and inserting "heard by an administrative patent judge in accordance with procedures which the Director shall establish";

(2) in subsection (b), by striking paragraph (2) and inserting the following:

"(2) The third-party requester shall have the opportunity to file written comments on any action on the merits by the Office in the inter partes reexamination proceeding, and on any response that the patent owner files to such an action, if those written comments are received by the Office within 60 days after the date of service on the third-party requester of the Office action or patent owner response, as the case may be."; and

(3) by adding at the end the following:

"(d) Oral Hearing.—At the request of a third party requestor or the patent owner, the administrative patent judge shall conduct an oral hearing, unless the judge finds cause lacking for such hearing.".

(d) Estoppel.—Section 315(C) is amended by striking "or could have raised".

(e) Reexamination Prohibited After District Court Decision.—Section 317(b) is amended—

(1) in the subsection heading, by striking "Final

Decision" and inserting "District Court Decision"; and

(2) by striking "Once a final decision has been entered" and inserting "Once the judgment of the district court has been entered".

(f) Post-Grant Opposition Procedures.—

(1) In general.—Part III is amended by adding at the end the following new chapter:

CHAPTER 32--POST-GRANT REVIEW PROCEDURES

"Sec.

321. Petition for post-grant review.

322. Timing and bases of petition.

323. Requirements of petition.

324. Prohibited filings.

325. Submission of additional information; showing of sufficient grounds.

326. Conduct of post-grant review proceedings.

327. Patent owner response.

328. Proof and evidentiary standards.

329. Amendment of the patent.

330. Decision of the Board.

331. Effect of decision.

332. Settlement.

333. Relationship to other pending proceedings.

334. Effect of decisions rendered in civil action on post-grant review proceedings.

335. Effect of final decision on future proceedings.

336. Appeal.

Sec. 321. Petition for post-grant review

“Subject to sections 322, 324, 332, and 333, a person who

is not the patent owner may file with the Office a petition for cancellation seeking to institute a post-grant review proceeding to cancel as unpatentable any claim 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). The Director shall establish, by regulation, fees to be paid

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by the person requesting the proceeding, in such amounts as the Director determines to be reasonable.

Sec. 322. Timing and bases of petition

“A post-grant proceeding may be instituted under this chapter pursuant to a cancellation petition filed under section 321 only if—

“(1) the petition is filed not later than 12 months after the grant of the patent or issuance of a reissue patent, as the case may be; or

“(2) the patent owner consents in writing to the proceeding.

Sec. 323. Requirements of petition

“A cancellation 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 the cancellation petitioner;

and

“(3) the petition sets forth in writing the basis for the cancellation, identifying each claim challenged and providing such information as the Director may require by regulation, and includes copies of patents and printed publications that the cancellation petitioner relies upon in support of the petition; and

“(4) the petitioner provides copies of those documents to the patent owner or, if applicable, the designated representative of the patent owner.

Sec. 324. Prohibited filings

“A post-grant review proceeding may not be instituted under section 322 if the petition for cancellation requesting the proceeding identifies the same cancellation petitioner and the same patent as a previous petition for cancellation filed under such section.

Sec. 325. Submission of additional information; showing of sufficient grounds

“(a) In General.—The cancellation petitioner shall file such additional information with respect to the petition as the Director may require. For each petition submitted under section 321, the Director shall determine if the written statement, and any evidence submitted with the request, establish that a substantial question of patentability exists for at least one claim in the patent. The Director may initiate a post-grant review proceeding if the Director determines that the information presented provides sufficient grounds to believe that there is a substantial question of patentability concerning one or more claims of the patent at issue.

“(b) Notification; Determinations Not Reviewable.—The Director shall notify the patent owner and each petitioner in writing of the Director’s determination under subsection (a), including a determination to deny the petition. The Director shall make that determination in writing not later than 60 days after receiving the petition. Any determination made by the Director under subsection (a), including whether or not to institute a post-grant review proceeding or to deny the petition, shall not be reviewable.

Sec. 326. Conduct of post-grant review proceedings

“(a) In General.—The Director shall prescribe regulations, in accordance with section 2(b)(2)--

“(1) establishing and governing post-grant review proceedings under this chapter and their relationship to other proceedings under this title;

“(2) establishing procedures for the submission of supplemental information after the petition for cancellation is filed; and

“(3) setting forth 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, and the procedures for obtaining such evidence shall be consistent with the purpose and nature of the proceeding.

“(b) Post-Grant Regulations.—Regulations under subsection (a)(1)--

“(1) shall require that the final determination in a post-grant proceeding issue not later than one year after the date on which the post-grant review proceeding is instituted under this chapter, except that, for good cause shown, the Director may extend the 1-year period by not more than six months;

“(2) shall provide for discovery upon order of the Director;

“(3) shall provide for publication of notice in the Federal Register of the filing of a petition for post-grant review under this chapter, for publication of the petition, and documents, orders, and decisions relating to the petition, on the website of the Patent and Trademark Office, and for filings under seal exempt from publication requirements;

“(4) shall prescribe 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 unnecessary increase in the cost of the proceeding;

“(5) may provide for protective orders governing the

exchange and submission of confidential information; and

“(6) shall ensure that any information submitted by the patent owner in support of any amendment entered under section 329 is made available to the public as part of the prosecution history of the patent.

“(C) Considerations.—In prescribing regulations under this section, the Director shall consider the effect on the economy, the integrity of the patent system, and the efficient administration of the Office.

“(d) Conduct of Proceeding.—The Patent Trial and Appeal Board shall, in accordance with section 6(b), conduct each post-grant review proceeding authorized by the Director.

Sec. 327. Patent owner response

“After a post-grant proceeding under this chapter has been instituted with respect to a patent, the patent owner shall have the right to file, within a time period set by the Director, a response to the cancellation petition. The patent owner shall file with the response, through affidavits or declarations, any additional factual evidence and expert opinions on which the patent owner relies in support of the response.

“Sec. 328. Proof and evidentiary standards

“(a) In General.—The presumption of validity set forth in section 282 shall not apply in a challenge to any patent claim under this chapter.

“(b) Burden of Proof.—The party advancing a proposition under this chapter shall have the burden of proving that proposition by a preponderance of the evidence.

“Sec. 329. Amendment of the patent

“(a) In General.—In response to a challenge in a petition

for cancellation, the patent owner may file one motion to amend the patent in one or more of the following ways:

“(1) Cancel any challenged patent claim.

“(2) For each challenged claim, propose a substitute claim.

“(3) Amend the patent drawings or otherwise amend the patent other than the claims.

“(b) Additional Motions.—Additional motions to amend may be permitted only for good cause shown.

“(c) Scope of Claims.—An amendment under this section may not enlarge the scope of the claims of the patent or introduce new matter.

“Sec. 330. Decision of the Board

“If the post-grant review proceeding 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 and any new claim added under section 329.

“Sec. 331. Effect of decision

“(a) In General.—If the Patent Trial and Appeal Board issues a final decision under section 330 and the time for appeal has expired or any appeal proceeding has terminated, the Director shall issue and publish a certificate canceling any claim of the patent finally determined to be unpatentable and incorporating in the patent by operation of the certificate any new claim determined to be patentable.

“(b) New Claims.—Any new claim held to be patentable and incorporated into a patent in a post-grant review proceeding shall have the same effect as that specified in section 252 for reissued patents on the right of any person who made, purchased, offered to sell, or used within the United States, or imported into the United States, anything patented by such new claim, or who made substantial preparations therefor, before a certificate under subsection (a) of this section is issued.

“Sec. 332. Settlement

“(a) In General.—A post-grant review proceeding shall be terminated with respect to any petitioner upon the joint request of the petitioner and the patent owner, unless the Patent Trial and Appeal Board has issued a written decision before the request for termination is filed. If the post-grant review proceeding is terminated with respect to a petitioner under this paragraph, no estoppel shall apply to that petitioner. If no petitioner remains in the proceeding, the panel of administrative patent judges assigned to the proceeding shall terminate the proceeding.

“(b) Agreement in Writing.—Any agreement or understanding between the patent owner and a petitioner, including any collateral agreements referred to in the agreement or understanding, that is made in connection with or in contemplation of the termination of a post-grant review proceeding, must be in writing. A post-grant review proceeding as between the parties to the agreement or understanding may not be terminated until a copy of the agreement or understanding, including any such collateral agreements, has been filed in the Office. If any party filing such an agreement or understanding requests, the agreement or understanding shall be kept separate from the file of the post-grant review proceeding, and shall be made available only to Government agencies on written request, or to any person on a showing of good cause.

“Sec. 333. Relationship to other pending proceedings

“(a) In General.—Notwithstanding subsection 135(a), sections 251 and 252, and chapter 30, the Director may determine the manner in which any reexamination proceeding, reissue proceeding, interference proceeding (commenced before the effective date provided in section 3(k) of the Patent Reform Act of 2007), derivation proceeding, or post-grant review proceeding, that is pending during a post-grant review proceeding, may proceed, including providing for stay, transfer, consolidation, or termination of any such proceeding.

“(b) Stays.—The Director may stay a post-grant review proceeding if a pending civil action for infringement addresses the same or substantially the same questions of patentability.

“Sec. 334. Effect of decisions rendered in civil action on post-grant review proceedings
“If a final decision is entered against a party in a civil action arising in whole or in part under section 1338 of title 28 establishing that the party has not sustained its burden of proving the invalidity of any patent claim—

“(1) that party to the civil action and the privies of that party may not thereafter request a post-grant review proceeding on that patent claim on the basis of any grounds, under the provisions of section 321, which that party or the privies of that party raised or could have raised; and

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“(2) the Director may not thereafter maintain a post-grant review proceeding that was requested, before the final decision was so entered, by that party or the privies of that party on the basis of such grounds.

“Sec. 335. Effect of final decision on future proceedings

‘If a final decision under section 330 is favorable to the patentability of any original or new claim of the patent challenged by the cancellation petitioner, the cancellation petitioner may not

thereafter, based on any ground that the cancellation petitioner raised during the post-grant review proceeding—

“(1) request or pursue a reexamination of such claim under chapter 31;

“(2) request or pursue a derivation proceeding with respect to such claim;

“(3) request or pursue a post-grant review proceeding under this chapter with respect to such claim; or

“(4) assert the invalidity of any such claim in any civil action arising in whole or in part under section 1338 of title 28.

“Sec. 336. Appeal

“A party dissatisfied with the final determination of the Patent Trial and Appeal Board in a post-grant proceeding under this chapter may appeal the determination under sections 141 through 144. Any party to the post-grant proceeding shall have the right to be a party to the appeal.”.

(g) Conforming Amendment.—The table of chapters for part III is amended by adding at the end the following:

“32. Post-Grant Review Proceedings.....321”.....

(h) Repeal.—Section 4607 of the Intellectual Property and

Communications Omnibus Reform Act of 1999, as enacted by section 1000(a)(9) of Public Law 106-113, is repealed.

(i) Effective Dates.—

(1) In general.—The amendments and repeal made by this section shall take effect at the end of the 1-year period beginning on the date of the enactment of this Act.

(2) Applicability to ex parte and inter partes proceedings.—Notwithstanding any other provision of law, sections 301 and 311 through 318 of title 35, United States Code, as amended by this section, shall apply to any patent that issues before, on, or after the effective date under paragraph (1) from an original application filed on any date.

(3) Applicability to post-grant proceedings.—The amendments made by subsection (f) shall apply to patents issued on or after the effective date under paragraph (1).

(j) Regulations.—

(1) Regulations.—The Under Secretary of Commerce for

Intellectual Property and Director of the United States Patent and Trademark Office (in this subsection referred to as 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 (f) of this section.

(2) Pending interferences.—The Director shall determine the procedures under which interferences under title 35, United States Code, that are commenced before the effective date under subsection (i)(1) are to proceed, including whether any such interference is to be dismissed without prejudice to the filing of a cancellation petition for a post-grant opposition proceeding under chapter 32 of title 35, United States Code, or is to proceed as if this Act had not been enacted. The Director shall include such procedures in regulations issued under paragraph (1).

SEC. 7. DEFINITIONS; PATENT TRIAL AND APPEAL BOARD.

(a) Definitions.—Section 100 (as amended by this Act) is further amended by adding at the end the following:

"(k) The term 'cancellation petitioner' means the real party in interest requesting cancellation of any claim of a patent under chapter 32 of this title and the privies of the real party in interest.".

(a) Patent Trial and Appeal Board.—Section 6 is amended to read as follows:

"Sec. 6. Patent Trial and Appeal Board

"(a) Establishment and Composition.—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 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 application for patents;

"(2) on written appeal of a patent owner, review adverse decisions of examiners upon patents in reexamination proceedings under chapter 30;

"(3) review appeals by patent owners and third-party requesters under section 315;

"(4) determine priority and patentability of invention in derivation proceedings under section 135(a); and

"(5) conduct post-grant opposition proceedings under chapter 32.

Each appeal and derivation proceeding 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. The Director shall assign each post-grant review proceeding to a

panel of 3 administrative patent judges. Once assigned, each such panel of administrative patent judges shall have the responsibilities under chapter 32 in connection with post-grant review proceedings.”.

(b) Effective Date.--The amendments made by this section shall take effect at the end of the 1-year period beginning on the date of the enactment of this Act.

SEC. 8. STUDY AND REPORT ON REEXAMINATION PROCEEDINGS.

The Under Secretary of Commerce for Intellectual Property and Director of the Patent and Trademark Office shall, not later than 2 years after the date of the enactment of this Act—

(1) conduct a study of the effectiveness and efficiency of the different forms of proceedings available under title 35, United States Code, for the reexamination of patents; and

(2) submit to the Committees on the Judiciary of the House of Representatives and the Senate a report on the results of the study, including any of the Director’s suggestions for amending the law, and any other recommendations the Director has with respect to patent reexamination proceedings.

SEC. 9. SUBMISSIONS BY THIRD PARTIES AND OTHER QUALITY ENHANCEMENTS.

(a) Publication.—Section 122(b)(2) is amended—

(1) by striking subparagraph (B); and

(2) in subparagraph (A)--

(A) by striking “(A) An application” and inserting “An application”; and

(B) by redesignating clauses (i) through (iv) as subparagraphs (A) through (D), respectively.

(b) Preissuance Submissions by Third Parties.—Section 122 is amended by adding at the end the following:

“(e) Preissuance Submissions by Third Parties.—

“(1) In general.—Any person may submit for consideration and inclusion in the record of a patent application, any patent, published patent application, or other 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

mailed in the application for patent; or

“(B) either—

“(i) 6 months after the date on which the application for

patent is published under section 122, 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, whichever occurs later.

“(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 submitter affirming that the submission was made in compliance with this section.”.

(c) Effective Date.—The amendments made by this section—

(1) shall take effect at the end of the 1-year period beginning on the date of the enactment of this Act; and

(2) shall apply to any application for patent filed before, on, or after the effective date under paragraph (1).

SEC. 10. TAX PLANNING METHODS NOT PATENTABLE.

(a) In General.—Section 101 is amended—

(1) by striking “Whoever” and inserting “(a) Patentable Inventions.—Whoever”; and

(2) by adding at the end the following:

“(b) Tax Planning Methods.—

“(1) Unpatentable subject matter.—A patent may not be obtained for a tax planning method.

“(2) Definitions.—For purposes of paragraph (1)--

“(A) the term ‘tax planning method’ means a plan, strategy, technique, or scheme that is designed to reduce, minimize, or defer, or has, when implemented, the effect of reducing, minimizing, or deferring, a taxpayer’s tax liability, but does not include the use of tax preparation software or other tools used solely to perform or model mathematical calculations or prepare tax or information returns;

“(B) the term ‘taxpayer’ means an individual, entity, or other person (as defined in section 7701 of the Internal Revenue Code of 1986) that is subject to taxation directly, is required to prepare a tax return or information statement to enable one or more other persons to determine their tax liability, or is otherwise subject to a tax law;

“(C) the terms ‘tax’, ‘tax laws’, ‘tax liability’, and ‘taxation’ refer to any Federal, State, county, city, municipality, or other governmental levy, assessment, or imposition, whether measured by income, value, or otherwise;

and

“(D) the term ‘State’ means each of the several States, the District of Columbia, and any commonwealth, territory, or possession of the United States.”.

(b) Applicability.—The amendments made by this section—

(1) shall take effect on the date of the enactment of this Act;

(2) shall apply to any application for patent or application for a reissue patent that is—

(A) filed on or after the date of the enactment of this Act; or

(B) filed before that date if a patent or reissue patent has not been issued pursuant to the application as of that date; and

(3) shall not be construed as validating any patent issued before the date of the enactment of this Act for an invention described in section 101(b) of title 35, United States Code, as amended by this section.

SEC. 11. VENUE AND JURISDICTION.

(a) Venue for Patent Cases.—Section 1400 of title 28, United States Code, is amended by striking subsection (b) and inserting the following:

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“(b) Notwithstanding section 1391 of this title, in any civil action arising under any Act of Congress relating to patents, a party shall not manufacture venue by assignment, incorporation, or otherwise to invoke the venue of a specific district court.

“(c) Notwithstanding section 1391 of this title, any civil action for patent infringement or any action for declaratory judgment may be brought only in a judicial district—

“(1) where the defendant has its principal place of business or in the location or place in which the defendant is incorporated, or, for foreign corporations with a United States subsidiary, where the defendant’s primary United States subsidiary has its principal place of business or in the location or place in which the defendants primary United States subsidiary is incorporated;

“(2) where the defendant has committed a substantial portion of the acts of infringement and has a regular and established physical facility that the defendant controls and that constitutes a substantial portion of the operations of the defendant;

"(3) where the primary plaintiff resides, if the primary plaintiff in the action is an institution of higher education as defined under section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)); or

"(4) where the plaintiff resides, if the plaintiff or a subsidiary of the plaintiff has an established physical facility in such district dedicated to research, development, or manufacturing that is operated by full-time employees of the plaintiff or such subsidiary, or if the sole plaintiff in the action is an individual inventor who is a natural person and who qualifies at the time such action is filed as a micro entity under section 124 of title 35.

"(d) If the plaintiff brings a civil action for patent infringement in a judicial district under subsection (c), the district court may transfer that action to any other district or division where—

"(1) the defendant has substantial evidence or witnesses;

and

"(2) venue would be appropriate under section 1391 of this title, if such transfer would be appropriate under section 1404 of this title.".

(b) Interlocutory Appeals.—Subsection (c) of section 1292 of title 28, United States Code, is amended—

(1) by striking "and" at the end of paragraph (1);

(2) by striking the period at the end of paragraph (2) and inserting "; and"; and

(3) by adding at the end the following:

"(3) of an appeal from an interlocutory order or decree determining construction of claims in a civil action for patent infringement under section 271 of title 35.

Application for an appeal under paragraph (3) shall be made to the court within 10 days after entry of the order or decree. The district court shall have discretion whether to approve the application and, if so, whether to stay proceedings in the district court during pendency of the appeal.".

(c) Effective Date.—The amendments made by this section shall apply to any action commenced on or after the date of the enactment of this Act.

SEC. 12. ADDITIONAL INFORMATION; INEQUITABLE CONDUCT AS DEFENSE TO INFRINGEMENT.

(a) Disclosure Requirements for Applicants.—

(1) In general.—Chapter 11 is amended by adding at the end the following new section:

"Sec. 123. Additional information

“(a) In General.—The Director shall, by regulation, require that applicants submit a search report and other information and analysis relevant to patentability. An application shall be regarded as abandoned if the applicant fails to submit the required search report, information, and analysis in the manner and within the time period prescribed by the Director.

“(b) Exception for Micro Entities.—Applications from micro-entities shall not be subject to the requirements of regulations issued under subsection (a).

“Sec. 124. Micro entities
“(a) Definition.—For purposes of this title, the term ‘micro entity’ means an applicant for patent who makes a certification under either subsection (b) or (c).

“(b) Unassigned Application.—A certification under this subsection is a certification by each inventor named in the application that the inventor—

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

“(2) has not been named on five or more previously filed patent applications;

“(3) has not assigned, granted, or conveyed, and is not under an obligation by contract or law to assign, grant, or convey, a license or any other ownership interest in the application; and

“(4) does not have a gross income, as defined in section 61(a) of the Internal Revenue Code of 1986, exceeding 2.5 times the median household income, as reported by the Bureau of the Census, for the most recent calendar year preceding the calendar year in which the examination fee is being paid.

“(C) Assigned Application.—A certification under this subsection is a certification by each inventor named in the application that the inventor—

“(1) qualifies as a small entity as defined in regulations issued by the Director and meets the requirements of subsection (b)(4);

“(2) has not been named on five or more previously filed patent applications; and

“(3) 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 application to an entity that has five or fewer employees and has a gross taxable income, as defined in section 61(a) of the Internal Revenue Code of 1986, that does not exceed 2.5 times the median household income, as reported by the Bureau of the Census, for the most recent calendar year preceding the calendar year in which the examination fee is being paid.”.

(2) Conforming amendment.—The table of sections for chapter 11 is amended by adding at the end the following new items:

“123. Additional information.

“124. Micro entities.”.

(b) Inequitable Conduct as Defense to Infringement.--

Section 282 is amended—

(1) in the first undesignated paragraph, by striking “A patent” and inserting “(a) In General.—A patent”;

(2) in the second undesignated paragraph—

(A) by striking “The following” and inserting “(b) Defenses.—The following”; and

(B) by striking the comma at the end of each of paragraphs (1), (2), and (3) and inserting a period;

(3) in the third undesignated paragraph—

(A) by striking “In actions” and inserting “(d) Notice of Actions; Pleading.—In actions”;

(B) by inserting after the second sentence the following:

“In an action involving any allegation of inequitable conduct under subsection (c), the party asserting this defense or claim shall comply with the pleading requirements set forth in Rule 9(b) of the Federal Rules of Civil Procedure.”; and

(C) by striking “Invalidity” and inserting “(e)

Extension of Patent Term.—Invalidity”; and

(4) by inserting after subsection (b), as designated by paragraph (2) of this subsection, the following:

“(c) Inequitable Conduct.—

“(1) Defense.—A patent may be held to be unenforceable, or other remedy imposed under paragraph (3), for inequitable conduct only if it is established, by clear and convincing evidence, that—

“(A) the patentee, its agents, or another person with a duty of disclosure to the Office, with the intent to mislead or deceive the patent examiner, misrepresented or failed to disclose material information concerning a matter or proceeding before the Office; and

“(B) in the absence of such deception, the Office, acting reasonably, would, on the record before it, have made a prima facie finding of unpatentability.

“(2) Intent.—In order to prove intent to mislead or deceive under paragraph (1), specific facts beyond materiality of the information submitted or not disclosed must be proven that support an inference of intent to mislead or deceive the Patent and Trademark Office. Facts support an inference of intent if they show circumstances that indicate conscious or deliberate behavior on

the part of the patentee, its agents, or another person with a duty of disclosure to the Office, to not disclose material information or to submit materially false information.

“(3) Remedy.—Upon a finding of inequitable conduct, the court shall balance the equities to determine which of the following remedies to impose:

“(A) Denying equitable relief to the patent holder and limiting the remedy for infringement to damages.

“(B) Holding the claims-in-suit, or the claims in which inequitable conduct occurred, unenforceable.

“(C) Holding the patent unenforceable.

“(D) Holding the claims of a related patent unenforceable.

“(4) Attorney misconduct.—Upon a finding of inequitable conduct, if there is evidence that the conduct can be attributable to a person or persons authorized to practice before the Office, the court shall refer the matter to the Office for appropriate disciplinary action under section 32, and shall order the parties to preserve and make available to the Office any materials that may be relevant to the determination under section 32.”.

(C) Effective Date.—

(1) Subsection (a).—The amendments made by subsection (a)--

(A) shall take effect at the end of the 1-year period beginning on the date of the enactment of this Act; and

(B) shall apply to any application for patent filed on or after the effective date under subparagraph (A).

(2) Subsection (b).—The amendments made by subsection (b) shall apply to any civil action commenced on or after the date of the enactment of this Act.

SEC. 13. BEST MODE REQUIREMENT.

Section 282(b) (as designated by section 12(b) of this Act) is amended 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 of this title, other than the requirement that the specification shall set forth the best mode contemplated by the inventor of carrying out his invention; or

“(B) any requirement of section 251 of this title.”.

SEC. 14. REGULATORY AUTHORITY.

(a) Regulatory Authority.—Section 2(c) is amended by adding at the end the following:

“(6) The powers granted under paragraph (2) of subsection

(b) include the authority to promulgate regulations to ensure the quality and timeliness of applications and their examination, including specifying circumstances under which an application for patent may claim the benefit under sections 120, 121 and 365© of the filing date of a prior filed application for patent.”.

(b) Clarification.—The amendment made by subsection (a) clarifies the scope of power granted to the United States Patent and Trademark

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Office by paragraph (2) of section 2(b) of title 35, United States Code, as in effect since the enactment of Public Law 106-113.

SEC. 15. TECHNICAL AMENDMENTS.

(a) Joint Inventions.—Section 116 is amended—

(1) in the first paragraph, by striking “When” and inserting “(a) Joint Inventions.—When”;

(2) in the second paragraph, by striking “If a joint inventor” and inserting “(b) Omitted Inventor.—If a joint inventor”; and

(3) in the third paragraph, by striking “Whenever” and inserting “© Correction of Errors in Application.—

Whenever”.

(b) Filing of Application in Foreign Country.—Section 184 is amended—

(1) in the first paragraph, by striking “Except when” and inserting “(a) Filing in Foreign Country.—Except when”;

(2) in the second paragraph, by striking “The term” and inserting “(b) Application.—The term”; and

(3) in the third paragraph, by striking “The scope” and inserting “(c) Subsequent Modifications, Amendments, and Supplements.—The scope”.

(c) Reissue of Defective Patents.—Section 251 is amended—

(1) in the first paragraph, by striking “Whenever” and inserting “(a) In General.—Whenever”;

(2) in the second paragraph, by striking “The Director” and inserting “(b) Multiple Reissued Patents.—The Director”;

(3) in the third paragraph, by striking “The provisions” and inserting “(c) Applicability of This Title.—The provisions”; and

(4) in the last paragraph, by striking “No reissued patent” and inserting “(d) Reissue Patent Enlarging Scope of Claims.—No reissued patent”.

(d) Effect of Reissue.—Section 253 is amended—

(1) in the first paragraph, by striking “Whenever” and inserting “(a) In General.—Whenever”; and

(2) in the second paragraph, by striking “In like manner” and inserting “(b) Additional Disclaimer or Dedication.—In the manner set forth in subsection (a),”.

(e) Correction of Named Inventor.—Section 256 is amended—

(1) in the first paragraph, by striking “Whenever” and inserting “(a) Correction.—Whenever”; and

(2) in the second paragraph, by striking “The error” and inserting “(b) Patent Valid if Error Corrected.—The error”.

(f) Effective Date.—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. 16. STUDY OF SPECIAL MASTERS IN PATENT CASES.

(a) In General.—Not later than 180 days after the date of the enactment of this Act, the Director of the Administrative Office of the United States Courts shall conduct a study of, and submit to the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate a report on, the use of special masters in patent litigation who are appointed in accordance with Rule 53 of the Federal Rules of Civil Procedure.

(b) Objective.—In conducting the study under subsection

(a), the Director shall consider whether the use of special masters has been beneficial in patent litigation and what, if any, program should be undertaken to facilitate the use by the judiciary of special masters in patent litigation.

(c) Factors To Consider.—In conducting the study under subsection (a), the Director, in consultation with the Federal Judicial Center, shall consider—

(1) the basis upon which courts appoint special masters under Rule 53(b) of the Federal Rules of Civil Procedure;

(2) the frequency with which special masters have been used by the courts;

(3) the role and powers special masters are given by the courts;

(4) the subject matter at issue in cases that use special masters;

(5) the impact on court time and costs in cases where a special master is used as compared to cases where no special master is used;

(6) the legal and technical training and experience of special masters;

(7) whether the use of special masters has an impact on the reversal rate of district court decisions at the Court of Appeals for the Federal Circuit; and

(8) any other factors that the Director believes would assist in gauging the effectiveness of special masters in patent litigation.

SEC. 17. RULE OF CONSTRUCTION.

The enactment of section 102(b)(3) of title 35, United States Code, under section (3)(b) of this Act 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 section 3© of this Act. The United States Patent and Trademark Office shall administer section 102(b)(3) 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 Patent and Trademark Office.

The Acting CHAIRMAN. No amendment to the committee amendment is in order except those printed in House Report 110-319. Each amendment may be offered only in the order printed in the report, by a Member designated in the report, shall be considered read, shall be debatable for the time specified in the report, equally divided and controlled by the proponent and an opponent of the amendment, shall not be subject to amendment, and shall not be subject to a demand for division of the question.

Amendment No. 1 Offered by Mr. Conyers

The Acting CHAIRMAN. It is now in order to consider amendment No. 1 printed in House Report 110-319. Mr. CONYERS. Mr. Chairman, I offer an amendment.

The Acting CHAIRMAN. The Clerk will designate the amendment.

The text of the amendment is as follows:

Amendment No. 1 offered by Mr. Conyers:

Page 3, strike lines 22 through 25. Page 3, line 21, insert quotation marks and a second period after "patent.".

Page 10, strike line 24 and all that follows through page 11, line 2, and insert the following:

(i) Action for Claim to Patent on Derived Invention.—

Section 135 is amended to read as follows:

“Sec. 135. Derivation proceedings”.

Page 11, lines 14 and 15, strike “Any such request—“ and insert the following:

“(B) Requirements for request.—Any request under subparagraph (A)--“.

Page 12, line 3, strike “(B)” and insert “(C)”.

Page 12, line 8, strike “under section 101”.

Page 13, line 16, strike the quotation marks and second period.

Page 13, insert the following after line 16:

“(b) Settlement.—Parties to a derivation proceeding 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, 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.

“(c) Arbitration.—Parties to a derivation proceeding, within such time as may be specified by the Director by regulation, may 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 patentability of the invention involved in the derivation proceeding.”.

Page 13, strike line 17 and all that follows through page 15, line 8.

Page 17, line 10, insert “with respect to an application for patent filed” after “commenced”.

Page 17, lines 21 and 22, strike “transmits to the Congress a finding” and insert “issues an Executive order containing the President’s finding”.

Page 18, insert the following after line 23:

(3) Retention of interference procedures with respect to applications filed before effective date.—In the case of any application for patent that is filed before the effective date under paragraph (1)(A), the provisions of law repealed or amended by subsections (h), (i), and (j) shall

apply to such application as such provisions of law were in effect on the day before such effective date.

Page 21, lines 24 and 25, strike “is under an obligation of assignment of” and insert “has assigned rights in”.

Page 24, strike line 23 and all that follows through page 25, line 13 and redesignate the succeeding subsections accordingly.

Page 27, line 13, strike “(5)” and insert “(4)”.

Page 27, line 21, strike “The court” and insert “Upon a showing to the satisfaction of the court that a reasonable royalty should be based on a portion of the value of the infringing product or process, the court”.

Page 28, lines 5 and 6, strike “Unless the claimant shows” and insert “Upon a showing to the satisfaction of the court”.

Page 28, line 9, strike “may not” and insert “may”.

Page 28, strike line 12 and all that follows through page 29, line 2, and insert the following:

“(4) Other factors.—If neither paragraph (2) or (3) is appropriate for determining a reasonable royalty, the court may consider, or direct the jury to consider, the terms of any nonexclusive marketplace licensing of the invention, where appropriate, as well as any other relevant factors under applicable law.

“(5) Combination inventions.—For purposes of paragraphs (2) and (3), in the case of a combination invention the elements of which are present individually in the prior art, the patentee may show that the contribution over the prior art may include the value of the additional function resulting

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from the combination, as well as the enhanced value, if any, of some or all of the prior art elements resulting from the combination.”;

Page 31, line 17, strike “The court’s” and all that follows through “jury.” on line 19.

Page 31, strike line 23 and all that follows through the matter following line 17 on page 33 and insert the following:

(b) Report to Congressional Committees.—Not later than June 30, 2009, the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office (in this subsection referred to as the “Director”) shall report to the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate 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:

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

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

(3) 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.

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

(5) An analysis of any legal or constitutional issues that arise from placing elements of trade secret law, in the form of prior user rights, in patent law.

In preparing the report, the Director shall consult with the Secretary of State and the Attorney General of the United States.

Page 33, line 18, strike "(d)" and insert "(c)".

Page 33, line 21, strike "(e)" and insert "(d)".

Page 36, lines 22 and 23, strike "cited by or to the Office or".

Page 39, line 10, strike "grant of the patent or issuance of" and insert "issuance of the patent or".

Page 39, strike line 21 and all that follows through page 40, line 2 and insert the following:

"(3) for each claim sought to be canceled, the petition sets forth in writing the basis for cancellation and provides the evidence in support thereof, including copies of patents and printed publications, or written testimony of a witness attested to under oath or declaration by the witness, or any other information that the Director may require by regulation.; and

Page 40, lines 3 and 4, strike "those documents" and insert "the petition, including any evidence submitted with the petition and any other information submitted under paragraph (3),".

Page 41, add the following after line 25:

In carrying out paragraph (3), the Director shall bear in mind that discovery must be in the interests of justice.

Page 44, lines 23 and 24, strike "with respect to" and insert "addressing".

Page 46, line 1, strike "of administrative patent judges".

Page 46, line 18, strike "pending".

Page 46, line 23, insert "with respect to an application for patent filed" after "commenced".

Page 47, line 5, insert "of a patent" after "infringement".

Page 47, line 7, insert after “patentability” the following: “raised against the patent in a petition for post-grant review”.

Page 47, insert the following after line 7:

“(c) Effect of Commencement of Proceeding.—The commencement of a post-grant review proceeding—

“(1) shall not limit in any way the right of the patent owner to commence an action for infringement of the patent;

and

“(2) shall not be cited as evidence relating to the validity of any claim of the patent in any proceeding before a court or the International Trade Commission concerning the patent.

Page 48, line 14, strike “or”.

Page 48, line 17, strike the period and insert “; or”.

Page 48, insert the following after line 17:

“(5) assert the invalidity of any such claim in defense to an action brought under section 337 of the Tariff Act of 1930 (19 U.S.C. 1337).

Page 49, line 18, strike “subsection (f)” and insert “subsections (f) and (g)”.

Page 49, strike lines 21 and 22 and insert the following:

(j) Regulations.—The Under Secretary of

Page 49, lines 23 through 25, and page 50, lines 1 through 4, move the text 2 ems to the left.

Page 50, strike lines 5 through 15.

Page 51, lines 3 through 5, strike “The Director, the Deputy, the Commissioner for Patents, and the Commissioner for Trademarks, and the” and insert “The”.

Page 51, line 9, strike “Director” and insert “Secretary of Commerce”.

Page 54, line 18, strike “and”.

Page 54, line 21, strike the 2 periods and quotation marks and insert “; and”.

Page 54, insert the following after line 21:

“(D) identify the real party-in-interest making the submission.”.

Page 57, strike line 12 and all that follows through page 59, line 7, and insert the following:

“(b) In any civil action arising under any Act of Congress relating to patents, a party shall not manufacture venue by assignment, incorporation, joinder, or otherwise primarily to invoke the venue of a specific district court.

“(c) Notwithstanding section 1391 of this title, except as provided in paragraph (3) of this subsection, any civil action for patent infringement or any action for declaratory judgment relating to a patent may be brought only in a judicial district—

“(1) where the defendant has its principal place of business or is incorporated, or, for foreign corporations with a United States subsidiary, where the defendant’s primary United States subsidiary has its principal place of business or is incorporated;

“(2) where the defendant has committed a substantial portion of the acts of infringement and has a regular and established physical facility that the defendant controls and that constitutes a substantial portion of the defendant’s operations;

“(3) for cases involving only foreign defendants with no United States subsidiary, according to section 1391(d) of this title;

“(4) where the plaintiff resides, if the plaintiff is—

“(A) an institution of higher education as defined under section 101(a) of the Higher Education Act of 1965 (20 U.S.C. section 1001(a)); or

“(B) a nonprofit organization that—

“(i) is described in section 501©(3) of the Internal Revenue Code of 1986;

“(ii) is exempt from taxation under section 501(a) of such Code; and

“(iii) serves primarily as the patent and licensing organization for an institution of higher education as defined under section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a));

“(5) where the plaintiff or a subsidiary has a place of business that is engaged in substantial—

“(A) research and development,

“(B) manufacturing activities, or

“(C) management of research and development or manufacturing activities, related to the patent or patents in dispute;

“(6) where the plaintiff resides if the plaintiff is named as inventor or co-inventor on the patent and has not assigned, granted, conveyed, or licensed, and is under no obligation to assign, grant, convey, or license, any rights in the patent or in enforcement of the patent, including the results of any such enforcement; or

"(7) where any of the defendants has substantial evidence and witnesses if there is no other district in which the action may be brought under this section.".

Page 60, strike lines 1 through 3 and insert the following:

(c) Effective Date.—

(1) In general.—The amendments made by this section—

(A) shall take effect on the date of the enactment of this Act; and

(B) shall apply to any civil action commenced on or after such date of enactment.

(2) Pending cases.—Any case commenced in a United States district court on or after September 7, 2007, in which venue is improper under section 1400 of title 28, United States Code, as amended by this section, shall be transferred pursuant to section 1404 of such title, unless—

(A) one or more substantive rulings on the merits, or other substantial litigation, has occurred; and

(B) the court finds that transfer would not serve the interests of justice.

Page 60, line 10, strike "shall" and insert "may".

Page 60, line 12, insert after "patentability." the following: "If the Director requires a search report to be submitted by applicants, and an applicant does not itself perform the search, the search must be performed by one or more individuals who are United States citizens or by a commercial entity that is organized under the laws of the United States or any State and employs United States citizens to perform such searches.".

Page 60, line 14, strike "the required search report, information, and" and insert "a search report, information, or an".

Page 60, line 16, add after the period the following: "Any search report required by the Director may not substitute in any way for a search by an examiner of the prior art during examination.".

Page 63, strike line 19 and all that follows through line 15 on page 65 and insert the following:

"(1) Defense.—One or more claims of a patent may be held to be unenforceable, or other remedy imposed under paragraph (4), for inequitable conduct only if it is established, by clear and convincing evidence, that a person with a duty of disclosure to the Office, with the intent to mislead or deceive the patent examiner, misrepresented or failed to disclose material information to the examiner during examination of the patent.

"(2) Materiality.—

"(A) In general.—Information is material under this section if—

“(i) a reasonable examiner would have made a prima facie finding of unpatentability, or maintained a finding of unpatentability, of one or more of the patent claims based on the information, and the information is not cumulative to information already of record or previously considered by the Office;or

“(ii) information that is otherwise material refutes or is inconsistent with a position the applicant takes in opposing a rejection of the claim or in asserting an argument of patentability.

“(B) Prima facie finding.—A prima facie finding of unpatentability under this section is shown if a reasonable examiner, based on

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a preponderance of the evidence, would conclude that the claim is unpatentable based on the information misrepresented or not disclosed, when that information is considered alone or in conjunction with other information or record. In determining whether there is a prima facie finding of unpatentability, each term in the claim shall be given its broadest reasonable construction consistent with the specification, and rebuttal evidence shall not be considered.

“(3) Intent.—To prove a person with a duty of disclosure to the Office intended to mislead or deceive the examiner under paragraph (1), specific facts beyond materiality of the information misrepresented or not disclosed must be proven that establish the intent of the person to mislead or deceive the examiner by the actions of the person. Facts support an intent to mislead or deceive if they show circumstances that indicate conscious or deliberate behavior on the part of the person to not disclose material information or to submit false material information in order to mislead or deceive the examiner. Circumstantial evidence may be used to prove that a person had the intent to mislead or deceive the examiner under paragraph (1).

“(4) Remedy.—Upon a finding of inequitable conduct, the court shall balance the equities to determine which of the following remedies to impose:

“(A) Denying equitable relief to the patent holder and limiting the remedy for infringement to reasonable royalties.

“(B) Holding the claims-in-suit, or the claims in which inequitable conduct occurred, unenforceable.

“(C) Holding the patent unenforceable.

“(D) Holding the claims of a related patent unenforceable.

“(5) Attorney misconduct.—Upon a finding of inequitable conduct, if there is evidence that the conduct is attributable to a person or persons authorized to practice before the Office, the court shall refer the matter to the Office for appropriate disciplinary action under section 32, and shall order the parties to preserve and make available to the Office any materials that may be relevant to the determination under section 32.”.

Page 69, line 17, strike “180 days” and insert “1 year”.

Page 71, insert the following after line 6 and redesignate the succeeding section accordingly:

SEC. 17. STUDY ON WORKPLACE CONDITIONS.

The Comptroller General shall, not later than 2 years after the date of the enactment of this Act—

(1) conduct a study of workplace conditions for the examiner corps of the United States Patent and Trademark Office, including the effect, if any, of this Act and the amendments made by this Act on—

(A) recruitment, retention, and promotion of employees; and

(B) workload, quality assurance, and employee grievances; and

(2) submit to the Committees on the Judiciary of the House of Representatives and the Senate a report on the results of the study, including any suggestions for improving workplace conditions, together with any other recommendations that the Comptroller General has with respect to patent reexamination proceedings.

Page 71, add the following after line 19:

SEC. 19. SEVERABILITY.

If any provision of this Act or of any amendment or repeals

made by this Act, or the application of such a provision to any person or circumstance, is held to be invalid or unenforceable, the remainder of this Act and the amendments and repeals made by this Act, and the application of this Act and such amendments and repeals to any other person or circumstance, shall not be affected by such holding.

The Acting CHAIRMAN. Pursuant to House Resolution 636, the gentleman from Michigan (Mr. Conyers) and a Member opposed each will control 10 minutes.

The Chair recognizes the gentleman from Michigan.

Parliamentary Inquiry

Mr. ROHRABACHER. Mr. Chairman, parliamentary inquiry. The Acting CHAIRMAN. Does the gentleman from Michigan yield for a parliamentary inquiry?

Mr. CONYERS. Yes, of course.

The Acting CHAIRMAN. The gentleman will state his parliamentary inquiry.

Mr. ROHRABACHER. Does the person who controls the time against the manager's amendment have to be against the manager's amendment? The Acting CHAIRMAN. It is reserved for a Member in opposition to the amendment.

Mr. ROHRABACHER. Who controls the time in opposition? The Acting CHAIRMAN. No one has claimed time in opposition to the amendment yet.

Mr. ROHRABACHER. I would suggest that whoever does control the time should be in opposition, and if Mr. Smith, who I respect greatly, does not oppose the manager's amendment, he should not be in control of the debate against the manager's amendment, and I would note that there are others of us who would like to have that.

The Acting CHAIRMAN. The gentleman from Michigan is recognized. Mr. CONYERS. Mr. Chairman, I yield myself as much time as I may consume.

I rise in support of the manager's amendment which is, of course, very bipartisan and which makes further changes to the underlying bill. Now, this is a work in progress. The reason it came up so late in the afternoon yesterday in the Rules Committee is we were making changes to accommodate the minority side, and so even now the manager's amendment is a piece of work that will not be concluded until we come out of conference, and I'm sure Mr. Berman will have some comments to make about that.

I want anyone who has not seen the manager's amendment or wants to review it, even as it's discussed on the floor today, to please come to my seat, and I will be happy to provide them with a copy of it. Well, what does it do? We deal with damages, the most controversial provision of the bill, with labor, with the universities, with inequitable conduct, and additional changes that will be made. For workers and inventors, how do we help them? Well, there was concern that in our attempt to simplify the assignment procedures, we cut the inventor out of the process. We've ensured that changes to applications will require inventor involvement. And also, there was a fear about working environment at the PTO. We inquired of the Government Accountability Office to conduct a study of examining work conditions.

And finally, the examiners themselves were concerned about the quality submission requirements, that their job would be outsourced. We ensured that that will not happen.

Now, damages. We made further changes to explain clearly that a portion that is not mandatory in the calculations of damages can be considered under a similar formula that courts use today. Universities, we spent enormous time, and I have as many universities in Michigan as anybody has in any other State in the Union, and to address their concern, we spent unbelievable amounts of time negotiating with them individually and collectively about the expansion of prior user rights which might reduce the value of their patents and harm their ability to license invention.

We've eliminated the expansion. Instead, we're calling for a study of the operation of prior user rights in countries where they already exist to determine their effects.

It allows universities to sue in districts where they are located but does not extend that right to universities' associated nonprofit organizations.

We deal with inequitable conduct by tightening the standards for pleading and finding inequitable conduct as a defense to infringement. We continue to operate in good faith with additional changes. We've adopted suggestions made by outside groups to improve our post-

grant opposition provision, changed the discovery standard to interest of justice and ensured that a patent owner can bring a patent suit, even if a post-grant suit is instituted.

So we've addressed every concern that has been brought to our attention. No concern was too small or too technical, and we continue even now to listen to the parties in other ways to continue to enhance the bill.

So now is the time for patent reform.

Mr. Chairman, I reserve the balance of my time. Mr. ROHRABACHER. Mr. Chairman, I rise to claim the time in opposition to the manager's amendment.

The Acting CHAIRMAN. The gentleman from California is recognized for 10 minutes.

Mr. ROHRABACHER. Mr. Chairman, I ask unanimous consent to yield 5 minutes of the 10 minutes in opposition to the gentlewoman from Ohio (Ms. Kaptur) for her to control that time.

The Acting CHAIRMAN. Without objection, the gentlewoman from Ohio is recognized for 5 minutes.

There was no objection.

Ms. KAPTUR. Mr. Chairman, I yield myself such time as I may consume.

I thank the gentleman kindly for yielding me this time.

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On the manager's amendment, you know what's really sad about this bill is that it is very complicated, and it's a work in progress as we sit here on the floor. It's too important for America and for the future of our industrial and economic base to be treated this way, and I know that the Chair of the subcommittee and the full committee are listening as I speak today. We shouldn't be drafting this in a manager's amendment on the floor.

There's been some inference that the AFL-CIO supports this bill. The AFL-CIO does not support this bill. They support the fact that it is being improved but they do not support the bill. In addition to that, there's something very important I was not able to address earlier, and that is that this bill prematurely reveals inventors' secrets. In 1999, the Patent Act required the Patent Office to publish on the Internet a patent application 18 months from the date of filing, but the act also allowed inventors to opt out from that if they agreed not to file for patent in another nation. That's the so-called opt-out provision.

Now, between 20 and 33 percent of U.S.-origin patents opt out of the system. They're small people. They're trying to get the venture capital to start up their company and so forth, and the average time the Patent Office takes to process a patent is 31 months. Thus, all the secrets in all patent applications will be made available to every pirate in the world for more than a year before a small inventor, any inventor has a chance for patent protection.

Now, we're going to be told, well, Mr. Issa's amendment will fix this. No, it will not, and we will argue against that a little bit more down the road.

Several speakers this morning, Mr. Welch of Vermont and Mr. Johnson of Georgia, said, well, we need this reform because we haven't had patent reform since 1952. That's not true. There have been 17 amendments in major bills before this Congress that deal with patent reform in the last 15 years.

The problem with this bill is that it tries to harmonize to lower standards in the world rather than cause other countries to harmonize up to our standards. It takes away the right of first to invent, and it transfers it to first to file. That means an inventor who come here to the Patent Office here in the United States, no matter how small, and file a patent and got the right as an inventor first to invent could be superseded in the international market by someone who happened to catch that invention on the Internet or elsewhere and file it in China first. So it changes it from a first-to-invent to a first-to-file system. This is a substantial change from the system that has been in place in this country since the early 1700s.

You know what I said earlier what's going on here is the big proponents of this, the semiconductor companies, and Mr. Emanuel read some of their names, have been fined substantially for patent infringement over the last several years, about $3.5 billion, and they're trying to get the law changed to make it easier for them. You know what, they have a right to exist. They have a right to function. The problem is they have been taken to court, and there are 15 standards the courts use to ascertain damages. They want to reduce it to one and make the 14 optional. You know what, the Federal judges are saying don't do that; we like the current system. It gives the courts the flexibility that they use.

Why should a few transnational corporations, sort of the big tech companies, have this much power in this Congress? Why don't we have the right of others to be heard here fully rather than having to condense such a serious debate into a few seconds here on the floor? Why am I opposed to this bill? I'm opposed to this bill because it gives too much power to the big tech transnationals, and it takes away power from the universities that are opposed to this; although, some in California, where so many of these big tech companies are located, are happy. But come to Ohio, come to Wisconsin, come to New York. There are lots of universities that are opposed to this. So it's giving too much advantage to a few companies.

In addition to that, it totally turns upside down the first-to-invent system to a first-to-file system, and it would permit lots of infringements internationally.

It does eliminate the opt-out provision where, if a small inventor doesn't want their invention put up on the Internet, it takes away the opt-out provision from them. Mr. Issa's amendment does not fix it. We want an opportunity to fix that, because we want to protect the third of inventors that do not file internationally, that do not want their patents put out there like that, and they are not the big companies. They're the smaller companies. And why force them to go into court?

They don't have the money to defend themselves anyway. There's broad-based opposition to this bill. There are lots of organizations, including the Institute of Electronic Engineers, Medical College of Wisconsin. There are many, many others, Cornell University, all opposed to this.

I thank the gentleman for yielding me the time and allowing me to broaden the record here in the very few short seconds we have been allowed.

Mr. CONYERS. I can't help but take 6 seconds in rebuttal.

The universities support this measure. Small inventors support this measure. This bill is to create jobs in America. How could anybody think that I would be supporting a bill that didn't do this in patent law reform?

I yield 2 minutes to the ranking member of the Judiciary Committee, Mr. Lamar Smith.

Mr. SMITH of Texas. I want to thank the chairman of the Judiciary Committee for yielding me time.

Mr. Chairman, I want to be unequivocal, first of all, in saying that I support this manager's amendment.

I yield to my friend from California (Mr. Herger) for purposes of a colloquy.

Mr. HERGER. I would like to thank the ranking member for engaging in this colloquy.

As you know, the manager's amendment was released yesterday afternoon, and it contains language concerning section 337 proceedings before the U.S. International Trade Commission.

However, this language was not considered by the Committee on Ways and Means, even though it is squarely in our jurisdiction. I am aware that Chairman Rangel and Chairman Conyers have exchanged letters in which Chairman Conyers has acknowledged that this issue is within the jurisdiction of the Ways and Means committee. I will support a request for conferees to be named from the Ways and Means committee.

As you know, section 337 proceedings are very complex, and we must ensure that the full ramifications of this language are clearly understood.

As ranking member of the Ways and Means Trade Subcommittee, I hope that you would agree with me that these provisions warrant further analysis and ask that you would work with me and other members of the committee in conference to ensure that these provisions are thoroughly understood as the bill moves through the legislative process.

Mr. SMITH of Texas. Mr. Chairman, I want to thank my friend from California for pointing these provisions out, and I certainly do agree with them, and we will work towards that goal.

Mr. CONYERS. Would the ranking member yield to me?

Mr. SMITH of Texas. I yield to the chairman of the committee.

Mr. CONYERS. Thank you. I want to assure the gentleman.

Mr. Chairman, I would submit for the Record a letter dated September 7, 2007, between myself and the chairman of Ways and Means, Charles Rangel.

House of Representatives,
Committee on Ways and Means,
Washington, DC, September 7, 2007.

Hon. John Conyers, Jr.,
Chairman, Judiciary Committee,
Washington, DC.

Dear John: I am writing regarding H.R. 1908, the Patent Reform Act of 2007. During consideration of the bill by the Rules Committee, a manager's amendment was made in order that includes provisions affecting section 337 of the Tariff Act of 1930.

As you know, section 337 falls within the jurisdiction of the Committee on Ways and Means. The Ways and Means Committee has jurisdiction over all issues concerning import trade matters.

In order to expedite this legislation for floor consideration, the Committee will forgo action on this bill, and will not oppose the inclusion of this provision relating to

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section 337 of the Tariff Act within H.R. 1908. This is being done with the understanding that it does not in any way prejudice the Committee with respect to its jurisdictional prerogatives on this bill or similar legislation in the future.

I would appreciate your response to this letter, confirming this understanding with respect to H.R. 1908, and would ask that a copy of our exchange of letters on this matter be included in the Record.

Sincerely,
Charles B. Rangel,
Chairman

House of Representatives,
Committee on the Judiciary,

Washington, DC, September 7, 2007
Hon. Charles B. Rangel,
Chairman, Committee on Ways and Means, House of
Representatives, Washington, DC.

Dear Mr. Chairman:

Thank you for your recent letter regarding your committee's jurisdictional interest in H.R. 1908, the Patent Reform Act of 2007. I appreciate your willingness to support expediting floor consideration of this important legislation today. I understand and agree that this is without prejudice to your Committee's jurisdictional interests in this or similar legislation in the future. In the event a House-Senate conference on this or similar legislation is convened, I would support your request for an appropriate number of conferees.

I will include a copy of your letter and this response in the Congressional Record during consideration of the bill on the House floor. Thank you for your cooperation as we work towards enactment of this legislation.

Sincerely,

John Conyers, Jr.
Chairman.

I completely agree that it was totally inadvertent, and we want the Ways and Means Committee to assert, and we will help them assert, their full rights in terms of jurisdiction in this matter. I thank him for bringing it to our attention.

Mr. ROHRABACHER. Mr. Chairman, I yield 2 minutes to the gentleman from Illinois (Mr. Manzullo).

Mr. MANZULLO. Mr. Chairman, while I was in the Rules Committee yesterday, the gentleman from California said with regard to the types of damages and the standard for damages that could be used that the judge would have the discretion to determine that.

Well, taking a look at the manager's amendment. That discretion has been taken away, and now there is a presumption in favor of the most onerous provision dealing with damages, and that really would impact the small inventor.

Let's take a look at what would happen with the majority's view on patent damage reform. The Wright brothers' airplane, here is the patent, I have got a picture of it right here.

The flying machine, if it had been patented today, or, no, if the rules that the majority is suggesting now were in effect at the time that the Wright brothers got their patent, the amount that they recovered would have been limited to the fractional value of the surface controls alone, that's it, even though everything else went on what was called an airplane, but the thing never flew. That's what this does to innovation. If you want to get something for your trim tab and your ailerons and whatever else they put on an aircraft, that's fine.

But this is an example, nobody else in the entire debate has given one example except me. This is the only opportunity that the people opposed to this bill have had to talk about the actual impact of the law upon a factual situation.

Mr. BERMAN. Mr. Chairman, will the gentleman yield?

Mr. MANZULLO. I yield 20 seconds to the gentleman from California.

Mr. BERMAN. Under the entire market value rule, which is in this bill, the Wright brothers, every value of what was created was those surface controls.

Mr. MANZULLO. But under your manager's amendment, the judge would have to say that that does not apply.

Mr. ROHRABACHER. How much time do I have left?

The Acting CHAIRMAN. The gentleman from California has 3 minutes remaining.

Mr. ROHRABACHER. And the time on the other side?

The Acting CHAIRMAN. The gentleman from Michigan has 2\1/4\ minutes remaining.

Mr. ROHRABACHER. I yield myself 3 minutes.

Let's just note when we are talking, Ms. Kaptur and Mr. Manzullo talk about one of the horrible provisions of the bill, which changes the whole concept of how damages are assessed, and who has benefited by this.

We have to ask ourselves, we talk about the Wright brothers, the little guys who actually made all the difference in whether or not America has a high standard of living, the damages that these inventors have when people violate their rights and how those damages are assessed. That's right in this legislation.

Yes, they are changing it to the benefit of the infringers. They are beating down the little guys, making it more difficult for the Wright brothers and for all the other little guys who have come up with these ideas in order to help the big corporations.

By the way, let me just add this thought: we are not just talking about American corporations here. We are not talking about making inventors just vulnerable to the big American corporations. We are talking about multinational corporations, and we are talking about foreign corporations.

Our little guys, with just this change, are going to be dramatically damaged. Their ability, in order to protect their rights, will be dramatically reduced.

This is just one example of the type of diminishing of the rights of the inventor in this bill. Yet, we aren't able to discuss it fully. One hour of debate for a bill that's being described here as one of the most important pieces of legislation in the century? One hour of debate in which the opposition was not given a chance to control any time in opposition? This is a disgrace. What's going on?

This alone should raise the red flag to all of our Members saying something is going on here; there is a power play people in our legislation aren't being able to control their time. What's happening here? We have a manager's amendment now that was permitted to be changed after it left committee. There wasn't even a proper debate on this bill then and this manager's amendment in the committee, much less the subcommittee.

So what we have here is a power play by somebody. The rules don't count when it comes to the bill, because somebody out there really wants it really bad in order to not give us a chance to give the other side, not give the full committee a chance even to discuss these details that are changed in the manager's amendment, not to let the subcommittee play its role.

Now, all I am suggesting is this should raise a red flag for all of our Members. All of us should be aware that when these types of shenanigans are being played, something is going on, that the legislation that's being pushed through probably is not good legislation, but, instead, helps a small group of powerful people.

Mr. CONYERS. How much time remains?

The Acting CHAIRMAN. The gentleman from Michigan has 2\1/4\ minutes remaining.

The gentleman from California, his time has expired.

Mr. CONYERS. I yield myself 6 seconds before I yield the rest of the time to Mr. Berman.

This is curious, here I am a son of Labor, out of Labor, represents Labor all my life, being told publicly that I don't represent the little guy from people whose connection with working people in collective bargaining movements is unknown.

With that, I yield to my dear friend, Mr. Berman, for the remainder of our time.

Mr. BERMAN. I thank the gentleman for yielding, and I would like to yield to the gentleman from Oregon for purposes of a colloquy.

Mr. WU. I thank the chairman.

As both Chairman Conyers and Chairman Berman are aware, the version of the legislation in the other body contains a section that ends the diversion of fees from the Patent and Trademark Office.

Absent a compelling consideration, would the chairman be amenable to working to keep that provision in conference?

Mr. BERMAN. That is a provision that I have supported, it is legislation I have introduced, it embodies and enacts a philosophy I completely agree with. All PTO fees should be kept within the PTO office to reduce backlogs, to hire qualified people, and to come to better operations of that critical office.

Mr. WU. I thank the chairman.

Mr. BERMAN. The chairman of the committee obviously will be a key

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member of the conference committee and indicates that he feels the same way.

Reclaiming my time, I just want to make a couple of points.

First, I have never said, quote, Labor supports this bill. What I said was Labor thinks a number of improvements have been made, particularly in this manager's amendment. There are other issues that concern them, that they believe we are moving in the right direction, and that they have no opposition to the passage of this bill, understanding they have other concerns that want to be addressed.

The same applies for a number of pharmaceutical companies. The major institution, and they are not small guys, Mr. Rohrabacher. Opposition to this, concerns about this bill, come from large and important—

The Acting CHAIRMAN. The gentleman's time has expired.

The question is on the amendment offered by the gentleman from Michigan (Mr. Conyers).

The question was taken; and the Acting Chairman announced that the noes appeared to have it.

Mr. BERMAN. Mr. Chairman, I demand a recorded vote.

The Acting CHAIRMAN. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from Michigan will be postponed.

Amendment No. 2 Offered by Mr. Issa

The Acting CHAIRMAN. It is now in order to consider amendment No. 2 printed in House Report 110-319.

Mr. ISSA. Mr. Chairman, I offer an amendment.

The Acting CHAIRMAN. The Clerk will designate the amendment.

The text of the amendment is as follows:

Amendment No. 2 offered by Mr. Issa:

Page 53, strike lines 9 through 15 and insert the following:

(a) Publication.--Section 122(b)(2)(B)(i) is amended by striking “published as provided in paragraph (1).” And inserting the following: “published until the later of--

(I) three months after a second action is taken pursuant to section 132 on the application, of which notice has been given or mailed to the applicant; or

(II) the date specified in paragraph (1).”.

The Acting CHAIRMAN. Pursuant to House Resolution 636, the gentleman from California (Mr. Issa) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman from California.

Mr. ISSA. Mr. Chairman, I rise in support of this amendment.

In short, this amendment simply seeks to maintain our historic and important American-only right for an inventor who was denied a patent to keep that patent a secret.

Additionally, it allows sufficient time in the process for a patent holder to know that his patent, his or her patent, either will or will not likely be granted significant claims.

For that reason, we struck a balance between the rest of the world that recognizes that patents are normally published after 18 months. We said, no, it will be the greater of the second office action, which can be anywhere from 3 to 5 years or 18 months, and we did so because we believe somebody should know when they receive significant claims or not before they are forced to decide whether or not to retain a trade secret.

It's an important issue; it's one that I believe will allow us a final and lasting way for a secret to be balanced with the interest to not have submarine patents and unknown information.

I yield to the chairman of the full committee.

Mr. CONYERS. We have reviewed the amendment. It's an important contribution. We are prepared to accept the amendment.

Mr. ISSA. I yield to the chairman of the subcommittee.

Mr. BERMAN. I thank the gentleman, I also agree with the amendment. I would like to use the time, if you would allow me to finish the sentence, which is with respect to these important companies, that, in the biotechnology and pharmaceutical field, I just want to repeat, a number of things they want, first-inventor-to-file, not first-to-file, first-inventor-to-file, repeal of the best-mode defense, reform of the inequitable-conduct defense, are in this bill, and we intend to work with them on the damages issue between now and a final conference report to try to come to a better understanding on that very important, but very complicated, field.

Mr. ISSA. I yield to the ranking member of the full committee.

Mr. SMITH of Texas. I thank my friend from California for yielding. I certainly endorse his amendment and thank him for offering it.

Mr. ISSA. Mr. Chairman, I reserve the balance of my time.

Mr. ROHRABACHER. Mr. Chairman, I rise in opposition to the amendment.

The Acting CHAIRMAN. The gentleman from California is recognized for 5 minutes.

Mr. ROHRABACHER. First and foremost, let us note that over and over again we hear, well, they are not opposing the bill. Well, the labor unions and others, many of them are opposing the bill. But the ones you're describing, you're just saying they aren't necessarily supporting the bill. What we are saying, they are not supporting the bill. This has been reconfirmed by what my colleagues have said in the last 10 minutes.

Also, let us note, over and over again we hear, we're going to work this out. We're going to work all these things out in the bill as it moves through the process, which means to all of us there are major flaws in this bill, huge flaws in this bill, and we have to take it just on faith that they're going to work out all these flaws as it goes through the process.

I would suggest that we take this, we vote "no" on this bill, and then let's correct those flaws and come back to the floor when you've got a bill that isn't flawed. Let's go back to the floor when you can support a bill with an honest debate and not be so afraid of a debate that you'll neuter the chances and mute our opposition voices by giving us almost no time to discuss the issues.

I would yield to my friend, Ms. Kaptur.

Ms. KAPTUR. Mr. Chairman, I just want to place on the record that Issa's amendment, Issa's choice, is would you rather have the inventor shot with a pistol or a rifle? In either case, he or she ends up dead.

Now, why is that? Because the 1999 Patent Act required the Patent Office to publish on the Internet a patent application 18 months from the date of filing. But the issue really is, it takes an average of 31 months for patent review. Mr. Issa, I think, brings it up to 24 months. Thus, what happens is there's a gap between when it's filed and when it's approved, and you have to go up on the Internet. Under current law, you can opt out of that so you can protect your invention and not have some pirate in China or Japan or somewhere else take it from you. That is not in this bill.

The elimination of the opt-out provision is a terrible, terrible omission and a major change from existing law, and the Issa amendment does not make it better.

Mr. ROHRABACHER. Reclaiming my time, Ms. Kaptur has made a really important observation here, and that is, at the end of the day, yeah, the Issa amendment does make some changes, but at the end of the day, there will be American patent applications in which the inventor would like to keep secret until he gets the patent issued to him, which will be published for all of the thieves in China and India and Japan and Korea and elsewhere who would like to have all of that information before the patent is issued. There will still be a significant number of patent applications published for the whole world to see, and the patent applicant doesn't want that.

Ms. KAPTUR. Will the gentleman yield further?

Mr. ROHRABACHER. I certainly will.

Ms. KAPTUR. I just would point out, in the area of biology and microbiology, the average amount of time for patent approval is over 40 months. So, in other words, your invention is out there, and you have no way to protect it globally.

Mr. ROHRABACHER. So in the end, where Mr. Issa's amendment does take things one or two steps forward, the fact is it doesn't come anywhere close to offering the protection that currently exists in the law that is being destroyed by the language in the Steal American Technologies Act, H.R. 1908.

Let me just note, for my own situation, in terms of the chairman asking

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me about my credentials in terms of being associated with labor, I was a member of a labor union. I actually scrubbed toilets at times in my life. I have had menial jobs. I care about the working people. My family comes from working class farmers, poor farmers and people who went off to defend this country.

The American people, the standard of living of ordinary people depends on technology. This bill that's being proposed will give our technological secrets to our competitors which undermines the working people's chances here of competing with cheap labor overseas.

Ms. KAPTUR. Will the gentleman yield on that?

Mr. ROHRABACHER. I certainly will.

Ms. KAPTUR. I would like to defend your labor credentials. You voted against NAFTA on this floor. You were a leader on your side of the aisle. That vote was proven to be right.

What this is going to do, this is going to "NAFTAtize" the patent system and allow China to infringe on more of our inventions. We should not permit this to happen. We should be allowed to fully debate this for the people of this country.

Two-thirds of the value of companies, up to 80 percent of our industrial companies value, relate to their patents, and we should be given more respect. We should give our constituents more respect than compressing this debate into such a narrow time slot.

Mr. ROHRABACHER. If this bill passes, those people who will be our competitors overseas, even if Mr. Issa's amendment passes, they will have our secrets before the patent is issued and be outcompeting us with our own technologies.

Announcement by the Acting Chairman

The Acting CHAIRMAN. Members are reminded to direct their comments to the Chair.

Mr. CONYERS. Could the gentleman from California (Mr. Issa) yield briefly?

Mr. ISSA. I would yield to the full committee chairman.

Mr. CONYERS. I'm glad we've all proved our working class credentials in support of working people, and I'm very impressed, if not surprised. And so I want to describe this debate that's currently going on on this second provision.

Here is the one man in Congress with more patents as a small-time inventor than anybody in the House and the Senate being explained to why this is contrary to the interests of small-time inventors. Very interesting.

Mr. ISSA. Reclaiming my time, I yield myself such time as I may consume.

I guess as a machinist union worker and a mechanic, I'll get that out there so that I get my claim to union membership and to having gotten a lot of grease under fingernails, for Ms. Kaptur's understanding, because I think what she brought up is crucial, and full understanding is essential as to this amendment.

This amendment, if it takes 10 years to get a second office action, will give the inventor 10 years of no one else seeing it. It is an infinite period of time, subject to the 20-year expiration. It is, in

fact, an infinite period of time. And as an inventor, I chose the second office action, even though small inventors had said the first office action was good enough, because I was aware that the first office action is most often a rejection over which you overcome most of the objections. The second rejection, if there is one, they usually accept some, and if they give you a rejection, you usually don't overcome them, and the venture community, if you've had a second rejection, tends to discount potential additional claims. So that's the reason I chose those because, in fact, it gives you unlimited time to pursue your patent up to and through a second and, usually, final rejection.

Ms. KAPTUR. Would the gentleman kindly yield to me?

Mr. ISSA. I would be glad to yield to the gentlelady.

Ms. KAPTUR. Does your amendment preserve the opt-out provision of existing law?

Mr. ISSA. It does. Under this provision, if you receive your second and usually final rejection and you say, okay, I'm going to take my, within 90 days, I'm going to discard my patent, that wrapper is not available to anyone. It remains a secret and you're allowed to keep your trade secrets.

Ms. KAPTUR. And how many months or years do you have to wait before you get that opt-out provision? Can you do it immediately?

The Acting CHAIRMAN. The gentleman's time has expired.

The question is on the amendment offered by the gentleman from California (Mr. Issa).

The question was taken; and the Acting Chairman announced that the ayes appeared to have it.

Mr. ROHRABACHER. Mr. Chairman, I demand a recorded vote.

The Acting CHAIRMAN. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from California will be postponed.

Amendment No. 3 Offered by Mr. Issa

The Acting CHAIRMAN. It is now in order to consider amendment No. 3 printed in House Report 110-319.

Mr. ISSA. Mr. Chairman, I offer an amendment.

The Acting CHAIRMAN. The Clerk will designate the amendment.

The text of the amendment is as follows:

Amendment No. 3 offered by Mr. Issa

Page 67, insert the following after line 7:

(c) Effective Date of Regulations.—

(1) Review by congress.—A regulation promulgated by the United States Patent and Trademark Office under section 2(b)(2) of title 35, United States Code, with respect to any matter described in section 2(c)(6) of such title, as added by subsection (a) of this section, may not take effect before the end of a period of 60 days beginning on the date on which the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office submits to each House of Congress a copy of the regulation, together with a report containing the reasons for its adoption. The regulation and report so submitted shall be referred to the Committee on the Judiciary of the House of Representatives and the Committee on the Judiciary of the Senate.

(2) Joint resolution of disapproval.—If a joint resolution of disapproval with respect to the regulation is enacted into law, the regulation shall not become effective or continue in effect.

(3) Joint resolution defined.—For purposes of this subsection, the term a "joint resolution of disapproval" means a joint resolution, the matter after the resolving clause of which is as follows: "That Congress disapproves the regulation submitted by the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office on ___ relating to ___, and such regulation shall have no force or effect.", with the first space being filled with the appropriate date, and the second space being filled with a description of the regulation at issue.

(4) Referral.—A joint resolution of disapproval shall be referred in the House of Representatives to the Committee on the Judiciary and in the Senate to the Committee on the Judiciary.

(5) Floor consideration.—A vote on final passage of a joint resolution of disapproval shall be taken in each House on or before the close of the 15th day after the bill or resolution is reported by the committee of that House to which it was referred or after such committee has been discharged from further consideration of the joint resolution of disapproval.

(6) No inferences.—If the Congress does not enact a joint resolution of disapproval, no court or agency may infer therefrom any intent of the Congress with regard to such regulation or action.

(7) Calculation of days.—The 60-day period referred to in paragraph (1) and the 15-day period referred to in paragraph (5) shall be computed by excluding—

(A) the days on which either House of Congress is not in session because of an adjournment of the Congress sine die; and

(B) any Saturday and Sunday, not excluded under subparagraph (A), when either House is not in session.

(8) Rulemaking authority.—This subsection is enacted by the Congress as an exercise of the rulemaking power of the Senate and House of Representatives respectively, and as such it is deemed a part of the rules of each House, respectively.

The Acting CHAIRMAN. Pursuant to House Resolution 636, the gentleman from California (Mr. Issa) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman from California.

Mr. ISSA. Mr. Chairman, I'll briefly explain the amendment. Almost every single agency of the Federal Government has rule-making authority. But, quite frankly, rules are, in fact, laws made by agencies. So when the Patent and Trademark Office repeatedly has asked us for rule-making authority, it has been a long process to figure out the best way to allow them to make rules but to retain our genuine constitutional obligation over the effects

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of those laws. So, in doing so, what we did was we crafted a constitutional review. We're not allowed to veto these agencies, but we are allowed to overrule them. And in doing so, what we have decided to do is to allow any Member of the House or the Senate to bring a motion in opposition to any rule produced or proposed by the Patent and Trademark Office, and we will, in fact, within 60 days, hear that rule, that opposition and make a decision. This is designed specifically to stop any overreaching under this underlying bill from potentially causing things which we would not have legislated to, in fact, be legislated, while recognizing that we want the Patent and Trademark Office to have the ability to move swiftly and accurately to the conclusion of patents on behalf of our economy.

Mr. Chairman, I reserve the balance of my time.

Mr. ROHRABACHER. Mr. Chairman, I rise in opposition to the amendment.

The Acting CHAIRMAN. The gentleman from California is recognized for 5 minutes.

Mr. ROHRABACHER. This is yet another example of why this overall bill should be defeated. The fact is that we shouldn't be changing the provision and permitting outside agencies and taking authority away from us from setting the basic ground rules about patents in the first place. This idea that, well, let me put it this way. This bill is so filled with this type of imperfection, and as we have had our guarantee from those people who brought this bill to the floor so precipitously, they will work really hard to make sure all the flaws are out. I would suggest that that statement alone should have all these red flags going up for all of us. And then the muting of the opposition and not permitting us an adequate amount of time to actually discuss the provisions of the bill and not giving us time to control our own opposition, again, should be the red flags for all of us who's listening to this debate.

I yield 1\1/2\ minutes to the gentleman from Texas (Mr. Gohmert).

Mr. GOHMERT. Mr. Chairman, I appreciate so much my friend from California. And, in fact, I like Mr. Issa so much, I want more people like Darrell Issa. I want more people to have the opportunity to create patents, to use ingenuity, to do well based on their thought processes. And I'm afraid now this bill will prevent us from having the opportunity to have more Darrell Issas.

The amendment works on one of the problems, well, gee, we'll look at the regulations. But, my goodness, this is a comprehensive bill. We keep hearing, you know, we need comprehensive bills. And red flags went up in my mind. And where have I heard that? Oh, yes, on immigration reform. We had to have a comprehensive bill because there were some things that needed to be passed, some people thought, that they knew could not pass if they had the bright enough light of day shown on them, and so we have a comprehensive bill to put some things in there that do more damage than good.

We need more time to look at these provisions so that we can ensure that there are more Darrell Issas that get to have the same opportunities to do as well and make us as proud as our good friend from California.

Mr. ROHRABACHER. Mr. Chairman, how much time do I have?

The Acting CHAIRMAN. The gentleman from California has 2\1/2\ minutes remaining.

The other gentleman from California has 3\1/2\ minutes remaining.

Mr. ROHRABACHER. I yield 1 minute to Ms. Kaptur.

Ms. KAPTUR. Mr. Chairman, I just wanted to place on the record opposition to Mr. Issa's amendment to try to politicize decision making that is done by professionals over at the Patent Office. But in doing so, also to place on the record who's financing the expensive lobbying campaign on behalf of the bill that is before us today. They are a coalition of companies including transnational corporations: Adobe, Microsoft, Cisco, Intel, eBay, Lenovo, Dell and Oracle.

During the period of 1993-2005, four of them alone paid out more than $3.5 billion in patent settlements. And in the same period, their combined revenues were over $1.4 trillion, making their patent settlements only about one-quarter of 1 percent of those revenues. Now they wish to reduce even those costs, not by changing their obviously unfair and often illegal business practices, but by persuading Congress and also the Supreme Court to weaken U.S. patent protections.

We ought to stand up for American inventors. We should not allow this bill to go forward. It should have sunlight. I know my colleagues are doing the best they can, but they can surely do better than this.

Mr. ISSA. Mr. Chairman, I am proud to yield 1 minute to the chairman of the full committee, Mr. Conyers.

Mr. CONYERS. Ladies and gentlemen, I keep noticing that the opponents to the bill, opponents to the rule, opponents to the manager's amendment, opponents to the amendments to include it in this are all opposed to everything, anything. And I am glad these great sons of Labor, like the gentleman from California who knows his voting record on Labor and so, unfortunately, do I, recognize how he is supporting the working people and the person who has invented more inventions than all of us put together is opposing the small inventors. What a debate this is.

I just rise to let you know, sir, that on this side of the aisle, we are proud to support this amendment.

Announcement by the Acting Chairman

Mr. Acting CHAIRMAN. All Members are reminded to address their comments to the Chair.

Mr. ROHRABACHER. Mr. Chairman, I yield myself such time as I may consume.

Let me just note I think it is really much more important to talk about provisions of the bill rather than trying to point out things about each other, and that is one of the reasons we needed more time in this debate so that we could actually get into the provisions of this bill.

The fact that no matter what happens with Mr. Issa's first amendment, that still there will be patent applications that will be published for the world to see even before the patent is issued; that our overseas competitors will then have information that they will be able to use to outcompete us even before our patents are issued to those inventors who have applied for patents. Those are the issues we need to talk about.

We need to talk about why the assessment of damages has been changed in a way that helps these big guys, these big companies that Ms. Kaptur has just outlined, as well as the foreign corporations, I might add, at the expense of the small inventor. The inventor is just trying to prevent theft of his lifetime of work. We have to know why we have had different ways of determining the validity of a patent and opening up challenges in the front of the patent as well as afterwards so that we add cost after cost after cost to the little guy.

We need to discuss these things in detail. Instead we have 1 hour in which the opposition, I think, had 12 minutes in order to discuss these issues. This should raise a flag to everyone listening to this debate. Why is Congress trying to stampede the rest of the Members of Congress into voting for an act that could be so damaging to the American people?

The Acting CHAIRMAN. The time of the gentleman has expired.

Mr. ISSA. Mr. Chairman, I yield myself such time as I may consume.

Both of my amendments are intended to improve this bill. I don't stand before the Committee of the Whole to say that this bill will become perfect. As a matter of fact, in the general debate, I named companies like BIOCOM and GenProbe and Invitrogen, who are part of UCSD CONNECT, who have specific areas we are including in the material that they want continued work done on. They are, in fact, dissatisfied with the bill because it hasn't done everything it could do. But this amendment on rulemaking which would stop an arbitrary decision by the Patent Office on something it may want to do such as eliminate continuations, et cetera, is there for a reason. And I would hope that people who are going to perhaps oppose the bill as not yet good enough would recognize that it is crucial for this amendment to get into it if we are going to protect against arbitrary action by the Patent and Trademark Office.

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And last but not least, Ms. Kaptur was kind enough to ask one more question during the previous amendment that couldn't be answered, and I just want to make it clear on the previous amendment, you will be able to keep your secret through an unlimited period of debate back and forth with the Patent Office up to two full rejections and then 90 days in which to close. And I would hope the gentlewoman would recognize that that is an improvement even if nothing is perfect.

Ms. KAPTUR. Mr. Chairman, will the gentleman yield?

Mr. ISSA. I yield to the gentlewoman from Ohio.

Ms. KAPTUR. Mr. Chairman, I thank the gentleman very much for yielding.

As I said with Issa's choice, it is either being shot with a pistol or a rifle. It does not guarantee that once the patent is granted that that person can keep their intellectual property, can opt out and not have it published for that 18-month period. So we are taking away that intellectual property protection.

Mr. ISSA. Reclaiming my time, Mr. Chairman, under the current law when your patent claims are granted, you have an obligation to make available to the world and to people of ordinary skill in the art how to knock off your product. That's current law. That has been around since the founding. The deal between the Patent Office, the American people, if you will, and the inventor is that you have disclosed to the world if you are given those claims for a limited period of time. We are not changing that in 200 years. We are protecting your right if you are not granted a patent. That is what current law does; that is what this amendment does.

The Acting CHAIRMAN. The question is on the amendment offered by the gentleman from California (Mr. Issa).

The question was taken; and the Acting Chairman announced that the ayes appeared to have it.

Mr. ROHRABACHER. Mr. Chairman, I demand a recorded vote.

The Acting CHAIRMAN. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from California will be postponed.

Amendment No. 4 Offered by Ms. Jackson-Lee of Texas

The Acting CHAIRMAN. It is now in order to consider amendment No. 4 printed in House Report 110-319.

Ms. JACKSON-LEE of Texas. Mr. Chairman, I offer an amendment.

The Acting CHAIRMAN. The Clerk will designate the amendment.

The text of the amendment is as follows:

Amendment No. 4 offered by Ms. Jackson-Lee of Texas:

At the end of the bill insert the following new section:

SEC. 18. STUDY ON PATENT DAMAGES.

(a) In General.—The Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office (in this section referred to as the "Director") shall conduct a study of patent damage awards in cases where such awards have been based on a reasonable royalty under section 284 of title 35, United States Code. The study should, at a minimum, consider cases from 1990 to the present.

(b) Conduct.—In conducting the study under subsection (a), the Director shall investigate, at a minimum, the following:

(1) Whether the mean or median dollar amount of reasonable-royalty-based patent damages awarded by courts or juries, as the case may be, has significantly increased on a per case basis during the period covered by the study, taking into consideration adjustments for inflation and other relevant economic factors.

(2) Whether there has been a pattern of excessive and inequitable reasonable-royalty-based damages during the period covered by the study and, if so, any contributing factors, including, for example, evidence that Federal courts have routinely and inappropriately broadened the scope of the "entire market value rule", or that juries have routinely misapplied the entire market value rule to the facts at issue.

(3) To the extent that a pattern of excessive and inequitable damage awards exists, measures that could guard against such inappropriate awards without unduly prejudicing the rights and remedies of patent holders or significantly increasing litigation costs, including legislative reforms or improved model jury instructions.

(4) To the extent that a pattern of excessive and inequitable damage awards exists, whether legislative proposals that would mandate, or create a presumption in favor of, apportionment of reasonable-royalty-based patent damages would effectively guard against such inappropriate awards without unduly prejudicing the rights and remedies of patent holders or significantly increasing litigation costs.

(c) Report.—Not later than 1 year after the date of the enactment of this Act, the Director shall submit to the Congress a report on the study conducted under this section.

The Acting CHAIRMAN. Pursuant to House Resolution 636, the gentlewoman from Texas (Ms. Jackson-Lee) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentlewoman from Texas.

Ms. JACKSON-LEE of Texas. Mr. Chairman, I started out in this debate to say that we worked very hard for a long period of time to be able to look at the small and the big, the big inventor and the little man inventor. All of them have been great to America, and we have benefited from their inventions and their intellect.

This patent bill preserves the intellectual property, the art, the invention, the minds of America. And it does, in fact, protect us against those who would undermine this very viable economic engine, and that is our mind, our talent.

But I believe that all voices should be heard. And throughout this whole process there is probably no one who focused on the damages issue as much as I did, the proportionality issue. And I worked with Mr. Berman and Mr. Conyers and our bipartisan friends.

So this gives us an opportunity, and my amendment is very simple. And it doesn't wait 7 years or 10 years to give us answers. It's 1 year. It provides us with the opportunity in this landmark legislation to study the patent damage awards in cases where such awards have been based on a reasonable royalty under section 84 of title 35 of the United States Code. The study should at a minimum consider cases from 1990 to the present. It has a very detailed analysis, and what that will do is it will find its way to this Congress and we will have a better way of assessing the impact.

We are concerned. Proportionality is an issue. But we are not ignoring your concerns, and this particular study helps to bring us along.

Let me just quickly suggest the entities that will be impacted in a positive way: the American Intellectual Property Law Association, a number of universities that will be impacted from the University of Illinois to Massachusetts to the University of Iowa, Maryland, Michigan, Minnesota, New Hampshire, North Carolina, Texas A&M. Small inventors will be impacted by this study because it will give us more information.

I would ask my colleagues to support this amendment.

Thank you, Mr. Chairman for affording me this opportunity to explain my amendment to H.R. 1908, the "Patent Reform Act of 2007." Let me also thank the distinguished Chairman of the Judiciary Committee, Mr. Conyers, and the Ranking Member, Mr. Smith, for the example of bipartisan leadership coming together to address the real problems of the American people and the economy.

I especially wish to thank Mr. Berman and Mr. Coble, the chair and ranking member of the Judiciary Subcommittee on Courts, Intellectual Property, and the Internet for their hard work, perseverance, and visionary leadership in producing landmark legislation that should ensure that the American patent system remains the envy of the world. I am proud to have joined with all of them as original co-sponsor of H.R. 1908, the Patent Reform Act of 2007.

On behalf of the small business enterprises, technology firms, and academics I am privileged to represent, I want to publicly thank them for working with me on two other amendments to the bill offered by me which were adopted during the full committee markup.

Mr. Chairman, my amendment is a simple but important addition to this landmark legislation, which I believe can be supported by every member of this body. My amendment calls for a study of patent damage awards in cases where such awards have been based on a reasonable royalty under Section 284 of Title 35 of the United States Code. The study should, at a minimum,

consider cases from 1990 to the present. The results of this study shall be reported to the House and Senate Judiciary Committees.

I have attached to my statement a partial listing of groups, organizations, institutions, and industries that will benefit from the study called for in my amendment.

Mr. Chairman, Article I, Section 8, clause 8 of the Constitution

confers upon the Congress the power: “To promote the Progress of

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Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”

In order to fulfill the Constitution’s mandate, we must examine the patent system periodically to determine whether there may be flaws in its operation that may hamper innovation, including the problems described as decreased patent quality, prevalence of subjective elements in patent practice, patent abuse, and lack of meaningful alternatives to the patent litigation process.

On the other hand, we must be mindful of the importance of ensuring that small companies have the same opportunities to innovate and have their inventions patented and that the laws will continue to protect their valuable intellectual property.

Chairman Berman is to be commended for his yeoman efforts in seeking to broker a consensus on the subject of damages and royalty payments, which is covered in Section 5 of the bill. But as all have learned by now, this is an exceedingly complex issue. The complexity stems not from the unwillingness of competing interests to find common ground but from the interactive effects of patent litigation reform on the royalty negotiation process and the future of innovation.

Important innovations come from universities, medical centers, and smaller companies that develop commercial applications from their basic research. These innovators must rely upon the licensing process to monetize their ideas and inventions. Thus, it is very important that we take care not to harm this incubator of tomorrow’s technological breakthroughs. It is for that reason that we need to study whether patent damage awards in cases where such awards have been based on a reasonable royalty under 35 U.S.C. 284 have and are hindering technological innovation.

And it is important to emphasize Mr. Chairman, that this evaluation will be based on empirical data rigorously analyzed.

Among the matters to be studied and reviewed are the following:

Whether the mean or median dollar amount of reasonably royalty-based patent damages awarded by courts or juries, as the case may be, has significantly increased on a per case basis during the period covered by the study, taking into consideration adjustments for inflation and other relevant economic factors; Whether there has been a pattern of excessive and inequitable reasonable-royalty based damages during the period covered by the study and, if so, any

contributing factors; To the extent that a pattern of excessive and inequitable damage awards exists, measures that could guard against such inappropriate awards without unduly prejudicing the rights and remedies of patent holders or significantly increasing litigation costs; and To the extent that a pattern of excessive and inequitable damage awards exists, whether legislative proposals that would mandate, or create a presumption in favor of, apportionment of reasonable royalty-based patent damages would effectively guard against such inappropriate awards without unduly prejudicing the rights and remedies of patent holders or significantly increasing litigation costs.

In short, Mr. Chairman my amendment can be summed up as follows: For those who are confident of the future, my amendment offers vindication. For those who are skeptical that the new changes will work, my amendment will provide the evidence they need to prove their case. And for those who believe that maintaining the status quo is intolerable, my amendment offers a way forward.

I urge all members to support my amendment.

Appendix

AmberWave Systems Aware, Inc., Canopy Venture Partners, LLC, Cantor Fitzgerald, LP, Cryptography Research, Cummins-Allison Corp., Digimarc Corporation, Fallbrook Technologies, Inc., Helius, Inc, Immersion Corporation, Inframat Corporation, InterDigital Communications Corporation, Intermolecular, Inc., LSI Metabolix.

QUALCOMM, Inc., Symyx, Tessera, US Nanocorp. 3M, Abbott, Accelerated Technologies, Inc., Acorn Cardiovascular Inc., Adams Capital Management, Adroit Medical Systems, Inc., AdvaMed, Advanced Diamond Technologies, Inc., Advanced Medical Optics, Inc., Advanced Neuromodulation Systems, Inc., Aero-Marine Company.

AFL-CIO, Air Liquide, Air Products, ALD NanoSolutions, Inc., ALIO Industries, Allergan, Inc., Almyra, Inc., AmberWave Systems Corporation, American Intellectual Property Law Association (AIPLA), American Seed Trade, Americans for Sovereignty, Americans for the Preservation of Liberty, Amylin Pharmaceuticals, AngioDynamics, Inc. Applied Medical, Applied Nanotech, Inc.

Argentis Pharmaceuticals, LLC, Arizona BioIndustry Association, ARYx Therapeutics, Ascenta Therapeutics, Inc., Association of University Technology Managers (AUTM), Asthmatx, Inc., AstraZeneca, Aware, Inc., Baxa Corporation, Baxter Healthcare Corporation, BayBio, Beckman Coulter, BIO--Biotechnology Industry Organization, BioCardia, Inc.

BIOCOM, Biogen Idec. Biomedical Association, BioOhio, Bioscience Institute, Biotechnology Council of New Jersey, Blacks for Economic Security Trust Fund, BlazeTech Corporation, Boston Scientific, Bridgestone Americas Holding, Inc., Bristol-Myers Squibb, BuzzLogic, California Healthcare Institute, Canopy Ventures, Carbide Derivative Technologies, Cardiac Concepts, Inc. CardioDynamics, Cargill, Inc., Cassie-Shipherd Group, Caterpillar, Celgene Corporation, Cell Genesys, Inc., Center 7, Inc. Center for Small Business and the Environment, Centre for Security Policy, Cephalon, CheckFree, Christian Coalition of America, Cincinnati Sub-Zero Products, Coalition for 21st Century Patent Reform, Coalitions for America.

CogniTek Management Systems, Inc., Colorado Bioscience Association, Conceptus, Inc., CONNECT, Connecticut United for Research Excellence, Cornell University, Corning, Coronis Medical Ventures, Council for America, CropLife America, Cryptography Research, Cummins Inc.

Cummins-Allison Corporation, CVRx Inc., Dais Analytic Corporation, Dartmouth Regional Technology Center, Inc., Declaration Alliance Deltanoid Pharmaceuticals, Digimarc Corporation, DirectPointe, Dow Chemical Company, DuPont, Dura-Line Corporation, Dynatronics Co., Eagle Forum, Eastman Chemical Company.

Economic Development Center, Edwards Lifesciences, Elan Pharmaceuticals, Inc., Electronics for Imaging, Eli Lilly and Company, Ellman Innovations LLC, Enterprise Partners Venture Capital, Evalve, Inc. Exxon Mobil Corporation, Fallbrook Technologies Inc., FarSounder, Inc., Footnote.com, Gambro BCT, General Electric.

Genomic Health, Inc., Gen-Probe Incorporated, Genzyme, Georgia Biomedical Partnership, Glacier Cross, Inc. GlaxoSmithKline, Glenview State Bank, Hawaii Science & Technology Council, HealthCare Institute of New Jersey, HeartWare, Inc., Helius, Inc., Henkel Corporation.

Hoffman-LaRoche, Inc., iBIO, Imago Scientific Instruments, Impulse Dynamics (USA), Inc., Indiana Health Industry Forum, Indiana University, Innovation Alliance, Institute of Electrical and Electronics Engineers (IEEE)-USA.

InterDigital Communications Corporation, Intermolecular, Inc., International Association of Professional and Technical Engineers (IFPTE), Invitrogen Corporation, Iowa Biotechnology Association, ISTA Pharmaceuticals, Jazz Pharmaceuticals, Inc., Johnson & Johnson, KansasBio, Leadership Institute, Let Freedom Ring, Life Science Alley, LITMUS, LLC, LSI Corporation, Lux Capital Management, Luxul Corporation, Maryland Taxpayers' Association.

Masimo Corporation, Massachusetts Biotechnology Council, Massachusetts Medical Device Industry Council (MassMEDIC), Maxygen Inc., MDMA--Medical Device Manufacturer's

Association, Medical College of Wisconsin, Medlmmune, Inc., Medtronic, Merck, Metabasis Therapeutics, Inc., Metabolex, Inc., Metacure (USA), Inc., MGI Pharma Inc., MichBio.

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Michigan Small Tech Association, Michigan State University, Millennium Pharmaceuticals, Inc., Milliken & Company, Mohr, Davidow Ventures, Monsanto Company, NAM--National Association of Manufacturers, NanoBioMagnetics, Inc. (NBMI), NanoBusiness Alliance, Nanolnk, Inc., Nanolntegris, Inc., Nanomix, Inc., Nanophase Technologies, NanoProducts Corporation, Nanosys, Inc., Nantero, Inc., National Center for Public Policy Research, Nektar Therapeutics, Neoconix, Inc.

Neuro Resource Group (NRG), Neuronetics, Inc., NeuroPace, New England Innovation Alliance, New Hampshire Biotechnology Council, New Hampshire Department of Economic Development, New Mexico Biotechnical and Biomedical Association, New York Biotechnology Association.

Norseman Group, North Carolina Biosciences Organization, North Carolina State University, North Dakota State University, Northrop Grumman Corporation, Northwestern University, Novartis, Novartis Corporation.

Novasys Medical Inc., NovoNordisk, NUCRYST Pharmaceuticals, Inc., NuVasive, Inc., Nuvelo, Inc., Ohio State University, OpenCEL, LLC, Palmetto Biotechnology Alliance, Patent Cafe.com, Inc., Patent Office Professional Association, Pennsylvania Bio, Pennsylvania State University, PepsiCo, Inc., Pfizer, PhRMA--Pharmaceutical Research and Manufacturers of America, Physical Sciences Inc., PointeCast Corporation.

Power Innovations International, Power Metal Technologies, Inc., Preformed Line Products, Procter & Gamble, Professional Inventors' Alliance.

ProRhythm, Inc., Purdue University, Pure Plushy Inc., QUALCOMM Inc., QuantumSphere, Inc., QuesTek Innovations LLC, Radiant Medical, Inc., Rensselaer Polytechnic Institute, Research Triangle Park, NC, Retractable Technologies, Inc., RightMarch.com.

S & C Electric Company, Salix Pharmaceuticals, Inc., SanDisk Corporation, Sangamo BioSciences, Inc., Semprius, Inc, Small Business Association of Michigan—Economic Development Center, Small Business Exporters Association of the United States, Small Business Technology Council, Smart Bomb Interactive, Smile Reminder, SmoothShapes, Inc., Solera Networks, South Dakota Biotech Association, Southern California Biomedical Council, Spiration, Inc., Standup Bed Company.

State of New Hampshire Department of Resources and Economic Development, Stella Group, Ltd., StemCells, SurgiQuest, Inc., Symyx Technologies, Inc., Tech Council of Maryland/MdBio, Technology Patents & Licensing, Tennessee Biotechnology Association, Tessera, Inc., Texas A&M, Texas Healthcare, Texas Instruments, Three Arch Partners, United Technologies, University of California System, University of Illinois, University of Iowa, University of Maryland, University of Michigan, University of Minnesota, University of New Hampshire, University of North Carolina System, University of Rochester, University of Utah, University of Wisconsin-Madison.

US Business and Industry Council, US Council for International Business, USGI Medical, USW—United Steelworkers, Vanderbilt University and Medical Center, Virent Energy Systems, Inc., Virginia Biotechnology Association, Visidyne, Inc., VisionCare Opthamalogic Technologies, Inc., Washington Biotechnology & Biomedical Association.

Washington University, WaveRx, Inc., Wayne State University, Wescor, Inc., Weyerhaeuser, Wilson Sonsini Goodrich & Rosati, Wisconsin Alumni Research Foundation(WARF), Wisconsin Biotechnology and Medical Device Association, Wyeth.

Mr. Chairman, I reserve the balance of my time.

Mr. ROHRABACHER. Mr. Chairman, I rise in opposition to the gentlewoman's amendment.

The Acting CHAIRMAN. The gentleman from California is recognized for 5 minutes.

Mr. ROHRABACHER. Mr. Chairman, I yield 1 minute to Mr. Manzullo.

Mr. MANZULLO. Mr. Chairman, what is interesting about the amendment from the gentlewoman from Texas is the fact that she wants to have a study, and I agree with it, of patent damage awards from at least 1990 to the present case.

So this is very interesting because here we are about to do this massive change in law and no one has done the study. But now we are going to do the study after we have this massive change in law.

I'll tell you, this train just turned around with the caboose going forward. That is why this bill has to be ditched.

Mr. ROHRABACHER. Mr. Chairman, I yield 1 minute to Mr. Gohmert from Texas.

Mr. GOHMERT. Mr. Chairman, our chairman of the Judiciary Committee commented that it looks like the people opposed to anything are opposed to everything.

I'm really not. I think this is a good idea, a good amendment; and I applaud my colleague from Texas for pushing this forward.

I would like to have had these results before we went forward with this so-called comprehensive bill.

Ms. JACKSON-LEE of Texas. Mr. Chairman, will the gentleman yield?

Mr. GOHMERT. I yield to the gentlewoman from Texas.

Ms. JACKSON-LEE of Texas. Mr. Chairman, my intent was to respond to the disparate voices.

Would you at least admit that this improves or adds to by giving us additional information?

Mr. GOHMERT. Reclaiming my time, Mr. Chairman, as I said, I think it's a good idea and I'm going to vote for it. But I would rather have this as a stand-alone before we do all of these what some have referred to as draconian comprehensive measures.

And I do not question whatsoever the sincerity or the effort on behalf of the chairman for working people and others. And I do not question the sincerity when we were told, and I was among those who were told, you could be in a group that will revise this. I just never was given that opportunity.

Ms. JACKSON-LEE of Texas. Mr. Chairman, I yield 30 seconds to the gentlewoman from California (Ms. Zoe Lofgren).

Ms. ZOE LOFGREN of California. I thank the gentlewoman for yielding, and I support the amendment.

I would just like to note, however, that we have had over 21 hearings in the subcommittee and have convened several briefings on top of that. We have had reports from the National Academy, the FTC on this subject. And I think the gentlewoman's amendment to get still further information is valid. I support it. But certainly we have information today that has been gained over an extensive process over half a decade.

Mr. ROHRABACHER. Mr. Chairman, I yield 2 minutes to Mr. Roscoe Bartlett, Ph.D., a man who holds 20 patents, a man who is greatly respected for his scientific knowledge and who has been deeply appreciated for the advice he has given us in that endeavor in the last 15 years in Congress.

(Mr. BARTLETT of Maryland asked and was given permission to revise and extend his remarks.)

Mr. BARTLETT of Maryland. I thank the gentleman for yielding.

I have been, for the last couple of hours, doing what is seldom done in this House. I have been listening to every minute of this debate. And I felt compelled to come to the floor.

When I was listening to the debate, I was reminded of the story of the father who was looking at the white shirt that he wore yesterday to see if he could wear it again.

And his daughter observed, daddy, if it's doubtful, it's dirty. And I thought of that when I was listening to this debate because obviously this bill is doubtful. We're amending it on the run. And I wonder if, Mr. Chairman, maybe the little girl isn't right, that if it's doubtful, it's dirty.

There's been a lot of talk about protecting the rights of the little guy. In a former life, I had 20 patents. And I'm really committed to protecting the rights of the little guy because I was a little guy, not just because of the little guy, but because most of our creativity and innovation comes from the little guy.

And what I would suggest is that if this bill is so flawed that we're modifying it, amending it on the run and hope to make it okay when we come to conference, wouldn't it be better just to send it back to committee and do it right the first time?

Ms. JACKSON-LEE of Texas. May I inquire as to how much time I have remaining?

The Acting CHAIRMAN. The gentlewoman from Texas has 2 minutes remaining.

Ms. JACKSON-LEE of Texas. I yield 45 seconds to the distinguished chairman, Mr. Conyers.

Mr. CONYERS. I rise only to say to the distinguished previous speaker that this mistaken impression that this is being amended on the run is incorrect. And I'm glad you listened to the full debate, and I respect your position.

The point that you think it's being amended on the run is that we had nearly 50 organizations in which we were negotiating with up until the last moment, and even now, sir. That's why we have a manager's amendment.

Mr. BARTLETT of Maryland. Will the gentleman yield?

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Mr. CONYERS. I will yield to the gentleman.

Mr. BARTLETT of Maryland. I was simply quoting what you said.

Ms. JACKSON-LEE of Texas. May I inquire as to how much time I have remaining?

The Acting CHAIRMAN. The gentlewoman from Texas has 1\1/4\ minutes remaining.

Ms. JACKSON-LEE of Texas. Mr. Chairman, I yield the balance of my time to the distinguished gentleman from California.

Mr. BERMAN. I thank the gentlelady, and I support her amendment.

Just to review the bidding, my friend from California (Mr.

Rohrabacher) over and over again talks about the flaws in this bill. Other than four Gohmert amendments on the issue of venue and one amendment from the gentleman from Iowa that was an earmark amendment, no other amendments were kept from consideration here. For all the arguments about flaws, where were the amendments to correct the flaws that they talk about? For all the notions of, we're not against reform, but this one isn't perfect, and this one isn't right, and this has some flaws, and it hasn't resolved every issue to everyone's satisfaction, nothing will, where is their alternative bill?

I'm telling you, this is an issue of whether we're going to address a system that the National Academy of Sciences and so many other objective agencies have said is getting near broken or doing nothing, and I suggest doing nothing is not a good answer for a Congress that wants to keep the American economy strong.

Mr. ROHRABACHER. Mr. Chairman, I yield myself such time as I may consume.

Let's note that there are several amendments that were not permitted by the Rules Committee. I did not submit amendments because those of us who have been following this bill realize it is fundamentally flawed. The purpose of the bill is to support those large corporations that Ms. Kaptur noted who are dramatically supporting the legislation. And it is being opposed, I might add, by a large number of universities, unions, pharmaceutical industries, biotech industries, et cetera, et cetera. So we have everybody except the electronics industry and the financial industry, who are already over in China making their profit at our expense, are opposed to the bill.

I yield my remaining 30 seconds to the gentleman from Maryland (Mr. Bartlett).

Mr. BARTLETT of Maryland. I just wanted to clarify the basis for my observation that the bill was being amended on the run. I was simply quoting the chairman, who said that they worked late last night changing the manager's amendment, that they were going to continue to work through conference so that they could change the bill to make it better. So obviously the bill is being amended and being changed on the run.

The Acting CHAIRMAN. The question is on the amendment offered by the gentlewoman from Texas (Ms. Jackson-Lee).

The question was taken; and the Acting Chairman announced that the ayes appeared to have it.

Mr. ROHRABACHER. Mr. Chairman, I demand a recorded vote.

The Acting CHAIRMAN. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentlewoman from Texas will be postponed.

Amendment No. 5 Offered by Mr. Pence

The Acting CHAIRMAN. It is now in order to consider amendment No. 5 printed in House Report 110-319.

Mr. PENCE. Mr. Chairman, I offer an amendment.

The Acting CHAIRMAN. The Clerk will designate the amendment.

The text of the amendment is as follows:

Amendment No. 5 offered by Mr. Pence:

Page 40, line 9, strike "identifies" and all that follows
through line 11 and insert the following: (1) identifies the same cancellation petitioner and the same patent as a previous petition for cancellation filed under such section; or (2) is based on the best mode requirement contained in section 112.

The Acting CHAIRMAN. Pursuant to House Resolution 636, the gentleman from Indiana (Mr. Pence) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman from Indiana.

Mr. PENCE. I yield myself such time as I may consume.

(Mr. PENCE asked and was given permission to revise and extend his remarks.)

Mr. PENCE. Mr. Chairman, I rise today in support of an amendment that would simply clarify patent law in what is known as "best mode."

Before explaining my amendment and the need for it, I want to take a brief moment to express my personal gratitude to Ranking Member Lamar Smith for his years of work on this issue, and to express my appreciation not only to Chairman Conyers, but to Chairman Berman, for the

bipartisan manner in which they have proceeded on this legislation, so vital as it is to our national life and to our economic vitality.

Years of countless hearings, great dedication have gone into this bill on both sides of the aisle. And while, Mr. Chairman, I'm not convinced that it's a perfect bill, I believe, as the gentleman from California said, it's a work in progress, as is all complex American law, and I think that moving forward is the right thing to do today.

With that, I would like to yield 1 minute to the distinguished ranking member of the committee, the gentleman from Texas.

Mr. SMITH of Texas. Mr. Chairman, I thank my friend from Indiana for yielding, and I want to point out that he is a member of the Intellectual Property Subcommittee of the Judiciary Committee. I know he is going to describe this amendment very well, so I will not go into that detail, but simply urge my colleagues to support it.

Mr. PENCE. I thank the gentleman for his support.

Mr. Chairman, the Constitution vests, in article I, section 8, clause 8, the power and the duty of the Congress "to promote the progress of science and useful arts by securing for limited times to inventors the exclusive right to their discoveries." This is an express obligation of the Congress under the Constitution.

Our patent laws, as currently written, were essentially drafted over 50 years ago, and I believe it is time to update them to account for changes in our dynamic 21st century economy.

We need to strengthen out patent laws to make sure that patents that are issued are strong and high quality, but I would submit that we also need to reform our patent laws to eliminate lawsuit abuse that has become so prevalent. Aspects of this legislation will do that; my amendment seeks to do that further.

As I said before, I am sympathetic to those who say that further work on damages needs to be done in conference. I agree with their sentiment to that point, and I trust that will occur.

On balance, though, I have determined that this legislation is an important and useful step toward modernizing and strengthening our American patent law, and I am pleased to support it. But I encourage Members of the House not to take this step without first supporting the Pence amendment, which makes an important clarification of provisions governing what is known as best mode in patent law.

At the Judiciary Committee markup of this bill, I first supported an amendment which would have repealed best mode in full. American patent law requires that a patent application, "set forth the best mode contemplated by the inventor of carrying out his invention" at the time the application is filed. But providing the best mode at the time of application is not a requirement in Europe or in Japan or in any of the rest of the world, and it has become a vehicle for lawsuit abuse.

In my view, the best mode requirement of American law imposes extraordinary and unnecessary costs on the inventor and adds a subjective requirement to the application process, and I believe public interest is already adequately met in ensuring quality technical disclosures for patents.

At the Judiciary Committee, I offered a best mode relief amendment that was accepted. The Pence amendment then retained best mode as a specifications requirement for obtaining a patent, the intent to maintain in the law the idea that patent applicants

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should provide extensive disclosure to the public about an invention.

But the Pence amendment endeavored to remove best mode from litigation.

Increasingly in patent litigation defendants have put forth best mode as a defense and a reason to find patents unenforceable. It becomes virtually a satellite piece of litigation in and of itself, detracts from the actual issue of infringement, and literally costs American inventors millions in legal fees.

The intent of the amendment was to keep best mode in the Patent and Trademark Office. My amendment today continues this effort toward eliminating this archaic and costly provision of the law. Specifically, the amendment today makes it clear that arguments about best mode cannot serve as the basis for post-grant review proceedings. It’s quite simple in that effect.

With my amendment, under the new post-grant review system, best mode will not be litigated. That will lessen the burden put on patent holders in defending their patents in post-grant review proceedings, and it will prevent the expenditure of millions of dollars in needless lawsuit abuse.

I encourage my colleagues to support the amendment.

Mr. CONYERS. Will the gentleman yield?

Mr. PENCE. I would be very pleased to yield to the distinguished Chair.

Mr. CONYERS. Not only to thank the gentleman for producing this amendment, but also to appreciate all the work that he did on helping us make this bill as good as it was. We thank you very much.

Mr. PENCE. I thank the chairman for his remarks. And I urge my colleagues to support the Pence amendment so we can further clarify the intended best mode relief.

Mr. ROHRABACHER. Mr. Chairman, I rise in opposition to the amendment.

The Acting CHAIRMAN. The gentleman from California is recognized for 5 minutes.

Mr. ROHRABACHER. I would, first of all, submit for the Record a list of several hundred organizations, including unions and universities, et cetera, all of whom have raised objections to

the patent legislation, H.R. 1908, not necessarily that they're all opposed to it, but they have strong objections.

Organizations and Companies Which Have Raised Objections to Patent Legislation (H.R. 1908)

Organizations and Companies Raising Objections to H.R. 1908, the Patent Reform Act of 2007: 3M, Abbott, Accelerated Technologies, Inc., Acorn Cardiovascular Inc., Adams Capital Management, Adroit Medical Systems, Inc., AdvaMed, Advanced Diamond Technologies, Inc., Advanced Medical Optics, Inc., Advanced Neuromodulation Systems, Inc., Aero-Marine Company, AFL-CIO, African American Republican Leadership Council.

Air Liquide, Air Products, ALD NanoSolutions, Inc., ALIO Industries, Allergan, Inc., Almyra, Inc., AmberWave Systems Corporation, American Conservative Union, American Intellectual Property Law Association (AIPLA), American Seed Trade, Americans for Sovereignty.

Americans for the Preservation of Liberty, Amylin Pharmaceuticals, AngioDynamics, Inc., Applied Medical, Applied Nanotech, Inc., Argentis Pharmaceuticals, LLC, Arizona BioIndustry Association, ARYx Therapeutics, Ascenta Therapeutics, Inc., Association of University Technology Managers (AUTM). Asthmatx, Inc., AstraZeneca, Aware, Inc., Baxa Corporation, Baxter Healthcare Corporation, BayBio, Beckman Coulter, BIO—Biotechnology Industry Organization, BioCardia, Inc., BIOCOM, Biogen Idec, Biomedical Association, BioOhio, Bioscience Institute, Biotechnology Council of New Jersey.

Blacks for Economic Security Trust Fund, BlazeTech Corporation, Boston Scientific, Bridgestone Americas Holding, Inc., Bristol-Myers Squibb, BuzzLogic, California Healthcare Institute, Canopy Ventures, Carbide Derivative Technologies, Cardiac Concepts, Inc., CardioDynamics, Cargill, Inc., Cassie-Shipherd Group, Caterpillar, Celgene Corporation, Cell Genesys, Inc., Center 7, Inc., Center for Small Business and the Environment, Centre for Security Policy, Cephalon, CheckFree, Christian Coalition of America.

Cincinnati Sub-Zero Products, Coalition for 21st Century Patent Reform, Coalitions for America, CogniTek Management Systems, Inc., Colorado Bioscience Association, Conceptus, Inc., CONNECT, Connecticut United for Research Excellence, Cornell University, Corning, Coronis Medical Ventures, Council for America, CropLife America, Cryptography Research, Cummins Inc., Cummins-Allison Corporation.

CVRx Inc., Dais Analytic Corporation, Dartmouth Regional Technology Center, Inc., Declaration Alliance, Deltanoid Pharmaceuticals, Digimarc Corporation, DirectPointe, Dow Chemical Company, Dupont, Dura-Line Corporation, Dynatronics Co., Eagle Forum, Eastman Chemical Company, Economic Development Center, Edwards Lifesciences, Elan Pharmaceuticals, Inc., Electronics for Imaging, Eli Lilly and Company, Ellman Innovations LLC, Enterprise Partners Venture Capital, Evalve, Inc.

Exxon Mobile Corporation, Fallbrook Technologies Inc., FarSounder, Inc. Footnote.com.

Gambro BCT, General Electric, Genomic Health, Inc., Gen-Probe Incorporated, Genzyme, Georgia Biomedical Partnership, Glacier Cross, Inc., GlaxoSmithKline, Glenview State Bank,

Hawaii Science & Technology Council, HealthCare Institute of New Jersey, HeartWare, Inc., Helius, Inc., Henkel Corporation, Hoffman-LaRoche, Inc.

iBIO, Imago Scientific Instruments, Impulse Dynamics (USA), Inc., Indiana Health Industry Forum, Indiana University, Innovation Alliance, Institute of Electrical and Electronics Engineers (IEEE)-USA, InterDigital Communications Corporation, Intermolecular, Inc., International Association of Professional and Technical Engineers (IFPTE), Invitrogen Corporation, Iowa Biotechnology Association, ISTA Pharmaceuticals, Jazz Pharmaceuticals, Inc., Johnson & Johnson, KansasBio, Leadership Institute, Let Freedom Ring, Life Science Alley, LITMUS, LLC.

LSI Corporation, Lux Capital Management, Luxul Corporation, Maryland Taxpayers' Association.

Masimo Corporation, Massachusetts Biotechnology Council, Massachusetts Medical Device Industry Council (MassMEDIC), Maxygen Inc., MDMA—Medical Device Manufacturer's Association, Medical College of Wisconsin, MedImmune, Inc., Medtronic, Merck, Metabasis Therapeutics, Inc., Metabolex, Inc., Metacure (USA), Inc., MGI Pharma Inc., MichBio, Michigan Small Tech Association, Michigan State University, Millennium Pharmaceuticals, Inc., Milliken & Company, Mohr, Davidow Ventures, Monsanto Company.

NAM—National Association of Manufacturers, NanoBioMagnetics, Inc. (NBMI), NanoBusiness Alliance, NanoInk, Inc., NanoIntegris, Inc., Nanomix, Inc., Nanophase Technologies, NanoProducts Corporation, Nanosys, Inc., Nantero, Inc., National Center for Public Policy Research, Nektar Therapeutics, Neoconix, Inc., Neuro Resource Group (NRG), Neuronetics, Inc., NeuroPace, New England Innovation Alliance, New Hampshire Biotechnology Council, New Hampshire Department of Economic Development, New Mexico Biotechnical and Biomedical Association, New York Biotechnology Association.

Norseman Group, North Carolina Biosciences Organization, North Carolina State University, North Dakota State University, Northrop Grumman Corporation, Northwestern University, Novartis, Novartis Corporation, Novasys Medical Inc., NovoNordisk, NUCRYST Pharmaceuticals, Inc. NuVasive, Inc., Nuvelo, Inc., Ohio State University, OpenCEL, LLC. Palmetto Biotechnology Alliance, Patent Cafe.com, Inc., Patent Office Professional Association, Pennsylvania Bio, Pennsylvania State University, PepsiCo, Inc., Pfizer, PhRMA—

Pharmaceutical Research and Manufacturers of America, Physical Sciences Inc., PointeCast Corporation, Power Innovations International, PowerMetal Technologies, Inc., Preformed Line Products, Procter & Gamble, Professional Inventors' Alliance, ProRhythm, Inc., Purdue University, Pure Plushy Inc., QUALCOMM Inc.

QuantumSphere, Inc., QuesTek Innovations LLC, Radiant Medical, Inc., Rensselaer Polytechnic Institute, Research Triangle Park, NC, Retractable Technologies, Inc., RightMarch.com, S & C Electric Company, Salix Pharmaceuticals, Inc., SanDisk Corporation, Sangamo BioSciences, Inc., Semprius, Inc., Small Business Association of Michigan—Economic Development Center, Small Business Exporters Association of the United States.

Small Business Technology Council, Smart Bomb Interactive, Smile Reminder, SmoothShapes, Inc., Solera Networks, South Dakota Biotech Association, Southern California Biomedical Council, Spiration, Inc., Standup Bed Company, State of New Hampshire Department of Resources and Economic Development, Stella Group, Ltd., StemCells, SurgiQuest, Inc.

Symyx Technologies, Inc., Tech Council of Maryland/MdBio, Technology Patents & Licensing, Tennessee Biotechnology Association, Tessera, Inc., Texas A&M, Texas Healthcare, Texas Instruments, Three Arch Partners.

United Technologies, University of California System, University of Illinois, University of Iowa, University of Maryland, University of Michigan, University of Minnesota, University of New Hampshire, University of North Carolina System, University of Rochester, University of Utah, University of Wisconsin-Madison, US Business and Industry Council, US Council for International Business.

USGI Medical, USW—United Steelworkers, Vanderbilt University and Medical Center, Virent Energy Systems, Inc., Virginia Biotechnology Association, Visidyne, Inc., VisionCare Opthamalogic Technologies, Inc., Washington Biotechnology & Biomedical Association, Washington University, WaveRx, Inc.

Wayne State University, Wescor, Inc., Weyerhaeuser, Wilson Sonsini Goodrich &

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Rosati, Wisconsin Alumni Research Foundation (WARF), Wisconsin Biotechnology and Medical Device Association, Wyeth.

And we know there are many, many people who have strong reservations, even by the wording of what we have heard from the other side of this debate, that there are people who have serious questions, even though they may not officially be in opposition.

Well, if there are so many serious questions around that we have amendments like that of Mr. Pence and the other amendments that we've heard, we shouldn't be having this bill on this floor at this time, much less muzzling the opposition so we have only an hour to debate on the central issues of the bill. Instead, we have had to argue our case hamper-scamper here as opposition to the amendment to the bill only to get time to offer a few objections. That's not the way this system is supposed to work. And it's not supposed to work that we bring bills to the floor and ask Members to vote on it so that we can fix it later on. That should raise flags for everybody that there is something to fix in this bill. And the fact that this bill has been brought to the floor very quickly and that debate has been limited, that alone should cause people to want to vote "no" on H.R. 1908 and send it back to committee and see if we can have a bill that doesn't require Mr. Pence to be up here.

And also this, before I yield to Ms. Kaptur: Yes, there are problems with the Patent Office, as has been described. Bad patents are being issued. This bill does nothing to cure that. What this bill does is use that as a cover to fundamentally change the rules of the game that are going to help those huge corporations that Ms. Kaptur talked about, as well as the overseas people who are waiting to steal our technology.

We can correct those problems, and I would support that. You bring a bill to the floor that gives more money to the patent examiners, more training to the patent examiners, keeps the money that goes into the Patent Office there to improve the system, you're going to have lots of support. But don't use the imperfections of the Patent Office as an excuse to change the fundamental protections for American inventors.

Mr. Chairman, I yield 2 minutes to the gentlewoman from Ohio (Ms. Kaptur).

Ms. KAPTUR. I thank the gentleman for yielding and rise in opposition to the amendment.

I wanted to point out that in every year when patents are granted the very small number of lawsuits that are generated as a result of that. For example, in the year 2006, there were 183,000 patents granted; 1.47 percent actually ended up in some type of lawsuit, and most of those lawsuits were settled before trial.

The current system is working very well for the majority of inventors as lawsuits have represented that smaller percentage going back as far as the eye can see.

I would like to place on the Record those facts that, in fact, lawsuits are a minuscule percent of all patents reviewed and granted. And I would also like to place on the Record from the United States Court of Appeals the following letter from the chief judge who states that the present bill creates a new type of macroeconomic analysis that would be extremely costly and time consuming, far more so than current application of the well-settled apportionment law.

TABLE FOUR--PATENTS GRANTED AND LAWSUITS COMMENCED
[FY 1992-2006]

Fiscal Year	Patents Granted	Lawsuits as Patents Suits Commenced	a Percent of Patents Granted
2006.....	183,000	2,700	1.47
2005.....	165,000	2,720	1.64
2004.....	187,000	3,075	1.64
2003.....	190,000	2,814	1.48
2002.....	177,000	2,700	1.52
2001.....	188,000	2,520	1.32
2000.....	182,000	2,484	1.36
1999.....	159,000	2,318	1.45
1998.....	155,000	2,218	1.43
1997.....	123,000	2,112	1.71
1996.....	117,000	1,840	1.57
1995.....	114,000	1,723	1.51
1994.....	113,000	1,617	1.43
1993.....	107,000	1,553	1.45

Sources: Data from the patents Granted is from USPTO Annual Reports.

Data for lawsuits commence is from the Federal Judicial Statistics. The lawsuit data is as of March 31 of each year. The patents granted data is as of the Federal Fiscal Year. While the data is skewed by the different times used for the reporting years, a long-term view is created for this 14-year period. The author calculated the ratios.

United States Court of Appeals
for the Federal Circuit,

Washington, DC, June 7, 2007.

Shana A. Winters,
Rayburn House Office Building,
Washington, DC.

Dear Ms. Winters: Thank you for your telephone call yesterday afternoon concerning determining damages in patent infringement cases under the reasonable royalty language of the Patent Act. As promised, I have since reviewed some of the Federal Circuit decisions that address aspects of this subject, and I have also identified and attached an article that should help you more than reading individual opinions. Significantly, it was written by a seasoned patent litigator with direct experience in how such damage theories are actually litigated in court. Lawyers employed by particular companies, like most law professors, have little or no experience from that perspective. Mr. Rooklidge, by contrast, has several decades of litigation experience in precisely these types of cases.

His article was written since late April and may be the most current available on the subject. It is certainly clear and comprehensive. In addition, it references some of the testimony before your subcommittee in April, as well as the specific language of the pending bills.

The footnotes cite other useful sources you may wish to consult, including authoritative treatises by practitioner Robert Harmon and Professor Donald Chisum, and several recent articles on the point. They provide further background, which you may find helpful.

If the House Judiciary Committee intends to continue the damages law as currently practiced, after decades of refinement in individual court decisions, it need do nothing. This body of law is highly stable and well understood by litigators as well as judges. If, on the other hand, the Congress wishes to radically change the law, I suggest that a far more carefully-crafted and lengthy provision would be required. Like the body of caselaw, such a provision would need to account for many different types of circumstances, which the present provision does not.

In my opinion, plucking limited language out of the long list of factors summarized in the Georgia Pacific case that may be relevant in various cases is unsatisfactory, particularly when cast as a rigid requirement imposed on the court, and required in every case, rather than an assignment of a burden of proof under a clear standard of proof imposed on the party that should bear that particular burden, and that would only arise in a rare case. As I said, under current caselaw, the burden of apportioning the base for reasonable royalties falls on the infringer, while

the burden for application of the Entire Market Value Rule falls on the patentee. In most cases, apportionment is not an issue requiring analysis.

Further, as I also attempted to explain, the present bills require a new, kind of macroeconomic analysis that would be extremely costly and time consuming, far more so than current application of the well-settled apportionment law. Resulting additional court delays would be severe, as would additional attorneys' fees and costs. Many view current delays and costs as intolerable.

In short, the current provision has the following shortcomings. First, it requires a massive damages trial in every case and does so without an assignment of burden of proof on the proper party and articulation of a clear standard of proof associated with that burden. Second, the analysis required is vastly more complicated than that done under current law. Third, the meaning of various phrases in the bills would be litigated for many years creating an intervening period of great uncertainty that would discourage settlements of disputes without litigation or at least prior to lengthy and expensive trials.

I appreciate your call and your effort to better understand the gap between current law and practice, and what the bills would require. I am of course available if you need further assistance in understanding the reality behind my May letter to the Chairman.

Sincerely,

Paul R. Michel, Chief Judge.

This gentleman's amendment, as well as the underlying bill, would result in additional court delays that could be severe and would probably result in additional attorney fees and costs, and those additional costs are intolerable. We are actually charging more for inventors to maintain their inventions. We tried to stop that several years ago and were unsuccessful in doing that.

And now we are, in this bill, creating a more complicated legal system that is going to cost them more money. We have a system that works. We have the best patent system in the world. We have the most innovation in the world.

I hope this bill goes down to defeat so we can make it much, much better. We had a system where we protect the inventor if they wish to opt out of having their intellectual property put up on the Internet, they have the right to do that. This bill takes that away. It is one of the most egregious parts of this bill that should be fixed.

I thank the gentleman for yielding.

Mr. ROHRABACHER. How much more time is left in this debate?

[[Page H10306]]

The Acting CHAIRMAN. The gentleman from California now has 30 seconds remaining. The time of the gentleman from Indiana has expired.

Mr. ROHRABACHER. I would yield myself the right to close, and this is the final, I guess, arguments in this debate.

We can correct the flaws at the Patent Office. We do not need to destroy the American patent system as it has functioned for 200 years. We do not need to make all of our inventors vulnerable to foreign theft so foreigners and large corporations can steal their creative genius and use it against us. That is what this bill does. It is being foisted off on us. The process has been flawed. As we can see, we have had limited debate. They brought this to the floor admitting there are flaws in the bill. We need to defeat the Steal American Technologies Act and go back and work on it so we can make real reform rather than a bill that is going to help America's economic adversaries.

I would ask my colleagues to join me in supporting the little guy against the big guy and demonstrating that that is the rules of the game here.

The Acting CHAIRMAN. The question is on the amendment offered by the gentleman from Indiana (Mr. Pence).

The amendment was agreed to.

Mr. ROHRABACHER. Mr. Chairman, I ask unanimous consent to withdraw my requests for recorded votes on the amendments numbered 2, 3 and 4, to the end that each such amendment stand disposed of by the voice vote thereon.

The Acting CHAIRMAN. Is there objection to the request of the gentleman from California? There was no objection.

Amendment No. 1 Offered by Mr. Conyers

The Acting CHAIRMAN. Pursuant to clause 6 of rule XVIII, proceedings will now resume on the amendment on which further proceedings were postponed.

The unfinished business is the demand for a recorded vote on the amendment offered by the gentleman from Michigan (Mr. Conyers) on which further proceedings were postponed and on which the noes prevailed by voice vote.

The Clerk will redesignate the amendment.

The Clerk redesignated the amendment.

THE PATENT REFORM ACT OF 2007 (Senate Report 110-259)

Calendar No. 563 110th Congress Report
SENATE 2d Session 110-259

January 24, 2008.--Ordered to be printed

Mr. Leahy, from the Committee on the Judiciary, submitted the following R E P O R T together with ADDITIONAL AND MINORITY VIEWS [To accompany S. 1145]

The Committee on the Judiciary, to which was referred the bill (S. 1145), to amend title 35, United States Code, to provide for patent reform, having considered the same, reports favorably thereon with an amendment and recommends that the bill (as amended) do pass.

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I. Background and Purpose of the Patent Reform Act of 2007

PURPOSE AND SUMMARY OF LEGISLATION

Purpose

The Constitution explicitly grants Congress the power to “promote the progress of science and useful arts, by securing for limited times to . . . inventors the exclusive right to their respective . . . discoveries.”\1\ Congress has responded by authorizing patents to issue to inventors of new and useful inventions or improvements on inventions.\2\ The patent law thus accomplishes two objectives, consistent with the authorization granted by the Constitution: first, it encourages inventors by granting them limited, but exclusive rights to their inventions; second, in exchange for the grant of those exclusive rights, the patent law requires disclosure of the invention and terminates the monopoly after a period of years.\3\ This disclosure and limited time benefits both society and future inventors by making the details of the invention available to the public immediately, and the right to work that invention available to the public after the expiration of 20 years from the date the patent application was filed.

\1\U.S. Const. art. 1, Sec. 8.

\2\See 35 U.S.C. Sec. 101.

\3\See Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 68-97 (2006) (statement of Nathan P. Myhrvold, Chief Executive Officer, Intellectual Ventures); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 112-114 (2005) (statement of Dean Kamen, President, DEKA Research and Development Corp.).

Congress has not enacted comprehensive patent law reform in more than 50 years.\4\ The object of the patent law today must remain true to the constitutional command, but its form needs to change, both to correct flaws in the system that have become unbearable, and to accommodate changes in the economy and the litigation practices in the patent realm. The need to update our patent laws has been meticulously documented in six hearings before the Senate Judiciary Committee, in addition to reports written by the Federal Trade Commission and the National Academy of Sciences,\5\ hearings before the House of Representatives Judiciary Committee's Subcommittee on the Internet, Intellectual Property, and the Courts, and a plethora of academic commentary.\6\

\4\The last major revision of the patent laws was the Patent Act of 1952, P.L. 82-593.

\5\The National Academy of Science (NAS) and the Federal Trade Commission (FTC) conducted multi-year studies on the patent system and its need for reform. See Committee on Intellectual Prop. Rights, National Research Council, A Patent System for the 21st Century (2004) (hereinafter "NAS Report"); and Federal Trade Comm'n, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy (2003) (hereinafter "FTC Report").

\6\See, e.g., Mark A. Lemley & Carl Shapiro, Patent Holdup and Royalty Stacking, 85 Tex. L. Rev. 1991 (2007); Donald S. Chisum, Reforming Patent Law Reform, 4 J. Marshall Rev. Intell. Prop. L. 336 (2005); Gerald J. Mossinghoff, The First-to-Invent Rule in the U.S. Patent System Has Provided No Advantage to Small Entities, 87 JPTOS 514 (2005); Joseph Farrell & Robert P. Merges, Incentives to Challenge and Defend Patents: Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help, 19 Berkeley Tech. L.J. 943, 958 (2004); see also Adam B. Jaffe & Josh Lerner, Innovation and Its Discontents: How Our Broken Patent System is Endangering Innovation and Progress, and What to Do About It (2004); Kevin G. Rivette & David Kline, Rembrandts in the Attic, Unlocking the Hidden Value of Patents (2000).

The growing impetus towards modernizing and improving the patent system has found expression not only in Congress, but in the other branches of government as well, with the Supreme Court taking up an ever-increasing number of patent cases,\7\ and the United States Patent and Trademark Office (USPTO) addressing itself to regulatory changes through rulemaking. \8\ The voices heard in this debate are too numerous to list, but include representatives from all those who use, administer, study, teach, benefit from, report on, or are affected by the patent system: small inventors, academics, universities, government agencies, corporations, non-profit organizations, industry organizations, bar associations, and members of the general public. The proposed changes have been far-reaching and hardly uniform, but they

have focused Congressional attention on three major areas of concern: (i) appropriate procedures for prosecuting, and standards for allowing, patents; (ii) increasing rates, costs, and uncertainty in patent litigation,\9\ and (iii) inconsistencies between the U.S. patent system and the other major patent systems throughout the industrialized world which disadvantage U.S. patent holders.

\7\See Microsoft Corp. v. AT&T Corp., 127 S. Ct. 1746 (2007) (holding copying computer software overseas does not constitute infringement under 35 U.S.C. Sec. 271(f)); KSR Int'l Co. v. Teleflex, Inc., 127 S. Ct. 1727 (2007) (rejecting the United States Court of Appeals for the Federal Circuit's "teaching-suggestion-motivation" test for obviousness, and reaffirming that the four factor inquiry set forth in Graham v. John Deere applied); eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006) (rejecting the Federal Circuit's test for determining permanent injunctions in patent cases, and explaining the traditional four part equitable test applied). In each of these cases, the Supreme Court reversed the Federal Circuit and changed the legal standard that the Federal Circuit had been applying. In addition, while the Committee Report was being prepared, the Federal Circuit decided two cases rejecting claims as unpatentable under Sec. 101 of title 35. See In re Comiskey, 499 F.3d 1365 (Fed. Cir. 2007) and In re Nuijten, 500 F.3d 1346 (Fed. Cir. 2007). In Comiskey, the Federal Circuit significantly restricted the patentability of business methods, severely narrowing the Federal Circuit's controversial 1998 decision in State Street Bank. See State Street Bank & Trust Co. v. Signature Fin. Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998), cert denied, 525 U.S. 1093 (1999).

\8\Changes to Practice for Continuing Applications, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications; Final Rule, 72 Fed. Reg. 46716 (Aug. 21, 2007).

\9\The NAS reported that the number of patent litigations doubled between 1988 and 2001, from 1200 to nearly 2400. See NAS Report at 32. See also PricewaterhouseCoopers, 2006 Patent and Trademark Damages Study (2006) at 3 ("[I]n the past 15 years, the number of patent infringement cases filed increased every year, from 1,171 in 1991 to 3,075 in 2004.")

First, questions have been raised regarding whether the current scope of what is patentable is too broad, and whether the current standard for obtaining a patent is too low in practice. Many have questioned whether the current USPTO patent examination system is capable of handling the growing number,\10\ and increased complexity, of patent applications. In particular, questions have been repeatedly raised about how--and how much--the USPTO is funded, and about whether patent fees reflect the work necessary to ensure the issuance of high quality patents. A related concern focuses on whether patent applicants are bearing their burden of responsibility in searching the current state of the art and preparing and filing high quality applications.

\10\USPTO annual reports indicate that in fiscal year 1952 (when the current patent statute was enacted), the USPTO received approximately 60,000 patent applications. In stark contrast, last year (FY 2006) the USPTO received over 440,000 applications, more than seven times the number in 1952. In addition, the 2006 filings increased 8% from the prior year. Although these numbers are a testament to the tremendous innovation in our country, they also raise the question of whether the USPTO is equipped to handle such large numbers of applications.

Second, in recent years the cost and uncertainty of patent litigation has escalated, leading many to believe that it is an unbearable drag on the innovation that the patent system is supposed to foster. Patent holders can often sue an alleged infringer anywhere they wish in the United States. They may allege damages that are not always commensurate with the value of their inventions, and then often argue that these sums should be tripled based on alleged acts of willful infringement by the accused infringer. There are also troubling, plaintiff- focused litigation concerns, including that the doctrine of inequitable conduct needs improvements and codification.\11\ Patent litigations typically take several years to complete, if appealed may be remanded more than once, and can cost several million dollars.\12\ In addition, litigation concerns can encourage unreasonable posturing during licensing negotiations, as well as premature settlements simply to avoid the high cost and uncertainty of patent litigation. Moreover, currently, there is no viable, inexpensive, quick administrative alternative for resolving patent validity issues.

\11\See, e.g., Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 63 (2006) (statement of Philip S. Johnson, Chief Patent Counsel, Johnson & Johnson); Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 30 (2005) (statement of David Beier, Senior Vice President of Global Government Affairs, Amgen); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 45-71 (2005) (statement of Robert A. Armitage, Senior Vice President and General Patent Counsel, Eli Lilly and Company); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 137-145 (2005) (statement of Richard C. Levin, President, Yale University). However, the testimony was not uniform as to whether inequitable conduct needed to be reformed, and if so how to do so. See, e.g., Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 86-102 (2005) (statement of Christine Siwik, Partner, Rakoczy Molino Mazzochi Siwik LLP, on behalf of Barr Laboratories, Inc.); Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary, 109th Cong. 157-170 (2005) (statement of Mark Lemley, Professor, Stanford Law School).

\12\Where more than $25 million is at stake, the median litigation cost is $4 million for each party. See NAS Report at 38 (citing American Intellectual Property Law Association survey results). See also AIPLA Report of the Economic Survey 2007 at 25-26 (noting that the figure is now $5 million for such cases).

Third, because business and competition are increasingly global, many patent applicants filing in the United States often seek patents in other countries for their inventions as well. Yet the United States' patent system differs from every other patent system in the world in one major respect--it awards patents to the "first to invent," while every other patent system uses a "first to file" rule.\13\ As a result, U.S. patent applicants who also file abroad are forced to navigate through two different patent filing systems, adding cost and uncertainty to their package of patent rights.

\13\See R. Carl Moy, 2 Moy's Walker on Patents Sec. 8:36 (4th ed. 2007); Gerald J. Mossinghoff, The U.S. First-to-Invent System Has Provided No Advantages to Small Entities, 84 JPTOS 425 (2002).

The purpose of the Patent Reform Act of 2007, as reported by the Senate Judiciary Committee, is to ensure that the patent system in the 21st century accurately reflects the 18th century Constitutional imperative while ensuring that it does not unduly hinder innovation. Congress must promote innovation through the enticement to inventors of temporally limited monopolies on their inventions, and it must do so for the ultimate benefit of the public. The legislation is designed to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs. If the United States is to maintain its competitive edge in the global economy, it needs a system that will support and reward all innovators with high quality patents. The time has come for Congress to reconsider the 50 year old patent statute and how it is currently being applied. The Committee has heard from numerous interested parties and, given the complex nature of patent law as well as the often conflicting interests involved, has tried to consider all of those concerns and produce a balanced set of changes that will move the patent system into the 21st century. Moreover, and in response to various concerns raised before the Committee, the bill as originally introduced has been significantly modified to reflect a more balanced, modest approach.

Summary of Changes

The Patent Reform Act of 2007 has three primary goals: (i) to improve patent quality and the patent application process; (ii) to improve and clarify several aspects of patent litigation, including the creation of a less expensive, more expeditious administrative alternative to litigating patent validity issues; and (iii) to make the United States' patent system, where it is useful to do so, more consistent with patent systems throughout the rest of the industrialized world.

In general, the numbered sections of the Act do the following:
(1) title the Act the Patent Reform Act of 2007;
(2) change the system to a "first-inventor-to-file" system;
(3) make it simpler for patent applicants to file and prosecute their applications;
(4) codify and clarify the standard for calculating reasonable royalty damage awards, as well as awards for willful infringement;
(5) create a relatively efficient and inexpensive administrative system for resolution of patent validity issues before the USPTO;
(6) establish the Patent Trial and Appeal Board;
(7) provide for eventual publication of all applications and enhance the utility of third parties' submissions of relevant information regarding filed applications;
(8) improve venue in patent cases and provide for appeals of claim construction orders when warranted;
(9) give the USPTO the ability to set its fees;
(10) remove the residency restriction for judges on the United States Court of Appeals for the Federal Circuit;
(11) authorize USPTO to require patent searches with explanations when a patent application is filed;

(12) codify and improve the doctrine of inequitable conduct;
(13) give the Director of the USPTO discretion to accept late filings in certain instances;
(14) limit patent liability for institutions implementing the "Check 21" program;
(15) end USPTO "fee diversion";
(16) make necessary technical amendments; and
(17) set the effective date of the Act.

SECTION 1: SHORT TITLE; TABLE OF CONTENTS

This section provides that the Act may be cited as the "Patent Reform Act of 2007." It also provides a table of contents for the Act.

SECTION 2: RIGHT OF THE FIRST INVENTOR TO FILE

First inventor to file; grace period; and prior art Background

Every industrialized nation other than the United States uses a patent priority system commonly referred to as "first- to-file." In a first-to-file system, when more than one application claiming the same invention is filed, the priority of a right to a patent is given to the earlier-filed application. The United States, by contrast, currently uses a "first-to-invent" system, in which priority is established through a proceeding to determine which applicant actually invented the claimed invention first. Differences between the two systems arise in large part from the date that is most relevant to each respective system. In a first-to-file system, the filing date of the application is most relevant;\14\ the filing date of an application is an objective date, simple to determine, for it is listed on the face of the patent. In contrast, in a first-to-invent system, the date the invention claimed in the application was actually invented is the determinative date. Unlike the objective date of filing, the date someone invents something is often uncertain, and, when disputed, typically requires corroborating evidence as part of an adjudication.

\14\Wherever the term "filing date" is used herein, it is meant to also include, where appropriate, the effective filing date, i.e., the earliest date the claim in an application claims priority.

There are three significant, practical differences between the two systems. The first concerns the rare instance in which two different people file patent applications for the same invention. In a first-to-file system, the application with the earlier filing date prevails and will be awarded the patent, if one issues. In the first-to-invent system, a lengthy, complex and costly administrative proceeding (called an "interference proceeding") must be conducted to determine who actually invented first.\15\ Interference proceedings can take years to complete (even if there is no appeal to the United States Court of Appeals for the Federal Circuit), cost hundreds of thousands of dollars, and require extensive discovery.\16\ In addition, since it is always possible an applicant could be involved in an interference proceeding, U.S. patent holders must maintain extensive recording and document retention systems in case they are later required to prove the very day they invented the claimed invention.

\15\See 35 U.S.C. Sec. 135.

\16\See, e.g., Robert W. Pritchard, The Future is Now--The Case for Patent Harmonization, 20 N.C. J. Int'l L. & Com. Reg. 291, 313 (1995).

The second difference involves prior art. A patent will not issue if the invention is not new,\17\ or if it would have been obvious to someone in the relevant area of technology (commonly referred to as "a person of ordinary skill in the art").\18\ A patent issuing office will examine all prior art--that is, all relevant information that existed before the patented invention--to determine whether an invention is indeed new and not obvious. Traditionally, the most common form of prior art has been other patents and printed publications. In the first- to-file system, prior art includes all art that exists prior to the filing date--again, an objective inquiry. In contrast, in a first-to-invent system, prior art is measured from the more uncertain date of invention.\19\

\17\35 U.S.C. Sec. 102.

\18\35 U.S.C. Sec. 103.

\19\Even in the first-to-invent system, the filing date is significant. See, e.g., 35 U.S.C. Sec. 102(b). In addition, the filing date is often the date used until it becomes necessary to prove an earlier date of invention. However, in a first-to-invent system, the date of invention may ultimately be relied on by the patentee in his attempt to prove he is entitled to a patent. See, e.g., 35 U.S.C. Sec. 102 (a) and (g).

Third, in some first-to-file systems, prior art can include the inventor's own disclosure of his invention prior to the filing date of his application. Such systems typically do not provide the inventor any grace period during which time he is allowed to publish his invention without fear of it later being used against him as prior art. That is, if an inventor publishes the invention in an academic journal, that publication may act as prior art and bar the inventor's own later-filed application. Thus, inventors in first-to-file systems must generally keep their inventions secret prior to filing applications for them, thereby sacrificing a significant part of one of the benefits of the patent system--disclosure of inventions. Although some first-to-file systems do provide the inventor some sort of grace period, others do not.\20\ In contrast, the United States' first-to-invent system provides the inventor a grace period of one year, during which an inventor's prior disclosure of the invention cannot be used as prior art against the inventor's application.\21\

\20\Countries with first-to-file systems that also provide for some form of grace period include Japan (6 months), Canada (1 year) and Australia (1 year). In contrast, the European Patent Office (EPO) has a first-to-file system with no grace period (sometimes referred to as an "absolute novelty" requirement). See John A. O'Brien & Carl B. Wischhusen, Fundamentals of Patent Prosecution 2007: A Boot Camp for Claim Drafting & Amendment Writing, Taking Invention Disclosures, 906 PLI/Pat 9, 37 (2007); Michael S. Mireles, Jr., States As Innovation System Laboratories: California, Patents, And Stem Cell Technology, 28 Cardozo L. Rev. 1133, 1174 (2006).

\21\See 35 U.S.C. 102(b); see also R. Carl Moy, 2 Moy's Walker on Patents Sec. 8:199 (4th ed. 2007).

The Committee heard from universities and small inventors, in particular, about the importance of maintaining that grace period in our system.\22\ They argued that the grace period affords the necessary time to prepare and file applications, and in some instances, to obtain the necessary funding that enables the inventor to prepare adequately the application. In addition, the grace

period benefits the public by encouraging early disclosure of new inventions, regardless of whether an application may later be filed for a patent on it.

\22\See, e.g., Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary, 109th Cong. 74-75 (2005) (statement of Charles E. Phelps, Provost, University of Rochester, on behalf of the Association of American Universities); Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary, 109th Cong. 89-105 (2005) (statement of Carl Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation (WARF)); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary, 109th Cong. 146-155 (2005) (statement of William Parker, Diffraction, Ltd.).

The first-to-file system is used in every patent system, other than the United States,\23\ because it has the advantages of simplicity, efficiency and predictability. A first-to-file system avoids costly interference proceedings, provides better notice to the public, simplifies the prior art scheme that may preclude a patent from issuing, and provides more certainty to the patent system. In addition, a first-to-file system encourages the prompt filing of patent applications.

\23\The Philippines, which was the only other country in the world to have a first-to-invent system, switched to a first-to-file system almost ten years ago. See Gerald J. Mossinghoff, The U.S. First-to- Invent System Has Provided No Advantages to Small Entities, 84 JPTOS 425 n.1 (2002).

Numerous organizations, institutions, and companies have advocated the U.S. adopt a first-to-file system similar to those used in the rest of the world.\24\ The NAS made a similar recommendation after an extensive study of the patent system.\25\ When the United States' patent system was first adopted, inventors did not typically file in other countries.

It is now common for inventors and companies to file for protection in several countries at the same time.\26\ Thus United States applicants, who also want to file abroad, are forced to follow and comply with two different filing systems.

Maintaining a filing system so different from the rest of the world disadvantages United States' applicants, the majority of which also file in other countries.\27\ A change is long overdue.\28\

\24\See, e.g., Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 64 (2005) (statement of Gerald J. Mossinghoff, Former Assistant Secretary of Commerce and Commissioner of Patents and Trademarks); Perspectives on Patents:

Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 45-47 (2005) (statement of Q. Todd Dickinson, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office); Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 132-153 (2005) (statement of Jeffrey P. Kushan, Partner, Sidley Austin Brown & Wood, LLP); Patent

Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong.

157-170 (2005) (statement of Mark A. Lemley, Professor, Stanford Law School); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 45-71 (2005) (statement of Robert A. Armitage, Senior Vice President and General Patent Counsel, Eli Lilly and Company); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 115-134 (2005) (statement of Michael K. Kirk, Executive Director, American Intellectual Property Law Association).

\25\See NAS Report at 124; see also Perspectives on Patents:

Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 137-145 (2005) (statement of Richard C. Levin, President, Yale University).

\26\See Perspectives on Patents: Harmonization and Other Matters:

Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 61 (2005) (statement of Gerald J. Monssinghoff, Former Assistant Secretary of Commerce and Commissioner of Patents and Trademarks).

\27\See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 137-145 (2005) (statement of Richard C. Levin, President, Yale University, and Mark B. Meyers, Visiting Executive Professor, Management Department at the Wharton Business School), estimating that it costs as much as $750,000 to $1 million to obtain worldwide patent protection on an important invention, and that the lack of harmonization regarding filing systems adds unnecessary cost and delay.

\28\The NAS recommended changing the U.S. to a first-to-file system, while maintaining a grace period. See NAS Report at 124-27.

Discussion of changes

Section 2 of the Patent Reform Act of 2007, drawing on the best aspects of the two existing systems, creates a new “first-inventor-to-file” system. This new system provides patent applicants in the United States the efficiency benefits of the first-to-file systems used in the rest of the world. The new system continues, however, to provide inventors the benefit of the one-year grace period. As part of the transition to a simpler, more efficient first-inventor-to-file system, this section eliminates costly, complex interference proceedings, because priority will be based on the first application. A new administrative proceeding--called a “derivation” proceeding-- is created to ensure that the first person to file the application is actually a true inventor. Section 2 also simplifies how prior art is determined, provides more certainty, and reduces the cost associated with filing and litigating patents.

More specifically, Section 2 makes the following improvements. First, Section 2 moves the U.S. system much closer to a first-to-file system by making the filing date that which is most relevant in determining whether an application is patentable. In addition, Section 2 eliminates costly,

complex interference proceedings since priority fights--who invented first--are no longer relevant. However, the new USPTO derivation proceeding is created to ensure that the first person to file the application is also actually a true inventor; someone who has not invented something will not be able to file a patent for the invention. If a dispute arises as to which of two applicants is a true inventor (as opposed to who invented it first), it will be resolved through an administrative proceeding by the Patent Board.

Second, Section 2 maintains a one-year grace period for U.S. applicants. Applicants' own publication or disclosure that occurs within one year prior to filing will not act as prior art against their applications. Similarly, disclosure by others during that time based on information obtained (directly or indirectly) from the inventor will not constitute prior art.

This one-year grace period should continue to give U.S. applicants the time they need to prepare and file their applications.

Third, this section also, and necessarily, modifies the prior art sections of the patent law. Prior art will be measured from the filing date of the application and will typically include all art that publicly exists prior to the filing date, other than disclosures by the inventor within one year of filing. Prior art also will no longer have any geographic limitations; thus in section 102 the "in this country" limitation as applied to "public use" and "on sale" is removed, and the phrase "available to the public" is added to clarify the broad scope of relevant prior art, as well as to emphasize the fact that it must be publicly available. Prior art based on earlier-filed United States applications is maintained.\29\

\29\Compare current 35 U.S.C. Sec. 102(e) with new 35 U.S.C. Sec. 102(a)(2).

Sections (and subsections) of the existing statute are renumbered, modified, or deleted consistent with converting to a first-inventor-to-file system. Finally, the intent behind the CREATE Act\30\ to promote joint research activities is preserved by including a prior art exception for subject matter invented by parties to a joint research agreement.

\30\The CREATE Act refers to the Cooperative Research and Technology Enhancement Act of 2004 (P.L. 108-453), passed by the 108th Congress. The relevant section is moved from Sec. 103 to Sec. 102 of title 35 and shall be administered in a manner consistent with the CREATE Act.

SECTION 3: INVENTOR'S OATH OR DECLARATION

Background

The U.S. patent system, when first adopted in 1790, contemplated that individual inventors would file their own patent applications, or would have a patent practitioner do so on their own behalf. It has become increasingly common for patent applications to be assigned to corporate entities, most commonly the employer of the inventor.\31\ In fact, many employment contracts require employees to assign their inventions to their employer.\32\

\31\See John R. Allison & Mark A. Lemley, The Growing Complexity of the United States Patent System, 82 B.U.L. Rev. 77, 97 (2002) (study showing that approximately 85% of the

patents issued between 1996-98 were assigned by inventors to corporations, an increase from 79% during the period between 1976-78).

\32\See Jerry C. Liu, Overview of Patent Ownership Considerations in Joint Technology Development, 2005 Syracuse Sci. & Tech. L. Rep. 1 (2005).

Current law still reflects the antiquated notion that it is the inventor who files the application, not the company- assignee. For example, every inventor must sign an oath as part of the patent application stating that the inventor believes he or she is the true inventor of the invention claimed in the application.\33\ By the time an application is eventually filed, however, the applicant filing as an assignee may have difficulty locating and obtaining every inventor's signature for the statutorily required oath. Although the USPTO has adopted certain regulations to allow filing of an application when the inventor's signature is unobtainable,\34\ many have advocated that the statute be modernized to facilitate the filing of applications by assignees.\35\

\33\35 U.S.C. Sec. 115.

\34\See 37 C.F.R. Sec. 1.47 (permits an applicant to petition the Director of the USPTO to have the application accepted without every inventor's signature in limited circumstances, e.g., where the inventor cannot be found or refuses to participate in the application).

\35\See Perspectives on Patents: Harmonization and Other Matters:

Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 31 (2005) (statement of David Beier,

Senior Vice President of Global Government Affairs, Amgen).

Discussion of changes

Section 3 of the Act updates the patent system by facilitating the process by which an assignee may file and prosecute patent applications. It provides similar flexibility for a person to whom the inventor is obligated to assign, but has not assigned, rights to the invention (the "obligated assignee").

Section 115 of title 35 is amended to allow a substitute statement to be submitted in lieu of an inventor's oath where either the inventor is (i) unable to do so, or (ii) is both unwilling to do so and under an obligation to assign the invention. If an error is discovered, the statement may be later corrected. A savings clause is included to prevent an invalidity or unenforceability challenge to the patent based on failure to comply with these requirements, provided any error has been remedied. Willful false statements may be punishable, however, under federal criminal laws.\36\

\36\See 18 U.S.C. Sec. 1001.

Section 118 is also amended to make it easier for an assignee to file a patent application. The amendment now allows obligated assignees--entities to which the inventor is obligated to assign the application--to file applications as well. It also allows a person who has a sufficient

proprietary interest in the invention to file an application to preserve the person's rights and those of the inventor.

SECTION. 4: RIGHT OF THE INVENTOR TO OBTAIN DAMAGES Reasonable Royalty Background Patent holders are granted the right to exclude others from making, using, selling and importing their patented inventions.\37\ When another party, without the inventor's permission, commits one of these acts, or actively induces such act, that party infringes the patent.\38\ The remedies for infringement include an injunction\39\ and damages. Damages are intended to compensate the patent holder for the infringement of patent rights; absent some egregious circumstances, damages are not meant to be punitive or excessive in nature.\40\

\37\35 U.S.C. Sec. 271(a) provides: "Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States, or imports into the United States any patented invention during the term of the patent therefore, infringes the patent."

\38\See 35 U.S.C. Sec. 271.

\39\While this legislation was pending, the Supreme Court addressed the proper standard to be applied in determining whether an injunction should issue when patent infringement is found. eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006). Therefore, the Committee refrained from addressing this issue in this Act at this time.

\40\See Donald S. Chisum, Chisum on Patents Sec. 20.01, at 20-7 (2002); Aro Mfg. Co. v. Convertible Top Co., 377 U.S. 476, 507 (1963); Riles v. Shell Exploration and Prod. Co., 298 F.3d 1302, 1312-13 (Fed. Cir. 2002).

The measure for damages for infringement can be either (i) profits lost by the patent holder because of the infringement ("lost profits"), or (ii) "not less than a reasonable royalty."\41\ Patent holders typically opt for a "lost profits" award when the infringers are selling competing products, so that sales of infringing products result in fewer sales of the patent holder's competing product, and hence lost profits on those lost sales. The Committee has heard no concerns expressed with current determinations of lost profits, and therefore the Act does not alter the relevant law.

\41\See Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc).

Historically, the considerable majority of infringement cases were lost profits cases.\42\ However, in recent years it has become more common that the patent holder does not produce a competing product, either because the patent holder is focused on research and development rather than production (which is the case for many small inventors and universities), or because the patent at issue had been purchased, not for the purpose of manufacture, but for the purpose of licensing (or litigation),\43\ or because the infringed patent is so new to the marketplace that there has yet to be any real competition to it.\44\ Thus, an increasing number of cases require the calculation of an appropriate reasonable royalty.\45\

\42\A recent study has shown that reasonable royalties have overtaken lost profits as a measure of damages in patent cases. "Since 2000, reasonable royalties have overtaken lost profits as the

most frequent basis of damage awards in patent cases . . . Since 2000, 65 percent of awarded damages have been based on reasonable royalties and 32 percent have reflected lost profits. This is quite different than in the 1990s, when 24 percent of damage awards were based on reasonable royalties and 73 percent were based on lost profits." See PricewaterhouseCoopers, 2007 Patent and Trademark Damages Study (2007) at 22.

\43\See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 156-166 (2005) (statement of Joel Poppen, Deputy General Counsel, Micron Technologies, Inc.).

\44\See PricewaterhouseCoopers, 2007 Patent and Trademark Damages Study (2007) at 24 (explaining that the one reason royalty awards have overtaken lost profits as a measure of damages is because more patent suits are being brought by entities that own patent rights but that do not have any manufacturing or distribution capabilities).

\45\Although damage awards based on a reasonable royalty are requested more often, the total number of such awards is still fairly low in number. A recent study found that there were only 58 reported cases over a 20 year period (1984-2005) where the decision clearly reflected an award based on a reasonable royalty. See Mark A. Lemley and Carl Shapiro, Patent Holdup and Royalty Stacking, 85 Tex. L. Rev. 1991, 2031 (2007).

Juries are given little useful guidance in calculating that reasonable royalty, which provides the floor for a damages award; often, the jurors are presented with the fifteen "Georgia-Pacific" factors\46\ and some version of the "entire market value" rule, and then left to divine an appropriate award.\47\ The Committee has no intention to degrade the utility of these factors when they are applied appropriately, but they do not represent the entire universe of useful instructions, nor have they been presented to juries with sufficient guidance to ensure appropriate damages awards.

Juries (and perhaps judges) that lack adequate legal guidance to assess the harm to the patent holder caused by patent infringement are the focus of the problem the Committee seeks to address.

\46\George-Pacific was a 1970 district court case, decided by a judge rather than a jury, which was reversed on appeal. The 15 Georgia- Pacific "factors" are: 1. Royalties received by patentee for the licensing of patent in suit, proving or tending to prove an established royalty; 2. Rates paid by licensee for use of other patents comparable to patent in suit; 3. Nature and scope of license, as exclusive or non- exclusive; or as restricted or non-restricted in terms of territory or with respect to whom manufactured product may be sold; 4. Licensor's established policy and marketing program to maintain patent monopoly by not licensing others to use invention or by granting licenses under special conditions designed to preserve monopoly; 5. Commercial relationship between licensor and licensee, such as, whether they compete in same territory in same line of business; or whether they are inventor and promoter; 6. Effect of selling patented specialty in promoting sales of other products of licensee; existing value of invention to licensor as generator of sales of non-patented items; and extent of such derivative or convoyed sales; 7. Duration of patent and term of license; 8. Established profitability of product made under patent; its commercial success; and its current popularity; 9. Utility and advantages of patent property

over old modes or devices, if any, that had been used for working out similar results; 10. Nature of patented invention; character of commercial embodiment of it as owned and produced by licensor; and benefits to those who have used invention; 11. Extent to which infringer has made use of invention; and any evidence probative of value of that use; 12. Portion of profit or of selling price that may be customary in particular business or in comparable businesses to allow for use of invention or analogous invention; 13. Portion of realized profit that should be credited to invention as distinguished from non-patented elements, manufacturing process, business risks, or significant features or improvements added by infringer; 14. Opinion testimony of qualified experts; and 15. Amount that a licensor (such as patentee) and a licensee (such as infringer) would have agreed upon (at time infringement began) if both had been reasonably and voluntarily trying to reach agreement. See Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970).

\47\A recent study has shown that, since 1980, there has been a steady shift from bench trials to jury trials in patent cases, and that juries typically award more than five times the damages awarded in bench trials. See PricewaterhouseCoopers, 2007 Patent and Trademark Damages Study (2007) at 14.

No doubt several alarming cases, which have captured the attention of the public and the Congress, represent the tip of the iceberg; these, not surprisingly, involve out-sized damages awards.\48\ Leaving aside the ultimate, and appropriate, results in these cases, the purpose of this legislation is not to rectify judicial errors, nor is it to alter dramatically the substance of the standards by which a reasonable royalty may be calculated, but rather to bring clarity and guidance to the application of the law of damages.

\48\See The Patent Reform Act of 2007: Hearing Before the Subcomm. on the Courts, the Internet, and Intellectual Prop. of the House Comm. on the Judiciary, 110th Cong. (2007) (statement of John R. Thomas, Professor, Georgetown University Law Center).

Long past is the day in which the typical invention is a sui generis creation; today's patents are often combinations, and many products comprise dozens, if not hundreds or even thousands of patents, and the infringed patent may well be one smaller part of a much larger whole. Once infringement is proven, the patent holder is entitled to compensation for the use of the invention.\49\ But if juries award damages based on the value of the entire product, and not simply on the infringement--a danger exacerbated in some cases by overly expansive claim drafting--then damages awards will be disproportionate to the harm.

\49\See 35 U.S.C. Sec. 284.

The current damage statute is vague and provides little guidance to judges or juries determining the proper damage award, particularly when the award is based on the reasonable royalty standard.\50\ Given that damages are typically just one of many issues in a patent trial, and given that the jury typically has 15 different factors to consider just to determine a reasonable royalty, commentators have correctly questioned whether juries are being properly advised on the evidence and factors to consider when determining damages.\51\

The time has come to give judges, and juries, better guidance on the proper way to calculate a reasonable royalty.

\50\35 U.S.C. Sec. 284 provides in full:

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d) of this title.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

\51\Given the significant reliance by litigants and courts on the 15 Georgia-Pacific factors, several points are worth noting. First, it is difficult for the Committee (let along a lay juror) to recite all 15 of the factors without reading them in print. Second, although there are 15 factors, they tend to fall into only three categories: (i) the royalty rates people have been wiling to pay for this or other similar inventions in the industry; (ii) the significance of the patented invention to the product and to market demand; and (iii) expert testimony as to the value of the patent. See Patent Holdup, 85 Tex. L. Rev. at 2018-19. Third, the district court in Georgia-Pacific explained that the 15 factors were meant to be non-exclusive, and were set out because they were relevant to the facts of that case. Fourth, the damage award in Georgia-Pacific was decided by a judge as part of a bench trial in a lengthy opinion, not by a jury. And finally, despite the valiant (and what appeared to be thorough) analysis by the district court judge, his royalty determination using these factors was reduced on appeal by approximately 30% (i.e., from $50 to $36.65 per thousand square feet of wood). See Georgia-Pacific Corp. v. U.S. Plywood Corp, 446 F.2d at 298-300.

Discussion of changes

This section codifies the analysis the judge and jury should perform in determining an appropriate reasonable royalty. The judge is required to determine, from the liability phase of the trial and from any additional necessary hearings, whether the case is one that falls within the “entire market value” domain, the “marketplace licensing” domain, or outside both those realms. The judge must also identify for the jury all, and only, the relevant factors in determining a reasonable royalty. The Committee envisions a more active, and better documented, role for district courts (with the aid of the parties) in giving their juries guidance on the appropriate law for calculating reasonable royalties.

In new subparagraph (c)(1)(A) of section 284, the entire market value rule may be applied if the patented invention’s contribution over the prior art is the predominant basis, and not just one of several bases, for the market demand of the infringing product or process. The Committee intends this section to be a codification of the existing law regarding the entire market value rule.\52\

\52\See Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538 (Fed. Cir. 1995) (en banc).

New subparagraph (c)(1)(B) provides that the royalty may be based on other comparable, nonexclusive licenses of the patented invention if there has been a sufficient number of licenses to indicate a general marketplace recognition of the reasonableness of the licensing terms. The Committee heard that in many instances existing licenses of the patent can be one of the better indicators in determining an appropriate royalty to compensate for infringement.\53\

\53\See, e.g., Nickson Industries, Inc. v. Rol Mfg. Co., 847 F.2d 795, 798 (Fed. Cir. 1988).

New subparagraph (c)(1)(C) requires that if neither (A) nor (B) is applicable, the trier of fact ensures that the damages award accurately reflects the harm caused by the infringement; no methodology is prescribed for this determination, but the jury is simply admonished to apply the reasonable royalty calculation only to the portion of the economic value of the infringing product or process properly attributable to the claimed invention's specific contribution over the prior art. The Committee intends "specific contribution over the prior art" to mean the reason the patent was allowed in view of the existing information at the time of the invention.\54\ The Committee also intends that the damages be calculated in the context of the infringement. In the case of a combination invention whose elements are present individually in the prior art, the contribution over the prior art may include the value of the additional function and enhanced value resulting from the combination, if any, if the patent holder demonstrates that value.

\54\Concerns expressed about the introduced bill's mandate of "apportionment" (closely associated with the 13th Georgia-Pacific factor) inspired an amendment in the Committee mark-up process to remove the mandate of apportionment (or any other methodology): "[t]he court shall exclude from the analysis the economic value properly attributable to the prior art, and other features or improvements, whether or not themselves patented, that contribute economic value to the infringing product or process." The term "specific contribution over the prior art" is meant simply to capture what has been variously described as "the actual invention," "the gist of the patent," "the reason a patent issued"--there is a certain "I know it when I see it" (Jacobellis v. Ohio, 378 U.S. 184, 197 (1964) (Steward J. concurring)) quality to the concept, but it is indisputable that a valid patent would not have issued if the inventor had not brought something novel and non-obvious to the world. The Committee recognizes the likelihood that calming fears in some of the patent-using communities requires amendment of this language yet again, but without compromising the basic principle that the damages awarded for an infringement must reflect the harm from the infringement, and that it is infringement of the actual invention upon which the jury should focus.

New paragraph (c)(2) preserves the court's authority to consider, or direct a jury to consider, other relevant factors in calculating the reasonable royalty, no matter which subparagraph is otherwise applicable. These include consideration of any of the 15 Georgia-Pacific factors that may be relevant to a given damage calculation, as well as any other factors courts determine relevant.

Subsection (d) clarifies that these changes have no effect on damage awards not based on reasonable royalty calculations.

The Committee intends that this subsection will ensure the changes made to section 284 of title 35 will not have any effect on damage calculations when, for example, the lost profit calculation is the appropriate damage remedy.

Willfulness

Background

Current law allows for up to the trebling of damages when it is determined the infringement was "willful."\55\ The statute, however, provides no guidance regarding what activities constitute willful infringement. The Committee has heard that this lack of clarity has resulted in excessive pleading,\56\ and inappropriate findings, of willfulness which, in turn, have inflated litigation and transaction costs as well as damage awards.

\55\See Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337, 1342 (Fed. Cir. 2004) (en banc).

\56\See Kimberly A. Moore, Empirical Statistics on Willful Patent Infringement, 14 Fed. Cir. B.J. 227, 232 (2004) (reporting that willful infringement is pled in over 90% of all patent cases).

Lacking statutory guidance, courts have established the principle that an infringement will not be found willful unless the infringer was put on notice that it was infringing; unfortunately, courts have set that notice threshold quite low.

The patent holder may simply send a conclusory letter suggesting the alleged infringer may be infringing one or more of its patents, without providing any specifics stating which activities allegedly infringe which patents.\57\ Companies can receive several such letters a week, potentially making them liable for treble damages based on willfulness if they are later found to have infringed a patent that was asserted in the conclusory letter.\58\

\57\See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 251-252 (2007) (statement of Mary E. Doyle, Senior Vice President and General Counsel, Palm, Inc.); Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 293 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 156-166 (2005) (statement of Joel Poppen, Deputy General Counsel, Micron Technologies, Inc.).

\58\See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong.156-166 (2005) (statement of Joel Poppen, Deputy General Counsel, Micron Technologies, Inc.).

Courts have held that companies can also put themselves on sufficient notice by becoming aware of the patent by a means other than notice from the patentee.\59\ As a result, some companies instruct their employees not to conduct patent searches out of fear their actions may later be used against them in a patentee's attempt to prove willful infringement.\60\

\59\See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 167-179 (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation).

\60\See FTC Report at 28-31; see also Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 262 (2007) (statement of Mary E. Doyle, Senior Vice President and General Counsel, Palm, Inc.); Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 294 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 167-179 (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation). If the doctrine of willful infringement as currently applied discourages companies from searching relevant patents, this is clearly an unintended, and harmful, consequence of this doctrine. The patent system should encourage the discovery and sharing of information, not discourage it as the current system may be doing.

Notice may be easy to provide in the willfulness context, but defense against such an allegation is difficult. The question of whether a patent is valid or infringed can often be a close question with colorable arguments on both sides. This is especially true given the Federal Circuit precedent that claim construction is a question of law, which they review de novo.\61\ Despite this uncertainty, a good faith belief by a party that a patent is invalid or that it is not infringing, based on advice of counsel, may still not be sufficient to defend against a charge of willful infringement.\62\ In addition, simply pleading willfulness\63\ can gain the patent holder significant litigation advantages, including breaching the attorney client privilege, necessitating different trial counsel, and resulting in costly additional discovery.\64\ Excessive royalty awards, combined with the possibility that they will be trebled due to willfulness, can lead to unreasonable posturing during licensing and settlement negotiations that is not reflective of the compensation owed the patentee due to the alleged infringement.\65\

\61\Various commentators have discussed the unpredictability and high reversal rate of the Federal Circuit when it comes to deciding patent issues, and in particular those involving claim construction.

See, e.g., Paul M. Schoenhard, Reversing the Reversal Rate: Using Real Property Principles to Guide Federal Circuit Patent Jurisprudence, 17 Fordham Intel. Prop. Media & Ent. L.J. 299, 301-304 (2007); Paul M. Janicke, On the Causes of Unpredictability of Federal Circuit Decisions in Patent Cases, 3 Nw. J. of Tech. & Intell. Prop. 93 at 93-94 (2004); R. Polk Wagner & Lee Petherbridge, Is the Federal Circuit Succeeding?

An Empirical Assessment of Judicial Performance, 152 U. Pa. L. Rev. 1105 (2004). Without endorsing these studies, at a minimum they illustrate that there can be genuine and colorable disagreements regarding the scope and validity of a patent not just between the parties, but between judges as well.

\62\See Comark Communications, Inc. v. Harris Corp., 156 F.3d 1182, 1191 (Fed. Cir. 1998).

\63\A recent empirical study showed that willfulness was alleged in over 92% of patent cases. See Empirical Statistics on Willful Patent Infringement, 15 Fed. Cir. B. J. 227 (2004); see also Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 115-134 (2005) (statement of Michael K. Kirk, Executive Director, American Intellectual Property Law Association).

\64\See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 262 (2007) (statement of Mary E. Doyle, Senior Vice President and General Counsel, Palm, Inc.); Patent Law Reform: Injunctions and Damages:

Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 79-88 (2005) (statement of Chuck Fish, Vice President and Chief Patent Counsel, Time Warner, Inc.); Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 68-78 (2005) (statement of Jonathan Band, Counsel, on behalf of Visa and the Financial Services Roundtable).

\65\See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 262-263 (2007) (statement of Mary E. Doyle, Senior Vice President and General Counsel, Palm, Inc.); Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 79-88 (2005) (statement of Chuck Fish, Vice President and Chief Patent Counsel, Time Warner, Inc.); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 156-166 (2005) (statement of Joel Poppen, Deputy General Counsel, Micron Technologies, Inc.).

Discussion of changes

Section 4 improves the doctrine of willful infringement in both procedural and substantive respects. These changes should greatly reduce unwarranted allegations of willfulness, as well as unnecessary costly discovery.

Unlike the current practice, where willfulness can be pleaded at the outset and is decided by a jury, willfulness will now be decided by the judge and only after finding that the patent was valid and infringed. Pursuant to new paragraph (e)(2) of section 284, willfulness must also be demonstrated by clear and convincing evidence. Moreover, conclusory allegations no longer suffice for notice of infringement; under subparagraph (e)(2)(A), the patent holder must allege acts of infringement sufficient to give the alleged infringer an objectively reasonable apprehension of suit, and the patent holder must also plead with particularity which products or processes allegedly infringe which claims of the patent, as well as the basis for such a belief. Subparagraph (e)(2)(B) permits a finding of willfulness if the infringer intentionally copied the patented invention with knowledge it was patented. Subparagraph (e)(2)(C) permits such a finding if the infringer continued to engage in infringing conduct after a court already found the party to be infringing the patent.

Paragraph (e)(3) provides a meaningful good faith defense to willfulness. An infringer can establish a good faith defense through reasonable reliance on the advice of counsel; evidence that the infringer sought to modify its conduct to avoid infringement once it had discovered the

patent; or other evidence a court may find sufficient. The decision of the alleged infringer not to present evidence of advice of counsel is not relevant to a determination of willful infringement.\66\

\66\After this bill emerged from Committee, the Federal Circuit raised the standard for willful infringement in In re Seagate Technology, 497 F.3d 1360 (in banc) (Fed. Cir. 2007), overruling its prior duty of care standard, see id. at 1371, reversing Underwater Devices v. Morrison-Knudsen Co., 717 F.2d 1380 (Fed. Cir. 1983) ("[W]illful infringement permitting enhanced damages requires at least a showing of objective recklessness" by the infringer.).

Prior User Rights

Background

Under current law, "prior user rights" may offer a defense to patent infringement in certain limited circumstances, including when the patent in question is a "business method patent"\67\ and its inventor uses the invention, but never files a patent application for it.\68\ If the same invention is later patented by another party, the prior user may not be liable for infringement to the new patent holder, although all others will be.

\67\35 U.S.C. Sec. 273(a)(3) states: "The term 'method' means a method of doing or conducting business."

\68\See 35 USC Sec. 273.

Discussion of Changes

The bill, as introduced, would have extended prior user rights to all kinds of patents--not just business method patents--but the persuasive outcry from university and tech transfer advocates\69\ limited the amendment of the prior user right defense to one that simply alters paragraph (b)(6) of section 273 to clarify that "affiliates" of the user may also assert the defense.\70\ Affiliates include those who caused or controlled the acts that were performed that give rise to the defense. Additionally, Section 4 of the Act instructs the Director of the USPTO to conduct, and provide to Congress, a study with recommendations on prior user rights (both in the United States and abroad) within two years of enactment of the Act, in order to determine whether further Congressional attention is warranted.

\69\See, e.g., Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary, 109th Cong. 89-105 (2005) (statement of Carl Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation (WARF)).

\70\See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 292 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co.).

Notice and marking

Background

In general, for patented “articles,” a patent holder must give an alleged infringer notice of the claimed infringement, and the infringer must continue to infringe, before the patent holder may succeed in a suit for damages.\71\ Actual notice requires the affirmative communication of infringement to the defendant, which may include the filing of a lawsuit.

Constructive notice is possible by “marking” any patented article that the patent holder (or its licensee) makes, uses, sells or imports.\72\ Failure to appropriately mark an article can preclude the recovery of damages until notice is effective.

\71\See 35 U.S.C. Sec. 287.

\72\See id.

However, neither marking nor actual notice is required to begin the accrual of damages if the patented invention is not made or sold by the patentee or someone acting under its authority.\73\ In addition, the courts have determined that patents on methods or processes\74\--which are not “articles” and cannot be marked--are exempt from these notice and marking requirements.\75\ Thus, business methods patents are exempt. A patent holder of such a patent may recover up to six years\76\ of past damages if infringement is proven for that period, despite the lack of notice to the alleged infringer. This creates a disparity in potential damage awards between different types of patents, and between patent holders that make and sell patented articles and those that do not. Neither disparity seems justified, and certainly poses a danger to the unknowing--and un-notified--infringer of an unmarkable patent.

\73\See Texas Digital Sys., Inc. v. Telegenix, Inc., 308 F.3d 1193 at 1219 (Fed. Cir. 2002), citing Wine Railway Appliance Co. v. Enterprise Railway Equipment Co., 297 U.S. 387 (1936).

\74\Section 100(b) of title 35 defines “process” as “process, art, or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.”

\75\See American Medical Sys. Inc. v. Medical Eng’g Corp., 6 F.3d 1523, 1538 (Fed. Cir. 1993) (“The law is clear that the notice provisions of section 287 do not apply where the patent is directed to a process or method.); Bandag, Inc. v. Gerrard Tire Co., 704 F.2d 1578, 1581 (Fed. Cir. 1983) (“In addition to the clear language of the statute, it is * * * also settled in the case law that the notice requirement of this statute does not apply where the patent is directed to a process or method.”).

\76\The maximum recovery for past infringement of any patent is six years. See 35 U.S.C. Sec. 286 (“Except as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action.”).

The Committee agrees that, after adequate notice is given, damages should begin to accrue if conduct continues that is later found to infringe, but was concerned that an infringer, who has not received notice and is genuinely unaware of the infringement, should not be treated identically with someone who was notified, or aware, or both.

Discussion of changes

The Committee considered extreme recommendations to improve this disparity, including eliminating the current marking statute and requiring actual notice before damages could begin to accrue for all patents, or requiring actual notice before damages could accrue for patents that cannot be marked. The Committee chose a more modest approach, however, and the changes in Section 4 only apply to patents that are not covered by the marking requirements of section 287(a). The change reduces the maximum period for which damages can be recovered for infringing such patents from 6 years to 2 years from the date of actual notice, if infringement is proven during that period.

Effective Date

The amendments in Section 4 of the Act shall apply to any civil action commenced on or after the date of enactment of the Act.

SECTION 5: POST-GRANT PROCEDURES AND OTHER QUALITY ENHANCEMENTS

Background

More than 25 years ago, Congress created the administrative "reexamination" process, through which the USPTO could review the validity of already-issued patents on the request of either the patent holder or a third party,\77\ in the expectation that it would serve as an effective and efficient alternative to often costly and protracted district court litigation.\78\ Reexamination requires the USPTO to review the patent in light of a substantial new question of patentability not presented during the original examination.\79\ The initial reexamination statute had several limitations that later proved to make it a less viable alternative to litigation for evaluating patent validity than Congress intended. First, a reexamination request can only be based on documentary prior art, and cannot be based on prior use or prior sales. Moreover, the requestor may not raise any challenge based on Sec. 101 (utility, eligibility), Sec. 112 (indefiniteness, enablement, written description, best mode) or inequitable conduct. A third party alleging a patent is invalid, therefore, has fewer challenges it can raise in the proceeding and therefore may instead opt to risk infringement and litigate the validity of the patent in court. Second, in the original reexamination system, the third party challenger had no role once the proceeding was initiated while the patent holder had significant input throughout the entire process. Third, a challenger that lost at the USPTO under reexamination had no right to appeal an examiner's, or the Patent Board's, decision either administratively or in court. Restrictions such as these made reexamination a much less favored avenue to challenge questionable patents than litigation. Reexamination proceedings are also often costly, take several years to complete,\80\ and are first conducted by examiners, and if the patent is rejected, then by Patent Board Judges. Thus many patents must go through two rounds of administrative review (one by the examiner, and a second by the Patent Board) adding to the length of the proceeding.\81\

\77\See 35 U.S.C. Sec. Sec. 301-307. A patent holder will typically request reexamination to bolster the patent in view of new prior art. A third party may request reexamination to challenge, and ultimately invalidate, the patent.

\78\"Reexamination will permit efficient resolution of questions about the validity of issued patents without recourse to expensive and lengthy infringement litigation . . . . The reexamination of issued patents could be conducted with a fraction of the time and cost of formal legal proceedings and would help restore confidence in the effectiveness of our patent system . . .. It is anticipated that these measures provide a useful and necessary alternative for challengers and for patent owners to test the validity of United States patents in an efficient and relatively inexpensive manner." See H.R. Rep. No. 96-1307(I) at 3 (1980), reprinted in 1980 U.S.C.C.A.N. 6460, 6462-63.

\79\See 35 U.S.C. Sec. 303.

\80\Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 93-105 (2005) (statement of Jon W. Dudas, Undersecretary of Commerce for Intellectual Property, Director of the U.S. Patent and Trademark Office), explaining that "a large number of reexamination proceedings have been pending before the USPTO for more than four years", and questioning whether this amount of time is consistent with the statutory requirement that "[a]ll reexamination proceedings * * * will be conducted with special dispatch within the Office." See 35 U.S.C. Sec. 305.

\81\For several years, the standard practice at the USPTO was to assign the reexamination to the patent examiner who had originally examined that patent. In addition, the same third party requester could file multiple, serial, reexaminations, based on the same "substantial new question of patentability," so long as the initial reexamination was not completed. More recently, the USPTO ended some of these procedures, and now reexaminations are handled by a Central Reexamination Unit (CRU), and subsequent serial reexamination, based on the same "substantial new question of patentability," are no longer permitted. See, e.g., Manual of Patent Examining Procedure (MPEP)

Sec. Sec. 2236 and 2240 (August 2006).

Congress has responded several times to criticisms of the reexamination system by making amendments to the process.\82\

In 1999, Congress created a second reexamination procedure-- called inter partes reexamination--that gave third party challengers greater input throughout the proceeding by permitting them to respond to every pleading submitted by the patent holder.\83\ At the same time, Congress imposed severe estoppel provisions that preclude a later court challenge based on issues not even raised during an inter partes reexamination proceeding.\84\ Congress also eventually gave third party challengers the right to appeal adverse decisions.\85\

\82\See, e.g., 21st Century Dep't of Justice Appropriations Authorization Act, Pub. L. No. 107-273, Sec. Sec. 13105-06, 13202, 116 Stat. 1758, 1761 (2002) (effective Nov. 2, 2002); American Inventors Protection Act, Pub.L. 106-113, 113 Stat. 1536, 1501A et seq. (1999) (creating inter partes reexamination) (hereafter referred to as the "AIPA").

\83\See 35 U.S.C. Sec. Sec. 311-318.

\84\See 35 U.S.C. Sec. 317(b).

\85\See 35 U.S.C. Sec. 315(b)

Despite Congress's attempts to improve the reexamination system, it remains troublesomely inefficient and ineffective as a truly viable alternative for resolving questions of patent validity.\86\ The inefficiency is due, in part, to a reexamination first being conducted by a patent examiner (which can take two years or more); then, if the patent is rejected, there will have to be an appeal to the Patent Board (which can take another year or more to complete).\87\ Inter partes reexamination has also proven ineffective because a challenger may still only raise a limited number of basis to challenge the patent, and may not assert all of the challenges available under the patent statute. As a result, patents that should not have issued must often be challenged in district court after the challenger has taken the risk of infringement, defeating the efficiency purpose of reexamination.

\86\See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 288 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co.), characterizing reexamination as ineffective and not widely used, and inter partes reexamination as a failure.

\87\Reexaminations of patents that are simultaneously involved in district court litigation can take even longer, and as much as seven or eight years to complete measured from the petition to final resolution by the Federal Circuit. See, e.g., In re Translogic Tech., Inc., 504 F.3d 1249 (Fed. Cir. 2007) (over eight years); In re Trans Texas Holdings Corp., 498 F.3d 1290 (Fed. Cir. 2007) (approximately seven years); In re Curtis, 354 F.3d 1347 (Fed. Cir. 2004) (approximately eight years); In re Inland Steel, 265 F.3d 1354 (Fed. Cir. 2001) (approximately eight years).

Given the numerous problems and limitations with the reexamination system, and the chorus of concerns heard by the Committee about that process,\88\ the Committee determined not to try to adopt another, and necessarily massive, set of amendments to the current system.\89\ Rather, the Committee determined that it would be simpler, and ultimately better, to make a clean start. The time has come to eliminate the inter partes reexamination system and replace it with a new post-grant review system at the USPTO that will give third parties a quick, inexpensive, and reliable alternative to district court litigation to resolve questions of patent validity.

\88\See, e.g., Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 44 (2006) (statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems, Inc.); Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 132-153 (2005) (statement of Jeffrey P. Kushan, Partner, Sidley Austin Brown & Wood, LLP); Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 111-131 (2005) (statement of J. Jeffrey Hawley, President, Intellectual Property Owners Association, Legal Division Vice President, Eastman Kodak Co.).

\89\The NAS came to a similar conclusion after its thorough study of the issue. See NAS Report at 96.

Discussion of changes

Section 5 of the Act creates a new post-grant review (PGR) system for United States patents, replacing and eliminating inter partes reexamination, in a new chapter 32 in title 35.\90\

\90\Ex-parte reexamination, based on a request by the patentee, is retained. See new Section 303(a) of the Act. However, third parties may no longer request an ex-parte reexamination. Thus, third parties wishing to challenge the patent will use the new post grant review system; patentees wishing to have additional art considered will use the old ex-parte reexamination system.

There are three ways to initiate a PGR proceeding.\91\ They are often referred to as “windows” (first window and second window) in which a third party petitions the Director of the USPTO to initiate a PGR proceeding.\92\ These windows differ procedurally and substantively, as described below. The third means of initiating a PGR proceeding is based on the patentee’s consent.\93\

\91\See new Sec. 322 as added by S. 1145.

\92\See new Sec. 322(1) and (2) as added by S. 1145.

\93\The post grant review system created by this Section adopts several of the recommendations, in whole or in part, made by the NAS Report. See NAS Report at 95-103. In addition, the post grant review system adopted by the Committee is similar in several respects to the post grant review system proposed by the USPTO. See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 273 (2007) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property and Director of the USPTO). Moreover, changes were made by the Committee in direct response to concerns raised by the USPTO, including (i) raising the standing requirement for post grant review second window, and (ii) reducing the number of existing patents eligible for second window post grant review.

In a first window PGR, the petition must be filed within 12 months of the patent’s issuing. The presumption of validity for the patent does not apply, but the petitioner has the burden of proving invalidity by a preponderance of the evidence. This window is designed as an extension of the examination process.

The expectation is that those who are interested in certain technology fields--or in certain patent holders--will assiduously follow the issuance of the patents that interest them, and be ready to bring to the USPTO’s attention any immediate concerns.

But not all issues of validity are obvious immediately upon issuance,\94\ and indeed the Committee assumes that the patents issued by the USPTO will generally lack any such blatant flaws.

The Committee is aware, however, that patents may be asserted as covering uses and products that were not originally envisioned, or that an alleged infringer may well not have imagined possible, simply from the reading of the patent claims.\95\ With calculated infringement at one end of the spectrum, and devious claiming at the other end, the possibilities for mischief and

disagreement are considerable.\96\ Especially given that the current inter partes reexamination process already permits a challenge to a patent's validity throughout the life of the patent,\97\ the Committee has retained that time frame for second window challenges. No patent holder has a right to an invalid patent, however long that patent holder may have enjoyed that right inappropriately. At the same time, the values of certainty (and the consequent business decisions based on that certainty) are not insubstantial, and the Committee is not willing to assume that a patent is invalid simply because a third party has filed an administrative action to endeavor to prove invalidity. The provisions that now form this section of the Act underwent substantial change in the process of the Committee mark-up, and all those changes were in the direction of limiting the use and scope of the post-grant review process. Having begun with a significantly broader process, the Committee is confident that these changes have addressed the concerns in a prudent and balanced manner.

\94\See Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 68-78 (2005) (statement of Jonathan Band, Counsel, on behalf of Visa and the Financial Services Roundtable), explaining that without a 2nd window, post grant review would be "seldom used" in his industry.

\95\See Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 45 (2006) (statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems, Inc.); Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 33 (2006) (statement of Andrew Cadel, Managing Director and Chief Intellectual Property Counsel, JP Morgan Chase); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 167-179 (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation).

\96\See Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 45 (2006) (statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems, Inc.); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 167-179 (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation).

\97\See 35 U.S.C. Sec. 311 ("Any third party at any time may file a request for inter partes reexamination by the Office * * *").

As a result, in the second window, significant limitations are placed on such challenges, while preserving the core intent of the old reexamination process: creating an efficient and effective process for challenging the validity of a patent.\98\ A PGR petition may be filed throughout the life of the patent in this second window, but only if (i) the continued existence of the challenged patent claim is likely to cause the petitioner significant economic harm, and (ii) the petitioner files the petition within 12 months after receiving notice of infringement.\99\ Thus, only a PGR petitioner who has a good deal at stake may bring such a challenge, and may do so only if the patent holder has already, on its own volition, placed the issue in play.

\98\The Committee heard from a number of witnesses that the second window of post grant review was vital to patent reform, and that merely having the first window alone would be insufficient. They explained that given (i) the large number of potentially patented components that could make up any one product (e.g., a computer), (ii) the cost required to challenge every one, and (iii) the uncertainty as to what any one patent may cover (due to the uncertain doctrine of claim construction), it would be impractical or impossible to challenge every questionable patent within the 1-year first window time frame. The witnesses explained that they typically only learn of such allegations by way of a threat letter from, or lawsuit by, the patentee. See, e.g., Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 288-289 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co); Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 45 (2006) (statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems, Inc.); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 167-179 (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation).

\99\See new Sec. 322(2) as added by S. 1145.

The presumption of validity for the patent does apply in the second window.\100\ The petitioner may challenge a patent based on any defense the challenger could raise in district court litigation, but the existence, authentication, availability, and scope of any evidence offered to establish invalidity must be established by clear and convincing evidence. If such predicate facts are established, invalidity shall be proven only if the persuasive force of such facts demonstrates invalidity by a preponderance of the evidence. The PGR petition must specify in detail the claims of the patent being challenged and the basis for the challenge, with any necessary supporting documentation. PGR proceedings are open to the public unless determined otherwise by the Patent Board.

\100\See new Sec. 331(a) as added by S. 1145.

After a PGR proceeding is initiated, the patent holder will have an opportunity to file a response. During the proceeding, the patent holder has one opportunity as a matter of right to amend the claims, and may only amend the claims subsequently on motion and a showing of good cause. No amendment during a PGR proceeding may enlarge the scope of a claim or add new matter.

Various safeguards and estoppels have also been included to prevent the use of PGR for harassment. Every petition to institute a PGR must raise a substantial new question of patentability\101\; this standard was elevated at mark-up to encourage only the most meaningful challenges.\102\ In addition, the same party who has once filed a PGR petition, whether in the first or the second window, regarding any claim in a patent, may not file another PGR on the same patent, regardless of the issues raised in the first PGR.\103\ This “one bite at the apple” provision was included in Committee to quell concerns that a party bent on harassing a patent holder might file serial PGR petitions.\104\ Moreover, once a petitioner has challenged the validity of a patent through a PGR, that party may not challenge validity in a court proceeding based on any ground it raised during the PGR.\105\ Additionally, a party who has challenged the

validity of a patent in court may not file a PGR petition on any grounds they raised, or could have raised, in the district court.\106\ Because the district court action allows the challenger the full panoply of discovery (unlike the restricted discovery appropriate to the more limited PGR proceeding), the Committee believes that it is only reasonable to apply estoppel to claims the challenger was, or should have been, in a position to raise, whether or not it did so.

\101\New Sec. 329 as added by S. 1145 states that the Director shall prescribe regulations regarding PGR, including the standard necessary to show that a “substantial new question of patentability” exists to initiate a PGR. The “substantial new question of patentability” standard to initiate a PGR is the same standard required to initiate a reexamination proceeding under current law. See 35 U.S.C. Sec. 303(a).

\102\See Transcript of Proceedings of Business Meeting of the Senate Committee on the Judiciary, 110th Cong., 1st Sess. 4 (June 21, 2007).

\103\See new Sec. 325(a) as added by S. 1145.

\104\See Transcript of Proceedings of Business Meeting of the Senate Committee on the Judiciary, 110th Cong., 1st Sess. 4 (June 21, 2007).

\105\See new Sec. 338(a)(2) as added by S. 1145.

\106\See new Sec. 337 as added by S. 1145.

The USPTO must complete its work on a PGR within one year in most cases, and 18 months in only those cases where the additional time is justified. The PGR proceedings are conducted in the first instance by three Patent Board judges, and not first by an examiner, thus reducing the pendency compared to reexamination proceedings. Any party dissatisfied with a Board PGR decision, may appeal to the Federal Circuit, and all parties to the PGR proceeding may participate in such an appeal.

The Director is instructed to issue regulations that will more fully develop the rules and procedures governing PGR proceedings.\107\ The Committee intends that such rules will provide an efficient, streamlined, transparent proceeding that is trusted by the public. The goal is to encourage PGR challenges when warranted, not discourage them in view of complicated, expensive, and arcane procedures. The Director is admonished, among other regulatory tasks, to ensure that regulations forbidding and penalizing harassment are enacted and enforced.

\107\See Sec. 329 as added by S. 1145.

The PGR process shall take effect on the date that is one year after the date of the enactment of the Act. After that time, first window PGR petitions may be filed against any patent, so long as the other provisions of the Act are satisfied. Second window PGR petitions (as well as consented petitions), however, may only be filed on patents that issue based on applications filed after November 29, 1999. That date was chosen by the Committee because it is the date used to determine whether a patent could be eligible for inter partes reexaminations (which are eliminated under the Act). Thus, patents that were eligible for inter partes reexamination, are now eligible for second window PGRs.\108\

\108\The initial legislation contemplated that all patents in existence would be eligible for PGR second window. See Sec. 321 as proposed to be added by S. 1145 as introduced.

SECTION 6: DEFINITIONS; PATENT TRIAL AND APPEAL BOARD

This Section renames the Patent Board as the “Patent Trial and Appeal Board” and sets forth its duties, which are expanded to include jurisdiction over the new post grant review and derivation proceedings. This section strikes references to proceedings eliminated by the Act, including interference proceedings and review of inter partes decisions.

SECTION 7: SUBMISSIONS BY THIRD PARTIES AND OTHER QUALITY ENHANCEMENTS

18 month publication

Background

Most countries publish all patent applications filed in their jurisdictions within 18 months after filing. In 1999,

Congress mandated this publication for most, but not all applications filed with the USPTO.\109\ Applications that contain certifications stating a related application has not been and will not be filed in a foreign country are exempt from this publication.\110\

\109\See 35 U.S.C. Sec. 122.

\110\See 35 U.S.C. Sec. 122(b)(2)(B).

Discussion of changes

The publication of patent applications is beneficial to both the patent community and the general public, since it promotes the disclosure benefit of the patent system\111\ and allows the public (including competitors) to learn for which inventions patents are being sought.\112\ Therefore, Section 7 of the Act eliminates the previous exemptions. All applications filed at the USPTO will be published within 18 months of filing.\113\

\111\See Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 30 (2005) (statement of David Beier, Senior Vice President of Global Government Affairs, Amgen).

\112\Prior to requiring the publication of applications, the public would not learn of a patent until after it issued, which is often several years after the application was filed. Some patentees took advantage of this practice to the extreme (with “submarine” patents), and intentionally delayed their patents issuance, and thus publication, of the patent for several years to allow potentially infringing industries to develop and expand, having no way to learn of the pending application. See Mark A. Lemley and Kimberly A. Moore, Ending Abuse Of Patent Continuations, 84 B.U. L. Rev. 63, 79-81 (2004). In contrast, publication of the application allows for the earlier

dissemination of the information contained therein, as well as allowing competitors to make decisions based on what is attempting to be patented.

\113\Both the NAS and the FTC advocated for the publication of all applications and the elimination of the exception. See NAS Report at 128 (explaining that publication of all applications would promote the disclosure purpose of the patent system and minimize the uncertainty associated with submarine patents); FTC Report at 15-16 “Recommendation 7: Enact Legislation to Require Publication of All Patent Applications 18 Months After Filing,” (explaining that publication of domestically filed applications will increase business certainty, promote rational planning, and reduce the problem of unanticipated “submarine patents” used to hold up competitors for unanticipated royalties); see also Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 137-145 (2005) (statement of Richard C. Levin, President, Yale University).

Third party submissions

Background

After an application is published, members of the public-- most likely, a competitor or someone else familiar with the patented invention’s field--may realize they have information relevant to a pending application. The relevant information may include prior art that would prohibit the pending application from issuing as a patent. Current USPTO rules permit the submission of such prior art by third parties only if it is in the form of a patent or publication,\114\ and the submitter is precluded from explaining why the prior art was submitted or what its relevancy to the application might be.\115\ Such restrictions decrease the value of the information to the examiner and may, as a result, deter such submissions.\116\

\114\See 35 C.F.R. Sec. 1.99.

\115\See 35 C.F.R. Sec. 1.99(d) (“A submission under this section shall not include any explanation of the patents or publications, or any other information.”).

\116\See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 167-179 (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation).

Discussion of changes

Section 7 of the Act improves the process by which third parties submit relevant information to the USPTO by permitting those third parties to make statements concerning the relevance of the patents, patent applications, and other printed publications they bring to the USPTO’s attention.

SECTION 8: VENUE AND JURISDICTION

Venue

Background Venue statutes generally place restrictions on where a plaintiff may sue a defendant. A specific venue provision has existed for patent cases since 1897.\117\ Yet, Federal Circuit

decisions have virtually eliminated any meaningful distinction between the patent venue provision and general venue.\118\ In VE Holding, the Federal Circuit held that despite the specific patent venue statute, the expanded jurisdiction under the general venue statute also applied to corporate defendants in patent infringement cases.\119\ As a result, the Federal Circuit held that venue for a corporate defendant in a patent infringement case was proper wherever personal jurisdiction existed. Four years later, in Beverly Hills Fan Co., the Federal Circuit held that personal jurisdiction for a patent defendant essentially exists wherever an infringing product is made, used or sold.\120\ The effect of these decisions is that venue for a patent infringement defendant is proper wherever an alleged infringing product can be found. To compound matters, the Federal Circuit applied a different set of standards in patent cases that were brought pursuant to the declaratory judgment act.\121\

\117\28 U.S.C. Sec. 1400.

\118\See, e.g., VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574 (Fed. Cir. 1990).

\119\See VE Holding, 917 F.2d at 1580.

\120\See Beverly Hills Fan Co. v. Royal Sovereign Corp., 21 F.3d 1558, 1566 (Fed. Cir. 1994).

\121\See VE Holding, 917 F.2d at 1583.

Since most patented products are sold nationally, a patent holder can often bring a patent infringement action in any one of the 94 judicial districts in the United States. The judicial weakening of the patent venue statute has reportedly led to forum shopping in patent infringement suits. A comprehensive study revealed that approximately half of the patent infringement cases are filed in only 10 of the districts, many of which have no significant relation to either the plaintiff or the defendant.\122\ A report issued last year indicates this pattern has continued and may even become more concentrated.\123\

\122\See Kimberly A. Moore, Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?, 79 N.C. L. Rev. 889 (2001).

\123\See Roderick R. McKelvie, Forum Selection In Patent Litigation: A Traffic Report, 19 NO. 8 Intell. Prop. & Tech. L.J. 1, 1 (2007).

Venue exists to ensure the case is brought where the defendant has more than minimum contacts in the forum the plaintiff has chosen.\124\ Moreover, judicial resources are best spent in locations where the evidence and witnesses are located. If a venue is chosen that has little or no relation to the defendant’s business, it can cause significant hardship to the defendant and increase already expensive litigation costs.

In addition, court dockets can become backlogged where a disproportionate number of patent cases are brought in a small number of districts.\125\

\124\See 17 Moore’s Federal Practice Sec. 110.01[5][a] (3d ed. 1997).

\125\See McKelvie, Forum Selection In Patent Litigation: A Traffic Report, 19 NO. 8 Intell. Prop. & Tech. L.J. at 3.

Discussion of changes

As with other provisions in the Act, the venue language was changed considerably during the Committee process. The initial language worked a modest change to the venue statute in that patent infringement suits could be brought only in the judicial district where (i) either party resided (which for a corporation is its principal place of business or its state of incorporation), or (ii) where the defendant had committed acts of infringement and had a regular and established place of business.

Amendments during the mark-ups made significant revisions.\126\ Section 8 of the Committee-passed bill limits the plaintiff-based venue available to certain plaintiffs in patent cases, namely individual inventors, institutions of higher education, and technology-transfer non-profit organizations affiliated with such institutions. The Committee also determined that the same venue rules shall apply for both patent declaratory judgment cases and patent infringement cases.

\126\See Transcript of Proceedings of Business Meeting of the Senate Committee on the Judiciary, 110th Cong., 1st Sess. 4 (June 21, 2007); Transcript of Proceedings of Business Meeting of the Senate Committee on the Judiciary, 110th Cong., 1st Sess. 5-7, 14-17, 19-20, 51-63 (July 12, 2007); Transcript of Proceedings of Business Meeting of the Senate Committee on the Judiciary, 110th Cong., 1st Sess. 2, 12 (July 19, 2007).

Also, under the changes worked in the Act, parties will not be permitted to manufacture venue. Thus, for example, a company cannot establish venue in a given State simply by incorporating there. Section 1400 of title 28 is amended to provide that defendants in patent cases may be sued where the defendant has its principal place of business, or where it is incorporated or formed. They may also be sued where substantial acts of infringement occur, but only if the defendant also has a regular and established, substantial physical facility in that district, which the defendant controls, and which constitutes a substantial portion of the defendant's overall operations in the district. A foreign defendant that has a U.S subsidiary may only be sued where its primary U.S. subsidiary is located, or its principal place of business in the U.S. is incorporated or formed.\127\

\127\28 U.S.C. Sec. 1391(d) shall continue to determine venue for a foreign defendant that does not have a subsidiary in the United States.

The Committee is sensitive to the unique position of universities, non-profit organizations and truly small inventors, for which certain venue restrictions could prove burdensome. Revised section 1400 therefore creates an exception, permitting these parties to file their patent infringement or declaratory judgment actions in the district where they reside.

Section 1400 also provides for limited requests for transfer of venue where the court deems it appropriate.

Interlocutory appeals of claim construction orders

Background

In many patent infringement cases, the proper meaning of a patent claim (referred to as “claim construction”) is a vital, threshold determination. A finding of patent infringement will often turn on the proper interpretation of the patent claims, which may also determine the patent’s validity.\128\ A decade ago, the Supreme Court held in Markman v. Westview Instruments, Inc.,\129\ that district court judges, not juries, should determine the proper meaning of a patent claim. Shortly thereafter, the Federal Circuit in Cybor Corp. v. FAS Technologies, Inc.,\130\ held that the standard of review of claim construction decisions by the district court was de novo, giving no deference to the district court judges that made those determinations. Determining the proper meaning of the claims is vital to the outcome of most patent cases, and should occur early in the litigation to avoid unnecessary costs.\131\ Moreover, since the Federal Circuit would review such decisions without giving deference to the district court, its view of the proper claim construction is paramount.\132\

\128\See, e.g., Amgen Inc. v. Hoechst Marion Roussel, Inc., 457 F.3d 1293 (Fed. Cir. 2006) (reversing the district court’s claim construction and remanding for a second time for the district court to determine whether the newly construed claim was anticipated by the prior art).

\129\517 U.S. 370 (1996).

\130\138 F.3d 1448 (Fed. Cir. 1998) (en banc).

\131\See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 289-291 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co.); Perspectives on Patents: Post- Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 34 (2006) (statement of Andrew Cadel, Managing Director and Chief Intellectual Property Counsel, JP Morgan Chase);

Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 68-78 (2005) (statement of Jonathan Band, Counsel, on behalf of Visa and the Financial Services Roundtable); see also Cybor Corp. v. FAS Techs., Inc., 138 F.3d 1448, 1475-77 (Fed. Cir. 1998) (en banc)

(dissenting opinion of Rader, J.).

\132\See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 289-290 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co.); Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 68-78 (2005) (statement of Jonathan Band, Counsel, on behalf of Visa and the Financial Services Roundtable).

Following these decisions, many district courts began holding separate claim construction hearings, which became known as “Markman” hearings. District courts often then issue Markman claim construction decisions.\133\ In certain cases, parties requested, and district judges certified, Markman decisions for interlocutory appeal to the Federal Circuit. The parties,

and the district courts, understood the importance of having a claim construction decision early in the process and, because of de novo review, that the Federal Circuit would have to rule on construction before the parties could accurately assess their liabilities. The Federal Circuit, however, refused to take most such requests.\134\ As a result, full trials often had to be held before an appeal could be taken of the claim construction issue.\135\

\133\See Cybor Corp. v. FAS Techs., Inc., 138 F.3d 1448, 1479 (Fed. Cir. 1998) (en banc) ("Although the district courts have extended themselves, and so-called 'Markman hearings' are common, this has not been accompanied by interlocutory review of the trial judge's claim interpretation. The Federal Circuit has thus far declined all such certified questions.").

\134\See V. Ajay Singh, Interlocutory Appeals In Patent Cases Under 28 U.S.C. Sec. 1292(C)(2): Are They Still Justified And Are They Implemented Correctly?, Duke L.J. Vol. 55, 179, 196 (2005) ("the Federal Circuit has thus far refused to hear permissive appeals related to claim construction").

\135\Unfortunately, there are also examples where the Federal Circuit has had to hear multiple district court claim construction related appeals, and has remanded the case back to the district court several times based on new claim construction theories. See, e.g., Amgen Inc. v. Hoechst Marion Roussel, Inc., 457 F.3d 1293 (Fed. Cir. 2006) (a 10-year litigation that has to date already had two appeals, and the case is remanded back for a likely third district court decision, and possible third appeal).

Numerous studies have shown that the Federal Circuit's reversal rate of district court claim construction decisions is unusually high.\136\ District court decisions may place several claim terms in dispute, and reversal by the Federal Circuit as to the meaning of just one claim term may require that the case be remanded to the district court for further proceedings.\137\

The Committee heard that the manner claim construction determinations are currently reviewed increases litigation costs, decreases certainty and predictability, and can prolong settlement discussions.\138\

\136\See, e.g., Paul M. Schoenhard, Reversing the Reversal Rate:

Using Real Property Principles to Guide Federal Circuit Patent Jurisdiction, 17 Fordham Intel. Prop. Media & Ent. L.J. 299, 303 (2007) (citing several studies of Federal Circuit reversal rates of claim construction decisions, ranging from 33% to over 50%). Although the exact number is subject to debate, it is safe to say the number is relatively high, especially as compared to traditional reversal rates.

This is not entirely surprising since current Federal Circuit precedent encourages the parties to contest the meaning of several different claim terms both before the district court and the Federal Circuit. For example, it is not uncommon for a party to appeal (or cross appeal) the meaning of several terms, and if the Federal Circuit disagrees as to just one, it is likely the case will need to be remanded to the district court.

\137\See Cybor Corp. v. FAS Techs., Inc., 138 F.3d 1448, 1474 n. 2 (Fed. Cir. 1998) (opinion by Rader, J. dissenting, "In the words of United States District Court Judge Roderick McKelvie:

‘[I]n spite of a trial judge’s ruling on the meaning of disputed words in a claim, should a three-judge panel of the Federal Circuit disagree, the entire case could be remanded for retrial on [a] different [claim interpretation]”‘, citing Elf Atochem North Am., Inc. v. Libbey-Owens- Ford Co., 894 F.Supp. 844, 857, 37 USPQ2d 1065, 1075 (D. Del. 1995)).

\138\See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 289-291 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co.).

Discussion of changes

Section 8 of the Act amends subsection (c)(2) of section 1292 of title 28, giving district court judges discretion to certify Markman claim construction orders for interlocutory review. When such orders are certified, the Federal Circuit must decide the appeal.

The Committee intends to transfer the discretion from the Federal Circuit to the district court judge as to whether--and when--a claim construction order should be decided on appeal.

The district court judges are in the best position to know when the evidence adduced, and the arguments marshaled by the litigants, have brought the case to a point at which a decision by the appellate court on claim construction could best promote resolution of the case. As a case management tool, the Committee is confident that the interlocutory appeal of a Markman decision could be both useful and effective. The district court also has the discretion to stay the case pending the appeal.

Venue for the USPTO

Background

In 1999, as part of the American Inventors Protection Act (AIPA), Congress established that as a general matter the venue of the USPTO is the district where it resides.\139\ The USPTO currently resides in the Eastern District of Virginia. However,

Congress inadvertently failed to make this change uniform throughout the entire patent statute, so that certain sections of the patent statute (and one section of the trademark statute) continue to allow challenge of USPTO decisions to be brought in the District of Columbia, where the USPTO has not resided for decades.

\139\See 35 U.S.C. Sec. 1(b).

Discussion of changes

Since the USPTO no longer resides in the District of Columbia, the sections that authorized venue for litigation against the USPTO are changed to reflect the venue where the USPTO currently resides.

SECTION 9: PATENT AND TRADEMARK OFFICE REGULATORY AUTHORITY

Background

Although the USPTO has had the ability to set certain fees by regulation, most fees (e.g., filing fee, issuance fee, maintenance fees) are set by Congress.\140\ History has shown that such a scheme does not allow the USPTO to respond promptly to challenges facing it. The USPTO has argued for years that it must have fee setting authority to administer properly the agency and its growing workload.

\140\See, e.g., 35 U.S.C. Sec. 41.

Discussion of changes Section 9 of the Act allows the USPTO to set or adjust all of its fees, including those related to patents and trademarks, so long as they do no more than reasonably compensate the USPTO for the services performed. Prior to setting such fees, the Director must give notice to, and receive input from, the Patent or Trademark Public Advisory Committee (PPAC or TPAC).

The Director may also reduce fees for any given fiscal year, but only after consultation with the PPAC or TPAC. Section 9 details the procedures for how the Director shall consult with the PPAC and TPAC, including providing for public hearings and the dissemination to the public of any recommendations made by either Committee. Fees shall be prescribed by rule. Any proposed fee change shall be published in the Federal Register and include the specific rationale and purpose for the proposed change. The Director must seek public comments for no less than 45 days. The Director must also notify, through the Chair and Ranking Member of the Senate and House Judiciary Committees, the Congress of any final decision regarding proposed fees.

Congress shall have no more than 45 days to consider and comment on any proposed fee, but no proposed fee shall be effective prior to the expiration of this 45-day period.

SECTION 10: RESIDENCY OF FEDERAL CIRCUIT JUDGES.

Background

Federal appellate judges in all of the regional circuits must reside within the geographic region of the relevant circuit’s jurisdiction. A judge on the First Circuit, for example, must reside in Massachusetts, Rhode Island, Maine, New Hampshire or Puerto Rico. Judges on the District of Columbia Circuit have no residency restrictions because it is not a regional circuit. By contrast, since its creation in 1982, the Federal Circuit has had an arbitrary restriction that all active judges reside within 50 miles of the District of Columbia.

Without casting any aspersions on the current occupants of the Federal Circuit bench, the Committee believes that having an entire nation of talent to draw upon in selecting these judges could only be a benefit. The duty stations of the Federal Circuit judges will, of course, remain in the District of Columbia. Judges in regional circuits often travel considerable distances for court sessions within the circuit, far from their homes and chambers, and there is no practical reason why Federal Circuit judges could not do so as well.

Discussion of changes Section 10 of the Act eliminates the residency restriction for Federal Circuit judges by repealing the relevant portion of subsection 44(c) of title 28.

SECTION 11: APPLICANT QUALITY SUBMISSIONS

Search reports and explanations of submitted references

Background

In fiscal year 2006, the USPTO received over 440,000 patent applications, representing an 8 percent increase from the previous fiscal year. This rate of increase is expected to continue, a testament to U.S. inventiveness and a growing burden on the USPTO.

Patent examiners at the USPTO are responsible for determining whether the inventions claimed in patent applications meet the statutory requirements of novelty and non-obviousness.\141\ Unfortunately, approximately 25% of the applications filed at the USPTO do not discuss or disclose any prior art.\142\ Many applicants do not search for prior art before filing their application.\143\ An examiner has only a limited amount of time to search for prior art, and the applicant is often in the best position to know the invention and the relevant art that may apply. At the other extreme, approximately 25% of the applications cite twenty or more references, typically with little or no explanation as to how the prior art is relevant, which is equally unhelpful to the examiner.\144\ Although patent examiners have excellent electronic search tools, and are well trained in the art of searching, added assistance from applicants citing relevant prior art and explaining how it applies to their applications will improve the quality of issued patents. In addition, requiring applicants to do their own initial research and disclosure will improve the quality of the application.

\141\35 U.S.C. Sec. 131 provides: “The Director shall cause an examination to be made of the application and the alleged new invention; and if on such examination it appears that the applicant is entitled to a patent under the law, the Commissioner shall issue a patent therefore.” In practice, the Director empowers a “patent examiner” to examine the application and determine whether it meets the statutory requirements and USPTO guidelines for receiving a patent grant. See Christopher T. Kent, Reducing The Scope Of Patent Protection And Incentives For Innovation Through Unfair Application Of Prosecution History Estoppel And The Recapture, 10 Geo. Mason L. Rev. 595, 596 n.7 (2002).

\142\See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 10-11 (2007) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property and Director of the USPTO).

\143\See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 267 (2007) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property and Director of the USPTO).

\144\See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 10-11 (2007) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property and Director of the USPTO).

Discussion of changes\145\

Section 11 of the Act gives the Director express authority to require by regulation the submission of search reports and other relevant information as the Director determines. Failure to comply with such requirements shall constitute abandonment of the applications.

\145\The USPTO strongly advocated for inclusion of “applicant quality submissions” provision in the bill, stating it was one of its highest priorities in order to improve the patent examination process and the quality of issued patents. See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 265-267 (2007) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property and Director of the USPTO).

The Act exempts the truly small inventor (defined in the Act as a “micro-entity”) from regulations prescribed pursuant to this authority.

Micro-entity

Background

As part of the on-going effort to nurture U.S. innovation, Congress has long recognized that certain groups, including independent inventors, small business concerns, and non-profit organizations (collectively referred to as “small business entities”) should not bear the same financial burden for filing patent applications as larger corporate interests. The current statute provides for a significant reduction in certain fees for small business entities.\146\ The Committee was made aware, however, that there is likely a benefit to describing-- and then accommodating--a group of inventors who are even smaller, in order to be sure that the USPTO can tailor its requirements, and its assistance, to the people with very little capital, and just a few inventions, as they are starting out.

\146\See 35 U.S.C. Sec. 41(h).

Discussion of changes

This section of the Act defines an even smaller group--the micro-entity--which comprises only true, independent inventors.

This section exempts micro-entities from the requirement of submitting the search reports and other information that the Director may require under Section 11 of the Act. The Committee expects that the USPTO will make further accommodations under its authority in recognition of the special status of micro- entities.

SECTION 12: INEQUITABLE CONDUCT

Background

Candor and truthfulness are essential to the functioning of the patent application system. The application process is conducted ex parte; only the patent applicant participates in the patent prosecution proceeding before the USPTO. The agency’s rules require applicants to be honest and forthcoming and to disclose fully all relevant information to the USPTO during that

proceeding.\147\ The judicially-created "inequitable conduct" doctrine is designed to enforce those requirements by permitting a judge to render a patent unenforceable, even if it is valid and infringed, if the patent was obtained by misleading statements or omissions of material information which were intended to deceive the USPTO.\148\

Courts have developed a two-part test in which inequitable conduct is found when (i) the undisclosed or misrepresented information was "material," and (ii) it was not disclosed or was misrepresented with an "intent to deceive" the USPTO.\149\

\147\See 37 C.F.R. Sec. 1.56.

\148\See Dippin' Dots, Inc. v. Mosey, 476 F.3d 1337, 1345 (Fed. Cir. 2007) ("a patent may be rendered unenforceable for inequitable conduct if an applicant, with intent to mislead or deceive the examiner, fails to disclose material information or submits materially false information to the PTO during prosecution") (citations omitted).

\149\See J.P. Stevens & Co., Inc., v. Lex Tex Ltd., Inc., 747 F.2d 1553, 1560 (Fed. Cir. 1984), cert. denied, 474 U.S. 822 (1985).

The Act did not address inequitable conduct upon introduction, but during the Committee process the Committee heard several concerns about the doctrine as it has developed in the Federal Circuit.\150\ First, the Federal Circuit has failed to establish one clear standard of materiality for inequitable conduct purposes.\151\ Having multiple materiality standards is hardly helpful to the district courts that are charged with making inequitable conduct determinations in the first instance, and patent holders are left with less than clear guidance about what they should disclose to the USPTO.\152\ Second, direct evidence of an intent to deceive is uncommon, so some courts collapse the issue of intent into the issue of materiality, so that intent to deceive is often inferred from materiality.\153\ Third, if inequitable conduct is found, judges have no discretion as to the remedy--no claim of the patent can ever be enforced against anyone.\154\

\150\See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 45-71 (2005) (statement of Robert A. Armitage, Senior Vice President and General Patent Counsel, Eli Lilly and Company).

\151\See Digital Control v. Charles Machine Works, 437 F.3d 1309 (Fed. Cir. 2006), where the Federal Circuit held there is no single standard to define "materiality" for inequitable conduct. In fact, the Federal Circuit has discussed five different standards for materiality, stating that there is "no reason to be bound by any single standard": (1) the objective "but for" standard, where the misrepresentation was so material that the patent should not have issued; (2) the subjective "but for" test, where the misrepresentation actually caused the examiner to approve the patent application when he would not otherwise have done so; (3) the "but it may have" standard, where the misrepresentation may have influenced the parent examiner in the course of prosecution; (4) the old Rule 56 standard where it is likely a reasonable examiner would have considered the information important in deciding whether to issue of the patent; and (5) the new Rule 56 standard where the information is not cumulative and (i) establishes a prima facie case of unpatentability (either alone or in combination with other references), or (ii) refutes or is

inconsistent with a position the applicant has taken (the new Rule 56 standard). See Digital Control at 1314-16; see also American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350, 1362 (Fed. Cir. 1984).

\152\As a practical matter, this has led to two types of conduct that frequently occur during patent prosecution. Either patent holders

(i) "dump" everything they have on the USPTO (sometimes many boxes of printed documents), or (ii) do not search the prior art, and thus in turn have little or nothing to give the USPTO. Neither approach is helpful to the patent examiner or the patent system in general.

\153\See In re Metoprolol Succinate Patent Litigation, 494 F.3d 1011, 1019 (Fed. Cir. 2007) ("We have stated that intent need not, and rarely can, be proven by direct evidence. Rather, intent to deceive is generally inferred from the facts and circumstances surrounding the applicant's overall conduct.") (citations and quotations omitted).

\154\See Impax Laboratories, Inc. v. Aventis Pharmaceuticals Inc., 468 F.3d 1366, 1375 (Fed. Cir. 2006) (citing Kingsdown Med. Consultants, Ltd. v. Hollister, Inc., 863 F.2d 867, 877 (Fed. Cir. 1988) (en banc)).

Discussion of changes

Section 12 of the Act inserts a new section 298 of title 35 that codifies and improves the doctrine of inequitable conduct.

Subsection (a) of section 298 requires a party advancing an inequitable conduct argument to prove that claim by clear and convincing evidence. Subsection (b) provides that information is "material" if a reasonable examiner would consider the non-cumulative information important in deciding whether to allow the patent application.\155\ Subsection (c) permits an intent to deceive the USPTO to be inferred, but it cannot be inferred solely on the basis of gross negligence of the applicant (or its representative), or on the materiality of the information misrepresented or not disclosed. Subsection (d) requires the party asserting the defense or claim to plead with particularity in accordance with Rule 9(b) of the Federal Rules of Civil Procedure.\156\

\155\The Committee noted that certain court decisions appear to emphasize improperly the first part of this definition (reasonably important to an examiner) without giving necessary consideration to the latter part of the definition (in deciding whether to allow the patent). See, e.g., Nilssen v. Osram Sylvania, Inc., 504 F.3d 1223 (Fed. Cir. 2007); McKesson Information Solutions, Inc. v. Bridge Medical, Inc., 487 F.3d 897 (Fed. Cir. 2007); Ferring v. Barr Labs, 437 F.3d 1309 (Fed. Cir. 2006). As a result, when improperly applied, the materiality standard becomes essentially a relevancy standard. The codification of the definition makes clear the entire definition must be satisfied.

\156\The Committee heard some concerns that inequitable conduct is "over plead" and a tool of harassment. Presumably the requirements of pleading with particularity and clear and convincing evidence should help ameliorate any such concerns.

Finally, subsection (e) grants the court discretion to fashion the appropriate remedy if it finds inequitable conduct, which can include holding one, more than one, or all of the claims unenforceable, and/or that the patent holder is not entitled to the equitable relief of an injunction.

The Committee views it as axiomatic that applicants should be honest and forthcoming in their dealings with the USPTO. The rules governing such conduct, however, should not chill meaningful disclosures with the Office for fear of a future allegation. New section 298 is intended to balance these interests.

SECTION 13: AUTHORITY OF THE DIRECTOR OF THE PATENT AND TRADEMARK OFFICE TO ACCEPT LATE FILINGS

Background

There are numerous deadlines a patent applicant must comply with during prosecution and subsequent to the patent's issuance. The Director has the authority to accept late filings (including payment of fees) in only a limited number of situations.\157\

\157\See, e.g., 35 U.S.C. Sec. Sec. 41(a)(7) (revival of an application for unintentional delay); 41(c)(1) (reinstatement of a patent for unintentional delay); 111(a)(4) (revival for unintentional or unavoidable delay in submitting the filing fee or inventor's oath); 133 (revival if failure to prosecute was unavoidable).

Discussion of changes

Section 13 of the Act expands the Director's authority to accept any late-filed applications or other filings, if the filer satisfies the Director that the delay was unintentional. Any request by an applicant for the Director to accept a late-filed application under this section must be filed within 30 days of the missed deadline and must demonstrate that the delay was unintentional. The Director has the discretion to decide whether to grant such requests and the Director's decision is not appealable.

SECTION 14: LIMITATION ON DAMAGES AND OTHER REMEDIES WITH RESPECT TO PATENTS FOR METHODS IN COMPLIANCE WITH CHECK IMAGING METHODS

Background

In 1994, the Federal Reserve proposed the idea of an electronic check image processing, archival, and retrieval system. In 1996, the American National Standard for Financial Image Interchange issued its architecture and design specification for such a system. The Federal Reserve implemented this technology in a check truncation pilot in 1999. Years later, this evolving technology became standard practice in the banking industry, and its importance became particularly noted in the days after September 11, 2001, when transporting paper checks by airplane was impossible for several days.\158\ In 1999 and 2000, several inventors sought a series of patents relating to a system/process for imaging and storing documents, building their technology around what the government was already doing. The patent claims relate to a three-tiered system for imaging, transferring, and storing (archiving) paper checks tendered for processing via the electronic payment system.

\158\See Mark Hargrave, Check 21: A Year in the Life, 38 UCC L.J. 3 Art. 3 (2006).

The 108th Congress enacted the Check 21 Act of 2003, P.L. 108-100,\159\ which allowed the recipient of a paper check to create a digital version to store and transfer (referred to as a "substitute check"),\160\ thereby eliminating the need for further handling of the physical document.\161\ The Check 21 Act requires all banks to recognize and accept the digital images of checks it receives from other banks.\162\ The financial services industry (including banks) and their technology providers must be able to implement the Check 21 Act, which permits electronic check transfer based on technology developed by the federal government.\163\

\159\The Check Clearing for the 21st Century Act (Check 21 Act), P.L. 108-100, 117 Stat. 1177 (2003) (codified at 12 U.S.C. Sec. Sec. 5001-5018) (2000).

\160\See Jeffrey Barry, The Check Clearing For The 21st Century Act ("Check 21"), 24 Ann. Rev. Banking & Fin. L. 130, 132 (2005).

\161\For a thorough discussion of the Check 21 Act, see H.R. Rep. 108-132 (2003) and H.R. Rep. 108-291 (2003).

\162\See Mark Hargrave, Check 21: A Year in the Life, 38 UCC L.J. 3 Art. 3 (2006).

\163\See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary, 110th Cong. 291 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co.), explaining that the manner in which commercial banks currently process checks is effectively prescribed by the Check 21 Act.

Discussion of changes Because Congress has mandated implementation of the Check 21 Act, the Committee accepted an amendment during the mark-up of the bill that declares practicing of the Check 21 industry standard should not constitute patent infringement. Section 14 of the Act amends section 287 of title 35 to limit the remedies available against a financial institution with respect to a check imaging and archival method or system that is called for under the Check 21 Act, but not for any other uses of those methods or systems. This amendment shall apply to any civil action for patent infringement pending or filed on or after the date of enactment of this Act.

SECTION 15: PATENT AND TRADEMARK OFFICE FUNDING.

The USPTO collects user fees, but it does not retain and spend those fees. Instead, the fees are deposited in the Treasury and the USPTO is funded by annual Congressional appropriations. Although Congress has fully funded the user fees to USPTO for the last several years, it has not always done so--resulting in what is commonly termed "fee diversion." This lack of connection between the monies flowing into the agency and those available for expenditure has, according to the USPTO, contributed to (i) the growing number of unexamined patent applications ("backlog"), and (ii) the increased time it takes to have a patent application examined ("pendency").\164\ The current backlog of unexamined applications is approximately 730,000;\165\ average pendency to have a patent examined is over 31 months.\166\ The USPTO has explained that the uncertainty of the annual funding process and the recurring possibility of fee diversion severely restricts its ability to plan strategically for long-term personnel and technology needs and to implement procedures to ensure that only high quality patents are

awarded. In addition, the Committee heard that many patent users would be willing to pay increased fees for better examination, but only on the condition that all of those fees go to the USPTO, and that none be diverted.\167\

\164\See Perspectives on Patents: Harmonization and Other Matters:

Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 45-47 (2005) (statement of Q. Todd Dickinson, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office).

\165\See GAO 07-1102, Hiring Efforts Are Not Sufficient to Reduce the Patent Application Backlog, 1 (September, 2007). The GAO Report explains that since fiscal year 2002 alone, the backlog has increased by nearly 73%. Moreover, the USPTO predicts the backlog could approach 1.4 million by 2012 unless something is done. See USPTO Strategic Plan, 2007-2112 at 11, available at http://www.uspto.gov/web/offices/com/ strat2007/stratplan2007-2012.pdf.

\166\See USPTO Strategic Plan, 2007-2112 at 6, available at http:// www.uspto.gov/web/offices/com/strat2007/stratplan2007-2012.pdf.

\167\See Perspectives on Patents: Harmonization and Other Matters:

Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 45-47 (2005) (statement of Q. Todd Dickinson, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office).

Discussion of changes

Section 15 of the Act establishes a revolving fund that permits the USPTO to retain the fees it collects without relying on annual appropriations. Reporting, notification, and auditing requirements are put in place to assure fiscal discipline, responsibility and accountability.

SECTION 16: TECHNICAL AMENDMENTS

Section 16 of the Act contains technical amendments consistent with the Act to improve the organization of the patent statute.

SECTION 17: EFFECTIVE DATE; RULE OF CONSTRUCTION

Section 17 of the Act provides that, unless otherwise provided, the Act takes effect 12 months after the date of enactment and applies to any patent issued on or after that effective date. It also provides that the enactment of section 102(b)(3) of title 35, under section (2)(b) of the Act is done with the same intent to promote joint research activities that was expressed in the Cooperative Research and Technology Enhancement Act of 2004 (Public Law 108-453) and shall be administered in a manner consistent with such.

II. History of the Bill and Committee Consideration

A. INTRODUCTION OF THE BILL

On August 3, 2006, in the 109th Congress, Senator Hatch introduced the Patent Reform Act of 2006 (S. 3818) with Senator Leahy. It was referred to the Committee on the Judiciary, where it stayed until the end of the session.

On April 18, 2007, in the 110th Congress, Senator Leahy, along with Senator Hatch, introduced the Patent Reform Act of 2007. Senator Schumer, Senator Whitehouse, and Senator Cornyn were original cosponsors of the bill; Senator Craig, Senator Crapo, Senator Bennett, Senator Salazar, and Senator Smith later joined as cosponsors. The bill was referred to the Committee on the Judiciary, and was first placed on the Committee's agenda on June 14, 2007.

B. HEARINGS

The Senate Committee on the Judiciary held six hearings on patent reform from 2005 through 2007.

On April 25, 2005, the Senate Committee on the Judiciary Subcommittee on Intellectual Property held a hearing on "Perspectives on Patents." This first hearing was attended by Chairman Hatch, Ranking Member Leahy, Senator Cornyn, and Senator Feinstein. Testifying on Panel I was the Honorable Jon W. Dudas, Under Secretary of Commerce for Intellectual Property, and Director, U.S. Patent and Trademark Office.

Testifying on Panel II were Richard C. Levin, President, Yale University, and Co-Chair, Committee on Intellectual Property Rights in the Knowledge-Based Economy, Board on Science, Technology, and Economic Policy, National Research Council; and Mark B. Myers, Visiting Executive Professor, Management Department, Wharton Business School, University of Pennsylvania, and Co-Chair, Committee on Intellectual Property Rights in the Knowledge-Based Economy, Board on Science, Technology, and Economic Policy, National Research Council.

Testifying on Panel III were William Parker, Chief Executive Office and Director of Research, Diffraction, Ltd.; Joel L. Poppen, Deputy General Counsel, Micron Technology, Inc.; David Simon, Chief Patent Counsel, Intel Corporation; Dean Kamen, President, DEKA Research and Development Corp.; Robert A. Armitage, Senior Vice President and General Counsel, Eli Lilly and Company; and Michael K. Kirk, Executive Director, American Intellectual Property Law Association (AIPLA). The following materials were submitted for the record: Comments of the National Association of Patent Practitioners on the Proposed Patent Act of 2005, submitted by Tony Venturino, President, on May 6, 2005; prepared statement of Jon W. Dudas; prepared statement of Richard C. Levin; prepared statement of Mark B. Myers; prepared statement of William Parker; prepared statement of Joel L. Poppen; prepared statement of David Simon; prepared statement of Dean Kamen; prepared statement of Robert A. Armitage; and prepared statement of Michael K. Kirk.

On June 14, 2005, the Senate Committee on the Judiciary Subcommittee on Intellectual Property held a hearing on "Patent Law Reform: Injunctions and Damages." This second hearing was attended by Chairman Hatch, Ranking Member Leahy, and Senator Kennedy. The following witnesses testified: Carl Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation (WARF); Jonathan Band, Counsel on behalf of Visa and the Financial Services Roundtable; Mark A. Lemley, Professor of Law, Stanford Law School; Jeffrey P. Kushan, Sidley

Austin Brown and Wood, LLP; Chuck Fish, Vice President and Chief Patent Counsel, Time Warner, Inc.; and J. Jeffrey Hawley, President, Intellectual Property Owners Association, and Vice President and Director, Patent Legal Staff, Eastman Kodak Company. The following materials were submitted for the record: prepared statement of Carl Gulbrandsen; the prepared statement of Jonathan Band; the prepared statement of Mark A. Lemley; the prepared statement of Jeffrey P. Kushan; the prepared statement of Chuck Fish; and the prepared statement of J. Jeffrey Hawley.

On July 26, 2005, the Senate Committee on the Judiciary Subcommittee on Intellectual Property held a hearing on "Perspectives on Patents: Harmonization and Other Matters."

Chairman Hatch attended this hearing and Ranking Member Leahy submitted a statement for the record. The following witnesses testified: The Honorable Gerald J. Mossinghoff, former Assistant Secretary of Commerce and Commissioner of Patents and Trademarks, and Senior Counsel, Oblon, Spivak, McClelland, Maier & Neustadt; The Honorable Q. Todd Dickinson, former Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office, and Vice President and Chief Intellectual Property Counsel, General Electric Company; Marshall C. Phelps, Corporate Vice President and Deputy General Counsel for Intellectual Property, Microsoft Corporation; Christine Siwik, Partner, Rakoczy Molino Mazzochi Siwik, LLP; Charles E. Phelps, Provost, University of Rochester, on behalf of the Association of American Universities, American Council on Education, Association of American Medical Colleges and Council on Governmental Relations; and David Beier, Senior Vice President for Global Government Affairs, Amgen. The following materials were submitted for the record: prepared statement of David Beier; article, Bureau of National Affairs, Inc., Patent, Trademark & Copyright Journal, C. Boyden Gray, former White House Counsel and Partner, Wilmer Cutler Pickering Hale and Dorr; prepared statement of Q. Todd Dickinson; prepared statement of Gerald J. Mossinghoff; prepared statement of Charles E. Phelps; prepared statement of Marshall C. Phelps; prepared statement of Christine J. Siwik; and prepared statement of Teva North America, Steven J. Lee, Partner, Kenyon & Kenyon, Thomas L. Creel, Partner, Goodwin Procter LLP, Outside Patent Counsel.

On May 23, 2006, the Senate Committee on the Judiciary Subcommittee on Intellectual Property held a hearing on "Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms." Chairman Hatch and Ranking Member Leahy attended, and the following witnesses testified: Mark Chandler, Senior Vice President and General Counsel, Cisco Systems, Inc.; Philip S. Johnson, Chief Patent Counsel, Johnson & Johnson; Nathan P. Myhrvold, Chief Executive Officer, Intellectual Ventures; John R. Thomas, Professor of Law, Georgetown University Law Center; and Andrew Cadel, Managing Director, Associate General Counsel, and Chief Intellectual Property Counsel, JP Morgan Chase. The following materials were submitted for the record: prepared statement of Andrew Cadel; prepared statement of Mark Chandler; prepared statement of Jack Haken, Vice President, Intellectual Property & Standards, U.S. Phillips Corporation; prepared statement of Philip S. Johnson; prepared statement of Nathan P. Myhrvold; and prepared statement of John R. Thomas.

On May 1, 2007, the Senate Committee on the Judiciary held a hearing on "Process Patents." This hearing was attended by Chairman Leahy, Ranking Member Specter, Senator Cardin, Senator Whitehouse, Senator Graham, and Senator Coburn. Senator Feinstein submitted a

statement for the record. The following witnesses testified: Wayne Herrington, Assistant General Counsel, United States International Trade Commission; John R. Thomas, Professor of Law, Georgetown University Law Center; Mike Kirk, Executive Director, American Intellectual Property Law Association; and Christopher A. Cotropia, Professor of Law, Richmond School of Law. The following materials were submitted for the record: prepared statement of Wayne Herrington; prepared statement of John R. Thomas; prepared statement of Mike Kirk; prepared statement of Christopher A. Cotropia; letter from the United Steel Workers to Senator Leahy and Senator Specter dated February 6, 2007; letter from the AFL-CIO to Senator Leahy and Senator Specter dated February 21, 2007; and an article by Mickey Kantor and Theodore B. Olsen titled "Pet Food and Pool Cues," published May 13, 2006.

On June 6, 2007, the Senate Committee on the Judiciary held its sixth and final hearing on patent reform, entitled "Patent Reform: The Future of American Innovation." Senator Leahy, Senator Specter, Senator Cardin, Senator Whitehouse, Senator Hatch, and Senator Coburn attended the hearing. Testifying on Panel I was the Honorable Jon W. Dudas, Undersecretary of Commerce for Intellectual Property, Director of the U.S. Patent and Trademark Office. Testifying on Panel II were Bruce G. Bernstein, Chief Intellectual Property and Licensing Officer, InterDigital Communications Corporation; Mary Doyle, Senior Vice President, General Counsel and Secretary, Palm, Inc.; John A. Squires, Chief Intellectual Property Counsel, Goldman, Sachs & Co.; and Kathryn L. Biberstein, Senior Vice President, General Counsel and Secretary, and Chief Compliance Officer, Alkermes, Inc. The following materials were submitted for the record: letter from the Department of Commerce to Senator Leahy and Senator Specter dated May 18, 2007; letter from BIO to Senator Leahy and Senator Specter dated May 29, 2007; letter from Chief Judge Paul R. Michel of the Federal Circuit to Congressman Conyers dated May 21, 2007; letter from the National Association of Manufacturers to Congressman Conyers and Congressman Smith dated May 18, 2007; letter from Chief Judge Paul R. Michel of the Federal Circuit to Senator Leahy and Senator Specter dated May 3, 2007; the prepared statement of Jon W. Dudas; the prepared statement of Bruce G. Bernstein; prepared statement of Mary Doyle; prepared statement of John A. Squires; and prepared statement of Kathryn L. Biberstein.

C. LEGISLATIVE HISTORY

On June 21, 2007, the Senate Judiciary Committee first considered S. 1145. Senator Leahy offered a Manager's Amendment, which was adopted by unanimous consent. This Manager's Amendment made several changes including eliminating inter partes reexamination; making denials of PGR petitions discretionary and not reviewable; raising the standard for initiating PGR to requiring both a showing of likely economic harm and notice of infringement; making technical changes regarding USPTO venue from the District of Columbia to the Eastern District of Virginia; limiting the venue choices against foreign defendants; clarifying that the apportionment language does not apply to lost profits calculations; providing that false substitute statements in 115 are subject to the same criminal penalties as false inventor oaths; eliminating the requirement that to request a derivation proceeding, the inventor had to have filed a patent application prior to the publication of the allegedly derived application; clarifying the one a year grace period set forth in 102; eliminating the DC-area residency requirement for Federal Circuit judges; establishing a new "micro-entity" status for truly small inventors; eliminating the provision in the Act that would have expanded the prior user rights defense to apply to all patents; and providing that a report on prior user rights be provided to Congress.

On July 12, 2007, the Senate Judiciary Committee considered S. 1145 as previously amended on June 21, 2007. The Committee accepted Senator Leahy's Second Manager's Amendment by unanimous consent. This Manager's Amendment made several changes to post-grant review, including for both 1st and 2nd window raising the standard to initiate a PGR to "substantial new question of patentability"; for both windows prohibiting the filing of a PGR petition by a party that has instituted a district court action challenging the validity of the same patent; for both windows providing for settlement; for 2nd window, providing that the challenged patent has a presumption of validity; and for 2nd window requiring that a PGR petition be filed within 12 months of receiving notice of infringement.

This Manager's Amendment also made changes to venue including clarifying that the new section would apply to declaratory judgment actions, as well as making changes regarding venue for foreign defendants. This Manager's Amendment also expanded who has standing to assert the prior user rights defense to include affiliates of the person who performed the acts that constitute the defense. This Manager's Amendment also eliminated the provision requesting a reexamination study; gave the USPTO fee setting authority; reduced the maximum number of years (from 6 to 2) of past damages that a patentee could recover where the patent was not subject to the marking requirements of 287(a).

This Manager's Amendment also added the phrase "otherwise available to the public" to 102 to make clear that secret collaborative agreements, which are not available to the public, are not prior art. This Amendment added the applicant quality submission (AQS) provision to the Act; clarified the damage language regarding apportionment and the entire market value rule; and gave district court judges discretion as to when to certify claim construction decisions for interlocutory appeal, and when to stay the underlying case pending such appeal. Finally, this Manager's Amendment eliminated the provision in the Act giving the USPTO substantive rulemaking authority.

Senator Specter offered an amendment that changed the venue provision for civil actions relating to patents in several respects. The amendment prohibits a party from manufacturing venue by assignment, incorporation or otherwise. The amendment limits venue in patent infringement and declaratory judgment actions to the district in which (1) the defendant has its principal place of business or is incorporated, or, for a foreign defendant, where its primary United States subsidiary is located; (2) the defendant has committed substantial acts of infringement if the defendant has a regular and established physical facility in that district that constitutes a substantial portion of the defendant's operations, or (3) the primary plaintiff resides if the plaintiff is a university or an individual inventor that qualifies as a micro-entity. The Specter venue amendment also provided for transfer of cases in limited situations where appropriate.

The Committee concluded consideration of S. 1145 at a business meeting on July 19, 2007, at which 10 amendments were considered.

Senator Leahy and Senator Hatch offered a Third Managers' Amendment adopted by unanimous consent that made changes including clarifying that the venue provision applied to non-incorporated businesses; restoring the willfulness section of the bill that was inadvertently struck in the Second Managers' Amendment due to a clerical error; narrowing the patents subject to 2nd window post-grant review to those that issue after the effective date of that section of the

Act, as well as those that would have been subject to inter partes reexamination; making clear that PGR Board decisions were only appealable to the Federal Circuit and not to a federal district court; clarifying the burden of proof required to invalidate a patent under PGR 2nd window; and making a technical change to the conforming amendment in Section 9 regarding USPTO regulatory authority.

Senator Specter offered an amendment that would have eliminated best mode as grounds for invalidating a patent. This amendment was rejected on a roll call vote. The vote record is as follows:

YEAS (9)--

Brownback (Kan.), Coburn (Okla.), Cornyn (Texas), Feinstein (Calif.), Graham (S.C.), Hatch (Utah), Kyl (Ariz.), Sessions, J. (Ala.), Specter (Pa.).

NAYS (10)--Biden (Del.), Cardin (Md.), Durbin (Ill.), Feingold (Wis.), Grassley (Iowa), Kennedy (Mass.), Kohl (Wis.), Leahy (Vt.), Schumer (N.Y.), Whitehouse (R.I.).

Senator Kennedy offered an amendment that would give the Director of the United States Patent and Trademark Office the discretion to accept late filings in limited circumstances when the delay is unintentional. The amendment was agreed to by unanimous consent; Senator Grassley and Senator Sessions later changed their votes to no votes, which did not affect the outcome of the vote.

Senator Sessions offered an amendment that would limit liability for certain check imaging patents against certain potential defendants. The amendment was agreed to by unanimous consent.

Senator Coburn offered an amendment that would eliminate fee diversion at the United States Patent and Trademark Office.

The amendment was agreed to by a voice vote.

Senator Hatch offered an amendment that would codify and raise the standard to prove inequitable conduct, including defining materiality as information that is considered would render a claim of the patent invalid. Senator Leahy then offered a second degree amendment that instead would define materiality as information that a patent examiner would consider important in deciding whether to allow the patent. The second degree amendment was accepted on a roll call vote. The vote record is as follows:

YEAS (10)--Cardin (Md.), Cornyn (Texas), Durbin (Ill.), Feingold (Wis.), Graham (S.C.), Kennedy (Mass.), Kohl (Wis.), Leahy (Vt.), Schumer (N.Y.), Whitehouse (R.I.).

NAYS (9)--Biden (Del.), Brownback (Kan.), Coburn (Okla.), Feinstein (Calif.), Grassley (Iowa), Hatch (Utah), Kyl (Ariz.), Sessions (Ala.), Specter (Pa.).

Senator Kyl offered an amendment that would have modified the bill’s damages language by defining how a reasonable royalty should be calculated as what a willing licensor/ licensee would

have voluntarily negotiated at the time of the infringement. This amendment was rejected on a roll call vote, with 2 not voting. The vote record was as follows:

YEAS (7)--Brownback (Kan.), Coburn (Okla.), Feingold (Wis.), Grassley (Iowa), Kennedy (Mass.), Kyl (Ariz.), Specter (Pa.).

NAYS (10)--Biden (Del.), Cardin (Md.), Cornyn (Texas), Durbin (Ill.), Hatch (Utah), Kohl (Wis.), Leahy (Vt.), Sessions (Ala.), Schumer (N.Y.), Whitehouse (R.I.).

Senator Kyl offered an amendment that would strike Section 4 (damages) from the bill. This amendment was rejected on a roll call vote, with 1 not voting. The vote record is as follows:

YEAS (7)--Biden (Del.), Brownback (Kan.), Coburn (Okla.), Feingold (Wis.), Grassley (Iowa), Kyl (Ariz.), Specter (Pa.).

NAYS (11)--Cardin (Md.), Cornyn (Texas), Durbin (Ill.), Feinstein (Calif.), Hatch (Utah), Kennedy (Mass.), Kohl (Wis.), Leahy (Vt.), Schumer (N.Y.), Sessions (Ala.), Whitehouse (R.I.).

Senator Coburn offered an amendment that would strike Section 5 (post-grant review) from the bill, and would require the USPTO and the Department of Justice conduct a 6-month study of post-grant review systems used by foreign countries. This amendment was rejected by a roll call vote, with 1 not voting.

The vote record is as follows:

YEAS (5)--Brownback (Kan.), Coburn (Okla.), Feingold (Wis.)*, Grassley (Iowa), Kyl (Ariz.).

NAYS (13)--Cardin (Md.), Cornyn (Texas), Durbin (Ill.), Feinstein (Calif.), Graham (S.C.), Hatch (Utah), Kennedy (Mass.), Kohl (Wis.), Leahy (Vt.), Schumer (N.Y.)*, Sessions, J. (Ala.), Specter (Pa.), Whitehouse (R.I.).

The Committee voted the Patent Reform Act of 2007 as amended to be reported favorably by a roll call vote of 13 yeas to 5 nays, with 1 not voting.

YEAS (13)--Cardin (Md.), Cornyn (Texas), Durbin (Ill.), Feinstein (Calif.), Graham (S.C.), Hatch (Utah), Kennedy (Mass.), Kohl (Wis.), Leahy (Vt.), Schumer (N.Y.)*, Sessions, J. (Ala.), Specter (Pa.), Whitehouse (R.I.).

NAYS (5)--Brownback (Kan.), Coburn (Okla.), Feingold (Wis.)*, Grassley (Iowa), Kyl (Ariz.).

III. Section-by-Section Summary of the Bill

Sec. 1. Short title; table of contents

This Act may be cited as the Patent Reform Act of 2007.

Sec. 2. Right of the first inventor to file

This section, inter alia, converts the United States' patent system into a first-inventor-to-file system, giving priority to the earlier-filed application for a claimed invention. Interference proceedings are replaced with a derivation proceeding to determine whether the applicant of an earlier-filed application was the proper applicant for the claimed invention. This section also provides for a grace period for publicly disclosing the subject matter of the claimed invention, without losing priority.

Specifically, this section makes the following amendments:

Subsection (a)--Sec. 100 is amended to include definitions for additional terms.

Subsection (b)--Sec. 102 is amended as follows:

(a)(1) A patent shall not issue for a claimed invention if the invention was patented, described in a printed publication, or in public use, on sale or otherwise available to the public (A) more than a year before the filing date, or (B) anytime prior to the filing date if not through disclosure by the inventor or joint inventor, or by others who obtained the subject matter, directly or indirectly, from the inventor or joint inventor. A one-year grace period is provided for an inventor or joint inventor that discloses the subject matter of the claimed invention.

(2) A patent also may not be issued if the claimed invention was described in a patent or patent application by another inventor filed prior to the filing date of the claimed invention.

(b) Exceptions:

Subject matter that would otherwise qualify as prior art under (a)(1)(B) shall not be prior art if the subject matter had, before such disclosure, been publicly disclosed by the inventor, joint inventor, or others who obtained the subject matter from the inventor/joint inventor. Subject matter that would otherwise qualify as prior art under (a)(2) shall not be prior art if (A) the subject matter was obtained directly or indirectly from the inventor or joint inventor, (B) the subject matter had been previously disclosed by the inventor or a joint inventor or others who obtained the subject matter, directly or indirectly, from the inventor or a joint inventor, or (C) prior to the effective filing date, the subject matter and the claimed invention was owned by the same person or subject to an obligation of assignment to the same person.

The CREATE Act is preserved by including an exception for subject matter of a claimed invention made by parties to a joint research agreement.

The requirements for an effective filing date are set forth.

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

Subsection (d)--Repeals Sec. 104 (Inventions Made Abroad).

Subsection (e)--Repeals Sec. 157 (Statutory Invention Registration).

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

Subsection (g)--Makes various conforming amendments.

Subsections (h), (i) & (j)--Repeals interference proceeding and repeals Sec. 291. Amends Sec. 135(a) and provides for a "derivation proceeding," designed to determine the inventor with the right to file an application on a claimed invention.

An applicant requesting a derivation proceeding must set forth the basis for finding that an earlier applicant derived the claimed invention and without authorization filed an application claiming such invention. The request must be filed within 12 months of the date of first publication of an application for a claim that is substantially the same as the claimed invention. The Patent Trial and Appeal Board (the "Board") shall determine the right to patent and issue a final decision thereon. Decisions of the Board may be appealed to the Federal Circuit, or to district court pursuant to Sec. 146.

Sec. 3. Inventor's oath or declaration

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

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

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

Sec. 4. Right of the inventor to obtain damages

Subsection (a)--Sec. 284, the patent damage statute, is amended as follows:

The court shall award the claimant damages adequate to compensate for the infringement but not less than a reasonable royalty, together with interest and costs. The court may receive expert testimony to assist it in determining damages.

In determining a reasonable royalty, the court shall determine which of the following methods should be used, and should identify the factors that are relevant thereto:

(A) Entire market value--the royalty may be based upon the entire market value of the larger apparatus/process, that incorporates the infringing product/process, if the claimed invention's

specific contribution over the prior art is the predominant basis for the market demand of the larger apparatus/process;

(B) Established royalty based on marketplace licensing--the royalty may be based on other nonexclusive licenses of the patented invention if the claimed invention has been the subject of a nonexclusive license to a number of persons sufficient to indicate a general marketplace recognition of the reasonableness of the licensing terms, if the license was secured prior to the filing of the case, and if the infringer's use is of substantially the same scope, volume and benefit of the rights granted under such license.

(C) If showings under (A) and (B) have not been made, the court shall conduct an analysis to ensure that a reasonable royalty is applied only to the portion of the economic value of the infringing product or process properly attributable to the claimed invention's specific contribution over the prior art.

In the case of a combination invention whose elements are present individually in the prior art, the contribution over the prior art may include the value of the additional function resulting from the combination, as well as the enhanced value, if any, of some or all of the prior art elements as part of the combination, if the patentee demonstrates that value.

In determining a reasonable royalty, where appropriate, the court may also consider (or direct the jury to consider) any other relevant factors under applicable law.

The methods set forth in this subsection shall only apply to calculation of damages based on a reasonable royalty.

Willful infringement--Sec. 284 is amended by adding subsection (e) to codify, and change, the doctrine of willful infringement.

A court may increase damages by up to three times based on a finding of willful infringement. A determination of willful infringement shall be made without a jury. To prove willful infringement, a patentee must prove by clear and convincing evidence that:

(A) the infringer received written notice from the patentee (i) alleging acts of infringement in a manner sufficient to give the infringer an objectively reasonable apprehension of suit on such patent, and (ii) identifying with particularity each claim of the patent, each allegedly infringing product or process, and the relationship of such product or process to such claim, the infringer, after a reasonable opportunity to investigate, thereafter performed one or more acts of infringement;

(B) after receiving such notice and after a reasonable opportunity to investigate, the infringer intentionally copied the patented invention with knowledge that it was patented; or (C) after having been found by a court to infringe a patent, the infringer engaged in conduct that was not colorably different from the conduct previously found to have infringed the patent, and which resulted in a separate finding of infringement of the same patent.

The doctrine of willful infringement has the following limitations:

(i) “Good faith”--A court may not find that an infringer has willfully infringed a patent for any period of time during which the infringer had an informed good faith belief that the patent was invalid or unenforceable, or would not be infringed.

An informed good faith belief may be established by (a) reasonable reliance on advice of counsel; (b) evidence that the infringer sought to modify its conduct to avoid infringement once it had discovered the patent; or (c) other evidence a court may find sufficient to establish good faith. The decision of the infringer not to present evidence of advice of counsel is not relevant to a determination of willful infringement.

(ii) Pleadings--A patentee may not plead (and a court may not determine) willful infringement before the date on which a court determines that the patent in suit is not invalid, is enforceable, and has been infringed by the infringer.

Subsection (b)--Prior user rights study--Within 2 years from the date of enactment, the Director shall report to Congress his findings and recommendations regarding the operation of “prior user rights” in selected countries as compared to the United States.

Subsection (c)--Marking and notice--Subsection (a) of Sec. 287 is renumbered as (a)(1). Subsection (a)(2), which is added, provides that for patented inventions not covered under subsection (a)(1), past damages shall be limited to 2 years prior to the filing of a complaint (or counterclaim) except upon proof that the infringer was notified of infringement by the patentee. In no case shall liability for past damages exceed 6 years.

Subsection (d)--Subsection (b)(6) of Sec. 273 is amended to also allow “affiliates” of the person who performed the necessary prior user rights acts to assert the defense.

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

Sec. 5. Post-grant procedures and other quality enhancements

This section creates a new post-grant review proceeding that allows third parties to petition the USPTO to review patents that may be invalid. There are two different “windows” for the filing of such petitions: 1st window petitions must be filed within 1 year of the patent issuing;

2nd window petitions may be filed at anytime after the patent issues.

The procedures and standards for each window differ when expressly specified in the statute.

In view of the creation of this new PGR system, Sec. 303(a) is amended and inter partes reexamination is repealed.

Subsection (a)--Amends Sec. 303(a) to provide that, within three months of a request for reexamination of a patent by the patent owner, or at any time on the Director’s own initiative, the Director may determine whether a substantial new question of patentability is raised by patents discovered by the Director or cited by any other person.

Subsection (b)--Repeals inter partes reexamination.

Subsection (c)--Sets forth post-grant opposition procedures. The specific statutory sections are as follows:

Sec. 321--Petition for post-grant review Permits a 3rd party to file a PGR petition with the PTO to cancel a claim as invalid based on any ground that might be raised under Sec. 282(b)(2) and (3). The Director shall establish fees to be paid by the person requesting the proceeding.

Sec. 322--Timing and basis of petition

A PGR petition may be filed in any one of three circumstances:

(1) The petition is filed within 12 months of the patent's issuance or reissuance (referred to as "1st window"); (2)(i) There is substantial reason to believe that the continued existence of the challenged claim is likely to cause the petitioner significant economic harm, and (ii) the petitioner files the petition within 12 months after receiving notice (explicitly or implicitly) of infringement; or (3) The patent owner consents ((2) and (3) are referred to as "2nd window").

Sec. 323--Requirements of petition A petition must, inter alia, include the necessary fee, identify the real parties in interest, specifically identify each claim challenged, the grounds for challenging it, and the evidence that supports each challenge, including, where applicable, copies of relevant patents and printed publications, or supporting affidavits or declarations. The Director may, by regulation, require additional information.

The petitioner must provide a copy of the petition with supporting documents to the patent owner or his designated representative.

Sec. 324--Publication and public availability of petition The Director shall publish the petition in the Federal Register and make that petition available on the USPTO website.

Any PGR file shall be made available to the public unless a petition or document is accompanied with a motion to seal. Such petition or document shall be treated as sealed, pending the outcome of the ruling on the motion. Failure to file a motion to seal will result in the pleading being placed in the public record.

Sec. 325--Prohibited filings

Successive petitions under any subsection of Sec. 322, filed by the same party on the same patent, are prohibited. A PGR proceeding may not be instituted or maintained under paragraph (1) or (2) of Sec. 322 if the petitioner or real party in interest has instituted a civil action challenging the validity of a claim of the patent.

Sec. 326--Submission of additional information

A petitioner shall file such additional information as the Director may require by regulation.

Sec. 327--Institution of post-grant review proceedings

The Director may not authorize a post-grant review proceeding to commence unless the Director determines that the information presented in the petition raises a substantial new question of patentability for at least 1 of the challenged claims. The Director shall decide a petition within 90 days of its receipt, shall notify the petitioner and patent owner of the Director's decision, and if granted shall publish each notice of PGR institution in the Federal Register and on the USPTO website, including the date the PGR proceeding shall commence. The determination by the Director whether to authorize a PGR proceeding is not appealable. The Director shall assign a PGR proceeding to a panel of 3 Board judges.

Sec. 328--Consolidation of proceedings and joinder

If more than 1 petition is submitted under Sec. 322(1) against the same patent and each raises a substantial new question of patentability warranting commencement, the Director may consolidate such proceedings. If the Director commences a PGR proceeding on the basis of a petition filed under Sec. 322(2), any person who files in compliance with section 322(2)(A) a petition that the Director finds sufficient to proceed under Sec. 327 may be joined at the discretion of the Director, and such person shall participate in such PGR proceeding.

Sec. 329--Conduct of post-grant review proceedings

The Director shall prescribe regulations establishing and governing PGR proceedings under this chapter and their relationship to other proceedings under this title. The regulations shall set forth the standards for showings of substantial reason to believe and significant economic harm under Sec. 322(2) and substantial new question of patentability under Sec. 327(a). The regulations shall (i) provide for the publication in the Federal Register all requests for the institution of PGR, (ii) establish procedures for the submission of supplemental information after the petition is filed, and (iii) set forth procedures for discovery of relevant evidence. The regulations shall require that the final determination in a PGR proceeding issue not later than 1 year after the date on which the Director notices its institution, except that, for good cause shown, the Director may extend the 1-year period by not more than 6 months. The regulations shall (i) provide for discovery upon order of the Director, as required in the interests of justice, (ii) prescribe sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding, (iii) provide for protective orders governing the exchange and submission of confidential information; and (iv) ensure that any information submitted by the patent owner in support of any amendment entered under Sec. 332 is made available to the public as part of the prosecution history of the patent.

In prescribing regulations, the Director shall consider the effect on the economy, the integrity of the patent system, and the efficient administration of the Office. The Patent Trial and Appeal Board shall conduct each proceeding authorized by the Director.

Sec. 330--Patent owner response

After a post-grant review proceeding has been instituted, the patent owner shall have the right to file a timely response, which may include affidavits, declarations and any additional factual evidence and expert opinions on which the patent owner relies in support of the response.

Sec. 331--Proof and evidentiary standards The presumption of validity set forth in Sec. 282 of this title shall not apply to challenges brought under Sec. 322(1) but shall apply in a challenge brought under paragraph (2) or (3) of Sec. 322 to any patent claim under this chapter. The petitioner under Sec. 322(1) shall have the burden of proving a proposition of invalidity by a preponderance of the evidence.

For petitions filed under paragraphs (2) or (3) of Sec. 322, the existence, authentication, availability, and scope of any evidence offered to establish invalidity shall be established by clear and convincing evidence. If such predicate facts are so established, invalidity shall be proven only if the persuasive force of such facts demonstrates invalidity by a preponderance of the evidence.

Sec. 332--Amendment of the patent

During a post-grant review proceeding, the patent owner may file 1 motion to amend the patent in 1 or more of the following ways: (1) cancel any challenged patent claim; (2) for each challenged claim, propose a substitute claim; or (3) amend the patent drawings or otherwise amend the patent other than the claims. Additional motions to amend may be permitted only for good cause shown. An amendment under this section may not enlarge the scope of the claims of the patent or introduce new matter.

Sec. 333--Settlement

A PGR proceeding 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 matter before the request for termination is filed. If the PGR proceeding is terminated with respect to a petitioner under this section, no estoppel under this chapter shall apply to that petitioner. If no petitioner remains in the PGR proceeding, the Office shall terminate the PGR proceeding. Any agreement or understanding between the patent owner and a petitioner to terminate the proceeding, including any collateral agreements referred to therein, shall be in writing and a true copy shall be filed in the USPTO before the termination of the post-grant review proceeding. If any party filing such agreement or understanding so requests, the copy shall be kept separate from the file of the PGR proceeding, and made available only to Federal Government agencies upon written request, or to any other person on a showing of good cause.

Sec. 334--Decision of the board

If the proceeding is not otherwise dismissed, the Patent Board shall issue a final written decision with respect to the patentability of any patent claim challenged and any new claim added.

Sec. 335--Effect of decision

If a final decision of the Board that is not timely appealed, or if that appeal is terminated, the Director shall publish a certificate canceling any claim determined unpatentable, and shall incorporate in the patent any new claim determined to be patentable.

Sec. 336--Relationship to other pending proceedings

The Director may determine rules relating to other ongoing proceedings.

Sec. 337--Effect of decisions rendered in civil action on future post-grant review proceedings

If a final decision has been entered against a party in a civil action arising under section 1338 of title 28 establishing that the party has not sustained its burden of proving the invalidity of any patent claim, that party to the civil action may not subsequently request a PGR proceeding on that patent claim on the basis of any grounds under Sec. 322.

In addition, the Director may not subsequently maintain a PGR proceeding previously requested by that party.

Sec. 338--Effect of final decision on future proceedings If a final decision under Sec. 334 is favorable to the patentability of any original or new claim of the patent challenged by the petitioner, the petitioner may not thereafter, based on any ground which the petitioner raised during the PGR proceeding (1) request or pursue a derivation proceeding with respect to such claim; or (2) assert the invalidity of any such claim in any civil action arising in whole or in part under section 1338 of title 28. If the final decision is the result of a petition filed on the basis of Sec. 322(2), the prohibition under this section shall extend to any ground which the petitioner raised during the PGR proceeding.

Sec. 339--Appeal

A party dissatisfied with the final determination of the Board in a PGR proceeding may appeal the determinations under Sec. Sec. 141 through 144. Any party to the PGR proceeding shall have the right to be a party to the appeal.

Subsection (d)--Sets forth technical and conforming amendments.

Subsection (e)--Within 1 year after the enactment of this Act, the Director shall issue regulations to implement PGR, as added by this section.

PGR shall take effect on the date that is 1 year after the date of the enactment of this Act and shall apply to patents issued on, or after that date, except that, in the case of a patent issued before the effective date of this Act on an application filed between November 29, 1999 and the effective date of this Act, a petition for post-grant review may only be filed under subsections (2) or (3) of Sec. 322. The Director shall determine the procedures under which interferences commenced before the effective date of this Section are to proceed and issue appropriate regulations.

Sec. 6. Definitions; patent trial and appeal board

The Board of Patent Appeals and Interferences is replaced with the new Patent Trial and Appeal Board (“Board”). The Board is charged with (i) reviewing adverse decisions of examiners on applications and reexamination proceedings, (ii) conducting derivation proceedings, and (iii) conducting the post-grant review proceedings.

Sec. 7. Submissions by third parties and other quality enhancements

Subsection (a)--Sec. 122(b)(2), which provides an exception to the 18-month publication requirement for an applicant who is not filing in another country, is repealed.

Subsection (b)--Creates a mechanism in Sec. 122 for third parties to submit timely pre-issuance information relevant to the examination of the application, including a concise statement of the relevance of the submission.

Sec. 8. Venue and jurisdiction

Subsection (a)--The venue provision for patent cases, section 1400 of title 28, is amended as follows:

Civil actions for patent infringement, including declaratory judgment actions, may only be brought in a judicial district (1) where the defendant has its principal place of business or is incorporated or formed, or, for a foreign corporation with a U.S. subsidiary, where its primary United States subsidiary has its principal place of business or is incorporated or formed; (2) where the defendant has committed substantial acts of infringement and has a regular and established physical facility that the defendant controls and that constitutes a substantial portion of the operations of the defendant; (3) where the primary plaintiff resides, if the primary plaintiff in the action is an institution of higher education or a nonprofit patent and licensing organization (as those terms are defined in this section); (4) where the plaintiff resides, if the sole plaintiff in the action is an individual inventor who qualifies as a “micro-entity” pursuant to section 123 of title 35. A defendant may request the case be transferred where (1) any of the parties has substantial evidence or witnesses that otherwise would present considerable evidentiary burdens to the defendant if such transfer were not granted, (2) transfer would not cause undue hardship to the plaintiff, and (3) venue would be otherwise appropriate under section 1391 of title 28.

Subsection (b)--Interlocutory Appeals--Subsection (c)(2) of section 1292 of title 28, is amended to require the Federal Circuit to accept all interlocutory appeals of claim construction orders when certified by the district court. A party wishing to appeal such an order shall file a motion with the district court within 10 days after entry of the order. The district court shall have discretion whether to certify such appeals, and if so, whether to stay the district court proceedings during such appeal.

Subsection (c)--Technical Amendments Relating to USPTO Venue--The venue for certain district court challenges of USPTO decisions is changed from the District of Columbia to the Eastern District of Virginia, the district where the USPTO resides.

Sec. 9. Patent and Trademark Office regulatory authority

This section gives the director rulemaking authority to set or adjust any fee under Sec. Sec. 41 and 376, and section 1113 of title 15, provided that such fee amounts are set to reasonably compensate the USPTO for the services performed. The Director may also reduce such fees. The Director shall consult with the patent and trademark advisory committees as provided for in this section. Any proposal for a change in fees (including the rationale, purpose, and possible expectations or benefits that will result) shall be published in the Federal Register and shall seek public comment for a period of not less than 45 days. The Director shall notify Congress of any

final proposed fee change and Congress shall have up to 45 days to consider and comment before any proposed fee change becomes effective.

Rules of construction are provided.

Sec. 10. Residency of Federal Circuit judges

The District of Columbia area residency requirement for Federal Circuit judges in section 44(c) of title 28 is repealed.

Sec. 11. Applicant quality submissions

Sec. 123 is added to provide the Director authority to promulgate rules that require a patent applicant to submit a search report and analysis relevant to patentability and other relevant information as determined by the Director. Failure to comply with such requirements shall result in abandonment of the application. A “micro-entity”, as defined in this section, is exempt from this requirement.

Sec. 124 is added to define the qualifications for “micro- entity” status.

Sec. 12. Inequitable conduct

Sec. 298 is added to improve and codify the doctrine of “inequitable conduct”.

A party advancing the proposition that a patent should be cancelled or held unenforceable due to inequitable conduct shall prove independently, by clear and convincing evidence, that material information was misrepresented, or omitted, from the patent application with the intention of deceiving the USPTO. Information is material if a reasonable examiner would consider such information important in deciding whether to allow the patent application; any such information is not cumulative. Although intent to deceive the USPTO may be inferred, it may not be done so based solely on the gross negligence of the patent owner or its representative, or on the materiality of the information misrepresented or not disclosed.

The party asserting the defense or claim shall comply with the pleading requirements set forth under Federal Rules of Civil Procedure 9(b). If the court finds inequitable conduct, the court has discretion to (1) hold the entire patent unenforceable, (2) hold 1 or more claims unenforceable, or (3) hold that patentee is not entitled an injunction.

Sec.13. Authority of the Director of the Patent and Trademark Office to accept late filings

Subsection (e) is added to Sec. 2 to give the Director discretion to accept late filings in certain cases of unintentional delay. Specifically the Director may accept a late filing if the applicant or owner of a patent or trademark (i) files a petition within 30 days after the missed deadline, and (ii) demonstrates to the satisfaction of the director the delay was unintentional. The petition shall be deemed denied if the Director has not made a determination within 60 days after the date of its filing. Director’s decisions on such petitions shall not be subject to judicial review. This subsection shall not apply to any other provision of the patent or trademark laws that allow the Director to accept late filings, or to statutory deadlines required by treaty.

This amendment shall apply to any application or other filing that (i) is filed on or after the date of the enactment of this Act; or (ii) on such date of enactment, is pending before the Director or is subject to judicial review, and for such cases in (ii), the 30-day period shall begin on the date of the enactment of this Act.

Sec. 14. Limitation on damages and other remedies with respect to patents for methods in compliance with check imaging methods

Sec. 287 is amended by adding subsection (d)(1), which provides that use by a financial institution of a check collection system that constitutes an infringement under subsection (a) or (b) of section 271, the provisions of sections 281, 283, 284, and 285 shall not apply against the financial institution. Definitions are provided for various terms including “check,” “check collection system,” “financial institution,” “substitute check,” and “truncate.” This amendment shall apply to any civil action for patent infringement pending or filed on or after the date of enactment of this Act.

Sec. 15. Patent and Trademark Office funding

This section terminates appropriation of USPTO fees and shall take effect on October 1, 2008. All fees collected by the Director shall be available until expended. The provisions of any prior appropriation Act that makes amounts available pursuant to 42(c), and are in effect on the effective date set forth in subparagraph (A) shall cease to be effective on that effective date, and any unexpended amounts made available pursuant to such section shall be transferred in accordance with subsection (c)(5). A revolving fund is established in the Treasury of the United States and any amounts in the fund shall be available for use by the Director without fiscal year limitation. Any fees collected under sections 41, 42, and 376 of title 35, and section 1113 of title 15, shall be deposited in the fund. Amounts deposited into the fund shall be available to the Director without fiscal year limitation. Any unexpended balances in any accounts held on behalf of the Director, or the Office, shall be transferred to the fund and shall remain available until expended. The Director shall submit an annual report to Congress within 60 days after the end of each fiscal year.

Within 30 days after the beginning of each fiscal year, the Director shall notify Congress the Office’s annual spending plan.

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.

In accordance with section 9301 of title 31, United States Code, the fund shall prepare and submit each year to the President a business-type budget in such manner, and before such date, as the President prescribes by regulation for the budget program.

Sec. 16. Technical amendments

This section sets forth technical amendments consistent with this Act.

Sec. 17. Effective date; rule of construction

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

The enactment of Sec. 102(b)(3), under section (2)(b) of this Act, is done with the same intent to promote joint research activities that was expressed in the CREATE Act

(Cooperative Research and Technology Enhancement Act of 2004

(Public Law 108-453; the "CREATE Act")), and shall be administered by the in the manner consistent with such.

IV. Congressional Budget Office Cost Estimate

The cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974 was not available for inclusion in this report. The estimate will be printed in either a supplemental report or the Congressional Record when it is available.

V. Regulatory Impact Evaluation In compliance with rule XXVI of the Standing Rules of the Senate, the Committee finds that no significant regulatory impact will result from the enactment of S. 1145.

VI. Conclusion

The Patent Reform Act of 2007, S. 1145, will establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs. By ensuring the patent system in the 21st century accurately reflects the constitutional mandate to "promote the progress of science and useful arts", the Patent Reform Act will help ensure that the United States maintains its competitive edge in the global economy.

VII. Additional and Minority Views

ADDITIONAL VIEWS FROM SENATOR SPECTER ON CHANGES TO THE VENUE STATUTE

As the majority notes, current case law on the venue statute governing patent cases (28 U.S.C. aA1400(b)) permits a patent holder to "bring a patent infringement action in any one of the 94 judicial districts in the United States"\1\ as long as the district court has personal jurisdiction over the defendant.\2\ This case law is contrary to the plain language of the patent venue statute as well as the intent behind the provision. More troubling, though, is the practical effect this interpretation has had on the patent litigation system by permitting plaintiffs to engage in "forum shopping," resulting in patent infringement cases being brought in judicial districts that have little or no connection to the alleged infringement.

\1\S. Rep. No. 110-_, at 25 (2008).

\2\See VE Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574, 1580 (Fed. Cir. 1990).

While some of these districts may facilitate swifter resolution of patent cases with their "rocket dockets," most cases are filed there because of the view that they are "plaintiff-friendly" locales. This has led to the perception that justice in patent cases can he "gamed." This does not serve the interests of justice, or the patent system as a whole. Section 8(a) of S. 1145, the Patent Reform Act of 2007, seeks to remedy this by establishing that venue in patent infringement cases, and declaratory judgment actions related to patents, should only be properly found in those jurisdictions that have a direct relationship to the underlying patent question.

HISTORY OF THE VENUE STATUTE

Since 1800, the federal district courts have had original and exclusive jurisdiction "of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks."\3\ Recognizing the unique nature of patent infringement suits, Congress first enacted a special patent venue statute in 1897. The statute provided for venue "in the district of which the defendant is an inhabitant, or in any district in which the defendant, whether a person, partnership, or corporation, shall have committed acts of infringement and have a regular and established place of business."\4\ Similar language is now codified as 28 U.S.C. 1400(b).

\3\28 U.S.C. 1338(a) (2000).

\4\29 Stat. 695, ch. 395 (1895).

Section 1400(b) currently provides that venue is proper in the judicial district: (1) "where the defendant resides," or (2) "where the defendant has committed acts of infringement and has a regular and established place of business." This venue provision was designed to serve as a counterpoint to other procedural requirements controlled by the plaintiff. For instance, the plaintiff generally determines when and where to file their case, so long as they establish personal jurisdiction over the defendant. For most patent defendants, this minimal test will be met in virtually all districts. The venue requirement is thus the protection provided to the defendant by ensuring that patent infringement suits are brought only in those locations "reasonably convenient to the defendant."\5\ In reviewing the provision, the Supreme Court has held that section 1400(b) exclusively governs venue in patent infringement suits.\6\ The Supreme Court reinforced its position when it held that section 28 U.S.C. 1391, which generally governs proper venue in other types of federal cases, cannot be used as the basis for venue in infringement suits.\7\

\5\See Bradford Novelty Co. v. Manheim, 156 F.Supp. 489 (SDNY 1957).

\6\See Fourco Class Co. v. Transmirra Products Corp., 353 U.S. 222 (1957).

\7\See Schnell v. Peter Eckrich & Sons, Inc., 365 U.S. 260 (1961).

In 1988, Congress expanded the general venue statute (28 U.S.C. 1391(c)) to provide: "For the purposes of venue under this chapter, a corporation that is a defendant shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced."

Despite significant Supreme Court precedent to the contrary, in 1990, the Federal Circuit held in VE Holding Corp. v. Johnson Gas Appliance Co. that the amendments made to the general venue statute also apply to the patent venue statute (28 U.S.C. 1400(b)).\8\ This ruling undermined the original purposes of 28 U.S.C. 1400(b)--which recognized the unique and complex nature of patent cases, deserving of a narrower venue statute. S. 1145 seeks to ensure that these cases are once again brought in more appropriate fora.

\8\917 F.2d 1575 (Fed.Cir. 1990).

THE NEED FOR CHANGE

After the Federal Circuit's decision in VE Holding, plaintiffs no longer have to establish both personal jurisdiction over the defendant and proper venue for the case to proceed. It has effectively become a one step process--if the plaintiff establishes personal jurisdiction over a corporate defendant (a fairly low threshold), then the case may be brought in that district, even if the defendant has no significant ties or business operations in that location.

This change in the law has brought with it significant changes in litigation tactics. Plaintiffs no longer have to bring patent suits in judicial districts that bear a direct relationship to the defendant, their business operations, or where a substantial share of the acts of infringement occurred.

They can file patent suits in any district in which they establish some presence of the defendant, regardless of whether it is minimal in nature and without the actual knowledge of the defendant. While this has allowed some plaintiffs to file in districts with faster dockets, it has also opened the door to abusive forum shopping.

Forum shopping is problematic not only for the defendants in these cases, but also for the U.S. judicial system for several reasons. First, Congress created the Federal Circuit to develop a uniform national body of patent law to override the confusing, conflicting law of the different regional circuits.\9\ Yet, forum shopping that favors select district courts results in the development of localized bodies of law, thereby frustrating the national patent system, undermining the role of the Federal Circuit, and defeating the intent of Congress. Second, the ability to require a defendant to litigate in certain districts can inappropriately pressure defendants (or potential defendants) into settlement without regard to the underlying merits of the case. Third, forum shopping raises the cost of litigation by moving the court action away from the key witnesses and documents.

\9\The Federal Courts Improvement Act of 1982, 96 Stat. 25, 37-38.

Independent studies have also confirmed that, if permitted, plaintiffs file patent suits in the district court where they have the greatest likelihood of success rather than in districts that have some connection to the underlying patent question or relevant evidence. One commentator made just this point when he noted that patent "cases have traditionally moved from district to district as courts show themselves more or less efficient in processing these enormously complex cases."\10\ Further, a 2007 study conducted by PriceWaterhouseCoopers of 1,367 patent suits brought between 1995-2006 found that plaintiffs filed in the five districts where they had significantly higher success rates, especially at trial.\11\

\10\Michael C. Smith, “Rocket Docket: Marshall Court Leads Nation in Hearing Patent Cases,” 69 Tex. B.J. 1045 (2006).

\11\2007 Patent and Trademark Damages Study 20, 29 (Pricewaterhoue Coopers). The top districts were: Western District of Wisconsin with an overall plaintiff success rate of 63% and trial success rate of 91%;

Eastern District of Texas with an overall plaintiff success rate of 60% and a trial success rate of 83%; Eastern District of Virginia with an overall plaintiff success rate of 47% and trial success rate of 78%;

Central District of California with an overall plaintiff success rate of 44% and a trial success rate of 74%; and District of Delaware with an overall plaintiff success rate of 42% and a trial success rate of 58%. Id.

The gravity of the problem is underscored by the growing number of patent suits filed each year. In 1990, in the twenty busiest patent jurisdictions in the country there were only 626 patent cases filed nationwide against 1,085 defendants. By 2007, that number has grown exponentially in those same jurisdictions to 2,082 patent cases filed nationwide against

5,672 defendants. In other words, the number of patent suits filed has more than tripled since 1990. While the increasing number of patents issued by the Patent and Trademark Office accounts for some of these increases, many believe that the emergence of “plaintiff friendly” courts account for the bulk of the increase. For example, in 1990, only one patent suit was filed in the Eastern District of Texas. By 2007, this number had grown to 367, or approximately one-eighth of all of the patent suits brought nationwide. The Central District of California is another example. In 1990, there were only 30 patent suits filed in the district. By 2007, that number had jumped to 320. The question of whether forum shopping of patent suits has reached alarming levels cannot be denied when one considers that in 2007 two districts handled approximately one- quarter of the patent suits filed in the country.

Some have argued that the emergence of one or two “magnet” jurisdictions does not warrant a wholesale change to the patent venue statute. However, the problem of forum shopping is not limited to the Eastern District of Texas or the Central District of California. Indeed, Congress has received evidence that a disproportionate number of patent suits are also being filed in the Western District of Wisconsin, and a few other jurisdictions.

As the jurisdictions that attract plaintiffs change, so do the techniques for establishing venue. No case demonstrates the growing problem of forum shopping better than those involving the conglomeration of patent licensing companies known as “The Zodiac.”

Named for the constellations, the ten related entities that comprise the Zodiac have asserted fifteen patents in 43 patent infringement suits against 488 defendants since August 2004.

Although most of these suits were originally brought in the Eastern District of Texas, these licensing “corporations” later filed articles of incorporation for related entities in the Western District of Wisconsin, allowing them to sue in Madison. By establishing personal jurisdiction and meeting the current venue requirements merely by incorporating a new entity where they are

likely to recover, the Zodiac has successfully forced numerous defendants to settle. It would seem only a matter of time before other companies follow suit.

INTENT OF THE AMENDMENTS

The purpose of the amendments to the current patent venue statute (28 U.S.C. Sec. 1400(b)) is not to penalize or demonize those districts with a growing patent docket and that have gained significant expertise in patent law. These districts are to be commended for taking on a formidable area of the law and other districts should be encouraged to do the same. Rather, the amendments will ensure that the patent venue statute operates as originally intended. Given the complexity of the issues involved in patent disputes, venue for patent cases warrants different treatment than general litigation. The proposed language attempts to balance the rights of patent holders with the need to ensure patent cases are brought where there is a true connection to the underlying dispute.

Section 8(a) modifies 28 U.S.C. Sec. 1400 by adding a new paragraph that explicitly states that: “a party shall not manufacture venue by assignment, incorporation, or otherwise to invoke the venue of a specific district court.”\12\ This provision is intended to curb the growing trend of establishing venue in districts where venue would not otherwise be proper by incorporating there, transferring assets to that location, suing local defendants, or assigning assets to entities in those preferred districts.\13\ Such gamesmanship undermines the clear history of the patent venue provision which is “to protect the defendant where the defendant has no more than minimum contacts in the forum the plaintiff has chosen.”\14\

\12\See proposed 28 U.S.C. Sec. 1400(b), as modified by S. 1145.

\13\This provision is not intended to supersede the court’s ability to transfer or dismiss cases for lack of proper venue under 28 U.S.C.

Sections 1404, 1406 or other relevant provisions.

\14\S. Rep. No. 110-_, at 25 (2008) (citing 17 Moore’s Federal Practice Sec. 110.01[5][a] (3d ed. 1997)).

The amendments provide that venue is proper, among other places, “where the defendant has its principal place of business or in the location or place in which the defendant is incorporated or formed.”\15\ Further, the amendments also provide that venue for foreign corporations is proper where “defendant’s primary United States subsidiary has its principal place of business or is incorporated or formed.”\16\ Current law, which subjects alien defendants to venue anywhere in the U.S., would continue to apply to foreign corporations that lack U.S. based operations.\17\

\15\See proposed 28 U.S.C. Sec. 1400(c), as modified by S. 1145.

\16\See proposed 28 U.S.C. Sec. 1400(c), as modified by S. 1145.

\17\28 U.S.C. Sec. 1391(d) (2000).

The amendments to the venue provision also protect plaintiffs' access to justice by providing that, under certain circumstances, venue will lie where the plaintiff resides.

Thus, if the primary plaintiff is an institution of higher education, a non-profit technology transfer entity that serves as the licensing organization for an institution of higher education, or an individual inventor, then the plaintiff can claim venue where that entity resides, so long as it meets the other requirements under the Act.

The amendments also address a significant ambiguity in the patent venue language. Under the second prong of the current patent venue test, cases can be heard "where the defendant has committed acts of infringement and has a regular and established place of business."\18\ The amendments specify that venue is only proper where "substantial acts of infringement" have occurred and where the defendant, "has a regular and established physical facility that the defendant controls and that constitutes a substantial portion of the operations of the defendant."\19\

\18\ 28 U.S.C. Sec. 1400(b) (2000).

\19\ See proposed 28 U.S.C. Sec. 1400(c), as modified by S. 1145.

Some courts have interpreted the existing "acts of infringement" language very broadly. For example, in 1990, the Northern District of Illinois held that the continuous solicitation of sales combined with an activity such as the maintenance of a sales office and service center satisfies the "acts of infringement" test.\20\ This has enabled plaintiffs to establish venue in districts that have no real connection to the defendant other than the fact that a national retail store sells its product there. In other words, under the current interpretation of the "acts of infringement test," a plaintiff can establish venue in any district where the defendant's product happens to flow in the stream of commerce.

\20\See Union Asbestos v. Evans, 328 F.2d 949, 953 (7th Cir. 1964); see also Hako Minuteman, Inc. v. Advance Machine Company, 729 F. Supp.

65, 67 (N.D. Ill. 1990) (determining that a continuous solicitation of sales combined with an activity such as the maintenance of a sales office and service center satisfies the "act of infringement" test).

Proper venue should not be determined by downstream decisions of third parties. As such, the amendments to the venue provision provide that the defendant must have "committed substantial acts of infringement" in that district before a case may be heard there. This language seeks to prevent venue from being based solely on isolated or insubstantial acts of infringement by the defendant, such as the sale of a few allegedly infringing computers, medical devices, or farm equipment in that district, especially if these items are routinely sold throughout the U.S.

In addition, some courts have also failed to apply the "regular and established place of business" test with appropriate rigor. Many courts have made clear that in order to satisfy the "regular and established place of business" requirement, "[a] defendant must be regularly engaged in carrying on a substantial part of its ordinary business on a permanent basis in a physical location within the district over which it exercises some measure of control."\21\ However, other courts have

found the requirement satisfied where a defendant simply does business through employees located in the district\22\ or leases office space in the district.\23\ The amendments clarify that the requirement is satisfied only if the defendant "has a regular and established physical facility that the defendant controls and that constitutes a substantial portion of the operations of the defendant." For example, a few sales kiosks, one small office or some minor telecommunications infrastructure should not be sufficient to meet this test, especially if the defendant operates similar facilities throughout the U.S. This change will ensure that patent infringement cases are heard in appropriate forums.

\21\Kinetic Instruments v. Lares, 802 F. Supp. 976, 987 (S.D.N.Y.

1992) (emphasis added; internal quotation marks and citations omitted).

\22\See, e.g., In re Cordis Corp., 769 F.2d 733 (Fed. Cit. 1985), cert. denied, 474 U.S. 851 (1985); Brunswick v. Suzuki Motor Co., 575 F. Supp. 1412, 1424 (E.D. Wisc. 1983).

\23\See Hako, 729 F. Supp. at 67.

CONCLUSION

Although forum shopping is not unique to patent law, it has proven especially pernicious in patent litigation and is a practice that Congress has repeatedly addressed.\24\

Unfortunately, it is not a problem that will correct itself with time but is one that will continue to grow unless Congress intervenes. The proposed changes to the patent venue statute will restore balance to the patent system, by ensuring that these complex cases are heard in the most appropriate district.

\24\See generally the Class Action Fairness Act of 2005, Pub. L. 109-2, 119 Stat. 4, the Securities Litigation Reform Act of 1998, Pub. L. 105-353, 112 Stat. 3227 (legislation where Congress also sought to address forum shopping concerns).

Arlen Specter.

ADDITIONAL VIEWS OF SENATORS ARLEN SPECTER AND ORRIN HATCH ON THE INEQUITABLE CONDUCT DEFENSE, S. 1145

As the Committee Report on S. 1145 notes, "candor and truthfulness are essential to the functioning of the patent examination process."\1\ Despite the importance of this fundamental principle, Congress has never addressed the matter legislatively. Rather, it has left the matter for the United States Patent and Trademark Office (USPTO) to infer and for the courts to interpret. The result has been, as the Committee Report notes,\2\ shifting standards that encourage improper challenges to patents based on assertions of inequitable conduct. Such challenges give rise to significant litigation costs and uncertainty about patent rights. They also chill communications between inventors and patent examiners during the patent examination process. Given this current state of affairs, it is imperative that Congress take steps to ensure that the inequitable conduct doctrine is applied in a manner consistent with its original purpose: to sanction true misconduct and to do so in a proportional and fair manner.

\1\S. Rep. No. 110-_, at 31 (2008).

\2\Id. at 32.

HISTORY OF THE INEQUITABLE CONDUCT DEFENSE

The Supreme Court arguably first recognized the doctrine of inequitable conduct in the 1933 decision, Keystone Driller Co. v. Gen. Excavator Co.\3\ In that case, the Court noted, "It is one of the fundamental principles upon which equity jurisprudence is founded that, before a complainant can have a standing in court, he must first show that not only has he a good and meritorious cause of action, but he must come into court with clean hands."\4\ In so doing, the Court recognized that a patent could be rendered unenforceable when the patent holder engages in less than honest conduct.

\3\Keystone Driller Co. v. Gen. Excavator Co., 290 U.S. 240, 244 (1933).

\4\Id. (citing Joseph Story, Story's Equity Jurisprudence Sec. 98 (14th ed. 1918)).

The most notable development following Keystone Driller occurred when the USPTO imposed a duty of candor.\5\ 37 Code of Federal Regulations (C.F.R.) 1.56 (commonly referred to as "Rule 56") states that "Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability * * * ."\6\

When applying Rule 56, lower courts have refused to enforce patents whenever material information is withheld from, or misrepresented to, the USPTO. However, as the Committee Report notes, the type of information that is material to the patentability of an invention is far from clear.\7\

\5\37 C.F.R. Sec. 1.56 (2007).

\6\Id.

\7\S. Rep. No. 110-_, at 32 (2008).

THE NEED FOR REFORM

We believe the inequitable conduct doctrine needs to be reformed because the modern examination environment is no longer confidential or closed to the public. Instead, the entire contents of applications, and their up-to-date status, are made available to the public in real-time by the USPTO.

Moreover, additional provisions of S. 1145 advance greater participation by the public in the examination process and create a new administrative procedure to allow the public to challenge patent validity.

As originally articulated by courts, the inequitable conduct doctrine required clear and convincing evidence that a person with a duty of disclosure to the USPTO concealed or misrepresented material information during examination of a patent application, and did so with the specific intent of misleading the Office into issuing the patent. Unfortunately, the law governing inequitable conduct today is far removed from its original legal foundations. The inequitable conduct defense today has become a convenient and frequently raised litigation tactic that is overpled and a quick route to taking down otherwise valid and commercially valuable patents. It has become, in the words of the Federal Circuit, a "plague" on the patent system.\8\

\8\See Burlington Industries, Inc. v. Dayco Corp., 849 F.2d 1418 at 1422 (Fed. Cir. 1988) ("the habit of charging inequitable conduct in almost every major patent case has become an absolute plague.").

Reforms to several aspects of the law governing inequitable conduct doctrine are needed to correct the problems with current law. These reforms are needed to not only align the doctrine with its public policy justifications, but also to make the doctrine useful to the USPTO. It is timely for us to reform the inequitable conduct doctrine as part of S. 1145.

Today, virtually any information can be characterized as "material" to the examination of a patent application. For example, courts have found the fact that an applicant paid the incorrect patent maintenance fee or failed to update the USPTO regarding the status of other pending applications to be "material" even though such information is unrelated to whether the invention at issue can be patented or is readily available and known to the USPTO.\9\ In other cases, courts have found an applicant's failure to adequately disclose its relationship with an expert to be material even though the expert's views were accurate and true.\10\ Given these cases,

Congress must bring the doctrine of inequitable conduct back in line with its original purpose by limiting the standard for materiality to information that affects the patentability of an invention.

\9\See Nilssen v. Osram Sylvania, Inc., 504 F.3d 1223 (Fed. Cir. 2007); McKesson Info. Solutions, Inc. v. Bridge Med., Inc., 487 F.3d 897 (Fed. Cit. 2007).

\10\See Ferring B.V. v. Barr Labs., Inc., 437 F.3d 1181 (Fed. Cir. 2006).

We do not support the ambiguous language reported by the Committee defining material information as that which a "reasonable patent examiner would consider such information important." This standard does not improve current law.

Instead, it codifies current law, which will preclude any beneficial judicial developments that might occur in the future.\11\ We consider this an unworkable solution. The language will make the problem worse for both the USPTO and for patent owners by allowing defendants to characterize irrelevant information as material. Under current law, patent applicants are compelled to provide too much information, much of it irrelevant, to the USPTO during examination. This state of affairs only leads to an inefficient patent examination process. A more appropriate standard will encourage applicants to provide only the most pertinent information to the Office, which will enable the USPTO to focus on truly material prior art and information that can affect the validity of a patent claim.

\11\Indeed, the Bill language codifies the materiality standard in precisely the way in which it has been explicated by the courts for decades. See, e.g. Nilssen v. Osram Sylvania, Inc. 504 F.3d 1223, 1235 (Fed. Cir. 2007) ("Information is material if there is a substantial likelihood that a reasonable examiner would have considered the information important in deciding whether to allow the application to issue as a patent."); Honeywell Intern. Inc. v. Universal Avionics Systems Corp., 488 F.3d 982, 1000 (Fed. Cir. 2007) (same); Halliburton Co. v. Schlumberger Tech. Corp., 925 F.2d 1435, 1440 (Fed. Cir. 1991) (same); McKesson Information Solutions, Inc. v. Bridge Medical, Inc., 487 F.3d 897, 913 (Fed. Cir. 2007) (Materiality of information withheld during prosecution may be judged by "reasonable examiner" standard, in determining whether a patent is rendered unenforceable for inequitable conduct; that is, materiality embraces any information that a reasonable rexaminer would substantially likely consider important in deciding whether to allow an application to issue as a patent); Akron Polymer Container Corp. v. Exxel Container, Inc., 148 F.3d 1380, 1382 (Fed. Cir. 1998) (same).

Further, as the Committee Report states, courts often ignore the requirement of proving that the person accused of inequitable conduct specifically intended to deceive the USPTO so that it would grant the patent.\12\ Courts have done this by inferring the intent to deceive from the "materiality" of the information at issue. In order to have a viable fraud standard, we believe intent must be proven with independent evidence separate from and unrelated to the materiality of the information at issue.

\12\S. Rep. No. 110-_, at 32 (2008).

Additionally, holding an entire patent unenforceable is an excessive sanction and needs to be changed. This sanction, which provides a windfall to private litigants, is inconsistent with the nature of equitable remedies. The law should impose a sanction that is appropriate to the circumstances of each case.

In this respect, we do not support the Committee-passed language, which simply lists possible sanctions that can be imposed by a court. Giving courts--and defendants--unfettered discretion to impose any of the enumerated sanctions, rather than providing guidance in the law as to when to impose more severe or less severe penalties, will do little to address the problems in the current law. Indeed, it can fairly be asked whether expanding the range of available sanctions for inequitable conduct in the absence of other meaningful changes to the doctrine will encourage more, not less, inequitable conduct litigation.

We also believe the law needs to set an objective threshold showing regarding the significance of the information withheld or misrepresented to the USPTO before courts are authorized to impose the most severe sanction of unenforceability. With respect to remedies that limit damages, the standard should give the court the discretion to limit a damages award as it sees fit, rather than to require the court to simply impose a "reasonable royalty."\13\ These reforms to the sanctioning authority need to be sufficient to eliminate the strong incentive that exists under current law for defendants to assert inequitable conduct, regardless of the facts of the case.

\13\Concerns about this language are further compounded by the fact that at the time that the Committee Report on S. 1145 is filed, it is unclear what the standard for a "reasonable royalty"

will be under the bill, in light of the Committee Report's note that the standard will have to be changed "yet again." Id. at 13 n. 51.

Finally, given that inequitable conduct contributes significantly to the complexity and cost of litigation, measures are needed to eliminate the use of this defense as a litigation tactic. Inserting an objective test for the relationship of any asserted misconduct to the patent claims being asserted is necessary, as are measures that will ensure that the defense is raised only in appropriate cases. In this context, it is important to remember that the doctrine must operate to serve the public interest as well as the interests of individual litigants. The public interest includes an interest in candid and truthful disclosures during the patent application process, but it also includes an interest in preserving commercial decisions which were correctly made in reliance on valid patents. Reformed standards for inequitable conduct must fairly balance these interests.

CONCLUSION

Under current inequitable conduct law, every claim in a valid United States patent will be held to be unenforceable if "inequitable conduct" is established. This is true regardless of the merits of the invention, or the connection (if any) between the misconduct or information at issue and the claims of the patent. The defense has proven to be irresistible for litigants--if proven, it allows an infringer to escape any liability for infringing a valid patent. This powerful incentive leads defendants to raise even the most questionable inequitable conduct challenges on the remote chance that they will prevail.

Reforms to several aspects of the law governing inequitable conduct doctrine are needed to correct the problems with current law. These reforms are needed to not only align the doctrine with its public policy justifications, but also to make the doctrine useful to the USPTO. It is timely for us to reform the inequitable conduct doctrine as part of S. 1145.

The development of a more objective and clearer inequitable conduct standard will remove the uncertainty and confusion that defines current patent litigation. The Committee-passed language is consistent with existing law, and essentially maintains the status quo, rather than making meaningful reforms that address the abuses associated with the current inequitable conduct doctrine and that foster a strong and vibrant environment for innovators.

Arlen Specter.

Orrin Hatch.

ADDITIONAL VIEWS OF SENATOR KYL A few words about business-method patents: the justification for granting patents--and 20-year monopolies--to inventors is that the costs of innovation and development are so high in many fields that only the prospect of a limited monopoly is sufficient to persuade inventors to devote the time and money that is required for a socially beneficial level of innovation. The classic example is new drugs. It may easily cost $100 million to develop and win approval of a new drug. If a company could not get a limited monopoly on the drug once it is approved--if anyone could immediately start copying the drug--no one would develop the drug in the first place.

This economic reality generally holds true throughout the hard sciences. It is generally true for mechanical inventions, new chemical compounds, and new computer hardware products.

It is not true for business methods. Methods of conducting business have obviously been around since the first patent law was enacted in this country in 1790, but there had long been an understanding that methods of doing business are not patentable. It may take a lot of money and effort to develop a new mousetrap, but it does not require expensive R&D to think up new ways to market that new mousetrap.\1\ The PTO began to slip somewhat from this longtime recognition of a "business- methods exception" to patentability in the 1980s, and the Federal Circuit radically accelerated this shift when it eliminated the business-methods exception in its 1998 State Street decision.

\1\For a thorough defense of this viewpoint, see Jay Dratler,

"Does Lord Darcy Yet Live? The Case Against Software and Business- method Patents," 43 Santa Clara L. Rev. 823 (2003).

Though a three judge panel of the Federal Circuit recently took a big step back from State Street, that decision remains on the books--as it must, since only an en banc panel could overrule it. Congress should act to restore the generally recognized limits on patentability that prevailed throughout the first 200 years of the history of patent law in this country. The costs of giving a monopoly to persons who think up new business methods are greater than the benefits derived from the resulting increase in invention of "business methods."

Business methods are not expensive to invent, and since, by definition, business is already engaged in business, there is little or no inherent barrier to commercialization of these methods. Business methods should not be patentable.

Jon Kyl.

ADDITIONAL VIEWS OF SENATOR SPECTER JOINED WITH MINORITY VIEWS OF SENATORS KYL, GRASSLEY, COBURN, AND BROWNBACK Discussions over this bill, and our own understanding of patent law, evolved considerably over the course of 2007, and they continue to evolve. And as the committee notes in footnote 51 of the draft report--a footnote that undoubtedly will be carefully parsed by many sets of eyes--"calming fears" of the many patent holders who are deeply concerned about the bill's damages provision "requires amendment of this language yet again." Thus the bill remains a work in progress, and there is no cause for belaboring in this statement any particular legislative language, as neither the bill text nor our own position on these issues is yet final. Nevertheless, the many parties whose livelihoods are affected by this legislation are entitled to know where things stand at the moment. With such limited objectives in mind, we present these minority views on the current legislative landscape.

Earlier in the course of the consideration of this bill, there was much legislative head scratching over the phrase in the bill's damages provision "specific contribution over the prior art." Many of the principal parties advocating for this bill made clear early and consistently that this language was of central importance to them, but it remained unclear what the language means.

Even the advocates for the language adhered to sharply different interpretations of what this phrase requires, which were of varying degrees of unacceptability.

What this phrase means is very important. Although limited exceptions were created in the committee markup to the "specific contribution" test, the vast bulk of reasonable- royalty cases would still need to be litigated under that standard under the committee reported bill. The new exceptions to the "specific contribution" test--in subsection (c)(1)(B) of proposed section 284 of the reported bill--are for damages that are established either by way of established royalties or through the prices paid for noninfringing substitutes.

Established royalties are rare in the world of patent litigation. To constitute "established royalties," historical royalties paid for a patent must be for the very patent at issue, they must have been agreed to outside of the context of litigation, they must be non-exclusive, and there must be enough of them to demonstrate a market value for the patented invention. Few holders of even useful and valuable patents can make such a showing. Non-infringing substitutes are rare too.

After all, the more that a patented invention is truly revolutionary and essential to a product's market success, the less likely it will be that non-infringing substitutes are available.

The bill's reformulation of the entire-market value test, in subparagraph (A) of proposed section 284(c)(1), compounds these problems. Under current law, "entire market value" is generally understood to mean the rule for expanding the damages base beyond the infringing product to also include other products sold with or in relation to the infringing product.

Subparagraph (A) narrows this rule so that it limits when the infringing product itself may serve as the damages base, in effect repealing current law's presumption that the infringing product is the damages base. Moreover, the bill predicates application of this new "entire market value" rule, which will now govern when the infringing product may serve as the damages base, to situations where demand for the infringing product is driven by those magic words, "specific contribution over the prior art."

Consider for a moment what this would do to the already quite limited exceptions to the "specific contribution" test that are enumerated in subparagraph (B). Suppose that a plaintiff is able to demonstrate the existence of an established royalty for his patent, thus entitling him to an exception to the "specific contribution" test. But now further suppose that this established royalty is expressed as a small percentage of the total price of the infringing product.

Though the royalty is based on established royalties, and is thus freed from the "specific contribution" test by subparagraph (B), the royalty itself uses the infringing product as the damages base, and thus comes within the scope of subparagraph (A)'s "entire market value" rule, which bars use of the price of the infringing product as the damages base unless sales of the infringing product are driven by the patent's "specific contribution over the prior art." So which would control in this hypothetical situation, subparagraph (A) or (B)? Do the damages need to be proven under the "specific contribution" test or don't they?

This hypothetical scenario would not be a minor matter. A number of experienced patent litigators have affirmed to us that the net sales price of the infringing product tends to be the

most commonly employed damages base when royalties are negotiated at arm's length. (This apparently stems from the fact that the net sales price usually is an easily and objectively verifiable datum. It is used as the damages base even when the value added by the patented invention to the product is minor. In such circumstances, the low significance of the invention is reflected in a royalty that is a very low percentage of the net sales price.) So this question could be expected to arise frequently under the proposed legislative text when damages are sought to be proven by way of established royalties.

Most problematic of all, however, is what the phrase "specific contribution over the prior art" appears to be intended to mean. In recent weeks, it has become apparent to us that this language is designed to allow de facto relitigation of claim construction and validity issues during the damages phase of a lawsuit. This interpretation is confirmed by the committee report. Footnote 51 of the report and its accompanying text state that "specific contribution over the prior art" means "the reason why the patent was allowed in view of the existing information at the time of the invention;" that it is meant to capture "the actual invention," "the gist of the patent," "the reason a patent issued," or even--in a nod to the crystalline clarity of obscenity jurisprudence--"I know it when I see it;" and finally, that it describes what is "novel and nonobvious" in the patent.

All of these issues are validity issues. "Why the patent was allowed," as well as novelty and nonobviousness, are issues that are properly raised as validity issues and, in a bifurcated trial, are resolved long before the jury begins to consider damages. To allow these issues to again be litigated as damages questions is to overlay a second (and presumably different) set of validity standards over current law at the damages phase of the trial. Allowing such relitigation immediately raises the question of what was the point of the earlier phase of the litigation where prior art, novelty, and obviousness were litigated in the first instance. To the extent that these legal tests need to be modified, this bill should amend sections 102, 103, and 112, not section 284.

Nor is it apparent that the changes to validity standards that would be prescribed by the phrase "specific contribution over the prior art" are beneficial. "Gist of the patent," for example, is a test that was used in the past under the doctrine of equivalents and that was discarded many years ago, because it tended to have the effect of unduly broadening the scope of the patent. Patent plaintiffs arguing doctrine of equivalents would reduce their patent claims to a back-of-the-envelope "gist" or "nub" of the patent, and then argue that the defendant's product fell within that "gist," the actual claims of the patent be damned. This test effectively allowed a plaintiff to broaden his patent and claim things that were not even the equivalent of what was described in the patent's claims. If there is one thing on which we are certain that the advocates for this bill would agree, it is that they do not want to expand the reach of valid patents that are claimed to have been infringed.

We remain open to exploring changes to damages law.

Representatives of many manufacturers have complained to us about excessive awards of damages made for valid and infringed but relatively trivial patents. It is clear that these firms' concerns about this matter are genuine and deep. That alone entitles this matter to our serious consideration. One proposal recently made to us that may have merit is that, at least in high-value cases, the law should favor estimates of damages that are based on economic analysis,

rather than the usual shorthand of total product value multiplied by an expert's unverifiable assertions about what constitutes a reasonable royalty. Such economic analyses are expensive. But especially when tens of millions of dollars are at stake, it is appropriate to favor the best available evidence of what a patent is worth.

A few words about second window: opening up a second window for administrative challenges to a patent only makes sense if defending a patent in such proceedings is not unduly expensive, and if such proceedings substitute for a phase of district- court litigation. If second-window proceedings are expensive to participate in, a large manufacturer might abuse this system by forcing small holders of important patents into such proceedings and waiting until they run out of money. Defending oneself in these proceedings requires retention of patent lawyers who often charge $600 an hour, quickly exceeding the means of a brilliant inventor operating out of his garage--or even of a university or small research firm.

Second, if estoppel rules are unduly liberalized, second- window proceedings could easily be used as a delaying tactic.

If estoppel is limited only to issues actually raised by the defendant, for example, a defendant with four possible prior art challenges to a patent might initiate second window proceedings with regard to only two of those pieces of prior art. The initiation of the proceedings is likely to lead to a stay in the litigation, which likely will remain in place through the appeal of the PTO's second-window decision. Once those challenges are rejected, the defendant could then raise the two remaining prior-art challenges in the district court, starting the litigation again at the exact same place where it was stopped years earlier. If second window proceedings are to be permitted, they should generally serve as a complete substitute for at least some phase of the litigation.

If a second-window provision is to be enacted into law, an appropriate solution to these dilemmas might be to limit second window proceedings to those types of issues that require very little discovery (and to only allow limited discovery), and to make estoppel rules more certain than the current "could have raised" test but to still require that defendants raise in the second window all of the claims of a particular type that are available to them. Perhaps, for example, a defendant who chooses to address prior-art issues in the second window might be required to raise all prior art identified to him as a result of a reasonable search request submitted to a commercial search firm.

A very few words about interlocutory appeals: the committee has gone a long way toward addressing our concerns about these appeals. It has added language to the bill allowing such appeals only if the district court finds both that there is a sufficient evidentiary record to allow an appeal, and that such an appeal would save judicial resources. Advocates of allowing such appeals contend that if the Federal Circuit is allowed discretion to refuse such appeals, it will do so wantonly. Be that as it may, we nevertheless believe that the Federal Circuit should have some limited discretion to refuse an interlocutory appeal. Though some patent litigants criticize the inclinations of the Federal Circuit, a number of others have noted to us that some district judges do not enjoy patent litigation and will bend the rules to rid themselves of such cases. We cannot assume that every district judge will only certify an interlocutory appeal when the evidentiary record before him is in fact sufficient. If a district judge were to send up an appeal on a

manifestly inadequate record, and the Federal Circuit were given no recourse, that appellate court would be forced to issue a “final” claim construction ruling--which would serve as the law of the case for the remainder of the litigation--without having enough information before the court to allow it to be certain that it had correctly construed the patent. The Federal Circuit should be permitted to reject the district court’s predicate interlocutory-appeal findings, and to refuse an interlocutory appeal, when those findings are clearly erroneous.

Patent law is a matter whose importance to the American economy is matched only by its complexity. This bill would work major changes to this area of the law--the biggest changes in at least half a century. We look forward to continuing to work carefully with Chairman Leahy on this important legislation.

Arlen Specter.

Jon Kyl.

Chuck Grassley.

Tom Coburn.

Sam Brownback.

MINORITY VIEWS OF SENATORS FEINGOLD AND COBURN This legislation fails to strike a fair balance between patent holders and patent infringement defendants. In our view, it remains far too lenient on infringement. In its current form, it could potentially undermine one of the most important engines of American innovation.

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 Framers understood that granting exclusive rights to license an invention was the key to spurring technological development. Just as your home is not worth much if neighbors are constantly entering, eating your food, and sleeping in your bed, so the value of intellectual property rights depends on their security.

No system is immune from abuse, of course, and the more than five decades since the last major reform of the patent system have demonstrated some need for revisiting and reforming the law to deter strategic litigation and gamesmanship that little benefits the American people. We recognize that the Chairman has made an effort to bring competing interests to the table, soliciting the proposals of all groups, private and public, and presenting compromises that strive for a workable and just balance.

Nonetheless, the two central provisions of the bill, in our view, are not balanced. S. 1145 still includes an unlimited opportunity to challenge a patent’s validity throughout its twenty-year life, the so-called “second window.” One could be forgiven for wondering what kind of window opens, but does not shut. Though shoddy patents do exist and must be addressed, after careful consideration, I decided that defending a patent’s validity throughout its life will be so burdensome that only patent owners with deep pockets could consider this a viable and attractive option. Moreover, since a patent will no longer be a presumptively valid seal of approval, but a

mere opportunity to defend a claimed invention's novelty over its entire life, patentees will find it much more difficult to secure the investment necessary to bring a novel idea to market. Patents will be devalued and many inventors will opt for trade secrecy instead, undermining the Framers' intent to promote disclosure and public benefit through a strong patent system. S. 1145 borrowed its first-to-file system from other nations, but refuses to heed the experience of nations that experimented with second window review.

Unfortunately, the bill put far less energy into crafting proposals for more rigorous pre-grant examination of prior art and novelty. That is a way to deal with the problem of so- called "junk patents" without threatening the value of legitimate patents. There are already some innovative programs operating on the front end to make the PTO's application review more informed, accurate and efficient. Moving forward, I hope that Congress abandons "second window" reexamination and that fresh thinking on improving application examination will be forthcoming.

Two other provisions in S. 1145 are very troubling: the mandatory apportionment of damages and the restriction of plaintiffs' ability to sue infringers in their home venue. The law governing damages in patent infringement cases goes to the very core of the patent system. Shifting to mandatory apportionment will create a system of de facto compulsory licensing that will neither adequately compensate the patent holder nor adequately deter future infringers. Paying a royalty down the road will simply become the cost of doing business, unless the patented component part meets the high threshold of a "predominant basis" for market demand.

The truth is that, with the exception of a few possibly excessive awards, current law on damages is working. The fifteen Georgia-Pacific factors, which the courts have adopted, preserve flexibility for jury calculations by covering a wide range of real business circumstances. The royalty base may exclude the value added by an infringer and include the full value of products and services in demand principally due to the patented invention. By contrast, S. 1145's "prior art subtraction" method is unworkable given the complexity of modern products and straitjackets deliberations that already struggle to accurately capture the harm of infringement. Though our preference was to strike the damages section altogether, we did support the defeated Kyl amendment, which largely preserves current law, and Senator Grassley's proposal to codify all 15 of the Georgia-Pacific factors, which was not offered. We would even have considered a form of enhanced inter partes reexamination, which the House Judiciary Committee adopted, but two-window, post-grant review unfortunately carried the day.

Similarly, as reported, the bill's venue provision is skewed heavily in favor of infringer-defendants. It may be true that forum-shopping is a problem in patent litigation, but this provision sweeps too broadly. Notwithstanding the carve-out for universities and non-profit patent licensing institutions, we think S. 1145 unduly restricts plaintiffs' choice of forum and will deter the filing of legitimate infringement suits.

We want this legislation to succeed, but it is crucial that it not undermine the stability of the patent system that has put America at the cutting edge of innovation worldwide. We look forward to voting for patent reform that adequately and fairly addresses these problems.

Russ Feingold.

Tom Coburn.

MINORITY VIEWS ON POST GRANT REVIEW BY SENATORS COBURN, GRASSLEY, KYL AND BROWNBACK As one way to improve patent quality, the Committee is considering modification to the post grant review process, such as creating a brand new administrative system to review patents after their issuance or revising the current system. Such a process should serve to either solidify the patent's validity or to catch a patent that should have been rejected during the initial examination. The process should be timely and streamlined and should take issues off the table that cannot be resurrected in subsequent litigation, providing a cost effective alternative to litigation. To protect patent holders from harassment and abuse by a competitor or infringer, the system must be narrowly crafted with appropriate safeguards.

Additional consideration should be given to creating a system that is workable and manageable for the U.S. Patent and Trademark Office so that USPTO will not be overwhelmed with post grant challenges. If the system is too broad, USPTO resources will be stretched and will likely siphon resources away from the examination process. This would be a doubly destructive result.

Whatever post grant system is ultimately devised, at some point the patent should be final and the inventor should enjoy the benefit of their invention without a cloud of uncertainty lingering over it during the full life of the patent. Although the Committee markup process incorporated some safeguards into the original broad and unfettered proposal, and because the "2nd window" is uncharted territory that provides the opportunity for abuse, more effort needs to be made to provide a tighter second window or none at all.

The Committee Report at page 21 asserts that the changes that occurred during the Committee process "have addressed the concerns of the many interested aspects of the patent community." This is simply not the case.

Numerous inventor companies, industry organizations, patent attorney organizations, patent practitioner organizations, research universities, and life science industries continue to express deep concern with the current post grant scheme in S.

1145. Our own colleagues in the House of Representative considered the bill's post grant scheme so suspect that they eliminated the 2nd window altogether and expanded the current reexamination process at USPTO. Furthermore, data from the USPTO suggests that the current reexamination process is gaining popularity. Since FY03, the number or requests for both inter partes reexamination and ex parte reexamination has steadily increased. Thus, someone in the patent community must think the current system has redeeming attributes. The overwhelming lack of consensus on whether or how to implement the 2nd window should signal to this Committee to proceed cautiously.

The post-grant opposition system proposed in 5.1145 would encompass a quasi-judicial proceeding with judges, experts, discovery, cross-examination and other costly aspects of litigation. However, it would lack the many safeguards of existing judicial and administrative reexamination procedures that protect patent owners against unwarranted, duplicative, and abusive post-grant challenges. As a result, the proposed post-grant opposition system could encourage patent litigation and significantly increase the costs, delays, and uncertainty of patent

ownership instead of doing the opposite. Moreover, the threat of expansive opposition litigation would significantly undermine a patent's value and enforceability if such procedures were available throughout a patent's life. This uncertainty over the patent would limit the ability of inventors to attract capital investment and further develop their innovation and bring it to the marketplace. The Committee must not be so intent on creating a new process that they disregard the legitimate industries that need a more certain and final system. The U.S. economy needs and relies on these industries' ability to continue to provide innovative products to improve our quality of life and continue providing jobs for our constituents.

The Committee also needs to further assess the experiences of foreign countries as they have tinkered with their post grant opposition systems. We know that countries like Japan,

Korea, China, Taiwan and the European Union faced various hurdles as they implemented or reformed their post grant systems. In fact, some of the countries scrapped their system and revised it to avoid some of the same problems that U.S. companies warn of today. The risk of harassment is more than theoretical. In the EU, Japan and other markets with a post- grant opposition system, U.S. patent holders have reported a pattern of practice where foreign competitors routinely use administrative opposition proceedings as a means of tying up issued patents in multiple challenges with the aim of depleting the useful life of the patent. News accounts in foreign markets have documented the eager interests of foreign competitors as they look forward to using the new post grant system in S. 1145 to gain a competitive business advantage against their U.S. competitors. If we know other countries had problems in their reform efforts, why wouldn't we take the time available to us to more thoroughly study the issue to make sure we don't repeat their mistakes?

Where consensus does seem apparent is in implementing a "1st window". A more prudent course than launching into an unknown and potentially unnecessary 2nd window may be to enact the 1st window, make adjustments to the current reexamination system and monitor the results. If the changes are still inadequate, then maybe the need for a 2nd window, and the appropriate parameters, will be more apparent. It is safer for this Committee and the full Senate to tread cautiously and make adjustments in the future than it is to stumble into a thicket that we cannot easily escape.

We stand ready to assist the sponsors in their efforts to make the necessary adjustments to improve the post grant system in S. 1145.

Tom Coburn.

Chuck Grassley.

Jon Kyl.

Sam Brownback.

MINORITY VIEWS BY SENATORS COBURN, SPECTER, GRASSLEY, KYL AND BROWNBACK GENERAL OBSERVATIONS Primum non nocere is Latin phrase that means "First, do no harm." This principal precept of medicine should be applied more often by Congress when debating the merits of proposed legislation. More specifically, the nation would

be best served were the Committee on the Judiciary to consider further what harm might befall our patent system should the intervention proposed in S. 1145 “The Patent Reform Act of 2007” be enacted, and how does this harm compare to any potential benefits?

Although the sponsors of S. 1145 have concluded that S.

1145 will establish a “balanced set of changes,” we have come to a starkly different conclusion. In our opinion, the intervention the bill proposes will create real and certain damage to our patent system and the ability of America’s inventors and innovation industries to protect their intellectual property rights. As the U.S. battles to retain its status as the leader of the global economy, Congress can ill afford to misstep by passing S. 1145 as is, and further weaken the economy’s shifting foundation.

Recently Congress has focused its attention on numerous issues through the lens of helping the “little guy” especially as he’s pitted directly against the “big guy” corporate interests. Without significant changes, S. 1145 will considerably tilt the intellectual property landscape to favor a few high-tech mega-corporations and some large financial service interests against a myriad of players including academia, agriculture, alternative energy, biotechnology, chemical, electronics, environmental technology, financial services, information technology, life sciences, manufacturing, nanotechnology, and telecommunications industries. Congress will send to the President a bill that picks winners and losers based on business models and not on protecting the Constitutional rights of patent holders. The interests of infringers will be elevated over the interests of inventors; the interests of those with deep pockets over the interests of start-ups; litigation over licensing; and the interests of foreign competitors over the interests of domestic innovators.

As patents become more significant to U.S. industry,

Congressional interest in the operation of our nation’s patent system has increased. As the United States becomes a knowledge- based, technology economy, the commercial significance of patents is at a premium. When Congress looks to the knowledge economy and contemplates our future, it must strengthen, not weaken, America’s intellectual property system because that system--the inventions it protects and the innovation systems it stimulates--will be the key to our nation’s future success in the knowledge economy lying ahead.

Economic growth depends upon the continued strength and reliability of the U.S. patent system, which has recognized and protected the rights of inventors for more than two centuries.

Our Country’s Founders understood that property rights are as essential to the fruits of the mind as they are to the fruits of the land. Just as a deed creates legal incentives to cultivate and improve a plot of land, patent rights create incentives to invest in the development and commercialization of an idea. Patent certainty and reliability enables the collaborative development and funding required to nurture basic research through its upstream refinement to its downstream commercialization for the public benefit. That same certainty enables others to confidently invent around--or incrementally improve--published, patented technology. Thriving innovation is the key to a sound economy. It benefits the public while enhancing our nation’s

security and economic leadership. Thus the focus of patent legislation should be improvement of patent quality and protection of intellectual property rights.

Legislation should not inject uncertainty into the patent system which will take years of litigation to sort out and that creates unknown ramifications for American innovation.

Proponents of the Senate bill have argued, and continue to argue, that the present patent regime is “broken” and sweeping reform is needed to right the ship. However, deficiencies cited with the U.S. Patent and Trademark Office’s patent production are being remedied. USPTO reports that the number of rejections of patent applications is at an all time high while new and creative methods to involve the applicant and accelerate examinations are showing success. If our shared objective is to improve patent quality while preserving incentives to innovate, we should instead pursue reforms that enhance patent examination resources and capabilities within the USPTO and make it harder for questionable patents to survive scrutiny.

The USPTO has already taken important steps to achieve these goals, hiring thousands of new examiners, instituting new training programs and committing annually to performance benchmarks. But it needs Congress’s support in the form of a predictable flow of resources and hence the Committee was right to pass an amendment to permanently end fee diversion, which will further buttress USPTO in its efforts to improve patent quality for years to come. In addition, Congress should continue to pursue constructive but narrowly tailored reforms that would increase access to prior art and lessen the subjective aspects of litigation. Carefully structured measures of this type would ultimately fortify the health of our patent system without endangering the rights of American’s most innovative firms.

Furthermore, since the inception of the legislative reform effort, the patent playing field has been dramatically altered by some of the most significant Supreme Court and Federal Circuit decisions on patent rights and remedies since the codification of the U.S. patent laws more than 200 years ago.

These decisions have, among other changes, made it far more difficult for many patent holders to obtain injunctive relief

(eBay v. MercExchange); significantly altered the patentability test of obviousness, calling into question the validity of all issued patents (KSR International v. Teleflex); permitted patent licensees to bring declaratory judgment actions challenging the validity and enforceability of issued patents

(MedImmune v. Genentech); and heightened the standard for proving willful infringement (In re Seagate Technology LLC).

These decisions signify an effort by the Supreme Court and Federal Circuit to rectify perceived imbalances in the patent system. At a minimum, this recent trend by the Courts in the patent field suggests that Congress should exercise extreme caution before tilting the playing field even further towards the interests of potential infringers. A far more prudent course would be to take the necessary time to further scrutinize and assess the combined impact of these key patent decisions before moving forward with particular reforms that may no longer be needed and will likely do more harm than good.

COMMITTEE PROCESS The sponsors of S. 1145 have worked diligently in pursuit of this legislation's passage and we are grateful for their efforts and leadership. Over the previous Congresses, Senator Leahy and Senator Hatch have held a number of hearings on general patent issues. We appreciate their willingness to discuss our concerns in the weeks leading up to the Committee's consideration of the bill.

However, once the bill was actually filed in the Senate, with its House companion, the pace to passage was quick, with our Committee holding only one hearing before marking up the bill. The numerous provisions in the bill that require careful discussion and debate simply need more attention. In fact, in September of 2007, the sponsors of the bill convened a meeting with patent stakeholders to solicit concerns and possible revisions. At that meeting ten issues were identified as needing further refinement as follows: (1) how to determine damage awards in patent litigation, (2) post grant review, (3) venue, (4) inequitable conduct reform, (5) interlocutory appeal, (6) willful infringement, (7) permanently ending fee diversion, (8) applicant quality submissions, (9) first to file and (10) best mode.

Throughout the advancement of this legislation, House sponsors, the Administration and Senate sponsors have said that more work needed to be done on the bill and that such work would certainly occur. The Majority Report even acknowledges at footnote 51 that the provision in the bill creating the most sweeping change in the patent litigation system--the provision regarding how damage awards are allocated in patent infringement cases--"requires amendment * * * yet again."

With plenty of time left in the 2008 Senate session, we stand ready and willing to assist the sponsors to make progress toward a consensus bill that can be supported by a broad cross-section of the patent community.

CONCLUSION Given the critical importance of our patent system to American innovation and economic leadership, it is imperative that changes to the patent system be cautiously tailored to achieve needed improvements. Congress should be cautious to accept changes to the patent system advanced by one industry sector at the expense of many others. The over-arching goal of patent quality is ill served by measures that would destabilize our current system of patent rights and remedies and, in turn, jeopardize the global leadership of this country's most innovative industries. Moreover, by creating uncertainty as to the validity and enforceability of patent rights, Congress stands to encourage, not discourage, costly litigation and infringement. Added costs, delayed enforcement, and increased risk combined with reduced damages for infringement is a sure recipe for the withdrawal of private capital from early stage development or innovative research.

In closing, the U.S. economy has long benefited from the strongest intellectual property laws in the world. Making dramatic changes to a patent system that is working well and, in so doing, risking capital investment in innovation is clearly not worth the risk. America's system of patent rights and remedies is universally recognized as the gold standard, and, as such, it has given us the moral authority and credibility to fight for stronger protection of U.S. innovations in other markets. Maintaining that authority is critical in today's increasingly competitive global economy.

America's leadership in this knowledge-based economy is critically dependent upon the ideas and innovations that constitute our most valuable natural resources and our most desirable exports. If the United States weakens patent rights and remedies at home, our ability to press foreign countries to respect American intellectual property will be greatly diminished. Indeed, we will embolden other countries to adopt even more damaging policies that could jeopardize the continued preeminence of America's most productive industries.

President Lincoln observed, "Any man might instantly use what another had invented; so that the inventor had no special advantage from his own invention. The patent system changed this; secured to the inventor, for a limited time, the exclusive use of his invention and thereby added the fuel of interest to the fire of genius, in the discovery and production of new and useful things."\1\ Congress should be careful to act in such a way that the fuel of interest and the fire of genius are not snuffed out.

\1\Allen, Joseph in "Swords Into Plowshares: How Tech Transfer (Unless We Mess It Up) Can Help Change the World," les Nouvelles, December 2006, p. 219.

Tom Coburn.

Chuck Grassley.

Jon Kyl.

Sam Brownback.

Senator Kyle Speech on S 3600 – 154 Cong. Rec. S9982-S9993

[Congressional Record Volume 154, Number 155 (Saturday, September 27, 2008)]

[Senate]

[Pages S9982-S9993]

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PATENT REFORM Mr. KYL. Mr. President, I rise today to comment on S. 3600, the Patent Reform Act of 2008. This bill is based on, but makes a number of changes to, S. 1145, a patent reform bill that was reported out of the Judiciary Committee in 2007 but that was never considered by the full Senate.

S. 1145 proposed several salutary and uncontroversial reforms to the patent system, but also included provisions that would rewrite the formula for awarding damages in patent cases and that would create new administrative proceedings for challenging patents. These and other provisions of that bill would have made it much more expensive to hold and defend a patent, would have extended the time for recovering damages for infringement, and would have substantially reduced the amount that the patent holder would ultimately recover for infringement. The changes proposed by S. 1145 went so far that under that bill's regime, it may have proved cheaper in many cases to infringe a patent and suffer the attenuated and reduced consequences of doing so, rather than to pay a license to the holder of the patent.

Once such a line is crossed, the incentive to invest in research and development and the commercialization of new technology in this country would be greatly reduced. Such a change would do enormous harm to the U.S. economy in the medium-to-long term. Reputable economists estimate that historically, between 35 and 40 percent of U.S. productivity growth has been the result of innovation.

My bill makes substantial changes to those sections of S. 1145 that address damages, post grant review, venue and interlocutory appeals, applicant quality submissions, and inequitable conduct. This bill will not be considered in this Congress. I nevertheless thought that it would be useful to propose alternative approaches to these issues now, to allow Senators and interested parties the time to consider these alternatives as we prepare for the patent reform debate in the next Congress. I hope that my colleagues will work with me in a bipartisan and deliberative manner to construct a bill that will be considered in the next Congress. With those thoughts in mind, allow me to describe the significant changes that this bill makes to S. 1145.

I believe that S. 1145 goes too far in restricting a patent owner's right to recover reasonable royalty damages. On the other hand, I also believe that there is room for improvement in current law. Some unsound practices have crept into U.S. patent damages litigation. My staff and I spent several months at the end of last year and the beginning of this year discussing the current state of patent damages litigation with a number of seasoned practitioners and even some professional damages experts. I sought out people with deep experience in the field who had not been retained to lobby on pending legislation.

A substantial number of the experts with whom I spoke said that there is nothing wrong with current damages litigation and that Congress should not change the law. Others, however, identified a number of unsound practices that they believe have led to inflated damages awards in a significant number of cases. Different attorneys and experts repeatedly identified the same valuation methods and criteria as being unsound, subject to manipulation, and leading to damages awards that are far out of proportion to an invention's economic contribution to the infringing product. Examples of problematic methodologies that were identified to me include the so-called rule of thumb, under which an infringed patent is presumptively entitled to 40 percent or some other standard portion of all of the profits on a product, the use of the average license paid for patents in an industry as a starting point for calculating the value of a particular patent, and a formula attributed to IBM whereby every high-technology patent is entitled to 1 percent of the revenues on a product. A number of experts also criticized the use of comparables, whereby the value of a patent is calculated by reference to the license paid for a supposedly comparable patent.

The views of those experts who were critical of current damages law find

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some support in the macro evidence. Data collected by PricewaterhouseCoopers and FTI Consulting indicate that the majority of the largest patent-damages awards and settlements of all time have been entered only since 2002. Also, the inflation adjusted value of awards entered since 2000 is more than 50 percent higher than it was during the early 1990s. And it also appears that jury awards tend to be about ten times higher than the average damages award entered by a judge, and that results vary markedly by jurisdiction. These facts suggest that the problems that sometimes lead to inflated damages awards are to some extent systemic.

The task of reforming substantive damages standards presents a very difficult legislative question. Damages calculation is an inherently fact-intensive inquiry and requires legal flexibility so that the best evidence of a patent's value may always be considered. Any proposed changes to the law must be evaluated in light of the kaleidoscope of factual scenarios presented by the calculation of damages for different types of patents.

I have largely given up on the idea of developing a unified field theory of damages law that solves all problems at once. I also oppose proposals to require a prior-art subtraction in every case. Most measures of a reasonable royalty, such as established royalties, costs of design-arounds, comparisons to noninfringing alternatives, or cost savings produced by use of the patented invention, already effectively deduct the value of prior art out of their estimate of the patented invention's value. To mandate prior-art subtraction when using such measures would be to double count that deduction, effectively subtracting the prior art twice and undervaluing the invention.

And for reasons mostly explained in my minority views to the committee report for S. 1145, S. Rep. 110-259 at pages 64-65, I also disagree with the argument that defendants should be allowed to revisit validity questions, such as a patent's novelty or nonobviousness, during the damages phase of litigation. To those comments I would simply add that, if Congress were to desire that patents be defined more specifically and narrowly, then it would need to provide

express guidance as to how to do so. Simply using adjectival phrases such as “specific contribution” or “inventive features” will not suffice.

These terms merely express a hope or objective. But legislation needs to be about means, not ends, particularly if it is intended to achieve its results by altering the practices and outcomes of litigation. I should also add that although I have consulted with many neutral experts in the field of patent damages, and many of those experts described to me what they believed to be serious problems with patent damages litigation, none of those experts told me that insufficiently specific claim construction is causing excessive damages awards. If overly broad claim constructions were a major source of problems with damages litigation, I undoubtedly would have come across at least one neutral expert who expressed that view.

Discussions that I have had with several proponents of S. 1145 indicated that they understand the principal evil of current damages litigation to be the award of damages as a percentage or portion of the full price of the infringing product. It also appears that some proponents of S. 1145 believe that a statutory instruction to define the invention more narrowly and clearly would prevent parties from seeking damages based on the entire value of the infringing product. The linkage between claim construction and the damages base is not clear to me. Even a concededly limited invention could be fairly valued by using the full product’s price as the damages base, so long as the rate applied to that base was appropriately small.

Many unjustified and excessive awards certainly do use the full value of the infringing product as the damages base. Indeed, awards that are derived from the rule of thumb almost always are based on the entire value of the infringing product, as is the typical industry averages award. Precluding or sharply limiting the use of net sales price as a damages base certainly would block the path to many of the bad outcomes that are produced by the use of these methodologies.

The problem with a rule that bars the use of net sales price as the damages base when calculating a reasonable royalty is that in many industrial sectors, net sales price is routinely used as the damages base in voluntary licensing negotiations. It is favored as a damages base because it is an objective and readily verifiable datum. The parties to a licensing negotiation do not even argue about its use.

Instead, they fight over the rate that will be applied to that base.

Even if the net sales price of the product is very large and the economic contribution made by the patented invention is small, net sales price can still serve as the denominator of an appropriate royalty if the numerator is made small.

Thus in these industries, the initials, NSP, appear frequently and repeatedly in licensing contracts. A legal rule that precluded use of net sales price as the damages base would effectively prevent participants in these industries from making the same royalty calculations in litigation that they would make in an arm’s length transaction. Such an outcome would be deeply disruptive to the valuation of patents in these fields. Evidence and techniques whose use is endorsed by the market via their regular use in voluntary negotiations are likely to offer the best means of valuing a patent in litigation. After all, what is an object in commerce worth, other than what the market is willing to pay? We simply cannot enact a law that bars patentees from using

in litigation the same damages calculation methods that they routinely employ in arm's length licensing negotiations.

The bill that I have introduced today uses what I call an enhanced gatekeeper to address problems with damages awards. The bill strengthens judicial review of expert witness testimony, provides greater guidance to juries, and allows for sequencing of the damages and validity/infringement phases of a trial. The bill also codifies the principle that all relevant factors can be considered when assessing reasonable royalty damages, while adopting guidelines and rules that favor the use of an economic analysis of the value of an invention over rough or subjective methodologies such as the rule of thumb, industry averages, or the use of comparables. Allow me to provide a subsection- by-subsection summary of the bill's revisions to section 284, the basic patent damages statute.

Subsection (a) of the bill's proposed section 284 copies and recodifies all of current section 284, including its authorization of treble damages and its admonition that compensatory damages shall "in no event be less than a reasonable royalty for the use made of the invention."

Subsection (b) codifies current Federal circuit precedent defining a reasonable royalty as the amount that the infringer and patent owner would have agreed to in a hypothetical negotiation at the time infringement began. It tracks the language of the Rite-Hite case, 56 F.3d 1538 (Fed. Cir. 1995), and follow-on decisions. Some supporters of S. 1145 are critical of the hypothetical negotiation construct and believe that it leads to bad results. Not only is this test established law, however, but it is also inherent in the concept of a "reasonable royalty." That standard requires the trier of fact to determine what would have been--i.e., what the parties would have agreed to. As long as the patent code requires a "reasonable royalty," courts and juries will need to engage in a hypothetical inquiry as to how the invention reasonably would have been valued at the time of infringement. Indeed, it is not apparent by what other means the factfinder might approach the calculation of a reasonable royalty. And in any event, the source of occasional bad results in damages trials is not the mental framework used for approaching the question of a reasonable royalty, but rather the particular evidence and methods used to value some inventions. It would be a noteworthy omission to avoid mention of the hypothetical negotiation concept in a bill that regulates damages analysis to the degree that this one does. This subsection thus codifies the Federal circuit's jurisprudence on the hypothetical negotiation.

Subsection (c) simply makes clear that, despite subsection (d), (e), and (f)'s codification and modification of several of the Georgia- Pacific factors,

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the rest of the Georgia-Pacific factors--as well as any other appropriate factor--may be used as appropriate to calculate the amount of a reasonable royalty.

Subsection (d) is probably the most important subsection in the bill's revised section 284. It bars the use of industry averages, rule- of-thumb profit splits, and other standardized measures to value a patent except under particular circumstances. Standardized measures are defined as those methods that, like rule of thumb and industry averages, do not gauge the particular benefits and advantages of the use of a patent. Instead, they are relatively crude, cookie-cutter measures that

purport to value all patents--or at least all patents in a class--in the same way, without regard to a particular patent's economic value. These back-of-the envelope methods are occasionally used in arm's-length, voluntary licensing negotiations, as are things such as gut instinct and intuition. But they are rough methods that can produce wildly inaccurate results. Subsection (d) disfavors their use.

This subsection restricts the use of Georgia-Pacific factor 12, which largely describes the rule of thumb. Subsection (d)'s general rule cites the rule of thumb and industry averages as important and illustrative examples of standardized measures. But it also expressly applies to other methods that are "not based on the particular benefits and advantages" of an invention, to ensure that variations on these examples and other methods that consist of the same evil also are brought within the scope of subsection (d)'s main rule.

An example of a standardized measure other than profit splits and industry averages that is also currently in use and that also falls within subsection (d)'s scope is the so-called IBM 1-percent-up-to-5 formula. This formula apparently was used by IBM in the past to license its own portfolio of patents. Under this methodology, each patent receives 1 percent of the revenues on a product until a 5 percent ceiling is reached, at which point the whole portfolio of patents is made available to the licensee.

I have heard more than one representative of a high-technology company describe the use of this formula in litigation against his company. Apparently, there exists a stable of plaintiff-side damages expert witnesses who will testify that this formula is appropriate for and is customarily used to calculate the value of any patent in the computer or information-technologies sectors. These experts start at 1 percent and then adjust that number based on the other Georgia-Pacific factors, supposedly to account for the particular aspects of the patent in suit, though these adjustments almost always seem to push the number higher.

Obviously, 1 percent of revenues or even profits is a grossly inflated value for many high-technology patents. It is not uncommon for high-technology products to be covered by thousands of different patents, which are of greatly differing value. Not every one of those patents can be worth 1 percent of revenues. Some patents inevitably will be for features that are trivial, that are irrelevant to consumers, or that could be reproduced by unpatented, off-the-shelf noninfringing substitutes. One percent of the sales revenue from, for example, a laptop computer is an enormous sum of money. Many patents are worth nothing near that, and any methodology that starts at that number is likely to produce a grossly inflated result in a large number of cases.

It bears also mentioning some of those common methodologies that clearly are not standardized measures. In addition to established royalties, which are afforded an express exemption from this subsection by paragraph (2), there are the methods of calculating the costs of designing around a patent, drawing comparisons to the experience of noninfringing alternatives, or calculating the costs savings produced by use of the invention. All of these factors gauge the benefits and advantages of the use of the invention and therefore are outside the scope of subsection (d).

Paragraph (1) of subsection (d) allows parties to use a standardized measure, such as a rule-of-thumb profit split, if that party can show that the patented invention is the primary reason why consumers buy the infringing product. If the patented invention is the primary reason why people

buy the product, then the patent effectively is the reason for the commercial success of the product, and its owner is entitled to a substantial share of the profits, minus business risk, marketing, and other contributions made by the infringer.

Some have advocated a lower standard than “primary reason” for allowing use of profit splits and other standardized measures--for example, using a “substantial basis” standard. I rejected the use of a lower standard because a profit split should basically award to the patent owner all of the profits on the product minus those attributable to business risk. Thus the test for allowing such profit splits must be one that only one patent will meet per product, since the bulk of the profits can only be awarded once. If the test were “substantial basis,” for example, multiple patents could meet the standard and multiple patent owners could demand all of the profits minus business risk on the product.

Paragraph (2) of subsection (d) makes established royalties an express exception to the bar on standardized measures. In earlier drafts, I did not include this exception in the bill because I thought it obvious that an established royalty is based on the benefits and advantages of the use of the invention and is thus outside the scope of the subsection (d) rule. Some parties who reviewed those earlier drafts, however, found the bill ambiguous on this point, and in any event the lack of an exception would have forced parties to litigate the question whether an established royalty was, in fact, based on the benefits and advantages of the use of the patent. Since established royalties are widely considered to be the gold standard for valuing a patent, we should avoid making it harder to use this method. It is thus expressly placed outside the scope of subsection (d)’s restrictions by paragraph (2).

Paragraph (3) of subsection (d) allows industry averages to continue to be used to confirm that results produced by other, independently allowable methods fall within a reasonable range. The paragraph speaks of “independently” allowable methods in order to make clear that an industry average cannot be used to confirm an estimate produced solely by reference to a “comparable” patent. Subsection (e) requires that comparables only be used in conjunction with or to confirm other methods, and thus under this bill comparables are not a method whose use is allowed “independently” of other methods.

A brief explanation is in order as to why this bill regards industry averages as a potentially unreliable metric and restricts their use. An industry average often will reflect a broad range of licensing rates within a technological sector. Even a licensed patent whose value is included in the calculation of such a range may fall at a far end of that range, producing highly inaccurate results if that average is used as a starting point for calculating the value of that patent. Moreover, many existing patents, though valid and infringed by a product, disclose trivial inventions that add little to the value of the product. But the types of patents that typically are licensed--and that therefore would be a source of available data for calculating an industry average--are the ones that are substantial and valuable.

Trivial patents don’t get licensed, and their value does not enter into industry average calculations. Thus particularly in the case of a minor patent that has never been and likely never would be licensed, an industry average would provide an inflated estimate of the patent’s value. This is because the industry average is not the average licensing rate of all patents in a field, but merely the average of those that have been licensed and for which data is publicly available.

Paragraph (4) of subsection (d) creates a safety valve that allows parties to use standardized measures if no other method is reasonably available to calculate a reasonable royalty, and the standardized method is otherwise shown to be appropriate for the patent. Over the course of drafting this bill, I have consulted with a number of experts with broad experience in patent damages calculation. Only a few believed that they had ever seen a case where use of a standardized measure

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was necessary--that is, where a more precise economic analysis was not feasible. I thus anticipate that this safety valve may almost never need to be used, but I nevertheless include it in the bill, because it is impossible to say with certainty that no situation will ever arise in the future where parties will be unable to calculate a reasonable royalty without use of the rule of thumb or other standardized measures. Suffice to say that if one party to a suit presents appropriate evidence of a patent's value and that evidence falls outside the scope of subsection (d) or within one of the other exceptions, then that method is "reasonably available" and paragraph (4) could not be invoked.

A word about the need for substantive standards: some critics of S. 1145 have made the argument to me that any problems with damages litigation can be cured through procedural reforms, and that changes to substantive legal standards such as those in subsections (d) through (f) are unnecessary. These parties also have made the related, though different argument that to the extent that litigants are using unreliable evidence or methodologies, this problem should be addressed through cross examination and advocacy.

Though I share these critics' displeasure with S. 1145, I do not think that problems such as the overuse of rule of thumb and industry averages will be completely solved through purely procedural reforms.

The most likely mechanism for excluding these methodologies would be rule 702. But the use of some of these methods for valuing patents is endorsed by multiple experts. These methods, while ultimately unsound, represent a significant minority view that is backed by some published commentary, albeit sometimes only commentary in journals that are exclusively written by, subscribed to, and read by plaintiff-side damages expert witnesses. In such circumstances, it is no sure thing that a party will be able to exclude under Daubert the testimony of an expert employing these methodologies. These metrics are sufficiently entrenched that the only way to ensure that the courts will disallow them when their use is not appropriate is for Congress to tell the courts to disallow them.

As to the second point, it is true that it is the lawyer's duty to identify the flaws in the other side's arguments and to debunk unsound theories. But the reality is that because of the limited expertise and experience of many jurors and the limited time allowed to argue a case at trial, often the trier of fact will not divine the truth of the matter. And some unsound damages methodologies are particularly likely to be appealing to those untutored in the field. An industry average analysis, for example, employs the one statistical concept that is understood by virtually everyone, and this method's use may amount to no more than a simple back-of-the-envelope calculation that requires only one expert to give you the industry average licensing rate and

another to calculate the gross revenues on the product. When a complex economic analysis that focuses on noninfringing alternatives to the patented invention or the costs of a design-around is forced to compete for the jury's favor with a simple average-rate-times-sales calculation, many jurors may find the simpler and readily understandable method more intuitively appealing, even if it is less accurate. And of course, when two different and even slightly complex damages calculations are presented to a jury, there always exists a risk that the jury will resolve the dispute by splitting the difference between the two methods. In a high-value case where the patent owner uses an unsound method that produces a wildly inflated number, the risk that the jury will pick the wrong method or even split the difference may easily be unacceptable from a business perspective.

In the end, it is the premise of the rules of evidence that some types of evidence are so unsound, so prejudicial, or so likely to produce an unjust result that we do not require the other side's lawyer to debunk this evidence, but rather we require the judge to bar it from the courtroom altogether. If we find that particular methodologies routinely produce inaccurate and unjust results, it is appropriate that we amend the law to directly restrict the use of those methodologies.

Subsection (e) restricts and regulates the use of licenses paid for supposedly comparable patents as a means of calculating the value of the patent in suit. The use of comparables is authorized by Georgia- Pacific factor two and can generate probative evidence of a patent's value. Nevertheless, such use is regulated and restricted by this subsection. Comparables are a valuation method that is often abused, both to overvalue and to undervalue patents. When an infringer is sued for infringing an important patent, he often will cite as evidence of a reasonable royalty the license paid for a patent that is in the same field but that is much less valuable than the patent in suit.

Similarly, a plaintiff patent owner asserting a trivial patent may cite as "comparable" other patents in the same field that are much more valuable than the plaintiff's patent. The fact that another patent is licensed in the same industry should not alone be enough to allow its use as a comparable in litigation.

Comparability is a subjective test. By definition, every patent is unique and no two patents are truly comparable. Subsection (e) thus requires that comparables be used only in conjunction with or to confirm the results of other evidence, and that they only be drawn from the same or an analogous technological field. I chose the latter term rather than "same industry" because the term "industry" is too broad. Parties might define "industry" so expansively that every patent in the universe would fall into one of only two or three "industries."

Paragraph (2) of subsection (e) sets out guideposts for determining whether a patent is economically comparable to another patent. It suggests requiring a showing that the supposed comparable is of similar significance to the licensed product as the patent in suit is to the infringing product, and that the licensed and infringing products have a similar profit margin. Obviously, a patent that makes only a trivial contribution to a product cannot accurately be valued by reference to a comparable that makes a critical and valuable contribution to its licensed product, or vice versa. And similarity in the profitability of the licensed and infringing products will also generally be important to establishing the economic comparability of two patents. As an economic reality, when the profits on a product are high, the manufacturer will be

more generous with the royalties that he pays for the patented inventions that are used by the product. This economic reality is undergirded by the fact that it will typically be the patented inventions used by a product that make that product unique in the marketplace and allow it to earn higher profits. Even if two patents are the principal patent on products in the same field, if one patent's product has a 2-percent profit margin and the other's has a 20-percent profit margin, that first patent evidently is doing less to distinguish that product in its market and to generate consumer demand--and thus has a lower economic value.

A thorough analysis of comparability, of course, likely will depend in a given case on many factors beyond those listed here. Subparagraphs (A) and (B) are simply guideposts that describe two factors that are likely to be relevant to comparability. The bill only provides that these two factors may be considered. It does not preclude consideration of other factors, nor does it require that these two factors be considered in every case. A party asserting the propriety of a comparable may be able to show that one or even both of these factors are not appropriate to establishing economic comparability in a given case.

Subsection (f) bars parties from arguing that damages should be based on the wealth or profitability of the defendant as of the time of trial. Some lawyers have been known, after making their case for an inflated royalty calculation, to emphasize how insignificant even that inflated request is in light of the total revenues of the defendant infringer. Such arguments do not assist the jury in gauging a reasonable royalty. Rather, they serve to reduce the jury's sense of responsibility to limit a reasonable royalty to the actual value of the use made of the invention. This subsection does not bar all

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consideration of the financial condition of the infringer. It may be appropriate to consider the infringer's finances at the time of infringement especially if there is some evidence that such information is considered when licensing patents in the relevant industry. But in no case should a court allow such information to be presented when the evident purpose of doing is to tell the jury that the defendant has deep pockets and will not be burdened by an inflated award. Subsection (g) gives either party a presumptive right to demand that validity and infringement be decided before the jury hears arguments about damages. Currently, some plaintiffs will force a premature debate over damages in order to color the jury's view of validity and infringement. For example, in some cases, the same defense witness who testifies as to validity and infringement will also know facts relevant to the patent's value. This may allow the plaintiff's lawyer to question that witness about damages, forcing the defendant to begin arguing about the amount of his liability before the jury has even heard all the arguments as to whether the patent is valid and infringed. A defendant who is already arguing about what a patent is worth will tend to look as if he has already conceded that he owes something, and that the dispute is simply over the amount.

This tension also exists even when all validity and infringement arguments are presented before damages are argued. Current law routinely allows the defendant to be forced to argue in the alternative to be made to argue in one breath that he is not liable and in the next that if he is liable, then this is the amount for which he is liable. A presumptive right to have one issue resolved before the other is addressed would cure this tension. This subsection allows only sequencing of the trial, not full bifurcation. It does not require the use of a second jury, and

allows all pretrial activity, including that related to damages, to be completed before the validity and infringement case is presented and decided. The jury would decide validity and infringement and then proceed immediately to hear the damages case, if still needed.

Subsection (h) requires an expert to provide to the opposing party his written testimony and the data and other information on which his conclusions and methods are based, and to also provide the written testimony to the court. This subsection supplements current law, codifying and enforcing the better interpretation of what is currently required by the rules of procedure. It is necessary because those current rules are sometimes not fully enforced, and experts sometimes are allowed to testify, for example, as to what is customary in an industry without providing the facts and figures or evidence of actual events that are the basis for the expert's view that something is customary. Rule 702 exists to ensure that expert witnesses are not simply allowed to argue from authority. It allows opposing counsel to challenge the expert's methods as unsound, but that right becomes illusory if the expert is allowed to testify without ever disclosing an objective foundation for his conclusions. Requiring the expert's written testimony to also be provided to the judge should allow the judge to prepare himself to consider motions regarding the relevance and admissibility of the expert's testimony.

Subsection (i) codifies and reinforces current law allowing a party to seek summary judgment or JMOL on damages issues. It also requires a court to instruct the jury only on those issues supported by substantial evidence, a requirement which, when appropriate motions have been made, should prevent the court from simply reading the laundry list of all 15 Georgia-Pacific factors to the jury. The court's identification of those factors for which there is substantial evidence not only will provide better guidance to the jury, but should also clarify the record and give form to the factfinder's decision, thereby providing a better foundation for an appeal.

Section 299A creates a patent-specific and expanded Daubert rule.

First, it makes Rule 702 specific to the Federal circuit and patent law. Currently, rule 702 is regarded by the Federal circuit as a procedural rule, and thus in each case the Federal Circuit simply follows the Daubert jurisprudence of the regional circuit whence the district court decision came. Since the regional courts of appeals do not hear patent cases, this system retards the development of a rule

702 jurisprudence that thoroughly considers some of the unique issues presented by patent law and particularly patent-damages law. The current situation also requires the district courts to look only to rule 702 precedent that is based only on nonpatent cases. By embedding rule 702 in the patent code, section 299A will force the development of more consistent and thorough jurisprudence regarding what kinds of reasonable royalty damages calculation methodologies are reliable and what kinds are not. Like subsection (h) above, this section supplements rather than replaces current law.

Section 299A also codifies the four indicia of reliability that were announced in the original Daubert v. Merrell Dow Pharmaceuticals decision, 509 U.S. 579 (1993), as well as two other indicia that are not described in Daubert. These two additional reliability indicia, at paragraphs (5) and (6), are based on standards announced in court of appeals decisions that apply Daubert. These decisions are discussed in footnote 30 of section 6266 of Wright and Miller's Federal

Practice and Procedure. The first new factor, whether a theory or technique has been employed independently of litigation, should be useful in flushing out methodologies that exist only in litigation expert witness' testimony and are never employed in actual licensing negotiations. Use of this reliability indicator should inject more honesty into the hypothetical negotiation. It should force parties to use methodologies that actually would have been used had the infringer and claimant negotiated a license, rather than metrics that are only ever employed in an expert's imaginary parallel universe.

The second new reliability indicator, whether the expert has accounted for readily available alternative theories, should exclude the expert who ignores precise and objective metrics of value in favor of subjective and manipulable methodologies that allow him to produce the result that happens to most favor his client. If there is clear evidence, for example, of the market price of a noninfringing alternative to the infringing product, of the costs of noninfringing substitutes for the invention or the costs of a design-around, or of the cost savings produced by use of the invention, an expert witness should not be allowed to ignore that evidence. He must consider that evidence or at least provide a persuasive account as to why it should not be considered. One common sign of a bad or biased expert witness is his disregard of readily available alternative theories or techniques. Paragraph (6) will help to ensure that Federal courts exercise their gatekeeper role and bar such witnesses from misleading the jury. Finally, subsection (c) of proposed section 299A requires district courts and circuit courts to explain their Daubert determinations, which should facilitate appeal of those decisions.

Section 5 of the bill authorizes the creation of post grant review proceedings for challenging the validity of patents. It allows both first- and second-window review of a patent, with procedural restrictions that will limit the time and expense of these proceedings and protect patent owners. The bill uses a procedural model that is favored by PTO and is calculated to allow quick resolution of petitions. Importantly, the bill also imposes procedural limits on when a second-window proceeding may be sought after civil litigation has commenced, and restricts duplicative or second and successive proceedings, preventing infringers from using post grant review as a litigation or delaying tactic.

Section 5(a) of the bill repeals the procedures for inter partes reexam effective 1 year after the date of enactment of the bill, while allowing requests for reexam that are filed before that effective date to continue to be considered by the office. Director-initiated reexam is also repealed, out of concern that in the future political pressure may be brought to bear on PTO to attack patents that are a nuisance to politically important businesses.

The bill's proposed section 321 authorizes two types of post grant review

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proceedings, a first-period proceeding in which any invalidity argument can be presented, and a second-period proceeding that is limited to considering arguments of novelty and nonobviousness that are based on patents or printed publications. The first-window proceeding must be brought within 9 months after the patent is issued. The second window is open for the life of the patent after the 9-month window has lapsed or after any first-period proceeding has concluded.

The bill uses an oppositional model, which is favored by PTO as allowing speedier adjudication of claims. Under a reexam system, the burden is always on PTO to show that a claim is not patentable. Every time that new information is presented, PTO must reassess whether its burden has been met. This model has proven unworkable in inter partes reexam, in which multiple parties can present information to PTO at various stages of the proceeding, and which system has experienced interminable delays. Under an oppositional system, by contrast, the burden is always on the petitioner to show that a claim is not patentable. Both parties present their evidence to the PTO, which then simply decides whether the petitioner has met his burden.

If we expect post grant review proceedings to be completed within particular deadlines, I think that it is obligatory that we consult with the agency that is expected to administer the proceedings. In this case, PTO has expressed a strong preference for an oppositional model, and it believes that it can comply with reasonable deadlines if that model is adopted. The bill's use of an oppositional system thus allows proposed section 329(b)(1) to mandate that post grant review proceedings be completed within one year after they are instituted, with a possible 6-month extension for good cause shown or in the event of second-window joinder.

Section 5 also imposes a number of procedural limitations on post grant review proceedings. Proposed section 321 applies a standing requirement that petitioners must have a substantial economic interest adverse to the patent. This is a relatively low threshold that simply requires a showing that some substantial economic activity of the petitioner's is hindered by the express or implied threat of the patent's monopoly. Nevertheless, the requirement does give patentees a measure of control over when they might be forced to defend themselves in a post grant review proceeding.

Proposed section 322 includes a number of provisions that are designed to limit the use of post grant review proceedings as a delaying tactic and to mitigate these proceedings' negative impact on efforts to enforce a patent. Subsection (a) provides presumptive immunity from post grant review proceedings to a patent that is enforced in court within three months of its issue. A patent asserted in court this early in its life likely is already the subject of a well-developed commercial dispute. A delay in resolution of the case under these circumstances probably would do unjustified and irreparable harm to one or another party's market share. Such disputes should be resolved as soon as possible, which means hearing all of the case in the one forum capable of hearing all claims, the district court.

Paragraph (1) of subsection (b) bars a party that has filed a declaratory-judgment action challenging the validity of a patent from also challenging the patent in a post grant review proceeding. And paragraph (2) requires a defendant in an infringement action who seeks to open a second-window proceeding to do so within 3 months after his answer to the complaint is due. I think that this is a better rule than one requiring that a petition for a second-window proceeding be filed before an infringement action is filed. Such a restriction might cause parties who think that they may be sued but who are not otherwise inclined to seek post grant review to file defensive petitions for second-period review, lest they later be sued and lose the right to request post grant review.

Subsection (c) of section 322 bars a party that has already sought a post grant review proceeding against a patent from subsequently seeking another post grant review or a reexam with regard to the same patent.

Subsection (d) of section 322 estops a party that has brought a post grant review proceeding against a patent from raising in any subsequent PTO or ITC proceeding or civil action any claim against that patent that it did raise in a post grant proceeding or that it could have raised in a second-window proceeding.

A word about privity: subsections (b)(2) and (d) of section 322 bar second-window proceedings from being instituted or claims from being raised if particular proceedings or claims were pursued by privies to the party now seeking to start proceedings or raise claims. The concept of privity, of course, is borrowed from the common law of judgments.

The doctrine's practical and equitable nature is emphasized in a recent California Court of Appeals decision, California Physicians' Service v.

Aoki Diabetes Research Institute, 163 Cal.App.4th 1506 (Cal. App. 2008), which notes, at page 1521, citations omitted, that:

The word "privy" has acquired an expanded meaning. The courts, in the interest of justice and to prevent expensive litigation, are striving to give effect to judgments by extending "privies" beyond the classical description. The emphasis is not on a concept of identity of parties, but on the practical situation. Privity is essentially a shorthand statement that collateral estoppel is to be applied in a given case; there is no universally applicable definition of privity. The concept refers to a relationship between the party to be estopped and the unsuccessful party in the prior litigation which is sufficiently close so as to justify application of the doctrine of collateral estoppel.

It bears noting that not all parties in privity with a would-be petitioner for other purposes or by way of various contracts would also be in privity with the petitioner for purposes of estoppel--that is, for purposes of section 322. This limitation on estoppel privity is usefully highlighted in a decision of the Federal circuit, International Nutrition Co. v. Horphag Research, Ltd., 220 F.3d 1325 (Fed. Cir. 2000), which notes, at page 1329, that:

One situation in which parties have frequently been held to be in privity is when they hold successive interests in the same property. See, e.g., Litchfield v. Crane, 123 U.S. 549,

551, 8 S.Ct. 210, 31 L.Ed. 199 (1887) (defining privity to include a "mutual or successive relationship to the same rights of property"). Thus, a judgment with respect to a particular property interest may be binding on a third party based on a transfer of the property in issue to the third party after judgment. See Restatement (Second) of Judgments Sec. 43 (1982) ("A judgment in an action that determines interests in real or personal property . . . [h]as preclusive effects upon a person who succeeds to the interest of a party to the same extent as upon the party himself."). A corollary of that principle, however, is that when one party is a successor in interest to another with respect to particular property, the parties are in privity only with respect to an adjudication of rights in the property that was transferred; they are not in privity for other

purposes, such as an adjudication of rights in other property that was never transferred between the two. See 18 Wright et al., supra,

Sec. 4462. Put another way, the transfer of a particular piece of property does not have the effect of limiting rights of the transferee that are unrelated to the transferred property. See Munoz v. County of Imperial, 667 F.2d 811, 816 (9th Cir.1982) (concluding that non-parties were not in privity with a party to litigation because "[t]he right which the [third parties] seek to litigate is not one which they obtained through contractual relations with [a party to the previous litigation]. It is a completely independent right[.]").

Proposed section 327 also imposes important limits on post grant review proceedings. Its requirements are designed to protect both patent owners and the PTO. Section 327 establishes a substantial evidentiary threshold for bringing any post grant review proceeding, and it imposes a further elevated threshold against the bringing of a second-period proceeding for a patent that already has become the subject of such a proceeding. Subsection (a) requires that any petition present evidence that, if unrebutted, would show that a claim in the patent is unpatentable. This threshold is designed, among other things, to force a petitioner to present all of his best evidence against a patent up front. His petition itself must present a full affirmative case. It thus reinforces the front-loaded nature of an oppositional system, which is critical to the efficient resolution of proceedings by PTO. This threshold is considerably higher than "significant new question of patentability," and thus, particularly in combination with the mandates of section 329(c), should provide the PTO with sufficient discretion to protect itself against being overwhelmed by a deluge of petitions.

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Subsection (b) of section 327 is designed to allow parties to use first-window proceedings to resolve important legal questions early in the life of such controversies. Currently, for example, if there is debate over whether a particular subject matter or thing is really patentable, parties who disagree with PTO's conclusion that it is patentable must wait until a patent is granted and an infringement dispute arises before the question can be tested in court. In such a situation, subsection (b) would allow parties with an economic interest in the matter to raise the question early in its life. If PTO is wrong and such a thing cannot be patented, subsection (b) creates an avenue by which the question can be conclusively resolved by the Federal circuit before a large number of improper patents are granted and allowed to unjustifiably disrupt an industry. Obviously, subsection (a) alone would not be enough to test the view that PTO has reached an incorrect conclusion on an important legal question, because subsection (a) requires the petitioner to persuade PTO that a claim appears to be unpatentable, and PTO is unlikely to be so persuaded if it has already decided the underlying legal question in favor of patentability. Subsection (a) is directed only at individual instances of error that PTO itself appreciates, while subsection (b) allows PTO to reconsider an important legal question and to effectively certify it for Federal circuit resolution when it appears that the question is worthy of early conclusive resolution.

Subsection (c) of section 327 applies a successive-petition bar of sorts to second or successive petitions for second-period review. It is a rare patent that should be twice subjected to second-window proceedings. Nevertheless, Congress ought not preclude such review entirely. It is

possible, for example, that a second-period proceeding may be resolved in a way that suggests that there was some collusion between the petitioner and the patent owner. And PTO may over time identify other circumstances in which even a second or third second- period proceeding is appropriate. Subsection (c) requires that such latter circumstances be exceptional, however.

Lengthy and duplicative proceedings are one of the worst evils of other systems of administrative review of patents. During the pendency of such proceedings, a patent owner is effectively prevented from enforcing his patent. Subsection (c) should ensure that second or successive second-period proceedings are few and far between.

It would be desirable that, when the Director grants petitions, he identify for the parties those issues that he found to be sufficiently established and those that were not. Such a practice would help to expedite proceedings in many cases, as it would limit the issues, and it would also give the patent owner a sense of what issues are important to the board and where he ought to focus his amendments.

Ultimately, though, I decided against requiring such practice in the text of the bill. If a mandate were in the statute, it would create problems for the board in the rare but inevitable case where the board initially identifies one issue as the basis for granting the petition, but it later becomes apparent that a different issue is really the central issue in the case. It is better that these proceedings not become as formal as is certiorari practice in the Supreme Court.

Nevertheless, it would be helpful to the process and to the parties if the board were to adopt a practice in the ordinary case of identifying the issues that formed the basis of its grant of the petition.

A few words about joinder: section 325 mandates that multiple first- period proceedings be consolidated, and allows multiple second-period proceedings to be so joined. There is no provision in the bill for successive first-period proceedings, so any additional first-period petition that is worthy of being instituted must be joined with the first one. The threshold imposed by section 327, in combination with the mandates of section 329(c), gives the Director the discretion to reject additional first-period petitions that do not add anything new to the case. This section is not intended to make first-period review operate like a notice-and-comment proceeding, in which everyone gets his say and the agency may be buried under an avalanche of repetitive comments.

In the case of both first and second-period proceedings, additional petitions can be joined only if, among other things, they are properly filed. The words “properly filed” are a term of art that is also employed in section 2244 of title 28 and that has been given content no less than three times during this decade by the U.S. Supreme Court, see Artuz v. Bennett, 531 U.S. 4 (2000), Pace v. DiGuglielmo, 544 U.S. 408, and Allen v. Siebert, 128 S.Ct. 2 (2007). The gist of these decisions is that a petition is properly filed when it is delivered and accepted in compliance with applicable rules governing filings, though particular claims within filings be barred on other procedural grounds, and that time deadlines for filing petitions must be complied with in all cases.

Where possible, I have sought to make the intended operation of these provisions clear and evident on their face, but the interaction between sections 325(b), 327, and 329(b)(2) requires some explanation. Under

329(b)(2), a request to join a second-period proceeding must be made within a time period to be set by the Director. If the request is so made, the additional second-period petition may be joined to a pending proceeding at the discretion of the Director if he has determined that the additional petition satisfies the threshold set in section 327(a).

If the 329(b)(2) deadline is not met, however, the additional second- period petition can still be joined to a pending proceeding at the discretion of the Director if he determines that the additional petition satisfies the threshold set in section 327(c). Section 325(b) requires that a petition be procedurally in order if it is to be considered for joinder, but there is no time deadline that applies to petitions for second-period proceedings, other than that they not be filed before first-period proceedings are concluded. The deadline set pursuant to 329(b)(2) applies only to the motion for joinder, not to the filing of the additional petition itself, and 327(c) expressly contemplates that successive petitions will be filed outside the

329(b)(2) deadline for seeking joinder. Thus a procedurally proper successive petition for second-period review may be joined to a pending proceeding at the discretion of the Director, even if the 329(b)(2) deadline has not been met, so long as the Director determines that the petition satisfies the threshold set in section 327(c).

This is by design. Such a rule encourages petitioners to seek timely joinder to a pending second-period proceeding, but gives the Director discretion to join petitions that meet the successive petition bar even if the request for joinder is untimely. Since an additional petition that satisfies 327(c) would be entitled to its own successive proceeding in any event, it makes sense to allow the Director to join that petition to the pending proceeding, even though joinder was not timely sought.

Section 325(c) gives the PTO broad discretion to consolidate, stay, or terminate any PTO proceeding involving a patent if that patent is the subject of a postgrant review proceeding. It is anticipated, for example, that if a second-period proceeding is instituted and reexam is sought, the Director would be inclined to stay the postgrant review during exhaustion of the reexam. On the other hand, if a postgrant review is near completion, the Director may consolidate or terminate any other PTO proceeding that is initiated with regard to that patent.

Section 329(a)(5) prescribes discovery standards for first-window proceedings, and section 329(b)(3) sets standards for second-period discovery. The standard for allowing second-period discovery is more limited, out of recognition of the fact that the issues that can be raised in that proceeding are few and thus the need for discovery is less. Also, because a second-period proceeding can be instituted long after the patent has issued, it is more burdensome for the patent owner. Limiting second-window discovery limits that burden.

Subparagraph (A) of section 329(b)(3) thus allows depositions of witnesses submitting statements, and subparagraph (B) allows further discovery as necessary in the interest of justice. This latter standard restricts additional discovery to particular limited situations, such as minor discovery that PTO finds to be routinely useful, or to discovery that is justified by the special circumstances of the case.

Given the time

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deadlines imposed on these proceedings, it is anticipated that, regardless of the standards imposed in section 329, PTO will be conservative in its grants of discovery.

Let me comment on two arguments and concerns with regard to second- period review that are not addressed in the text of this bill. First, many parties have made the case to me that any postgrant review of a patent should be limited to a first window that can only be opened within a limited period of time after the grant of a patent. There are strong arguments to be made for this view. Any type of second-period proceeding, whether an opposition or inter partes reexam, invariably interferes with and delays litigation. There is simply no avoiding this result. District judges, many of whom do not enjoy adjudicating patent cases, almost always will stay litigation when a second window has been opened and has the potential to terminate the patent.

I have decided, however, that it would be too radical a step to try to repeal inter partes reexam and not offer any other type of second-period review in its place. As a political and legislative reality, this decision was made in 1999 and probably cannot be undone. To address some of the concerns about a second window, this bill limits such review to the issues that can be raised in inter partes reexam, and includes provisions that are designed to preclude the kinds of tactical and abusive uses of second-period proceedings that are currently seen in inter partes reexam. Though it does not attempt to put the second-period genie back in the bottle, the bill should be an improvement over current law's inter partes reexam. I would welcome a debate about the desirability of second-window review during the next Congress.

Second, a number of parties have expressed concern to me about the current could-have-raised estoppel standard, which I have carried over to second-period proceedings in section 322(d)(2). It is arguable that applying could-have-raised estoppel to the second window does not actually protect the interests that it is designed to vindicate. This estoppel standard's main purpose appears to be to force a party to bring all of his claims in one forum--everything that he "could have raised"--and therefore to eliminate the need to press any claims in other fora. In this bill, however, the issues that can be raised in the second window are so sharply limited that the goal of flushing out all claims is unattainable. Only 102 and 103 arguments based on patents and printed publications can be raised in the second window. Accused infringers inevitably will have other challenges and defenses that they will want to bring, and those arguments can only be raised in district court. Regardless of the estoppel standard that is applied, the patent owner will almost always be forced to fight in two fora, and the intended goal of could-have-raised estoppel will remain beyond reach.

The real reforms in this bill that would protect patent owners from abusive and duplicative proceedings are the various restrictions imposed in section 327 and in subsections (a), (b), and (c) of section 322. These provisions, I think, would be more useful and valuable to patent owners than could-have-raised estoppel. I welcome a broader debate on this issue. At the very least, it would be helpful to me to more clearly understand the interests that proponents and opponents believe are protected or injured by could-have-raised estoppel.

Section 8 of the bill addresses venue. It adopts an activities-based test for determining whether a particular district is an appropriate locale for a patent-infringement suit. Under section 8's

proposed amendments to 28 U.S.C. section 1400, some significant activity involving either the patent or the infringing product must take place in the district in order for venue to be proper there. This section aims to limit patent litigation to districts with some reasonable connection to the patent, but without generating substantial preliminary litigation over venue. Of course, any change to the venue statute will result in a period of litigation over the new statute's meaning. To the extent possible, section 8 uses terms of art that have a settled meaning in the venue context.

Paragraph (2) and subparagraphs (B) and (C) of paragraph (6) refer to acts of infringement and to a product or process that embodies an invention, events or facts whose existence likely will be the subject of the litigation. I considered whether the word "allegedly" should be added before "infringement" or "embodies," since those facts will not yet have been proven at the time when venue is being determined. Current section 1400(b), however, refers simply to "acts of infringement." I am unaware of any courts that, when applying the current law, have required the plaintiff to demonstrate that infringement has in fact occurred before allowing themselves to be persuaded that venue is proper. I would expect courts and litigants to also use common sense when applying paragraphs (2) and (6), and to not construe the language to require that the merits of the case be litigated before a threshold question may be determined. Paragraph (4) refers to the place where an invention was conceived. This can, of course, be more than one place and can involve collaborative activities. Paragraphs (5) and (6)(A) refer to "research and development."

Other patent venue reforms that have been proposed in this Congress have referred to research or development, treating the two words as if they were separate concepts. In most circumstances, however, research and development are treated as one thing and no effort is made to distinguish research from development. Although theoretical distinctions are possible, they become very difficult to apply to actual practical situations. Thus section 8 treats research and development as a unified concept.

Paragraphs (5) and (6)(A) also refer to "significant" research and development. This bill uses the word "significant," rather than the word "substantial," which is a word that has been used in other legislative proposals made in this Congress. Having reviewed judicial constructions of both terms, it appears to me that "significant" means something like "legitimate," and that the significance of an activity can be evaluated on the face of that activity, without reference to the whole of which it is a portion. The word "substantial," on the other hand, appears to measure an activity in light of the whole of which it is a part. Arguably, one cannot know whether particular research-and-development activity is substantial without knowing all of the research-and-development activity that has taken place with regard to the patent in suit. Using the word "substantial" here or elsewhere in this section likely would in many cases require discovery to determine just what is the whole of which the activity in question is alleged to be a substantial part. Since the last thing that I would want to be responsible for is a patent law that made discovery and a 2-day evidentiary hearing a routine feature of establishing venue in patent litigation, my bill uses the word "significant" rather than "substantial."

Paragraph (7) allows venue at the place where a nonprofit organization managing inventions for colleges and universities, including the patent in suit, is principally based. These organizations manage inventions by, among other things, helping the schools to commercialize them. Whether such an organization acts on behalf of a university should not be construed to turn on whether

there is an agency relationship between the organization and school. Even an independent contractor acts on behalf of the party that has retained it.

A few words about interlocutory appeals: I expressed skepticism in the committee report to S. 1145 about requiring the Federal circuit to accept interlocutory appeals of claim constructions. I noted that such a rule risked allowing a district judge who is insufficiently enthusiastic about his duty to decide patent cases to rid himself of a case by certifying an interlocutory appeal to the Federal circuit, in the hope that the case would go away and never come back. Not only would such an event waste the Federal circuit's resources, it would also force that circuit to decide a claim construction on the basis of what may be an inadequate evidentiary record. And no matter how thin that record may be, once the claim construction was before the Federal circuit and that court were forced to decide it, whatever came back to the district court would be the law of the case. The Federal circuit's claim construction could not be

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changed by the district court on remand, no matter how obvious it later became in light of a more complete record that the Federal circuit had gotten it wrong.

I have heard from more than one patent lawyer that claim construction often is a rolling process. Even when a court holds a Markman hearing and attempts to definitively construe a patent early in a trial, frequently new information comes forward over the course of the trial that sheds new light on claim terms, or it becomes clear that different claim terms constitute the heart of the dispute and must be construed.

An interlocutory appeal would prove to be a large waste of time if it later became clear that different claim terms formed the heart of the dispute. And such an appeal could prove to be an utter disaster if the Federal circuit were forced to construe the key claim terms without having all of the necessary information before it and, as a result, that court misconstrued those claims. Because of the great risk of such undesirable outcomes, and the delay that interlocutory appeals would inject into trials, I have not included a proposal to require interlocutory appeals in this bill.

Section 10 of the bill addresses applicant quality submissions. PTO believes that all applicants for a patent should be required to conduct a search of prior art and a patentability analysis before they submit their patent application. Such a requirement not only would improve the quality of applications, it would also persuade many would-be applicants not to file in the first place, since they would discover that their invention already is disclosed in the prior art.

PTO presents a strong case that the patent system currently is buckling under the volume of applications, and that if present trends continue, in 10 years the system could be brought to the point of collapse. Today, many applications provide little useful information to examiners and are filed without any awareness of the prior art. Some have suggested that PTO simply needs to hire and retain more examiners, but there are natural limits to PTO's ability to hire, train, and assimilate new examiners into the culture of PTO. Already PTO is hiring a significant percentage of every year's graduating class in particular fields of engineering. If something does not change, Congress may find it necessary to mandate across-the-board search-and patentability requirements in the future.

PTO urged the adoption of search-and-patentability requirements during this Congress. The ability of such proposals to secure acceptance from the relevant interests ultimately foundered, however, on our inability to answer several key questions about how such a system would function and how much it would cost. The types of searches that PTO performs, for example, are rather specialized. Many patent applicants would want to hire a search firm to conduct such searches rather than learn how to conduct PTO searches themselves. Currently, however, no market exists for such services and no firms exist that offer to conduct searches that would meet PTO's specifications. It is thus impossible at the moment to say with certainty how much patent applicants can expect to pay to have a private firm conduct a search that meets PTO's requirements.

It also is unclear exactly what kind of patentability analysis PTO might want. It will probably be necessary for PTO to launch such a system and to adjust it over a period of years before PTO itself discovers what kinds of requirements produce information that is useful to the Office.

And finally and most importantly, under the current system, in which statements made by the applicant during prosecution are used to construe the claims of the patent in district court, any requirement that the applicant make additional statements about patentability during prosecution would prove to be very expensive to the applicant.

Under the current litigation regime, applicants who can afford to do so would be wise to hire expensive patent lawyers to think through how every statement made to PTO during a patentability analysis might later affect claim construction in an infringement suit. In other words, a patentability analysis requirement likely would result in heavy legal costs for patent applicants.

Rather than mandate that all applicants submit a search report and a patentability analysis, section 10 of the bill authorizes PTO to offer incentives to parties who do so, and it makes the prosecution record of a patent that is secured through such a program inadmissible to construe patent claims in later proceedings. This last requirement is both an essential prerequisite to the palatability of a voluntary search-and-patentability program, and is also expected to be a powerful draw to applicants to participate in the program. By effectively providing immunity in later litigation against all information that is in the file wrapper of the patent's prosecution history, this provision allows applicants to speak freely with examiners, without having to constantly think through--or rather, have their lawyers think through-- how each statement might later affect claim scope in subsequent litigation. I also anticipate that the prospect of being able to assert a patent based solely on its claims, without having to litigate over the meaning of every action and statement in the prosecution record, will be a strong inducement to many patent applicants to try to comply with the PTO's voluntary search-and-patentability program.

Proposed section 123(b) also authorizes PTO to issue regulations identifying material submitted in an attempt to comply with the search- and-patentability program that also shall receive file-wrapper immunity. Such regulations should encourage applicants to try PTO's system who might otherwise be deterred by fear that if they try to comply with PTO's program and abort the attempt or are unsuccessful and later secure the same patent by the conventional route, the possibly substantial record produced during the failed attempt will later be used in litigation to limit claim scope. And of course, even ultimately successful users of the search-and-patentability

program who are not confident that they will complete the program likely would, in the absence of the immunity tendered by such regulations, engage in the very type of defensive and overlawyered discussions with the examiner that the prospect of file-wrapper immunity is designed to prevent.

Proposed section 123(a) authorizes PTO to offer various other incentives to parties who participate in a search-and-patentability program. Subsection 10(b) of the bill is intended to preclude a negative implication that because the bill authorizes PTO to offer such incentives, PTO must currently lack the authority to offer incentives to applicants who submit additional information. I should also note that PTO may continue to offer incentives to applicants under existing pilots and programs without issuing regulations.

Section 10 of the bill is designed to allow a substantial trial run of a search-and-patentability program. It is my hope that if the incentives offered are powerful enough and if PTO's search-and- patentability demands are reasonable, eventually a major portion of all patent applicants will choose to prosecute their patents under such a system. A well-functioning and heavily used search-and-patentability program not only would help PTO to process its backlog of applications, it also would answer some of the questions that we were unable to answer this year, such as how much would private prior-art searches cost, and will file-wrapper immunity operate as intended in court?

I hope that the gathering patent-application storm that PTO perceives will be diverted by the program authorized in this section and by the reforms to the inequitable-conduct doctrine in section 11 of the bill, both of which should encourage applicants to be more frank with PTO and to provide information that is more useful to the Office. If present filing trends continue for another decade, however, and Congress is forced to consider applying search- and patentability-analysis requirements across the board to all applications, it likely will have proven useful to have had a substantial trial run of a search-and- patentability program.

Section 11 of the bill addresses the doctrine of inequitable conduct.

Under current law, this doctrine allows an accused infringer to have an entire patent declared unenforceable if he can demonstrate that when the patent was

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prosecuted, the patent applicant intended to deceive the examiner by misrepresenting information that the court deems material under one of a variety of tests, such as whether the information would be important to a reasonable patent examiner in deciding whether to allow the application. See, e.g., Digital Control, Inc. v. Charles Machine Works, 437 F.3d 1309, 1313-14 (Fed. Cir. 2006). This doctrine, which is applied in the course of infringement litigation, is a court-made doctrine that is designed to force patent applicants to be forthcoming and to not mislead the PTO when prosecuting their patents. In practice, however, the doctrine does not fulfill this purpose and instead generates a variety of undesirable consequences.

There are two aspects of the current inequitable conduct doctrine that I find particularly troubling. The first is that it is asserted in a majority of all patent lawsuits. As much as one might

think ill of the ethics of particular industries, it is simply inconceivable that fraud and other misconduct infects anything close to half of all of the patents issued in this country.

One explanation that a number of lawyers have given to me for the high rate at which inequitable conduct is asserted in litigation is that the doctrine gives the accused infringer an opportunity to examine the inventor--often in the jury's presence--and to paint him as deceptive and dishonest. Even the most upright and honest inventor can be made to look sly and shifty under aggressive examination as to why exactly he chose not disclose particular facts or documents to the PTO.

And thus even an infringer who has no reasonable hope of prevailing on an inequitable-conduct claim will assert the doctrine simply because it offers an opportunity to cast the inventor and his work in a negative light. This tactic tends to increase the odds that the jury will find the invention obvious and to decrease the jury's estimate of the damages to which the inventor is entitled.

The doctrine also carries high transaction costs. It typically is grounds for exhaustive discovery of the inventor's files and for depositions directed at his state of mind at the time of the prosecution--for questioning him as to what did he know and when did he know it, and what was his motive for not disclosing particular pieces of information. The doctrine adds substantially to the expense of litigation.

The other aspect of the current doctrine that I find problematic is that it applies a draconian penalty to instances of misconduct whose materiality often appears to be doubtful. Jon W. Dudas, the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, commented on this aspect of the doctrine in his testimony before the Judiciary Committee on June 6, 2007:

Under existing case law, courts must hold all of a patent's claims invalid if they find inequitable conduct in any aspect of prosecuting a patent application even if the claims are completely valid and/or the inequitable conduct was irrelevant to prosecution of the claims. Thus, the only remedy available is complete loss of the patent. Inequitable conduct can be found if the applicant deliberately withholds or inaccurately represents information material to patent prosecution. Anything the court deems that a reasonable examiner would find important can be material and the evidence necessary to show intent varies according to the nature of the omission. Accordingly, the inequitable conduct standard is uncertain and the potential penalties severe. For example, any misstatement in an affidavit, or even a failure to disclose a possible source of bias, has been held to be capable of rendering all claims of the patent unenforceable.

Because inequitable conduct is a court-enforced doctrine, the assessment of what is material--of what would have been important to a reasonable patent examiner--is made by a U.S. district judge. But district judges very rarely have any firsthand knowledge of the patent-prosecution process or the workings of the PTO and are not in a position to accurately assess what information actually would have been important to a reasonable examiner.

The Federal courts' sometimes hair-trigger assessments of materiality are a substantial injustice to those patent owners who lose the right to enforce what is an otherwise perfectly valid patent. This injustice can be particularly acute when the current owner of the patent is a good-faith purchaser who is not even alleged to have engaged in any type of misconduct himself.

Judicial enforcement of the doctrine of inequitable conduct also has led to consequences that are of a more general concern. The doctrine's severe penalty, combined with the unpredictability of its application, has led applicants to adopt extreme tactics that are designed to eliminate the risk that their patent will ever be held unenforceable on the ground of inequitable conduct. These tactics, while perhaps effective at minimizing such risk, are inconsistent with sound prosecution practice. They constitute the exact opposite of providing PTO with the information that it needs in order to be able to assess whether a claimed invention is patentable, and they make it harder for PTO to do its job. Under Secretary Dudas commented on this phenomenon in his June 6, 2007 Judiciary Committee testimony:

In some other cases, applicants or their attorneys fear that the legal doctrines of inequitable conduct and unenforceability may unfairly punish them with draconian penalties for innocently omitting information. The theory is that, if one does provide information, it must be perfect.

Otherwise, the consequence may be loss of the patent and/or disciplinary action (for the applicant's attorney). By way of contrast, failure to share or disclose information has absolutely no adverse legal consequence.

* * * * *

While the risk of an inequitable conduct finding is low, it is frequently alleged. When alleged, inequitable conduct assertions add substantially to litigation costs and malpractice claims. The "all or nothing" result of an inequitable conduct finding understandably has a perverse effect on the actions of applicants and their attorneys with respect to "risking" a proper search in the first place. As a result, the doctrine results in counterproductive behavior before the USPTO. It discourages many applicants from conducting a search and leads others to be indiscriminate in the information they submit. In a review two years ago, we found that over 50 percent of submitted applications contained either no information disclosure statement or that such submissions included more than 20 references.

The Under Secretary's testimony is consistent with what has been described to me by a number of attorneys and patent applicants. The current state of inequitable conduct enforcement leads applicants to adopt one of two tactics: either they flood the Office with prior-art references but offer no explanation of how the invention is distinguished from that prior art or which prior art is most relevant, since by providing the reference they cannot be accused of concealing it, and by providing no explanation they cannot be accused of misleading the Office or mischaracterizing the information, or applicants provide no information at all with their applications, since providing some information would inevitably mean not supplying other information in the universe of existing information and thus could open the applicant to charges of having concealed something in that universe of information not provided. Both tactics impede the PTO's examination of patent applications.

Professor John F. Duffy of George Washington University Law School has made a persuasive case that inequitable conduct that occurs during patent prosecution should be addressed in proceedings before the PTO itself. He notes that the 1940s decisions that are viewed as giving the Supreme Court's imprimatur to judicial enforcement of the doctrine are much more limited in their rulings than the expansive approach to inequitable conduct that has been developed by the

Federal circuit. He also points out that the patent system's use of civil litigation to enforce good conduct in dealings with an agency is unique to the patent system. In the case of every other Federal administrative agency, the agency itself polices misconduct and fraud committed in agency proceedings.

Professor Duffy also notes that in other administrative contexts, the Federal courts themselves have predicted that judicial supervision of agency proceedings would produce the very consequences that judicial intervention has produced in the PTO. Though Buckman Co. v. Plaintiffs'

Legal Committee, 531 U.S. 341, 351 (2001), is a case about the FDA, it might as well be describing the impact of the inequitable-conduct doctrine on patent prosecutions:

[F]raud-on-the-[agency] claims inevitably conflict with the [agency's] responsibility to

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police fraud consistently with the Administration's judgment and objectives. As a practical matter, complying with the [agency's] detailed regulatory regime in the shadow of [the courts' varying fraud standards] will dramatically increase the burdens facing potential applicants * * *.

Conversely, fraud-on-the-[agency] claims would also cause applicants to fear that their disclosures to the [agency], although deemed appropriate by the Administration, will later be judged insufficient in * * * court. Applicants would then have an incentive to submit a deluge of information that the Administration neither wants nor needs, resulting in additional burdens on the [agency's] evaluation of an application. As a result, the [agency certification] process could encounter delays, which would, in turn, impede competition * * * and delay [innovation].

Section 11 of the bill that I have introduced proposes a new approach to addressing misconduct in proceedings before the PTO. It effectively shifts enforcement of the doctrine of inequitable conduct from civil litigation to administrative proceedings before the PTO. Under the procedures authorized in proposed sections 298 and 299, PTO will reissue patents if needed to remove any invalid claims, will assess the culpability of any misconduct, and will impose sanctions on any parties that have engaged in inequitable or fraudulent conduct before the Office.

I believe that the administrative framework proposed in section 11 is consistent with the principles outlined in the Supreme Court cases that the Federal circuit relies on as the basis for its own inequitable conduct jurisprudence, Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co., 324 U.S. 806 (1945), and Hazel- Atlas Glass Co. v. Hartford-Empire Co., 322 U.S. 238 (1944). Section 298 would require district courts to order patents that are infected by fraud to go into reissue proceedings, where invalid claims would be removed. Limiting patents to their proper scope serves important public interests. As the court noted in Precision Instrument, at pages 815 to 816, citations omitted:

The possession and assertion of patent rights are issues of great moment to the public. As recognized by the Constitution, [a patent] is a special privilege designed to serve the public purpose of promoting the "Progress of Science and useful Arts." At the same time, a patent is an exception to the general rule against monopolies and to the right to access to a free and open

market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.

Proposed section 299 would authorize procedures whereby the PTO can receive and assess complaints about misconduct committed by parties to its matters or proceedings, assess the materiality of the misconduct and the mens rea of the malfeasant, and levy appropriate sanctions, including civil fines and, in severe cases, unenforceability of the patent. This section is animated by the principles expressed in Precision Instrument, at page 818, where the court emphasized that:

Those who have applications pending with the Patent Office or who are parties to Patent Office proceedings have an uncompromising duty to report to it all facts concerning possible fraud or inequitableness underlying the applications in issue. * * * Public interest demands that all facts relevant to such matters be submitted formally or informally to the Patent Office, which can then pass upon the sufficiency of the evidence.

A few provisions of proposed section 299 deserve some commentary and explanation. Subsection (a) authorizes the PTO to issue regulations accepting complaints from any source. It is anticipated, based on preliminary discussions with the Office, that the PTO will accept complaints from a broad range of parties, including those that are third parties to any commercial disputes involving the patent. The scope of such regulations, however, ultimately remains within the Office's discretion, and PTO may later decide to limit who may file a complaint should it discover that allegations of misconduct that originate from particular types of sources are burdensomely voluminous or otherwise unproductive.

Though any person may file an allegation of misconduct under section 299, that section only allows such complaints to be filed against individual and entities that are parties to matters or proceedings before the Office. This limitation excludes examiners and other PTO personnel. Prosecutions occasionally become contentious, particularly when examiners fail to appreciate an inventor's revolutionary genius.

If section 299 were not limited to complaints against parties, we would run the risk that such proceedings might come to be regarded by a subset of applicants as their final means of appealing an examiner's rejection.

Section 299 is not limited, however, to entertaining complaints against applicants and patentees. A party that engages in intentionally deceptive and material misconduct while challenging a patent during a postgrant review proceeding, or even while requesting such a proceeding, also may be sanctioned pursuant to section 299.

Some parties have criticized the fact that the proceedings authorized by section 299 will be prosecuted by the PTO alone, without the participation of parties adverse to the patent. PTO prefers it this way. If misconduct has resulted in the grant of claims that are invalid, that patent can still be challenged in court if its owner attempts to enforce it. And to the extent that alleged misconduct has not resulted in the grant of claims that are invalid, the interests principally

affected by any misconduct are those of PTO. The primary injury in such a case is to PTO's interest in ensuring that parties are honest and forthcoming in their dealings with the Office and its general interest in the integrity of its proceedings. In such circumstances, it is appropriate that PTO control the prosecution of the misconduct.

Subsection (b)(3)(C) of section 299 permits PTO to sanction a patent owner by rendering his patent unenforceable. That penalty, however, is reserved by subparagraph (C) for particularly egregious misconduct that was committed by the current beneficial owner of the patent.

This elevated standard is consistent with the standards for unenforceability set in Precision Instrument and Hazel-Atlas Glass, the foundational Supreme Court cases of the modern inequitable-conduct doctrine. In Precision Instrument, an applicant "gave false dates as to the conception, disclosure, drawing, description and reduction to practice of his invention." When his fraud was discovered by the other party to an interference proceeding, the applicant colluded with that other party to assign the false application to the party. The Supreme Court held the patent unenforceable, concluding that "[t]he history of the patents and contracts in issue is steeped in perjury and undisclosed knowledge of perjury" and that "inequitable conduct impregnated [the patentee's] entire cause of action." Pages 809, 816, and 819. Similarly, in Hazel-Atlas Glass, the court rendered a patent unenforceable upon "conclusive proof" of a "deliberately planned and carefully executed scheme to defraud not only the Patent Office but the Circuit Court of Appeals." The court also emphasized in that case that "no equities have intervened through transfer of the fraudulently procured patent or judgment to an innocent purchaser." Pages 245 and 246.

I should also comment on a few other significant changes that this bill makes to S. 1145. My bill's proposed section 102(a)(1) amends the novelty condition of patentability by eliminating public use and the on-sale bar as independent bases of invalidity and instead imposes a uniform test of whether art has been made available to the public. By eliminating confidential sales and other secret activities as grounds for invalidity and imposing a general standard of public availability, this change will make the patent system simpler and more transparent.

Whether a patent is valid or not will be determined exclusively on the basis of information that is available to the public. As a result, at the outset of any dispute over a patent, the patentee and potential infringer can develop a full and complete understanding of the information that will determine the novelty and nonobviousness of the claimed invention. This change not only will provide greater certainty and predictability--it should also substantially reduce the need for discovery in patent litigation, since defendants will no longer need to uncover evidence of private sales or offers for sale or other nonpublic information in order to determine whether the patent is valid.

It bears mention that the extent of what is deemed to be publicly available

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is defined in important respects by the doctrine of inherency. Under that doctrine, once a product is sold on the market, any invention that is necessarily present or inherent to the product and that would be recognized as such by a person skilled in the art is itself deemed to be publicly

available. Such an invention becomes publicly available art and cannot be patented. See generally Rosco, Inc. v. Mirror Lite Co., 304 F.3d 1373, 1380-81 (Fed. Cir. 2002).

To address the possible concern that a uniform available-to-the- public standard might allow secret commercialization of a product followed by belated patenting, I should note that a manufacturer who embarked on such a course would run the risk that, under the first-to- file system, someone else might patent the invention out from under him. Perhaps for this reason, among others, industrialized countries that currently employ this standard do not appear to have experienced significant problems with manufacturers attempting secret commercialization and late patenting of their products.

The bill also includes other provisions that would make the patent system more objective and transparent. Section 3(c) eliminates current law's best-mode requirement, and section 15 strikes several provisions of title 35 that require inquiry into a patentee's subjective intent.

Any useful information that might be supplied by describing a patent's best mode generally also will be provided while satisfying the written description and enablement requirements. And because the best-mode requirement turns on the patentee's subjective intent, rather than on objective facts, it often becomes grounds for deposition of the inventor and other discovery. Eliminating that requirement will make patent litigation less burdensome.

My bill also strikes S. 1145's elimination of the exception to the 18-month publication requirement. Small-patent-owners' groups have persuaded me that the current exception should be preserved. That exception, although used only about 40,000 times annually, is invoked heavily by small-business applicants. These smaller applicants believe that the opt-out of 18-month publication allows them to preserve the market advantage generated by their ingenuity, and prevents their inventions' being appropriated in foreign countries, in the event that their application is not granted or is only granted on a second attempt. Under Secretary Jon Dudas, in his June 6, 2007, Judiciary Committee testimony, also expressed doubt about the wisdom of eliminating the current exception. He noted that serious concerns had been expressed "by independent inventors and small entities that large entities and foreign interests may misappropriate their inventions upon disclosure and prior to issuance of a patent."

Sections 12 and 13 of the bill are carried over from S. 1145 as reported by the Judiciary Committee. I have included additions to those sections that I understand that their supporters had intended to adopt and have also made an addition of my own to section 12. The new subsection (c) in that section converts various day-based deadlines in title 35 into month-based deadlines. Month-based deadlines are easier to calculate. The use of months should make it easier to avoid the type of ministerial mistake that apparently is the cause for section 12. It should also save the patent system hundreds of billable hours over the years.

Section 2(b) of the bill includes a minor modification to the CREATE Act, Public Law 108-453. This change more closely aligns the text of that act to the PTO's current and uncontested interpretation of that act with regard to who must own the prior art that is regarded as jointly owned by the parties to a joint research agreement pursuant to the CREATE Act.

And last, but certainly not least, section 14 of the bill consists of the Coburn amendment, which would create a revolving fund for PTO fees.

Under that amendment, all fees paid by patent and trademark applicants and owners to the PTO would remain in the PTO and could not be diverted to unrelated Government programs.

According to Senator Coburn, the fees collected by PTO are more than adequate to pay for the costs of all patent examinations and other PTO proceedings. But PTO is not allowed to keep those fees. Instead, the fees are deposited into the U.S. Treasury, and PTO's operations are funded by a congressional appropriation. It is that appropriation that effectively determines on an annual basis what portion of the fees that PTO has collected it will be allowed to keep and use.

Since 1992, Congress has diverted over $750 million in PTO fees to other governmental programs. As recently as 2004, over $100 million was diverted from the PTO.

Fee diversion unquestionably has a negative impact on the patent system. In recent years, it has hampered PTO's ability to hire an adequate number of examiners. Multiple studies and multiple witnesses at congressional hearings have concluded that fee diversion contributes to the growing backlog and lengthening pendency of patent applications.

It currently takes nearly 3 years to get a patent, and 786,000 applications are pending. That means that large numbers of businesses, universities, and other inventors are waiting to learn if they will receive a patent for their invention.

Because of recent public outcry over lengthy patent-application pendency periods, the administration and Congress have abstained from diverting PTO fees since 2004. As a result, PTO has been able to hire a record number of new examiners and begin to address its backlog of applications. Unless the Coburn amendment is enacted into law, however, Congress and the administration could easily begin diverting PTO fees again in future years. Certainly, any bill that aspires to deserve the title "Patent Reform Act" should include a revolving-fund provision.

I thank all of the individuals who have assisted my attempts to understand and find answers to the difficult questions posed by efforts to improve the patent system, and I look forward to next year's congressional debate on patent reform legislation.

Senate Debate 2-28-2011 (157 Cong. Rec. S936-S953)

[Congressional Record Volume 157, Number 28 (Monday, February 28, 2011)]

[Senate]

[Pages S936-S953]

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PATENT REFORM ACT OF 2011 The ACTING PRESIDENT pro tempore. Under the previous order, the Senate will now proceed to the consideration of S. 23, which the clerk will report.

The assistant legislative clerk read as follows:

A bill (S. 23) to amend title 35, United States Code, to provide for patent reform. The Senate proceeded to consider the bill, which had been reported from the Committee on the Judiciary with amendments; as follows:

(The parts of the bill intended to be stricken are shown in boldface brackets and the parts of the bill intended to be inserted are shown in italics.)

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

[Text of bill omitted]

Mr. LEAHY. Mr. President, I ask unanimous consent that the committee- reported amendments be agreed to, the motions to reconsider be considered made and laid upon the table, with no intervening action or debate; further, that the amended version be considered original text for the purposes of further amendment.

The ACTING PRESIDENT pro tempore. Is there an objection?

Without objection, it is so ordered.

The committee-reported amendments were agreed to.

Mr. LEAHY. Mr. President, the Senate today is turning its attention to a measure that will help create jobs, energize the economy, and promote innovation. The Patent Reform Act, which has also come to be called the America Invents Act, is a key part of any jobs agenda.

We can help unleash innovation and promote American invention, all without adding a penny to the deficit. This is commonsense and bipartisan legislation. During the next few days, the Senate can come together to pass this needed legislation, and do so in a bipartisan manner. It represents the finest traditions of the Senate.

I thank the majority leader for proceeding to this measure, and the Republican leader for his cooperation.

This is a bill that was reported unanimously by the members of the Judiciary Committee. Republicans and Democrats alike recognize that it is important to our country's continued economic recovery, and to our ability to successfully compete in the global economy. America needs a 21st century patent system in order to lead. The last reform of our patent system was nearly 60 years ago, and I think it is about time the patent system caught up with the needs of this country and what the rest of the world has already done.

In his State of the Union Address, President Obama challenged the Nation to out-innovate, out-build, and out-educate. Enacting the America Invents Act is a key to meeting this challenge.

Reforming the Nation's antiquated patent system will promote American innovation, it will create American jobs, and it will grow America's economy. I thank the President and his administration for their help and support for the Leahy-Hatch-Grassley America Invents Act.

Commerce Secretary Locke has been a strong partner in our efforts, and Director Kappos of the Patent and Trademark Office has been an indispensable source of wise counsel.

Innovation drives the Nation's economy, and that entrepreneurial spirit can only be protected by a patent system that promotes invention and spurs new ideas. We need to reform our patent system so that these innovations can more quickly get to market.

A modernized patent system--one that puts American entrepreneurs on the same playing field as those throughout the world--is a key to that success. This is an idea that cuts across the political spectrum.

Our bipartisan Senate cosponsors include Senator Kohl of Wisconsin, Senator Klobuchar of Minnesota, Senator Gillibrand of New York, the distinguished Acting President pro tempore, Senator Coons of Delaware, as well as Senator Kyl, the assistant Republican leader, Senator Sessions of Alabama, Senator Lieberman of Connecticut, Senator Franken of Minnesota, Senator Blumenthal of Connecticut, and Senator Harkin of Iowa.

Republicans and Democrats from big States and small, and from all ends of the political spectrum, are coming together to support American innovation.

The Senate Judiciary Committee unanimously approved this legislation on February 3, 2011. But this effort extends back several years. Our current congressional efforts to reform the Nation's patent system began in 2005. Indeed, our bill is the product of years of work and compromise. The Senate Judiciary Committee has reported patent reform legislation to the Senate in each of the last three Congresses. And the House has seen efforts over the same period led by Congressmen Lamar Smith of Texas and Howard Berman of California. The legislation we are considering today, in fact, is structured on the original House bill and contains many of the original provisions.

From the beginning, we each recognized the need for a more effective and efficient patent system, one that improves patent quality and provides incentives for entrepreneurs to create jobs.

A balanced and efficient intellectual property system that rewards invention and promotes innovation through high-quality patents is crucial to our Nation's economic prosperity and job

growth. It is how we win the future--by unleashing the American inventive spirit. This bill, the America Invents Act, will allow our inventors and innovators to flourish, and it will do so without adding a penny to the deficit.

Not a dime in taxpayer money is spent on the Patent and Trademark Office reforms. They are all funded by patent fees, not taxes.

The America Invents Act will accomplish three important goals, which have been at the center of the patent reform debate from the beginning:

It will improve and harmonize operations at the Patent and Trademark Office; it will improve the quality of patents that are issued; and it will provide more certainty in litigation.

Particularly, this legislation will transition our Nation's patent system to a first-inventor-to-file system. It will also make changes to improve the quality of patents that are issued, and it will provide the PTO with the resources it needs to work through its backlog.

The America Invents Act provides the tools the PTO needs to separate the inventive wheat from the chaff, to help businesses bring new products to market and create jobs.

This is interesting because this is a piece of legislation that is supported by both business and labor--something we all want to see in this Chamber--including the National Association of Manufacturers, the United Steelworkers, the National Venture Capital Association, the AFL-CIO, the Association of American Universities, and companies representing all sectors of the patent community that have been urging action on patent reform proposals for years.

Innovation has always been at the heart of America and American success. From the founding of our Nation, we recognized the importance of promoting and protecting innovation. The Constitution explicitly grants Congress the power to "promote the progress and science and useful arts, by securing for limited times to . . . inventors the exclusive right to their respective . . . discoveries." It is not a creature of the legislature but an integral part of our Constitution.

The patent system plays a key role in encouraging innovation and bringing new products to market. The discoveries made by American inventors and research institutions, commercialized by our companies, and protected and promoted by our patent laws, have made our system the envy of the world.

In spite of this, a Newsweek study last year found that only 41 percent of Americans believe the United States is staying ahead of China in innovation.

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A Thompson Reuters analysis has already predicted that China will outpace the United States in patent filings this year.

China has a specific plan not just to overtake the United States in patent applications, but to more than quadruple its patent filings over the next 5 years--all the more reason why we must act now.

This is not something that should be delayed. We should act on it. Delaying it is saying we want China to overtake the United States. Moving forward says we want to be competitive.

It is astonishing to consider that China has been modernizing its patent laws and promoting innovation, but the United States has failed to keep pace. I said before, it has been 60 years since we last enacted reform of American patent law. We can no longer wait. We can no longer remain complacent and expect to stay on top.

In many areas that were highly contentious when the patent reform debate began, the courts have acted. Their decisions reflect the concerns heard in Congress that questionable patents were too easily obtained, too difficult to challenge. The courts have moved the law in a generally positive direction, more closely aligned with the text of the statutes.

More recently, the Federal circuit aggressively moved to constrain runaway damage awards, which plagued the patent system by basing awards on unreliable numbers, untethered to the reality of licensing decisions.

The courts have addressed issues where they can, but in some areas only Congress can take the necessary steps. Our act will both speed the application process and, at the same time, improve patent quality. It will provide the USPTO with the resources it needs to work through its application backlog, while also providing for greater input from third parties to improve the quality of patents issued and that remain in effect.

High quality patents are the key to our economic growth. They benefit both patent owners and users, who can be more confident in the validity of issued patents. Patents of low quality and dubious validity, by contrast, enable patent trolls who extort unreasonable licensing fees from legitimate businesses, and constitute a drag on innovation. Too many dubious patents also unjustly cast doubt on truly high quality patents.

The Department of Commerce issued a report indicating that these reforms will create jobs without adding to the deficit. The Obama administration supports these efforts, as do industries and stakeholders from all sectors of the patent community. Congressional action can no longer be delayed.

Innovation and economic development are not uniquely Democratic or Republican objectives, so we worked together to find the proper balance for America, for our economy, for our inventors, for our consumers.

Thomas Friedman wrote not too long ago in the New York Times that the country which "endows its people with more tools and basic research to invent new goods and services . . . is the one that will not just survive but thrive down the road. . . . We might be able to stimulate our way back to stability, but we can only invent our way back to prosperity."

I think of the country's first patent, which was issued to a Vermonter. Thomas Jefferson, the Secretary of State, examined the application, and President George Washington signed it.

A recent Judiciary Committee meeting on this measure was on the anniversary of the day Thomas Edison received the historic patent for the principles of his incandescent lamp that paved

the way for the bulb that has illuminated our homes, offices, and venues in our country and around the world.

This week is when the patent was issued for lifesaving improvements to the diver's suit. It was magician Harry Houdini who devised a mechanism that allowed divers in distress to safely escape a diving suit.

So we can smooth the path for more interesting and great American inventions. That is what the bipartisan comprehensive patent reform bill would do.

I wish to recognize in particular the work of Senator Hatch, who is here on the Senate floor--and he has been a longtime partner of mine on intellectual property issues--and Senator Grassley, the ranking Republican on our committee. The bill has also received tremendous input from Senator Kyl, Senator Klobuchar, Senator Sessions and many others. We are working together, along with those on both sides of the aisle in the House, to reach the goal of improving patent quality and the operations at the PTO, and to address the related unpredictability of litigation that has been harming innovation.

No one claims that ours is a perfect bill. It is a compromise that will make key improvements in the patent system. Over the course of the next couple of days, the Senate will have the opportunity to consider amendments.

Senator Coburn intends to bring an amendment on the use of patent fees. Other Senators who disagree with the move to a first-to-file system may seek to reverse that progress. I urge those Senators that have amendments to come forward, agree to time agreements and proceed without delay.

We should be able to complete action on this bill this week and I would hope by Wednesday night. Then the Senate will need to move on to other important matters. So after a brief period for opening statements to outline the bill and frame the debate, I will call for Senators to come forward with any amendments they may have to the bill. This bill is important and its scheduling comes as no surprise. It was more than 10 days ago that the Senate unanimously agreed to its consideration.

So, let us do our job, and get to the task of considering and completing action on this important bill in order to help create jobs, encourage innovation and promote American invention.

Mr. President, some of the Nation's leading innovators and inventors have expressed strong support for S. 23, the America Invents Act. The Coalition for Patent and Trademark Information Dissemination, whose members are patent and trademark holders, recently wrote to the Senate Judiciary Committee in support of the bill, stating that its members have "an interest in a more efficient system that produces higher- quality patents and trademarks." The Intellectual Property Owners Association, one of the largest trade associations devoted to intellectual property rights also recently wrote to Senators endorsing important provisions in the bill, including the first-to-file system. I ask that these letters, as well as a statement of support from the Coalition for 21st Century Patent Reform be printed in the Record at this time. I also ask that a list of cross-sector manufacturers and innovators that support S. 23 be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

Coalition for Patent and Trademark Information Dissemination, February 1, 2011.

Hon. Patrick J. Leahy, Chairman, Judiciary Committee, U.S. Senate, Washington, DC.

Hon. Charles GrassleyRanking Member, Judiciary Committee, U.S. Senate, Washington, DC.

Dear Chairman Leahy and Ranking Member Grassley: The Coalition writes in support of S. 23, the Patent Reform Act of 2011.

Coalition members are information services and workflow solution provider companies that offer value-added patent and trademark information services. Our services are aimed at enabling patent and trademark applicants to find and make available the most relevant information related to their claimed inventions and marks through the data enhancements and state of the art search tools provided. Members also are patent and trademark holders with growing numbers of patent and trademark applications who have an interest in a more efficient system that produces higher-quality patents and trademarks.

Patent quality is directly related to the adequacy of the prior art presented to examiners. When applicants conduct a patentability search and disclose all relevant prior art to examiners, examiners will have a significantly increased likelihood of making the right decision about patentability.

A major positive addition to patent law would be the provisions in S. 23 allowing submission of patents or other publications by third parties while applications are still under consideration by the USPTO. This should further add to the prior art made available to the examiner and has the potential to greatly enhance patent quality.

Additionally, we applaud the inclusion of supplemental examination provisions in the bill. This will allow patent holders to request a review of patents where pertinent history or information may have been intentionally omitted in original requests. The inclusion

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of this provision will further strengthen our laws to prevent unlawful infringement.

We are delighted that a provision disallowing outsourcing of USPTO searches no longer seems to be under consideration.

Coalition members believe that the USPTO should be able to contract with private companies to perform searches, whether as part of the PCT process, as is now currently permitted, or possibly for national searches at some future time. USPTO operational flexibility with PCT searches has proven to drastically reduce pendency rates. Achieving quality, speed, and cost-effectiveness in USPTO processes is a goal to encourage. USPTO management should be empowered to use the best source or sources for searches.

There is one addition to S. 23 that we would hope to see as the legislation advances. Coalition members believe that full disclosure of prior art information to examiners is constrained by concerns about inequitable conduct liability.

We urge Congress to reform the inequitable conduct defense in order to remove the disincentive for full disclosure of all prior art.

We appreciate this opportunity to express our positions on patent reform issues, and the members of the Coalition stand ready to work with the Senate Judiciary Committee as it considers patent reform legislation.

Sincerely,

Marla Grossman,
Executive Director,
Coalition for Patent and Trademark Information Dissemination.

Intellectual Property Owners Association, February 25, 2011.

Re amendments to S. 23, the "Patent Reform Act of 2011"

The Hon. ____
U.S. Senate, Washington, DC.

Dear Senator ____:

Intellectual Property Owners Association (IPO) is pleased that the Senate is planning to proceed with consideration of S. 23, the "Patent Reform Act of 2011."

IPO is one of the largest and most diverse trade associations devoted to intellectual property rights. Our 200 corporate members cover a broad spectrum of U.S. companies in industries ranging from information technology to consumer products to pharmaceuticals and biotechnology.

We wish to give you our advice on amendments that we understand might be offered during consideration of S. 23:

Vote AGAINST any amendment to delete the "first-inventor-to-file" and related provisions in section 2 of the bill.

First-inventor-to-file, explained in a 1-page attachment to this letter, is central to modernization and simplification of patent law and is very widely supported by U.S. companies.

Vote FOR any amendment guaranteeing the U.S. Patent and Trademark Office access to all user fees paid to the agency by patent and trademark owners and applicants. Current delays in processing patent applications are totally unacceptable and the result of an underfunded Patent and Trademark Office.

Vote AGAINST any amendment that would interpose substantial barriers to enforcement of validly-granted “business method” patents. IPO supports business method patents that were upheld by the U.S. Supreme Court in the recent Bilski decision.

For more information, please call IPO at 202-507-4500.

Sincerely,

Douglas K. Norman, President.

Intellectual Property Owners Association, February 25, 2011.

First-Inventor-To-File in S. 23, the “Patent Reform Act of 2011”

Section 2 of S. 23 simplifies and modernizes U.S. patent law by awarding the patent to the first of two competing inventors to file in the U.S. Patent and Trademark Office (PTO), a change from the traditional system of awarding the patent, in theory, to the first inventor to invent. First-inventor-to-file in S. 23 has these advantages:

Eliminates costly and slow patent interferences proceedings conducted in the PTO and the courts to determine which inventor was the first to invent.

Creates legal certainty about rights in all patents, the vast majority of which never become entangled in interference proceedings in the first place, but which are still subject to the possibility under current law that another inventor might come forward and seek to invalidate the patent on the ground that this other inventor, who never applied for a patent, was the first to invent.

Encourages both large and small patent applicants to file more quickly in order to establish an early filing date.

Early filing leads to early disclosure of technology to the public, enabling other parties to build on and improve the technology. (Applicants who plan to file afterward in other countries already have the incentive to file quickly in the U.S.)

Makes feasible the introduction of post-grant opposition proceedings to improve the quality of patents, by reducing the issues that could be raised in a post-grant proceeding, thereby limiting costs and delay.

Follows up on changes already made by Congress that (1) established inexpensive and easy-to-file provisional patent applications and, (2) in order to comply with treaty obligations, allowed foreign inventors to participate in U.S. patent interference proceedings.

The Coalition for 21stCentury Patent Reform Bipartisan Efforts Move Strong Patent Reform Bill Forward in Senate-- Coalition Supports Commitment to Improve Patent System for All Inventors Washington, DC.--Gary Griswold of the Coalition for 21st Century Patent Reform today released the following statement after the Senate Judiciary Committee overwhelmingly approved S. 23, The Patent Reform Act of 2011. The Coalition appreciates the strong bipartisan support of the

bill in the committee and the recognition by the Senators that patent reform will spur innovation and help create jobs across all business sectors.

“Our Coalition is grateful for the bipartisan vote in support of the legislation and the Senators’ hard work to craft legislation that will improve the patent system for all the nation’s innovators. It is very encouraging to have the committee’s overwhelming support for the legislation as it moves to the Senate floor. We recognize Senators will continue to fine-tune the language of the bill and we look forward to working actively with them to address outstanding issues.

The members of our Coalition will be working with other inventors and innovators in the coming weeks to communicate with all Senators as well as members of the House about the importance of this legislation for jobs, promoting innovation, and solidifying our global competitiveness.”

Cross-Sector Manufacturers & Innovators In Support of S. 233M, Air Liquide, Air Products, BP, Bridgestone American Holdings, Inc., Cargill, Caterpillar, Coalition for Patent and Trademark Information Dissemination, Coalition for 21st Century Patent Reform, Cummins.

The Dow Chemical Company, DuPont, Eastman Chemical Company, ExxonMobil, General Electric, General Mills, Henkel Corporation, Honeywell, Intellectual Property Owners Association.

Illinois Tool Works, Kodak, Milliken and Company, Monsanto, Northrop Grumman, PepsiCo, Inc., Proctor & Gamble, United Technologies, USG Corporation, Weyerhaeuser.

Amendment No. 114 Mr. LEAHY. Mr. President, as part of the housekeeping measures we have, I send to the desk an amendment and ask for its immediate consideration.

The PRESIDING OFFICER (Mr. Blumenthal). The clerk will report.

The assistant legislative clerk read as follows:

The Senator from Vermont [Mr. Leahy] proposes an amendment numbered 114.

Mr. LEAHY. Mr. President, I ask unanimous consent that the reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

(Purpose: To improve the bill)

On page 1, strike line 5, and insert the following: “‘America Invents Act’”.

On page 79, strike lines 1 through 17, and insert the following:

(1) In general.--The Director shall have authority to set or adjust by rule any fee established, authorized, or charged under title 35, United States Code, and the Trademark Act of 1946 (15 U.S.C. 1051 et seq.), notwithstanding the fee amounts established, authorized, or charged

thereunder, for all services performed by or materials furnished by, the Office, provided that patent and trademark fee amounts are in the aggregate set to recover the estimated cost to the Office for processing, activities, services, and materials relating to patents and trademarks, respectively, including proportionate shares of the administrative costs of the Office.

Mr. LEAHY. Mr. President, I see the distinguished senior Senator from Utah on the Senate floor, a man who has worked for years on this issue and has made every effort to keep it bipartisan.

I yield to the Senator from Utah.

The PRESIDING OFFICER. The Senator from Utah.

Mr. HATCH. Mr. President, I thank the distinguished chairman of the Judiciary Committee. He has been one of the leaders the whole time I have been on that committee with regard to intellectual property issues. It has always been a pleasure to work with him and his staff.

They are good people.

This is a particularly important bill. It is only the first step, once we bring it up and hopefully pass it, and then the House will bring up their bill. There are likely to be differences between the two, and we will have to get together in conference to resolve those differences. So those who might have some angst about this particular bill, give it time. We will be working diligently--the distinguished Senator from Vermont, myself, and others, including, of course, our ranking member, Senator Grassley--we will be working diligently to try and resolve these

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problems and hopefully we will end up with a bill that everybody in this country should recognize as what needs to be done to keep us at the forefront of all technological innovation in this world.

I rise today to express my support for the pending patent reform legislation before us. As many know, several of my colleagues and I have been working together on this bill for several Congresses. I especially wish to recognize the ongoing efforts of our Judiciary Committee chairman, Pat Leahy. Over the years he and I have worked tirelessly to bring about long overdue reform to our Nation’s patent system. I also wish to recognize the efforts of the Judiciary Committee ranking member, Chuck Grassley, as well as many of my Senate colleagues who have been instrumental in forging the compromise before us today which, in my opinion, is the first step in trying to arrive at a final consensus bill.

Similarly, no enumeration would be complete without recognizing the considerable work that has been done by our colleagues over in the House of Representatives. House Judiciary Committee chairman Lamar Smith has been a leader on patent reform legislation for many years.

His vision, his expertise, and his leadership are highly respected and appreciated by me, by my colleagues as well, and by many throughout the patent community.

I also wish to specifically acknowledge the invaluable contributions of Representatives John Conyers, Howard Berman, Bob Goodlatte, Howard Coble, Darrell Issa, and Zoe Lofgren. They have all been very effective people with regard to these very important issues. They have been stalwarts in underscoring the vital need to reform our patent system. I look forward to seeing the results of their process and working with them to complete this important task.

Most of us are very familiar with the history of patent legislation, but it bears repeating that we have not had meaningful reform to our patent system in well over a half century--not any meaningful reform whatsoever, even though many things have changed during these intervening years--courts have instituted welcome changes to our patent system, a lot of technology has changed, and a lot of innovation has occurred.

I am not going to spend my time today on a history lesson. Instead, I urge everyone to consider not the past, but to look forward to the future, and that future begins with examining our present. The Nation's current economic situation requires that we take advantage of our ingenuity that has made America the economic envy of the world.

If enacted, the American Invents Act would move the United States to a first-inventor-to-file system, which will create a system that is more transparent, objective, and predictable for the patentee. In addition, transitioning to a first-to-inventor-to-file system will facilitate harmonization with other patent offices across the world and contribute to ongoing work-sharing processes.

The bill will also establish another means to administratively challenge the validity of a patent at the U.S. Patent and Trademark Office, USPTO--creating a cost-effective alternative to formal litigation, which will further enhance our patent system.

Patent owners will be able to improve the quality of their patents through a new supplemental examination process. The bill further prevents patents from being issued on claims for tax strategies and provides fee-setting authority for the USPTO Director to ensure the Office is properly funded.

This bipartisan bill also contains provisions on venue to curb forum shopping; changes to the best mode disclosure requirement; increased incentives for government laboratories to commercialize inventions; restrictions on false marking claims, and removes restrictions on the residency of Federal Circuit judges.

For me, it is pretty simple. Patent reform is more than words on paper. It is about jobs and the positive impact they have on our economy. Chairman Leahy understands this connection and has wisely named the bill the America Invents Act of 2011.

While we debate this important legislation, it is crucial that we keep the creation of jobs and economic prosperity at the forefront of our thoughts. After all, patents encourage technological advancement by providing incentives to invent, to invest in, and to disclose new technology. Now more than ever we must ensure efficiency and increased quality in the issuance of patents. This, in turn, will create an environment that fosters entrepreneurship and the creation of new jobs, thereby contributing to growth within all sectors of our economy.

If we think about it, one single deployed patent has a ripple effect that works like this: A properly examined patent, promptly issued by the USPTO, creates jobs--jobs that are dedicated to developing and producing new products and services. Unfortunately, the current USPTO backlog now exceeds 700,000 applicants. The sheer volume of the patent applications not only reflects the vibrant, innovative spirit that has made America a worldwide innovative leader in science, education, and technology, but the patent backlog also represents dynamic economic growth waiting to be unleashed. We cannot afford to go down this path any longer. We need to take advantage of this opportunity to expand our economy.

During consideration of the America Invents Act, I encourage my colleagues to be mindful that legislation is rarely without its imperfections, and we have a tremendous chance to take much needed action. To those who believe otherwise, rest assured my intent is to do no harm. But I want the legislative process to move forward. It is long overdue.

I urge my colleagues to participate in the debate and vote on the amendments they think will strengthen the bill. There are some proposals that I believe merit serious consideration by all of us. At the end of the day, the passage of this bill will update our patent system, help strengthen our economy, and provide a springboard for further improvements to our intellectual property laws.

I have every confidence that we can come together and act in a bipartisan manner. The stakes are simply too high for us not to seize this moment.

Mr. President, I yield the floor.

The PRESIDING OFFICER. The Senator from Iowa.

Mr. GRASSLEY. Mr. President, I rise to speak on S. 23. We probably have a lot of amendments, but right now we are talking about the bill.

The America Invents Act is what it is called. I should express my gratitude to those others who have helped so much on this and, quite frankly, more involved on this bill than I have been, including Chairman Leahy, Senator Hatch, Senator Sessions, and Senator Kyl.

This is a bipartisan bill. Over the past 5 years or so, the Senate Judiciary Committee has been considering comprehensive patent reform.

Chairman Leahy has engaged Senators on both sides of the aisle as well as a wide range of groups on the outside. His efforts have been pivotal in bringing together diverse views and crafting a reasonable compromise bill. In fact, the bill is supported by a large number of industries and other stakeholders from the U.S. patent community.

I commend the leadership of Chairman Leahy as well as the leadership of Senator Hatch for getting us to where we are at this point.

Intellectual property rights are extremely important to our Nation’s economy. An effective and efficient patent system will help promote innovation and technological advancement in America and make life better for us all. An effective and efficient patent system also will help provide

stimulus for businesses and obviously generate many new jobs. Everyone agrees we need a well-functioning patent and trademark office within our government so that it can complete its work in a timely manner.

We should find ways to help the Patent and Trademark Office speed up the patent application process and eliminate the current backlog it is experiencing. We should reduce costs and decrease abusive litigation and improve certainty in the patent process and strengthen patent quality. The America Invents Act will help do all of these things.

The bipartisan bill before us will update and upgrade the U.S. patent system. It will enhance transparency and patent quality, and it will ensure that the Patent and Trademark Office has

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the tools and funding it needs to cut its backlog and process patent applications more quickly.

The improvements to the patent system contained in our bill will help spur economic prosperity and job creation. I am pleased to support it.

Specifically, the bill would improve patent quality by establishing the opportunity for third parties to submit prior art and other information related to a pending application for consideration by a patent examiner. By allowing prior art to be submitted earlier in the process and explained to the office, patent examiners will be able to issue higher quality patents.

The bill would create a “first window” post-grant opposition proceeding open for 9 months after the grant of a patent. This would allow the Patent and Trademark Office to weed out patents that should not have been issued in the first place.

This new post-grant review process--which was recommended in a 2004 report issued by the National Academy of Sciences--would enable early challenges to patents, but also protect the rights of inventors and patent owners against endless litigation. The reason we want to ensure that the Patent and Trademark Office issues high quality patents is to incentivize investment in truly innovative technological advances and provide more certainty for investors in these inventions.

In addition, the bill would improve the current inter partes administrative process for challenging the validity of a patent. It would establish an adversarial inter partes review, with a higher threshold for initiating a proceeding and procedural safeguards to prevent a challenger from using the process to harass patent owners. It also would include a strengthened estoppel standard to prevent petitioners from raising in a subsequent challenge the same patent issues that were raised or reasonably could have been raised in a prior challenge. The bill would significantly reduce the ability to use post- grant procedures for abusive serial challenges to patents. These new procedures would also provide faster, less costly alternatives to civil litigation to challenge patents.

The bill would institute a gatekeeping role for the court to assess the legal basis for damages and jury instructions. This would provide more certainty in damages calculation and promote uniformity and fairness. The bill also would transition the United States to a first- inventor to file

system, simplifying the application process and coordinating it with our trading partners. This change will reduce costs and help improve the competitiveness of American inventors abroad.

Further, the bill would provide fee setting authority for the Patent Trademark Office Director to ensure that the Patent and Trademark Office is properly funded and can reduce its current backlog of patent applications.

The bill also would mandate a reduction of fees by 50 percent for small entities and 75 percent for micro-entities.

I want to particularly thank Chairman Leahy for working with me and Senator Baucus on a provision that would curtail patents on tax strategies. These patents encumber the ability of taxpayers and their advisers to use the tax law freely, interfering with the voluntary tax compliance system. Tax strategy patents undermine the fairness of the Federal tax system by removing from the public domain ways to satisfy a taxpayer's legal obligations. If firms or individuals hold patents for these strategies, some taxpayers could face fees simply for complying with the Tax Code. Moreover, tax patents provide windfalls to lawyers and patent holders by granting them exclusive rights to use tax loopholes, which could provide some businesses with an unfair advantage in our competitive market system.

Our provision would ensure that all taxpayers will have equal access to strategies to comply with the Tax Code.

This provision was carefully drafted with the help of the Patent and Trademark Office not to cover software preparation and other software, tools or systems used to prepare tax or information returns or manage a taxpayer's finances.

In conclusion, the America Invents Act will protect inventors' rights and encourage innovation and investment in our economy. The bill will improve transparency and third party participation in the patent application review process. This, in turn, will strengthen patent quality and result in more fairness for both patent holders and patent challengers. The bill will institute beneficial changes to the patent process to curb litigation abuses and improve certainty for investors and innovators. It will help companies do business more efficiently on an international basis.

The bill also will enhance operations of the Patent and Trademark Office with administrative reforms and will give the office fee setting authority to reduce backlogs and better manage its business.

I am pleased to support this hard fought bipartisan legislation, and I urge my colleagues to support it as well.

I yield the floor.

Mr. LEAHY. Mr. President, I thank the distinguished Senator from Iowa. As I noted before he got on the floor, he has been extremely important in working on this issue.

Senate Debate – 157 Cong. Rec. S1030-S1044

[Congressional Record Volume 157, Number 29 (Tuesday, March 1, 2011)]

[Senate]

[Pages S1030-S1034]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]
PATENT REFORM ACT OF 2011 The ACTING PRESIDENT pro tempore. Under the previous order, the Senate will resume consideration of S. 23, which the clerk will report by title.

The assistant legislative clerk read as follows:

A bill (S. 23) to amend title 35, United States Code, to provide for patent reform.

Pending:

Leahy amendment No. 114, to improve the bill.

Vitter/Toomey amendment No. 112, to require that the government prioritize all obligations on the debt held by the public in the event that the debt limit is reached.

Bennet amendment No. 116, to reduce the fee amounts paid by small entities requesting prioritized examination under Three-Track Examination.

Bennet amendment No. 117, to establish additional USPTO satellite offices.

Lee amendment No. 115, to express the sense of the Senate in support of a balanced budget amendment to the Constitution.

Mr. LEAHY. Madam President, yesterday the Senate began debating the America Invents Act. We adopted the committee amendments, and we proceeded to have five additional amendments offered to the bill. This morning I will be offering a managers' amendment, along with the distinguished Senator from Iowa, Mr. Grassley, that incorporates additional improvements being made at the suggestions of Senator Coburn, Senator Schumer, Senator Coons, Senator Bennet, and others. When we adopt this managers' amendment, I believe we will move very close to a consensus bill the Senate can and should pass to help create good jobs, encourage innovation, and strengthen our recovery and economy.

I ask unanimous consent to have printed in the Record the Statement of Administration Policy from the Obama administration and the Edward Wyatt article.

There being no objection, the material was ordered to be printed in the Record, as follows:

Statement of Administration Policy s. 23--patent reform act of 2011(Sen. Leahy, D-Vermont, and 11 cosponsors, Feb. 28, 2011)

The Administration supports Senate passage of S. 23. As a whole, this bill represents a fair, balanced, and necessary effort to improve patent quality, enable greater work sharing between the United States Patent and Trademark Office (USPTO) and other countries, improve service to patent applicants and the public at the USPTO, and offer productive alternatives to costly and complex litigation.

By moving the United States to a first-to-file system, the bill simplifies the process of acquiring rights. This essential provision will reduce legal costs, improve fairness, and support U.S. innovators seeking to market their products and services in a global marketplace. Further, by providing authority for the USPTO to establish and adjust its fees to reflect changes in costs, demand, and workload, the bill would enhance productivity--reducing delay in the patent application process--and ensure full cost recovery at no taxpayer expense. Senate passage of this bill is consistent with the Administration's commitment to support and encourage innovation that leads to improved competiveness, economic prosperity, and job growth--without adding a penny to the deficit.

Finally, the Administration understands that several stakeholders have suggested that the provisions on damages and venue are no longer needed in the legislation in light of recent court decisions in these areas. The Administration would not object to removal of these provisions from the final version of the legislation.

The Administration looks forward to continuing to work with the Congress to craft patent reform legislation that reflects sound policy and meets the needs of the Nation's innovators.

U.S. Sets 21st-Century Goal: Building a Better Patent Office (By Edward Wyatt, Feb. 20, 2011)

Washington.--President Obama, who emphasizes American innovation, says modernizing the federal Patent and Trademark Office is crucial to "winning the future." So at a time when a quarter of patent applications come from California, and many of those from Silicon Valley, the patent office is opening its first satellite office--in Detroit.

That is only one of the signs that have many critics saying that the office has its head firmly in the 20th century, if not the 19th.

Only in the last three years has the office begun to accept a majority of its applications in digital form. Mr. Obama astonished a group of technology executives last year when he described how the office has to print some applications filed by computer and scan them into another, incompatible computer system.

"There is no company I know of that would have permitted its information technology to get into the state we're in," David J. Kappos, who 18 months ago became director of the Patent and Trademark Office and undersecretary of commerce for intellectual property, said in a recent interview. "If it had, the C.E.O. would have been fired, the board would have been thrown out, and you would have had shareholder lawsuits."

Once patent applications are in the system, they sit--for years. The patent office's pipeline is so clogged it takes two years for an inventor to get an initial ruling, and an additional year or more before a patent is finally issued.

The delays and inefficiencies are more than a nuisance for inventors. Patentable ideas are the basis for many start-up companies and small businesses. Venture capitalists often require start-ups to have a patent before offering financing.

That means that patent delays cost jobs, slow the economy and threaten the ability of American companies to compete with foreign businesses.

Much of the patent office's decline has occurred in the last 13 years, as the Internet age created a surge in applications. In 1997, 2.25 patents were pending for every one issued. By 2008, that rate had nearly tripled, to 6.6 patents pending for every one issued. The figure fell below six last year.

Though the office's ranks of patent examiners and its budget have increased by about 25 percent in the last five years, that has not been enough to keep up with a flood of applications--which grew to more than 2,000 a day last year, for a total of 509,000, from 950 a day in 1997.

The office, like a few other corners of the government, has long paid its way, thanks to application and maintenance fees. That income--$2.1 billion last year--has made it an inviting target for Congress, which over the last 20 years has diverted a total of $800 million to other uses, rather than letting the office invest the money in its operations.

Applications have also become far more complex, said Douglas K. Norman, president of the Intellectual Property Owners Association, a trade group mainly of large technology and manufacturing companies.

"When I was a young patent lawyer, a patent application would be 20 to 25 pages and have 10 to 15 claims," Mr. Norman said. A claim is the part of the patent that defines what is protected. "Now they run hundreds of pages, with hundreds, and sometimes thousands, of claims."

Lost in the scrutiny of the office's logjam, however, was the fact that the number of patents issued reached a record last year--more than 209,000, or 29 percent more than the average of 162,000 a year over the previous four years.

Rejections also hit a high of 258,000--not a measure of quality, Mr. Kappos said, but a sign of greater efficiency.

Between the backlog of 700,000 patents awaiting their first action by an examiner and the 500,000 patents that are in process, a total of 1.2 million applications are pending.

Sitting in his suburban Virginia office, not far from a model of the light bulb Edison presented for patent in November 1879 (which was approved two and a half months later), Mr. Kappos proudly ticked off figures that he said proved the agency was heading in the right direction.

The backlog has actually declined about 10 percent from a peak of 770,000 at the end of 2008.

"We were able to work a 13-month year last year," he said, referring to the productivity increase in 2010 over 2009. "We are processing a far larger workload with the same number of examiners."

Still, Mr. Kappos wants to add more than 1,000 examiners in each of the next two years, a 30 percent increase. Mr. Obama's 2012 budget calls for a 28 percent increase in spending, to $2.7 billion, over 2010. In two consecutive sessions, Congress has defeated a

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bill that would allow the patent office to keep all of the fees it collects. While another similar effort is under way, a big staffing increase will not be easy in a climate of cuts.

Mr. Kappos, a former electrical engineer and lawyer who joined the patent office in 2009 after 27 years at I.B.M., has improved relations with the union representing patent examiners. He and the union agreed on performance evaluation measures last year, the first time in 5o years that the yardsticks had been revised.

"I give David Kappos a good deal of credit for seeing where the problems have been and being willing to address them," said Robert D. Budens, president of the union, the Patent Office Professional Association. "I think it's a little early to see the full extent of the changes. But we have seen an increase in morale and a decrease in attrition, which is now almost the lowest it's been since I came here" in 1990.

Patent applications come from all over the United States, and the office has forgone satellite offices--until now. Last year, the office announced it would put about 100 examiners in Detroit. Some prominent lawmakers from Michigan have worked on patent issues, including Representative John Conyers Jr., a Detroit Democrat who, when the decision was made, was chairman of the House Judiciary Committee, which oversees patents.

Mr. Kappos said he chose Detroit because it had large communities of patent lawyers and agents, nearby universities and transportation centers, and relatively low costs of living and real estate. "Detroit has long been an innovation center," he said. "It's undervalued, and that is where we want to invest." He said it would also attract a work force with more varied skills.

Mr. Kappos is also pushing an initiative that would charge patent applicants a higher fee to guarantee that their applications will receive a ruling within a year. But that initiative and others are not enough, said Paul R. Michel, who recently retired as chief judge for the United States Court of Appeals for the Federal Circuit in Washington, the main forum for patent appeals.

"The office can't be made efficient in 18 months without a vast increase in finances," said Mr. Michel, who has made evangelizing for an overhaul of the office a pet cause.

"Small efficiency improvements will only make a small difference in the problem."

Mr. LEAHY. I thank all of those with the administration who worked on the matter, and particularly Secretary Locke, Director Kappos of the Patent and Trademark Office, and former Secretary Daley, now Chief of Staff at the White House.

The statement describes the bill as representing a fair, balanced, and necessary effort to improve patent quality. It concludes: "Senate passage of this bill is consistent with the Administration's

commitment to support and encourage innovation that leads to improved competitiveness, economic prosperity, and job growth--without adding a penny to the deficit."

It also notes that transition to a first-to-file system simplifies the process of acquiring rights and describes it as an "essential provision [to] reduce legal costs, improve fairness, and support U.S. innovators seeking to market their products and services in a global marketplace."

I agree. I believe it should help small and independent inventors. On President's Day, just over a week ago, the New York Times included an article on its front page entitled "U.S. Sets 21st-Century Goal: Building a Better Patent Office."

That is what we are trying to do with our bill, the bipartisan Leahy- Grassley-Hatch Patent Reform Act or, as it has become known, the America Invents Act. We have to reform our patent office and our patent laws. They have not been updated for 60 years. We have to help to create good jobs, encourage innovation, and strengthen our economy.

The reporter notes the growth in patent applications to more than 2,000 a day last year. That is not a typographical error--2,000 a day last year. A record 209,000 patents were issued in 2010. But there remains a backlog of 700,000 patents awaiting initial action at the U.S. Patent and Trademark Office, and another 500,000 being processed.

That is 1.2 million applications in the pipeline. Among them could be the next medical miracle, the next energy breakthrough, the next leap in computing ability, the next killer app. We should all do what we can to help PTO Director Kappos and the dedicated women and men of the PTO to modernize and reform.

It makes no sense that it takes 2 years for an inventor to get an initial ruling on his or her patent application, then another year or more to get the patent.

As New York Times reporter Edward Wyatt notes:

The delays and inefficiencies are more than a nuisance for inventors. . . . [P]atent delays cost jobs, slow the economy, and threaten the ability of American companies to compete with foreign businesses.

We are not going to be the leader we are today if we allow that to continue. But the Senate has before it bipartisan legislation that can lead to long-needed improvements in our patent laws and system. We should be focused on it and moving ahead to pass it without delay. It is a measure that can help facilitate invention, innovation, and job creation, and do so in the private sector. This can help everyone from startups and small businesses to our largest cutting-edge companies. This is the time for the Senate to serve the interests of the American people by concentrating on the important legislation before us. We should not be distracted. It is a bipartisan bill. We should not be diverted into extraneous issues but focus our debate on those few amendments that Senators feel need to be debated to perfect this bill and which are germane to this bill.

I mentioned in my opening statement the anticipated amendment on fee diversion. I appreciate the efforts of the Senator from Oklahoma to end patent fee diversion. It is a reform that Senator Hatch and I have long supported. I appreciated him working with me and withholding his

amendment during committee consideration. So we are incorporating his amendment in the managers' amendment.

We also incorporate in the managers' amendment an amendment from Senator Schumer that concerns business method patents. We provide a process for their reexamination by the Patent and Trademark Office.

This would also improve patent quality.

We incorporate suggestions from Senator Bennet and Senator Coons to remove certain damages and venue provisions that are no longer necessary in light of recent court decisions. The administration noted in its statement that it would not object to the removal of these provisions.

Senator Bennet came forward last night with sound amendments that he explained. They are included in this amendment, along with the change to the definition of a "microentity" made at the suggestion of the majority leader, and my amendment to conform the name of the legislation to the America Invents Act. I hope we adopt this amendment without delay.

I understand there may be Senators who do not agree with the first- to-file reform to update and simplify our system. If they intend to bring an amendment, they should do so without delay. We should be able to complete action on this bill today or tomorrow. Then the Senate can turn its full attention to another important matter, the funding resolution needed to be enacted this week by Congress. What we should not do is delay or sacrifice the job-creating potential of this bill to a side debate about the debt limit or whether we amend the Constitution of the United States. Those are debates I will be happy to have in their own right. We must not allow other countries around the world to have such a competitive advantage because we are too slow in moving on this bill.

The bipartisan American Invents Act is too important to be turned into a mere vehicle to launch speeches and debates about pet causes. It is not the bill to have debates about whether if the United States were to reach its debt ceiling, the government should favor paying creditors such as China before meeting its other obligations to the American people.

That theoretical debate has nothing to do with the patent reforms in this bill, and there will be a bill that you can have the debate on if you want. In fact, this bill is one that does not spend taxpayers' money or raise the debt one dollar. Accordingly, I will ask the support of our lead Republican sponsors and the bipartisan Senate leadership to promptly table extraneous amendments so we can complete our work on this legislation and serve the interests of the American people.

I have a managers' amendment. I described part of it already. I will send it to the desk and ask unanimous consent that the pending amendments be set aside and this be considered.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

The clerk will report.

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Amendment No. 121 The assistant legislative clerk read as follows:

The Senator from Vermont [Mr. Leahy], for himself, Mr. Grassley and Mr. Kyl, proposes an amendment numbered 121.

Mr. LEAHY. I ask unanimous consent that the reading of the amendment be dispensed with.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

(The amendment is printed in today's Record under "Text of Amendments.")

Mr. LEAHY. I ask for agreement on the managers' amendment.

Madam President, I suggest the absence of a quorum.

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

The PRESIDING OFFICER (Mr. Tester.) The Senator from South Carolina.

Mr. DeMINT. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection---- Mr. LEAHY. Reserving the right to object--I would ask if the distinguished Senator could hold off---- The PRESIDING OFFICER. The Senator cannot reserve.

Mr. LEAHY. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. LEAHY. I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. LEAHY. Madam President, I understand Senator DeMint will be offering an amendment in the first degree which will require setting aside the managers' amendment. My understanding is, once he has done that, we will then set aside his amendment and go back to the managers' amendment.

I yield to the distinguished Senator.

The PRESIDING OFFICER. The Senator from South Carolina.

Amendment No. 113, As Modified Mr. DeMINT. Mr. President, I ask unanimous consent that the pending amendment be set aside so I can call up amendment No. 113, as modified. The PRESIDING OFFICER. Without objection, it is so ordered.

The clerk will report.

The assistant legislative clerk read as follows:

The Senator from South Carolina [Mr. DeMINT], for Mr. Vitter, proposes an amendment numbered 113, as modified.

Mr. DeMint. Mr. President, I ask unanimous consent that the reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

(Purpose: To require that the Government give equal priority to payment of social security benefits and payment of all obligations on the debt held by the public in the event that the debt limit is reached)

At the appropriate place add the following:

(c) Prioritize Payment of Social Security Benefits.-- Notwithstanding subsection (b), in the event that the debt of the United States Government, as so defined, reaches the statutory limit, the authority described in subsection (b) and the authority of the Commissioner of Social Security to pay monthly old-age, survivors', and disability insurance benefits under title II of the Social Security Act shall be given equal priority over all other obligations incurred by the Government of the United States.

Mr. DeMINT. I yield the floor.

Mr. LEAHY. Mr. President, I ask unanimous consent that the pending amendment now be set aside and that the managers' amendment be the pending amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. LEAHY. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. COONS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. COONS. Mr. President, I rise today to speak to the America Invents Act. To put it simply, this bill, the America Invents Act, is about creating jobs. It is about protecting and promoting American ingenuity and giving American ideas the opportunity to become American products. The America Invents Act is about restoring American competitiveness and leadership in our global economy.

America has been at the forefront of global innovation throughout our Nation's great history. We invented the lightning rod, the cotton gin, the mechanical reaper and thresher. Thomas Edison, perhaps the most noted American inventer, invented the electric light, electric power transmission, the motion picture camera, the phonograph, and x-ray photography. The transistor, carbon fiber, GPS, Kevlar, recombinant DNA, the personal computer, and the Internet are all American inventions as well. Even more recently, American companies have invented the iPod and the iPhone and the Segway.

Inventors in Delaware and across America are right now working on critical advances in wind turbines, fuel cell technology, and electric cars. These technical innovations and so many others have improved our standard of living and spurred job growth, giving rise to entire industries that would not have been possible without the advancements of applied science.

I believe innovation will be key to reigniting the American manufacturing sector as well.

As low-skilled jobs have moved offshore, the only solution is to create highly skilled jobs here to replace them. These jobs will be founded on American ideas and advancements.

In today's high tech world, however, the cost of innovation can be high. In my home State of Delaware, DuPont invests about $1.3 billion annually in research and development. Nationwide, according to the Organization for Economic Cooperation and Development, U.S. companies invest over $370 billion in R&D each year. In the pharmaceutical industry, which is also important to my home State, experts estimate that each new drug requires an initial investment of between $800 million and $2 billion.

Innovation is absolutely critical to the continued growth of our Nation.

Our Founding Fathers recognized that investment in innovation will not occur without a system of patent rights to allow inventors to reap the fruits of their labor, and they placed with the Congress the authority to provide for the issuance of patent rights.

Article 1, section 8, clause 8 states that Congress shall have 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.

However complicated applied sciences were in 1836, when Congress established the forerunner to the U.S. Patent and Trademark Office, they are infinitely more complicated today. Never has PTO been more central to ensuring that the system of nationwide patents contemplated by our Founding Fathers is possible today. PTO must have clear, objective guidelines that enable an applicant to predict whether his or her application will be approved. That application process must move expeditiously. At the end of that process, when PTO issues a patent, the inventor and

the industry must have confidence that the patent is of good quality and will provide good defense against future challenges.

In recent years, however, PTO has fallen short of these objectives.

Today, a patent applicant must wait over 2 years before an examiner first picks up that application. Two years. At this moment, more than 700,000 applications simply sit at PTO awaiting consideration. Each one of those applications represents an idea that could create a job or 10 jobs or 100 or 1,000. If you file a patent application at PTO today, you can expect to wait just over 3\1/2\ years for an initial disposition. Should PTO make an error in their examination, it would take about 3 more years to appeal it.

In a world in which startup companies depend on patents to secure venture capital and other funding, these times are just too long. While PTO Director Kappos has achieved some success and has begun to right the ship at PTO, he simply cannot accomplish acceptable reform without our action.

The America Invents Act takes a number of steps to improve the efficiency with which this country handles

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patents, all of them designed to make the U.S. more competitive in the global economy.

First, the America Invents Act will give PTO the tools it needs to address the unacceptably long backlog of patent applications. In February 2009, despite an increasing need for qualified patent examiners, PTO instituted a hiring freeze. PTO is a user-fee supported organization and so it should be able to pass through the costs of staffing needs to patent applicants. This bill would finally give the PTO the authority to set its own fees rather than having to wait for an act of Congress to do so.

Another source of the backlog is the issue of patent fee diversion.

Currently, the fees paid by applicants for the purpose of funding the costs of patent examination can be diverted away from PTO to the Treasury without justification. Patent fee diversion cripples the ability of PTO to do its job and is essentially a tax on innovation. In the past 20 years, more than $800 million have been diverted from PTO and though in recent years almost no money has been diverted thanks to the determined leadership of my colleague, Senator Mikulski, PTO funding should never depend on shifting political fortunes. Even in times of political favor, the mere possibility of fee diversion is harmful because it robs PTO of the ability to plan with confidence that a varying workload will be matched by funding.

This bill does not currently address the issue of patent fee diversion, but that is something that I and others are working to change. Ending fee diversion is perhaps the single most effective thing that we can do to empower PTO to reduce the patent backlog over the long term. That is why I look forward to supporting Dr. Coburn’s amendment, which would ensure that PTO has access to the fees that it charges, subject to continuing congressional oversight, of course.

The second thing the America Invents Act does to make the United States more competitive is to improve the predictability and accuracy of the patent examination process. By transitioning to a "first to file" system, this bill brings the U.S. into line with the rest of the world. Under "first to file," PTO's task of determining the priority of a patent application will be more straightforward because patent priority will depend on objective, public facts, rather than on secret files. To smaller inventors who are concerned that "first to file" will allow large companies to beat them out in a race to the patent office, this bill contains important protections for all inventors.

Even under "first to file," an inventor's patent priority is protected for a year if he or she is the first to publicly disclose an invention.

Not only does the America Invents Act make the patent process fairer to inventors, but it will actually improve the quality of patents issued by the PTO by leveraging the knowledge of outside parties. This bill permits third parties to provide submissions regarding prior art before a patent is issued, enhancing the ability of examiners to determine whether an application is for a truly innovative idea worthy of the protection of a patent.

The bill takes another step toward improving patent quality by changing the way the issuance of patents can be challenged. The America Invents Act introduces a 9-month post-grant review process during which third parties can challenge a patent on any grounds. When you combine the new pre-issuance submission process and the new post-grant review process, what you get is a more rigorous and more thorough vetting of patent applications.

We will get stronger, higher quality patents because of the America Invents Act.

Chairman Leahy, along with his Republican cosponsors Senators Hatch, Kyl and Sessions, deserve enormous credit for the bill that was reported unanimously by the Judiciary committee just 4 weeks ago. The America Invents Act reflects years of hard-fought negotiations between the affected stakeholders.

At a time when bipartisanship is too frequently a platitude than actual process, it should be noted that the America Invents Act shares wide bipartisan support. Senators from both parties worked together on the bill we consider today, and both sides of the aisle should be proud of what we accomplished.

I applaud Leaders Reid and McConnell for their commitment to the open amendment process. Despite the broad agreements that have been reached so far, the Senate can and should consider suggestions to change the bill. I know that I will support Dr. Coburn's amendment on fee diversion. I also hope that the Senate will accept an amendment that I have filed which would remove the section of the bill dealing with venue.

While venue-shopping is a serious problem, the current language in the bill risks stunting the development of case law, which has begun to address the problem of plaintiffs' manufacturing venue in districts that have a reputation of being hospitable for patent suits. In fact, companies such as Oracle and HP, while they initially supported legislative reform of venue, now fear that this provision will do more harm than good. I look forward to debating all of these amendments in the future.

Let me conclude my remarks on S. 23 by renewing my call to my fellow Senators to carefully consider and support this legislation. The America Invents Act is complicated and the subject matter may seem daunting, but I believe it is critical to protecting American innovation and defending American competitiveness.

The playing field for economic innovation has never been more crowded. The United States faces rivals growing in strength and number, which is why our government should be encouraging innovation, not stifling it.

The America Invents Act will create jobs in Delaware and throughout the United States by removing some of the administrative roadblocks currently preventing inventors from becoming successful entrepreneurs.

This bill will improve the speed, quality and reliability of the Patent and Trademark Office and it will ensure that America retains its place in the world as the leader of invention and innovative thinking.

I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. KIRK. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Amendment No. 123 Mr. KIRK. Mr. President, I ask unanimous consent to set aside the pending amendment and call up the Kirk-Pryor amendment No. 123. The PRESIDING OFFICER. Is there objection?

Mr. LEAHY. Mr. President, reserving the right to object, and I do not intend to object, my understanding is the Senator from Illinois will offer his amendment and then will not object to his amendment then being set aside and we go back to the managers' amendment; is that correct?

Mr. KIRK. That is correct.

Mr. LEAHY. I will not object.

The PRESIDING OFFICER. Without objection, it is so ordered. The clerk will report.

The bill clerk read as follows:

The Senator from Illinois [Mr. Kirk], for himself and Mr. Pryor, proposes an amendment numbered 123.

Mr. KIRK. Mr. President, I ask unanimous consent that the reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

(Purpose: To provide a fast lane for small businesses within the U.S. Patent and Trademark Office to receive information and support regarding patent filing issues) On page 104, between lines 22 and 23, insert the following:

SEC. 18. PATENT OMBUDSMAN PROGRAM FOR SMALL BUSINESS CONCERNS.

Subject to available resources, the Director may establish in the United States Patent and Trademark 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.

Mr. KIRK. Mr. President, the Kirk-Pryor amendment seeks to assist some of our greatest innovators by providing a fast lane within the U.S. Patent and Trademark Office for small businesses to receive information and assistance regarding their patent applications.

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Small businesses are the economic engine of the American economy. According to the Small Business Administration, small businesses employ just over half of all private sector employees and create over 50 percent of our nonfarm GDP. Illinois alone is home to 258,000 small employers and more than 885,000 self-employers.

Small businesses are helping to lead the way on American innovation.

These firms produce 13 times more patents per employee than large patenting firms, and their patents are twice as likely to be among the most cited among all patents. Small business breakthroughs led to the development of airplanes, FM radio, and the personal computer.

Unfortunately, the share of small-entity patents is declining, according to a New York University researcher.

While S. 23 takes great strides in reforming our patent system, it can still be daunting for a small business owner or inventor to obtain a patent. In many instances, the value of a patent is what keeps that new small business afloat.

It is vital for America's future competitiveness, her economic growth, and her job creation that these innovators spend their time developing new products and processes that will build our future, not wading through government redtape. Our amendment would help small firms navigate the bureaucracy by establishing the U.S. Patent and Trademark Office Ombudsman Program to assist small businesses with their patent filing issues. The provision was first conceived as part of the Small Business Bill of Rights, which I introduced in the House, to expand employment and help small businesses grow. The Small Business Bill of Rights and this amendment are endorsed by the National Federation of Independent Business. I am proud to have this as part of a 10-point plan to be considered here in the Senate.

I wish to thank Senator Mark Pryor of Arkansas, who is the lead Democratic cosponsor of this amendment. He is a strong and consistent supporter of small business, and I appreciate his partnership on this important program. I also thank Chairman Leahy and Ranking Member Grassley and their staffs for working with us on this amendment and for preserving this critical legislation.

Our Founding Fathers recognized the importance of a strong patent system that protects and incentivizes innovators. I look forward to supporting S. 23, which will provide strong intellectual property rights to further our technological advancement.

In sum, we should help foster innovation by protecting innovators, especially small business men and women, and I urge adoption of the amendment.

Mr. President, I yield the floor.

The PRESIDING OFFICER. The Senator from Vermont.

Amendment No. 121 Mr. LEAHY. Mr. President, I thank the Senator from Illinois for his contribution to this effort.

I ask unanimous consent that we set aside the Kirk-Pryor amendment and go back to the pending business, which is the managers' amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. LEAHY. Mr. President, I understand there will be another Senator who will come down and speak, and in the meantime I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. LEAHY. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. LEAHY. Mr. President, I ask unanimous consent that the distinguished Senator from Michigan, Ms. Stabenow, be recognized as though in morning business.

The PRESIDING OFFICER. Without objection, it is so ordered.

The Senator from Michigan.

(The remarks of Ms. Stabenow are printed in today's Record under "Morning Business.")

Senate Debate – 157 Cong. Rec. S1034-S1051

[Congressional Record Volume 157, Number 29 (Tuesday, March 1, 2011)]

[Senate]

[Pages S1034-S1051]

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[Text of S1034 and S1035 omitted]

Mr. LEAHY. Mr. President, I am soon going to ask for a vote on the Leahy-Grassley-Kyl managers' amendment. It resolves a number of issues in the bill, including fee diversion and business method patents damages, venue issues. Senators Coburn, Schumer, Bennet, Whitehouse, Coons, and others worked with us on those issues. I would like to vote on that and then go to the amendment offered yesterday by Senator Bennet on satellite patent offices, with a modification, as well as the modified amendment offered by Senator Kirk and Senator Pryor on ombudsman. If we can do that, we can get much of this finished. But while I am waiting for the--just so everybody will know, I am going to ask for a vote on that very soon. But I am waiting for the ranking member to come back.

I see the distinguished senior Senator from Minnesota, and I yield to her.

Ms. KLOBUCHAR. Mr. President, first, I commend Chairman Leahy and the entire Judiciary Committee for their work on this bill. The chairman has endured so many ups and downs and different versions, and we would not be here today if not for him.

I rise to speak in support of the America Invents Act, a bill to overhaul our patent system, which plays such a critical role in our economy. It is one of the main reasons America has been able to maintain its competitive edge.

The Commerce Department estimates that up to 75 percent of the economic growth in our Nation since World War II is due to technological innovation--innovation made possible by a patent system that protects the rights to that innovation.

I have seen the importance and success of the patent system firsthand in Minnesota, which has brought the world everything from the pacemaker to the Post-it note. In Minnesota, we know how important the patent system is to our economy. We rank sixth in the Nation in patents per capita and have the second highest number of medical device patents over the last 5 years. Companies such as 3M, Ecolab, and Medtronic are well-known leaders in innovation, but Minnesota also supports innovative small businesses such as NVE Corporation and Arizant Healthcare. We are now first per capita, in fact, for Fortune 500 companies in our State, and that is in large part because of innovation. So many of these companies started small, invented products, and got patents which were protected. People weren't copying their products, and they were able to grow and produce jobs in our country.

Having a patent system that works for small business is particularly critical to creating jobs in America. But our patent laws haven't had a major update since 1952. The system is outdated and has become a burden on our innovators and entrepreneurs. Because of these outdated laws, the Patent and Trademark Office faces a backlog of over 700,000 patent applications and too often issues low-quality patents. One of these 700,000 patents may be the next implantable pacemaker or new therapy for fighting cancer, but it just sits in that backlog.

Our current system also seems stacked against small entrepreneurs. I have spoken to small business owners and entrepreneurs across our State of Minnesota who are concerned with the high cost and uncertainty of protecting their inventions. For example, under the current system, when two patents are filed around the same time for the same invention, the applicants must go through an arduous and expensive process called an interference to determine which applicant will be awarded the patent. Small inventors rarely, if ever, win interference proceedings because the rules for interference are often stacked in favor of companies with deep pockets. This needs to change.

Our current patent system also ignores the realities of the information age in which we live.

In 1952, back when the patent bill came about, the world wasn't as interconnected as it is today. There was no Internet. People didn't share information the way they do in this modern age. They had party telephone lines then. In 1952, most publicly available information about technology could be found in either patents or scientific publications. So patent examiners only had to look to a few sources to determine if the technology described in a patent application was both novel and nonobvious.

Today, as we all know, there is a vast amount of information readily available everywhere you look.

It is unrealistic to believe a patent examiner would know all of the places to look for this information, and even if the examiner knew where to look, it is unlikely he or she would have the time to search all of these nooks and crannies. The people who know where to look are the other scientists and innovators who also work in the field. But current law doesn't allow participation by third parties in the patent application process despite the fact that third parties are often in the best position to challenge a patent application. Without the benefit of this outside expertise, an examiner might grant a patent for technology that simply isn't a true invention--it is simply not an actual invention--and these low-quality patents clog the system and hinder true innovation.

Our Nation can't afford to slow innovation anymore. While China is investing billions in its medical technology sector, we are still bickering about regulations. While India encourages invention and entrepreneurship, we are still giving our innovators the runaround, playing a game of red light/green light with the R&D tax credit.

America can no longer afford to be a country that churns money and shuffles paper, a country that consumes, imports, and spends its way through huge trade deficits. We need to be a nation that makes things again, that invents stuff, that exports to the world, a country where you can walk into any store on any street in any neighborhood, purchase the best goods, and be able to turn it over and see the words "Made in the USA."

In the words of New York Times columnist and Minnesota native Tom Friedman, we need to be focusing on “nation building in our own Nation.” Well, as innovators and entrepreneurs across Minnesota have told me, our country needs to spawn more of them. The America Invents Act would do just that.

First, the American Invents Act increases the speed and certainty of the patent application process by transitioning our patent system from a first-to-invent system to a first-inventor-to-file system. This change to a first-inventor-to-file system will increase predictability by creating brighter lines to guide patent applicants and Patent Office examiners. By simply using the filing date of an application to determine the true inventor, the bill increases the speed of the patent application process, while rewarding novel, cutting-edge innovations.

To help guide investors and inventors, this bill allows them to search the public record to discover with more certainty whether their idea is patentable, helping eliminate duplication and streamlining the system. At the same time, the bill still provides a safe harbor of a year for inventors to go out and market their inventions before having to file for their patents. This grace period is one of the reasons our Nation’s top research universities, such as the University of Minnesota, support this bill. The grace period protects professors who discuss their inventions with colleagues or publish them in journals before filing their patent application. The grace period will encourage cross-pollination of ideas and eliminate concerns about discussing inventions with others before a patent application is actually filed.

Moreover, this legislation helps to ensure that only true inventions receive protection under our laws. By allowing third parties to provide information to the patent examiner, the America Invents Act helps bridge the information gap between the patent application and existing knowledge.

The legislation also provides a modernized, streamlined mechanism for third parties who want to challenge recently issued, low-quality patents that

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should never have been issued in the first place. Eliminating these potentially trivial patents will help the entire patent system by improving certainty for both users and inventors.

The legislation will also improve the patent system by granting the U.S. Patent and Trademark Office the authority to set and adjust its own fees. Allowing the Office to set its own fees will give it the resources to reduce the current backlog and devote greater resources to each patent that is reviewed to ensure higher quality patents.

The fee-setting authority is why IBM, one of the most innovative companies around--by the way, the host of the “Jeopardy”-winning Watson--well, the IBM facility there that actually developed Watson was in Rochester, MN. In fact, IBM, which has its facilities in Rochester and the Twin Cities, as well as many other places in this country, was granted a record 5,896 patents in 2010. IBM supports this bill. It allows the Patent Office to set its own fees and run itself like a business, and that is good for companies such as IBM, as well as for small entrepreneurs.

Mr. President, as chair of the Subcommittee on Competitiveness, Innovation, and Export Promotion, I have been focused on ways to promote innovation and growth in the 21st century. Stakeholders from across the spectrum agree that this bill is a necessary step to ensure that the United States remains a world leader in developing innovative products that bring prosperity and happiness to those in our country.

Globalization and technological advancement have changed our economy.

This legislation will ensure that our patent system truly rewards innovation in the 21st century. Our patent system has to be as sophisticated as those who are inventing these products and those who at times are trying to steal their ideas. That is what this is about.

I yield the floor.

The PRESIDING OFFICER. The Senator from Vermont is recognized.

Amendment No. 121, as Modified Mr. LEAHY. Mr. President, we have the Leahy-Grassley managers' amendment at the desk. I have a modification to it. I ask that the amendment be so modified.

The PRESIDING OFFICER. The amendment will be so modified.

The amendment, as modified, is as follows:

On page 1, strike line 5, and insert the following: "'America Invents Act'".

On page 9, line 8, strike "1 year" and insert "18 months".

On page 32, strike line 12 and all that follows through page 35, line 2, and insert the following:

SEC. 4. VIRTUAL MARKING AND ADVICE OF COUNSEL.

On page 37, line 1, strike "(b)" and insert "(a)".

On page 37, line 20, strike "(c)" and insert "(b)".

On page 38, line 3, strike "(d)" and insert "(c)".

On page 38, line 13, strike "(e)" and insert "(d)".

On page 57, strike lines 17 through 23, and insert the following:

"(b) Preliminary Injunctions.--If a civil action alleging infringement of a patent is filed within 3 months of the grant of the patent, 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 or that such a proceeding has been instituted.".

On page 59, strike lines 13 through 19.

On page 59, line 20, strike “(g)” and insert “(f)”.

On page 65, line 21, strike “18 months” and insert “1 year”.

On page 66, line 3, strike “18 months” and insert “1 year”.

On page 66, lines 4 and 5, strike “and shall apply only to patents issued on or after that date.” and insert “and, except as provided in section 18 and in paragraph (3), shall apply only to patents that are described in section 2(o)(1).”.

On page 66, line 8, after the period insert the following:

“During the 4 year period following the effective date of subsections (a) and (d), the Director may, in his discretion, continue to apply the provisions of chapter 31 of title 35, United States Code, as amended by paragraph (3), as if subsection (a) had not been enacted to such proceedings instituted under section 314 (as amended by subsection (a)) or under section 324 as are instituted only on the basis of prior art consisting of patents and printed publications.”.

On page 69, line 2, strike “18 months” and insert “1 year”.

On page 69, line 14, strike “18 months” and insert “1 year”.

On page 74, line 22, strike “18 months” and insert “1 year”.

On page 75, line 16, strike “18 months” and insert “1 year”.

On page 75, line 22, strike “18 months” and insert “1 year”.

On page 76, line 5, strike “18 months” and insert “1 year”.

On page 77, strike line 23 and all that follows through page 78, line 6.

On page 78, line 7, strike “(b)” and insert “(a)”.

On page 78, line 20, strike “(c)” and insert “(b)”.

On page 79, strike lines 1 through 17, and insert the following:

(1) In general.--The Director shall have authority to set or adjust by rule any fee established, authorized, or charged under title 35, United States Code, and the Trademark Act of 1946 (15 U.S.C. 1051 et seq.), notwithstanding the fee amounts established, authorized, or charged thereunder, for all services performed by or materials furnished by, the Office, provided that patent and trademark fee amounts are in the aggregate set to recover the estimated cost to the Office for processing, activities, services, and materials relating to patents and trademarks, respectively, including proportionate shares of the administrative costs of the Office.

On page 79, lines 19-21, strike “filing, processing, issuing, and maintaining patent applications and patents” and insert: “filing, searching, examining, issuing, appealing, and maintaining patent applications and patents”.

On page 86, between lines 8 and 9, insert the following:

(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.

On page 86, line 9, strike "(i)" and insert "(j)".

On page 91, between lines 14 and 15, insert the following:

(b) No Provision of Facilities Authorized.--The repeal made by the amendment in subsection (a)(1) shall not be construed to authorize the provision of any court facilities or administrative support services outside of the District of Columbia.

On page 91, line 15, strike "(b)" and insert "(c)".

On page 91, line 23, strike "under either subsection" and all that follows through "shall certify" on page 92, line 2.

On page 92, line 7, before the semicolon insert the following: ", not including 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".

On page 92, between lines 7 and 8, insert the following:

"(3) did not in the prior calendar year have a gross income, as defined in section 61(a) of the Internal Revenue Code (26 U.S.C. 61(a)), exceeding 3 times the most recently reported median household income, as reported by the Bureau of Census; and".

On page 92, strike lines 8 through 25.

On page 93, line 1, strike "(3) has not assigned, granted, conveyed, or is" and insert "(4) has not assigned, granted, conveyed, and is not".

On page 93, lines 4 and 5, strike "has 5 or fewer employees and that such entity has" and insert "had".

On page 93, line 7, strike "that does" and all that follows through line 11, and insert the following:

"exceeding 3 times the most recently reported median household income, as reported by the Bureau of the Census, in the calendar year preceding the calendar year in which the fee is being paid, other than an entity of higher education where the applicant is not an employee, a relative of an employee, or have any affiliation with the entity of higher education.".

On page 93, strike lines 12 through 17, and insert the following:

“(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).”.

On page 94, between lines 18 and 19, insert the following:

(c) 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.

On page 94, line 19, strike “(c)” and insert “(d)”.

On page 103, between lines 11 and 12, insert the following:

“(c) Derivative Jurisdiction Not Required.--The court to which a civil action is removed under this section is not precluded from hearing and determining any claim in such civil action because the State court from which such civil action is removed did not have jurisdiction over that claim.”.

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On page 103, line 12, strike “(c)” and insert “(d)”.

On page 105, between lines 22 and 23, insert the following:

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 1 year after the date of 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 exceptions and qualifications:

(A) Section 321(c) and subsections (e)(2), (f), and (g) 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 his 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 prior to the date of 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 prior to the date of enactment of this Act); or(ii) prior art that--

(I) discloses the invention more than 1 year prior to 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 prior to the date of 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 his 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 pursuant to paragraph (1) shall take effect on the date that is 1 year after the date of enactment of this Act and shall apply to all covered business-method patents issued before, on, or after such date of enactment, 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 pursuant to this subsection, are repealed effective on the date that is 4 years after the date that the regulations issued pursuant to paragraph (1) take effect.

(B) Applicability.--Notwithstanding subparagraph (A), this subsection and the regulations implemented pursuant to this subsection shall continue to apply to any petition for a transitional proceeding that is filed prior to the date that this subsection is repealed pursuant to subparagraph (A).

(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 in relation 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 the district court's decision to ensure consistent application of established precedent, and such review may be de novo.

(d) Definition.--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 operations utilized in the practice, administration, or management of a financial product or service, except that the term shall not include patents for technological inventions. Solely for the purpose of implementing the transitional proceeding authorized by this subsection, the Director shall prescribe regulations for determining whether a patent is for a technological invention.

(e) 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. 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. 20. PATENT AND TRADEMARK OFFICE FUNDING.

(a) Definitions.--In this section, the following definitions shall apply:

(1) Director.--The term "Director" means the Director of the United States Patent and Trademark Office.

(2) Fund.--The term "Fund" means the public enterprise revolving fund established under subsection (c).

(3) Office.--The term "Office" means the United States Patent and Trademark Office.

(4) Trademark act of 1946.--The term "Trademark Act of 1946" means an Act entitled "Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes", approved July 5, 1946

(15 U.S.C. 1051 et seq.) (commonly referred to as the “Trademark Act of 1946” or the “Lanham Act”).

(5) Under secretary.--The term “Under Secretary” means the Under Secretary of Commerce for Intellectual Property.

(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”. Any amounts in the Fund shall be available for use by the Director without fiscal year limitation.

(2) Derivation of resources.--There shall be deposited into the Fund on or after the effective date of subsection (b)(1)-- (A) any fees collected under sections 41, 42, and 376 of title 35, United States Code, provided that 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, provided, however, that 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 Under Secretary to be ordinary and reasonable, incurred by the Under Secretary and 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 Under Secretary and the Director shall submit a report to Congress which shall--

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(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 Under Secretary 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.

On page 105, line 23, strike “SEC. 18.” and insert “SEC. 21.”.

At the end, add the following:

SEC. 22. 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 Senate Budget Committee, provided that such statement has been submitted prior to the vote on passage.

Mr. LEAHY. Mr. President, we are prepared to go to a rollcall vote on this right now. I don’t see the ranking member. As a courtesy, I am willing to wait a few more minutes before calling for the vote. While we are waiting for my friend, the distinguished Senator from Iowa, I will note that what we are talking about is bipartisan legislation; it is supported by both business and labor.

People ask whether Congress can work together and whether, with all the problems facing America, Republicans and Democrats can come together to get work done, make things work, and do things that can make America stronger and more competitive in the world. This is a bill

that does that. That is why we have a broad group of cosponsors in both parties across the political spectrum. It enables us to actually do something.

We have a decades-old patent system, which may have made sense in the time when you had patents that might not be superseded by new inventions for years. Now they can be superseded the day they come in.

That is why we have 700,000 patents applications waiting to be processed. It is also why countries such as China and others are beginning to surpass us in their innovation, because we have been slow to catch up. We are in a situation where we are unable to compete with the rest of the industrialized nations. Their patent laws are ahead of ours. So this is a case where we in America have a chance to catch up.

We do it without adding a cent to the deficit, but we also create jobs.

Every major manufacturer in this country and inventors have said this is where we will create jobs.

I look at it, of course, with the point of view that my little State of Vermont on a per capita basis has more patents than any other State.

We even had more than some States larger than ours. The distinguished Presiding Officer comes from a State that has spent a great deal of time and effort on innovation and is one of the leaders in the number of patents, especially in the high-tech area, in this country. But the patents don't help us compete unless we are able to move with them. We in Vermont have a long history of innovation and invention. The first patent in the United States was signed by George Washington after being cleared by Thomas Jefferson and granted to a Vermonter.

Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. LEE. Mr. President, I ask unanimous consent the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. Franken). Without objection, it is so ordered.

Mr. LEE. Mr. President, I rise to speak on an issue that is very important to me. The immediate subject I am going to address is an amendment I am going to propose to our pending patent reform legislation. This amendment calls upon the Senate to get the sense of the Senate that we need a balanced budget amendment to the U.S. Constitution.

As I prepared for this day, I reviewed the maiden speeches of a number of Senators who served in this august body, and I have seen a consistent theme in the speeches that have been given over the course of the last 50 or 60 years. Over and over, they address spending. These issues have spilled over, Congress after Congress, until the point we have reached today, the point at which our national debt stands at an astounding figure, close to $15 trillion.

As I like to say, $15 trillion is a lot of money. A lot of people do not make $15 trillion in a whole year. Even when you divide $15 trillion by 300 million Americans, you are left with a figure of about $50,000 a head. This is not an inconsequential number.

This is not a problem any of us created. It is a problem each of us inherited. Yet it is a problem I think none of us wants to leave to our successors. It is a problem that requires us to do something different than we have done in the past, and by this I mean I think we need procedural, structural, and indeed constitutional reform. We need to put Congress in a straitjacket because we have been unwilling or unable in the past to make the difficult spending decisions that have to be made.

In the past, there has been a great debate between, on the one hand, some Republicans who have been unwilling to cut some programs, to consider in any context cuts in the area of, say, national defense; you have had others, perhaps from the other party, who have been unwilling to consider any cuts to any entitlement program. But we are now faced with a scenario in which both sides of the aisle can understand that our perpetual deficit spending habit places in jeopardy every single aspect of the operations of the Federal Government.

To paint one scenario, I would like to point out that the budget projections produced by the White House just a couple weeks ago predicted, based on a fairly optimistic set of projections, that over the next 10 years we will acquire enough new debt that, when added to our existing debt, will cause us to be spending almost $1 trillion every single year just on interest on our national debt. To put that in perspective, $1 trillion is more than we currently spend on Social Security in an entire year. It is more than we currently spend on Medicare and Medicaid combined in an entire year. It is significantly more than we spend on national defense in any year. This $1 trillion number is one that could actually be much larger if some of these projections turn out not to be correct.

We now face a moment when both liberals and conservatives, Republicans and Democrats, regardless of what they most want to protect in their Federal Government, have to realize that what we most want to protect is placed in grave jeopardy by our current spending practices.

I am troubled by the fact that as we approach debate surrounding a continuing resolution this week, a continuing resolution that is likely to operate for just a few weeks to keep the Government funded, we are still talking about adding, on an annualized basis, to our national debt at a rate exceeding $1.5 trillion a year. I think the American people deserve better. I know they demand better.

Some of the things we saw in the 2010 election cycle portend something much greater for what we are going to see in the 2012 election cycle. The polls support the fact that what we can see from the 2010 election cycle is that Americans want Congress to balance its budget. They want us to do something more than just talking about it.

They want us to put ourselves in a straitjacket.

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Benjamin Franklin used to say: He will cheat without scruple who can without fear. I think the congressional corollary to that might be that Congress, which can continue to engage in perpetual deficit spending, will continue to do so unless or until they are held accountable by the people or required by that Congress to put itself in a straightjacket. That is the straightjacket we need. That is why I am proposing this amendment so, at a minimum, before this patent reform legislation, which I support wholeheartedly, moves forward, we can all agree as Members of this body that we need a constitutional amendment to keep us from doing what is slowly killing the economy of the United States and gradually mounting a severe challenge, an existential threat to every Federal program that currently exists.

I invite each of my colleagues to vote for and support this amendment and to support S.J. Res. 5, a constitutional amendment I have proposed that would put Congress in this type of straitjacket.

Here is, in essence, what S.J. Res. 5 says: If adopted by Congress by the requisite two-thirds margins in both Houses and approved by the States, three-fourths of them as required by article V of the Constitution, it would tell Congress it may not spend more than it receives in a given year, it may not spend more than 18 percent of GDP in a year, it may not raise taxes, and it may not raise the national debt ceiling without a two-thirds supermajority vote in both Houses of Congress. That is the kind of permanent binding constitutional measure I think we need in order to protect the government programs we value so highly and upon which 300 million Americans have come to depend, in one way or another.

I urge each of my colleagues to support this amendment and to support S.J. Res. 5.

I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant editor of the Daily Digest proceeded to call the roll.

Mr. KYL. I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. KYL. Mr. President, I rise today to speak on the Patent Reform Act of 2011, which I understand will be retitled as the “America Invents Act.”

When this bill was marked up in the Judiciary Committee in 2007 and again in 2009, I voted against it, and I submitted minority views to the committee report for the bill. In the 2009 committee report, Senators Russ Feingold and Tom Coburn joined me in identifying a set of issues that we felt needed to be addressed before the bill was ready for consideration by the full Senate. Chief among these were concerns about the bill’s system of postissuance administrative review of patents. Senior career staff at the Patent Office had expressed deep misgivings about the office’s ability to administer this system. In response, at the conclusion of the 2009 mark up, Chairman Leahy pledged to invite the Patent Office to work with the committee to address these concerns and to try to develop a system that the office would be able to administer.

Chairman Leahy carried through on his pledge and held those meetings later that year. As a result, important changes were made to the bill, eventually resulting in a managers' amendment that was announced in 2010 by Chairman Leahy and then-Ranking Member Sessions. The 2010 managers' amendment, which is also the basis of the present bill, substantially addressed all of the concerns that Senators Feingold and Coburn and I raised in the 2009 Minority Report. As a result, I became a cosponsor of that amendment, and am proud to cosponsor and support the bill that is before us today.

I will take a few moments today to describe the key changes that led to the 2010 breakthrough on this bill. But first, I would like to address an important aspect of the bill that has recently become the subject of some controversy. This is the bill's change to a first- inventor-to-file patent system.

About two-thirds of the present bill has never been controversial and has been included in all of the various iterations of this bill ever since the first patent reform act was introduced in 2005 by Mr. Lamar Smith, who was then the chairman of the House Intellectual Property Subcommittee. Mr. Smith's 2005 bill, H.R. 2795, included the following proposals: it switched the United States from a first-to-invent patent system to a first-inventor-to-file system. The Smith bill enacted chapter 32 of title 35, creating a first-window, post-grant opposition procedure. It authorized third parties to submit and explain relevant prior art to the Patent Office with respect to an application before a patent is issued. The Smith bill amended the inventor's oath, and expanded the rights of assignees to prosecute a patent application under section 118. And it also eliminated subjective elements from the patent code, and included the first proposal for creating derivation proceedings. All of these elements of Mr. Smith's original 2005 bill are retained in the bill that is before us today, and are, in fact, the most important parts of the bill. And, until recently, these provisions had not proven controversial.

After the announcement of the 2010 managers' amendment, however, members of the Judiciary Committee began to hear more from critics of the bill's move to a first-to-file system. Under current law's first- to-invent system, a patent applicant or owner has priority against other patents or applications, or against invalidating prior art, if he conceived of his invention before the other inventor conceived of his invention or before the prior art was disclosed. Under the first-to- file system, by contrast, the same priority is determined by when the application for patent was filed. Whichever inventor files first has priority, and third-party prior art is measured against the filing date, and is invalidating if it disclosed the invention before the date when the application was filed, rather than the date when the invention was conceived.

In commentary that was published on Sunday, February 27, Mr. Gene Quinn, the writer of the IP Watchdog Web site, made some worthy points about the present bill's proposed move to a first-to-file system.

Responding to critics of first to file, Mr. Quinn first noted that: in practical effect, we already have a first inventor to file system. For example, since the start of fiscal year 2005 on October 1, 2004, there have been over 2.9 million patent applications filed and only 502 Interferences decided. An Interference Proceeding occurs when multiple inventors file an application claiming the same invention, and is the hallmark of a first to invent system . . . . On top of the paltry 502 Interferences over nearly 7 years, a grand total of 1 independent inventor managed to

demonstrate they were the first to invent, and a grand total of 35 small entities were even involved in an Interference.

In other words, as Mr. Quinn notes, although the first-to-invent system is supposed to help the little guy, over the last seven years, only one independent inventor has managed to win an interference contest and secure the benefits of the first to invent system. And again, this is out of nearly 3 million patent applications filed over this period.

Mr. Quinn's comments also debunk the notion that an interference proceeding is a viable means of securing first-to-invent rights for independent and other small inventors. He notes that:

On top of this, the independent inventors and small entities, those typically viewed as benefiting from the current first to invent system, realistically could never benefit from such a system. To prevail as the first to invent and second to file, you must prevail in an Interference proceeding, and according to 2005 data from the AIPLA, the average cost through an interference is over $600,000. So let's not kid ourselves, the first to invent system cannot be used by independent inventors in any real, logical or intellectually honest way, as supported by the reality of the numbers above. . . . [F]irst to invent is largely a "feel good" approach to patents where the underdog at least has a chance, if they happen to have $600,000 in disposable income to invest on the crap-shoot that is an Interference proceeding.

Obviously, the parties that are likely to take advantage of a system that costs more than half a million dollars to utilize are not likely to be small and independent inventors. Indeed, it is typically major corporations that invoke and prevail in interference proceedings. The very cost of the proceeding alone effectively ensures that

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it is these larger parties that benefit from this system. In many cases, small inventors such as start ups and universities simply cannot afford to participate in an interference, and they surrender their rights once a well-funded party starts such a proceeding.

Mr. Quinn's article also responded to critics who allege that the present bill eliminates the grace period for patent applications. The grace period is the one-year period prior to filing when the inventor may disclose his invention without giving up his right to patent. Mr. Quinn quotes the very language of this bill, and draws the obvious conclusion:

Regardless of the disinformation that is widespread, the currently proposed S. 23 does, in fact, have a grace period.

The grace period would be quite different than what we have now and would not extend to all third party activities, but many of the horror stories say that if someone learns of your invention from you and beats you to the Patent Office, they will get the patent. That is simply flat wrong.

Mr. Quinn is, of course, referring to the bill's proposed section 102(b). Under paragraph (1)(A) of that section, disclosures made by the inventor, or someone who got the information from the inventor, less than 1 year before the application is filed do not count as prior art. And under paragraph (1)(B), during the 1-year period before the application is filed, if the inventor publicly

discloses his invention, no subsequently disclosed prior art, regardless of whether it is derived from the inventor, can count as prior art and invalidate the patent. This effectively creates a “first to publish” rule that protects those inventors who choose to disclose their invention. An inventor who publishes his invention, or discloses it at a trade show or academic conference, or otherwise makes it publicly available, has an absolute right to priority if he files an application within one year of his disclosure. No application effectively filed after his disclosure, and no prior art disclosed after his disclosure, can defeat his application for patent.

These rules are highly protective of inventors, especially those who share their inventions with the interested public but still file a patent application within a year. These rules are also clear, objective, and transparent. They create unambiguous guidelines for inventors. An inventor who wishes to keep his invention secret must file an application promptly, before another person discloses the invention to the public. And an inventor can also share his invention with others. If his activities make the invention publicly available, he must file an application within a year, but his disclosures also prevents any subsequently disclosed prior art from taking away his right to patent. The bill’s proposed section 102 also creates clear guidelines for those who practice in a technology. To figure out if a patent is valid against prior art, all that a manufacturer needs to do is look at the patent’s filing date and figure out whether the inventor publicly disclosed the invention. If prior art disclosed the invention to the public before the filing date, or if the inventor disclosed the invention within a year of filing but the prior art predates that disclosure, then the invention is invalid. And if not, the patent is valid against a prior-art challenge.

Some critics of the first-to-file system also argue that it will be expensive for inventors because they will be forced to rush to file a completed application, rather than being able to rely on their invention date and take their time to complete an application. These critics generally ignore the possibility of filing a provisional application, which requires only a written description of the invention and how to make it. Once a provisional application is filed, the inventor has a year to file a completed application. Currently, filing a provisional application costs $220 for a large entity, and $110 for a small entity.

One of Mr. Quinn’s earlier columns, on November 7, 2009, effectively rebuts the notion that relying on invention dates offers inventors any substantial advantage over simply filing a provisional application. As he notes:

If you rely on first to invent and are operating at all responsibly you are keeping an invention notebook that will meet evidentiary burdens if and when it is neces-sary to demonstrate conception prior to the conception of the party who was first to file. . . . [Y]our invention notebook or invention record will detail, describe, identify and date conception so that others skilled in the art will be able to look at the notebook/record and understand what you did, what you knew, and come to the believe that you did in fact appreciate what you had. If you have this, you have provable conception. If you have provable and identifiable conception, you also have a disclosure that informs and supports the invention. . . . [And] [i]f the notebook provably demonstrates conception, then it can be filed as a provisional patent application at least for the purpose of staking a claim to the conception that is detailed with enough specificity to later support an argument in a first to invent regime.

In other words, the showing that an inventor must make in a provisional application is effectively the same showing that he would have to make to prove his invention date under the first-to-invent system. A small inventor operating under first-to-invent rules already must keep independently-validated notebooks that show when he conceived of his invention. Under first-to-file rules, the only additional steps that the same inventor must take are writing down the same things that his notebooks are supposed to prove filing that writing with the Patent Office, and paying a $110 fee.

Once the possibility of filing a provisional application is considered, along with this bill's enhanced grace period, it should be clear that the first-to-file system will not be at all onerous for small inventors. And once one considers the bill's clean, clear rules for prior art and priority dates, its elimination of subjective elements in patent law, its new proceeding to correct patents, and its elimination of current patent-forfeiture pitfalls that trap legally unwary inventors, it is clear that this bill will benefit inventors both large and small.

Allow me to also take a moment to briefly describe the concerns that Senators Feingold and Coburn and I raised in our 2009 Minority Report, and how the present bill addresses those concerns.

Senators Feingold and Coburn and I proposed that the bill impose a higher threshold showing for instituting an inter partes, or post-grant review. This had long been a top priority for the Patent Office, both under the previous administration and under the current one. The Patent Office made clear that a higher threshold is necessary to weed out marginal challenges and preserve the office's own resources, and that a higher threshold would also force parties to front-load their cases, allowing these proceedings to be resolved more quickly. The present bill imposes higher thresholds, requiring a reasonable likelihood of invalidity for inter partes review, and more-likely-than-not invalidity for post-grant review.

Senators Feingold and Coburn and I also recommended that the Patent Office be allowed to operate inter partes reexamination as an adjudicative proceeding, where the burden of proof is on the challenger and the office simply decides whether the challenger has met his burden. The present bill makes this change, repealing requirements that inter partes be run on an examinational model and allowing the PTO to adopt an adjudicative model.

The 2009 Minority Report also recommended that the bill restrict serial administrative challenges to patents and require coordination of these proceedings with litigation. We also called for limiting use of ex parte reexamination to patent owners, noting that allowing three different avenues for administrative attack on patents invites serial challenges. The present bill does coordinate inter partes and post- grant review with litigation, barring use of these proceedings if the challenger seeks a declaratory judgment that a patent is invalid, and setting a time limit for seeking inter partes review if the petitioner or related parties is sued for infringement of the patent. The present bill does not, however, bar the use of ex parte reexamination by third parties. The Patent Office and others persuaded me that these proceedings operate reasonably well in most cases and are not an undue burden on patent owners. The present bill does, however, impose limits on serial challenges that will also restrict the use of ex parte reexamination. The bill's enhanced administrative estoppel will effectively bar a third party or

related parties from invoking ex parte reexamination against a patent if that third party has already employed post-grant or inter partes review against that patent.

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Also, the bill allows the Patent Office to reject any request for a proceeding, including a request for ex parte reexamination, if the same or substantially the same prior art or arguments previously were presented to the Office with respect to that patent.

Senators Feingold and Coburn and I also recommended that the PTO be allowed to delay implementation of post-grant review if the office lacks the resources to implement that new proceeding. The present bill includes a number of safeguards that are the product of discussions with the PTO. Among other things, the present bill authorizes a ramp-up period, allowing the office to limit the number of proceedings that can be implemented during the first 4 years after the new proceeding becomes effective.

The 2009 Minority Report also recommended that treble damages be preserved as a meaningful deterrent to willful or calculated infringement of a patent. The present bill does so, eliminating the restrictive three-buckets approach and broad safe harbors that appeared in the bill in 2009. The report also recommended that the bill remove subjective elements from patent law, such as the various deceptive- intent elements throughout the code and the patent-forfeiture doctrines. The present bill effectively makes both changes. In fact, the 2007 bill had already been modified in mark up to eliminate the patent forfeiture doctrines, a point elucidated in that year's committee report and confirmed by a review of the relevant caselaw.

This last point should also help address a question that Mr. Quinn raised in his column on Sunday regarding proposed section 102(b)'s use of the word "disclosure," and whether it covers public use or sale activities of the inventor. I would have thought that the meaning of the word would be clear: a disclosure is something that makes the invention available to the public--the same test applied by section 102(a) to define the scope of relevant prior art. And "available to the public" means the same thing that "publicly accessible" does in the context of a publication. Subject matter makes an invention publicly accessible or available if an interested person who is skilled in the field could, through reasonable diligence, find the subject matter and understand the invention from it. Obviously, Congress would not create a grace period that is narrower in scope than the relevant prior art. Thus for example, under this bill, any activity by the inventor that would constitute prior art under section 102(a)(1) would also invoke the grace period under section 102(b)(1). As a result, the inventor would be protected against his own activities so long as he files within a year, and under the bill's "first to publish" provisions, he would also be protected by any other person's disclosure of the invention, regardless of whether he could prove that the other person derived the invention from him.

The present bill is the product of almost a decade of hard work, including three Judiciary Committee mark ups, and the untold hours of work by Mr. Smith and other members of the House of Representatives that led to the introduction of the Patent Reform Act of 2005, the foundation of today's bill. This is a bill that will protect our heritage of innovation while updating the patent system for the current century. It will fix problems with current administrative proceedings, create new means for improving patent quality, and will generally

move us toward a patent system that is objective, transparent, clear, and fair to all parties. I look forward to the Senate's passage of this bill and its enactment into law.

I ask unanimous consent that Mr. Gene Quinn's columns of February 27, 2011, and November 7, 2009, with corrections of a few typos and enhancements of punctuation, be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

Senate To Vote on Patent Reform, First To File Fight Looms (By Gene Quinn, President & Founder of IPWatchdog, Inc., Feb. 27, 2011)

It appears as if the time has finally arrived for an up or down vote on patent reform in the United States Senate. It has been widely reported that the full Senate will take up patent reform upon returning from recess this week, and it is now believed by many on the inside that the Senate will take up patent reform on Monday, February 28, 2011, the first day back. Some are even anticipating that the Senate will vote on patent reform bill S. 23 late in the day on Monday, February 28, 2011. See "Crunch Time: Call Your Senators on Patent Reform." That would seem exceptionally quick, particularly given the rancorous issues and Amendments still to be presented, but nothing will surprise me.

As we get closer to a vote in the Senate the rhetoric of those for and against patent reform is heating up to a fever pitch. The big fight, once again, is over first to file, with battle lines drawn that run extremely deep. Senator Diane Feinstein (D-CA) is expected to file an Amendment stripping the first to file provisions, which could be supported by Senate Majority Leader Harry Reid (D-NV).

Before tackling the first to file issue I would like to point out that regardless of whether first to file is supported or opposed, everyone, and I do mean everyone, unanimously agrees that the USPTO should be allowed to keep the fees it collects to reinvest in the agency and to do the work promised. An overwhelming majority also seem to support giving the USPTO fee setting authority. Fee setting authority is present in S. 23 (see Section 9) and Senator Tom Coburn plans to introduce an Amendment that would once and for all eliminate fee diversion and let the USPTO keep the fees it collects. So while there is argument about first to file, hopefully we won't lose sight of the fact that most everyone is on the same team relating to fixing the USPTO.

With respect to first to file, in practical effect, we already have a first inventor to file system. For example, since the start of fiscal year 2005 on October 1, 2004, there have been over 2.9 million patent applications filed and only 502 Interferences decided. An Interference Proceeding occurs when multiple inventors file an application claiming the same invention, and is the hallmark of a first to invent system because it is possible in the United States to file a patent application second and then be awarded the patent if the second to file can demonstrate they were the first to invent.

On top of the paltry 502 Interferences over nearly 7 years a grand total of 1 independent inventor managed to demonstrate they were the first to invent, and a grand total of 35 small entities were even involved in an Interference. A small entity can be an independent inventor, university, non-profit or a company with 500 or fewer employees. Thus, we have a de facto first to file system and the "first to invent" system that supposedly favors independent inventors is overwhelmingly dominated by large companies with over 500 employees. See chart below.

	2005	2006	2007	2008	2009	2010	2011*	Total
Filings	381797	417453	468330	496886	486499	509367	153997	2914329
Allowances	151077	162509	184376	182556	190122	233127	93390	1197157
Interferences decided	96	107	95	74	63	50	17	502
Junior party winners	18	15	21	25	14	17	3	113
Small entity winners	7	2	3	6	1	5	1	25
Independent Inventor winners	0	0	1	0	0	0	0	1
Small Entity losers	1	2	2	2	1	2	0	10

On top of this, the independent inventors and small entities, those typically viewed as benefiting from the current first to invent system, realistically could never benefit from such a system. To prevail as the first to invent and second to file you must prevail in an Interference proceeding, and according to 2005 data from the AIPLA the average cost through an interference is over $600,000. So let's not kid ourselves, the first to invent system cannot be used by independent inventors in any real, logical or intellectually honest way, as supported by the reality of the numbers above. So first to invent is largely a "feel good" approach to patents where the underdog at least has a chance, if they happen to have $600,000 in disposable income to invest on the crap-shoot that is an Interference proceeding.

I will acknowledge, however, that one of the best arguments I have seen against first to file was prepared by Hank Nothhaft, President & CEO of Tessera and a frequent contributor to IPWatchdog.com. In his op-ed in The Hill Hank concludes by asking: "Why risk that by weakening the incentives for startups?" As I can point to the fact that we have a de facto first to file system already, Hank and others can say--so why the need for change? I readily acknowledge that the small "c" conservative thing to do, which I normally promote, would be to do nothing

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and keep the status quo. That is a fine argument, but it would keep the USPTO devoting precious resources on a complex Interference system that really mirrors a first to file system anyway. Of course, if patent reform gives the USPTO fee setting authority and an end to fee diversion, then the resources problem isn't nearly the concern and Congress could layer on responsibilities for the Patent Office and Team Kappos could deliver and still reduce the backlog.

Some others who challenge the first to file changes in the patent reform bill say the Interference analysis above is misplaced because first to file is not about whether the first to invent will obtain the patent. As illogical as that sounds, they have a point. Notice, however, that the Interference data does clearly demonstrate there is no need whatsoever for a first to invent system in the United States.

Thus, many who challenge the first to file system don't seem to question that first to file is acceptable, but they do not like the loss of the familiar 12 month grace period.

The truth is, however, that relying on a 12 month grace period is extremely dangerous, but it does have its place. As Bryan Lord correctly explains in "Crunch Time: Call Your Senators on Patent Reform," many start-up companies rely on the grace period, which is critical "to companies that rely upon external collaborations or have comparatively limited resources." There is absolutely no argument with the fact that a grace period does factor into the equation for

small businesses and start-up companies that are strapped for cash and already need to make choices about how much, and which, innovations to protect. I also like Lord's questioning the rush to harmonize. I always like to point out that harmonization is fine, but why can't we do what makes for a good system and not just what everyone else does. Let's harmonize what the world does better and let's lobby the world to adopt what our system clearly gets right.

Having said all of this, there is absolutely no reason why we cannot move from a first to invent system to a first inventor to file system that would still retain a real and substantial grace period and still retain the right for patent applicants to swear behind references to demonstrate an earlier date of invention, at least with respect to pieces of prior art that are not the progeny of earlier filed patent applications.

Regardless of the disinformation that is widespread, the currently proposed S. 23 does, in fact, have a grace period.

The grace period would be quite different than what we have now and would not extend to all third party activities, but many of the horror stories say that if someone learns of your invention from you and beats you to the Patent Office, they will get the patent. That is simply flat wrong.

As it stands now, the currently proposed 102 in S. 23 says, in relevant part:

Sec. 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.

Looking at the proposed 102(b), it becomes clear that despite the claims of critics, there is a grace period within S. 23. I find it sad, yet amusing, that some who challenge the bill simply refuse to quote 102(b), and even outright claim "there is no grace period." Obviously, there is a grace period.

The proposed 102(b) seeks to eliminate from the universe of prior art disclosures made by the inventor or which owe their substance to the inventor. So if the inventor discloses his or her invention less than a year before filing a patent application, the patent can still be awarded. If someone learns of the invention from the inventor and discloses less than a year before filing a

patent application, the patent can likewise still be awarded. What is notably missing here are several things. First, a definition for “disclosure.”

Second, an exception that applies to third-party activities where the third party acted without learning of information from the inventor but yet did not file a first application themselves. So the grace period set up by proposed 102(b) excepts disclosures (whatever they are) made by or through an inventor less than 1 year before the inventor files, but does not extend to disclosures (whatever they are) made by others less than 1 year before the inventor files.

The proposed 102(b) is a departure from the current law of novelty. Nevertheless, it is simply wrong to claim there is no grace period in an attempt to manipulate independent inventors, small businesses and others to support elimination of first to file.

In any event, under the current 102(b), a patent applicant is entitled to a patent unless--the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States . . .

Under current 102(b) an inventor can create their own bar to patentability as a result of activity such as publication, public use in the U.S. or sale in the U.S. if it occurs more than 1 year before a U.S. patent application is filed. A bar can likewise be created if a third party, either known or unknown to the inventor, engages in the same activity more than one year before a U.S. patent application is filed. What this necessarily means, and has long been interpreted to mean, is that a patent can be awarded so long as the invention has not been patented, published, on public use in the U.S. or on sale in the U.S. for more than 1 year. The current 102(b) provides a solid grace period that applies across the board, the proposed 102(b) does not.

Independent inventors and start-ups are rightly concerned about whether they will be able to enjoy a grace period relative to third party activities. They are rightly concerned to wonder whether the term “disclosure” in 102(b) would mean that the exception applied to their own public use or sale activities, which is anything but clear. Inventors and start-ups are also rightly concerned about whether they will be able to swear behind and prove prior inventorship relative to prior art not associated with an earlier filed patent application. In short, I see no reason why we cannot have a first inventor to file system that does away with Interference proceedings, awards patents to the first inventor who files a patent application, but which also preserves a 12 month grace period under current law.

Of course, if first to file as stated in 102(b) becomes the law of the land, it will encourage independent inventors to do exactly what they should do, which is file patent applications earlier in the process. I hear the most ridiculous strategies from independent inventors who almost universally don’t understand the requirements to prove they were the first to invent, see “Much Ado About Nothing,” so a simpler system that they can understand will no doubt benefit them. Small businesses and start-ups should likewise file earlier in the process, and frankly that is why there is so much opposition to first to file.

Small businesses and start-up companies do need a grace period to try and figure out what to pursue, and the proposed grace period should keep much of the law in its place [but] will not be

as widespread as currently enjoyed. While resources are always limited with start-ups, I think they incorrectly argue that there is an over-burdensome cost in terms of both money and time associated with filing provisional patent applications to preliminarily protect rights. In fact, I have offered to demonstrate just how the preparation and filing of streamlined provisional patent applications can be accomplished to many of those making the argument that it is too costly and time consuming to prepare quality provisional patent applications. As yet I have had no takers. So if cost and time are such concerns, why aren't they willing to consider a better, faster, cheaper way?

I think Bryan Lord's call to reach out to your Senators is absolutely the right thing to do. Get involved and be heard!

Much Ado About Nothing Over First To File (By Gene Quinn, President & Founder of IPWatchdog, Inc., Nov. 7, 2009)

Just about 24 hours ago I posted an article relating to my changing position with respect to first to file, and already there is something of a firestorm. I understand there are those who feel I have abandoned them and adopted a naive view of the world. But excuse me for recognizing the new tone and identifiable actions taking place at 600 Dulany Street. Yes, I have been an ardent supporter of first to invent for years, but I have been questioning my views for some time, as I speak with attorneys, inventors and others. Then several things recently caused me to realize the benefits of first to file for the independent inventor community, and then I heard USPTO Director David Kappos explain that in 2007 only 7 cases were decided in favor of an individual who invented first and filed second. Kappos explained, "we already have a de facto first to file system." All this arguing for 7 cases? Cases where once the rule changes, behaviors will change to the point where some, perhaps most, or even all of those 7 cases will never happen again because everyone will know they need to file rather than wait. On top of that, it is inarguably good, correct, legally sound and business-appropriate advice to file sooner rather than later.

In a spirited comment chain associated with the aforementioned first to file article many supporters of first to invent are coming out in force, and they don't even realize they are making arguments that hardly support their position and in fact support the

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exact opposite position. I would like to address several here.

First, it seems that many believe it is not appropriate to file provisional patent applications because many of the applications that are filed are inadequate and insufficient.

It has been brought up that an appropriate and good provisional patent application needs to be identical to a nonprovisional patent application, perhaps without having been spell-checked. Obviously this is a gross overstatement of the law, and not correct. It is true that a provisional patent application needs to be as complete as a nonprovisional patent application in terms of disclosure, but nothing more. There are no formalities that need to be met, and it is the substance that matters. Nonprovisional patent applications exalt form over substance in large part, but a good provisional patent application needs to focus on substance. Whatever someone of skill in the art would understand to be described and disclosed has been described and disclosed. So

those who think they need to write a nonprovisional patent application and file it as a provisional are overstating, don't understand the law or have not developed a sophisticated strategy. But don't vilify those who do understand the law, business realities and have developed fundamentally sound strategies.

Second, there seems to be a belief that first to invent can be relied upon while provisional patent applications are inappropriate to rely upon if an invention matters. But what exactly does this mean? If you rely on first to invent and are operating at all responsibly you are keeping an invention notebook that will meet evidentiary burdens if and when it is necessary to demonstrate conception prior to the conception of the party who was first to file. You are also keeping an invention record that will demonstrate diligence as well, but let's focus on the substance of what is in the notebook or record for a moment. Appropriate notebooks and/or invention records will be able to identify conception and when it occurs. Of course you never want to box yourself in when you present evidence to say a date certain was the date of conception, but you had better have an appropriate record for if and when it does matter, as it did in Oka v. Youssefyeh, where the senior party and junior party both were able to prove the same date of conception. Ultimately the Federal Circuit said any ties go to the senior party, so it is not fanciful to identify an oddball fact pattern where actual dates matter. Here is a real case, and given the extremely limited number of interference proceedings even one case is a statistically relevant sample.

Now, if you are relying on first to invent and keeping the records that you should be keeping, your invention notebook or invention record will detail, describe, identify and date conception so that others skilled in the art will be able to look at the notebook/record and understand what you did, what you knew, and come to the believe that you did in fact appreciate what you had. If you have this, you have provable conception. If you have provable and identifiable conception, you also have a disclosure that informs and supports the invention. It is pure folly to suggest that a provisional patent application, albeit perhaps not as formally structured as a nonprovisional patent application, is a waste of time but also believe that the cryptic notes of an engineer or scientist are superior and even preferable. If the notebook provably demonstrates conception then it can be filed as a provisional patent application at least for the purpose of staking a claim to the conception that is detailed with enough specificity to later support an argument in a first to invent regime.

Finally, let me address the matter of what gets included in a typical invention notebook or invention record. It is almost unbelievable for me to hear patent attorneys state that they prefer the notes of inventors, scientists and engineers with respect to detailing and describing conception over a provisional patent application. Every patent attorney and patent agent knows the level of detail that is provided by inventors, even those who work for large corporations. The invention disclosures are as a rule laughably inadequate. One paragraph passes for a "complete" explanation of the invention. The truth is that patent attorneys are typically given very little from an inventor at the beginning of the process. In fact, inventors give such little information that at times the true inventor on the patent application that is actually filed should really be the patent attorney, not the inventor. That is obviously not always the case, but this is the big joke in the patent attorney community. Getting information from inventors is a little like herding cats.

They are creative and they understand their invention, and they seem to universally believe that cryptic information ought to suffice. Remember, the goal is not to explain the invention so that

the inventor understands, the goal is to explain the invention so that those who are not the inventor understand.

It borders on the absurd to prefer cryptic invention notes and invention records over provisional patent applications that are drafted by an attorney or agent who understands the legal requirements for providing an enabling disclosure that also satisfies the written description requirement. It also strikes me as particularly odd to say that those with nothing more than an idea will not have any time to figure out the particulars required to describe their invention. Why exactly are we worried that those without an invention may be impacted by first to file? They are already negatively impacted under first to invent because they have not yet invented and have no conception.

Most are undoubtedly familiar with the 80-20 rule, which goes something like this--it takes 20% of the time to complete 80% of the project, and the remaining 20% of the project takes 80% of the time to complete. That is true certainly with respect to software, which is my area of expertise, and it is true for many other areas of invention.

It also happens to be true for writing patent applications as well, at least if you think outside the box and adopt a business friendly approach to writing patent applications, mining inventions, and identifying open space that can be filed. I realize that somewhere between 70-80% of patent attorneys and patent agents start by writing the claims, and then write the specification. I do it the other way, and I can’t for the life of me understand those who write claims first. It is not wrong, just a different approach, but not the way I think.

I write text and then translate into claim language, which I find much easier to do. By doing this, and starting with a thorough patent search, patentability assessment, some mapping, and working with the inventor to continually refine understanding of what is most unique compared with the prior art, I am able to identify the base target, describe it in English, layer on specifics that take the form of alternative embodiments and versions and ultimately create an extraordinarily detailed specification that will support a multitude of claims. To do this takes about 20% of the time.

The remaining 80% of the time is spent explaining how hip bone 15 is connected to thigh bone 18, writing sets of claims, and going back to continue to expand upon the disclosure to continually mine new areas and expand scope. I do not support filing crappy provisional patent applications, and it doesn’t mean that a provisional patent application cooperatively created between inventor and patent attorney is “easy to get around” or at all inferior compared to an invention notebook or invention record.

Stop looking at first to file as a curse. It is an opportunity for inventors, small businesses and start-ups that are willing to see opportunity rather than obstacles.

Venture capitalists who are savvy and willing to explore new methods and models for protecting early-stage technologies will be handsomely rewarded. Savvy independent inventors, closely held businesses and businesses that are ordered to take direction from venture capitalists or lose funding will clean up, and clean up big. And for crying out loud, when only 7 cases out of nearly

500,000 applications a year change as a result of first to file versus first to invent, there is no way that first to file will cripple the economy or cost jobs.

Mr. KYL. I would urge my colleagues to fully participate in this debate, come to the floor with any questions or comments they have, and at the end of this process Chairman Leahy will finally be rewarded with a bill that will bear his imprimatur and support, a bill that will be extraordinarily important to the future well-being of the people of the United States of America.

Mr. LEAHY. Mr. President, the Senator has been involved in this right from the beginning. We have worked at having a bill that would be in the best interests of the Senate under both Republicans and Democrats across the political spectrum. We have worked very closely together.

We run the risk of countries in Asia and Europe out-innovating the United States, and the patent systems in other countries are well ahead of us. If we want to compete, as I know the Senator from Arizona does, and I know I do, we want to have the best tools to compete. I believe Americans can compete with any country in the world, but they should at least have the tools to do it and be able to play--it becomes almost a clich, but we have to play on a level playing field. This will allow us to do that.

I compliment the Senator from Arizona for the way he has worked in his constant efforts in the committee, the public meetings, but that is the tip of the iceberg; it is the hundreds of hours of behind-the- scenes working to reach where we are. So I hope sometime in the next few minutes or so we can at least vote on the managers' package and then get going with the bill, because this is something that can be voted on, can be passed. We have been working, as the Senator from Arizona knows, very closely with our counterparts in the other body. I know Chairman Smith would like to move quickly. We could have a bill on the President's desk in a relatively short time.

I thank the Senator for his kind words.

Mr. KYL. I thank the chairman of the committee.

The ACTING PRESIDENT pro tempore. The Senator from Louisiana.

[Text of parts of S1044, all of S1045 and parts of S1046 omitted]

Mr. COBURN. Madam President, I wish to thank the chairman of the committee for his work on this patent bill. I still have a few small problems with it, but I am extremely grateful for his consideration of our amendment. Most people don't understand there are no tax dollars taken from the general fund for the Patent Office. It is all fees paid when you file a patent or a trademark or a copyright. Unfortunately, over the last 10, 15 years, $800 million of those fees have not been left at the Patent Office. They have been taken and used somewhere else. So when you pay a fee for a patent, that money isn't going to pay for the examination of the patent.

Right now, we find ourselves with 718,000 patents waiting for first action. If I file a patent today, what we will see is that 26 months from now my patent will have first action--the first reading by an examiner.

If we want to create jobs and stay on top of the world in terms of innovation, we cannot allow that process to continue. So what the amendment does is say we are not going to take the money people use to pay for a patent application and spend it somewhere else; we are actually going to spend it on patent applications. That is what it was set up for.

Quite frankly, it is immoral to take money for a specific purpose for advantaging an American company or inventor or a university and not apply that money for the intended purpose under the statute. Although this is controversial, most Americans would think, if you are paying $10 on a toll road, the money is going to keep the toll road up. Yet we haven't been doing that with the Patent Office.

We are in trouble not because of our Patent Office but because we have not enforced intellectual property rights owned by Americans around the world. So as we work on getting a patent bill and blending it with whatever the House passes, it is as important--again, I thank the chairman because he was kind enough to have a hearing on the intellectual property for us, in terms of its enforcement.

There are two key points for American innovation to bring jobs to America. One is when you get a good idea and have an ability to get it patented and can defend the patent. The other side of that is to enforce that patent throughout the world with our own Justice Department, in terms of our State Department and in terms of the intellectual property rights.

It is amazing how much of our intellectual property is being stolen by China today. I wish to relate a conversation I had with their Secretary of Commerce--their equivalent to ours--in China 3 years ago.

I asked him about intellectual property rights. He was bold in his statement to say: We are not going to honor them. We are a developing nation and you would not have honored them either--even though they are a signatory to the World Trade Organization. It is important we understand whom we are dealing with--people who will cheat and steal intellectual property from America. Fixing the patent apparatus will help us get there, but it is just as important to have tough laws on our books that create sanctions on nations that do not honor intellectual property.

Again, this is a simple, straightforward, moral response to an immoral act: collecting fees for something and not spending it on that, which has put us behind the curve. This will bring us back. We have a wonderful new Director, over the last 18 months, in the Patent Office.

It is being run better than ever. They are catching up. But last year we took $53 million of the fees that were for patents and spent it elsewhere. What this amendment does is stop that.

It may come to a time in this bill that we allow the Patent Office to set their fees. It will come to a time when we have to say: Wait a minute. You are charging too much. You have to be more efficient.

We don't do anything with oversight. We still have the oversight capability of all the Appropriations Committees. We have the ability to change this in the future in terms of their fee setting. If we do the proper oversight, we will spring forward with tremendous new technology

that is protected and enable that capital expenditure that was spent to get that technology to flourish in terms of American jobs.

Again, I thank the chairman. He worked with me judiciously. It has been a pleasure to work with him. I thank him for his efforts on my behalf and that of the American inventors in this country.

Mr. LEAHY. Madam President, the Senator raised some questions with me, both in committee and out of the committee, with respect to each other's positions. I appreciate his work in the committee to expedite getting the bill out of the committee. Like him, I believe it is extraordinarily important to level the playing to allow American innovators to compete in the world and within our country. I compliment the Senator and, as he knows, I have included his proposal in the managers' amendment because I thought it was a good proposal.

Madam President, I ask unanimous consent that the time until 5 p.m. be for debate on the Leahy-Grassley amendment No. 121, as modified, which I believe is pending, and the Vitter for Toomey amendment No. 112, as modified, en bloc, and divided between the two leaders or their designees; that upon the use or yielding back of time, the Senate proceed to a vote in relation to the Leahy-Grassley amendment No. 121, as modified; that upon disposition of the Leahy-Grassley amendment, the Senate vote in relation to the Vitter for Toomey amendment No. 112, as modified; that the motions to reconsider be considered made and laid upon the table with no intervening action or debate; and that there be no amendments in order to any of the amendments listed in this agreement prior to the vote; further, that the Vitter amendment No. 113, as modified, be withdrawn.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

Mr. LEAHY. Madam President, I suggest the absence of a quorum, and I ask unanimous consent that the time be charged equally.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered. The clerk will call the roll.

The assistant bill clerk proceeded to call the roll.

Mr. LEAHY. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

The Senator from Iowa.

Mr. GRASSLEY. Madam President, I would like to express my strong support for Senator Coburn's proposal to

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end Patent and Trademark Office fee diversion. It is a commonsense, entrepreneur friendly solution to many of the problems plaguing the Patent and Trademark Office.

Over the years, we have heard numerous complaints from constituents about the long time it takes the Patent and Trademark Office to review patent applications and render a final disposition. It is my understanding that in most cases, it takes almost 3 years for the Patent and Trademark Office to make a final decision on an application which can be costly to the applicant.

We have also heard from Patent and Trademark Office officials about the difficulties that have arisen because of their lack of control over the agency's funding model. There are 1.2 million patent applications currently pending at the Patent and Trademark Office but not enough resources to tackle the workload. The patent application backlog situation, while improving, is still a significant problem.

Senator Coburn's proposal strikes at the heart of both of these concerns by creating a revolving fund at the Treasury Department where patent and trademark fees that are paid to the Patent and Trademark Office are directly allocated back to the office. That way those funds can be utilized in a fashion most beneficial to inventors, small businesses, and academic institutions.

At his confirmation hearing in 2009, Patent and Trademark Office Director David Kappos told the Judiciary Committee that one of the most immediate challenges facing the office was "the need for a stable and sustainable funding model." The financial crisis affecting the Patent and Trademark Office is a direct result of its current funding structure. The Patent and Trademark Office receives no taxpayer funds-- it is solely funded by patent and trademark user fees. Yet, those fees are not deposited within the Patent and Trademark Office. They are instead diverted to the Treasury Department, forcing the Patent and Trademark Office to ask for funds generated by their own office to be appropriated back to them.

The Patent and Trademark Office often requests lower than the amount generated by patent and trademark fees, which results in any extra fees being diverted by Congress to address "general revenue purposes." In fact, since 1992, Congress has diverted more than $750 million from the Patent and Trademark Office.

For example, as recent as 2007, 12 million user-fee generated dollars were diverted from the Patent and Trademark Office for "other purposes." With 1.2 million patent applications pending--735,000 of which are simply waiting for a patent examiner to take a first action-- it is clear that the Patent and Trademark Office is in dire need of those funds. I believe those fees belong to the Patent and Trademark Office and are needed by their offices to make the patent and trademark process more accessible and efficient for America's innovators.

By ending fee diversion and allowing the Patent and Trademark Office to structure its own funding model, resources would be directly allocated to areas of most concern for both the Patent and Trademark Office and American innovators. The Coburn proposal does both, and ensures that the ever expanding backlog of unexamined patent applications and the timeframe for actual examination would be addressed in an efficient manner. It is time for Congress to take action and allow the Patent and Trademark Office to control the user fees that we think they deserve so they can effectively serve our Nation's inventors and small businesses.

Madam President, I suggest the absence of a quorum.

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

The assistant bill clerk proceeded to call the roll.

Mr. GRASSLEY. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

Mr. GRASSLEY. I ask unanimous consent that the quorum call be equally charged to both sides.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

Mr. GRASSLEY. I suggest the absence of a quorum.

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

The assistant bill clerk proceeded to call the roll.

Mrs. BOXER. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

[Text of parts of S1047, all of S1048, S1049, S1050, and parts of S1051 omitted]

Mr. LEAHY. I want to thank all Senators for supporting adoption of the Leahy-Grassley-Kyl managers' amendment. This consensus amendment is a compromise that resolves a number of the key outstanding issues in the bill, including fee diversion, business method patents, damages and venue. I want to take a moment to discuss the importance of these provisions.

First, the provisions in this managers' amendment that end fee diversion from the PTO are supported by all corners of the patent community. Today, users fund 100 percent of the PTO's operations. The PTO does not take a dime of taxpayer money. For all of the improvements that this legislation makes to our patent system, the Patent Office will always be hindered if it cannot retain the funds it generates to more adequately plan for its future. Today, as we ask our Patent Office to unleash the best in innovation from our businesses, our Patent Office does not have the funding to do the same for itself. Ending fee diversion will better equip the patent office with the resources to tackle the complexities of the 21st century.

Second, the managers' amendment creates a temporary proceeding at the Patent Office to reexamine certain business method patents. I appreciate the work that Senator Schumer has done on this issue, and the provisions included in the managers' amendment represents a middle-ground that bridges a divide on this issue between the financial and tech communities that reside in all of our States.

Third, the managers' amendment strikes provisions on damages and venue. Removing these provisions addresses recent concerns voiced by certain Members of the House, and raised by the high-tech community.

Finally, this managers' amendment wraps in Senator Bennet's previously offered amendment to provide a 50-percent reduction in fees for small business accelerated patent applications at the PTO, as well as some technical amendments. This break for small businesses, which drive innovation and create jobs, will better enable them to compete with the demands of the 21st century.

As we return to the America Invents Act, I encourage any Senator who has a germane amendment to come and debate it now. This is bipartisan legislation that our economy desperately needs. It will allow the PTO to function, and our inventors and innovators to flourish. If any other Senators have amendments, this is the time. We need to move on to other pressing matters as soon as we complete work on this bill.

Mr. BENNET. Mr. President, I would like to speak briefly on my amendment to strike the damages and venue provisions from this legislation. I thank the chairman and committee for working with my office on this important amendment and incorporating it into the managers' amendment.

I know the committee has been working tirelessly to address concerns with this bill, and I applaud their efforts for trying to build consensus.

As I discussed yesterday, I believe a well-functioning patent system is critical for our economic growth. The reforms in this legislation will promote innovation and create jobs.

In my State alone, nearly 20,000 patent applications have been granted between the years 2000 and 2009. These applications have created the foundation for our clean energy economy and emerging tech and bio industries.

Small inventors start new Colorado companies, and more established companies are able to expand their operations in a very competitive, knowledge-based economy.

An efficient and high-quality U.S. Patent and Trademark Office is essential to maintaining American leadership in innovation. The improvements to the patent system in this bill will help us grow new industries and will help cure the backlog and delay that has stunted the ability of inventors to patent their ideas.

Right now, the average pendency period for a patent application is 36 months. That is unacceptable if we are to compete with the rest of the world. This doesn't even account for those patents that have been tied up in years of litigation after they are granted.

This is why we need to ensure that patent owners have certainty.

Consistency, uniformity, and fairness are essential to innovation.

Prolonged litigation and legal uncertainty only serve to stifle the incentive to innovate. We need clarity and efficient review by the courts to make sure we don't have a system where patents are tied up for years. Likewise, we also need to make sure there is a fair outcome where there is an infringement. Those whose rights are infringed have every right to take their case to court and receive the appropriate damages.

This is why I introduced my amendment on damages and venue. We need more certainty for patent owners, and I think portions of the bill may not do enough in this regard, in the face of litigation. In fact, the venue and damages portions of the bill may actually generate more uncertainty, not less.

The Federal Circuit Court of Appeals has made significant progress on damages and venue issues. The courts are moving in the right direction, and I believe it is wiser to allow this process to run its course than to add a new layer of laws that could only serve to confuse patent litigants. So in my view, congressional intervention on damages and venue is not needed at this time.

I would like to close by again thanking the chairman for his leadership and willingness to take into account the views of others on these important issues.

The PRESIDING OFFICER. The Senator from California is recognized.

Senate Debate (Menendez) – 157 Cong. Rec. S1052-S1053

[Congressional Record Volume 157, Number 29 (Tuesday, March 1, 2011)]

[Senate]

[Pages S1052-S1053]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

PATENT REFORM ACT OF 2011--Continued Amendment No. 124 Mr. MENENDEZ. Mr. President, I ask unanimous consent to set aside the pending business and I call up amendment No. 124, which is at the desk. The PRESIDING OFFICER. Without objection, it is so ordered.

The clerk will report.

The legislative clerk read as follows:

The Senator from New Jersey [Mr. Menendez] proposes an amendment numbered 124.

Mr. MENENDEZ. Mr. President, I ask unanimous consent that reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

(Purpose: To provide for prioritized examination for technologies important to American competitiveness)

On page 104, strike line 23, and insert the following:

SEC. 18. 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" and inserting a semicolon;

(2) in subparagraph (F), by striking the semicolon and inserting "; and"; 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, such as green technologies designed to foster renewable energy, clean energy, biofuels or bio-based products, agricultural sustainability, environmental quality, energy conservation, or energy efficiency, without recovering the aggregate extra cost of providing such prioritization, notwithstanding section 41 or any other provision of law;".

SEC. 19. EFFECTIVE DATE.

Mr. MENENDEZ. Mr. President, the goal of the patent reform legislation is to incentivize investment in the American economy, to create jobs, and allow this great country to continue to win in the global marketplace.

The amendment I am offering here today would do just that. It would incentivize innovation and investment by prioritizing patents that are vital to the American economy and American competitiveness. It will enable us, in essence, to incentivize that innovation by creating that prioritizing.

My amendment would allow the Patent Office to prioritize patent applications that are vital to our national interests.

Specifically, the amendment says the Patent Office Director may prioritize the examination of applications for technologies that are important to the national economy or national competitiveness, such as green technologies designed to foster renewable energy, clean energy, biofuels, agricultural sustainability, environmental quality, conservation, or energy efficiency.

Currently, the Patent Office runs a green technology pilot program.

An application for green technologies may be fast-tracked, leading to an expedited decision. This fast-track process is reserved for a small number of applications that are vitally important, so it has little to no adverse impact on other patent applications.

Currently, the patent process is rather lengthy. Patent decisions regularly take 2 to 3 years for a final decision. Our country is at risk of having vital new technologies buried in a sea of paperwork at the Patent Office. We want to make sure patents that are important to our national economy are fast-tracked rather than sidelined.

The goal here is to create jobs at home. We have to make sure the Patent Office has the resources and ability to prioritize patents that do just that--create jobs, incentivize investment, and support innovation. The Patent Office supports this amendment because they need the tools to make sure this bill reaches its intended goal of improving America’s economy.

This amendment will create green jobs and support America’s transformation to a self-sustaining economy that, among other things, is not reliant on foreign oil.

It is vitally important we do our best to ensure that all Americans have good-paying jobs and that we secure our Nation’s economic future.

I ask my colleagues to support this amendment. It codifies an existing, successful program at the Patent Office. It is good commonsense policy that can help America propel forward in the 21st century.

Mr. WHITEHOUSE. Mr. President, I rise today to speak about the America Invents Act of 2011. As we all know, innovation, hard work, and ingenuity long have been the fuel of the American

dream. This bill will make much needed improvements to our patent system to unleash the full power of American innovation once again. I am proud to be a cosponsor.

Before I speak in more detail about the importance of this bill, I would like to recognize the hard work of Senator Leahy, the chairman of the Judiciary Committee. He long has sought to change our patent system from a drag on innovation into a driver of innovation. Chairman Leahy has led bipartisan negotiations on this bill, seeking input from all segments of the American intellectual property community. I applaud his work with Senator Grassley, Senator Hatch, and others of our colleagues in bringing this much needed legislation to the floor.

I take particular interest in this bill because of Rhode Island's long and proud history of innovation, from the birth of the American industrial revolution to the high-tech entrepreneurs leading our State forward today. An area has developed in Providence, for example, that is rightfully known by the nickname "the Knowledge District" for its remarkable innovation. We need to take every opportunity to support such work across our Nation.

Make no mistake, this legislation will drive innovation and create high-quality jobs. It will secure the foundations of new small businesses, encourage the discoveries made every day in our universities, and allow American companies to continue to lead the world in technology, medicine, and mechanical science.

Patent reform may be complicated, but these are not abstract issues.

In my conversations with innovators in Rhode Island, it has become clear to me that the problems in our patent system are real and need to be fixed. Fail to do so and we will pay the price in jobs and international competitiveness.

Perhaps the most consistent concern I have heard back home has related to delays in the issuance of patents. Massive backlogs of patent applications persist at the Patent and Trademark Office, causing years of uncertainty over whether an innovator in fact has secured intellectual property rights in his or her invention. We have to fix this problem. Innovators in Rhode Island and elsewhere in this country must be able to gain patent protection for their inventions within a reasonable timeframe. Uncertainty and delay in patent protection will dampen and frustrate innovation.

The America Invents Act takes on this problem by allowing the Patent and Trademark Office discretion to set its own fees. Coupled with exceptions that will ensure low fees for small businesses, this provision will enable the Patent and Trademark Office to better manage its resources and reduce examination times.

I also support Senator Coburn's amendment to restrict fee-diversion and enable the Patent and Trademark Office, which does not depend at all on taxpayer funding, to be properly resourced with examiners who can work through the patent application backlog. This provision raises issues

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beyond the jurisdiction of the Judiciary Committee and as a result was not considered previously, but I trust it will win the support of our colleagues on the floor. I am glad that this provision has been included in the managers' amendment, of which I am a cosponsor. My conversations with Rhode Island inventors also made clear that the fear of protracted litigation also dampens innovation. Unfortunately, numerous poor-quality patents have issued in recent years, resulting in seemingly endless litigation that casts a cloud over patent ownership. Administrative processes that should serve as an alternative to litigation also have broken down, resulting in further delay, cost, and confusion.

The America Invents Act will take on these problems by ensuring that higher quality patents issue in the future. This will produce less litigation and create greater incentives for innovators to commit the effort and resources to create the next big idea. Similarly, the bill will improve administrative processes so that disputes over patents can be resolved quickly and cheaply without patents being tied up for years in expensive litigation.

This body must not pass up this chance to enhance innovation and energize our economy. We must see this bill through the Senate, and we must work with the House to see it passed promptly into law. It is true that the bill is a compromise and may not reflect all of everyone's priorities. Improvements to the bill may still be possible. To that end, I expect a productive debate on the floor and a constructive dialog with the House. I look forward to continuing to work with the chairman, my colleagues, and all interested parties to craft a bill that generates the broadest consensus possible.

But we must not lose sight of the need for action. Our patent system has gone 60 years without improvements. It needs repair. Now is the time to energize our innovation economy, to create jobs, and to secure continuing American leadership in the fields of medicine, science, and technology. Hard work and ingenuity long have been the backbone of this country. Let's not get in their way.

Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. MENENDEZ. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. Bennet). Without objection, it is so ordered.

Senate Debate (Schumer) – 157 Cong. Rec. S1053-S1054

[Congressional Record Volume 157, Number 29 (Tuesday, March 1, 2011)]

[Senate]

[Pages S1053-S1054]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

AMERICA INVENTS ACT Mr. SCHUMER. Mr. President, I rise to speak in support of the America Invents Act generally and about the managers' amendment specifically. The America Invents Act, also known as the patent reform bill, has been pending for many years and has been the subject of extensive debate, negotiation, and revisions. In its current draft, it does much needed good to help protect the American innovation economy by updating and modernizing our patent system.

The patent system in the United States is designed to protect innovation and inventions and investment. But over the last several decades, the Patent and Trademark Office has become bogged down and overburdened by inefficient process and outdated law. The result is a heavy burden on the innovative work that is the engine of our economy.

I wish to commend Senator Leahy. He has gone the extra mile for this bill for many years. I am proud and glad he is seeing his work come to fruition as we finally debate the bill on the floor. Passage of the bill is in sight. I also wish to commend the ranking member of the Judiciary Committee, Senator Grassley, who worked with him, as well as Senator Kyl, who has taken a leading role on the Republican side, for their hard work in crafting a bill that effectively modernizes the patent system, while paying attention to the many and varied demands different sectors of the economy exert upon it.

I am particularly pleased the chairman has decided to adopt the Schumer-Kyl amendment on business method patents into the managers' amendment. It is a critical change that this bill finally begins to address the scourge of business method patents currently plaguing the financial sector. Business method patents are anathema to the protection the patent system provides because they apply not to novel products or services but to abstract and common concepts of how to do business.

Often, business method patents are issued for practices that have been in widespread use in the financial industry for years, such as check imaging or one-click checkout. Because of the nature of the financial services industry, those practices aren't identifiable by the PTO as prior art and bad patents are issued. The holders of business method patents then attempt to extract settlements from the banks by suing them in plaintiff-friendly courts and tying them up in years of extremely costly litigation.

This is not a small problem. Around 11,000 new applications for patents on business methods are filed every year, and financial patents are being litigated almost 30 times more than patents as a whole. This is not right, it is not fair, and it is taking desperately needed money and energy out of

the economy and putting it into the hands of a few litigants. So I am very pleased Congress is going to fight it.

The Schumer-Kyl amendment, which was included in the managers' package we just adopted, will allow companies that are the target of one of these frivolous business method patent lawsuits to go back to the PTO and demonstrate, with the appropriate prior art, that the patent shouldn't have been issued in the first place. That way bad patents can be knocked out in an efficient administrative proceeding, avoiding costly litigation.

One of the most critical elements of this amendment has to do with the stay of litigation while review of the patent is pending at the PTO. The amendment includes a four-factor test for the granting of a stay that places a very heavy thumb on the scale in favor of the stay.

Indeed, the test requires the court to ask whether a stay would reduce the burden of the litigation on the parties and the court. Since the entire purpose of the transitional program at the PTO is to reduce the burden of litigation, it is nearly impossible to imagine a scenario in which a district court would not issue a stay.

In response to concerns that earlier versions of the amendment were too broad, we have modified it so it is narrowly targeted. We want to make sure to capture the business method patents which are at the heart of the problem and avoid any collateral circumstances.

In conclusion, I believe the amendment takes an important step in the direction of eliminating the kinds of frivolous lawsuits the jurisprudence on business method patents have allowed. I am very grateful to the chairman and the ranking member, Senator Kyl, and I support the managers' amendment and the America Invents Act as a whole.

Finally, I would like to say a few words about Senator Coburn's proposal on fee diversion. I think his idea, which is incorporated in the managers' amendment, makes a lot of sense; that is, to let the PTO keep the fees they charge so they are self-funded and we don't have to spend taxpayer money to fund them every year.

Last year, when we were debating the Wall Street reform bill, Senator Jack Reed and I made a similar proposal for the SEC, which ultimately didn't make it into the final bill. I just wanted to

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take this time to make a few points about this commonsense proposal. First, for the last 15 years, the SEC hasn't spent a dime of taxpayer money. For 15 years, the SEC has had no impact on the deficit. This is because Congress, in 1996, amended the securities laws to provide that 100 percent of the SEC's funding comes from registration and filing fees charged by the Commission.

Second, even though the SEC collects more in fees every year than it spends, the amount of the SEC's annual budget is determined by Congress, which has continually shortchanged the SEC. The SEC's budget has been in the crosshairs for years, and their funding has been so inadequate that they have been compromised in their ability to pursue their core mission.

Third, the budget proposal in the House would continue the shortchanging of the SEC, cutting $40 million from its existing budget at a time when it needs resources more than ever.

Finally, a word about the current demands on the SEC. We gave that agency significant new responsibilities under the Dodd-Frank Act, in particular to oversee the previously unregulated derivative markets.

That is an enormous undertaking that everybody agrees is necessary after seeing the role that unregulated derivatives played in the financial crisis.

In closing, I would strongly suggest to my colleagues that if self- funding makes sense for the PTO, it makes sense for the SEC. I am not going to call up my amendment now or my bill now, but I urge my colleagues to support this commonsense proposal Senator Reed and I are pushing and ensure it gets a full hearing in the Senate.

I thank the Chair for his time and attention.

Senate Debate – 157 Cong. Rec. S1089-S1114

[Congressional Record Volume 157, Number 30 (Wednesday, March 2, 2011)]

[Senate]

[Pages S1089-S1114]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

PATENT REFORM ACT OF 2011 The ACTING PRESIDENT pro tempore. Under the previous order, the Senate will resume consideration of S. 23, which the clerk will report.

The assistant legislative clerk read as follows:

A bill (S. 23) to amend title 35, United States Code, to provide for patent reform.

Pending:

Leahy amendment No. 114, to improve the bill.

Bennet amendment No. 116, to reduce the fee amounts paid by small entities requesting prioritized examination under Three-Track Examination.

Bennet amendment No. 117, to establish additional USPTO satellite offices.

Lee amendment No. 115, to express the sense of the Senate in support of a balanced budget amendment to the Constitution.

Kirk-Pryor amendment No. 123, to provide a fast lane for small businesses within the U.S. Patent and Trademark Office to receive information and support regarding patent filing issues.

Menendez amendment No. 124, to provide for prioritized examination for technologies important to American competitiveness.

The ACTING PRESIDENT pro tempore. The Senator from Texas. (The remarks of Mrs. Hutchison are printed in today's Record under "Morning Business.")

The ACTING PRESIDENT pro tempore. The Senator from Vermont.

Mr. LEAHY. Madam President, yesterday, we were finally able to make progress when the Senate proceeded to a vote on the managers' amendment, the Leahy-Grassley-Kyl amendment, to the America Invents Act. That was a very important amendment, with contributions from many Senators from both sides of the aisle. It should ensure our moving forward to make the changes needed to unleash American innovation and create jobs without spending a single dollar of taxpayer money. In fact, according to the Congressional Budget Office, enactment of the bill will save millions of dollars.

I also thank those Senators who have stayed focused on our legislative effort, and who joined in tabling those amendments that have nothing to do with the subject of the America Invents Act.

Extraneous amendments that have nothing to do with the important issue of reforming our out-of-date patent system so that American innovators can win the global competition for the future have no place in this important bill. They should not be used to slow its consideration and passage. If America is to win the global economic competition, we need the improvements in our patent system that this bill can bring.

I continue to believe, as I have said all week, that we can finish this bill today, and show the American people that the Senate can function in a bipartisan manner. We have not been as efficient as I would have liked. We have been delayed for hours at a time, and forced into extended quorum calls rather than being allowed to consider relevant amendments to this bill. Nonetheless, we are on the brink of disposing of the final amendments and passing this important legislation.

Today we should be able to adopt the Bennet amendment on satellite offices and the Kirk-Pryor amendment regarding the creation of an ombudsman for patents relating to small businesses. I hope that we can adopt the Menendez amendment on expediting patents for important areas of economic growth, like energy and the environment, as well. I am prepared to agree to short time agreements for additional debate, if needed, and votes on those amendments.

The remaining issue for the Senate to decide will be posed by an amendment that Senator Feinstein has filed to turn back the advancement toward a first-inventor-to-file system.

I want to take a moment to talk about an important component of the America Invents Act, the transition of the American patent system to a first-inventor-to-file system. I said yesterday that the administration strongly supports this effort. The administration's Statement of Administration Policy notes that the reform to a first-inventor-to-file system "simplifies the process of acquiring rights" and describes it as an "essential provision [to] reduce legal costs, improve fairness and support U.S. innovators seeking to market their products and services in a global marketplace." I agree, and believe it should help small and independent inventors.

This reform has broad support from a diverse set of interests across the patent community, from life science and high-tech companies to universities and independent inventors. Despite the very recent efforts of a vocal minority, there can be no doubt that there is wide-ranging support for a move to a first-inventor-to-file patent system. A transition to first-inventor-to-file is necessary to fulfill the promises of higher quality patents and increased certainty that are the goals of the America Invents Act.

This improvement is backed by broad-based groups such as the National Association of Manufacturers, the American Intellectual Property Law Association, the Intellectual Property Owners Association, the American Bar Association, the Association for Competitive Technology, the Business Software Alliance, and the Coalition for 21st Century Patent Reform, among others. All of them agree that transitioning our outdated patent system to a first-inventor-to-file system is a crucial component to modernizing our patent system. I also commend the

assistant Republican leader for his remarks yesterday strongly in favor of the first-inventor-to-file provisions.

A transition to a first-inventor-to-file system is needed to keep America at the pinnacle of innovation by ensuring efficiency and certainty in the patent system. This transition is also necessary to better equip the Patent and Trademark Office, PTO, to work through its current backlog of more than 700,000 unexamined patent applications through work-sharing agreements with other patent-granting offices.

The Director of the PTO often says that the next great invention that will drive our economic growth may be sitting in its backlog of applications. The time consuming “interference proceedings” that are commonplace in our current, outdated system are wasting valuable resources that contribute to this delay, and unfairly advantage large companies with greater resources.

A transition to a first-inventor-to-file system was recommended in the 2004 Report by the National Academy of Sciences. The transition has been a part of this bill since its introduction four Congresses ago.

This legislation is the product of eight Senate hearings and three markups spanning weeks of consideration and many amendments. Until very recently, first-inventor-to-file had never been the subject of even a single amendment in committee.

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Senator Feinstein has worked with me on this bill, has cosponsored it in the past and has voted for it.

I urge Senators who support the goals of the America Invents Act to vote against this amendment to strike the bill’s important reform represented by the first-inventor-to-file provision. Every industrialized nation other than the United States uses a patent priority system commonly referred to as a “first-to-file” system. In a first-inventor-to-file system, the priority of a right to a patent is based on the earlier filed application. This adds simplicity and objectivity into a very complex system. By contrast, our current, outdated method for determining the priority right to a patent is extraordinarily complex, subjective, time-intensive, and expensive. The old system almost always favors the larger corporation and the deep pockets over the small, independent inventor.

The transition to a first-inventor-to-file system will benefit the patent community in several ways. It will simplify the patent application system and provide increased certainty to businesses that they can commercialize a patent that has been granted. Once a patent is granted, an inventor can rely on its filing date on the face of the patent. This certainty is necessary to raise capital, grow businesses, and create jobs.

The first-inventor-to-file system will also reduce costs to patent applicants and the Patent Office. This, too, should help the small, independent inventor. In the outdated, current system, when more than one application claiming the same invention is filed, the priority of a right to a patent is decided through an “interference” proceeding to determine which applicant can be declared to

have invented the claimed invention first. This process is lengthy, complex, and can cost hundreds of thousands of dollars. Small inventors rarely, if ever, win interference proceedings. In a first-inventor-to-file system, however, the filing date of the application is objective and easy to determine, resulting in a streamlined and less costly process.

Importantly, a first-inventor-to-file system will increase the global competitiveness of American companies and American inventors. As business and competition are increasingly global in scope, inventors must frequently file patent applications in both the United States and other countries for protection of their inventions. Since America's current, outdated system differs from the first-inventor-to-file system used in other patent-issuing jurisdictions, it causes confusion and inefficiencies for American companies and innovators. Harmonization will benefit American inventors.

Finally, the first-inventor-to-file provisions that are included in the America Invents Act were drafted with careful attention to needs of universities and small inventors. That is why the bill includes a 1- year grace period to ensure that an inventor's own publication or disclosure cannot be used against him as prior art, but will act as prior art against another patent application. This will encourage early disclosure of new inventions, regardless of whether the inventor ends up trying to patent the invention.

For these reasons among others, the transition is supported by the overwhelming majority of the patent community and American industry, as well as the administration and the experts at the Patent and Trademark Office.

This past weekend, the Washington Post editorial board endorsed the transition, calling the first-inventor-to-file standard a "bright line," and stating that it would bring "certainty to the process."

The editorial also recognizes the "protections for academics who share their ideas with outside colleagues or preview them in public seminars" that are included in the bill.

The Small Business & Entrepreneurship Council has expressed its strong support for the first-inventor-to-file system, writing that "small firms will in no way be disadvantaged, while opportunities in the international markets will expand."

The Intellectual Property Owners Association calls the first- inventor-to-file system "central to modernization and simplification of patent law" and "very widely supported by U.S. companies."

Independent inventor Louis Foreman has said the first-inventor-to- file transition will help "independent inventors across the country by strengthening the current system for entrepreneurs and small businesses."

And, in urging the transition to the first-to-file system, the Association for Competitive Technology, which represents small and mid- size IT firms, has said the current first-to-invent system "negatively impacts entrepreneurs" and puts American inventors "at a disadvantage with competitors abroad who can implement first inventor to file standards."

If we are to maintain our position at the forefront of the world's economy, if we are to continue to lead the globe in innovation and production, if we are to win the future through American ingenuity and innovation, then we must have a patent system that is streamlined and efficient. The America Invents Act, and a transition to a first- inventor-to-file system in particular, are crucial to fulfilling this promise.

Madam President, in summary, as I said, yesterday we were finally able to make progress when the Senate proceeded to a vote on the managers' amendment, the Leahy-Grassley-Kyl amendment, to the America Invents Act. It was a very important amendment, with contributions from many Senators from both sides of the aisle.

I think it was a little bit frustrating for the public to watch. They saw us several hours in quorum calls and then having an amendment that passed 97 to 2. I would hope we might, in doing the Nation's business, move with a little bit more speed. But I do thank those Senators who supported it.

The Leahy-Grassley-Kyl amendment should ensure our moving forward to make the changes needed to unleash American innovation and create jobs without spending a single dollar of taxpayer money. In fact, according to the Congressional Budget Office, enactment of the bill will save millions of dollars. These are not bumper slogan ideas of saving money.

These are actually doing the hard work necessary to save money.

I thank those Senators who have stayed focused on our legislative effort and who joined in tabling nongermane amendments that had nothing to do with the subject of the America Invents Act.

Extraneous amendments that have nothing to do with the important issue of reforming our out-of-date patent system so American innovators can win the global competition for the future have no place in this important bill.

We are at a time when China and Europe and the rest of Asia are moving ahead of us. We need the tools to keep up. We should not waste time with a lot of sloganeering amendments that would stop the bill.

What we ought to focus on is making America good and making sure we can compete with the rest of the world. We should not have amendments used to slow this bill's consideration and passage. If America is going to win the global economic competition, we need the improvements in our patent system this bill can bring.

I continue to believe, as I have said all week, we can finish the bill--we actually could have finished it yesterday, when you consider all the time wasted in quorum calls--but I believe we can finish it today and show the American people the Senate can function in a bipartisan manner.

We have not been as efficient as I would have liked. We have been delayed for hours at a time and forced into extended quorum calls rather than being allowed to consider relevant amendments to the bill.

But we are on the brink of disposing of the final amendments and passing this important legislation.

We should be able to adopt the Bennet amendment on satellite offices either by a voice vote or a rollcall, I would hope in the next few minutes, and the Kirk-Pryor amendment regarding the creation of an ombudsman for patents relating to small businesses.

I hope we can adopt the Menendez amendment on expediting patents for important areas of economic growth, such as energy and the environment, as well. I am prepared to agree to very short time agreements for additional debate, if needed. If a rollcall is called for, I am happy to have those.

The remaining issue for the Senate to decide will be posed by an amendment Senator Feinstein filed to turn back the advancement toward a first-inventor-to-file system.

I wish to take a moment to talk about an important component of the

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America Invents Act, the transition of the American patent system to a first-inventor-to-file system. This is strongly supported by the administration and by the managers of this package. The administration's Statement of Administration Policy notes that the reform to a first-inventor-to-file system "simplifies the process of acquiring rights," and it describes it as an "essential provision [to] reduce legal costs, improve fairness and support U.S. innovators seeking to market their products and services in a global marketplace." I agree. I also believe it should help small and independent inventors.

This reform has broad support from a diverse set of interests across the patent community, from life science and high-tech companies to universities and independent inventors. Despite the very recent efforts--and they were very recent efforts; after all, we have been working on this bill for years--of a vocal minority, there can be no doubt that there is wide-ranging support for a move to a first- inventor-to-file patent system.

A transition to first-inventor-to-file system is necessary to fulfill the promises of higher quality patents and increased certainty that are the goals of the America Invents Act. This improvement is backed by broad-based groups such as the National Association of Manufacturers, the American Intellectual Property Law Association, the Intellectual Property Owners Association, the American Bar Association, the Association for Competitive Technology, the Business Software Alliance, and the Coalition for 21st Century Patent Reform, among others. All of them agree that transitioning our outdated patent system to a first- inventor-to-file system is a crucial component to modernizing our patent system.

I commend the assistant Republican leader for his remarks yesterday strongly in favor of the first-inventor-to-file provisions. It actually allows us to put America at the pinnacle of innovation by ensuring efficiency and certainty in the patent system.

This transition is also necessary to better equip the Patent and Trademark Office to work through its current backlog. That backlog has more than 700,000 unexamined patent applications.

A transition to a first-inventor-to-file system will benefit the patent community in several ways. It will simplify the patent application system and provide increased certainty to businesses that they can commercialize a patent that has been granted.

The first-inventor-to-file system will also reduce costs to patent applicants and the Patent Office. Importantly, a first-inventor-to-file system will increase the global competitiveness of American companies and American inventors. Also, the first-inventor-to-file provisions that are included in the America Invents Act were drafted with careful attention to needs of universities and small inventors. For these reasons, among others, this transition is supported by the overwhelming majority of the patent community and American industry, as well as the administration and experts at the Patent and Trademark Office.

At this time I wish to have printed in the Record a few letters of support for the transition to first-to-file.

The Small Business & Entrepreneurship Council says that "by moving to a first-inventor-to-file system, small firms will in no way be disadvantaged, while opportunities in international markets will expand."

The Intellectual Property Owners Association says the transition to first-inventor-to-file "is central to modernization and simplification of patent law and is very widely supported by U.S. companies."

BASF says the first-to-file system will "enhance the patent system in ways that would benefit all sectors of the U.S. economy."

And the American Bar Association refutes claims that the first-to- file system would disadvantage small and independent inventors, saying that the legislation "makes it clear that the award goes to the first inventor to file and not merely to the first person to file."

I ask unanimous consent that copies of these letters be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

Small Business & Entrepreneurship Council, Oakton, VA, February 28, 2011.

Hon. Patrick Leahy, U.S. Senate, Russell Senate Bldg., Washington, DC.

Dear Senator Leahy: The Small Business & Entrepreneurship Council (SBE Council) and its members across the nation have been strong advocates for patent reform. We are pleased that you have introduced the Patent Reform Act (S. 23), and we strongly endorse this important piece of legislation.

An effective and efficient patent system is critical to small business and our overall economy. After all, the U.S. leads the globe in entrepreneurship, and innovation and invention are central to our entrepreneurial successes.

Indeed, intellectual property--most certainly including patents--is a key driver to U.S. economic growth. Patent reform is needed to clarify and simplify the system; to properly protect legitimate patents; and to reduce costs in the system, including when it comes to litigation and the international marketplace.

Make no mistake, this is especially important for small businesses. As the Congressional Research Service has reported: "Several studies commissioned by U.S. federal agencies have concluded that individuals and small entities constitute a significant source of innovative products and services. Studies have also indicated that entrepreneurs and small, innovative firms rely more heavily upon the patent system than larger enterprises."

The Patent Reform Act works to improve the patent system in key ways, including, for example, by lowering fees for micro-entities, and by shortening time periods for patent reviews by making the system more predictable.

During the debate over this legislation, it is expected that two important areas of reform will come under attack.

First, the U.S. patent system is out of step with the rest of the world. The U.S. grants patents on a first-to-invent basis, rather than the first-inventor-to-file system that the rest of the world follows. First-to-invent is inherently ambiguous and costly, and that's bad news for small businesses and individual inventors.

In a 2004 report from the National Research Council of the National Academies (titled "A Patent System for the 21st Century"), it was pointed out: "For those subject to challenge under first-to-invent, the proceeding is costly and often very protracted; frequently it moves from a USPTO administrative proceeding to full court litigation. In both venues it is not only evidence of who first reduced the invention to practice that is at issue but also questions of proof of conception, diligence, abandonment, suppression, and concealment, some of them requiring inquiry into what an inventor thought and when the inventor thought it." The costs of this entire process fall more heavily on small businesses and individual inventors.

As for the international marketplace, patent harmonization among nations will make it easier, including less costly, for small firms and inventors to gain patent protection in other nations, which is critical to being able to compete internationally. By moving to a first-inventor-to-file system, small firms will in no way be disadvantaged, while opportunities in international markets will expand.

Second, as for improving the performance of the USPTO, it is critical that reform protect the office against being a "profit center" for the federal budget. That is, the USPTO fees should not be raided to aid Congress in spending more taxpayer dollars or to subsidize nonrelated programs.

Instead, those fees should be used to make for a quicker, more predictable patent process.

Thank you for your leadership Senator Leahy. Please feel free to contact SBE Council if we can be of assistance on this important issue for small businesses.

Sincerely,

Karen Kerrigan, President & CEO.

Intellectual Property Owners Association, Washington, DC, February 25, 2011.

Re Amendments to S. 23, the “Patent Reform Act of 2011.”

Honorable __, U.S. Senate, __ Senate Office Building, Washington, DC.

Dear Senator __: Intellectual Property Owners Association (IPO) is pleased that the Senate is planning to proceed with consideration of S. 23, the “Patent Reform Act of 2011.”

IPO is one of the largest and most diverse trade associations devoted to intellectual property rights. Our 200 corporate members cover a broad spectrum of U.S. companies in industries ranging from information technology to consumer products to pharmaceuticals and biotechnology.

We wish to give you our advice on amendments that we understand might be offered during consideration of S. 23:

Vote AGAINST any amendment to delete the “first-inventor-to-file” and related provisions in section 2 of the bill.

First-inventor-to-file, explained in a 1-page attachment to this letter, is central to modernization and simplification of patent law and is very widely supported by U.S. companies.

Vote FOR any amendment guaranteeing the U.S. Patent and Trademark Office access

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to all user fees paid to the agency by patent and trademark owners and applicants. Current delays in processing patent applications are totally unacceptable and the result of an underfunded Patent and Trademark Office.

Vote AGAINST any amendment that would interpose substantial barriers to enforcement of validly-granted “business method” patents. IPO supports business method patents that were upheld by the U.S. Supreme Court in the recent Bilski decision.

For more information, please call IPO at 202-507-4500.

Sincerely,

Douglas K. Norman, President.

First-Inventor-to-File in S. 23, the “Patent Reform Act of 2011”

Section 2 of S. 23 simplifies and modernizes U.S. patent law by awarding the patent to the first of two competing inventors to file in the U.S. Patent and Trademark Office (PTO), a change from the traditional system of awarding the patent, in theory, to the first inventor to invent. First-inventor-to-file in S. 23 has these advantages:

Eliminates costly and slow patent interferences proceedings conducted in the PTO and the courts to determine which inventor was the first to invent.

Creates legal certainty about rights in all patents, the vast majority of which never become entangled in interference proceedings in the first place, but which are still subject to the possibility under current law that another inventor might come forward and seek to invalidate the patent on the ground that this other inventor, who never applied for a patent, was the first to invent.

Encourages both large and small patent applicants to file more quickly in order to establish an early filing date.

Early filing leads to early disclosure of technology to the public, enabling other parties to build on and improve the technology. (Applicants who plan to file afterward in other countries already have the incentive to file quickly in the U.S.)

Makes feasible the introduction of post-grant opposition proceedings to improve the quality of patents, by reducing the issues that could be raised in a post-grant proceeding, thereby limiting costs and delay.

Follows up on changes already made by Congress that (1) established inexpensive and easy-to-file provisional patent applications and, (2) in order to comply with treaty obligations, allowed foreign inventors to participate in U.S. patent interference proceedings.

BASF,

Florham Park, NJ, February 28, 2011.

Hon. Frank Lautenberg, Hon. Bob Menendez,

U.S. Senate, Washington, DC.

Dear Senators Lautenberg and Menendez: On behalf of BASF's North American headquarters located in Florham Park, New Jersey, I am writing to urge your support for S. 23, the Patent Reform Act of 2011.

At BASF, We Create Chemistry, and we pride ourselves on creating technological advances through innovation. We recognize that America's patent system is crucial to furthering this innovation and that the system is in need of modernization and reform. The United States desperately needs to enhance the efficiency, objectivity, predictability, and transparency of its patent system.

BASF likes S. 23 because we feel it will preserve the incentives necessary to sustain America's global innovation and spur the creation of high-wage, high-value jobs in our nation's economy. In particular, the shift to a "first to file" system, an appropriate role for the court in establishing patent damages, and improved mechanisms for challenging granted patents enhance the patent system in ways that would benefit all sectors of the U.S. economy.

I want to stress that BASF supports S. 23 in the form recently passed out of the Senate Judiciary Committee via a bipartisan 15-0 vote. This bill represents a great deal of work and hard fought consensus. We ask that you reject amendments on the floor that would substantively alter the bill, including one that would reportedly strike the “first to file” provision.

Please note, however, that BASF does support a planned amendment that would end the practice of diverting funds from the U.S. Patent and Trademark Office to other agencies. This amendment is necessary, since the USPTO is funded entirely by user fees and does not get any taxpayer money.

Our patent system has helped foster U.S. innovation and protect the intellectual property rights of inventors for more than 200 years, and it can continue to do so if it is updated to make sure it meets the challenges facing today’s innovators, investors, and manufacturers. I urge you to work with your colleagues in the Senate to pass S. 23 without substantive amendment to the patent provisions and with language that would prevent diversion of USPTO funds.

Sincerely,

Steven J. Goldberg, Vice President,

Regulatory Law & Government Affairs American Bar Association, Chicago, IL, February 28, 2011.

Dear Senator: This week the Senate will be considering S. 23, the “Patent Reform Act of 2011.” I am writing to express the support of the Section of Intellectual Property Law of the American Bar Association for Senate approval of S. 23, and our opposition to any amendment that may be offered to strike the “first-inventor-to-file” provisions of the bill. These views have not been considered by the American Bar Association’s House of Delegates or Board of Governors and should not be considered to be views of the American Bar Association.

S. 23 is a bi-partisan product of six years of study and development within the Judiciary Committee. By necessity, it contains a number of provisions that are the result of negotiation and compromise and it is unlikely that all of the Judiciary Committee co-sponsors favor each and every provision. We too would have addressed some issues differently. However, the perfect should not be the enemy of the good and we believe that this is a good bill. S. 23 and S. 515, its close predecessor in the 111th Congress, are the only bills that we have endorsed in the six years that we have been following this legislation. The enactment of S. 23 would substantially improve the patent system of the United States and we support that enactment.

At the same time, we want to express our strong opposition to an amendment that may be offered to strike the provisions of S. 23 that would switch the U.S. patent system to one that awards a patent to the first inventor who discloses his invention and applies for a patent (“first-inventor-to-file”), rather than awarding a patent based on winning the contest to show the earliest date of conception or reduction to practice of the invention (“first-to-invent”).

The United States is alone in the world in retaining the first-to-invent system. While a first-inventor-to-file system encourages inventors to file for a patent and disclose their inventions at an early date, the first-to-invent standard increases opportunity for competing claims to the same

invention, and facilitates protracted legal battles in administrative and court proceedings, which are extremely costly, in both time and money.

Some have long thought that small and independent inventors would be disadvantaged in a first-inventor-to-file environment and that competitors with more resources might learn of their inventions and get to the U.S. Patent Office first with an application. This current legislation, however, makes it clear that the award goes to the first inventor to file and not merely to the first person to file.

Equally important, recent studies show that, under the present U.S. patent system, small and independent inventors who are second to file but who attempt in the U.S. Patent Office and court proceedings to establish that they were the first to invent, actually lose more patents than they would obtain had the United States simply awarded patents to the first inventor to file.

Moreover, since 1996, an inventor based in the United States faces a much more difficult task of ever obtaining a patent. For inventions made after 1996, the U.S. patent system has been open to proofs of inventions made outside the United States--creating for many U.S.-based inventors a new and potentially even more expensive obstacle to obtaining a patent under the current first-to-invent rule.

Finally, U.S. inventors more and more are facing the need to file patent applications both at home and abroad to remain competitive in our global economy. Requiring compliance with two fundamentally different systems places undue additional burdens on our U.S. inventors and puts them at a competitive disadvantage in this global economy.

We urge you to support enactment of S. 23 and to oppose any amendment to strike the “first-inventor-to-file” provisions.

Sincerely,

Marylee Jenkins, Chairperson, Section of Intellectual Property Law.

Mr. LEAHY. Madam President, we are now ready to go forward on the Bennet and Kirk-Pryor amendments. I am prepared to call them up for a vote in the next few minutes if we could get somebody on the floor.

Amendment No. 117, as Modified I understand there is a modification at the desk of Bennet amendment No. 117.

The ACTING PRESIDENT pro tempore. Without objection, the amendment is so modified.

The amendment, as modified, is as follows:

On page 104, between lines 22 and 23, insert the following:

SEC. 18. SATELLITE OFFICES.

(a) Establishment.--Subject to available resources, the Director may 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.--In selecting the locale of each satellite office to be

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established under subsection (a), the Director--(1) shall ensure geographic diversity among the offices, including by ensuring that such offices are established in different States and regions throughout the Nation; and(2) 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 Patent and Trademark Office's Nationwide Workforce Program that resulted in the 2010 selection of Detroit, Michigan as the first ever satellite office of the Patent and Trademark Office.

(3) Nothing in the preceding paragraph shall constrain the Patent and Trademark Office to only consider its prior work from 2010. The process for site selection shall be open.

(d) Phase-in.--The Director shall satisfy the requirements of subsection (a) over the 3-year period beginning on the date of enactment of this Act.

(e) Report to Congress.--Not later than the end of the first fiscal year that occurs after the date of the enactment of this Act, and each fiscal year thereafter, the Director shall submit a report to Congress on--(1) the rationale of the Director in selecting the locale 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).

(f) Definitions.--In this section, the following definitions shall apply:

(1) Director.--The term "Director" means the Director of the United States Patent and Trademark Office.

(2) Patent and trademark office.--The term "Patent and Trademark Office" means the United States Patent and Trademark Office.

On page 104, line 23, strike "SEC. 18." and insert "SEC. 19.".

Amendments Nos. 117, as Modified, and 123 Mr. LEAHY. Madam President, I ask unanimous consent that the Senate resume consideration of Bennet amendment No. 117, as modified, with the changes at the desk and Kirk amendment No. 123 en bloc; further, that the amendments be agreed to en bloc and the motions to reconsider be considered made and laid upon the table, with no intervening action or debate.

The ACTING PRESIDENT pro tempore. Is there objection?

Mr. GRASSLEY. Madam President, reserving the right to object, and I will not object, I wish to say as manager of my side of the aisle that we support this. We think both of these amendments are good amendments and that we ought to move forward. I appreciate very much the majority working with us to accomplish this goal.

I yield the floor.

The ACTING PRESIDENT pro tempore. Is there objection?

Without objection, it is so ordered.

The amendments, Nos. 117, as modified, and 123, were agreed to en bloc.

Mr. LEAHY. Madam President, I am ready to go to third reading unless there are others who are otherwise tied up who knows where, but I wish they would take the time to drop by if they have amendments. Senator Grassley and I spent hours on the floor yesterday just waiting for people to bring up amendments. We went through a number of quorum calls. We are talking about something that is going to be a tremendous boost to businesses and inventors. Those who are watching are wondering probably why we have spent years getting this far. So much time is being wasted.

I just want everybody to know the two of us are ready to vote.

Yesterday we took hours of delay to vote on the Leahy-Grassley, et al. amendment, and then it passed 97 to 2.

So I would urge Senators who have amendments to come to the floor. As the gospel says, “Many are called, but few are chosen.” It may be the same thing on some of the amendments, but ultimately we will conclude.

Before my voice is totally gone, unless the Senator from Iowa has something to say, I yield to the Senator from Iowa.

Mr. GRASSLEY. Madam President, supporting what the chairman has just said, outside of the fact that there might be one or two controversial nongermane amendments to this legislation, we have to look at the underlying product. The underlying product is very bipartisan. Most economic interests within our country are supporting this patent reform legislation. Everybody agrees it is something that probably should have been passed a Congress ago.

I join my Democratic manager and the chairman of the committee in urging Senators on my side of the aisle who have either germane amendments or nongermane amendments to come to the floor and offer them so the underlying piece of legislation can be passed and sent on to the House of Representatives.

I yield the floor.

The ACTING PRESIDENT pro tempore. The Senator from Vermont.

Mr. LEAHY. Madam President, I also wish to associate myself with the distinguished senior Senator from Iowa. He has worked very hard to help us get to the floor. Considering the enormous amount of time that has been spent by both sides of the aisle on this bill, the amount of time that has been spent working out problems, I wish we could complete it.

I understand there are a couple Senators who may have amendments. I am not sure where they are, but I am sure they will show up at some point.

In the meantime, I suggest the absence of a quorum.

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mrs. FEINSTEIN. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. Udall of New Mexico). Without objection, it is so ordered.

Amendment No. 133 Mrs. FEINSTEIN. Mr. President, I call up amendment No. 133, and I ask unanimous consent to set aside the pending amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

The clerk will report.

The assistant legislative clerk read as follows:

The Senator from California [Mrs. Feinstein], for herself, Mr. Risch, Mr. Reid, Mr. Crapo, Mrs. Boxer, and Mr. Ensign, proposes an amendment numbered 133.

The amendment is as follows:

On page 2, line 1, strike “FIRST INVENTOR TO FILE.” and insert “FALSE MARKING.”

On page 2, strike line 2 and all that follows through page 16, line 4.

On page 16, line 5, strike “(1) In general.--” and insert “(a) In General.--” and move 2 ems to the left.

On page 16, line 7, strike “(A)” and insert “(1)” and move 2 ems to the left.

On page 16, line 11, strike “(B)” and insert “(2)” and move 2 ems to the left.

On page 16, line 18, strike “(2) Effective date.--” and insert “(b) Effective Date.--” and move 2 ems to the left.

On page 16, line 19, strike “subsection” and insert “section”.

On page 16, strike line 22 and all that follows through page 23, line 2.

On page 23, strike line 3 and all that follows through page 31, line 15, and renumber sections accordingly.

On page 64, strike line 18 and all that follows through page 65, line 17.

On page 69, line 10, strike “derivation” and insert “interference”.

On page 69, line 14, strike “derivation” and insert “interference”.

On page 71, line 9, strike “Derivation” and insert “Interference”.

On page 71, lines 9 and 10, strike “derivation” and insert “interference”.

On page 71, line 14, strike “derivation” and insert “interference”.

On page 72, line 3, strike “derivation” and insert “interference”.

On page 72, line 8, strike “derivation” and insert “interference”.

On page 73, line 1, strike “derivation” and insert “interference”.

On page 73, between lines 5 and 6, insert the following:

(d) Conforming Amendments.--Sections 41, 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 that term appears and inserting “Patent Trial and Appeal Board”.

On page 73, line 6, strike “(d)” and insert “(e)”.

On page 93, strike lines 6 through 8, and insert the following: by inserting “(other than the requirement to disclose the best mode)” after “section 112 of this title”.

On page 98, strike lines 20 and 21, and insert the following:

“SEC. 17. EFFECTIVE DATE.

Except as otherwise providedOn page 99, strike lines 1 through 14.

Mrs. FEINSTEIN. Mr. President, I ask unanimous consent that at the conclusion of my remarks the amendment be set aside and the Senate return to the previously pending business.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mrs. FEINSTEIN. Thank you very much.

I rise today to offer an amendment to strike the first-to-file provisions of this bill. I am joined in this effort by my cosponsors, Senator Risch, Majority Leader Reid, and Senators Crapo

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and Boxer. I also ask unanimous consent that Senator Ensign be added as a cosponsor of the amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mrs. FEINSTEIN. I know the bill has contained these provisions for some time now, and I acknowledge I have voted for different versions of it that contain these provisions. However, I have heard more and more in the past 2 years from small inventors, startup companies, small businesses, venture capitalists, and, yes, even large companies from all around our country, but especially in my State of California, that this proposed transition from our first-to-invent system to a first-to- file system would be severely harmful to innovation, and especially burdensome on small inventors, startups, and small businesses. And I have become convinced it is the wrong thing to do.

For the benefit of my colleagues who have not been so embroiled in this rather technical issue, let me provide a little background. For over a century, our country has awarded patents to the first inventor to come up with an idea, even if somebody else beat them to the Patent Office--a first-to-invent system. And we have done very well under the first-to-invent system. This bill would change that, so that the first person to file an application for a patent for a particular invention would be entitled to that patent, even if another person actually created the invention first. This is what is known as the first-to-file system.

Now, the argument that is made for transitioning to first-to-file is that the rest of the world follows first-to-file, and that will harmonize our system with theirs. This is supported by big companies that have already made it, that have an international presence.

Therefore, I understand their support for first-to-file. But under first-to-invent, we have been the world’s leader in innovation, and the first-to-file countries have been playing catchup with our technological advances. So with all due respect, I wouldn’t trade America’s record of innovation for that of virtually any other country or certainly any first-to-file country.

The genius of America is inventions in small garages and labs, in great ideas that come from inspiration and perspiration in such settings and then take off. So many of America’s leading companies-- Hewlett Packard, Apple, Google, even AT&T arising from Alexander Graham Bell’s lab, for example--started in such settings and grew spectacularly, creating jobs for millions of Americans and lifting our economy and standard of living.

A coalition of affected small business groups, including the National Small Business Association and others, recently said first-to-file “disrupts the unique American start-up ecosystem that has led to America’s standing as the global innovation leader . . .”

I believe it is critical that we continue to protect and nurture this culture of innovation, and preserving the first-to-invent system that has helped foster it is essential to do this.

Moreover, this bill would not actually harmonize our patent priority system with that of the rest of the world. Many first-to-file countries allow more extensive use of prior art to defeat a patent application and provide for greater prior user rights than this bill would provide.

Europe does not provide even the limited 1-year publication grace period this bill does.

An important part of this debate is the change the bill makes to the so-called grace period that inventors have under U.S. current law.

Presently, a person’s right to their invention is also protected for 1 year from any of the following: No. 1, describing their invention in a printed publication; No. 2, making a public use of the invention; or, No. 3, offering the invention for sale. This is called the grace period, and it is critical to small inventors.

Mr. President, 108 startups and small businesses wrote last year that:

U.S. patent law has long allowed inventors a 1-year “grace period,” so that they can develop, vet, and perfect their invention, begin commercialization, advance sales, seek inventors and business partners, and obtain sufficient funds to prosecute the patent application. During the grace period, many inventors learn about starting a technology-based business for the first time. They must obtain investment capital and must learn from outside patent counsel (at considerable expense) about patenting and related deadlines and how to set up confidentiality agreements. Many startups or small businesses are in a race against insolvency during this early stage. The grace period protects them during this period from loss of patent rights due to any activities, information leaks or inadvertent unprotected disclosures prior to filing their patent applications.

S. 23 eliminates this grace period from offering an invention for sale or making a public use of it, leaving only a grace period from “disclosure” of the invention.

There are two problems with this. First, “disclosure” is not defined in the bill. This will generate litigation while the courts flesh out that term’s meaning. While this plays out in the courts, there will be uncertainty about whether many inventions are patentable.

This uncertainty will, in turn, chill investment, as venture capitalists will be reluctant to invest until they are confident that the inventor will be able to patent and own their invention.

Secondly, because of this lack of definition, some patent lawyers interpret “disclosure” to mean a disclosure that is sufficiently detailed to enable a person of ordinary skill in the particular art to make the invented item. In practical terms, this means a patent application or a printed publication.

Now, this does provide some protection to universities, it is true.

They often publish about their inventions. However, it is scant protection for the small inventor. They don't publish about their inventions, until they file a patent application. As the 108 small businesses put it, "no business willingly publishes complete technical disclosures that will tip-off all competitors to a company's technological direction. . . . Confidentiality is crucial to small companies."

The grace period from offering for sale or public use is critical for their protection; eliminating it will have the effect, in the words of these small businesses, of "practically gutting the American 1-year grace period." The National Small Business Association wrote recently:

The American first-to-invent grace period patent system has been a major mechanism for the dynamism of small business innovation. . . . It is clear that the weak or (entirely absent) [sic] grace periods used in the rest of the world's first-to-file patent system throttles small-business innovation and job creation.

Our amendment would preserve America's world-leading system. I am also very concerned that first-to-file would proportionately disadvantage small companies and startups with limited resources. I have become convinced that this change would impede innovation and economic growth in our country, particularly harming the small, early-stage businesses that generate job growth.

Obviously, the process of innovation starts with the generation of ideas. Small California companies and inventors have described to me how most of these ideas ultimately do not pan out; either testing or development proves they are not feasible technologically, or they prove not to be viable economically.

Unfortunately, first-to-file incentivizes inventors to "race to the Patent Office," to protect as many of their ideas as soon as possible so they are not beaten to the punch by a rival. Thus, first-to-file will likely result in significant overfiling of these "dead end" inventions, unnecessarily burdening both the Patent and Trademark Office and inventors. As Paul Michel, former chief judge of the Court of Appeals for the Federal Circuit, and Gregory Junemann, president of the International Federation of Professional and Technical Engineers, put it in a recent letter to the committee:

As Canada recently experienced, a shift to a first-to-file system can stimulate mass filing of premature applications as inventors rush to beat the effective date of the shift or later, filings by competitors.

This presents a particular hardship for independent inventors, for startups, and for small businesses, which do not have the resources and volume to employ in-house counsel but must instead rely on more-costly outside counsel to file their patents. This added cost and time directed to filing for ideas that are not productive will drain resources away from the viable ideas that can build a patent portfolio--and a business.

At a time when the Patent and Trademark Office has a dramatic backlog of over 700,000 patents waiting to be examined and a pendency time of some 3 years, Congress should be careful to

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ensure that any legislative changes will not increase patent filings that are unfruitful.

The counter-argument is made that a small inventor could file a cheap “provisional patent application,” and that is sufficient protection.

However, patent lawyers who work with small clients have said that they advise their clients not to treat a provisional application any less seriously than a full patent application. If there is part of an invention that is left out of the provisional application, that will not be protected. And the parts that are included in the provisional application will be vulnerable too, under an attack that the inventor failed to disclose the “best mode” of the invention by leaving out necessary information.

The argument is made that first to file will establish a simple, clear priority of competing patent applications. Proponents of first to file argue that it will eliminate costly, burdensome proceedings to determine who actually was the first to invent, which are known as “interference proceedings.”

However, the reality is that this is not a significant problem under our current system. There are only about 50 “interference proceedings” a year to resolve who made an invention first. This is out of about 480,000 patent applications that are submitted each year-- in other words, one-one hundredth of 1 percent of patent applications.

Another problem with the bill’s first to file system is the difficulty of proving that someone copied your invention.

The bill’s proponents assert that it protects against one person copying another person’s invention by allowing the first inventor to prove that “such other patent was derived from the inventor of the invention . . .”.

Currently, you as a first inventor can prove that you were first by presenting evidence that is in your control--your own records contemporaneously documenting the development of your invention. But to prove that somebody else’s patent application came from you under the bill, was “derived” from you, you would have to submit documents showing this copying. Only if there was a direct relationship between the two parties will the first inventor have such documents.

If there was only an indirect relationship, or an intermediary--for example, the first inventor described his invention at an angel investor presentation where he didn’t know the identities of many in attendance--the documents that would show “derivation”--copying--are not going to be in the first inventor’s possession; they would be in the second party’s possession. You would have to find out who they talked to, e-mailed with, et cetera to trace it back to your original disclosure. But the bill doesn’t provide for any discovery in these “derivation proceedings,” so the first inventor can’t prove their claim.

For these reasons, and many others, the first to invent system, which I believe has made our Nation the leader in the world, which our amendment would preserve, is supported by numerous

people and businesses around the country, including the National Small Business Association; Coalition for Patent Fairness, a coalition of large high- tech companies; IEEE, Institute of Electrical and Electronics Engineers, which has 395,000 members; the International Federation of Professional and Technological Engineers, AFL-CIO; the University of California System; the University of Kentucky; Paul Michel--Former Chief Judge of the U.S. Court of Appeals for the Federal Circuit, which plays the critical role of hearing appeals in patent cases; the U.S. Business and Industry Council; American Innovators for Patent Reform; National Association of Patent Practitioners; Professional Inventors Alliance USA; CONNECT, a trade association for small technology and life science businesses; and many small inventors, as represented, for instance, in a letter signed by 108 startups and small businesses from all over the country.

Mr. President, I ask unanimous consent that a copy of this letter be printed in the Record following my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

Mrs. FEINSTEIN. Mr. President, I don't often agree with the organization Gun Owners of America, a group that thinks the National Rifle Association is too liberal. But I do agree with them on this issue. They are part of a coalition of 23 conservative organizations that wrote to the leaders about this, arguing: "Our competitors should have to 'harmonize up' to our superior intellectual property regime, rather than our having to weaken our patent system and 'harmonize down' to their levels." Other signatories on this letter include Phyllis Schlafly of the Eagle Forum; Edwin Meese III, former Attorney General under President Reagan; the American Conservative Union; and the Christian Coalition.

I think this is really a battle between the small inventors beginning in the garage, like those who developed the Apple computer that was nowhere, and who, through the first-to-invent system, were able to create one of the greatest companies in the world. America's great strength is the cutting-edge of innovation. The first-to-invent system has served us well. If it is not broke, don't fix it. I don't really believe it is broke.

I am delighted to see that my cosponsor, the distinguished Senator from California, is also on the floor on this matter, and I welcome her support.

I yield the floor.

Exhibit 1June 1, 2010.

Re Effective repeal of the one-year "grace period" under S. 515, the Patent Reform Act of 2010.

Hon. Harry Reid, Majority Leader, U.S. Senate, Washington, DC.

Hon. Mitch McConnell, Minority Leader, U.S. Senate, Washington, DC.

Dear Senators, on behalf of the undersigned companies and organizations whose survival and new job creations depend on patent protection, we are writing regarding the patent reform

legislation, S. 515. We write today to draw renewed attention to a proposed rewrite of 35 U.S.C. Sec. 102, which effectively eliminates the American one-year grace period during which current law permits an inventor to test and vet an invention, publically demonstrate it to obtain advance sales revenue and seek investors before filing the patent application. No representatives of small business were called to testify during five years of Senate hearings on patent legislation. This issue has been overshadowed by the debate on other provisions of S. 515, but it is no less disruptive to the technology investments fostered by the patent system.

The proposed sweeping changes in Sec. 102 is another issue where some large, incumbent firms are seeking a change to the detriment of small companies, new entrants, startup innovators, independent inventors, and future businesses.

U.S. patent law has long allowed inventors a one-year "grace period," so that they can develop, vet, and perfect their invention, begin commercialization, advance sales, seek investors and business partners, and obtain sufficient funds to prosecute the patent application. During the grace period, many inventors learn about starting a technology-based business for the first time. They must obtain investment capital and often must learn from outside patent counsel (at considerable expense) about patenting and related deadlines and how to set up confidentiality agreements. Many startups or small businesses are in a race against insolvency during this early stage. The grace period protects them during this period from loss of patent rights due to any activities, information leaks or inadvertent unprotected disclosures prior to filing their patent applications.

Small businesses and startups are significantly more exposed than large firms in this regard because they must rely on far greater and earlier private disclosure of the invention to outside parties. This is often required for raising investment capital and for establishing strategic marketing partnerships, licensing and distribution channels.

In contrast, large established firms have substantial patenting experience, often have in-house patent attorneys and often use internal R&D investment funds. They can also use their own marketing, sales and distribution chains.

Therefore, they seldom need early disclosure of their inventions to outside parties.

S. 515 amends Sec. 102 to confer the patent right to the first-inventor-to-file as opposed to the first-to-invent as provided under current law. This change is purportedly made for the purpose of eliminating costly contests among near-simultaneous inventors claiming the same subject matter, called "interferences." The goal of eliminating interferences is achievable by simple amendment of only Sec. 102(g) to a first-inventor-to-file criterion. However, under the heading of First-Inventor-To-File, S. 515 does far more, it changes all of Sec. 102, redefining the prior art and practically gutting the American one-year grace period.

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Without the grace period, the patent system would become far more expensive and less effective for small companies. It would create the need to "race to the patent office" more frequently and at great expense before every new idea is fully developed or vetted. The pressure for more filings will affect all American inventors--not only a few that end up in interferences under current law.

Because filing decisions must be made based on information that will be preliminary and immature, the bill forces poor patenting decisions.

Applicants will skip patent protection for some ultimately valuable inventions, and will bear great costs for applications for inventions that (with the additional information that is developed during the grace period year of current law) prove to be useless, and subsequently abandoned.

The evidence for this high abandonment trend under systems having no grace period is readily available from European application statistics.

The proponents of S. 515 suggest that the harm of the weak grace period of proposed Sec. 102(b) can be overcome if an inventor publishes a description of the invention, allowing filing within a year following such publication. Underlying this suggestion are two errors. First, no business willingly publishes complete technical disclosures that will tip off all competitors to a company's technological direction. We generally do not, and will not, publish our inventions right when we make them, some 2.5 years before the 18-month publication or 5-7 years before the patent grant.

Confidentiality is crucial to small companies.

Second, even if we were to avail ourselves of such conditional grace period by publishing first before filing, we would instantly forfeit all foreign patent rights because such publication would be deemed prior art under foreign patent law. No patent attorney will advise their client to publish every good idea they conceive in order to gain the grace period of S. 515. The publication-conditioned "grace period" in S. 515 is a useless construct proposed by parties intent on compelling American inventors to "harmonize" de facto with national patent systems that lack grace periods.

S. 515 forces U.S. inventors to make the "Hobson's Choice" of losing their foreign patent rights or losing the American grace period. It should be clear that the only way for American inventors to continue to benefit from a grace period and be able to obtain foreign patent rights, is to keep intact the current secret grace period that relies on invention date and a diligent reduction to practice.

The American grace period of current law ensures that new inventions originating in American small companies and startups--the sector of the economy that creates the largest number of new jobs--receive patent protection essential for survival and that American small businesses' access to foreign markets is not destroyed. We urge you to amend S. 515 so that Sec. 102 remains intact in order to preserve the American grace period in its full scope and force.

Thank you for your consideration of our views and concerns.

Sincerely, (Signed by 108 Companies).

The PRESIDING OFFICER. The Senator from Utah.

Mr. HATCH. Mr. President, I ask unanimous consent that the Senator from California be permitted to speak, and then I ask that the remaining time be granted to me.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mrs. BOXER. Mr. President, will the Chair cut me off at 1 minute?

The PRESIDING OFFICER. Yes.

Mrs. BOXER. Mr. President, I thank Senator Hatch so much. I thank my friend and colleague, Senator Feinstein, for this critical amendment.

Mr. President, I rise in support of the amendment offered by my dear friend and colleague, Senator Feinstein.

The amendment would strike the first-to-file provision in the patent reform bill.

I was pleased to work with my colleague, Dr. Coburn, in support of his amendment to allow the patent office to keep its user fees, which was accepted into the managers' amendment that passed yesterday.

To me, that was one of the most important reforms we could enact in this legislation--giving the PTO the resources it needs to serve the public.

I support efforts to improve our patent system. And there are some good things in this bill, including efforts to help small businesses navigate the PTO.

But I strongly disagree with changing the core principle of our patent system--awarding a patent to the true inventor--for the sake of perceived administrative ease.

Unlike other countries, our patent system is rooted in our Constitution. We are the only country in the world whose Constitution specifically mentions "inventor."

Article I, section 8 states "The Congress shall have 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."

Our system recognizes the complete process of invention--from conception to completion.

The United States is still the heart of innovation in the world, and its patent system is its soul.

Despite our rich history, the bill before us today seeks to erase over 200 years of invention and achievement, and replace it with a weaker system.

Let's talk about those changes.

Section 2 of the bill awards a patent to the first person to file, regardless of whether that person was the true inventor--the one who first conceived and developed the invention to completion.

That goes directly against the express language of the Constitution, which awards patents to the inventor, not the fastest to the PTO.

Section 2 of the bill also provides a weaker grace period than current law. This is a big change that will have a significant economic effect on startups, entrepreneurs and individual inventors.

I believe it is a change that we cannot afford, especially in these tough economic times when we need our small businesses to create new jobs.

Current law allows an inventor to obtain a patent if an application is filed within a year of a public use, sale or publication of information about the invention.

That year is called the grace period, during which an inventor's right to apply is protected from disclosures or applications by others related to his invention.

The grace period is important because it allows smaller entities, like startups or individual inventors, time to set up their businesses, seek funding, offer their inventions for sale or license, and prepare a thorough patent application.

Put another way, the grace period is an integral part of the formation of a small business.

The grace period has been a part of our patent system since 1839, and it was implemented to encourage inventors to engage in commercial activity, such as demonstrations and sales negotiations, without fear of being beaten to the patent office by someone with more resources.

The new grace period in the bill, however, would no longer cover important commercial activities such as sales or licensing negotiations.

The new provision also contains vague, undefined terms that will inject more uncertainty into the system at a time when inventors and investors need more certainty.

Proponents of first-to-file will argue that there have been studies or reports that show that a first-to-file system does not harm small entities. For example, they often mention the report of the National Academies of Science that reached that conclusion.

However, those studies and reports only analyzed the rare cases where two parties claimed to be the first inventor.

Do you know how rare those cases are? Last year, there were 52 cases out of over 450,000 applications filed--.01 percent of all applications ended up in a contest.

I do not think we should change over 170 years of protection for small entities based on cases that happen with the frequency of a hole in one in golf--1 out of 12,500, or .01 percent.

Listen to the conclusion of a report analyzing the business effects of Canada's switch to a first-to-file system:

The divergence between small entities and large corporations in patenting after the Reforms supports the idea that a switch to a first-to-file system will result in relatively less inventive activity being carried out by independent inventors as well as small businesses, and more being channeled through large corporations instead.

In closing, I believe there are things we can do to improve our patent system.

But I also believe that the foundation of our Constitution-based system--a patent is awarded to the inventor--has worked well for over 220 years, and we should not change that core.

It has produced inventors such as Thomas Edison, the Wright Brothers, and George Washington Carver.

We should not change the core of our system, and I urge my colleagues to vote for the Feinstein amendment.

Mr. President, I will conclude in this way. The Feinstein amendment is necessary. It is necessary because the first

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person to invent should get the protection from the Patent Office. We believe that if this amendment does not pass, it goes against the express language of the Constitution which awards patents to the inventor, not the fastest one to run down to the Patent Office. Senator Feinstein has explained why this is a matter of fairness and is better for consumers. I am hopeful that the amendment passes.

I thank the Chair.

The PRESIDING OFFICER. The Senator from Utah.

Mr. HATCH. Mr. President, I have been following the debate on the patent bill closely. I wish to again voice my strong support for passage of this very important legislation.

We have been working on this bill for a number of years and it is satisfying to finally see the full Senate consider it now. As I have said before, the patent reform bill is about moving our Nation toward the future. It will equip America’s inventors with an improved patent system that will enable them to better compete in today’s global economy. Toward that end, I would like to discuss some of the key provisions of this bill and what they will do to improve and modernize our patent system.

There are some misconceptions about the proposed first-inventor-to- file provision. Some have questioned why we cannot maintain the current first-to-invent system, in which priority is established by determining which applicant actually invented the claimed invention first. Under this system, if there is a dispute, it costs applicants an average of $500,000 in legal fees to prove they were the first-to-invent. This amount does not include extra expenses that can follow if the decision is appealed. Unfortunately, many small businesses and independent inventors do not have the resources to engage in the process we have now.

Conversely, moving to a first-inventor-to-file system would provide inventors a cost-effective and certain path to protect one’s invention through the filing of a provisional application, at a much more reasonable cost of about $100.

The purpose of the proposed transition is certainly not to hurt small businesses or independent inventors. Quite the contrary. These innovators are too important to our Nation's economic health. But let's consider some facts: in the past 7 years, more than 3,000,000 applications have been filed, and only 25 patents were granted to small entities that were the second inventor to file, but later proved that they were first to invent. Of those 25, only one patent was granted to an individual inventor who was the second to file. Thus, in the last 7 years, only one inventor in over 3,000,000 patent filings would have gotten a different outcome if we, like the rest of world, used a first- inventor-to-file patent system. I assure you that I do not want to minimize the reluctance that some have with changing to this new system; however, the facts speak for themselves. Simply put, moving to a first-inventor-to-file system does not appear to have the level of risk some have feared.

Additionally, the American Bar Association's Section of Intellectual Property Law recently confirmed the importance of the proposed transition by stating:

For inventions made after 1996, the U.S. patent system has been open to proofs of inventions made outside the United States--creating for many U.S.-based inventors a new and potentially even more expensive obstacle to obtaining a patent under the current first-to-invent rule. Finally, U.S. inventors more and more are facing the need to file patent applications both at home and abroad to remain competitive in our global economy. Requiring compliance with two fundamentally different systems places undue additional burdens on U.S. inventors and puts them at a competitive disadvantage in this global economy.

Indeed, the transition to the first-inventor-to-file system is long overdue and will help our U.S. companies and inventors out-compete their global challengers.

The proposed legislation would also give the USPTO rulemaking authority to set or adjust its own fees, without requiring a statutory change every time an adjustment is needed. Providing the USPTO the ability to adjust its own fees will give the agency greater flexibility and control, which, in the long run, will benefit inventors and businesses.

Speaking of greater fiscal flexibility for the USPTO, let me take a moment to discuss the importance of ensuring full access to the fees the agency collects.

American inventors, who create jobs and keep our economic engine running, should not have to wait for years after they have paid their fees to have their patent applications processed. This is tantamount to a tax on innovation and it creates disincentives for inventors and entrepreneurs.

A fully funded USPTO, with fiscal flexibility, would--at the very least--mean more and better trained patent examiners, greater deployment of modern information technologies to address the agency's growing needs, and better access to complete libraries of prior art.

Over the years, fee diversion has forced a vicious cycle of abrupt starts and stops in the hiring, training, and retention of qualified office personnel. To make matters worse, under current conditions, outdated computer systems are not keeping pace with the volume of work before the agency. It is clear to most that the USPTO has yet to recover from the negative impact of diverting close to a billion dollars from its coffers, for its own use. That has not only been wrong, it is obscene.

I agree with what has been said that there cannot be true patent reform without full access to collected fees from the USPTO. We owe it to our inventor community to do this. We all have a vested interest in ensuring that our country's unique spirit of ingenuity and innovation continues to thrive and flourish. Last night, an overwhelming majority of the Senate voted to finally put an end to fee diversion from the USPTO. It was a historic moment, and I hope our House colleagues will maintain this momentum. I understand some people on the Appropriations Committee do not like it. They do not like it because they like to be able to play with that money. But it is disastrous to not have that money stay with the USPTO so we can move forward faster, better and get a lot more done and still be the leading innovative nation in the world.

The legislation also enables patentholders to request a supplemental examination of a patent if new information arises after the initial examination. By establishing this new process, the USPTO would be asked to consider, reconsider or correct information believed to be relevant to the patent. The request must be made before litigation commences.

Therefore, supplemental examination cannot be used to remedy flaws first brought to light in the course of litigation, nor does it interfere with the court's ability to address inequitable conduct. That is an important point. Further, this provision does not limit the USPTO's authority to investigate misconduct or to sanction bad actors.

In a nutshell, the supplemental examination provision satisfies a long-felt need in the patent community to be able to identify whether a patent would be deemed flawed if it ever went to litigation and enables patentees to take corrective action. This process enhances the quality of patents, thereby promoting greater certainty for patentees and the public.

The America Invents Act also creates a mechanism for third parties to submit relevant information during the patent examination process. This provision would provide the USPTO with better information about the technology and claimed invention by leveraging the knowledge of the public. This will also help the agency increase the efficiency of examination and the quality of patents.

The pending legislation also provides a new postgrant review opposition proceeding to enable early challenges to the validity of patents. This new but time-limited postgrant review procedure will help to enhance patent quality and restore confidence in the presumption of validity that comes with issued patents.

Finally, this bipartisan patent bill provides many improvements to our patent system which include, among other provisions, just some of the following:

Changes to the best mode disclosure requirement, increased incentives for government laboratories to commercialize inventions, restrictions on false

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marking claims, removal of restrictions on the residency of Federal circuit judges, clarification of tax strategy patents, providing assistance to small businesses through a patent ombudsman program, establishing additional USPTO satellite offices, and creation of a transitional postgrant proceeding specific to business method patents. As we can see, this bipartisan bill represents

significant changes to our patent laws. They will enable our great country to more effectively compete in the 21st century global economy. I encourage my colleagues to take action and vote in favor of this bill. We cannot afford to allow this opportunity to pass us by. I yield the floor.

The PRESIDING OFFICER. The Senator from Minnesota.

Ms. KLOBUCHAR. Mr. President, I thank the Senator from Utah for his strong statement of support for the America Invents Act, a bill that is, at its heart, all about moving our economy forward. When we think about the brass tacks of our country, we think about ideas, we think about inventions. It was our inventors who developed the light bulb, the assembly line, the Internet, the iPod, and, of course, my 15-year- old daughter's favorite invention, Facebook. This all came from our great country.

I wish to comment, briefly--I know Senator Rockefeller has an important issue to talk about, the issue we have just been discussing.

First of all, we have heard from stakeholders from across the spectrum--from high tech and life sciences to universities and small inventors--in support of the transition to the first-to-file system.

I ask unanimous consent to have printed in the Record a list of supporters of the transition to the first-to-file system that is contained in the America Invents Act.

There being no objection, the material was ordered to be printed in the Record, as follows:

Supporters of the First-to-File TransitionAdvaMed; American Bar Association; American Council on Education; American Intellectual Property Law Association; Association of American Medical Colleges; Association for Competitive Technology; Association of American Universities; Association of Public and Land-grant Universities; Association of University Technology Managers; BASF, the Chemical Company; Biotechnology Industry Organization; Business Software Alliance; Caterpillar; Coalition for 21st Century Patent Reform; Council on Governmental Relations; Gary Michelson, Independent Inventor; Genentech; Intellectual Property Owners Association; Louis J. Foreman, Enventys, independent inventor; National Association of Manufacturers; Small Business and Entrepreneurship Council; and Software & Information Industry Association.

Ms. KLOBUCHAR. Mr. President, we have heard also on the floor that there is, as Senator Hatch mentioned, strong support throughout the Senate for this change. In fact, Commerce Secretary Locke emphasizes that support in a column appearing in the Hill newspaper today. He states:

[P]atent reform adopts the "first-inventor-to-file" standard as opposed to the current "first-to-invent" standard. First inventor to file is used by the rest of the world and would be good for U.S. businesses, providing a more transparent and cost-effective process that puts them on a level playing field. . . .

I could not agree more. Small businesses, independent investors, and stakeholders across the spectrum support this important transition. I wish to mention one other aspect of this system. With the current first-to-invent system, when two patents are filed around the same time for the

same invention, it also creates problems. It means the applicants must go through an arduous and expensive process called an interference to determine which applicant will be awarded the patent. Small inventors rarely, if ever, win interference proceedings because the rules for interferences are often stacked in favor of companies that can spend more money. We believe this needs to change. There was a recent article about this in the Washington Post in which David Kappos, the Director of the Patent Office and Under Secretary for Intellectual Property, described the current system is similar to parking your car in a metered space and having someone else come up and say they had priority for that space and then having your car towed. Instead, we need a system in which, if you are the first to pull in and pay your fee, you can park there and no one else can claim it is their space. The America Invents Act would create that system. It transitions our patent system from a first-to-invent system to a first-inventor-to-file system. By simply using the file date of an application to determine the true inventor, the bill increases the speed of a patent application process, while also rewarding novel, cutting-edge inventions. A first-to-file system creates more certainty for inventors looking to see if an idea has already been patented. At the same time, the bill still provides a safe harbor of 1 year for inventors to go out and market their inventions before having to file for their patent. This grace period is one of the reasons our Nation's top research universities, such as the University of Minnesota, support the bill. The grace period protects professors who discuss their inventions with colleagues or publish them in journals before filing their patent application.

Mr. President, I know Senator Rockefeller is here to discuss a very important issue.

The PRESIDING OFFICER. The Senator from West Virginia.

Mr. ROCKEFELLER. Mr. President, I ask unanimous consent to set aside the pending amendment so I may call up amendment No. 134.

The PRESIDING OFFICER. Is there objection?

The Senator from Utah.

Mr. HATCH. Mr. President, I have to object on behalf of the manager of the bill who is not here right now. If the Senator can at least wait until Senator Grassley returns to make his request.

Mr. ROCKEFELLER. I know the Senator from Utah, and I remind him he was the lead author of the Hatch-Waxman Act, creating the 180-day period for generics.

Mr. HATCH. I object right now, but as soon as Senator Grassley gets back---- Mr. ROCKEFELLER. Will the Senator from Utah object if I talk about it?

Mr. HATCH. No.

The PRESIDING OFFICER. An objection has been heard.

The Senator from West Virginia is recognized.

Amendment No. 134 Mr. ROCKEFELLER. Mr. President, my amendment is based on legislation I introduced earlier this year, obviously quite recently. The cosponsors of that bill,

which is called the Fair Prescription Drug Competition Act, are Senator Shaheen, Senator Leahy, who chairs the Judiciary Committee, Senator Inouye, Senator Stabenow, and Senator Schumer, who is on the Judiciary Committee.

I wish to acknowledge that the managers of this bill, Chairman Leahy and Senator Grassley, have been steadfast partners in pushing the Federal Trade Commission to investigate further consumer access to generic drugs, which is a huge problem. We do a lot of talking about the health care bill and a lot of other things about saving money and saving consumers money. This is a bill which would do this, if I were allowed to actually proceed to it.

This amendment eliminates one of the most widely abused loopholes that brand-name drug companies use to extend their shelf life, their monopoly, and limit consumer access to lower cost generic drugs which are just as good and just the same, but they have a system to work on that. It ends the marketing of so-called authorized generic drugs during the 180-day marketing exclusivity period that Congress designed to give real low-cost generics a major incentive to enter the market.

What was happening was the brand-name drug companies had their 18 years of exclusivity. That is a monopoly time unrivaled. Then somebody else would come in with a cheaper way of doing the same thing, an FDA- approved drug, but it would be a generic drug. It would be the same drug, have the same effect, but it would be much cheaper. Since millions of people buy these drugs, that would seem to be a good thing in a budget-conscious era for American families, as well as for the government.

As I say, this amendment ends the so-called authorized generic drugs during the 180-day marketing exclusivity

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period Congress designated to give real low-cost generics a major incentive to enter the market. You have to be able to enter the market to compete and to get your lower priced, equally good drugs out there. They do that by challenging a brand-name patent. That is the only way they can do it.

An authorized generic drug is a brand-name prescription drug produced by the same brand manufacturer yet repackaged as a generic. That is clever, but it is also a little devious. Many brand-name drug manufacturers are repackaging their drugs as generics for the purpose of extending their market shares after their patents expire. They have a little subsidiary which produces something which they shift over to them.

Unfortunately, this often eliminates the incentive for an independent generic to enter the marketplace. Therefore, the price of drugs remains much higher, and that would seem to be not in the interest of the American people.

In 1984, Congress passed the Hatch-Waxman Act to provide consumer access to lower cost generic drugs. Under the law which the Senator from Utah led, if a true generic firm successfully challenges a brand- name patent, the generic firm is provided a 180-day period for that drug to exclusively enter the market. This is a crucial incentive for generic drug companies to enter that

market and make prescription drugs more affordable for consumers. It would seem to me this would be a very laudable pursuit.

Every American agrees on the need to reduce health care costs.

Generic drugs save consumers an estimated total of $8 billion to $10 billion a year--$8 billion to $10 billion-a-year savings for the same quality of drug. Of course, they get that at the retail pharmacies where the prescription is handed out. For working families, these savings can make a huge difference, particularly during very tough economic times, which we are going through.

This amendment would restore the main incentive generic drug companies have to challenge a brand-name patent and enter the market.

We give them the incentive to challenge the brand-name prescriber.

That is what this amendment is about. It is profoundly important. It has been before this body many times. I guess it is a question of do we want to help people who have to take a lot of prescriptions and older people--any kind of people. Do we want to help them pay less? I guess it divides into if you do or if you don't. I am in the camp of, yes, I want to have people pay less. So I would just say that.

Mr. President, I yield the floor for the time being.

[Text of parts of S1099, all of S1100-S1103 and parts of S1104 omitted]

The PRESIDING OFFICER. The Senator from Arizona.

Amendment No. 133 Mr. KYL. Mr. President, I wish to get back to the underlying patent legislation to talk on a particular amendment. I am talking about the America Invents Act, legislation that would modernize our patent laws, legislation which I believe will have very strong support as soon as we are able to bring our debate to a close and have a vote.

There is one amendment that would be very troublesome if adopted. It is offered by my friend from California, Senator Feinstein. It would strike the bill's first-to-file provisions. This would not be a good idea. In fact, it would be a very bad idea. I wish to describe why.

First-to-file, which is just a concept, the filing date of the patent dates to the time one files it, is not new. The question is whether we would codify that. It has been a subject of debate now for about 20 years. But at this point it has been thoroughly explored by hearings before the House and Senate Judiciary Committees. We considered this at the outset of the drafting of our patent reform legislation, and it has been in every version of the bill since 2005.

Importantly, this provision we have in the bill that would be taken out by the Feinstein amendment is supported by all three of the major patent law organizations that represent all industries across the board. It has the support of the American Bar Association's Intellectual Property Law section. It is supported by Intellectual Property Owners, which is a trade group or association of companies which own patents and cuts across all industrial sectors. And, very importantly, our language also has the support of independent inventors, many of whom have

signed letters to the Senate in support of the codification of the first-to-file rule embedded in the Leahy bill.

The bottom line is there is a strong consensus to finally codify what is the practice everywhere else in the world; namely, that patents are dated by when they were filed, which obviously makes sense.

Let me respond to a couple arguments raised in favor of the Feinstein amendment. One argument is that the current first-to-invent system is better for the little guy, the small independent inventor. It turns out that is actually not only not true but the opposite is the case.

Under the first-to-invent system, if the big company tries to claim the same innovation that a small innovator made, that innovator would prevail if he could prove that he actually invented first, even if he filed last. But to prove he invented first, the independent inventor would need to prevail in what is called an interference proceeding.

These are proceedings before the Patent and Trade Office in which there is a determination by the PTO of who actually invented first. The PTO looks at all the parties' notebooks and other documents to determine issues such as conception of the idea and reduction to practice, the elements of a workable patent.

Yesterday I quoted from commentary published on Sunday, February 27, by Mr. Gene Quinn, a patent lawyer who writes for the IP Watchdog Web site. I quoted his commentary noting that only one independent inventor has actually prevailed in an interference proceeding in the last 7 years. In other words, if the idea is that we need to preserve something that is used by small inventors, by independent inventors, it just isn't the case that first-to-invent actually does that.

In his column, Mr. Quinn does a very good job of explaining why the interference proceeding is largely an illusory remedy for small or independent inventors. I will quote from what he said:

[T]he independent inventors and small entities, those typically viewed as benefiting from the current first to invent system, realistically could never benefit from such a system. To prevail as the first to invent and second to file, you must prevail in an Interference proceeding, and according to 2005 data from the AIPLA, the average cost through an interference is over $600,000. So let's not kid ourselves, the first to invent system cannot be used by independent inventors in any real, logical or intellectually honest way, as supported by the reality of the numbers above. . . .

[F]irst to invent is largely a "feel good" approach to patents where the underdog at least has a chance, if they happen to have $600,000 in disposable income to invest on the crap-shoot that is an Interference proceeding.

Obviously, the parties that are likely to take advantage of a system that costs more than $\1/2\ million to utilize are not likely to be small and independent inventors. Indeed, it is typically major corporations that invoke and prevail in interference proceedings. The very cost of the proceeding alone effectively ensures that it is these larger parties that can benefit from this system. In many cases, small inventors such as startups and universities simply cannot afford to

participate in an interference, and they surrender their rights once a well-funded party starts such a proceeding.

I think that first argument is unassailable. Since only one small inventor in the last 7 years has prevailed in such a proceeding, it doesn't seem it is something that favors the small or independent inventor.

Mr. Quinn's article also responded to critics who allege that the present bill eliminates the grace period for patent applications. The grace period is the 1-year period prior to filing when the inventor may disclose his invention without giving up his right to patent. Mr. Quinn quotes the very language of the bill and draws the obvious conclusion:

Regardless of the disinformation that is widespread, the currently proposed S. 23 does, in fact, have a grace period.

The grace period would be quite different than what we have now and would not extend to all third party activities, but many of the horror stories say that if someone learns of your invention from you and beats you to the Patent Office, they will get the patent. That is simply flat wrong.

He, of course, is referring to the bill's proposed section 102(b). Under paragraph (1)(A) of that section, disclosures made by the inventor or someone who got the information from the inventor less than one year before the application is filed do not count as prior art. Under paragraph (1)(B), during the 1-year period before the application is filed, if the inventor publicly discloses his invention, no subsequently disclosed prior art, regardless of whether it is derived from the inventor, can count as prior art and invalidate the patent. This effectively creates a first-to-publish rule that protects those inventors who choose to disclose their invention. An inventor who publishes his invention or discloses it at a trade show or academic conference, for example, or otherwise makes it publicly available has an absolute right to priority if he files an application within 1 year of his disclosure. No application effectively filed after his disclosure and no prior art disclosed after his disclosure can defeat his application for the patent.

These rules are highly protective of inventors, especially those who share their inventions with the interested public but still file a patent application within 1 year.

These rules are also clear, objective, and transparent. That is what we are trying to achieve with this legislation, so that there is uniformity, clarity, and it is much easier to defend what one has done.

In effect, the rules under the legislation create unambiguous guidelines for inventors. A return to the proposal of Senator Feinstein would create the ambiguity we are trying to get away from.

The bottom line is, an inventor who wishes to keep his invention secret must file an application promptly before another person discloses the invention to the public or files a patent for it. An inventor can also share his invention with others. If his activities make the invention publicly available, he must file an application within a year, but his disclosure also prevents any subsequently disclosed prior art from taking away his right to patent.

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The bill's proposed section 102 also creates clear guidelines for those who practice in a technology. To figure out if a patent is valid against prior art, all a manufacturer needs to do is look at the patent's filing date and figure out whether the inventor publicly disclosed the invention. If prior art disclosed the invention to the public before the filing date, or if the inventor disclosed the invention within a year of filing but the prior art predates that disclosure, then the invention is invalid. If not, then the patent is valid against a prior art challenge.

Some critics of the first-to-file system also argue that it will be expensive for inventors because they will be forced to rush to file a completed application rather than being able to rely on their invention date and take their time to complete an application. But these critics ignore the possibility of filing a provisional application which requires only a written description of the invention and how to make it.

Once a provisional application is filed, the inventor has a year to file the completed application. Currently, filing a provisional application only costs $220 for a large entity and $110 for a small entity.

So this is easily accomplished and quite affordable.

In fact, one of Mr. Quinn's earlier columns, on November 7, 2009, effectively rebuts the notion that relying on invention dates offers inventors any substantial advantage over simply filing a provisional application. Here is what he says:

If you rely on first to invent and are operating at all responsibly you are keeping an invention notebook that will meet evidentiary burdens if and when it is necessary to demonstrate conception prior to the conception of the party who was first to file . . .

[Y]our invention notebook or invention record will detail, describe, identify and date conception so that others skilled in the art will be able to look at the notebook/record and understand what you did, what you knew, and come to believe that you did in fact appreciate what you had. If you have this, you have provable conception. If you have provable and identifiable conception, you also have a disclosure that informs and supports the invention. . . . [And] [i]f the notebook provably demonstrates conception, then it can be filed as a provisional patent application. . . .

In other words, what you would ordinarily have in any event can be used as the provisional application.

In other words, the showing that an inventor must make in a provisional application is effectively the same showing that he would have to make to prove his invention date under the first-to-invent system. A small inventor operating under the first-to-invent rules already must keep independently validated notebooks that show when he conceived of his invention. Under first-to-file rules, the only additional steps the same inventor must take are writing down the same things his notebooks are supposed to prove, filing that writing with the Patent Office, and paying a $110 fee.

Once the possibility of filing a provisional application is considered, along with the bill's enhanced grace period, it should be clear that the first-to-file system will not be at all onerous for small inventors. Once one considers the bill's clean, clear rules for prior art and priority dates, its

elimination of subjective elements in patent law, its new proceeding to correct patents, and its elimination of current patent-forfeiture pitfalls that trap legally unweary inventors, it is clear this bill will benefit inventors both large and small.

So because this issue has been considered from the inception of the debate about the legislation, in all of the testimony and markups in every version of the bill since 2005, is supported by all the industry groups who believe patent reform is necessary, conforms to the rules of all other countries in the world, and provides clear and easily demonstrable evidence of your patent, we believe the first-to-file rule is the best rule--date it from the date you filed your patent rather than this rather confusing notion of first-to-invent, which has not worked especially well, and certainly has not worked well for the small inventor, which is the point, I gather, of the amendment proposed by Senator Feinstein.

I urge my colleagues, if there are questions or confusion about this, those of us who have been involved in this will be happy to try to answer them. I will be happy to be on the Senate floor to discuss it further. But at such time as we have a vote, I hope my colleagues would go along with what the committee did and what all of the versions of the bill have written in the past and support the bill as written and not approve this amendment.

The PRESIDING OFFICER. The Senator from Minnesota.

Ms. KLOBUCHAR. Mr. President, I thank the Senator from Arizona for his very strong comments and also for his support for this important bill. As you know, this has come through the Judiciary Committee.

Senator Kyl is a member of that committee, as I am, as well. We appreciate Senator Leahy's leadership on this bill, as well as all the other Senators who have worked so hard on a difficult bill where there are so many interests. But in the end, what guided us to get this America Invents Act on this floor was the fact that innovation is so important to our economy, that the protection of ideas in America is what built our economy over the years. So I want to thank Senator Kyl.

Before we hear from Senator Bingaman, who is here on another matter, I just want to support Senator Kyl's statements about the need to transition to the first-inventor-to-file system. As I noted before, we have heard from many small inventors and entrepreneurs who support this transition. Independent inventor Louis Foreman has said the first-to- file system will strengthen the current system for entrepreneurs and small businesses. We have heard from nearly 50 small inventors in more than 20 States who share Mr. Foreman's view.

I ask unanimous consent that a list of those supporters, as well as Mr. Foreman's letter to the Judiciary Committee in support of the America Invents Act, be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

The following independent inventors posted support for S. 23 on EdisonNation.com:

Krissie Shields, Palm Coast, Florida 32164; Sarkis Derbedrosian, Glendale, CA 91206; Frank White, Randleman, North Carolina; Ken Joyner, Pasadena, CA 91109; Charlie Lumsden, Kula, HI 96790; Timothy J. Montgomery, Altoona, PA 16601; Katherine Hardt, Escanaba, MI 49829;

Toni Rey, Houston, TX 77095; Shawn Head, Delaware, OH 43015; Emily Minix, Niceville, Florida; Betsy Kaufman, Houston, Texas; Eric Huber, San Juan Capistrano, CA 92675; Perry Watkins, Dunedin, FL; Jim Hacsi, Pueblo, Colorado; Brian Neil Smith, Orlando, FL; Clint Baldwin, Roseburg, Oregon 97471; Paul Wightman, Cedar City, Utah 84721; Shalon Cox, Beverly Hills, CA 90209; Darwin Roth, Jacksonville, Florida 32256; Dorinda Splant, Eatonton, GA 31024.

Don Francis, Vista, CA 92083; Greg Bruce, Galveston, Texas; Sandra McCoy, Longwood, FL 32750; Jerry Bradley, Joliet, IL 60435; Phillip L. Avery, Bethlehem, PA 18015; Julie Brown, Yuma, AZ 85367; Eduardo Negron, Beach Park, IL 60083; Betty Stamps, Greensboro, NC 27407; Victor Hall, Compton, CA; Todd Bouton, Janesville, WI 53548; Denise Sees, Canal Fulton, OH; Kevin McCarty, Antioch, IL 60002; Jerry Vanderheiden, Aurora NE 68818; Sherri English, Savannah, TX; Amy Oh, Portland, OR; Mark Stark, St. Louis, MO 63123; Toni LaCava, Melbourne, Florida 32935; Luis J. Rodriguez, South Orange, NJ 07079; Michael Pierre, Newark, New Jersey; Patricia Herzog-Mesrobian, Milwaukee, Wisconsin.

Derrick L. James, Beloit, WI 53511; Richard J. Yost, Newman Lake, Washington; Ken Espenschied, Cleveland, OH; Roger Brown, North Augusta, SC 29861; Jared Joyce, Bozeman, MT; Jane Jenkins, Clayton, Ohio; Tammy Turner, McDonough, GA; Diane Desilets, North Attleboro, MA; John Nauman, Hollywood, Florida 33020.

February 14, 2011.

Hon. Patrick J. Leahy, Chairman,

Hon. Chuck Grassley, Ranking Member, U.S. Senate, Committee on the Judiciary, Dirksen Senate Office Building, Washington, DC.

Dear Chairman Leahy and Ranking Member Grassley: First, please accept my congratulations on the overwhelming, bipartisan Judiciary Committee vote on compromise patent reform legislation. I strongly urge you to continue your efforts toward comprehensive reform by pushing for a vote on the Senate floor at the first available opportunity.

Your bill will make independent inventors, such as myself, more competitive in today's global marketplace. America's economic future rests on our ability to innovate new technologies that change the way people work, live and play.

Yet, as you know, today's patent system hinders this process, rather than cultivating entrepreneurship and the new ideas needed to create more jobs and foster economic growth.

As executive producer of the Emmy Award-winning series, "Everyday Edisons," and

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publisher of Inventors Digest, a long-standing publication serving the independent-inventor community, I am continually in contact with individuals across the country dedicating their lives in search of the next big idea. Some of these efforts bear fruit, while others falter. However, what ensures the continuity of their efforts, are the legal protections afforded under U.S. patent law.

I started my first business as a sophomore in college and twenty years later, I can point to 8 successful start-ups, along with being an integral part of twenty additional ventures. As a result, I have registered ten U.S. patents and my firm has helped develop and file another 400 patents.

These experiences have shaped my views on how the current system functions at a practical level for those attempting to translate their inventions into a profitable business endeavor. Let me begin by commending the USPTO for its tireless efforts to make the current system work in an efficient manner. Unfortunately, the USPTO is hampered by a system that is in dire need of reform.

From my perspective, the Judiciary Committee-passed bill helps independent inventors across the country by strengthening the current system for entrepreneurs and small businesses by including the following:

Lower fees for micro-entities;

Shorter times for patent prosecution creating a more predictable system;

First-Inventor-to-File protections to harmonize U.S. law with our competitors abroad while providing independent inventors with certainty;

Stronger patent quality and reliability by incorporating “best practices” into patent application examination and review, making it easier for independent inventors to attract start-up capital; andResources for the USPTO to reduce the current patent backlog of 700,000 patents.

Your efforts in the Committee represent a critical milestone for passage of comprehensive reform and highlight an opportunity for progress. I also hope that Committee action paves the way for vigorous bicameral discussions on enacting legislation in the near future.

We cannot afford to wait. The need for these types of common sense reforms dates back to 1966 when the President’s Commission to the Patent System issued thirty-five recommendations to improve the system. Some of these measures have been enacted over the years, but the economic challenges inherent in today’s global market necessitate a broader modernization of the patent system. The 2004 National Research Council of the National Academy of Sciences report echoed this sentiment pointing to how economic and legal changes were putting new strains on the system.

America’s economic strength has always rested on our ability to innovate. While a number of positive economic indicators provide hope for the future, the environment for small businesses remains mixed. Patent modernization is a tangible way to help America’s small entrepreneurs in a fledgling economy. Not only will these reforms help create new jobs and industries, but they will help ensure our economic leadership for years to come.

Please do not hesitate to contact me if I can be of any assistance in helping expedite passage of this critical legislation.

Sincerely,

Louis J. Foreman, Chief Executive Officer.

[Text of parts of S1106 and S1107 omitted]

Amendment No. 115 Mr. LEE. Madam President, I am on the floor to speak again in support of amendment No. 115, which I propose in connection with the patent reform bill, a bill I support and a bill I intend to vote for and a bill that is going to be used as a vehicle for this amendment that calls for the sense of the Senate on support for the need of a balanced budget amendment. I am grateful to have the support of my good friend, the former Governor of West Virginia, now the junior Senator from West Virginia, Joe Manchin, who is cosponsoring this amendment with me. Here is what it does. It calls on us as Senators to come forward and vote on whether we think we should amend the Constitution and submit that to the States for ratification to restrict our power to engage in perpetual deficit spending.

We, as Members of Congress, are authorized, pursuant to article I, section 8, clause 2 to incur debt in the name of the United States.

This power has been abused over time to such a degree that we are now almost $15 trillion in debt. By the end of the decade, we will have amassed annual interest payments that will be approaching $1 trillion.

This threatens every government program under the Sun. Whether you most want to protect Social Security or national defense or any other government program, you should be concerned about this practice that will threaten the livelihood of so many Americans who depend on these programs one way or another, whether it is to fund their day-to-day existence or fund programs that provide for our safety and security as a nation.

We do have an increased reason to be optimistic about this for a few reasons. First, we have recent polling data showing Americans overwhelmingly support the idea of a balanced budget amendment.

Secondly, a recent GAO report shows we could find at least $100 billion annually in wasteful government spending. This is the type of wasteful Washington spending we ought to have eliminated a long time ago, that we could eliminate and would be forced to eliminate if we, in fact, had a balanced budget amendment.

It would also require us to address issues that will confront our children and grandchildren. As a proud and happy father of three, I can tell you, as difficult as the choices we will have to make may be, I am unwilling, as a father, to pass these problems on to my children and my grandchildren who are yet unborn. I am unwilling to pass along to them a system that mortgages the future of coming generations for the simple purpose of perpetuating government largess and wasteful Washington spending.

All this amendment does is call on Members of the Senate to come forward and say they support the idea. By voting in favor of this amendment, they do not have to embrace any particular balanced budget amendment proposal. But what they do say is that they want the wasteful Washington spending to stop, they want the perpetual deficit spending practice to stop, and they want us to stop the practice of mortgaging the future of coming generations. This is immoral, it is

unwise, and it ought to be illegal. Soon it will be. With this amendment, we will set in motion a sequence of events that will lead to just that.

I yield the floor.

The PRESIDING OFFICER. The Senator from Pennsylvania.

Mr. TOOMEY. Madam President, I rise this afternoon to express my very strong support for Senator Lee's amendment and the underlying constitutional amendment I hope this body will take up at some point soon. I commend Senator Lee for his leadership on this issue, for offering this amendment now.

I feel a tremendous sense of urgency. I do not think we have time to waste, time to wait, time to kick this can down the road anymore. We have done that too long.

The fact is, a balanced budget amendment to our Constitution would provide the kind of fiscal straitjacket this government clearly needs.

If we operated the way many States did, if we operated the way all businesses did, if we operated the way families did and we lived within our means, then maybe this would not be necessary. But it has become obvious to anybody that we are not living within our means--not even close.

We are running a budget deficit this year of $1.6 trillion. That is 10 percent of the size of our entire economy--just this year alone.

Last year, it was $1.5 trillion. If we do not do something very serious about this now--not soon, not in the next few years but now--if we do not do something about this now, this is already at unsustainable levels.

In 1988, the total debt as a percentage of our economy was about 40 percent. In 2008, the total debt as a percentage of our economy was about 40 percent. Today it is at about 63 percent, and by October it will be 72 percent. These numbers are staggering, and they are not sustainable. It is already costing us jobs because this huge level of debt and the ever-increasing debt from the ongoing deficits raise real doubts in the minds of investors and entrepreneurs and small business owners what kind of financial future is in store for us. The threat of serious inflation, high interest rates, even a financial disruption grows dramatically as we keep piling on this debt. This is not just speculation or theory. We have seen this with other countries that have gone down this road.

The good news is it is not quite too late; we can do this; we can get our spending under control. And I am absolutely convinced we can have tremendous prosperity and a tremendously robust recovery and the job creation we need if we follow some basic fundamental principles that have always led to prosperity wherever they have been tried.

There are several--I will not go through all of them--but one of the fundamental ones is a government that lives within its means. I would define "means" as keeping a budget that is balanced. This amendment today, of course, only expresses the will of the Senate that we ought

to do this. I strongly hope all our colleagues will join Senator Lee in this very constructive amendment.

I yield the floor.

Mr. GRASSLEY. Madam President, I suggest the absence of a quorum.

The PRESIDING OFFICER. Without objection, it is so ordered. The clerk will call the roll.

The assistant bill clerk proceeded to call the roll.

Mr. DURBIN. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DURBIN. Madam President, I know personally the extraordinary efforts made by the chairman of the Senate Judiciary Committee to bring this patent reform bill to the floor. I have worked with him in the past, and it has not been an easy task. I know that many times he felt he was close to having the right bill at the right moment, and then it slipped away. But his determination and his capacity to bring people together has resulted in this moment where the bill is before us. And it

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is important that it is, not just because of his hard work but because of what it means for this country.

I don’t know whether it has formally been done, but this bill is being recharacterized as the America Invents Act instead of the Patent Reform Act because those few words tell a much bigger story. We are talking about the kind of innovation and research in America that will create successful companies and good American jobs, and that is why this bill is important.

It has been a long time--going back to our origins as a nation--since we recognized the right for those who invent things to have some proprietary personal interest in those inventions, and we set up the Patent and Trademark Office for that purpose. Unfortunately, that office of the Federal Government isn’t keeping pace with the creativity of our country, and that is why Senator Leahy has brought this bill to the floor.

This is bipartisan legislation. I commend him for his work on it, and I commend my Republican colleagues for joining him. Senators Grassley, Kyl, Sessions, and Hatch have also worked diligently on this.

This may not be the simplest area of the law. I can remember that when I was in law school here in town, there was one student--he was the only African-American student in my class, and that goes back to the days of Georgetown Law, Senator Leahy, when there were few minorities and few women. He was African American. He wore a white shirt and tie to class every day.

I went up to him one day and said: So tell me your background.

He said: Well, I am an engineer, and I want to be a patent lawyer.

And I quickly moved to another table because I realized there wasn't anything we could talk about. I knew nothing about his world. But it is a specialized world, and one in which I am sure he was very successful.

Patent law is something that is very hard to explain, and I think that is part of the reason this bill has taken some time to come here.

But economic growth is driven by innovation, and if you have a good idea for a new product in America, you can get a patent and turn that idea into a business. Millions of good American jobs are created this way. The list is endless.

Patents have been the source of great American stories. Joseph Glidden, a farmer from DeKalb, IL, patented barbed wire fence in 1874.

It dramatically changed the way ranchers and cattlemen and others were able to do their business as they settled the frontier in America. I might add that the DeKalb High School nickname is "The Barbs" as a consequence of this one discovery. Glidden's invention made him a wealthy man, but his legacy included granting the land for what became Northern Illinois University in DeKalb. Ives McGaffey of Chicago invented and patented one of the first vacuum cleaners in 1869.

Josephine Cochran of Shelbyville, IL, once said, "If nobody else is going to invent a dishwashing machine, I'll do it myself." In 1886, she did it and got a patent for it. The company she created is now known as Whirlpool.

Our patent laws set the rules of the road for American innovation. By giving inventors exclusive rights over their inventions for a term of 20 years, patents provide great incentive for investment. Patents enable inventions to be shared with the public so new innovations can be based upon them.

It has been a long time since we have looked at our patent laws and really updated them. Just think about this, putting it into perspective. It has been over 50 years. And I commend Senator Leahy for tackling this. It has not been easy. The pace and volume of innovation has quickened a great deal since we looked at this law over 50 years ago, and the Patent and Trademark Office has struggled to keep up.

Over the last few years, Congress has debated how best to modernize our patent law. It has been a tough issue. We have one set of patent laws governing the incredibly diverse range of inventions and industries. In trying to update our laws, we have to be careful not to make changes that benefit some industries but undermine innovation in others. The bill before us strikes the right balance. That is why I voted for it in Committee and support it. It is a product of years of bipartisan negotiation. It is a good compromise. It is consensus legislation passed out of the Judiciary Committee a few weeks ago with a unanimous 15-to-0 vote.

The bill is supported by the Obama administration and his Cabinet officers and a broad and diverse group of stakeholders, all the way from the American Bar Association, to the AFL-CIO, to the Biotechnology Industry Organization. The list is very long.

In my own home State, I went to the major manufacturing companies and said: You look at it because these inventions are your future. You have to be confident that what we do to the law is consistent with new inventions, new innovations, and new jobs not just at your company but at other places.

I am happy to say that those supporting it include the Illinois Tool Works, Caterpillar--the largest manufacturer in my State--Motorola, Monsanto, Abbott, IBM, and PepsiCo.

The bill will improve the ability of the Patent and Trademark Office to award high-quality patents. Right now, there is a backlog of over 700,000 patent applications, which they are struggling to clear. Think about that--700,000 inventions and ideas that are waiting to be legally recognized so that they can go forward in production. This bill will streamline the operations and adjust the user fees to make sure the agency clears the backlog.

The bill takes steps to improve submission of information to the PTO about pending patent applications. I would note that it keeps user fees low for small startups and individual investors.

In past years, there were some parts of the bill that generated controversy, including provisions relating to damages and venue in patent infringement lawsuits. The good efforts in this bill that have been negotiated have resulted in these provisions no longer being a subject of controversy.

I know we will have some amendments offered on the bill, and I expect we will have a good debate on them. At the end of the day, I expect we will have a strong bipartisan vote in passing this bill. Senator Leahy is now trying to get this train into the station. There are a lot of people bringing cars here who want to hook on because they know this is an important bill and likely to pass.

There are some areas, I might add, which we did not discuss in committee and which I considered raising in an amendment on the floor but held back. One of them relates to the controversial issue of gene patenting, which I have been learning about recently. It is my considered opinion this is now working its way through the courts and to try to intervene on the floor here would be premature. The courts have to decide whether people can patent genes.

There was a recent story I saw on “60 Minutes” where a company known as Myriad had patented the gene for breast cancer. They have now created a test, incidentally, to determine whether a woman has this gene. The test is in the range of $4,000 to $5,000. The actual cost of the test should be much lower, and the obvious question the courts are deciding is, How can you claim ownership of a gene that occurs in nature in human bodies you didn’t create? That is the question before the courts. We could have debated it here for a long time and maybe never resolved it, but depending on how the courts come out on the issue, we may visit it again.

I hope the House will take this bill up quickly. I know they want to look it over from their perspective, but we need to pass this. If we are talking about creating jobs in successful, thriving businesses in America, this bill needs to pass.

I thank Chairman Leahy for his leadership and for his hard work on this issue. I am honored to serve with him on the Senate Judiciary Committee.

I yield the floor.

The PRESIDING OFFICER. The Senator from Vermont.

Mr. LEAHY. I thank the distinguished senior Senator from Illinois, who has been an invaluable member of the Judiciary Committee all the time I have been there. This has been very helpful. I appreciate what he said. I found interesting the list of patents from his home State of Illinois, and I think each one of us can point to some of those with pride. If we are going to stay competitive with the rest of the world, we have to get this bill passed.

[[Page S1109]]

It has been more than 60 years since we updated our patent law. We are way behind the rest of the world. We have to be able to compete, so I thank the Senator.

Further Modification to Amendment 121, as Modified Madam President, I have cleared this with the Senator from Iowa. Notwithstanding the adoption of the Leahy-Grassley amendment No. 121, as modified, I ask unanimous consent the amendment be modified further with the changes that are at the desk.

The PRESIDING OFFICER. Without objection, it is so ordered.

The further modification is as follows:

On page 3 of the amendment, delete lines 8 through 17.

Mr. LEAHY. Madam President, we are down to very few things. I hate to put in another quorum call and then hear from Senators calling they want some time to speak about amendments. I know sometimes we follow the “Dracula” rule, being that we do not legislate until it is dark and Dracula comes out. Maybe, since the days are getting longer, we could do some things during daytime hours. I send out a call, a pleading call: If people want their amendments, come forward, let’s have a vote up or down on them and be done with it.

I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant bill clerk proceeded to call the roll.

Mr. VITTER. Madam President, I ask unanimous consent the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

[Text of parts of S1109 omitted]

Mr. LEAHY. Mr. President, it is interesting, I do not want to embarrass the person whom I wanted to speak about at all, but I was interested in listening to my dear friend, Senator Durbin, speak about his time at Georgetown Law School. Both he and I graduated from the Georgetown Law School. He talked about a classmate of his who was in patent law, and he realized this was a complex subject, one that is not the sort of law that he, Senator Durbin, was going to go into, any more than I would have.

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But I also think of another graduate of Georgetown Law Center who was an engineer, had a degree in engineering, studied patent law, and became one of the most distinguished patent lawyers, litigators in this country, and is now a member of the Federal circuit court of appeals and that is Judge Richard Linn.

It was interesting hearing the Senator from Illinois, himself one of the finest lawyers in this body. My wife Marcella and I had the honor of being out in Chicago with Judge Linn and his wife Patty for a meeting of the Richard Linn American Inn of Court in Chicago. He serves with great distinction. In fact, a major part of this legislation reflects an opinion he wrote.

But I digress. I ask unanimous consent the Senate resume consideration of the Lee amendment No. 115, with the time until 5:15 equally divided between the two leaders or their designees; that upon the use or yielding back of time, the Senate proceed to vote in relation to the Lee amendment No. 115; that the Lee amendment be subject to a 60-vote threshold; that upon disposition of the Lee amendment, the Senate resume consideration of the Menendez amendment No. 124; that Senator Menendez be recognized to modify his amendment with the changes at the desk and the amendment, as modified, be agreed to; that the motions to reconsider be considered made and laid upon the table, with no intervening action or debate; and there be no amendments in order to the amendments prior to the vote.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. LEAHY. I thank the superb staff for writing that out because I am not quite sure I could have done that on my own.

I had hoped as we began debate on this important bill to modernize America's patent system that the Senate would focus specifically on this measure designed to help create jobs, energize the economy and encourage innovation.

I had hoped that we would consider relevant amendments, and pass the bill. The America Invents Act is a key part of any jobs agenda. We can help unleash innovation and promote American invention, all without adding a penny to the deficit.

This is commonsense, bipartisan legislation. I said at the outset that I hoped the Senate would come together to pass this needed legislation and do so in the finest tradition of the Senate. I thank the Republican manager of the bill and the assistant Republican leader for their support and efforts on this bill.

Unfortunately, we have become bogged down with nongermane, nonrelevant, extraneous discussions and amendments.

Earlier this week, Senators who were focused on our legislative effort and responsibilities joined in tabling an amendment that has nothing to do with the subject matter of the America Invents Act.

Extraneous amendments that have nothing to do with the important issues of reforming our out-of-date patent system so that American innovators can win the global competition for the future have no place on this important bill. They should not be slowing its consideration and passage.

If America is to win the global economic competition, we need the improvements in our patent system that this bill can bring.

We must now dispose of another such amendment so that we may proceed to final passage of the America Invents Act and help inventors, American businesses and our economic recovery.

I take proposals to amend the Constitution of the United States seriously. I take seriously my oath as a Senator to support and defend the Constitution and to bear true faith and allegiance to it.

Over the years I have become more and more skeptical of recent efforts to amend the design that established the fundamental liberties and protections for all Americans. I believe the Founders did a pretty good job designing our fundamental charter.

I likewise take seriously the standard set in article V of the Constitution that the Congress propose amendments only when a supermajority of the Congress deem it “necessary.” While there have been hundreds of constitutional amendments proposed during my service in the Senate, and a number voted upon during the last 20 years, I have been steadfast in my defense of the Constitution.

The matter of a so-called balanced budget amendment to the Constitution is not new to the Senate. Indeed, I believe the first matter Senator Hatch moved through the Judiciary Committee when he chaired it and I served as the ranking member was his proposed constitutional amendment to balance the budget.

I strongly opposed it, but I cooperated with him in his effort to have the committee consider it promptly and vote.

I wish others would show the managers of this bill that courtesy and cooperation and not seek to use this bill as a vehicle for messages on other matters.

The Judiciary Committee has considered so-called balanced budget amendments to the Constitution at least nine times over the last 20 years. The Senate has been called upon to debate those amendments several times, as well, in 1982, 1986, 1992, 1994, 1995 and 1997.

Despite the persistent and extraordinary efforts of the senior Senator from Utah, they have not been adopted by the Congress.

The only time the Senate agreed to the proposed constitutional amendment was in 1982. On that occasion, the House of Representatives thought the better of it. On the subsequent five occasions, as Senators came to understand how the proposed amendment undercut the Constitution, it was defeated.

Now another Senator has adopted this cause.

He has proposed a different, even more complicated proposed constitutional amendment. That will require study in order to be understood. It will require working with the chairman of the Judiciary Committee Subcommittee on the Constitution, Civil Rights and Human Rights.

While the new Senator from Utah is a member of the Judiciary Committee and a member of the Constitution subcommittee, he has not consulted with me about his proposal, nor, as far as I know, with the chairman of the subcommittee, the senior Senator from Illinois.

Instead, he preemptively seeks to raise the matter on this important bill, which is designed to create jobs, encourage American innovation and strengthen our economy.

For the last 20 years, the so-called balanced budget amendment has been a favorite slogan for some. For some others of us, we have done the hard work to actually produce a balanced budget and, indeed, a surplus.

Rather than defile the Constitution, we have worked and voted to create a balanced budget and a budget surplus. In 1993, without a single Republican vote to help us, Democrats in the Congress passed a budget that led to a balanced budget and, indeed, to a budget surplus of billions of dollars by the end of the Clinton administration.

That surplus was squandered by the next administration on tax breaks for the wealthy and an unnecessary war that cost trillions but went unpaid for. Those misjudgments were compounded by financial fraud and greed that led to the worst economic recession since the Great Depression. That is what we have been seeking to dig out from under since 2008.

At this time, I ask unanimous consent to have printed in the Record a letter received from American Federation of State, County and Municipal Employees, AFSCME, in opposition to the Lee amendment.

There being no objection, the material was ordered to be printed in the Record, as follows:

AFSCME, Washington, DC, March 2, 2011.

Dear Senator:

On behalf of the 1.6 million members of the American Federation of State, County and Municipal Employees, I am writing to urge you to oppose Senator Lee's amendment to S. 23, providing that it is the sense of the Senate that Congress should pass and the states should agree to an amendment to the Constitution requiring a Federal balanced budget.

A constitutional balanced budget amendment is a simplistic answer to a complicated issue and would serve only to further weaken our economy and move us away from fiscal responsibility at a time of much economic uncertainty. It would require large, indiscriminate spending cuts during economic downturns, precisely the opposite of what is needed to stabilize the economy and avert recessions.

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The immediate result of a balanced budget amendment would be devastating cuts in education, homeland security, public safety, health care and research, transportation and other vital services. Any cuts made to accommodate a mandated balanced budget would fall most heavily on domestic discretionary programs, but ultimately, there would be no way to achieve a balanced budget without cuts in Social Security and other entitlement programs as well. A balanced budget amendment would likely disproportionately affect unemployed and low-income Americans.

There are also serious concerns about the implementation of such an amendment and how it would involve the courts in matters more appropriately resolved by the legislative and executive branches of government. Budgetary decisions should be made by officials elected by the people, not by unelected court officials with no economic or budget expertise.

I urge you to oppose the Lee amendment and to oppose any effort to adopt an amendment to the Constitution requiring a balanced budget.

Sincerely,

Charles M. Loveless, Director of Legislation.

Mr. LEAHY. We have stabilized the economic freefall and begun to revive the economy. Everyone knows that economic growth is the path toward budget balance. Economic growth and winning the future through American innovation is what the bipartisan American Invents Act is all about.

Accordingly, for all these reasons as well as the reasons for which I opposed the efforts to amend the Constitution in 1982, 1986, 1992, 1994, 1995 and 1997, I oppose amendment No. 115.

Exhibit 1

[From the Hill, Mar. 2, 2011]

Delivering Innovation and Jobs Through Patent Reform

(By Commerce Secretary, Gary Locke)

Today, there are more than 700,000 unexamined patent applications log-jammed at the U.S. Patent and Trademark Office (USPTO).Many of them represent inventions that will come to market and launch new businesses and create new, high-paying jobs.

But without a patent, securing the funds needed to get a business or innovation off the ground is nearly impossible, for both small and large inventors alike.

Patent reform legislation the Senate is considering this week can change that.

And it can build on the progress USPTO Director David Kappos has already made in reducing the time it takes to process the average patent--currently nearly 3 years.

New programs have been introduced to fast-track promising technologies, reforms have been made to help examiners more quickly process applications, and the Patent Office recently announced a plan to give inventors more control over when their patent is examined.

The result? The backlog of patents is decreasing for the first time in years, even as new applications have actually increased 7 percent.

But if the USPTO is to speed the movement of job-creating ideas to the marketplace, it will take more than internal, administrative reforms alone. That's where the patent reform legislation comes in.

Here's what it promises to do: First, it allows the USPTO to set its own fees--a major part of ensuring that the agency has reliable funding. This will enable the USPTO to hire more examiners and bring its IT system into the 21st century so it can process applications more quickly and produce better patents that are less likely to be subject to a court challenge.

Second, it decreases the likelihood of expensive litigation because it creates a less costly, in-house administrative alternative to review patent validity claims.

Also, the pending legislation would add certainty to court damages awards, helping to avoid excessive awards in minor infringement cases, a phenomenon that essentially serves as a tax on innovation and an impediment to business development.

Finally, patent reform adopts the "first-inventor-to-file" standard as opposed to the current "first-to-invent" standard. First inventor to file is used by the rest of the world, and would be good for U.S. businesses, providing a more transparent and cost-effective process that puts them on a level playing field with their competitors around the world.

There is some concern among some small, independent inventors, who feel like the current system is better for them, but it's our strong opinion that the opposite is true.

Here's why: The cost of proving that one was first to invent is prohibitive and requires detailed and complex documentation of the invention process. In cases where there's a dispute about who the actual inventor is, it typically costs at least $400,000 in legal fees, and even more if the case is appealed. By comparison, establishing a filing date through a provisional application and establishing priority of invention costs just $110. The 125,000 provisional applications currently filed each year prove that early filing dates protect the rights of small inventors.

In the past seven years, of almost 3 million applications filed, only 2 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 who was the second to file.

Thus, in the last seven years, only one independent inventor in nearly 3 million patent filings would have gotten a different outcome under the “first-inventor-to-file” system.

Many proposals in this legislation have been debated for a decade, but we now have core provisions with broad support that will undoubtedly add more certainty around the validity of patents; enable greater work sharing between the USPTO and other countries; and help the agency continue with operational changes needed to accelerate innovation, support entrepreneurship and business development, and drive job creation and economic prosperity.

And thanks to the leadership of Senate and House Judiciary Committee Chairmen, Patrick Leahy1 and Lamar Smith, getting this bipartisan jobs legislation passed is a top priority.

There’s a clear case for it. As President Obama said in his State of the Union address, “The first step in winning the future is encouraging American innovation.”

Reforming our patent system is a critical part of that first step.

Speeding the transformation of an idea into a market-making product will drive the jobs and industries of the future and strengthen America’s economic competitiveness.

The PRESIDING OFFICER. Under the previous order, all time has now expired.

The question is on agreeing to the Lee amendment No. 115.

Mr. LEAHY. Mr. President, even though I oppose this amendment and would simply allow it to go for a voice vote because the proponent of the amendment is not even on the floor, I will, to protect his right and notwithstanding his not following the normal policy, ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second?

There appears to be a sufficient second.

The question is on agreeing to the amendment.

The clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. DURBIN. I announce that the Senator from North Dakota (Mr. Conrad), and the Senator from Louisiana (Ms. Landrieu) are necessarily absent.

I further announce that, if present and voting, the Senator from Louisiana (Ms. Landrieu) would vote “no.”

The PRESIDING OFFICER. Are there any other Senators in the Chamber desiring to vote?

The result was announced--yeas 58, nays 40, as follows:

[Votes omitted]

The PRESIDING OFFICER. On this vote, the yeas are 58, the nays are 40. Under the previous order requiring 60 votes for the adoption of this amendment, the amendment is rejected. Under the previous order, the Senator from New Jersey is recognized.

Amendment No. 124, as Modified

Mr. MENENDEZ. Mr. President, pursuant to the previous order, I ask that my amendment be modified with the changes that are at the desk. The PRESIDING OFFICER. Under the previous order, the amendment is so modified.

The amendment, as modified, is as follows:

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On page 104, strike line 23, and insert the following:

SEC. 18. 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" and inserting a semicolon;

(2) in subparagraph (F), by striking the semicolon and inserting "; and"; 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. 19. EFFECTIVE DATE.

Mr. MENENDEZ. Mr. President, this modified amendment, cosponsored by Senator Bennet, would allow the Patent Office Director to prioritize patents that are important to the national economy or national competitiveness. The amendment will ensure that patents that are vital to our national interests do not languish in any backlog at the Patent Office and that they ultimately promote the national economy and national competitiveness.

My understanding is that by previous agreement the amendment, as modified, is agreed to.

The PRESIDING OFFICER. That is correct. Under the previous order, the amendment, as modified, is agreed to.

Mr. MENENDEZ. Thank you, Mr. President.

With that, I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant editor of the Daily Digest proceeded to call the roll.

The PRESIDING OFFICER. The Senator from Colorado.

Mr. BENNET. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Without objection, the motions to reconsider on the two previous amendments are laid upon the table.

Ms. MIKULSKI. Mr. President, I rise to explain my vote against the managers' amendment to S. 23, the America Invents Act.

I agree wholeheartedly with the chairman of the Judiciary Committee that we must enable our inventors to out innovate and produce the products and jobs of the future.

However, a provision in the managers' amendment would take the Patent and Trademark Office, PTO, off-budget. I cannot support this provision for three reasons.

First, the provision is unnecessary. Proponents argue that it will prevent the diversion of PTO's fees. However, since fiscal year 2005, the Appropriations Committee has rejected the practice of diverting PTO fees for other purposes and instead has consistently recommended that PTO retain every dollar it collects from inventors. In fact, the Appropriations Committee has on several occasions approved bills to allow PTO to spend up to $100 million in excess of PTO's appropriation if fee revenue is higher than the appropriations level.

Second, the amendment would reduce oversight. Rather than being subject to the annual appropriations process, this agency--with a budget of more than $2 billion--would be on autopilot. The underlying bill seeks to reduce the backlog of pending patent applications. Currently, it takes PTO nearly 3 years to process a patent application. The backlog of applications stands at over 700,000. Some progress has been made in this area, thanks to the annual oversight provided in appropriations bills which has succeeded in forcing management reforms that have slowed the growth of PTO's backlog.

The amendment requires PTO to submit annual budget requests and spending plans to Congress. However, this approach eliminates the requirement for an annual legislative vehicle to closely examine and approve expenditures of taxpayer dollars and fee revenue. Instead the amendment would restrict accountability for an agency that struggles to keep up. While our inventors are standing in line for patents, their ideas can be stolen to fuel another country's economy. I am very encouraged by Director Kappos' new leadership at PTO, but much more progress and

greater management oversight are still necessary to give American inventors the protections they deserve. Finally, the amendment may hamper PTO operations in the future. PTO has adequate fee revenue now, but that has not always been the case. As recently as fiscal year 2009, PTO experienced a revenue shortfall due to lower than expected fee collections. To keep PTO's operations whole and to help tackle the patent backlog, we gave PTO a direct appropriation to bridge their financial gap when fees weren't enough. In fact, PTO fee collections have fallen short of appropriations levels by more than $250 million since fiscal year 2005. Unfortunately, should such a gap occur in future years, the Appropriations Committee would not be poised to step in if PTO's fee collections are not adequate to cover operations.

Again, I applaud the Judiciary Committee, under Chairman Leahy's leadership, for pushing PTO to continue its progress as part of our Nation's innovation engine. Unfortunately, this amendment will only send PTO drifting on autopilot with little congressional accountability.

Amendment no. 133

Mr. REID. Mr. President, I support Senator Feinstein's amendment to restore the grace period under current law and eliminate the so-called first-inventor-to-file provisions of the legislation. This is the No. 1 outstanding issue of concern my constituents have raised with me, particularly small and independent inventors. It is a technical and complex issue, one about which experts in patent law have strong disagreements. But I think the bill would be much better without these provisions.

For shorthand, a lot of people talk about this issue as first-inventor-to-file versus "first-to-invent." But, in my view, this terminology just confuses the issue. My constituents are most concerned about the loss of the unconditional 1-year grace period under current law. Both a first-to-invent and a first-inventor-to-file system could have the grace period; there is no inherent inconsistency. I am not sure why the two issues have been merged. Frankly, people who talk about priority fights and interferences are completely missing the point. The concerns are all about the grace period.

My constituents tell me that the current law grace period is crucial to small and independent inventors, for numerous reasons. First, it comports with the reality of the inventive process. An idea goes through many trials, errors, and iterations before it becomes a patent-worthy invention. Small inventors in Nevada tell me that sometimes they may have conceived an idea as an improvement to the apple; and it turns out to be a new type of orange. The grace period allows inventors the time to refine their inventions, test them, talk issues through with others, all without worry of losing their rights if these activities result in an accidental disclosure or the development of new "prior art."

Second, the grace period comports with the reality of small entity financing through friends, family, possible patent licensees, and venture capitalists. The grace period allows small inventors to have conversations about their invention and to line up funding, before going to the considerable expense of filing a patent application.

In fact, in many ways, the 1-year grace period helps improve patent quality--inventors find out which ideas can attract capital, and focus their efforts on those ideas, dropping along the way

other ideas and inventions that don't attract similar interest and may not therefore be commercially meaningful.

These inventors therefore believe that the effective elimination of the grace period in the law is therefore a serious blow. They tell me that now they will have to try to file many more applications, earlier in the process. They tell me that the balm of "cheap provisionals" is snake oil, because a provisional still has to meet certain legal standards, meaning that you still have to spend a lot for patent counsel, which is the biggest single expense of filing an application. Because they can't afford to file that many applications, regular or provisional, they will have to give up on some inventions altogether. If that is so, it wouldn't just be bad for them, it would be bad for the creation of innovation in America.

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They also are concerned that it will be harder to get VC funding because they will have filed applications on inventions that weren't quite the right ones. The added risk about whether they can ensure that the provisional application will be adequate to provide protection to this slightly modified but commercially more meaningful invention will be enough to scare off already difficult to obtain venture capital funding.

The legislation doesn't turn a blind eye to these problems. It provides a type of grace period, triggered by inventor disclosures. Will this new, significantly more scaled back grace period work? Maybe. I don't know. I can tell you that the independent inventors in Nevada swear by a code of secrecy and nondisclosure until they are far enough along to get patent protection. It would require a sea change in culture to be able to benefit from this very limited inventor's disclosure-triggered grace period.

Further, there are legitimate questions about how this new disclosure provision would work--for instance, what happens when an invention that is disclosed leads to other, different ideas and disclosures that update the state of the art before the application has been filed? How is an inventor going to be able to prove that changes in an "ecosystem of technology" were necessarily derived from her disclosure?

I would also note that I appreciate that PTO Director Kappos has been doing great work in terms of reaching out to small inventors, trying to make things cheaper and more efficient for them; trying to demystify the PTO for them. If any PTO Director could make this work, I feel confident he is the one who can do it. But, you know what, if it ain't broke, don't fix it. Our current system has helped make America the most innovative country in the world; I will venture to say the most innovative society in world history. Our innovation system is the envy of the world. We don't need to harmonize with them; they are trying to figure out how we do it. This is one area where nothing is broken, and I am very worried about unintended consequence, especially when a lot of the folks arguing about this issue are not even talking about the thing that matters--the grace period.

Accordingly, I support the Feinstein amendment. And I encourage my colleagues to support it too. I am not making this argument as the Senate majority leader, but as the Senator from Nevada--if the current grace period isn't broke, then we absolutely shouldn't fix it with

something that my constituents tell me, with alarm, may make it harder for them to patent their innovations.

Mr. ISAKSON. Mr. President, I ask unanimous consent to be recognized as in morning business.

The PRESIDING OFFICER (Mr. Bennet). Without objection, it is so ordered.

Senate Debate (Kyl) – 157 Cong. Rec. S1174-S1175

[Congressional Record Volume 157, Number 31 (Thursday, March 3, 2011)]

[Senate]

[Pages S1174-S1175]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

FIRST-TO-FILE PROVISIONS

Mr. KYL. Mr. President, I wish to speak on the pending business before the Senate. We are hoping in maybe 45 minutes or so we will actually be able to vote on the Feinstein amendment to the patent bill. I am hoping that my colleagues will vote against the Feinstein amendment and support the authors of the legislation.

I noted yesterday that every version of the patent bill from 2005 forward has included the primary, centerpiece reform of the bill, which is the so-called first-to-file system. It may seem strange, but it has not been the case before this bill that you have a patent's priority from when you file it; that is to say, the first person to file on the patent is the one who has the patent; that the patent dates to the day it is filed. That is what we do in law and virtually every other situation I can imagine.

Instead, what has been the law is called the first-to-invent system. One of the reasons the whole patent reform movement began 5 or 6 years ago was that this system is very costly and difficult to administer because it relies on a lot of legal discovery and legal process to resolve questions or disputes between who actually conceived of the idea first and then did they apply the necessary diligence to get it patented. As a result, every other industrialized country uses the first-to-file system. Most of the companies in the United States are obviously used to that system because of their patents that are worldwide in scope.

The fundamental reform of the patent legislation to simplify, to reduce costs, to reduce the potential for litigation was to conform our system to that of the rest of the world--the first-to-file system.

What the Feinstein amendment would do is to throw that over and say: No, we are going to go back to the concept of this first-to-conceive-of-the-idea or first-to-invent notion. Whether intended or not, that will kill the bill. It is a poison pill amendment because the whole concept of the legislation and everything that follows from it is based on this first-to-file reform.

As I will note a little bit later, the bill simply would not work otherwise. We would have to scrap it and start from scratch. In fact, most of the reforms that are in the bill would not exist because we would have to go back to that concept of first-to-invent. So all of the savings and simplified procedures would simply not be possible.

Unfortunately, I note that if my colleagues have any notion of supporting the Feinstein amendment, they should realize that were it to be adopted, it would kill the bill. I do not think

that is what we want to do. There have been so many improvements made in the bill. So many groups--all three of the major groups that have been working on the legislation are in support of the legislation and oppose the Feinstein amendment because they want us to move forward. We have not had patent reform in many years. Everybody recognizes it is time.

First and foremost, the administration and the Patent Office itself support the legislation and oppose the Feinstein amendment. In fact, one of the good changes made by the bill from the Patent Office's point of view is that it will stop fee diversion. In the past, the fees that have been collected, the filing fees from the inventors, have not all gone to the Patent Office. They are woefully understaffed and underfunded in working through the tens and hundreds of thousands of patent applications that are filed every year.

As we can all appreciate, our competitiveness in the world depends, first, on the ability of our people to invent and, second, to acquire the legal rights to those inventions so they have a property interest in them, and investors can then count on a return of their investment if they supply the capital for the invention to be brought to market.

What we are talking about is critical. I urge my colleagues who perhaps have not focused as much on this amendment and on the patent reform legislation to understand that we are talking about something very important, something that can create jobs, that is important to the competitiveness of our country.

The beauty is, unlike a lot of what we do around here, this is totally bipartisan. I am a Republican. The administration supports the legislation. It has Senator Leahy's name on it as chairman of the Judiciary Committee. In the House, it is supported by Democrats and Republicans. It is important we move this legislation through.

As I said, unfortunately, the Feinstein amendment would result in having to scrap the bill. There is no point in enacting it if we are not going to include the change to first to file.

Let me be a little more specific. One of the reasons we would not be able to move forward with the bill is the bill's entire post-grant review process, which is a big part of the bill, would be impossible for the Patent Office to administer under the discovery-intensive invention date issues that arise under the first-to-invent system. That is because, as I said, under that system you come before the Patent Office and say: I realize nobody else had a record of this, but I actually thought of this idea way back in 1999. I have a couple of notes that I made to myself. I dated them. One can see that all of a sudden they are getting into a big discovery and legal process. That is what we are trying to get away from. The whole post-grant review process would be turned upside down if we went back to the first-to-invent principle.

Also, striking the first-to-file provisions would greatly increase the workload for the Patent and Trademark Office. What we are trying to do is simplify procedures so they can get their work done, get the patents approved so our businesses can better compete in the world, and also provide more money for them to do that job. That also would be jeopardized as a result of this amendment. We will just add backlogs and delays and not enable our Patent Office to do what we are asking it to do.

As I said, that is one of the reasons the Patent Office opposes the Feinstein amendment and supports the underlying legislation. It is interesting; many American companies already use first-to-file. It is the easiest, most direct way to confirm you have the patent. It is very hard to win a patent contest through what is called an interference proceeding if you were not the first to file, which, of course, is logical. And because all the other countries in

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the world use a first-to-file system, if you want your patent to be valid outside the United States you need to comply with first-to-file in any event.

Among many of our most innovative companies, 70 percent of their licensing revenues come from overseas. Obviously, they are already going to be complying with the first-to-file rules. This bill does not, therefore, so much switch the system with which Americans are complying today as it simply allows American companies to only have to comply with one system rather than two. As I said before, the first-to-file concept is clearer, faster, more transparent, and provides more certainty to inventors and manufacturers.

On the other hand, the first-to-invent concept would make it impossible, in many instances, to know who has priority and which of the competing patents is the valid one. To determine who has priority under first to invent, extensive discovery must be conducted and the Patent Office and courts must examine notebooks and other evidence to determine who conceived of the invention first and whether the inventor then diligently reduced it to practice.

Under first-to-file, on the other hand, an inventor can get priority by filing a provisional application. This is an important point. It is easy. It is not as if the first-to-file is hard to do. This provisional application, which only costs $110 for the small inventor, only requires you to write a description of what your invention is and how it works. That is all. That is the same thing that an inventor's notebook would have to contain under the first-to-invent concept if you are ever going to prevail in court by proving your invention date.

Because a provisional application is a government document, the date is clear. There is no opportunity for fraudulently backdating the invention date. There is no need for expensive discovery: What did the inventor know and when did he know it? You are essentially not requiring anything in addition. You file a provisional application. You have an entire year to get all of your work together and file your completed application, but your date is as of the time you file the provisional application.

As I said, for a small entity, the fee is only $110. That grace period makes it clear that the patent will not be invalid because of disclosures made by the inventor or someone who got information from an inventor during 1 year before filing. That is important.

A lot of academics and folks go to trade shows and begin talking about their concepts and what they have done. If you disclose this, you have a year to file after you disclose the information. And under the bill's second, enhanced grace period, no other disclosure, regardless of whether it was obtained from the inventor, can then invalidate the invention.

The bill has been very carefully written to protect the small inventor or the academic. That is what it is designed to do. This is not a case of big versus small, although people both big and small support the legislation. If anybody suggests the Feinstein amendment will protect the small inventor, it does not protect the small inventor. In fact, as I said, the legislation is very carefully crafted to give the small inventor a variety of ways to ensure that he or she is protected.

The first coalition to bring the whole idea of patent reform to the Congress, the Coalition for 21st Century Patent Reform, is very strongly in support of the legislation and in opposition to the Feinstein amendment. In fact, it noted in a statement released Wednesday that not only does it oppose the amendment, it would oppose the entire bill if the amendment were to be adopted and this first-to-file concept were stricken from the bill.

In fact, here is what they said:

The first-inventor-to-file provisions currently in S. 23 form the linchpin that makes possible the quality improvements that S. 23 promises.

Here is what the Obama Statement of Administration Policy says. It lays out exactly what is at stake:

By moving the United States to a first-to-file system, the bill simplifies the process of acquiring rights. This essential provision will reduce legal costs, improve fairness, and support U.S. innovators seeking to market their products and services in the global marketplace.

I am continuing the statement:

Most of the arguments in opposition to the bill and FITF appear to be decades-old contentions that have been fully and persuasively rebutted. As one example, the National Research Council of the National Academies assembled a group of leading patent professionals, economists, and academics who spent four years intensely studying these issues and concluded in 2004 that the move to FITF represented a necessary change for our patent system to operate fairly, effectively and efficiently in the 21st century.

They go on to say:

Without retaining S. 23's current FITF provisions, the bill would no longer provide meaningful patent reform.

Let me repeat that. If the Feinstein amendment would prevail, "the bill would no longer provide meaningful patent reform."

As an example, the new provisions on post-grant review of patents, an important new mechanism for assuring patent quality, could no longer be made to work. Instead of a patent reform bill, what would remain of S. 23 would be essentially an empty shell.

Let me finish the statement:

Thus, we could not continue our support of passage of S. 23 without the first-inventor-to-file provisions present in the bill. It would place us in the unfortunate position of opposing moving forward with a bill where we have been among the longest, most ardent supporters.

Just to conclude, the National Association of Manufacturers, which represents both large and small manufacturers in every industrial sector, has also made it clear that it strongly opposes the amendment. I will conclude by quoting from that group's statement in opposition to the Feinstein amendment.

The NAM supports transitioning the United States from a "first-to-invent" system to a "first-to-file" system to eliminate unnecessary cost and complexity in the U.S. patent system. Manufacturers large and small operate in the global marketplace and the United States needs to move toward a system that will provide more patent protection around the world for our innovative member companies. The "first-to-file" provision currently included in S. 23 achieves this goal.

Mr. President, I hope my colleagues will pay close attention to the arguments made by Chairman Leahy and the arguments I have made in opposition to the Feinstein amendment. Whether intended or not, it would be a poison pill. It would kill the legislation if it were adopted. We need to move this important legislation forward, as the administration notes in its statement of policy, and therefore I urge my colleagues, when we have an opportunity to vote on the Feinstein amendment, to vote against it and to support the legislation as reported.

The ACTING PRESIDENT pro tempore. Morning business is closed.

Senate Debate – 157 Cong. Rec. S1175-S1185

[Congressional Record Volume 157, Number 31 (Thursday, March 3, 2011)]

[Senate]

[Pages S1175-S1185]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

PATENT REFORM ACT OF 2011

The ACTING PRESIDENT pro tempore. Under the previous order, the Senate will resume consideration of S. 23, which the clerk will report.

The legislative clerk read as follows:

A bill (S. 23) to amend title 35, United States Code, to provide for patent reform.

Pending:

Leahy amendment No. 114, to improve the bill.

Bennet amendment No. 116, to reduce the fee amounts paid by small entities requesting prioritized examination under Three-Track Examination.

Feinstein amendment No. 133, to strike the first inventor to file requirement.

The ACTING PRESIDENT pro tempore. The Senator from Vermont is recognized.

Amendment No. 133, as Modified

Mr. LEAHY. Mr. President, I understand we have the Feinstein amendment No. 133 at the desk. I ask unanimous consent that the Feinstein amendment No. 133 be modified with the changes that are at the desk.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

The amendment, as modified, is as follows:

On page 2, line 3, strike “FIRST INVENTOR TO FILE.” and insert “FALSE MARKING.”

On page 2, strike line 4 and all that follows through page 16, line 21, and insert the following:

(a) False Marking.--

On page 17, line 18, strike “(l)” and insert “(b)”.

On page 18, strike line 22 and all that follows through page 32, line 11.

On page 66, strike line 9 and all that follows through page 67, line 8.

On page 71, line 1, strike “derivation” and insert “interference”.

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On page 71, line 5, strike “derivation” and insert “interference”.

On page 72, line 24, strike “Derivation” and insert “Interference”.

On page 72, lines 24 and 25, strike “derivation” and insert “interference”.

On page 73, line 4, strike “derivation” and insert “interference”.

On page 73, line 18, strike “derivation” and insert “interference”.

On page 73, line 23, strike “derivation” and insert “interference”.

On page 74, lines 2 and 3, strike “derivation” and insert “interference”.

On page 74, between lines 20 and 21, insert the following:

(d) Conforming Amendments.--Sections 41, 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 that term appears and inserting “Patent Trial and Appeal Board”.

On page 74, line 21, strike “(d)” and insert “(e)”.

On page 95, strike lines 13 through 15, and insert the following: by inserting “(other than the requirement to disclose the best mode)” after “section 112 of this title”.

Mr. LEAHY. Mr. President, I wish to thank the distinguished Senator from Arizona for his words here this morning. He is part of the small group of Republicans and Democrats who have worked very hard over the last couple of years on this bill with the idea of giving us something that would allow inventors, innovators, and entrepreneurs in America to be able to compete with the rest of the world.

I am one American who believes we can compete with anybody anywhere provided we get a level playing field. Other countries have set up enough barriers for us of their own. We shouldn’t be setting up barriers here in the United States. One thing we can do is to make some major, long-overdue changes in the patent laws to give us that level playing field. Inventors and innovators in America who will take advantage of this will be better off for it and will create jobs, but most importantly, we will show the rest of the world that America is open for business.

Americans can be the innovators they have been from the time the first patent was issued--and I say this with pride--to a Vermonter back when then-Secretary of State Thomas Jefferson reviewed the application, which was then signed by the President of the United States, George Washington. Now, of course, they are not reviewed by the Secretary of State and signed by the President, thank goodness, because there are over 700,000 applications pending.

We need legislation to bring us up to date, and this act will promote innovation, it will create new businesses and, as a result, new jobs. This is bipartisan legislation that will allow inventors to secure their patents more quickly and to have better success commercializing them.

The pending amendment would gut the reforms intended by the bill. With all due respect, it would destroy all the work we have tried to do in this bill. It would eliminate a major piece of this effort--the transition to a first-inventor-to-file patent system. First-inventor-to-file is a necessary component of this legislation and enjoys support from every corner of the patent community.

The administration, the Secretary of Commerce, and the head of the Patent and Trademark Office all oppose this amendment. A vast array of individuals, independent small inventors, small businesses, and labor oppose this amendment. The four senior Republicans on the Judiciary Committee who have worked so hard on this bill--Senators Grassley, Hatch, Kyl, and Sessions--oppose this amendment. Needless to say, I oppose this amendment. It would be a poison pill to these legislative reform efforts.

Supporters of the legislation before us--ranging from high-tech and life sciences companies to universities and small businesses--place such a high importance on the transition to the first-inventor-to-file system that many of them, including those who reside in just about every State, would not support a bill without those provisions.

A transition to first-inventor-to-file has been part of this bill since its introduction four Congresses ago. Yet, until very recently, first-inventor-to-file was never the subject of even a single amendment in the Judiciary Committee over all those years. This legislation is the product of eight Senate hearings and three markups spanning weeks of consideration and numerous amendments. Never was first-inventor-to-file a contentious issue. Now some well-financed special interests that do not support the America Invents Act have decided to kill the bill by a last-minute campaign to strike these vital provisions.

I urge Senators to support the goals of the America Invents Act and vote against this amendment to strike first-inventor-to-file.

Mr. President, the United States is the only industrialized country still using a first-to-invent system, and there is a reason for that. A first-inventor-to-file system, by contrast, where the priority of a right to a patent is based on the earlier filed application, adds simplicity and objectivity into a very complex system. By contrast, our current outdated method for determining the priority right to a patent is extraordinarily complex, it is subjective, it is time-intensive, and it is expensive. The old system almost always favors the larger corporation and the deep pockets over the small independent inventor.

This past weekend, the Washington Post editorial board endorsed the transition, calling our first-inventor-to-file standard a “bright line.” They went on to say it would bring “certainty to the process.” The editorial also rightly recognizes the “protections for academics who share their ideas with outside colleagues or preview them in public seminars” that are included in the bill.

The transition to a first-inventor-to-file system will benefit small inventors and inventors of all sizes by creating certainty. Once a patent is granted, an inventor can rely on its filing date on the face of the patent.

The reduction in costs to patent applications that comes with a transition to this system should also help the small independent inventor. In the current outdated system where more than one application claiming the same invention is filed, the priority of a right to a patent is decided through an “interference” proceeding to determine which applicant can be declared to have invented the claimed invention first. It is lengthy, it is complex, and it can cost hundreds of thousands of dollars. Small inventors rarely, if ever, win interference proceedings. In a first-inventor-to-file system, however, the filing date of the application is objective and easy to determine, resulting in a streamlined and less costly process.

The bill protects against the concerns of many small inventors and universities by including a 1-year grace period to ensure the inventor’s own publication or disclosure cannot be used against him as prior art but will act as prior art against another patent application. This encourages early disclosure of new inventions regardless of whether the inventor ends up trying to patent the invention.

The transition to first-inventor-to-file is ultimately needed to help American companies and innovators compete globally. As business and competition increasingly operate on a worldwide scale, inventors have to file patent applications in both the United States and other countries for protection of their inventions. Since America’s current outdated system differs from the first-inventor-to-file system used in other patent-issuing jurisdictions--all our competitors--it causes confusion and inefficiencies for American companies and innovators. Harmonization will benefit American inventors.

Commerce Secretary Gary Locke highlighted the importance of the first-inventor-to-file provision to the bill in his column published in The Hill yesterday. He noted that it “would be good for U.S. businesses, providing a more transparent and cost-effective process that puts them on a level playing field with their competitors around the world.”

Secretary Locke went on to confront the erroneous notion that the current outdated system is better for small independent inventors, and he did it head-on by explaining that in his “strong opinion that the opposite is true.” The first-inventor-to-file system is better for the small independent inventor. As the Secretary noted:

The cost of proving that one was first to invent is prohibitive and requires detailed and complex documentation of the invention process. In cases where there’s a dispute about who the actual inventor is, it typically costs at least $400,000 in legal fees, and even more if the case is appealed. By comparison, establishing a filing date through a provisional application and establishing priority of invention costs just $110.

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Secretary Locke explained how the 125,000 provisional applications currently filed each year prove that early filing dates protect the rights of small inventors. He reiterated that during the past 7 years, under the current outdated, cumbersome, and expensive system, of almost 3 million

applications filed, only 1 patent was granted to an individual inventor who was the second to apply.

Our reform legislation enjoys broad support. I have already mentioned some of those supporters, but let me highlight a few more:

Just yesterday, the National Association of Manufacturers urged every Senator to oppose the effort to strike the first-to-file transition, writing, “The NAM supports transitioning the United States from a ‘first-to-invent’ system to a ‘first-to-file’ system to eliminate unnecessary cost and complexity in the U.S. patent system.”

The Small Business & Entrepreneurship Council has expressed its strong support for the first-inventor-to-file system, writing that “small firms will in no way be disadvantaged, while opportunities in the international markets will expand.”

The Intellectual Property Owners Association calls the first-inventor-to file system “central to modernization and simplification of patent law” and “very widely supported by U.S. companies.”

Independent inventor Louis Foreman has said the first-inventor-to-file transition will help “independent inventors across the country by strengthening the current system for entrepreneurs and small businesses.”

Six university, medical college, and higher education associations have urged the transition to first-to-file, saying that it will “add greater clarity to the U.S. system.”

And, in urging the transition to the first-to-file system, the Association for Competitive Technology, which represents small and mid-size IT firms, has said the current outdated system “negatively impacts entrepreneurs” and puts American inventors “at a disadvantage with competitors abroad who can implement first inventor to file standards.” That is why it is so important to move to a first-inventor-to-file system.

I ask unanimous consent copies of the Washington Post editorial, “Patenting Innovation,” be printed in the Record at the conclusion of my remarks.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

(See exhibit 1.)

Mr. LEAHY. I also ask letters from the National Association of Manufacturers, higher education associations, the Small Business & Entrepreneurship Council be printed in the Record at the conclusion of my comments.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

(See exhibit 2.)

Mr. LEAHY. I will conclude with this: If we are to continue to lead the globe in innovation and production, if we are to win the future through American ingenuity and innovation, we must have a patent system that is streamlined and efficient. The America Invents Act, and a transition to a first-inventor-to-file system in particular, is crucial to fulfill this promise. I urge all Senators on both sides of the aisle to oppose the Feinstein amendment and support the important provision of first-inventor-to-file, which is at the heart of the America Invents Act.

As I said, I submit the list of stakeholders across the spectrum from high-tech and life sciences to universities and small inventors in support of a transition to the first-to-file system, and ask unanimous consent that list be printed in the Record.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

(See exhibit 3.)

Mr. LEAHY. Mr. President, I see the distinguished Senator from Delaware who has been so helpful on this legislation on the floor, so I yield the floor.

Exhibit 1

[From the Washington Post, Feb. 26, 2011]

Patenting Innovation

More than 60 years have passed since a major overhaul of the U.S. patent system has taken place. And it shows.The U.S. patent system lags woefully. One example: Patents in the United States are given to those “first to invent.” This approach is out of step with the rest of the world’s “first to file” approach and is highly inefficient. It invites people to come out of the woodwork years after a product has been on the market to claim credit and demand royalties.

The secretive and lengthy U.S. process also too often results in patents for products that are neither novel nor innovative. It leaves manufacturers vulnerable to infringement lawsuits and damage awards long after their products have gone to market.

The Senate is poised to take up a bill on Monday that would eliminate these defects and bring the U.S. system into the 21st century.

The Patent Reform Act, introduced by Sens. Patrick J. Leahy (D-Vt.) and Orrin G. Hatch (R-Utah), would recognize the “first inventor to file” standard, creating a bright line--the date on which a patent application was filed--and bringing certainty to the process. Yet the bill is not inflexible and wisely keeps in place protections for academics who share their ideas with outside colleagues or preview them in public seminars.

The bill also would increase protections for those with legitimate gripes. Third parties, currently shut out of the process, would be given clear rules and time limits to challenge patents that have not yet been approved. They’d also have a chance to lodge objections after a patent has been granted; the U.S. Patent and Trademark Office (PTO) would resolve these disputes. This safety valve should reduce the litigation costs associated with court challenges.

The PTO has long been overwhelmed and underfunded. The bill would allow the agency to set the amount it charges for filings while providing discounts to solo inventors and small companies. An amendment likely to be introduced by Sen. Tom Coburn (R-Okla.) would allow the agency to keep all of its fees, thereby ensuring it the resources it needs to carry out the bill's mandates.

The president made much of "winning the future" in his State of the Union address. A patent system that protects innovators and encourages meaningful breakthroughs would help achieve that goal.

Exhibit 2

National Association of Manufacturers, Washington, DC, March 2, 2011.

U.S. Senate, Washington, DC.

Dear Senator: The National Association of Manufacturers (NAM), the nation's largest industrial trade association representing small and large manufacturers in every industrial sector and in all 50 states, urges you to oppose amendment 133 offered by Sen. Dianne Feinstein (D-CA) to S. 23, The America Invents Act.

The amendment would remove a key provision in S. 23, The America Invents Act, which is strongly supported by manufacturers, the creation of a "first-inventor-to-file" system.

The NAM supports transitioning the United States from a "first-to-invent" system to a "first-to-file" system to eliminate unnecessary cost and complexity in the U.S. patent system. Manufacturers large and small operate in the global marketplace and the United States needs to move toward a system that will provide more patent protection around the world for our innovative member companies. The "first-to-file" provision currently included in S. 23 achieves this goal.

Thank you for your consideration and your support for the "first-to-file" system.

Sincerely,

Dorothy Coleman.

February 28, 2011.

Hon. Patrick J. Leahy,
Russell Senate Office Building,
Washington, DC.

Dear Senator Leahy: We write as the presidents of six university, medical college, and higher education associations to express the strong support of our associations for S. 23, the Patent Reform Act of 2011, which was reported by the Senate Judiciary Committee on a 15-0 vote and is scheduled to be considered by the Senate this week. This bipartisan agreement represents the successful culmination of a thorough, balanced effort to update the U.S. patent system to support

more effectively the nation's economic competitiveness and job creation in the increasingly competitive global environment of the 21st century.

Our universities and medical colleges are this nation's principal source of the fundamental research that expands the frontiers of knowledge, strengthening the nation's innovative capacity. The patent system plays a critical role in enabling these institutions to transfer the discoveries arising from university research into the commercial sector for development into products and processes that benefit society.

S. 23 will:

Harmonize the U.S. patent system with that of our major trading partners, enabling U.S. inventors to compete more effectively in the global marketplace;

Improve patent quality by allowing third parties to submit information to the USPTO concerning patents under examination, and by creating an efficient, effective post-grant opposition proceeding to challenge patents for nine months after they have been granted, allowing challengers to eliminate weak patents that should not have been granted

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and strengthening those patents that survive the challenge;

Reduce patent litigation costs by establishing the new post-grant procedure noted above, and by significantly improving the current inter partes review procedure, which will provide a lower-cost alternative to civil litigation to challenge a patent throughout its lifetime, while significantly reducing the capacity to mount harassing serial challenges; and

Provide USPTO with increased resources by providing this fee-funded agency with critically needed fee-setting authority, subject to Congressional and Patent Public Advisory Committee oversight.

We wish to call your attention to two important amendments that may be offered during floor consideration:

Senator Coburn is expected to offer an amendment to prevent diversion of fees collective by USPTO. This amendment is a critical accompaniment to the fee-setting authority provided by S. 23, allowing this seriously under-resourced agency to maintain the fees necessary to carry out its critical functions and reduce the backlog of patent applications. We urge you to support the Coburn amendment.

Senators Feinstein, Boxer, and Reid are expected to offer an amendment to eliminate the transition to a first-inventor-to-file system. The National Academies, in its seminal report on patent reform, A Patent System for the 21st Century, strongly recommended moving from a first-to-invent to a first-inventor-to-file system. Adopting a first-inventor-to-file system will harmonize the U.S. patent law with that of our trading partners, add greater clarity to the U.S. system by replacing the subjective determination of the first inventor with the objective identification of the first filer, and eliminate the costs of interferences and litigation associated

with determining the first inventor. We urge you to oppose the Feinstein, Boxer, and Reid amendment.

We believe S. 23 reforms current U.S. law in a way that balances the interests of the various sectors of the patent community and substantially improves the patent system overall, strengthening the capacity of this system to strengthen the nation's innovative capacity and economic competitiveness. We urge you to support this carefully crafted legislation.

Sincerely,

Robert M. Berdahl, President, Association of American Universities;

Molly Corbett Broad, President, American Council on Education;

Darrell G. Kirch, President and CEO, Association of American Medical Colleges;

Peter McPherson, President, Association of Public and Land-grant Universities;

Ashley J. Stevens, President, Association of University Technology Managers;

Anthony P. DeCrappeo, President, Council on Governmental Relations.

This letter was sent to all members of the U.S. Senate.

Small Business & Entrepreneurship Council, Oakton, VA, February 28, 2011.

Hon. Patrick Leahy, U.S. Senate, Russell Senate Bldg., Washington, DC.

Dear Senator Leahy: The Small Business & Entrepreneurship Council (SBE Council) and its members across the nation have been strong advocates for patent reform. We are pleased that you have introduced the Patent Reform Act (S. 23), and we strongly endorse this important piece of legislation.

An effective and efficient patent system is critical to small business and our overall economy. After all, the U.S. leads the globe in entrepreneurship, and innovation and invention are central to our entrepreneurial successes. Indeed, intellectual property--most certainly including patents--is a key driver to U.S. economic growth. Patent reform is needed to clarify and simplify the system; to properly protect legitimate patents; and to reduce costs in the system, including when it comes to litigation and the international marketplace.

Make no mistake, this is especially important for small businesses. As the Congressional Research Service has reported: "Several studies commissioned by U.S. federal agencies have concluded that individuals and small entities constitute a significant source of innovative products and services. Studies have also indicated that entrepreneurs and small, innovative firms rely more heavily upon the patent system than larger enterprises."

The Patent Reform Act works to improve the patent system in key ways, including, for example, by lowering fees for micro-entities, and by shortening time periods for patent reviews by making the system more predictable.

During the debate over this legislation, it is expected that two important areas of reform will come under attack.

First, the U.S. patent system is out of step with the rest of the world. The U.S. grants patents on a first-to-invent basis, rather than the first-inventor-to-file system that the rest of the world follows. First-to-invent is inherently ambiguous and costly, and that's bad news for small businesses and individual inventors.

In a 2004 report from the National Research Council of the National Academies (titled "A Patent System for the 21st Century"), it was pointed out: "For those subject to challenge under first-to-invent, the proceeding is costly and often very protracted; frequently it moves from a USPTO administrative proceeding to full court litigation. In both venues it is not only evidence of who first reduced the invention to practice that is at issue but also questions of proof of conception, diligence, abandonment, suppression, and concealment, some of them requiring inquiry into what an inventor thought and when the inventor thought it." The costs of this entire process fall more heavily on small businesses and individual inventors.

As for the international marketplace, patent harmonization among nations will make it easier, including less costly, for small firms and inventors to gain patent protection in other nations, which is critical to being able to compete internationally. By moving to a first-inventor-to-file system, small firms will in no way be disadvantaged, while opportunities in international markets will expand.

Second, as for improving the performance of the USPTO, it is critical that reform protect the office against being a "profit center" for the federal budget. That is, the USPTO fees should not be raided to aid Congress in spending more taxpayer dollars or to subsidize nonrelated programs. Instead, those fees should be used to make for a quicker, more predictable patent process.

Thank you for your leadership Senator Leahy. Please feel free to contact SBE Council if we can be of assistance on this important issue for small businesses.

Sincerely,

Karen Kerrigan, President & CEO.

Exhibit 3

Record Submissions--First-to-File

Mr. President. We have heard from stakeholders from across the spectrum--from high tech and life sciences, to universities and small inventors--in support of the transition to the first-to-file system. These supporters include:

AdvaMed; American Bar Association; American Council on Education; American Intellectual Property Law Association; Association of American Medical Colleges; Association for Competitive Technology; Association of American Universities; Association of Public and Land-grant Universities; Association of University Technology Managers; Biotechnology Industry Organization; Business Software Alliance; Coalition for 21st Century Patent Reform, a coalition of 50 companies from 18 different industry sectors, such as General Electric, Procter & Gamble, 3M, Pfizer, and Cargill.

Council on Governmental Relations; Gary Michelson, Independent Inventor; Genentech; Intellectual Property Owners Association; Louis J. Foreman, Enventys, Independent Inventor; National Association of Manufacturers; The Native American Intellectual Property Enterprise Council; PhRMA; Small Business and Entrepreneurship Council; Software & Information Industry Association.

The ACTING PRESIDENT pro tempore. The Senator from Delaware is recognized.

Mr. COONS. Mr. President, I thank the chairman for his leadership on this floor deliberation regarding S. 23, the America Invents Act.

I rise to speak in opposition to the Feinstein amendment, which would strike the first-to-file provision, which I think is one of the critical components of this act that will harmonize the patent system with that of the rest of the world, as I heard Chairman Leahy speak to. This is the first comprehensive patent reform bill in 60 years. It is a key piece of our bipartisan work to make sure the United States remains a competitive country which can once again be in the forefront of world innovation.

As someone who, like you, Mr. President, is concerned about manufacturing, is concerned about employment, is concerned about jobs, one of the ways we can restrengthen, reinvigorate, reenergize manufacturing in this country is by making sure our Patent and Trademark Office is as capable, is as strong as it can possibly be. I take quite seriously that the Patent and Trademark Office under the very able leadership of Director Kappos is opposed to this amendment and has also raised concern, which I share, that this amendment would tear apart the very broad coalition that has worked so hard and has negotiated this particular act, the America Invents Act, over the last 6 years.

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On an issue that is as important as this, as critical as this to the protection of American innovation and the resulting creation of jobs, I think it is important that we in the Senate not allow this bipartisan bill to fall apart over this issue.

Transition to first-to-file is an improvement over the current system because it provides increased predictability, certainty, and transparency. Patent priority will depend on the date of public disclosure and the effective filing date rather than on secret inventor notebooks, secret personal files which may or may not be admissible and often lead to long and contentious litigation, as the chairman mentioned in his floor comments as well.

This predictability, the predictability that the first-to-file system will bring, I believe will strengthen the hand of investors, inventors, and the public. All will know as soon as an application is filed whether it is likely to have priority over other patent applications.

In contrast, the current system with which we worked for many years does not provide an easy way to determine priority. That is why interference proceedings can be so contentious, so long, and so expensive. There are some small inventors in particular who I know are concerned that first-to-file will be used by larger companies to steal away their rightful invention. This bill contains critical protections for all inventors so the ultimate new system, once this is passed, will be more fair, more predictable, and transparent for all. For those inventors who publicly disclose an invention before anybody else, they have a 1-year grace period to claim priority for any patent application based on the subject matter they disclose. Smaller inventors as well as large inventors will be protected as soon as they publish or otherwise disclose under this America Invents Act.

In my view, that will increase the free flow of ideas while still protecting the IP rights of any inventor, large or small.

The Patent and Trademark Office commissioned a study of patent and trademark applications filed over the last 7 years. They found only 1 out of 300,000 filings would, under the new system, grant a patent to a large company that might otherwise have gone to a small company or individual inventor. By avoiding cost, the difficulty, the unpredictability of lengthy interference proceedings, transition to first-to-file will neutralize what I think is a big structural advantage to large companies in the current dispute system.

First of all, it also gives the holder of a new patent increased confidence in the strength and reliability of this patent, which I also think will accelerate venture capital investment, new company formation, and movement toward deployment of critical new technology.

I think experience has shown in other countries, in Europe and Canada, that transitioning from a first-to-invent to a first-to-file system will not lead directly to an increase in so-called junk applications and will, instead, make patent examination simpler, fairer, and more predictable. In short, my view is that it is crucial to the success of this legislation. It is crucial for the coalition that has come together over many years to support it. It is crucial for the progress this act will make in strengthening and streamlining the patent review and granting process in the United States. So I urge my colleagues to oppose the amendment, amendment No. 133.

I suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. Brown of Ohio). The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. BENNET. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. BENNET. Mr. President, I would like to speak briefly on the importance of passing the America Invents Act.

Chairman Leahy and the Judiciary Committee have worked hard to put this product on the floor that will mark the biggest reforms to our patent system in 60 years. This bill will create jobs in Colorado and across the country by promoting innovation. By making our patent system more efficient, we are building the foundation for future economic growth.

In my State alone, nearly 20,000 patent applications have been granted between the years 2000 and 2009. These applications have created the foundation for our clean energy economy and emerging tech and bio industries.

Having a high quality U.S. Patent and Trademark Office is essential to maintaining American leadership in innovation. The America Invents Act will help us grow new industries and will help cure the backlog and delay that have stunted the ability of inventors to patent their ideas.

Right now, the average pendency period for a patent application is 36 months. That is unacceptable if we are to compete with the rest of the world. This does not even account for those patents that have been tied up in years of litigation after they are granted.

And we have improved the bill on the floor by helping solidify alternatives to litigation, provide for more efficient resolution of disputes and help create more certainty, which is essential to inventors.

It is hard to pass a jobs bill without spending money, but that is absolutely what we have done here. The bill does a good job of balancing the interests of innovators across the many sectors of our economy.

We have passed a number of bipartisan amendments that have improved this bill. We added amendments promoting the establishment of satellite USPTO offices in regions across the country; creating a discount for small entities to participate in the accelerated patent examination program of the USPTO; and addressing concerns with damages and venue provisions. I am proud to have worked with the chairman and the ranking member to get these issues resolved.

I also commend Senator Menendez on his amendment to provide a fast track for patents that are critical for our national competitiveness, which I cosponsored.

The Senate has come a long way toward improving our patent system with this legislation and harmonizing our system with the rest of the world. There are a lot of people in my State who are interested in further improvements. I pledge to continue to work with them to help make sure we continue to fine tune this legislation where we can.

The America Invents Act represents significant progress for our patent system. We are moving our patent system into the new century, which is already being defined by the next wave of American innovation. The breadth of support for this legislation across industries and from large and small businesses, as well as our universities, has provided the momentum to complete this legislation.

I would like to close by again thanking the chairman and Judiciary Committee. I urge my colleagues to vote for patent reform.

I thank the Chair. I yield the floor.

[Text of portions of S1179, S1180 and portions of S1181 omitted]

Ms. CANTWELL. Madam President, I rise to support the Feinstein amendment and to ask my colleagues, who I know have been working diligently on the legislation for several years now, to respect the very tough balance that has been sought in this legislation as this legislation came out of the Judiciary Committee.

I know we adopted a managers' amendment yesterday, and I know that managers' amendment now is catching a lot of people off guard because there are far more changes than people realized in that managers' amendment that I think upsets that apple cart of balance that was struck in the Judiciary Committee.

So I am urging my colleagues to support the Feinstein amendment and expressing my concern for the underlying bill that is something that, at this point in time, I cannot support.

I do not come to that decision lightly nor because of the fact that I have many high-tech companies in the State of Washington that might say we need patent reform and that this is good innovation. But large high-tech companies are not the only ones that know something about innovation. In fact, most of the people who have helped build those organizations were once the small inventors themselves of key technology.

What is at stake is unbalancing the apple cart as exists today to innovation--not just innovation in general but innovation in an information age. The meal ticket for all of us is going to be the invention and creation of new products and services. So that is the great time and age we live in.

But if in this legislation we all of a sudden upset that apple cart, where we are tilting the playing field in support of large corporations that have already made their mark and made their markets and made their success and have slowed down on the rate and progress of innovation within their companies and do a lot to acquire technology from smaller inventors--and now, all of a sudden in this underlying bill, particularly in the area of damages, make sure the big corporations can win in any kind of legal dispute against the technology holder or creator because they are able to outlast them in a legal battle because they are more well financed, more well heeled, with the ability to draw out this battle--because of that change in the underlying bill, we leave the small guy without many resources.

The only thing the small inventor has is their intellectual property and a fair day in court. If now we take that away from them, I guarantee you, they will have less success. Then, when you have less success of having 5,000 flowers bloom, we have a problem.

This is not about what five or six or seven large corporations can create. This is about what thousands and thousands of innovators are going to create in the future and whether they are going to be incented or disincented to do that.

The Feinstein amendment tries to protect the current process, to protect what are the rights of those inventors today under current law. I am sure my colleagues will say: Well, that is not the way the rest of the world does it. I would say to my colleagues: I am not sure the way the rest of the world does it is the mark we are trying to hit. What we are trying to preserve is the entrepreneurial spirit that has been created in the United States. I am not saying that is not based on just raw creativity of individuals--it is--but it is also based on financial incentive and the incentive those individuals have that their intellectual property can be protected.

But if this is going to be a game about the big boys coming to Washington and squashing the small inventors, count me out. This has to be a level playing field. I get it is tempting to want to, in the last minute, stick into the managers' amendment language you could not get out of committee. But if we want to get this legislation through this process, then we have to take into consideration the rights of the inventors along with the rights of those larger companies that are trying to acquire or integrate or be part of the manufacturing on a larger scale of that inventor's technology.

So I say to my colleagues, the Feinstein amendment, in keeping the rights of the inventors where they are, gives them at least a modicum of holding on to that. I think the underlying bill has changed so much in the managers' amendment that we are going down a road that is going to make it very difficult for us to finally get a piece of legislation. We have to respect the rights of the small individuals, and we can't have carve-outs for specific jurisdictions such as Wall Street who think they can have their cake and eat it too.

This has to be about how we move forward on a smoother patent process. We need to take into consideration that we have gotten to this great place in our country because we have had a balance and an empowerment of these technologies. We should not all of a sudden in one fell swoop take that away on the Senate floor and basically undermine what is the creative opportunity for the U.S. economy, which is an invention. We want thousands and thousands of inventors--not just inventors who work for big corporations--thousands of inventors who have their rights.

So I support the Feinstein amendment.

I thank the President, and I yield the floor.

The PRESIDING OFFICER. The Senator from California.

Mrs. FEINSTEIN. Madam President, I thank the Senator from Washington for her comments. We welcome her support. I was pleased to be able to listen to her comments.

What is the current status of the time allocation?

The PRESIDING OFFICER. The proponents have 3\1/2\ minutes remaining, and the opponents have 10 minutes remaining.

Mrs. FEINSTEIN. I ask unanimous consent that our 3\1/2\ minutes be extended so that Senator Risch, who will speak next, has the time he requires, and I have the time for a few brief closing remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mrs. FEINSTEIN. Thank you very much.

The PRESIDING OFFICER. The Senator from Idaho.

Mr. RISCH. Madam President, I am proud to come to the floor today to speak on the amendment to which I am a cosponsor.

This is simply a matter of fairness. With all due respect to my colleague from Washington, referencing her comments about the big boys versus the small inventors and what have you, I don't view it as that at all. I view it as a fairness issue: The person who created the invention gets the benefits of that creation, not the person with the fastest tennis shoes. That is what we are doing.

We are creating what is called a race notice statute, which is similar to what is in place in many States on real estate filings. It has a legitimate place in the real estate market but not here. With so much on the line, with creativity on the line, it should be the person who actually does the invention who reaps the benefits of that invention, and that is all this does.

The other thing I think is so important is it preserves the situation we

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have had for many years in place. I have heard people say: Oh, well, this is a poison pill. If you take this out, it kills the bill. That isn't the case at all. It simply preserves the situation we have in place today. It is the right thing to do. It is the fair thing to do. I urge an affirmative vote for this amendment.

I yield the floor to my colleague from California, Senator Feinstein.

The PRESIDING OFFICER. The Senator from California.

Mrs. FEINSTEIN. Thank you very much, Madam President. I thank Senator Risch for his cosponsorship, and, of course, I agree exactly with his statement.

At this time I wish to briefly summarize the arguments in favor of our amendment to strike the first-to-file provisions from this bill. This amendment is cosponsored, as I said, by Senator Risch, Majority Leader Reid, Senators Crapo, Boxer, Ensign, and I ask unanimous consent to add Senator Begich.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mrs. FEINSTEIN. Thank you, Madam President.

Proponents of the first-to-file argue that the rest of the world follows this system and making this change will harmonize our system with theirs, and that is true. But under our first-to-invent system, our Nation has been by far the leader in the field of innovation, the leader in the field of

new patents, new discoveries, new inventions. The other first-to-file countries have been playing catchup with our technological advances. I wouldn't trade our record of innovation for any of theirs, and I doubt many Members of this body disagree with me if they really think about it.

Think about the history of innovation. What sets America apart is so many of our great inventions start out in small garages and labs, with driven, inspired people who have great ideas, develop them, and then they take off. I mentioned companies that have started this way yesterday, including Hewlett Packard, Apple, and Google, and there are hundreds and perhaps thousands of others. They started from humble beginnings, and they grew spectacularly, creating jobs for millions of Americans and lifting up our economy and standard of living.

I know an inventor who invented Skyy vodka. The vodka he drank disturbed his stomach, so he figured out biologically and chemically what it was, and he invented a vodka called Skyy vodka--a small inventor. I think that company was subsequently sold for a great deal of money. But it started with one man who had a stomachache from drinking vodka.

Now, this may be just one type of example, but Apple is certainly another example. It started in a garage many years ago in California, and out of that emerged this giant company. So these companies started from humble beginnings. They grew. This created jobs for millions of Americans. They lifted our economy and our standard of living.

The National Small Business Association is a supporter of this amendment, and just last week other small business inventor groups have joined them in saying that first-to-file "disrupts the unique American start-up ecosystem that has led to America's standing as the global innovation leader."

First-to-invent has served our country well. Here are the main problems, as I see them, with the bill's first-to-file system: First, the grace period. It "guts" the current grace period, in the words of a letter from 108 startups and small businesses that protect inventors' rights to their inventions for 1 year from offering them for sale or making a public use of them, among other things, before they have to file a patent application with the Patent Office. So there is this 1-year grace period for them to get their act together.

Now, under the present system, instead of preparing a costly patent filing, they can concentrate on developing their invention and obtaining necessary funding.

The majority leader just circulated a statement to Members which speaks to this grace period. I wish to quote one part of that statement:

The grace period comports with the reality of small entity financing through friends, family, possible patent licensees, and venture capitalists. The grace period allows small inventors to have conversations about their invention and to line up funding before going to the considerable expense of filing a patent application.

The grace period allows them to not have to race to the Patent Office because they are afraid somebody else might have heard the conversation, might have stolen it from them, and moved on.

Senator Reid goes on:

In fact, in many ways, the one-year grace period helps improve patent quality--inventors find out which ideas can attract capital, and focus their efforts on those ideas, dropping along the way other ideas and inventions that don't attract similar interest and may not therefore be commercially meaningful.

So this first-to-file essentially replaces this critical innovation-protecting provision with a more limited and murky grace period that only runs from the undefined term of "disclosure." There is no discovery. Litigation is sure to ensue as courts interpret this term, creating uncertainty that I believe will chill investment in startups which in turn will damper innovation and job growth.

Unfortunately, first-to-file incentivizes inventors to race to the Patent Office, to protect as many of their ideas as soon as possible, so that they are not beaten to the punch by a rival. Thus, first-to-file will likely result in significant overfiling of dead-end inventions, unnecessarily burdening both the Patent Office and especially small inventors.

The third reason, difficulty of proving copying. The third major problem with this bill's system is the difficulty of proving that someone copied an invention. Currently, you as a first inventor can prove that you were first by presenting evidence that is in your control--this is under first-to-invent--your own records contemporaneously documenting the development of your invention. But under this bill, to prove that someone else's patent application came from you, was derived from you, you would have to submit documents showing this copying. Because there is no discovery, you wouldn't have those documents in your possession, so it makes proving your invention much more difficult. The bill doesn't provide for any discovery in these "derivation proceedings." Therefore, the first inventor can't prove his or her claim because he or she does not have access to the documents of the alleged copier.

Mr. LEAHY. Madam President, if the Senator will yield, how much time is remaining?

Mrs. FEINSTEIN. I will just take 2 minutes more.

The PRESIDING OFFICER. The Senator from California by consent is using the opponent's time.

Mr. LEAHY. Is using my time?

Mrs. FEINSTEIN. No. I have asked to extend our time.

Mr. LEAHY. Madam President, we are supposed to vote at 12:30. I realize the Senator couldn't be here when her amendment was brought up and couldn't be here when her amendment was modified. We did that for her. But I am in opposition to it, and I should at least have some of my time to be able to use.

Mrs. FEINSTEIN. I will be very happy to--I was here yesterday. I did speak on the floor, Mr. Chairman. I did, in a rather lengthy speech, indicate the arguments. I have asked for just a short period of time. My remarks are no more than five pages, which should take me 1\1/2\ more minutes to conclude. I hope I would be offered that time.

Mr. LEAHY. Madam President, at the hour of 12:30 we are supposed to vote. I would ask unanimous consent, so far as my time has been used by those in another position, that Senator Grassley and I have 4 minutes back of our time.

The PRESIDING OFFICER. Without objection, it is so ordered. The Senator has consent.

Mrs. FEINSTEIN. Fine. Then I would ask that my time on this side be extended for another 1\1/2\ minutes.

The PRESIDING OFFICER. The Senator has that time.

Mrs. FEINSTEIN. Thank you very much.

So I have outlined the difficulty of proving copying under the first-to-file system.

Disputes about who is the first to invent are resolved by the Patent Office in what is called an interference proceeding, which number only about 50 a year out of 480,000 patent applications.

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The opposition infers that this is a huge problem. Fifty a year out of 480,000 patent applications is a very small percentage.

As I said in the beginning, America leads the world under the first-to-invent system. I don’t think we should fix what isn’t broken. This works for people who have great ideas but don’t have money, who begin in a garage or in a lab. It has worked well for our system.

I ask my colleagues to join Senator Risch, Majority Leader Reid, Senators Crapo, Boxer, Ensign, Begich, and myself in voting yes on this amendment.

I yield the floor.

Mr. LEAHY. Madam President, as I said earlier, Secretary Locke confronted the notion that the current outdated system is better for small independent inventors. He said the cost of proving that one was first to invent is prohibitive and requires detailed, complex documentation of the invention process. In cases where there is a dispute about who the actual inventor is, it typically costs at least $400,000 in legal fees and even more if the case is appealed. By comparison, establishing a filing date through provisional application to establish priority of invention costs just $110.

I appreciate the work of the Senator from California, but her amendment is a killer amendment. It would kill this bill. Our bill is set up so that it will allow us to compete with the rest of the world. Right now, we are behind the rest of the world in our patent system. Our bill as it is written allows us to compete with the rest of the world. Her amendment would hold us back and give an advantage to those countries with which we have to compete.

I yield the floor.

The PRESIDING OFFICER. The Senator from Iowa.

Mr. GRASSLEY. Madam President, I associate myself with the remarks of the chairman of the committee. I ask that people on my side of the aisle not support the Feinstein amendment.

At this point, I move to table the Feinstein amendment and ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second? There is a sufficient second.

The question is on agreeing to the motion to table the Feinstein amendment, as modified.

The clerk will call the roll.

The legislative clerk called the roll.

The PRESIDING OFFICER. Are there any other Senators in the Chamber desiring to vote?

The result was announced--yeas 87, nays 13, as follows:

[Rollcall Vote No. 31 – Votes omitted]

The motion was agreed to.

Mr. LEAHY. I move to reconsider the vote, and I move to lay that motion on the table.

The motion to lay on the table was agreed to.

The PRESIDING OFFICER. The Senator from Michigan.

Amendment No. 126

Ms. STABENOW. Madam President, I will call up amendment No. 126. I understand it will be agreed to. I ask unanimous consent that the pending amendments be set aside and I call up amendment No. 126. The PRESIDING OFFICER. Without objection, it is so ordered.

The clerk will report.

The legislative clerk read as follows:

The Senator from Michigan [Ms. Stabenow], for herself and Mr. Levin, proposes an amendment numbered 126.

Mr. LEAHY. Madam President, I ask unanimous consent that the reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

(Purpose: To designate the satellite office of the United States Patent and Trademark Office to be located in Detroit, Michigan as the “Elijah J. McCoy United States Patent and Trademark Office”) On page 104, strike line 23 and insert the following:

SEC. 18. 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. 19. EFFECTIVE DATE.

Mr. LEAHY. I ask that it be adopted.

The PRESIDING OFFICER. If there is no further debate, the question is on agreeing to the amendment.

The amendment (No. 126) was agreed to.

Mr. LEAHY. Madam President, I move to reconsider the vote.

Ms. STABENOW. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. LEAHY. I yield to the Senator from Michigan.

The PRESIDING OFFICER. The Senator from Michigan.

Ms. STABENOW. Madam President, I thank the distinguished chairman of the Judiciary Committee and our ranking member and those who are working very hard on a very important jobs bill today. On behalf of the people of Detroit, the people of Michigan and Senator Levin and myself, I thank very much the Members for their support of this amendment.

Madam President, just few months ago, we learned that Detroit, MI, will be home to the first-ever satellite office of the U.S. Patent and Trademark Office. This office is such great news for Michigan, where we have a proud tradition of innovation and invention.

Every day, we are looking to innovate and create “the next big thing.” The decision to locate this satellite office in Detroit shows just how much new invention is happening in Michigan. Thanks to some of the best research universities in the country, with an incredibly skilled workforce, we have become third in the nation in terms of clean energy patents. And we are getting new patents every single day.

In addition to clean energy, Michigan is home to groundbreaking research in fields such as agriculture, defense technology, medical technology and pharmaceuticals, advanced batteries, and, of course, automobiles.

This patent office will help us continue that tradition of innovation, while reducing the backlog of patent applications so those new products can get to the market faster.

It makes perfect sense to locate this new satellite office in Detroit.

Today I am offering, along with Senator Levin, amendment No. 126 to the America Invents Act to name this new facility after a great Michigan inventor, Elijah McCoy.

His life captures the spirit of Michigan ingenuity and entrepreneurship. His parents escaped slavery and fled across the border to Canada. After training as an apprentice in Scotland, he came to Ypsilanti, Michigan and set up a home-based invention shop.

Over the course of his brilliant life, Elijah McCoy secured more than 50 patents, but he is best known for his inventions that revolutionized how our heavy-duty machinery, including locomotives, function today. In July of 1872, he invented the automatic lubricator, a device that kept steam engines working properly so trains could run faster and longer without stopping for service.

His invention was incredibly effective and many tried to copy his idea,

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but nobody could match McCoy's idea. Machinists started asking if the engines were using the "real McCoy" technology, and people still use that phrase today when they want the best quality product.

He did not have an easy journey. As an African American, he was kept out of many of the histories of the industrial revolution. Despite his brilliance, he was only ever allowed to work in menial jobs on the railroad tracks.

But despite the racial prejudice, Elijah McCoy never gave up and continued inventing. In 1976, the city of Detroit celebrated Elijah McCoy day and dedicated his home as a historic site. In Detroit, Elijah McCoy Drive runs between Trumball and the Lodge, near Henry Ford Hospital. He is buried in Warren, MI.

It is a great honor for Michigan that the first-ever Patent and Trademark Satellite Office will be named for this great leader and great inspiration for Detroit.

It is a great honor for us to have this first-ever patent and trademark satellite office in Detroit and to have it named after a great leader who has provided great inspiration.

I thank my colleagues very much for supporting this amendment.

Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. Coons). The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. BROWN of Ohio. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Senate Debate – 157 Cong. Rec. S1204-S1213

[Congressional Record Volume 157, Number 31 (Thursday, March 3, 2011)]

[Senate]

[Pages S1204-S1213]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

PATENT REFORM ACT OF 2011--Continued

The PRESIDING OFFICER. The clerk will report the pending business.

The bill clerk read as follows:

A bill (S. 23) to amend title 35, United States Code, to provide for patent reform.

The PRESIDING OFFICER. The Senator from Vermont.

Mr. LEAHY. Madam President, since this debate began, we have heard a lot about how the America Invents Act will help unleash the American inventive spirit. As a matter of personal pride, I point out that Vermonters have a long history of innovation and invention, and it is that creative spirit which has given rise to some interesting and even revolutionary inventions.

Few people may know that Vermont is issued the most patents per capita of any State in the country. Fewer still may know that the first-ever patent issued in the United States, which was reviewed by Secretary of State Thomas Jefferson and signed by George Washington, was granted to a Vermonter in 1790. It was Samuel Hopkins of Pittsford who began the great tradition of American innovation.

Throughout America's history, Vermont has contributed to our economic prosperity with inventive ideas. Thaddeus Fairbanks of St. Johnsbury patented the platform scale in 1830, which revolutionized the way in which large objects were weighed. Charles Orvis, of Manchester, the founder of the well-known sporting goods retailer Orvis, patented the open fly fishing reel in 1874. Many other inventions originated from Vermont in the early years of America, including an electric motor, an internal combustion engine, and the paddle wheel steamship.

Today, that innovative Vermont spirit continues. Vermonters have been contributing to the American economy through innovation and invention every year.

Exploring new ways to modify existing products to limit the environmental impact is a quintessentially Vermont idea. Researchers at the University of Vermont have developed and are now seeking a patent for a wood finish that releases fewer toxins into the air than standard finishes. They do it by utilizing whey protein instead of petroleum. In the State of the Union Address, President Obama noted that advances in green technology will be a key driver of our economy in the 21st century. Vermont inventors have been and will continue to be out in front in this area.

Computer technology will also be a driver of our 21st-century economy. Vermonters are active in producing the next generation of this technology as well. Viewers across the country were fascinated by the recent appearance of IBM's Watson supercomputer on "Jeopardy." Components used to power Watson were invented by IBM researchers in Vermont, and I am sure those Vermonters watched proudly as Watson defeated Jeopardy legends Ken Jennings and Brad Rutter in the recent man-versus-machine matchup.

Modernizing the patent system will help to ensure Vermont inventors will still be able to compete, not just on a national stage but in the international marketplace.

Much has changed since Samuel Hopkins received the first U.S. patent in 1790, but the need for a flexible and efficient patent system has remained constant. Inventors from Burlington to the Bay Area require the appropriate incentives to invest in the research required to create the next platform scale or the next Watson computer or the next lifesaving medical device.

Over the last 6 years, I have worked on meaningful, comprehensive patent reform legislation. During that time, I have kept in mind the tradition of great Vermont innovators such as Thaddeus Fairbanks and Charles Orvis. I was also pleased that we had key Republicans and Democrats working together to get this legislation before the Senate.

The next generation of Vermonters is as eager as the last to show America and the world what they can produce. Vermont may be one of the smallest States in our Nation, but it is busting with creativity. The America Invents Act will ensure that the next Samuel Hopkins can flourish well into the 21st century.

Senator Grassley and I had a couple of matters we were going to take care of. I see a distinguished colleague seeking recognition. Before I yield the floor, might I ask my friend how much time he may need?

[Text of portions of S1204-S1207 and portions of S1208 omitted]

Mr. KYL. Mr. President, I rise to submit for the Record some of the materials I have quoted from during the Senate's debate on the first-to-file provisions of the America Invents Act. These materials are produced by the National Association of Manufacturers and by the 21st Century Coalition for Patent Reform, an industry group that has been the leading advocate for the bill. They offer a detailed explanation of and case for the bill's shift from the current first-to-invent system to a first-to-file system of establishing patent priority.

I ask unanimous consent that the following materials be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

[From the Coalition for 21st Century Patent Reform, Mar. 2, 2011]

S. 23 America Invents Act Requires First-Inventor-To-File Provisions

Any language that dilutes, delays or deletes FITF will gut meaningful patent reform.

An amendment to dilute, delay or delete the first-inventor-to-file provisions of S. 23 would effectively gut the substance of the America Invents Act. The Coalition opposes any such amendment and, were such an amendment to pass, we would oppose passage of the stripped-down bill that would result.

The first-inventor-to-file provisions currently in S. 23 form the lynchpin that makes possible the quality improvements that S. 23 promises. The Statement of Administration Policy lays out precisely what is at stake: “By moving the United States to a first-to-file system, the bill simplifies the process of acquiring rights. This essential provision will reduce legal costs, improve fairness, and support U.S. innovators seeking to market their products and services in a global marketplace.”

Most of the arguments in opposition to the bill and FITF appear be to decades-old contentions that have been fully and persuasively rebutted. As one example, the National Research Council of the National Academies assembled a group of leading patent professionals, economists and academics who spent four years intensely studying these issues and concluded in 2004 that the move to FITF represented a necessary change for our patent system to operate fairly, effectively and efficiently in the 21st century.

Without retaining S. 23’s current FITF provisions, the bill would no longer provide meaningful patent reform. As an example, the new provisions on post-grant review of patents, an important new mechanism for assuring patent quality, could no longer be made to work. Instead of a patent reform bill, what would remain of S. 23 would be essentially an empty shell.

Thus, we could not continue our support for passage of S. 23 without the first-inventor-to-file provisions present in the bill. It would place us in the unfortunate position of opposing moving forward with a bill where we have been among the longest, most ardent supporters.

After yesterday’s 97 to 2 vote, it is time to move this excellent vehicle for comprehensive patent reform--in its current form--through to final Senate passage.

S. 23 Means New Ideas Creating New Products Creating New Manufacturing Jobs

Let S. 23 Make the Patent System Work for the 21st Century U.S. Economy

Keep the first-inventor-to-file provisions of S. 23 in the bill to afford all inventors the benefits for a more transparent, objective, predictable and simple patent law:

The first-inventor-to-file provisions of S. 23 protect independent inventors--they will particularly benefit from the simplicity of the first-inventor-to-file rule and actually gain patents that they otherwise would forfeit.

Eliminate the potential prejudice to U.S. patent inventors arising from the 1994 law that opened our patent system to foreign-origin invention date proofs.

Simplify the rules for patent applications so they can be processed more rapidly, at reduced cost, and become more effective patents for investing in new products:

Limit “prior art” used to bar a patent from issuing to only those disclosures made available to the public before the patent was sought and disclosures in earlier-filed patent applications.

Remove all arcane and subjective tests for deciding whether to issue a patent.

Repeal the “patent interference” provisions that inject delay, cost and uncertainty into the patenting process.

Let members of the public provide patent examiners with relevant publications and other public documents, before deciding whether a patent can be granted.

Keep and apply rigorous standards for issuing patents, but assure that they are simple, transparent and objective--making patenting rules more predictable.

Assure the highest possible quality for patents that have been granted:

Permit members of the public to challenge whether newly issued patents meet each of the rigorous standards for patenting--and require the United States Patent and Trademark Office to promptly cancel any patents that do not.

Authorize supplemental examination proceedings, before a patent is enforced, to allow patent owners to present the USPTO with information that may be used to assure the scope of the patent is commensurate with its contribution.

Allow the USPTO to set fees for the services it performs for processing patent applications sufficient to cover the costs of promptly completing a high-quality examination.

Make patent lawsuits fair and just for both patent owners and accused infringers.

Limit the ability of a party to recover false patent marking to the amount of the party’s actual competitive injuries.

S. 23 Protects Inventors Once They Publicly Disclose Their Work Protections the 1994 WTO Agreement Took Away, S. 23 Puts Back.

After inventors publicly disclose their work, competitors should not be able to take advantage of those disclosures by filing for patents on the disclosed work.

Once inventors have published on their work--or have made it available to the public using any other means--their competitors should not be able to run off to the USPTO and seek patents on the work that the inventor has already publicly disclosed. The same goes for permitting a competitor to belatedly seek a patent on a trivial or obvious variation of what the inventor had earlier disclosed publicly. This common-sense truth should apply even if competitors can lay claim to having themselves done the same work, but elected to keep secret the work that other inventors have publicly disclosed.

In a word, a competitor seeking a patent on what such an inventor has already published can be thought of as being akin to interloping. The competitor who is spurred into action by another

inventor's publication can be regarded as interfering with the understandable and justifiable expectation of inventors who have promptly disclosed their work: they expect that they themselves should be the ones able to secure patents on

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the disclosed work or, by publishing without later seeking patents, that they (as well as other members of the public) should remain free to continue to use what they have publicly disclosed.

S. 23 would increase the protection for inventors once they make their inventions available to the public by cutting off the potential for any sort of interloping. S. 23 operates to solidify an inventor's "grace period" that applies after the inventor has published or otherwise made available to the public his or her work. In brief, under S. 23, interloping in any form is prohibited--an inventor who elects to publish an invention will no longer need to have any concern that the publication will spur a competitor into a subsequent patent filing that could preclude the inventor from obtaining a patent or--even worse--from continuing to use his or her published work.

S. 23 better protects inventors than does current U.S. patent law in addressing interloping--by making the one-year "grace period" bulletproof.

Today, inventors enjoy a one-year "grace period" under U.S. patent law. What this means is that inventors themselves can still seek patents on their inventions even if they have made those inventions available to the public before seeking any patents on them. When inventors file for patents during the one-year period after making a public disclosure, their own disclosures are not useable as "prior art" against their patents.

However, the "first to invent" principle of current U.S. patent law makes relying on the one-year "grace period" fraught with some significant risk. The risk comes from the ability of a competitor who learns of the inventor's work through the public disclosure to race off to the USPTO and seek a patent for itself on the disclosed invention. The competitor can interlope in this manner by filing a patent application and alleging its own "date of invention" at some point before the inventor's public disclosure was made.

This makes relying on the current "grace period" a risky hit or miss. If an inventor waits until the end of the one-year "grace period" to seek a patent on the invention he or she made available to the public, an interloping competitor, spurred into quickly filing a patent application, may be issued a patent before the USPTO acts on the "grace period" inventor's patent application. The "grace period" inventor may be forced to fight to get into a patent interference against a competitor's already-issued patent, hoping to get the USPTO to cancel the competitor's patent so the inventor's own patent can be issued.

Interferences are notoriously difficult to win for an inventor who is not the "first to file." The number of situations where someone other than the first to file for a patent on an invention actually succeeds in proving an earlier invention date are very few and very far between. Indeed, the most recent estimate is that striking down a competitor's earlier filed application or patent in a patent interference is less likely than the competitor being struck down by lightning.

What does S. 23 do about this defect in the “grace period” under current U.S. patent law? Quite simply, it wholly excises the defect--it will be gone in its entirety. It makes an inventor’s public disclosure of the inventor’s own work a bar to anyone thereafter seeking to patent that work itself, as well as any obvious variations of what the inventor made available to the public. In short, it is a complete fix to the risk a competitor will use the inventor’s public disclosure as a spur to filing its own patents based on its own work.

S. 23 closes the door to interloping by foreign-based competitors that was opened in 1995 when the WTO agreement forced changes to U.S. law.

Under the World Trade Organization agreement reached in 1994, the United States was forced to change its patent law to benefit foreign-based entities seeking U.S. patents. This change allowed foreign-based entities to take advantage of their secret activities, undertaken outside the United States, in order to establish “invention dates” that could be used under U.S. patent law to obtain valid patents. Specifically--and for the very first time--foreign-based competitors could seek U.S. patents on products that had already been publicly disclosed by U.S.-based inventors. The Uruguay Round Agreements Act, which took effect in 1995, implemented this treaty obligation.

Before this change in U.S. patent law, foreign-based competitors could not use their secret activities outside the United States as a basis for showing that they had made an invention before its publication by a U.S.-based inventor. Up until 1995, once a U.S. inventor published information on a new product or otherwise publicly disclosed an invention, foreign-based competitors were barred from obtaining U.S. patents on the disclosed product and any aspect of it, including trivial and obvious modifications of it.

S. 23, if enacted, would put foreign-based entities back into the position they were in prior to 1995--once a U.S. inventor publishes or makes any other type of public disclosure of a new product, the ability for a foreign-based competitor to then file patent applications seeking to patent the disclosed product would be totally cut off.

Congress should act promptly to end the potential for interloping by foreign-based competitors once U.S.-based inventors have published on their work.

With each passing year, the percentage of U.S. patent filings made by foreign-based entities increases. In 1966, 1 in 5 U.S. patent filings was by a foreign-based entity. That ratio became 1 in 4 in 1969, and 1 in 3 in 1974, before reaching 1 out of every 2 in 2008. Since 2008, the majority of patent filings in the United States came from foreign-based entities. Given the rapid growth in patent filings by Asian (especially Chinese) inventors, this trend may well accelerate in the decade ahead.

As foreign-based entities become more sophisticated in their use of the U.S. patent system, U.S. inventors are put at an ever-greater risk that patenting strategies by foreign-based entities will disadvantage U.S.-based inventors, either in electing to use the “grace period” or even when they file for a patent before making a public disclosure.

How S. 23 operates to protect inventors once they make their work public

S. 23 puts an end to any use of “dates of invention” in order to determine whether a U.S. patent is valid or not. In addition, S. 23 strips out of the U.S. patent law any grounds for invalidating a U.S. patent based on any type of secret activity undertaken by inventors themselves, such as secret “offers for sale” of their inventions before seeking patents. Finally, it further secures the benefits of the one-year “grace period” by preventing the contemporaneous work of an inventor’s co-workers or research partners from being cited as a basis for barring the inventor from obtaining a patent.

The consequence of placing this collection of inventor-friendly features into S. 23 is that, once a U.S. inventor publishes or otherwise makes a public disclosure of his or her inventions, the potential for interloping is entirely removed and the ability of the publicly-disclosing inventor to patent the disclosed invention is fully preserved during a one-year “grace period.” The public disclosure by U.S. small business or other U.S.-based small entity, for example, is a bar to anyone else seeking a patent, not only on the publicly disclosed subject matter, but on any trivial or obvious variations of it. Similarly, once a U.S. inventor initially files a patent application (even a provisional one) that subsequently forms the basis for a published patent application or patent, the same protections against competitor efforts to patent the inventor’s prior-disclosed work apply.

How can Congress accomplish all of this good for the country? Enact S. 23!

Reverse the WTO’s impact, end interloping threats, and protect U.S. inventors.

National Association
of Manufacturers,
March 2, 2011.
U.S. Senate,
Washington, DC.

Dear Senator: The National Association of Manufacturers (NAM), the nation’s largest industrial trade association representing small and large manufacturers in every industrial sector and in all 50 states, urges you to oppose amendment 133 offered by Sen. Dianne Feinstein (D-CA) to S. 23, The America Invents Act.

The amendment would remove a key provision in S. 23, The America Invents Act, which is strongly supported by manufacturers, the creation of a “first-inventor-to-file” system.

The NAM supports transitioning the United States from a “first-to-invent” system to a “first-to-file” system to eliminate unnecessary cost and complexity in the U.S. patent system. Manufacturers large and small operate in the global marketplace and the United States needs to move toward a system that will provide more patent protection around the world for our innovative member companies. The “first-to-file” provision currently included in S. 23 achieves this goal.

Thank you for your consideration and your support for the “first-to-file” system.

Sincerely, Dorothy Coleman.

Mr. COBURN. Mr. President, I want to thank all of the cosponsors who joined in support of my amendment, particularly Senators Boxer and Grassley, who recognized the importance of this amendment for the proper functioning of the PTO and for the underlying legislation. Furthermore, I want to thank Chairman Leahy and Ranking Member Grassley for including my amendment in the managers' amendment to the patent reform legislation.

Our Founding Fathers recognized the value that intellectual property provides to this country and sought to protect innovation as they did physical property. Article I, section 8 of our Constitution states "The Congress shall have 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."

It is necessary for the Federal Government to protect and enforce intellectual property rights domestically and internationally. Intellectual property is important to our country, businesses and individual rights holders, and I believe a strong patent system is one crucial element in maintaining our

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country's leadership in innovation, invention and investments. While I do believe it is the goal of this patent reform legislation to strengthen and improve our patent system, I do not believe that such goals are possible without reform to the financial crisis facing the patent office.

My amendment would provide an immediate solution to this crisis. The amendment creates a lockbox--a new revolving fund at the Treasury--where user fees that are paid to the PTO for a patent or a trademark go directly into the revolving fund for PTO to use to cover its operating expenses. Congress would not have the ability to take those fees and divert them to other general revenue purposes.

I do not think everyone in this body understands what it means for the PTO to be a wholly fee-supported agency. PTO does not receive any taxpayer funds. PTO receives fees through the payment of patent and trademark user fees--fees paid by small inventors, companies and universities to protect their ideas and technology. While those that pay these fees expect efficiency and quality from the PTO, they do not receive it. Because of the current PTO funding structure--where PTO user fees are deposited into the Treasury, but PTO is then required to ask for annual appropriations--Congress, who only has authority over taxpayer funds, maintains control over the user-funded PTO. When PTO's fee income is greater than what Congress provides via appropriations, we spend the "excess" on other general revenue purposes. As a result, those that pay to use the patent system are not receiving the quality service they deserve.

It is more than mere coincidence that the two major problems at the PTO, (1) the growing number of unexamined patent applications or "backlog," and (2) the increased time it takes to have a patent application examined or "pendency," are the result of a "lack of connection between the monies flowing into the agency and those available for expenditure." In fact, the latest data from the PTO shows that the patent processing backlog is almost 26 months. That is, it takes 26 months for the patent examiner to even pick up the application to take his "first action." Total overall pendency--from filing to final action--is approximately 35 months. The

PTO also states the total number of patent applications pending is over 1.16 million, with over 718,000 of those waiting for a patent examiner to take his first action. One of the primary reasons for these incredibly long waiting periods is a lack of resources at the PTO. By providing a permanent end to fee diversion, Congress has the ability to contribute greatly to the enhanced efficiency of this agency.

This is not the first time Congress has been confronted with its diversion of PTO user fees. Since the early 1980s, Congress has addressed issues related to this issue. Beginning in the late 1990s, our own congressional reports have documented the problems with fee diversion from the PTO, and the domino effect it has on PTO's efficient operation.

In 1997, the House Report on the Patent and Trademark Office Modernization Act stated: "Unfortunately, experience has shown us that user fees paid into the surcharge account have become a target of opportunity to fund other, unrelated, taxpayer-funded government programs. The temptation to use the surcharge, and thus a significant portion of the operating budget of the PTO, has proven increasingly irresistible, to the detriment and sound functioning of our nation's patent and trademark systems . . . this, of course, has had a debilitating impact on the [PTO]."

It is disturbing to me, and should be to all Members, that many of the same practices that this 1997 report notes as those that suffer from lack of consistent PTO funding still occur today--14 years later.

Yet Congress continued to grapple with PTO's funding problem into the early 2000s. In 2003, the House noted in its report on the Patent and Trademark Fee Modernization Act that "by denying PTO the ability to spend fee revenue in the same fiscal year in which it collects the revenue, an equivalent amount may be appropriated to some other program without exceeding their budget caps. Although the money is technically available to PTO the following year, it has already been spent." In 2007, I offered a different version of my current amendment to patent reform legislation considered by the Judiciary Committee. My amendment passed without opposition. Last year, I offered this amendment in the Judiciary Committee, and it was tabled by a vote of 10-9. Yet, in 2008, this body adopted by unanimous consent an amendment by Senator Hatch to the fiscal year 2009 budget resolution that condemns the diversion of funds from the PTO.

Clearly, for more than a decade, both Houses of Congress have recognized that many of the efficiency and operational problems at the PTO could be remedied by giving the PTO authority over its own fee collections. However, we have yet to take the responsibility to relinquish the control over these user fees that we think we deserve. In fact, in the current arrangement, Congress cannot resist the temptation to take what is not ours and divert it to nonpatent related functions. This is especially tempting during bad economic times, which we have recently been experiencing. Such an arrangement flies in the face of logic, commonsense budgeting and overwhelming support from the entire patent industry for providing the PTO with a consistent source of funding. Ending fee diversion is one of the only areas of 100 percent agreement within an industry that has often been divided on other issues in this bill. My amendment is supported by: PTO; Intellectual Property Owners Association, IPO; American Intellectual Property Law Association, AIPLA; International Trademark Association, INTA; The 21st Century Coalition; Coalition for Patent Fairness, CPF; Innovation Alliance; American Bar Association, ABA; U.S.

Chamber of Commerce; Wisconsin Alumni Research Foundation, WARF; BIO; Intellectual Ventures; National Treasury Employees Union, NTEU; Intel; and IBM.

The PTO cannot effectively manage the changes made in this legislation without permanent access to its user fees. I agree that there are aspects of the patent system that need to be updated and modernized to better serve those that use the PTO, and this bill makes reforms to the current patent system. In fact, one of those changes involves giving the PTO fee setting authority. Section 9 of the bill states that the PTO shall have authority to set or adjust any fee established or charged by the office provided that the fee amounts are set to recover the estimated cost to the PTO for its activities. This is a great provision to put in the bill, but it is only one side of the funding story. In fact, providing the PTO with fee setting authority alone is at odds with the way Congress currently funds the PTO. If I were the PTO director, why would I take advantage of this provision by increasing fees to a point where I think they would cover my operational costs, when I know that Congress has the ability to take whatever it wants of those increased fees and spend it on something other than what I budgeted those fees to cover?

In fact, PTO Director Kappos has specifically commented on fee diversion at the PTO. During his confirmation hearing in 2009, Director Kappos stated in his testimony that the PTO faces many challenges and one of the most immediate is “the need for a stable and sustainable funding model.” In his private meeting with me prior to his hearing, he discussed his experience as a high-level manager, officer and counsel at IBM. He acknowledged that, despite the vast knowledge and experience that he can bring to the PTO, he could not run PTO efficiently without access to sustainable funding.

In March 2010, Director Kappos appeared before the House CJS Appropriations Subcommittee and stated the PTO was likely to collect at least $146 million more than its 2010 appropriation. He was right, and in July 2010, the PTO had to ask for more funds from Congress in separate legislation, but it was only given $129 million. As a result, PTO ended up collecting at least $53 million above that amount, which it could not access.

In April 2010, Director Kappos made similar comments at a meeting in Reno, NV. When discussing the pending Senate legislation, Director Kappos stated, “I am going to make USPTO much better whether we get new legislation or not . . . There is more than

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one way to solve our problems. Lack of funding is a real issue . . . It’s very hard to cut down on a huge backlog with a lack of funding . . . Lack of funding hits you at every corner at the USPTO. Just do the math . . . We’ll all be dead and gone by the time we get rid of the backlog of appeals at the current rate. It is so overwhelming and it all comes down to the resources you need. It comes down to money.”

In January 2011, Director Kappos appeared at a House Judiciary Committee PTO Oversight hearing. He stated, “uncertainty about funding constrained our ability to hire or allow examiners to work overtime on pending applications during the last year.”

It baffles me that these comments have not been heeded by Congress. Director Kappos believes much progress can be made without legislation as long as there is a sustainable funding model.

Similar words appear in the House Report on the 2003 Patent and Trademark Fee Modernization Act: “While the agency has demonstrated a commitment to embrace top-to-bottom reform consistent with congressional mandates, it is equally clear that PTO requires additional revenue to implement these changes.” Yet, our PTO director, who has incredible plans for this agency, cannot accomplish those due to revenue shortfalls that have plagued the agency for decades--a problem Congress has the ability to permanently fix.

Congress has not ended its diversion of fees from the PTO.

On a regular basis, from 1992 to 2004, the amount Congress “allowed” the PTO to keep via appropriations was less than the fees PTO collected. At the height of this problem in 1998, Congress withheld $200 million from the PTO and diverted it to other general revenue purposes. As recently as 2004, Congress diverted $100 million from the PTO, in 2007, it was $12 million, and in 2010, it was $53 million. In total, since 1992, Congress has diverted more than $800 million that the PTO will never be able to recover.

Now, beyond the concern that appropriators have with relinquishing control over PTO funding, some might say that the practice of fee diversion has ended in recent years, making this amendment unnecessary. Under public pressure from numerous sectors of the American innovation industry, in 2005 and 2006 and 2008 and 2009, it is true Congress gave PTO all of the funds it estimated in its budget request. So, some argue that no permanent solution to PTO fee diversion is necessary because of Congress’s proven restraint.

However, it is not entirely true that all fee diversion has ended. First, it is inaccurate to say there has been no fee diversion since 2004. According to the PTO, $12 million was diverted in 2007, and $53 million in 2010--a type of diversion slightly different from the past. From 1992-2004, PTO provided an estimate of its fees, but appropriators diverted funds by appropriating to the PTO less than its estimate and applying the difference to other purposes. In 2007 and 2010, PTO provided its estimate and, it is true, appropriators provided an amount equal to that estimate. But, PTO collected more than what appropriators gave them, and those fees were diverted to other purposes rather than being returned to PTO the following year. Without access to those funds, PTO lost $12 million in 2007 and $53 million 2010, for a total of $65 million.

Second, Congress has engaged in “soft diversion” of PTO funds through earmarking PTO fees. From 2005-2010, appropriators directed PTO to spend its user fees on specific, earmarked items in appropriations bills totaling over $29 million. Such items included: $20 million for “initiatives to protect U.S. intellectual property overseas;” $1.75 million for the National Intellectual Property Law Enforcement Coordination Council, NIPLECC; $8 million for PTO to participate in a cooperative with a nonprofit to conduct policy studies on the activities of the UN and other international organizations, as well as conferences. While we all agree it is important to protect intellectual property rights abroad, PTO should be able to have discretion to decide how much of its budget should be directed for those purposes.

Third, the PTO faces a huge backlog of unexamined patents, as well as an enormous patent pendency problem for those applications already being processed. Fee diversion from the PTO has exacerbated these waiting periods through a congressional Ponzi-scheme. Even if we were to accept that fee diversion stopped in 2005, CBO states that approximately $750 million was

diverted from 1992-2007. With the addition of the $53 million diverted last year, the PTO has lost over $800 million due to fee diversion. Thus, PTO has been constantly trying to recover from years of a "starvation funding diet."

So, when the PTO presents a budget of what it needs to process applications in the next 1-year period, that money is actually going towards processing applications sitting in the backlog. As a result, Congress is really not providing PTO with what it needs for the year in which it receives appropriations. Rather, it is giving short-shrift to the current year's needs because PTO must apply its fees not to the inventor who submitted his application this year, but to those who paid and submitted applications years ago.

Lack of funding is exacerbated under a continuing resolution. In fact, PTO's lack of access to its user fees is further amplified in a year with a continuing resolution, such as this fiscal year. Under this CR, the PTO can only spend at the level given to it by the Appropriations Committee in 2010, which is approximately $1.5 million per day less than the President's fiscal year 2011 budget request.

PTO already has to wait on year-to-year funding that may not materialize, and under a CR the problem is worse since PTO cannot get access to their fees until the CR is lifted. In January, the PTO Director noted at the House Judiciary PTO oversight hearing, "our spending authority under the continuing funding resolutions and the lack of a surcharge assessment through early March, however, represent foregone revenue of approximately $115 million as compared to what was proposed in the President's fiscal year 2011 budget request."

Thus, under the House-proposed CR, without a specific provision inserted to allow the PTO to collect all of the fees it collects, PTO will not be able to access its future fee collections. My amendment would solve this problem of constantly using time and resources at both the PTO and Congress to ensure the PTO receives the funding it deserves and does not suffer from Congress's inability to properly fund the government.

As the above problems show, even without direct diversion, PTO still faces the possibility of having its fees diverted by other means. Thus, while I recognize that some effort has been made by Congress, it is no consolation to me or to the PTO Director that, in recent years, appropriators have "restrained" themselves and provided the PTO with all of the fees that it collected. "But, such recent restraint does not guard against future diversion."

In 2007, the American Intellectual Property Law Association stated in a letter to House Speaker Nancy Pelosi, "there is nothing to prevent the devastating practice of fee diversion from returning . . . While everyone wishes for a more rapid recovery by the Office, it must be remembered that the current situation is the result of a 12 year starvation funding diet. It will take permanent, continued full funding of the USPTO . . . to overcome these challenges."

An amendment to permanently end fee diversion is the only effective remedy. The only true solution to the problem of PTO fee diversion that will give solace to those in the patent community and to the PTO Director is a permanent end to fee diversion so the PTO can effectively and efficiently budget for its future operational needs.

The President's fiscal year 2012 Budget also supports a sustainable funding model for the PTO. It states, "another immediate priority is to implement a sustainable funding model that will allow the agency to manage fluctuations in filings and revenues while sustaining operations on a multi-year basis. A sustainable funding model includes: (1) ensuring access to fee collections to support the agency's objectives; [and] (2) instituting an interim patent fee increase. . . ." In fact, as I stated earlier, in 2008, this body approved, by unanimous consent, an amendment to the 2009 budget resolution by Senator Hatch that condemns the diversion of funds from the

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PTO. My amendment is in the same vein--if we will vote to condemn fee diversion, we should also vote to remedy the problem.

I believe we cannot have true patent reform without ending fee diversion and providing the PTO with a permanent, consistent source of funding, which is why I believe very strongly that this amendment should be adopted. As my colleague Senator Hatch so effectively stated in Judiciary Committee markup this year, "fee diversion is nothing less than a tax on innovation."

Finally, I would like to point out that nothing in this amendment allows the PTO to escape congressional oversight and accountability. You have all heard me talk about the need for more transparency in all areas of our government, and this is no exception. Enacting this amendment will not put the PTO on "auto-pilot" or reduce oversight of PTO operations. In fact, the amendment requires extensive transparency and accountability from the PTO, giving Congress plenty of opportunities to conduct vigorous oversight.

My amendment provides four different methods by which Congress will hold PTO accountable: (1) an annual report, (2) an annual spending plan to be submitted to the Appropriations Committees of both Houses, (3) an independent audit, and (4) an annual budget to be submitted to the President each year during the budget cycle. Furthermore, nothing in this amendment changes the current jurisdiction of any congressional committee, Appropriations or Judiciary, to call PTO before it to demand information, answers and accountability. In fact, it has the potential to yield more information to Congress via the four reporting requirements than provided by other agencies.

This amendment is not about authorizers versus appropriators, but rather it is about giving the PTO and its very capable and experienced director the opportunity to improve the agency and provided top-notch service to PTO applicants. It is also about making oversight of the PTO a priority for all committees of jurisdiction. It is about stimulating our economy because when the PTO is fully funded, patents are actually granted, which creates jobs in new companies and in the development and marketing of innovative new products. It is about fulfilling our responsibility to ensure efficiency, accountability and transparency in our government so that we reduce our deficit and provide our grandchildren relief from the immense financial burden they currently bear.

Thus, to truly reform the patent system in this country, more than any legislation, it is necessary for the PTO to be able to permanently and consistently access the user fees--not taxpayer funds--it collects. Therefore, I urge my colleagues to support this amendment.

Mr. BAUCUS. Mr. President, I want to take a few minutes to explain in detail the tax strategy patent provision in the pending patent reform legislation that was drafted jointly by Judiciary Committee Ranking Member Chuck Grassley and me. As chairman of the Senate Finance Committee, I am concerned by the growth in the number of patents that have been sought and issued for tax strategies for reducing, avoiding, or deferring a taxpayer's tax liability. Section 14 of S. 23 would prevent the granting of patents on these tax strategies so that the Internal Revenue Code can be applied uniformly while balancing the critical need to protect intellectual property.

Let me explain. Our Federal tax system relies on the voluntary compliance of millions of taxpayers. In order for the system to work, the rules must be applied in a fair and uniform manner. To that end, everyone has the right to arrange financial affairs so as to pay the minimum amount legally required under the Internal Revenue Code.

Patents granted on tax strategies take away this right and undermine the integrity and fairness of the tax system. These patents have been on ideas as simple as funding a certain type of tax-favored trust with a specific type of financial product or calculating the ways to minimize the tax burden of converting to an alternative retirement plan. Rather than allowing these tax planning approaches to be available to everyone, these patents give the holder the exclusive right to exclude others from the transaction or financial arrangement. As a result, they place taxpayers in the undesirable position of having to choose between paying more than legally required in taxes or paying a royalty to a third party for use of a tax planning invention that reduces those taxes.

The patentability of tax strategies also adds another layer of complexity to the tax laws by requiring taxpayers or their advisors to conduct patent searches and exposing them to potential patent infringement suits. And, in situations where a patent is obtained on a tax shelter designed to illegally evade taxes, the fact that a patent was granted may mislead unknowing taxpayers into believing that the strategy is valid under the tax law.

Section 14 of S. 23 addresses these concerns by providing that any strategy for reducing, avoiding, or deterring tax liability, whether known or unknown by anyone other than the inventor at the time of the invention or application for patent, will be deemed insufficient to differentiate a claimed invention from the prior art for purposes of evaluating an invention under section 102 or under section 103 of the Patent Act. Applicants will not be able to rely on the novelty or nonobviousness of a tax strategy embodied in their claims in order to distinguish their claims from prior art. The ability to interpret the tax law and implement such interpretations remains in the public domain, available to all taxpayers and their advisers.

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

Generally, tax strategies rely on tax law to produce the desired outcome; that is, the reduction, avoidance, or deferral of tax liability. Tax law can include regulations or other guidance, as well as interpretations and applications thereof. Inventions subject to this provision would include, for example, those especially suitable for use with tax-favored structures that must meet certain requirements, such as employee benefit plans, deferred compensation arrangements, tax-exempt organizations, or any other entities or transactions that must be structured or operated in a

particular manner to obtain certain tax consequences. The provision applies whether the effect of an invention is to aid in satisfying the qualification requirements for the desired tax-favored entity status, to take advantage of the specific tax benefits offered in a tax-favored structure, or to allow for tax reduction, avoidance, or deferral not otherwise automatically available to such entity or structure.

Inventions can serve multiple purposes. In many cases, however, the tax strategy will be inseparable from any other aspect of the invention. For example, a structured financial instrument or arrangement that reduces the after-tax cost of raising capital or providing employee benefits is within the scope of the provision, even if such instrument or arrangement has utility to issuers, investors, or other users that is independent of the tax benefit consequences. No taxpayer should be precluded from using such an instrument or arrangement to obtain any reduction, avoidance, or deferral of tax that attends it.

At the same time, there may be situations in which some aspects of an invention are separable from the tax strategy. For example, a patent application may contain multiple claims. In this case, any claim that encompasses a tax strategy will be subject to the provision and the novelty or nonobviousness of the tax strategy will be deemed insufficient to differentiate that claim from the prior art. However, any other claim that does not involve a tax strategy would not be subject to the provision. In such a case, if the invention includes claims that are separable from the tax strategy, such claims could, if otherwise enforceable, be enforced.

The mere fact that any computations necessary to implement an invention that is a strategy for reducing, avoiding, or deferring tax liability are done on a computer, or that the invention is claimed as computer implemented, does not exclude the strategy from the provision. In such a case, the claims, if separable from the tax strategy, would be evaluated under sections 102 and 103

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without regard to the tax strategy. If those nontax related and separable claims still met the requirements for patentability, a patent would issue, but not on the tax strategy.

The provision is not intended to deny patent protection for inventions that do not comprise or include a business method. For example, an otherwise valid patent on a process to distill ethanol would not violate the rule set forth in this provision merely because a tax credit for the production of ethanol for use as a fuel may be available. Similarly, the mere fact that implementation of an otherwise patentable invention could result in reduced consumption of products subject to an excise tax would not make the invention subject to this provision.

The provision is also not intended to deny patent protection for tax return preparation software 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. Similar to the review of computer-implemented strategies, such software would still be entitled to patent protection to the extent otherwise patentable. Such patents, however, could not preclude non-users of such software from implementing any tax strategy. No inference is intended as to whether any software is entitled under present law to patent protection as distinct from copyright protection.

Nor is an inference intended as to whether any particular strategy for reducing, avoiding, or deferring tax liability is otherwise patentable under present law.

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

The practical result of this provision is that no one can be granted an exclusive right to utilize a tax strategy. The provision is intended to provide equal access to tax strategies.

I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. Franken). The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. REID. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Senate Debate – 157 Cong. Rec. S1323-S1326

[Congressional Record Volume 157, Number 33 (Monday, March 7, 2011)]

[Senate]

[Pages S1323-S1326]

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PATENT REFORM ACT OF 2011—Resumed Cloture Motion

The PRESIDING OFFICER. Pursuant to rule XXII, the Chair lays before the Senate the pending cloture motion, which the clerk will state.

The assistant legislative clerk read as follows:

Cloture Motion

We, the undersigned Senators, in accordance with the provisions of rule XXII of the Standing Rules of the Senate, hereby move to bring to a close debate on S. 23, the America Invents Act.

Harry Reid, Patrick J. Leahy, Debbie Stabenow, John F. Kerry, Jeanne Shaheen, Christopher A. Coons, Tom Harkin, Mark Begich, Jeff Bingaman, Al Franken, Kay R. Hagan, Michael F. Bennet, Richard Blumenthal, Sheldon Whitehouse, Amy Klobuchar, Bill Nelson, Benjamin L. Cardin, Richard J. Durbin.

(At the request of Mr. Reid, the following statement was ordered to be printed in the Record.)

Mr. LEAHY. Mr. President, today the Senate will take another step toward completing action on the America Invents Act. This is commonsense legislation that will make the first comprehensive reforms to our Nation's patent system in nearly 60 years. The debate on this bill since its introduction 6 years ago has been long, and the compromises have been many. I am confident that the bill before us today makes the needed changes to bring the U.S. Patent and Trademark Office into the 21st century.

The America Invents Act is bipartisan legislation that has resulted from deliberation in both the Senate and House. It has been the topic of more than a dozen hearings and committee meetings in the Senate, and countless hours of meetings and negotiations. I had hoped to complete action on this legislation last week. The additional time has allowed every Senator the opportunity to come to the floor and speak about the important matters encompassed by this bill. We have debated and adopted relevant amendments and debated and rejected other amendments, including some that were not even relevant to this legislation. This is a bill that does not spend a dollar of taxpayer money and does not add to the deficit. It will directly result in millions of dollars being saved, and indirectly in helping unleash American innovation to create jobs and help bolster our economy.

Now is the time to act. Now is the time to vote. Now is the time to move forward with this job-creating bill that will help boost our economy and restore America's competitive edge in the global marketplace.

Modernizing our patent system through the America Invents Act will make America more competitive. It protects innovators and inventors large and small, from the small independent inventor in Middlesex, VT, to cutting-edge manufacturers and innovators in Ohio and California. It will give the Patent and Trademark Office the tools it needs to process and award the patent for what may be the next life-saving device or life-changing invention. And the America Invents Act will do all of this without spending a dollar of taxpayer money. This is a jobs bill that doesn't add a cent to the deficit. Supporters of this legislation come from both sides of the aisle, from every corner of the country, and from every component of the patent community.

This country's first patent was issued to a Vermonter. Thomas Jefferson, the Secretary of State, examined the application, and President George Washington signed it. A lot has changed in the more than 220 years since that first patent was issued. We cannot remain complacent and expect to remain at the forefront of innovation. Enacting the America Invents Act is one way in which we can come together and show the American people that we in Washington are working together with the future of our country in mind.

I commend Austan Goolsbee, the chair of the President's Council of Economic Advisers, for his white board presentation today on the importance of patent reform to help America win the global competition and create jobs. The creation of more than 220,000 jobs in the private sector last month, the creation of 1.5 million jobs over the last 12 months, and the unemployment rate finally being reduced to 8.9 percent are all signs that the efforts we have made over the last 2 years to stave off the worst recession since the Great Depression are paying off and the economic recovery is taking hold. The almost full percent point drop in the unemployment rate over the last three months is the largest decline in unemployment since 1983. Despite interruptions of economic activity in many parts of the country caused by winter weather over the last months and days, despite the extraordinary rise in oil prices, the Dow Jones industrial average has climbed back to over 12,000 from a low point of 6,500. Passage of the America Invents Act should help bolster our economic recovery and keep us on the right path toward business development and job creation.

I urge all Senators to support the cloture motion on the America Invents Act. The Nation's economy, American inventors and innovators, our competitive edge in the global marketplace all will be helped when we pass this important bill.

The PRESIDING OFFICER. By unanimous consent, the mandatory quorum call has been waived.

The question is, Is it the sense of the Senate that debate on S. 23, the Patent Reform Act of 2011, shall be brought to a close?

The yeas and nays are mandatory under the rule.

The clerk will call the roll.

The legislative clerk called the roll.

Mr. DURBIN. I announce that the Senator from North Dakota (Mr. Conrad), the Senator from Vermont (Mr. Leahy), the Senator from Vermont (Mr. Sanders), and the Senator from Virginia (Mr. Webb) are necessarily absent.

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I further announce that, if present and voting, the Senator from Vermont (Mr. Leahy) would vote "yea."

Mr. KYL. The following Senators are necessarily absent: the Senator from Nevada (Mr. Ensign), the Senator from Utah (Mr. Hatch), the Senator from North Dakota (Mr. Hoeven), the Senator from Georgia (Mr. Isakson), the Senator from Alaska (Ms. Murkowski), and the Senator from Kentucky (Mr. Paul).

Further, if present and voting, the Senator from Utah (Mr. Hatch) would have voted "yea."

The PRESIDING OFFICER. Are there any other Senators in the Chamber desiring to vote?

The result was announced--yeas 87, nays 3, as follows:

[Rollcall Vote No. 34 Leg. – Votes omitted]

The PRESIDING OFFICER. On this vote, the yeas are 87, the nays are 3. Three-fifths of the Senators duly chosen and sworn having voted in the affirmative, the motion is agreed to.

The clerk will report the pending business.

The legislative clerk read as follows:

A bill (S. 23) to amend title 35, United States Code, to provide for patent reform.

Pending:

Leahy amendment No. 114, to improve the bill.

Bennet amendment No. 116, to reduce the fee amounts paid by small entities requesting prioritized examination under Three-Track Examination.

The PRESIDING OFFICER. The majority leader.

Amendment No. 141, as Modified

Mr. REID. Mr. President, I ask unanimous consent that the pending amendments be set aside, and I call up an amendment on behalf of Senators Baucus and Grassley, No. 141; that it be modified with the changes that are at the desk; further, that the amendment, as modified, be agreed to, that the motion to reconsider be considered made and laid upon the table, and that

there be no intervening action or debate. The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment (No. 141), as modified, was agreed to, as follows:

(Purpose: To clarify that section 14 shall not apply to an invention that is a computer program product or system used solely for preparing a tax or information return or other tax filing)

On page 94, between lines 22 and 23, insert the following:

(e) Exclusion.--This section does not apply to that part of an invention that is a method, apparatus, 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.

Mr. REID. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. REID. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Amendments Nos. 114 and 116, Withdrawn

Mr. REID. Mr. President, I ask unanimous consent to withdraw the pending Leahy and Bennet amendments.

The PRESIDING OFFICER. Without objection, it is so ordered.

Amendment No. 143

Mr. REID. Mr. President, I call up my amendment, which is No. 143, which is at the desk. The PRESIDING OFFICER. The clerk will report.

The legislative clerk read as follows:

The Senator from Nevada [Mr. Reid], for himself and Mr. Ensign, proposes an amendment numbered 143.

Mr. REID. Mr. President, I ask unanimous consent that the reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

(Purpose: To include public institutions of higher education in EPSCOR jurisdictions in the definition of a micro entity)

On page 93, before line 18, insert the following:

“(d) EPSCOR.--For purposes of this section, a micro entity shall include an applicant who certifies that--

“(1) the applicant’s employer, from which the applicant obtains the majority of the applicant’s income, is a State public institution of higher education, as defined in section 102 of the Higher Education Act of 1965 (20 U.S.C. 1002), in a jurisdiction that is eligible to qualify under the Research Infrastructure Improvement Grant Program administered by the Office of Experimental Program to Stimulate Competitive Research (EPSCoR); or

“(2) 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, which is in a jurisdiction that is eligible to qualify under the Research Infrastructure Improvement Grant Program administered by the Office of Experimental Program to Stimulate Competitive Research (EPSCoR).”.

Amendment No. 152 to Amendment No. 143

Mr. REID. Mr. President, I now call up a second-degree amendment, which is No. 152. The PRESIDING OFFICER. The clerk will report.

The legislative clerk read as follows:

The Senator from Nevada [Mr. Reid] proposes an amendment numbered 152 to amendment No. 143.

Mr. REID. Mr. President, I ask unanimous consent that the reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

(Purpose: To provide an effective date)

On page 2 of the amendment, after line 11, add the following:

“(e) Effective Date.--Subsection (d) shall take effect 1 year and 1 day after the date of enactment of the Patent Reform Act of 2011.”.

Mr. REID. Mr. President, so everyone knows what this amendment does, we looked at the National Science Foundation regarding a program called EPSCoR. A number of sparsely populated States are disadvantaged with this program. However, in talking with a number of Senators, this amendment we are going to seek modification of at a later time would have no,

zero, effect on scoring. There is no score to it whatsoever. But we are going to try--not trying to, we are going to include every State because it costs nothing.

Even though a lot of States are not funded adequately with this EPSCoR money, there is no reason every State that has a State university and does something inventive should have to pay exorbitant patent fees.

It does not cost any money. It is the right thing to do. We will discuss it at a further time. If someone has some problem with it, we will have to make a determination. At this stage, I think it would be the right thing for the country.

Satellite Offices

Mr. BENNET. Mr. President, I thank Chairman Leahy for working to pass an amendment I introduced last week with Senator Udall to authorize the Director of the U.S. Patent and Trademark Office, USPTO, to establish three or more satellite offices. This amendment will go a long way toward improving the efficiency and quality at the USPTO.

I really appreciate the chairman and ranking member for working with us to modify the amendment's language in order to address colleagues' concerns on both sides of the aisle. We struck a good balance to not tie the hands of the USPTO, allow the Office to take advantage of the work it has done on the satellite office concept, and ensure

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that PTO can have an open, competitive process in making determinations for future regional satellite offices. At this moment, I would like to invite the senior Senator from Colorado, Mark Udall, to enter into a colloquy to discuss this amendment.

The establishment of regional satellite offices will help the USPTO recruit and retain workers from across the country. Regional offices will draw local scientists, engineers and patent attorneys into the USPTO, which add real world expertise to the patent review process. They will also increase outreach activities and connection to patent filers; enhance the ability of the USPTO to recruit and retain patent examiners; and improve the quality and pendency for patent applications.

In short, USPTO Director Kappos has already taken steps toward establishing regional satellite offices. Our amendment is intended to build on this prior work, which I believe provides a good foundation for the USPTO improving its footprint in innovation centers across the country. I know Senator Udall and I will be advocating for a regional satellite office in Denver, and of course we expect other advocates to point out the merits of their potential sites as well.

Mr. UDALL of Colorado. I would also like to thank the chairman for helping us pass this important amendment. Right now, the European Union uses four geographically diverse patent offices. By only having one patent office, we are at a competitive disadvantage. We need to have these regional offices in order to connect innovators and businesses across the country.

The current lack of regional satellite offices is even more of a problem when you consider all of the recruitment and retention issues the USPTO is having with its patent examiner workforce. USPTO is unable to hire and retain over 6,000 examiners at its single location in Alexandria, VA. This has resulted in one-third of patent examiners having been with the USPTO for less than 3 years. USPTO should be recruiting examiners from across the country. Establishing satellite offices will help the USPTO develop expertise from all regions of the country--and I know that a satellite office in Denver, CO, would attract highly qualified examiners.

Mr. BENNET. I agree with the Senator. We need to be maximizing our human capital. I have heard from a number of more senior patent attorneys and engineers in Denver that would love to work for the USPTO but cannot uproot their families across the country. Having a satellite office in places like Denver will make sure we are taking advantage of these high-skilled workers.

While our amendment provides for an open process and does not constrain the USPTO in making determinations for future offices, we do hope that the Office can build on its decision making process in 2010. This process ultimately led to the selection of Detroit as an initial regional satellite. While Senator Udall and I were disappointed that Colorado wasn't selected, we respect the thoroughness of the USPTO's review and do not want all of its hard work in reviewing locations across the country to go to waste.

Mr. UDALL of Colorado. There really are a number of objective reasons for choosing Denver. First, opening an office in Colorado will permit USPTO to recruit and hire from a pool of the best candidates the U.S. has to offer. Colorado is home to a great number of technology workers who would be excellent long-term patent examiners for an office located in Colorado. The technology workforce in Colorado is consistently ranked in the top-10 in the U.S. in many important categories. According to a report by Pew Research, Colorado is ranked: third for percent of workers with a bachelor's degree or more; fifth for number of workers with science and engineering degrees per capita; fifth for number of scientists and engineers as a percent of the labor force; and second for number of patents per 1,000 workers. Additionally, other Federal agencies have found Colorado to be a great place to locate an office. Outside of the Washington metro area, Denver has the highest number of Federal employees per capita.

Because Colorado is a very desirable place to live, locating a satellite office in Colorado would allow the USPTO to dramatically improve its ability to recruit and retain its most valuable employees. According to the report by Pew Research, Colorado is ranked first for percent of U.S. workers who say they want to live there; and sixth for the percentage of sunny days. Colorado is also well known for its reasonable cost of living, especially in comparison to cities located on the east and west coasts, and Chicago.

Colorado is also centrally located in the U.S. and easily accessible to the entire country. Our location in the middle of the country provides convenient access for the technology centers of the West, Midwest, and Rocky Mountain regions.

Mr. BENNET. I fully agree with Senator Udall. There are a number of clear, objective reasons why Colorado should be a regional satellite location for the USPTO. My understanding is that in 2010 the USPTO applied a number of criteria to review numerous site possibilities. This criteria included patents granted, per capita; scientists and engineers in the State, per capita; proximity to

law schools and major research institutions; number of patent attorneys and agents; number of teleworking PTO patent examiners; and presence of Federal employees, office space. This approach makes sense. By all accounts--and I admit I am biased here--Denver is at the top. It is my strong view that when you factor in our central location and accessibility to the rest of the country, it makes sense for an office to be located in Denver.

Mr. UDALL of Colorado. I look forward to working closely with the Senator to advocate for an office in Denver. I think a Western office will go a long way toward ensuring the success of our patent system.

Mr. BENNET. I thank the Senator.

Mr. SESSIONS. Mr. President, I rise today to speak in support of S. 23, which largely reflects the agreement on patent-reform legislation that Senator Leahy and I announced last year.

The Judiciary Committee has been working hard on landmark patent reform legislation for the past 7 years, and has finally reached a broad, bipartisan agreement. This bill includes important reforms that will improve the functioning of the Patent and Trademark Office and will allow the office to reduce its backlog of pending applications. The bill also makes the long-overdue transition to a first-to-file system, a change that will help ensure U.S. inventors receive patents that will also be entitled to priority in foreign countries.

This bill has the support of a broad range of industries and trade associations, across the economic spectrum, as well as the support of universities, patent professional organizations, independent entrepreneurs and labor unions. The PTO and the Commerce Department also strongly support this legislation. While not all interests are satisfied, I think it is fair to say that the present agreement has produced a near consensus on this issue, and has resulted in the broadest possible support for this reform.

The most important change made by this bill is its adoption of a first-to-file patent system. Under current U.S. law, when two different people come up with the same invention, priority is given to the person who can prove that he first conceived of the invention and was able to make it work. Under the first-to-file system, by contrast, priority is given to the first person who not only conceived of the invention and was able to make it work, but who also filed a disclosure with the PTO explaining the invention and how to make it work.

The first-to-file system has several important advantages over the current system. First, it is easy to verify when an inventor filed a disclosure statement with the PTO. By contrast, under the current system, invention priority dates are determined by examining the inventor's notebooks and other records, all of which must have been contemporaneously validated by a third party. The first-to-file system not only dispenses with expensive discovery into "what did the inventor know and when did he know it," it also allows the public to easily determine an invention's priority date--and whether a patent for the invention is valid in light of the prior art. Additionally, the first-to-file system, combined with the use of provisional applications for patents, also provides an inexpensive and secure way for small inventors

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to protect their patent application while discussing the invention with possible investors and other third parties.

Other reforms included in the bill will improve the quality of U.S. patents over the long term. The bill creates a new post-grant review of patents, which can be sought within the first 9 months after the patent is issued and used to raise any challenge to the patent. This will allow invalid patents that were mistakenly issued by the PTO to be fixed early in their life, before they disrupt an entire industry or result in expensive litigation.

The bill also allows third parties to submit prior art relevant to a patent application before the patent is issued. This will help PTO determine if the invention is already in the public domain and should not be patented. This provision will allow the public to help the PTO correct its mistakes, and ensure that no patent rights are granted for inventions already available to the public.

The bill also makes structural reforms to post-grant review that were sought by the PTO. It allows inter partes reexamination to be run as an adjudicative system, and elevates the threshold for starting post-grant proceedings. The PTO has insisted that a higher threshold is critical to its ability to administer these proceedings. By raising the threshold for starting an inter partes review to a showing of a “reasonable likelihood” that a patent is invalid, the bill will allow the PTO to avoid accepting challenges that were unlikely to win in any event.

The bill also includes many protections that were long sought by inventors and patent owners. It preserves estoppel against relitigating in court those issues that an inter partes challenger reasonably could have raised in his administrative challenge. It imposes time limits on starting an inter partes or post-grant review when litigation is pending. And it imposes a one-year time limit on the duration of these proceedings. All of these reforms will help to ensure that post-grant review operates fairly and is not used for purposes of harassment or delay.

I commend the members of the Judiciary Committee for the work they have put into this bill and I urge my colleagues to support passage.

Senate Debate – 157 Cong. Rec. S1348-S1352

[Congressional Record Volume 157, Number 34 (Tuesday, March 8, 2011)]

[Senate]

[Pages S1348-S1352]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

PATENT REFORM ACT OF 2011

The PRESIDING OFFICER. Under the previous order, the Senate will resume consideration of S. 23, which the clerk will report.

The assistant legislative clerk read as follows:

A bill (S. 23) to amend title 35, United States Code, to provide for patent reform.

Pending:

Reid/Ensign amendment No. 143, to include public institutions of higher education in EPSCOR jurisdictions in the definition of a micro entity.

Reid amendment No. 152 (to Reid amendment No. 143), to provide an effective date.

The PRESIDING OFFICER. The Senator from Vermont.

Mr. LEAHY. Mr. President, American ingenuity and innovation have been a cornerstone of the American economy from the time Thomas Jefferson examined the first patent to today. The Founders recognized the importance of promoting innovation. The Constitution explicitly grants Congress the

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power to “promote the progress of science and useful arts by securing for limited times to inventors the exclusive rights to their respective discoveries.”

The discoveries made by American inventors and research institutions, commercialized by American companies and protected and promoted by American patent laws, have made our system the envy of the world.

The Senate has before it the America Invents Act. This will keep America in its longstanding position at the pinnacle of innovation. This bill will establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs, while making sure no party’s access to court is denied.

I was glad to see the overwhelming bipartisan vote in favor of ending debate and invoking cloture that was cast yesterday. Yesterday was one of the rare instances ever in Vermont where

snow impeded us and made it impossible for us to get back. I am delighted to be back here for what I hope will be the successful conclusion and vote on our legislation. This is, after all, the product of eight hearings over the last three Congresses, hundreds of meetings, and dozens of briefings. I again thank Secretary Locke and PTO Director Kappos for their involvement, their wise counsel and their support.

Last Congress, I introduced the Patent Reform Act of 2009 as a precursor to the America Invents Act today, along with Senator Hatch and others, and our bill was the subject of consideration and amendments over several thoughtful sessions of markups in the Senate Judiciary Committee in March and April of 2009. At that time, Senator Kyl asked that I convene a meeting with the Director of the Patent and Trademark Office to discuss whether there were further changes the office needed in the legislation to improve the office's efficiency. We held those discussions, and we held countless other meetings and briefings with interested parties in an effort to improve the legislation, again on a bipartisan basis. Bruce Cohen in my office, Aaron Cooper, Ed Pagano and others, had meeting after meeting just as predecessors of theirs had. In short, we spent a whole lot of time making sure this was done right and we did it in a bipartisan manner. Bolstering the American economic recovery and strengthening our efforts in global competition should not be matters of partisanship or political advantage.

The process of discussions, debates and deliberation has resulted in legislation that is going to be a much-needed boon to our economy. It is also a model for our legislative process. It shows what you can do when you set aside partisan rhetoric and instead negotiate and collaborate together in good faith.

I know I speak for Senator Kohl, Senator Whitehouse, Senator Klobuchar, Senator Gillibrand, Senator Coons and the other Democratic cosponsors of the bill when I thank the four senior Republican members of the Judiciary Committee, Senator Hatch, Senator Grassley, Senator Kyl and Senator Sessions for working with us. Innovation and economic development are not uniquely Democrat or Republican objectives, so we worked together to find the proper balance for America--for our economy, for our inventors, for our consumers. It is both a process and a result that should make us all proud.

The last time Congress significantly updated the patent system was more than a half century ago. In the intervening decades, our economy has changed dramatically. A patent system developed in our 1952 economy before the Internet, before cell phones, before computers, before photocopiers, even before the IBM Selectric typewriter, needs to be reconsidered in light of 21st century realities, while staying true to the consistent constitutional imperative of encouraging innovation and invention.

Our patent laws that were the envy of the world in the 20th century desperately need to be updated if we are going to compete effectively and win the future. China and the European Union are improving their patent laws. We can't remain complacent. If we are going to win the global competition by out-innovating the rest of the world, we need a patent system that works in the 21st century.

The array of voices heard in this debate represent virtually all sectors of our economy, all interests in the patent system. They have not been uniform, as expected, but they know the

legislative process is one of compromise and accommodation where possible, and it has been that way during the 6 years we have been at work on this bill. Three major areas of concern emerge from this discussion. The America Invents Act addresses each one of them.

First, there is significant concern about delays in the patent application process. The Patent and Trademark Office, PTO, currently has a backlog of more than 700,000 unexamined patent applications. There are several reasons for this, not the least of which is the PTO is overwhelmed with patent applications and doesn't have the resources necessary to work through that backlog.

The Director of the PTO often says the next great invention that may drive our economic growth may be waiting on the shelf, waiting to be granted. Some estimate that each issued patent represents three to 10 jobs. We can ill-afford to keep so many job-creating patents backlogged at the PTO. The America Invents Act authorizes the PTO to set its fees and ensures that the PTO will have access to those fees. We want the PTO to work through its backlog and be current. In his white board presentation on the need for patent reform this week, Austan Goolsbee, the chair of the President's Council of Economic Advisers, illustrated this point by noting that when Alexander Graham Bell applied for a patent that led to the telephone, it was granted in a month. The patent in 1974 that led to the cell phone took less than three years. The average time this year for a patent to be processed is almost three years and several thousand take far longer.

I want to commend Austan Goolsbee, the chairman of the Council of Economic Advisers. His white board presentation this week on the importance of patent reform shows we need to help America win global competition and create jobs. The creation of more than 220,000 jobs in the private sector last month, the creation of 1.5 million jobs over the last 12 months, and the unemployment rate finally being reduced to 8.9 percent are all signs that the efforts we have made over the last two years to stave off the worst recession since the Great Depression are paying off and the economic recovery is taking hold. The almost full percent point drop in the unemployment rate over the last three months is the largest decline in unemployment since 1983. Despite interruptions of economic activity in many parts of the country caused by winter weather over the last months and days, despite the extraordinary rise in oil prices, the Dow Jones industrial average has climbed back to over 12,000 from a low point of 6,500. Passage of the America Invents Act should help bolster our economic recovery and keep us on the right path toward business development and job creation.

According to an article in the New York Times just a couple of weeks ago, patent applications last year amounted to 2,000 a day. There are currently 1.2 million patent applications in the pipeline. Among them could be the next medical miracle, the next energy breakthrough, the next leap in computing ability, or the next killer app. We should be doing all we can to help the PTO Director. It makes no sense that it takes 2 years for an inventor to get an initial ruling on his or her patent application and another year or more to receive a patent, this during a time when technology changes sometimes by the hour, to say nothing by the year and the 2 year and 3 year. As the New York Times reporter Edward Wyatt notes: "The delays and inefficiencies are more than a nuisance for inventors . . . . [P]atent delays cost jobs, slow the economy and threaten the ability of American companies to compete with foreign businesses."

Second, there is a concern about the quality of patents that have issued. Just as high quality patents are the key to innovation, low quality patents are a drag on the economy because they provide monopoly rents over products or processes that were not inventive.

Patent examiners are facing a difficult task given the explosion in the

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number of applications and the increasing complexity of those applications. When Congress last overhauled the patent system in 1952, the PTO received approximately 60,000 patent applications; in 2009, it received more than 480,000.

The America Invents Act will improve the quality of patents issued by the PTO in several ways. At the outset, our legislation makes the commonsense change that third parties who see a patent application and know that it is not novel and nonobvious, can assist the PTO examiners by providing relevant information and explaining its relevance.

The bill will also create a new post-grant review process for patents that recently issued to improve the quality of patents in the system, as recommended by the National Academy of Sciences, and it will streamline the current “inter partes” system so that it will be a more efficient alternative to litigation.

The third concern is that as business competition has gone global, and patent applicants are increasingly filing applications in the United States and other countries for protection of their inventions, our system puts American inventors and businesses at a disadvantage. The filing system in the United States differs from that in other patent-issuing jurisdictions, which have “first-inventor-to-file” systems. The difference causes confusion and inefficiencies for American companies and innovators. The inefficiencies exist both in the application process and in determining what counts as “prior art” in litigation. I ask unanimous consent to have printed in the Record an editorial from today’s New York Times, which calls the transition to first-inventor-to-file “simpler and cheaper” and says it “should benefit the little guy.”

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

Mr. LEAHY. The America Invents Act transitions to a first-inventor-to-file process, as recommended by the administration, while retaining the important grace period that will protect universities and small inventors, in particular. We debated this change at some length in connection with the Feinstein amendment. That amendment was rejected by the Senate by a vote of 87 to 13. The Senate has come down firmly and decisively in favor of modernizing and harmonizing the American patent system with the rest of the world.

When we began the patent reform debate 6 years ago, there was also a significant concern that the costs and uncertainty associated with patent litigation had been escalating, which was resulting in a drag on innovation. Damage awards had been inconsistent and not always related to the value of the invention. This disconnect and uncertainty was a problem that also led to unreasonable posturing during licensing negotiations.

Fortunately, the courts have made great strides in addressing this issue, and there is general consensus that legislation need not and, in fact, should not affect the law of damages as a result.

The Senate has before it bipartisan legislation that can lead to long-needed improvements in our patent laws and system. This is a measure that can help facilitate invention, innovation and job creation, and do so in the private sector. This can help everyone from startups and small businesses to our largest, cutting edge companies.

The America Invents Act promotes innovation, and will improve our economy, by addressing the impediments to innovation. As the President challenges Americans to win the future, Congress cannot afford to sit idly by while innovation--the engine of our economy--is impeded by outdated laws. Our legislation leverages the ingenuity of our businesses, our universities, and our independent inventors, and creates a system in which that ingenuity can improve our economy. It will create jobs, improve products and reduce costs for American companies and American consumers.

I began working on patent reform years ago, along with Chairman Smith in the House, because of my belief that we needed a more efficient and streamlined system. For many years, patent law interested only a niche audience, and developments were reported only in trade publications. Now they are discussed everywhere from the front page of the Wall Street Journal to the New York Times, and all three branches of government have taken an active role.

The America Invents Act is about economic development. It is about jobs; it is about innovation; it is about consumers. All benefit under a patent system that reduces unnecessary costs, removes inefficiencies, and holds true to the vision of our Founders that Congress should establish a national policy that promotes the progress of science and the useful arts.

When Thomas Jefferson examined that first patent in 1790--a patent that went to a Vermonter--no one could have predicted how the American economy would develop and what changes would be needed for the law to keep pace, but the purpose then remains the purpose today: promoting progress.

If we are to maintain our position at the forefront of the world's economy, if we are to continue to lead the globe in innovation and production, if we are to continue to enjoy the fruits of the most creative citizens, then we must have a patent system that produces high quality patents, that limits counterproductive litigation over those patents, and that makes the entire system more streamlined and efficient.

Now is the time to bolster our role as the world leader in innovation. Now is the time to create jobs at home. Now is the time for Congress to act on patent reform. I urge all Senators to support the American Invents Act.

Exhibit 1

[From the New York Times, Mar. 7, 2011]

Patents, Reform and the Little Guy

In the last decade, Congress has missed several chances to reform a patent system that is slow, costly and puts the United States at odds with the rest of the industrial world. On Wednesday, the Senate has another opportunity to reform the nation's patent law.

The America Invents Act offers a step toward a more effective and transparent patent protection system. This should encourage investment in inventions and faster diffusion of ideas. The bill, which has broad bipartisan support, would boost the patent office's resources by letting it keep all the fees it collects. This would enable it to speed up the review of patent applications--which currently takes almost three years to process--and work through an immense backlog of 715,000 applications.

The bill should reduce costly litigation by creating an in-house system to look into claims of patent infringement before they go to court.

The bill would also replace the first-to-invent standard prevailing in the United States--which grants formal protection to the creator of an innovation--with the first-inventor-to-file system used in most nations.

This change would make it cheaper for American patent holders to get patent protection around the world. But it has been met with vocal opposition from some groups of small businesses and inventors who claim the change would benefit big corporations at their expense.

We disagree. The new law would make the process simpler and cheaper. That should benefit the little guy.

Small inventors who needed time and money to fully develop and test their ideas could request a provisional patent until they were ready for a full filing. It costs $110. And because it is easy to determine who filed a patent first, the new system would better protect small inventors from challenges by corporations with deep pockets, reducing the chance of costly litigation.

Right now, proving who invented something first is difficult and expensive. According to the patent office, it costs $400,000 to $500,000 to challenge a patent on the grounds of a prior invention. Most small inventors don't have that kind of money. Big corporations do.

In fact, the current system mostly protects whoever files first for a patent. Of the last three million applications filed, only 113 were granted to entities who filed second but proved they had invented first. In 88 of these cases, the winners were large corporations.

The patent system is too cumbersome, and it doesn't protect the small inventor. The America Invents Act is a smart reform.

Mr. LEAHY. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. WARNER. Mr. President, I ask unanimous consent the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

[Text of portions of S1350, S1351 and portions of S1352 omitted]

Mr. UDALL of Colorado. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. UDALL of Colorado. Mr. President, I wished to rise to speak on the legislation that is currently before the Senate, the America Invents Act of 2011. I wish to applaud the work of Judiciary Committee Chairman Leahy and Ranking Member Grassley for working so hard to bring this complex, bipartisan legislation to the Senate floor.

As we work to rebuild our economy, get Americans back to work, and win the global economic race, we should all appreciate this effort to spur innovation and create jobs. Patent reform is an important issue for Colorado's economy and, of course, our national economy. High-tech innovators represent over 12,000 jobs in Colorado, and they are an important part of our economic recovery.

In addition, Colorado has a vibrant biotech, clean energy, and aerospace set of industries. That is why I believe getting patent reform right and achieving consensus on provisions such as inter partes reexamination is so important.

Inter partes reexamines a proceeding at the Patent Office that allows for the validity of a patent to be challenged in an administrative proceeding. These proceedings are intended to serve as a less-expensive alternative to courtroom litigation and provide additional access to the expertise of the Patent Office on questions of patentability.

Inter partes reexam is often the preferred method of examination because a panel of experts is more likely to reach the correct decision on a technical question compared to a jury composed of laypeople. The inter partes process is not frequently used today because of procedural restrictions in the existing law. Rather than expanding the opportunities to use the inter partes reexamination process, the America Invents Act before us today imposes standards that are more restrictive than current law and are not supported by top high-tech innovators.

We need a patent reform bill that is fair to America's innovative technology companies and all users of the patent system.

By failing to provide any relief from the huge burden abusive patent lawsuits impose on technology companies and instead reducing the protections in current law, I fear this legislation will force these companies to spend hundreds of millions of dollars on frivolous lawsuits. These are dollars that otherwise would be used to employ engineers, produce and market new goods and services, and help Colorado and America win the global economic race.

As this legislation moves to the House, we must work to achieve consensus on inter partes reexamination. While I do not believe we have the right balance quite yet, I do believe this bill is a good faith effort to improve our patent system, and I am going to support moving it forward because we cannot let job-creating patents languish any longer.

As we all know, the Patent Office has an enormous backlog of nearly 700,000 applications, in addition to a half million new applications every year. Each of these pending applications will create on average 3 to 10 jobs. But while these applications collect dust in America, other countries are getting a head start on technologies that can revolutionize the way we live. I am very pleased the America Invents Act will address the funding challenges faced by the Patent Office. This legislation will allow the Director of the Patent Office to set fees as necessary, but it will also ensure that those fees stay at the Patent Office--all without any cost to taxpayers. This legislation will allow the Director to finally clear the backlog and create needed jobs through innovation. It is my hope that the funding provisions in the America Invents Act stay in this legislation as it moves to the House.

I am also pleased that this legislation includes an amendment I cosponsored with Senator Bennet to establish additional satellite patent offices around the country. It is no secret that we believe Colorado is well situated to house a regional satellite patent office because of the combination of our rich and diverse innovative economy, our strong research universities and the fact that Colorado is a great place to live. I am confident that Colorado will be competitive in the process of selecting these new satellite patent offices.

In the end, I believe the America Invents Act goes a long way to help unleash America's innovative spirit, but we need to make sure that we don't make changes that could have unintended consequences for some of our most innovative companies. Let's get patent reform right. Let's move it forward, and let's continue working to make our patent system fair, efficient and supportive of innovators as we seek to compete in the global economy.

I thank the Presiding Officer for his attention and interest in his own State of Montana.

I yield the floor.

Senate Debate – 157 Cong. Rec. S1357-S1358

[Congressional Record Volume 157, Number 34 (Tuesday, March 8, 2011)]
[Senate]
[Pages S1357-S1358]
From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

AMERICA INVENTS ACT

Mr. HATCH. Madam President, before the Senate moves to final passage of the America Invents Act of 2011, I wish to express my unequivocal support for this bill. This is not a perfect bill, but the fact is it is going to be a very important occasion to pass this because we haven't passed a major piece of patent legislation for over 60 years or around that length of time. It has been a long time in the making, but it is well worth the effort to modernize our patent system. Despite modifications along the way, the bill retains its strength and ability to bring about true reform.

In considering our country's economic condition, the bill's passage could not come at a more opportune time. The America Invents Act is integral to creating jobs and spurring growth across all sectors of our country. After all, jobs and economic growth are crucial to maintaining our Nation's dominance in innovation and entrepreneurship.

I would like to briefly mention a few key provisions of the act that improve our outdated patent system. These include transitioning to a first-inventor-to-file system, which all the rest of the world has; allowing third parties to submit relevant prior art during patent prosecution; creating a patent quality-enhancing supplemental examination process; and instituting a post-grant review and an inter partes reexamination expansion. All of that is extremely important.

The bill provides fee-setting authority and addresses a long-felt need by the patent community and now by the majority of this body to end the practice--the obnoxious practice--of diverting fees from the U.S. Patent and Trademark Office. No wonder we have such a rough time getting things to work.

Finally, the legislation makes important clarifications to tax strategy patents and creates a pilot program to review already-issued business method patents.

This enumeration underscores a holistic approach that strikes the right balance. I hope everyone in this Chamber recognizes what we are accomplishing. We have come together in a bipartisan fashion to invigorate some of our country's greatest strengths--our ideas and our inventive spirit.

Let me conclude my remarks by commending Senate Judiciary Committee chairman Pat Leahy for his leadership and tenacity in moving this bill through the Senate. He deserves a lot of credit. His vision and tireless efforts have made today's vote a reality. Together, we have worked on patent reform legislation since 2006--and in reality, even earlier than that--passing the torch of leadership along the way. One time, I was chairman; he has been chairman. It is satisfying to see the time has finally come to pass this bill.

I would also like to acknowledge the hard work of our distinguished ranking member, Chuck Grassley. His unwavering support and commonsense approach have been invaluable in this process.

I wish to acknowledge the various staff members of Senator Leahy, my staff, and Senator Grassley's staff for the work they have done on this bill--very important. Likewise, contributions of the members of the Senate Judiciary Committee and other Members of this body have enriched our debate.

Finally, as I have said, I wish to thank our bill managers' staff for their sustained efforts throughout the process. Aaron Cooper, Bruce Cohen, Rita Lari Jochum, and Kolan Davis have been instrumental in getting us to this point. I also thank my own counsel, Matt Sandgren, who has done a terrific job on this bill for all these years we have been working on it, and Remy Yucel, my USPTO detailee, for her and Matt's commitment and perseverance over these many years. They have been a formidable team.

I also acknowledge the important work of Joe Matal, Sarah Beth Groshart, Tim Molino, and Curtis LeGeyt.

Madam President, passing the America Invents Act is the right thing to do, and I urge my colleagues to join in this monumental undertaking. It is the right thing to do, it will help our country, it is going to reestablish our patent laws in ways they should be, and it will stop the fee diversion that has been going on, assuming we can get help from the House as well, and I believe we will. It will be a bill that I think we will have to go to conference on and hopefully be able to perfect it even more. I am grateful for all who have been involved, and I hope and pray we can get this through both Houses of Congress and establish this monumental bill at a monumental time. It is very important in all our lives.

Madam President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

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Mrs. SHAHEEN. Mr. President, I ask unanimous consent the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. Casey). Without objection, it is so ordered.

Senate Debate – 157 Cong. Rec. S1360-S1394

[Congressional Record Volume 157, Number 34 (Tuesday, March 8, 2011)]

[Senate]

[Pages S1360-S1394]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

PATENT REFORM ACT OF 2011--Continued

Mr. LEAHY. Mr. President, since the Senate began this debate on the American Invents Act more than a week ago, I have talked about American ingenuity and innovation. As this debate comes to a close, I want to emphasize that this is legislation that should promote innovation, help create jobs, and help energize the economy as we continue our recovery. This legislation can be a key part of a jobs agenda. We can help unleash innovation an promote American invention, all without adding a penny to the deficit. This is commonsense, bipartisan legislation.

Innovation has been a cornerstone of the American economy from the time Thomas Jefferson examined the first patent to today. The Founders recognized the importance of promoting innovation. A number were themselves inventors. The Constitution explicitly grants Congress the power to "promote the progress of science and useful arts, by securing for limited times to . . . inventors the exclusive right to their respective . . . discoveries." The discoveries made by American inventors and research institutions, commercialized by American companies, and protected and promoted by American patent laws have made our system the envy of the world. The President has spoken all year about the need to win the future by out innovating our competition. This bill can play a key role in that effort.

Yesterday, I commended Austan Goolsbee, the chair of the President's Council of Economic Advisers, for his white board presentation this week on the importance of patent reform to help America win the global competition and create jobs. The creation of more than 220,000 jobs in the private sector last month, the creation of 1.5 million jobs over the last 12 months, and the unemployment rate finally being reduced to 8.9 percent are all signs that the efforts we have made over the last 2 years to stave off the worst recession since the Great Depression are paying off and the economic recovery is taking hold. The almost full percent point drop in the unemployment rate over the last 3 months is the largest decline in unemployment since 1983. Despite interruptions of economic activity in many parts of the country caused by winter weather over the last months and in recent days, despite the extraordinary rise in oil

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prices, the Dow Jones industrial average has climbed back to over 12,000 from a low point of 6,500. Passage of the America Invents Act should help bolster our economic recovery and keep us on the right path toward business development and job creation.

As we began this debate, I referred back to the President's State of the Union address and his challenge to the Nation to out-innovate, out-build and out-educate our global competitors.

Enacting the America Invents Act is a key to meeting this challenge. Reforming the Nation's antiquated patent system will promote American innovation, create American jobs, and grow America's economy. I thank the President and his administration for their help and support for the Leahy-Hatch-Grassley America Invents Act. Commerce Secretary Locke has been a strong partner in our efforts, and Director Kappos of the Patent and Trademark Office has been an indispensable source of wise counsel.

The America Invents Act will keep America in its longstanding position at the pinnacle of innovation. This bill will establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs, while making sure no party's access to court is denied.

The America Invents Act is the product of eight Senate hearings over the last three Congresses. Our bill is the product of years of work and compromise. The Senate Judiciary Committee has reported patent reform legislation to the Senate in each of the last three Congresses, this year, unanimously. And the House has seen efforts over the same period led by Congressmen Lamar Smith of Texas and Howard Berman of California. The legislation we are acting on today, in fact, is structured on the original House bill and contains many of the original provisions.

From the beginning, we recognized the need for a more effective and efficient patent system, one that improves patent quality and provides incentives for entrepreneurs to create jobs. A balanced and efficient intellectual property system that rewards invention and promotes innovation through high quality patents is crucial to our Nation's economic prosperity and job growth. That is how we win the future--by unleashing the American inventive spirit. This bill, the America Invents Act, will allow our inventors and innovators to flourish.

It is important to our country's continued economic recovery, and to our successfully competing in the global economy. America needs a 21st century patent system to lead. The last extensive reform of our patent system was nearly 60 years ago. It is time.

While the Congress debates spending and budget measures in an often too partisan manner, the American people are craving--and the American economy is demanding--bipartisan legislation that can create jobs and help our economy through common sense measures. That is what this bill can do. It relies on not one dollar of taxpayer money. Let me emphasize, not a dime in taxpayer money is spent on the Patent and Trademark Office, PTO, reforms. They are all funded by patent fees, not taxes.

Innovation drives the Nation's economy, and that entrepreneurial spirit can only be protected by a patent system that promotes invention and spurs new ideas. We need to reform our patent system so that these innovations can more quickly get to market. A modernized patent system--one that puts American entrepreneurs on the same playing field as those throughout the world--is a key to that success. This is an idea that cuts across the political spectrum.

During Senate debate over the last week our bill has been improved by a number of Senators who have contributed amendments. Senators Bennet, Coons, Schumer, Menendez, Pryor, Stabenow, Baucus, Bingaman, Coburn and Kirk have all contributed, and I thank them for

working with us. Senator Cardin attempted to offer germane amendments, and I regret that these were blocked.

I thank our ranking Republican on the committee and the comanager of this measure, Senator Grassley, and his staff, Kolan Davis and Rita Lari, for their dedication to this effort. I commend Senator Hatch for sticking with it for these many years, and Senator Kyl for helping get this done.

I also extend my personal thanks, as well, to Senator Klobuchar of Minnesota who was active during committee consideration and helped manage this legislation effort in the Senate. She has been outstanding.

The Senate's action today could not have been accomplished without the hard work of many dedicated staffers. I would like to thank in particular the steadfast work of Aaron Cooper of my Judiciary Committee staff. Aaron has spent countless hours in meetings and briefings, with Members, other staff, and interested parties, working to help me ensure that the America Invents Act preserved the meaningful reforms we have been working toward since 2005. I would also like to thank Ed Pagano, my chief of staff, and Bruce Cohen, my chief counsel, who have worked on this issue since the start, as well as Susan Davies who served as my chief Intellectual Property counsel through the formative stages of this legislative effort. Erica Chabot, Curtis LeGeyt and Scott Wilson of my Judiciary Committee staff also deserve thanks for their committed work on this legislation.

I also commend the hardworking Senate floor staff, Tim Mitchell and Trish Engle, as well as Dave Schiappa, and the staffs of other Senators, including Tim Molino, Joe Matal, and Matt Sandgren, for their dedicated efforts.

I also thank the many individuals, companies, associations and coalitions that have helped with this effort. This legislation has been supported by both business and labor, including the National Association of Manufacturers, the United Steelworkers, the AFL-CIO, the Association of American Universities, the American Bar Association, the Association of Public and Land-Grant Universities, the Association of American Medical Colleges, the Association of University Technology Managers, the American Council on Education, the Council on Government Relations, PhRMA, BIO, the Intellectual Property Owners Association, the American Intellectual Property Law Association, the Coalition for 21st Century Patent Reform, the Association for Competitive Technology, the Coalition for Patent and Trademark Information Dissemination, IBM, General Electric, Eli Lilly and Company, Bose Corporation, Johnson and Johnson, 3M, General Mills, Honeywell, Monsanto, Motorola, Cargill, Inc., Caterpillar, Enventys, Abbott, Astra Zeneca, AdvaMed, Air Liquide, Bayer, Beckman Coulter, Boston Scientific, BP, Bridgestone American Holdings, Inc., Bristol-Myers Squibb, the California Healthcare Institute, the Colorado BioScience Association, Cummins, The Dow Chemical Company, DuPont, Eastman Chemical Company, ExxonMobil, Genentech, Genzyme, GlaxoSmithKline, the Healthcare Institute of New Jersey, Henkel Corporation, Hoffman-LaRoche, Illinois Tool Works, International Game Technology, Kodak, Medtronic, Merck & Co., Inc., Millenium Pharmaceuticals, Milliken and Company, Northrop Grumman, Novartis, PepsiCo., Inc., Pfizer, Procter & Gamble, SanDisk Corporation, Sangamo BioSciences, Inc., United Technologies, USG Corporation, the Virginia Biotechnology Association, Weyerhaeuser, the American

Institute for CPAs, the American Institute of Certified Public Accountants, the Tax Justice Network USA, the New Rules for Global Finance, the American College of Tax Counsel, Consumer Action, The American College of Trust and Estate Counsel, the Partnership for Philanthropic Planning, Global Financial Integrity, the International Association for Registered Financial Consultants, the National Association of Enrolled Agents, USPIRG, the Certified Financial Planner Board of Standards, the Financial Planning Association, the American Association of Attorney-Certified Public Accountants, the Citizens for Tax Justice, the National Treasury Employees Union, the Independent Community Bankers of America, and numerous other organizations and companies representing all sectors of the patent community that have been urging action on patent reform proposals for years.

The America Invents Act will accomplish 3 important goals, which have been at the center of the patent reform debate from the beginning: It will improve and harmonize operations at the

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PTO; it will improve the quality of patents that are issued; and it will provide more certainty in litigation. In particular, the legislation will move this Nation's patent system to a first-inventor-to-file system, make important quality enhancement mechanisms, and provide the PTO with the resources it needs to work through its backlog by providing it with fee setting authority, subject to oversight. The America Invents Act provides the tools the PTO needs to separate the inventive wheat from the chaff, which will help business bring new products to market and create jobs.

Innovation has always been at the heart of America and American success. From the founding of our Nation, we recognized the importance of promoting and protecting innovation, and so the Constitution explicitly grants Congress the power to "promote the progress and science and useful arts, by securing for limited times to . . . inventors the exclusive right to their respective . . . discoveries." The patent system plays a key role in encouraging innovation and bringing new products to market. The discoveries made by American inventors and research institutions, commercialized by our companies, and protected and promoted by our patent laws have made our system the envy of the world.

High quality patents are the key to our economic growth. They benefit both patent owners and users who can be more confident in the validity of issued patents. Patents of low quality and dubious validity, by contrast, enable patent trolls who extort unreasonable licensing fees from legitimate businesses, and constitute a drag on innovation. Too many dubious patents also unjustly cast doubt on truly high quality patents.

After 6 years of debate and discussion, more than a dozen hearings and mark up sessions, and countless hours of member and staff meetings with two presidential administrations and interested parties across the spectrum, the Senate is finally acting to make the first meaningful, comprehensive reforms to the nation's patent system in nearly 60 years. The Senate debate has now extended for more than a week. Passage of the America Invents Act demonstrates what we can accomplish when we cast aside partisan rhetoric, and focus on working together for the American people and for our future.

It has been almost 6 years since Chairman Smith and Congressman Berman introduced the first version of patent reform legislation in 2005, but the structure and guiding principles of the legislation remain the same. The bill will speed the process by which the Patent Office considers applications and should improve the quality of patents it issues.

Innovation and economic development are not uniquely Democratic or Republican objectives, so we worked together to find the proper balance for America--for our economy, for our inventors, for our consumers. Working together, we can smooth the path for more interesting--and great--American inventions. That is what this bipartisan, comprehensive patent reform bill will do. No one claims that ours is a perfect bill. It is a compromise that will make key improvements in the patent system. Having coordinated with the leaders in the House through this process, I hope that the House will look favorably on our work and adopt this measure so that it can be sent to the President without delay and its improvements can take effect in order to encourage American innovation and promote American invention.

I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant bill clerk proceeded to call the roll.

Mr. REID. I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. REID. Mr. President, I ask unanimous consent the Reid amendment No. 152 be withdrawn; that the Reid amendment No. 143 be modified with the changes at the desk; the Senate proceed to vote on the amendment, as modified, with no amendments in order prior to the vote; that there then be 30 minutes of debate equally divided between the two managers or their designees; that S. 23 be read a third time; that a budgetary pay-go statement be read; the Senate then proceed to a vote on passage of the bill, as amended; and the motions to reconsider be considered made and laid upon the table with no intervening action or debate.

Further, I ask unanimous consent that at 12 noon Wednesday, March 9, the Senate proceed to the consideration of Calendar No. 14, H.R. 1, the Defense appropriations long-term continuing resolution for fiscal year 2011; that there be 3 hours of debate on H.R. 1 and the Democratic alternative, the Inouye substitute amendment No. 149, with the time equally divided between the two leaders or their designees prior to a vote on passage of H.R. 1; that the vote on passage be subject to a 60-vote threshold; that if the bill achieves 60 affirmative votes, the bill be read a third time and passed; that if the bill does not achieve 60 affirmative votes, the majority leader be recognized to offer the Inouye substitute amendment No. 149; the Senate then proceed to a vote on the substitute amendment; that the substitute amendment be subject to a 60-vote threshold; if the substitute amendment achieves 60 affirmative votes, the substitute amendment be agreed to; the bill, as amended, be read a third time and passed; if the substitute amendment does not achieve 60 affirmative votes, H.R. 1 be returned to the calendar; that no motions or amendments be in order to the substitute amendment or to the bill prior to the votes; further, that all of the above occur with no intervening action or debate.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. REID. Mr. President, with this agreement, I ask unanimous consent that the cloture vote with respect to the motion to proceed to H.R. 1 be vitiated.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. REID. Mr. President, even though there have been a few turns in the road, we are at the place where we need to be. We need to be able to show the American people where we are on these two measures. I express my appreciation to my friend, the Republican leader. As I said, things don't always work smoothly around here, but they usually work. Now we are at a point where we can vote on these two measures which is what we need to do.

The PRESIDING OFFICER. Under the previous order, amendment No. 152 is withdrawn.

Under the previous order, amendment No. 143 is modified with the changes at the desk.

The amendment, as modified, is as follows:

(Purpose: To include public institutions of higher education in the definition of a micro entity)

On page 93, before line 18, insert the following:

"(d) State 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 a State public institution of higher education, as defined in section 102 of the Higher Education Act of 1965 (20 U.S.C. 1002); 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.".

The PRESIDING OFFICER. The question is on agreeing to amendment No. 143, as modified.

The amendment (No. 143), as modified, was agreed to.

Mr. COBURN. I wish to express my opposition to Reid amendment No. 143, as modified. I do not believe public institutions of higher education, or any entity, should be carved out of the definition of micro entity in the underlying legislation. Had a rollcall vote occurred, I would have voted no.

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Mr. LEAHY. Mr. President, I suggest the absence of a quorum, with unanimous consent that the time be equally divided.

The PRESIDING OFFICER. Without objection, it is so ordered.

The clerk will call the roll.

The assistant bill clerk proceeded to call the roll.

Mr. LEAHY. Mr. President, I ask unanimous consent that the order for

the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Check 21 Act Patents

Mr. PRYOR. I would like to clarify some concerns I have about the Schumer-Kyl program that was included in the managers' amendment to the America Invents Act, adopted on March 1. I am specifically concerned that this provision revives an amendment that had been included in previous versions of the bill--that amendment specifically targeted patents related to the Check 21 Act and eliminated the ability of the holder of such patents to collect damages. Is that the purpose of the Schumer-Kyl language?

Mr LEAHY. No, the amendment is entirely different from the 2008 amendment related to patents that place on tax on implementation of the Check 21 Act. The Schumer-Kyl program addresses certain business method patents and does not target any specific patents. The Schumer-Kyl program is intended to provide a cost-effective alternative to litigation to examine business-method patents.

Mr. PRYOR. Am I correct then that the Schumer-Kyl program is simply trying to address the problem of business method patents of dubious validity that are commonly associated with the Federal Circuit's 1998 decision in State Street Bank v. Signature?

Mr. LEAHY. That is correct. It is still unclear whether the subject matter of these patents qualifies as patentable subject matter under current law. Patents of low quality and dubious validity, as you know, are a drag on innovation because they grant a monopoly right for an invention that should not be entitled to one under the patent law.

Mr. PRYOR. Can the Senator describe how the program would work in practice?

Mr. LEAHY. Certainly. If a petitioner provides evidence to the PTO and the PTO determines that the patent is on a "covered business method patent" then the PTO would institute a post-grant review of that patent. In this review, the PTO could consider any challenge that could be heard in court.

Mr. PRYOR. Is it correct then that the Schumer proceeding would only have an effect if the PTO determines it is more likely than not that a claim of the patent is invalid and, even then, the proceeding would have no effect on a patent unless the petitioner can demonstrate that under current law the patent is not valid?

Mr. LEAHY. That is correct. The proceeding has a higher threshold than current reexamination before the PTO will even undertake a review of the patent. So as a practical matter, a patent without any serious challenge to its validity would never be subject to a proceeding.

Mr. PRYOR. Would the Senator agree that in a case in which the validity of the patent has been upheld by a district court but the case remains on appeal, that this amendment would likely not affect the pending appeal?

Mr. LEAHY. I would. The patent may still be subject to the proceeding, but since the court did not hold the patent invalid or unforceable, it would not likely have an effect on the pending appeal.

Mr. SCHUMER. Mr. President, I want to take the opportunity to explain further a few elements of the Schumer-Kyl provision in the patent bill. The Transitional Program for business method patents addresses a critical problem in the patent world, and it is crucial that it be administered and implemented appropriately by both the Patent and Trademark Office and the courts.

Business method patents are the bane of the patent world. The business method problem began in 1998 with the U.S. Court of Appeals for the Federal Circuit decision in State Street Bank & Trust Co. v. Signature Financial Group, Inc. State Street created a sea-change in the patentability of business-methods, holding that any invention can be patented so long as it produces a "useful, concrete, and tangible result" and meets other requirements of the patent laws.

State Street launched an avalanche of patent applications seeking protection for common business practices. The quality of these business method patents has been much lower than that of other patents, as Justice Kennedy noted in his concurring opinion in eBay Inc. v. MercExchange. Justice Kennedy wrote about the "potential vagueness and suspect validity" of some of "the burgeoning number of patents over business methods." Commentators like Rochelle Dreyfuss have also lamented "the frequency with which the Patent Office issues patents on shockingly mundane business inventions." Malla Pollack pointed out that "[M]any of the recently-issued business method patents are facially (even farcically) obvious to persons outside the USPTO."

One of the main reasons for the poor quality of business method patents is the lack of readily accessible prior art references. Because business methods were not patentable prior to 1998 when the State Street decision was issued, the library of prior art on business method patents is necessarily limited--as opposed, say, to more traditional types of patents for which there can be centuries of patents and literature about them for the PTO to examine. Furthermore, information

about methods of conducting business, unlike information about other patents, is often not documented in patents or published in journals. This means a patent examiner has significantly less opportunity than he might with a traditional patent to weed out undeserving applications. Unfortunately, that means the burden falls on private individuals and an expensive court process to clean up the mess.

The ability to easily obtain business method patents without a rigorous and thorough review in the Patent Office has created a flood of poor quality business method patents and a cottage industry of business method patent litigation. The Federal courts have recognized this problem, and indeed even the Supreme Court has begun to address it. In KSR Intl Co. v. Teleflex, Inc. and Bilski v. Kappos, the Court articulated a new standard for obviousness and made clear that abstract business methods are not patentable. While these legal developments are important, the leave in limbo the many patents that were issued by the PTO since State Street that are not in fact valid.

Litigation over invalid patents places a substantial burden on U.S. courts and the U.S. economy. Business-method inventions generally are not and have not been patentable in countries other than the United States. In order to reduce the burden placed on courts and the economy by this back-and-forth shift in judicial precedent, the Schumer-Kyl transitional proceeding authorizes a temporary administrative alternative for reviewing business method patents.

It is important to clarify two elements of the Schumer-Kyl program's operation in particular. First, there is the issue of how a district court should treat a motion for a stay of litigation in the event the PTO initiates a pilot program. Second, there is the issue of how the Federal circuit will treat interlocutory appeals from stay decisions. Finally, there is the issue of which patents should be considered to be covered business method patents.

The transition program created by the Schumer-Kyl amendment is designed to provide a cheaper, faster alternative to district court litigation over the validity of business-method patents. This program should be used instead of, rather than in addition to, civil litigation. To that end, the amendment expressly authorizes a stay of litigation in relation to such proceedings and places a very heavy thumb on the scale in favor of a stay being granted. It is congressional intent that a stay should only be denied in extremely rare instances.

When Congress initially created ex parte reexamination, it did not expressly provide for a stay of litigation pending the outcome of an ex parte reexamination proceeding. Rather, Congress relied on the courts' inherent power to grant stays and encouraged courts to liberally grant stays. However, relying on the courts' inherent

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power to grant stays did not result in courts liberally granting stays. For example, one commentator who surveyed the grant rates on motions for stay pending reexamination, Matthew A. Smith, found that numerous district courts granted stays less than half the time. In fact, Eastern District of Texas grants stays only 20 percent of the time. Due to low grant rates for stays in several jurisdictions, this amendment instructs courts to apply the four-factor test first

announced in Broadcast Innovation, L.L.C. v. Charter Communications when evaluating stay motions.

The amendment employs the Broadcast Innovation test, rather than other multifactor tests employed by other district courts, because this test properly emphasizes a fourth factor that is often ignored by the courts: “whether a stay will reduce the burden of litigation on the parties and on the court.” Too many district courts have been content to allow litigation to grind on while a reexamination is being conducted, forcing the parties to fight in two fora at the same time. This is unacceptable, and would be contrary to the fundamental purpose of the Schumer-Kyl amendment to provide a cost-efficient alternative to litigation.

Absent some exceptional circumstance, the institution of a business-methods proceeding--which requires a high up-front showing and will be completed in a relatively short period of time--should serve as a substitute for litigation, and result in a stay of co-pending district court litigation.

By adopting this four-factor test, rather than one of the three-factor tests used by other courts, the amendment also precludes the use of additional factors that are not codified here and that have occasionally been used by some district courts. For example, a few courts have occasionally employed a different de facto fourth factor: whether the challenger offers “to forgo invalidity arguments based on prior art patents and/or printed publications considered during an ex parte reexamination process.” The proceeding authorized by this amendment, at subsection (b)(1)(D), sets its own standard for determining what issues may still be raised in civil litigation if a patent survives PTO review. By codifying the exclusive set of factors that courts are to consider when granting stays, the amendment precludes courts from inventing new factors such as extra-statutory estoppel tests.

Several unique features of this proceeding further make it appropriate to grant stays in all but the most unusual and rare circumstances. These proceedings will only be instituted upon a high up-front showing of likely invalidity. The proceeding is limited to certain business method patents, which, as noted above, are generally of dubious quality because unlike other types of patents, they have not been thoroughly reviewed at the PTO due to a lack of the best prior art. And the proceeding will typically be completed within 1 year.

In summary, it is expected that, if a proceeding against a business method patent is instituted, the district court would institute a stay of litigation unless there were an extraordinary and extremely rare set of circumstances not contemplated in any of the existing case law related to stays pending reexamination. In the rare instance that a stay is not granted, the PTO should make every effort to complete its review expeditiously. We encourage the PTO Director to promulgate regulations to this effect to ensure that petitioners know that in extreme circumstance where a gay is not granted, the PTO will complete its review in a compressed timeframe, such as within 6 months.

To ensure consistent and rigorous application of the Broadcast Innovation standard, the amendment also allows the parties, as of right, to have the Federal Circuit closely review the application of this test in a manner that ensures adherence to these precedents and consistent results across cases. As such, either party may file an interlocutory appeal directly with the

Federal Circuit. Because this amendment provides an automatic right to an interlocutory appeal, the district court does not need to certify the appeal in writing, as it would ordinarily need to do under 28 U.S.C. Sec. 1292(b). Also, unlike the discretion typically afforded an appellate court under 28 U.S.C. Sec. 1292(b), under this amendment the Federal Circuit may not decline to hear an interlocutory appeal.

Since the denial of a stay pending post-grant review under this amendment is an extraordinary and extremely rare circumstance, the filing of an interlocutory appeal should result in the stay of proceedings in the district court pending the appeal. Staying the lower court proceedings while the Federal Circuit reviews the question of whether the case should be stayed pending the post-grant review will help ensure that requests to stay are consistently applied across cases and across the various district courts.

On appeal the Federal Circuit can and should review the district court's decision de novo. It is expected that the Federal Circuit will review the district court's decision regarding a stay de novo, unless there are unique circumstances militating against a de novo review, such as subsequent requests for an interlocutory appeal in the same case. A de novo review is central to the purpose of the interlocutory appeal provision in the Schumer-Kyl amendment, which is to ensure consistent application of standards and precedents across the country and to avoid one particular court with a favorable bench becoming the preferred venue of business method patent plaintiffs.

The definition of covered business method patents in the transitional program was developed in close consultation with the PTO to capture all of the worst offenders in the field of business method patents, including those that are creatively drafted to appear to be true innovations when in fact they are not.

The amendment only applies to "covered business method patents." If the PTO determines that a patent is a "covered business method patent"--and the other applicable requirements of this amendment and Chapter 32 are met--the patent will be subject to post-grant review under this amendment regardless of whether the patent has been through prior PTO proceedings, such as ex parte reexamination, or current or prior litigation.

The definition of a "covered business method patent" includes "a method or corresponding apparatus." The phrase "method or corresponding apparatus" is intended to encompass, but not be limited to, any type of claim contained in a patent, including, method claims, system claims, apparatus claims, graphical user interface claims, data structure claims--Lowry claims--and set of instructions on storage media claims--Beauregard claims. A patent qualifies as a covered business method patent regardless of the type or structure of claims contained in the patent. Clever drafting of patent applications should not allow a patent holder to avoid PTO review under this amendment. Any other result would elevate form over substance.

Not all business method patents are eligible for PTO review under this amendment. Specifically, "patents for technological inventions" are out of scope. The "patents for technological inventions" exception only excludes those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution and which requires the claims to state the technical features which the inventor

desires to protect. It is not meant to exclude patents that use known technology to accomplish a business process or method of conducting business--whether or not that process or method appears to be novel. The technological invention exception is also not intended to exclude a patent simply because it recites technology. For example, the recitation of computer hardware, communication or computer networks, software, memory, computer-readable storage medium, scanners, display devices or databases, specialized machines, such as an ATM or point of sale device, or other known technologies, does not make a patent a technological invention. In other words, a patent is not a technological invention because it combines known technology in a new way to perform data processing operations.

The amendment covers not only financial products and services, but also the "practice, administration and management" of a financial product or service. This language is intended to

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make clear that the scope of patents eligible for review under this program is not limited to patents covering a specific financial product or service. In addition to patents covering a financial product or service, the "practice, administration and management" language is intended to cover any ancillary activities related to a financial product or service, including, without limitation, marketing, customer interfaces, Web site management and functionality, transmission or management of data, servicing, underwriting, customer communications, and back office operations--e.g., payment processing, stock clearing. The amendment also requires a patent to relate to a "financial product or service." To meet this requirement, the patent need not recite a specific financial product or service. Rather the patent claims must only be broad enough to cover a financial product or service. For example, if a patent claims a general online marketing method but does not specifically mention the marketing of a financial product, such as a savings account, if that marketing method could be applied to marketing a financial product or service, the patent would be deemed to cover a "financial product or service." Likewise, if a patent holder alleges that a financial product or service infringes its patent, that patent shall be deemed to cover a "financial product or service" for purposes of this amendment regardless of whether the asserted claims specifically reference the type of product of service accused of infringing.

In conclusion, I am very pleased that the Senate has adopted the Schumer-Kyl provision and trust that it will go a long way towards addressing the havoc that frivolous business method patent litigation has wreaked upon the courts and the economy. Indeed, Senator Kyl and I received a letter of thanks and appreciation from the Independent Community Bankers of America, who represent nearly 5,000 community banks. As they point out, the money they are required to spend defending litigation from business method patent trolls--and the capital they must reserve against these contingent liabilities--is money which "cannot find its way into the hands of worthy borrowers, retarding economic growth and job creation at the time such activity is most needed."

To that end, I would ask unanimous consent that the letter from the Independent Community Bankers of America be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

Independent Community

Bankers of America, Washington, DC,
March 3, 2011.

Hon. Charles E. Schumer,
U.S. Senate,
Washington, DC.
Hon. Jon Kyl,
U.S. Senate,
Washington, DC.

Dear Senators Schumer and Kyl: On behalf of the Independent Community Bankers of America (ICBA) and the nearly 5,000 community banks that we represent, we thank you for your efforts to improve S. 23 the Patent Reform Act of 2011 through your amendment to establish an oppositional proceeding at the United States Patent and Trademark Office (PTO) where business-method patents can be examined using the best available prior art. Such patents have, unfortunately, become the preferred method of extracting large settlements from community banks and these practices threaten our bankers' ability to provide banking and banking related services to their local communities and to local small businesses.

Under the current system, business method patents of questionable quality are used to force community banks to pay meritless settlements to entities that may have patents assigned to them, but who have invented nothing, offer no product or service and employ no one. In addition, all public companies are required by accounting rules to reserve capital against contingent liabilities. For community banks, this is money which cannot find its way into the hands of worthy borrowers, retarding economic growth and job creation as the precise time such activity is most needed. The Schumer-Kyl amendment is critical to stopping this economic harm.

We appreciate that you have worked hard with the Patent and Trademark Office and other stakeholders to refine the amendment and make compromises to enable the amendment to move forward. We support those efforts and will continue to push to ensure that business method patents cannot be used as a weapon by those who seek to game the patent granting and litigation system at the expense of legitimate businesses.

We are pleased to learn that the Senate has adopted much of the Schumer-Kyl amendment into the base text of S. 23. We encourage the Senate to only strengthen this provision, where possible, for the good of our nation's community banks and the countless neighborhoods and communities that they serve.

Thank you again.

Sincerely,
Stephen J. Verdier,

Executive Vice President,
Congressional Relations.

Mr. KYL. Mr. President, I ask unanimous consent to have printed in the Record materials concerning the America Invents Act that were distributed by the Republican Policy Committee

last week. These consist of a legislative notice describing the bill that was brought to the Senate floor, and a summary of the Senate managers' amendment that was adopted on Tuesday.

There being no objection, the material was ordered to be printed in the Record, as follows:

[From the Republican Policy Committee, U.S. Senate, Feb. 28, 2011]

Legislative Notice S. 23--The Patent Reform Act of 2011 Calendar #6

Reported by the Judiciary Committee with amendments on February 3, 2011 by a vote of 15-0. No written report.

Noteworthy

At 3:30 p.m. today, the Senate will begin consideration of S. 23.

The Act adopts a "First Inventor to File" patent regime. Currently the United States is the only country in the world operating under a "First to Invent" regime.

The Act grants the U.S. Patent and Trademark Office (PTO) authority to set its own fees to better ensure proper funding for its operations.

The Act makes a variety of changes to improve the quality of patents, including allowing for greater submission of information by third parties while a patent application is pending and establishing a post-grant review procedure for promptly raised challenges to a patent.

Unlike prior patent reform bills, the Act does not disturb substantive damages law; but it does take steps to improve the consistency and predictability of the application of that law.

Background/Overview

Innovation is a key facet of American economic power, as our Founders recognized in the Constitution by giving Congress the power to "promote the progress of science and useful arts" by granting inventors time limited monopolies--patents--on their discoveries. This basic framework set the course for centuries of American innovation, but the law has not been substantially updated since the Patent Act of 1952. Responding to concerns about the quality and timeliness of patents issued by the PTO, the last several Congresses have considered substantial patent reform measures. [In the 109th Congress Senators Hatch and Leahy introduced the Patent Reform Act of 2006 (S. 3818). The next year, Senators Leahy and Hatch introduced the Patent Reform Act of 2007 (S. 1145). This bill was reported from the Judiciary Committee, as amended, on January 24, 2008, with a Committee Report (S. Rep. 110-259), but it was not considered by the full Senate. On March 3, 2009, Senators Leahy and Hatch introduced the Patent Reform Act of 2009, which was reported with amendments on April 2, 2009, with a Committee Report (S. Rep. 111-18). Again the bill was not considered by the full Senate. During this time, the Senate Judiciary Committee has held eight hearings on patent reform, and the House has held hearings on the subject as well.]

Over the course of these Congresses the substance of the reform proposals evolved. On January 25, 2011, Senator Leahy and Senator Hatch introduced the current bill, the Patent Reform Act of 2011 (S. 23), which was reported with amendments on February 3, 2011. Significant features of the legislation include: a transition to a “First Inventor to File” patent regime consistent with other industrialized countries; PTO fee setting authority to ensure proper funding; and post-grant and supplemental review procedures to improve patent quality.

Bill Provisions

Section 1. Title/Table of Contents

Section 2. First Inventor to File

The United States, alone among advanced economies, currently operates under a “First to Invent” rather than a “First Inventor to File” patent regime in which the date of filing with the patent office is the most important determinant of who is the legitimate patent holder. Defenders of the First to Invent regime claim that it has served America well, that it favors small inventors by allowing them to focus on inventing rather than paperwork, and that it avoids overburdening the PTO with prematurely filed applications.

However, the system poses challenges for American inventors who must operate under one regime domestically and another if they wish to profit from their innovation abroad. The First to Invent system also results in less certainty about the validity of patents and often leads to expensive and lengthy litigation. Many commentators and organizations, including the National Academy of Sciences, have urged the United

States to

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adopt a First Inventor to File system. S. 23 moves the United States to a First Inventor to File regime. As part of that, it creates an administrative proceeding to ensure that the first person to file is actually the true inventor. It also preserves and strengthens current law’s grace period, by providing that disclosures made by the true inventor, or someone who got the information from the inventor, less than one year before the application is filed will not be held against their application.

Additionally, during the one-year period before the application is filed, if the inventor publicly discloses his invention, no subsequently-disclosed “prior art,” regardless of whether it is derived from the inventor, can be used to invalidate the patent. Prior art is a term of art in intellectual property law. S. 23 defines “prior art” as actions by the patent owner or another (such as publication, public use, or sale) that make the invention available to the public.] This effectively creates a “first to publish” rule within the one year grace period. An inventor who publishes his invention retains an absolute right to priority if he files an application within one year of his disclosure. No application effectively filed after his disclosure, and no prior art disclosed after his disclosure, can defeat his patent application.

Section 3. Inventor’s Oath or Declaration

U.S. patent law requires oaths or declarations by inventors as part of the application process. This can be challenging when applications are pursued by company-assignees for whom a variety of past and present employees may have played a role in developing the invention. This section makes it easier for assignees to file and prosecute a patent application where the inventor is unable to do so or unwilling and contractually obligated to do so.

Section 4. Damages

The current damage statute is vague, and juries must evaluate up to 15 factors developed by the courts. This has led to inconsistent and unpredictable damage awards. Section 4 does not upset the existing substantive law, but it makes certain changes to increase predictability in damages by authorizing courts to play a gatekeeper role, in which they will provide detailed instructions to juries on what factors are most relevant to the case before them.

Section 5. Post-Grant Review

This section establishes a new administrative procedure for challenging the validity of granted patents within a nine-month post-grant window, providing an early opportunity to improve the quality of patents.

The bill also changes procedures for later challenges by third parties to the validity of patents (the so-called “inter partes reexamination” process, under current law). These reforms add additional procedural protections to the process by converting the reexamination into an adjudicative proceeding to be known as “inter partes review.” Inter partes review must be completed within one year of being instituted (though this deadline can be extended by six months for good cause). The proceedings will take place before a panel of three administrative judges whose decisions are appealable directly to the Federal Circuit.

Section 6. Patent Trial and Appeal Board

This section renames the Patent Board the “Patent Trial and Appeal Board” and clarifies its role in administering the new proceedings established by the Act.

Section 7. Pre-Issuance Submissions by Third Parties

Current law restricts what third parties can file with the PTO when they possess relevant information on pending patent applications. This section would permit third parties, typically another innovator in the same or a similar field, to submit relevant information and make statements explaining their submissions.

Section 8. Venue

Codifies the standard for transfers of venue established by the Federal Circuit in the case In re TS Tech USA Corp and applies it to patent cases generally. [551 F.3d 1315 (Fed. Cir. 2008).] That standard provides for transfer to the judicial district that is “clearly more convenient” for both the parties and witnesses. The section also clarifies that venue for litigation against the PTO is the Eastern District of Virginia, where the PTO is headquartered, rather than the District of Columbia, where it used to be based.

Section 9. Fee Setting Authority

In order to provide sufficient funding to the PTO's operations, this section grants the office the ability, and sets forth procedures, to set or adjust the fees it charges applicants.

Section 10.

Supplemental Examination

This provision authorizes a supplemental examination process by which patent holders can correct errors or omissions in past proceedings with the PTO. During the process, additional information can be presented to the office and, if it does not undermine the original patent determination, the earlier omission of that information cannot be later used in a lawsuit alleging inequitable conduct.

Section 11. Residency Requirement for Federal Circuit Judges

This section repeals the requirement that judges on the Federal Circuit reside within 50 miles of Washington, DC. The duty station of Federal Circuit judges, however, will remain in Washington.

Section 12. Micro-Entity Defined

Under current law, the PTO charges small businesses and nonprofits lower fees than it charges large corporations. This section establishes an even smaller category--truly independent inventors--for which the PTO may make additional accommodations.

Section 13. Funding Agreements

This section changes the formula for what universities, nonprofits, and others may do with royalties or other income generated by inventions developed using federal funds. Under current law, if such royalties exceed the annual budget of the entity, 75 percent of the excess is returned to the government. In order to encourage innovation and commercialization, this section allows the entity to retain 85 percent of that excess for further research. The remainder would be paid to the government.

Section 14. Tax Strategies Deemed within Prior Art

This section ends the patentability of tax strategies. The bill, as reported, does not change the patentability of other forms of business method patents.

Section 15. Best Mode Requirement

As part of a patent application, an applicant must disclose the "best mode" for carrying out his or her invention. In subsequent litigation an accused infringer can offer as a defense that the best mode was not properly disclosed by the patent holder. This section eliminates that defense, which many consider subjective and possibly irrelevant, as the best mode may change over time. Best mode disclosure remains a requirement for patentability.

Section 16. Technical Amendments

This section contains technical amendments to reorganize the patent statute.

Section 17. Clarification of Jurisdiction

This section clarifies exclusive federal jurisdiction over patent claims.

Section 18. Effective Date

Except where otherwise provided by specific provisions in the Act, the effective date of the Act is 12 months after enactment, meaning it would apply to all patents issued on or after that date.

Administration Position

As of the publication of this Notice, no Statement of Administration Policy (SAP) has been issued.

Cost

As of the publication of this Notice, no Congressional Budget Office cost estimate for S. 23 has been issued.

Possible Amendments

At this time, there is no unanimous consent agreement with respect to consideration of S. 23 or limiting the submission of amendments.

Summary of the Managers' Amendment

The title is changed to the "America Invents Act".

The date of the repeal of statutory invention registrations, which are used only in first-to-invent, is changed to conform to the date of the switch to first to file.

All remaining damages language--gatekeeper, sequencing, and recodification of current law as subsection (a)--is struck. The bill now makes no changes to section 284.

In PGR, the subsection imposing a six-month deadline on filing after litigation is commenced is replaced with the "shoot first" provision requiring a court to consider a PI request without taking a PGR petition or its institution into account if the patent owner sues within 3 months of the issuance of patent. The six-month deadline did not work well here--PGR can only be requested within 9 months of patent issuance anyway, and no suit can be brought until the patent issues. Also, a much broader range of issues can be raised in PGR than in IPR, justifying more time for filing.

PGR is limited to only FTF patents--no FTI patents can be challenged in PGR. This is done because FTI patents raise discovery-intensive invention-date and secret-prior-art issues that would be difficult to address in an administrative proceeding. This also effectively gives PTO a

much easier ramp up for PGR. In light of this change, the time for implementing PGR is moved back to 1 year after enactment, so that it is done at the same time as new IPR is implemented, which is PTO's preference.

During the first four years after new IPR is implemented, the Director has discretion to continue to use old inter partes reexam. This is done because the Director believes his reforms of the CRU have greatly improved old inter partes, and it may actually work more efficiently than new IPR during the ramp up. Old inter partes can also be used for PGR proceedings that are instituted only on the basis of patents and printed publications, which are the only issues that can be raised in old inter partes (as well as new IPR).

The codification of the TS Tech transfer-of-venue rule is struck. TS Tech already applies as a matter of caselaw in the Fifth Circuit. (The Federal Circuit applies regional circuit law to procedural matters, and reads Fifth Circuit law as applying the transfer of venue rule.) Complaints about venue generally focus on EDTX, so there is little need to apply TS Tech nationally, and it seemed odd for Congress to regulate such matters in any event.

A blue-slip fix to the Director's fee setting authority.

The revised language identifies

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with great specificity the sources of authority to impose patent and trademark user fees, in order to avoid a violation of the Origination Clause.

A new provision requiring the Director to charge reduced fees to small entities for use of accelerated examination.

Language is added making clear that the repeal of the Baldwin rule (which rule requires Federal Circuit judges to live within 50 miles of Washington, D.C.) shall not be construed to require the AOC to provide judges office space or staff outside of D.C.

A PTO-approved broadening of the definition of "microentity," a status that entitles applicants to reduced fees.

In the tax patents section, language is added: [(1) clarifying that the language does not bar patenting of tax software that is novel as software--i.e., where the innovation is in the software] (this may be dropped); and (2) establishing that making tax strategies unpatentable shall not be construed to imply that other business methods are patentable or valid. In Bilski v. Kappos, (2010), the Supreme Court interpreted Congress's 1999 enactment of a prior-user right that only applied against business-method patents as implying that business methods qualify as patentable subject matter under section 101, which was enacted in 1793.

Language is added to the part of the Holmes Group fix allowing removal of patent cases from state to federal court to clarify that derivative jurisdiction is not required in such cases. Derivative jurisdiction is the doctrine that, even if a federal district court would have had original jurisdiction over an action, on removal, the district court can only have jurisdiction if the state

court from which the action is removed properly had jurisdiction. (In other words, the federal court's removal jurisdiction is regarded as derivative of the state court's jurisdiction.) This silly form-over-substance doctrine was abrogated by Congress, but some courts have continued to read it into other parts of the law, and thus it was thought best to also make clear here that derivative jurisdiction is not required.

The Schumer-Kyl business-methods proceeding, as modified to accommodate industry concerns and PTO needs. In its 1998 State Street decision, the Federal Circuit greatly broadened the patenting of business methods. Recent court decisions, culminating in last year's Supreme Court decision in Bilski v. Kappos, have sharply pulled back on the patenting of business methods, emphasizing that these "inventions" are too abstract to be patentable. In the intervening years, however, PTO was forced to issue a large number of business-method patents, many or possibly all of which are no longer valid. The Schumer proceeding offers a relatively cheap alternative to civil litigation for challenging these patents, and will reduce the burden on the courts of dealing with the backwash of invalid business-method patents. The proceeding has been limited since mark up so that: (1) only defendants or accused infringers may invoke the proceeding; (2) prior art is limited to old 102(a), which must be publicly available, or prior art of old 102(a) scope that shall be presumed to beat old 102(a) invention-date limits but that falls outside the old 102(b) grace period (i.e., effectively, old 102(b) prior art but limited to old 102(a)'s publicly-available prior-art scope); (3) the proceeding may not be used to challenge a patent while it is eligible for a PGR challenge (i.e., an FTF patent during the first 9 months after its issue); (4) the proceeding is available only for four years; (5) district courts decide whether to stay litigation based on the four-factor Broadcast Innovation test, and the Federal Circuit reviews stay decision on interlocutory appeal to ensure consistent application of established precedent; (5) the definition of business-method patent, which tracks the language of Class 705, is limited to data processing relating to just a financial product or service (rather than also to an enterprise).

PTO is given greater flexibility in paying and compensating the travel of APJs. A large number of APJs will need to be recruited, trained, and retained to adjudicate PGR and new IPR. This change's enhancements will be paid for out of existing funds.

The Coburn end to fee diversion. Currently, PTO fees go into a Treasury account and are only available to the Office as provided in appropriations. In the last two decades, about $800 million in PTO user fees has been diverted from PTO to other federal spending. The Coburn amendment creates a revolving fund, giving PTO direct access to its fees without the need for enactment of an appropriations act.

Budget Committee paygo language is added at the end.

Mr. KOHL. Mr. President, I rise today in support of S. 23, the America Invents Act. This bipartisan bill is the product of a great deal of hard work and negotiation, and I congratulate Senators Leahy, Hatch and Grassley on their accomplishment. This bill is a reasonable compromise that will update and strengthen our U.S. Patent system so that American businesses can better compete in the 21st Century. The American system of patenting inventions has helped make our country the center of innovation for more than two centuries. The America Invents Act will ensure that inventors and those who invest in their discoveries are able to rely on their most

important asset--their patent. Patents are vital components in the research and development cycle that help create small businesses and jobs.

In my home State of Wisconsin, we have a strong tradition of invention and innovation--from the invention of the first practical typewriter in 1869 to a cure for Rickets disease in 1925 to cutting edge drug therapies for the 21st Century. More than 50 Wisconsin based startup companies have been fueled by patents that resulted from research at the University of Wisconsin. And there are countless other Wisconsin companies that rely on patents to sustain and grow their business.

I am able to support the Patent Reform Act because of the improvements made to the bill since it was first introduced. As is the nature of compromise, I recognize that we cannot all get every change we want. I thank Senator Leahy for making substantial changes to accommodate many of my concerns.

Specifically, I appreciate your willingness to strike a major section of the bill regarding prior user rights--which would have done serious harm to the University of Wisconsin and its patent licensing business. The bill incorporates additional changes that were important to research universities, including provisions related to venue, grace period for first inventor to file, oath, and collaborative research.

Patent protection will be stronger with the inclusion of “could have raised” estoppel, strong administrative estoppel, and explicit statutory authority for the Patent and Trademark Office, PTO, to reject petitions by third parties and order joinder of related parties. Improvements have also been made regarding damages. Finally, I am pleased that we were able to address the PTO’s funding needs in a way that maintains Congress’ duty to carefully oversee the PTO while ensuring that it has the resources necessary to issue top quality patents in a timely manner.

Again, I commend Senator Leahy for his many years of work on this bill, and I look forward to the House taking up this legislation.

Mr. LEVIN. Mr. President, I thank my colleagues, Senator Leahy, who is the chairman of the Judiciary Committee, and Senator Grassley, who is the ranking Republican, for including in the Patent Reform Act a provision that a number of us have been working on for several years to stop the granting of tax strategy patents.

The key provision contains the text of legislation that Senators Baucus, Grassley and I, as well as others, introduced earlier this year, S. 139, the Equal Access to Tax Planning Act, to end the troubling practice of persons seeking patents for tax-avoidance strategies. Issuing such patents perverts the Tax Code by granting what some could see as a government imprimatur of approval for questionable or illegal tax strategies, while at the same time penalizing taxpayers seeking to use legitimate strategies.

Since 1998, when Federal courts ruled that business practices were eligible for patent protection, the Patent and Trademark Office has issued more than 130 patents for tax strategies, with more than 150 applications pending. These patents are a terrible idea for two reasons.

First, they may be providing unintended support for abusive tax shelters. Some unscrupulous tax shelter promoters may claim that the patent represents an official government endorsement of

their tax scheme and evidence that the scheme would withstand IRS challenge. Given the well-documented problem we have with tax avoidance in this country, allowing persons to patent tax strategies is not only a waste of government resources needed elsewhere, but an invitation to wrongdoers to misuse those government resources to promote tax avoidance.

Second, the granting of tax patents threatens to penalize taxpayers seeking to use legal tax strategies to minimize their tax bills. If a tax practitioner is the first to discover a legal advantage and secures a patent for it, that person could then effectively charge a toll for all other taxpayers to use the same strategy, even though as a matter of public policy all persons ought to be able to take advantage of the law to minimize their taxes. Companies could even patent a legal method to minimize their taxes and then

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refuse to license that patent to their competitors in order to prevent them from lowering their operating costs. Tax patents could be used to hinder productivity and competition rather than foster it.

Federal patent law is supposed to encourage innovation, productivity, and competition by encouraging inventors to innovate, secure in the knowledge that they can profit from their efforts. In the tax arena, there is already ample incentive for taxpayers to seek legitimate ways of reducing their tax burden, as the wealth of advice and consulting in this area demonstrates. Injecting patents into the mix encourages abusive tax avoidance while raising the cost of legal tax planning at the same time, both to society's detriment.

I introduced the first bill to ban tax patents back in 2007. Since then, Senators on both sides of the aisle have been trying to get this problem fixed. The language in the bill before us today is designed to put a halt to the issuance of patents for tax strategies once and for all, including for the 155 pending applications. Although the bill does not apply on its face to the 130-plus tax patents already granted, if someone tries to enforce one of those patents in court by demanding that a taxpayer provide a fee before using it to reduce their taxes, I hope a court will consider this bill's language and policy determination and refuse to enforce the patent as against public policy.

The tax patent provisions of this bill are significant, but they are not the only reasons to support passage. This legislation will create jobs, help keep our manufacturers competitive and strengthen and expand the ability of our universities to conduct research and turn that research into innovative products and processes that benefit Michigan and our Nation. It also will assist the new satellite Patent and Trade Office that will be established in Detroit by modernizing the patent system and improving efficiency of patent review and the hiring of patent examiners. One objective of the new office in Detroit is to recruit patent examiners to reduce the backlog of patent applications. This legislation is a huge step forward in that effort.

Mr. GRASSLEY. Mr. President, I want to discuss an important component of the patent reform legislation that protects against frivolous and vexatious litigation arising from qui tam suits for false patent markings. The bill before the Senate abolishes this qui tam procedure and I would like to discuss why I support doing so, even though I am generally a strong proponent of using the qui tam mechanism to protect American taxpayers.

The qui tam provisions of the False Claims Act specifically allow the government to intervene and control litigation when the government has been harmed through false or fraudulent billing. The qui tam provisions of the patent law do not.

In fact, a recent Federal court decision struck down the qui tam provisions of the patent law as unconstitutional because the false patent marking statute does not give the executive branch sufficient control over the litigation to ensure that the President can "take Care that the Laws be faithfully executed."

As I mentioned, the False Claims Act is completely different. The Justice Department has the right to intervene, to prosecute, or to dismiss a False Claims Act qui tam. I was instrumental in ensuring such controls on frivolous lawsuits were inserted into the False Claims Act and the absence of similar controls in the false patent marking law is problematic.

I would not want anyone watching the patent reform bill to conclude that Congress will weaken or undermine the False Claims Act qui tam statute because we have stricken a flawed qui tam provision in the patent bill. I will vigorously defend the False Claims Act and urge my colleagues to do the same. The False Claims Act is the Federal Government's strongest weapon to protecting the taxpayer dollars from fraud and abuse. It would be a serious miscalculation for anyone to imply or attempt to characterize my support for the removal of the patent qui tam as a starting point for striking or reforming the False Claims Act qui tam provisions.

The False Claims Act qui tam provisions have helped the Federal Government recover over $28 billion since I amended it to add the qui tam provisions in 1986. With the recent amendments to the False Claims Act that I, along with Senator Leahy, included in the Fraud Enforcement and Recovery Act of 2009, the False Claims Act will continue to serve as the Federal Government's most valuable tool to combat fraud in government programs for decades to come.

Mr. KYL. Mr. President, I rise today to make a few comments about the present bill, which has now been retitled the "America Invents Act." This bill is almost identical to the managers' amendment that was negotiated by Chairman Leahy and then-Ranking Member Sessions during the last Congress and announced in March 2010. I cosponsored and strongly supported that managers' amendment, which substantially addressed all of the concerns that Senators Feingold, Coburn, and I raised in our Minority Report to the 2009 committee report for the bill, Senate Report 111-18, at pages 53 through 61. As the bill was renegotiated in the fall of 2009 and early 2010, improvements and corrections were made throughout the bill, and a number of new provisions were added. I would like to take a moment to comment on some of those changes and additions.

In section 2(a) of the bill, the definition of "effective filing date" in section 100(i) has been modified in several ways. In subparagraph (A), the word "actual" is added before "filing date." When the word "filing date" is used in current law, it is sometimes used to mean the actual filing date and sometimes used to mean the effective filing date. Since section 100 is a definitional section, it should be clear in its language, and thus the word "actual" is added in order to avoid a lingering ambiguity. Also, the language of subparagraph (B) is streamlined to clarify that a patent gets the benefit or priority of an earlier application if it is entitled to such benefit or priority as to the invention in question under the relevant code sections, which require

satisfaction of the requirements of section 112(a), a specific reference to the prior application, and copendency.

The new language makes it clear that the definition of effective-filing date does not create new rules for entitlement to priority or the benefit of an earlier filing date. Rather, the definition simply incorporates the rules created by existing code sections. Also, since those rules expressly require an enabling disclosure, there is no need to separately require such disclosure in this definition, and thus the reference at the end of subparagraph (B) to the first paragraph of section 112 that appeared in earlier versions of the bill is dropped. Keeping that citation would have created a negative implication that unless such a requirement of section 120 was expressly incorporated into the definition of effective-filing date, then such requirement need not be satisfied in order to secure the benefit of an earlier effective-filing date.

It should be noted that, for purposes of subparagraph (A) of section 100(i)(1), a patent or application for patent contains a claim to an invention even if the claim to the particular invention was added via an amendment after the application was filed. Of course, such an amendment may not introduce new matter into the application--it may only claim that which was disclosed in the application.

Finally, new section 100(i)(2) of title 35 governs the effective date of reissued patents. Consistent with section 251, this new paragraph effectively treats the reissue as an amendment to the patent, which is itself treated as if it were a still-pending application. It bears emphasis that the first paragraph of section 251, which is designated as subsection (a) by this bill, bars the introduction of new matter in an application for reissue. Moreover, paragraph (3) of section 251, now designated as section 251(c), makes the rules governing applications generally applicable to reissues. A reissue is treated as an amendment to the patent, and the last sentence of section 132(a) bars the introduction of new matter in an amendment. See In re Rasmussen, 650 F.2d 1212, 1214-15, CCPA 1981. Thus a claim that relies for its support on new matter introduced in a reissue would be invalid.

Section 2(b) of the bill recodifies section 102 of title 35. In the present bill, this recodification is reorganized by

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consolidating all exceptions to the definition of prior art in section 102(b)--and excluding from subsection (b) provisions that do not define exceptions to prior art, such as the CREATE Act and the definition of the effective date of patents and applications cited as prior art. Thus what previously appeared as section 102(a)(1)(B) in earlier versions of the bill is now 102(b)(1)(A), and former paragraphs (3) and (4) of subsection (b) are now subsections (c) and (d), respectively. Also, the wording of subparagraph (B) of section 102(b)(2), which appeared at the same place in earlier versions of the bill, is changed so that it tracks the wording of subparagraph (B) of subsection (b)(1). These two subparagraph (B)s are intended to operate in the same way, and their previous differences in wording, although not substantive, tended to create an implication that they were intended to operate in different ways.

Under the first subparagraph (B), at section 102(b)(1)(B), if an inventor publicly discloses his invention, no subsequent disclosure made by anyone, regardless of whether the subsequent discloser obtained the subject matter from the inventor, will constitute prior art against the inventor's subsequent application for patent in the United States. The parallel provision at section 102(b)(2)(B) applies the same rule to subsequent applications: if the inventor discloses his invention, a subsequently filed application by another will not constitute prior art against the inventor's later-filed application for patent in the United States, even if the other filer did not obtain the subject matter from the first-disclosing inventor. And of course, the inventor's earlier disclosure will constitute prior art that invalidates the other filer's subsequent application.

In other words, under the regime of the two subparagraph (B)s, an inventor's disclosure of his invention to the public not only invalidates anyone else's subsequently filed application, but no one else's subsequent disclosure or filing of an application during the 1-year grace period will constitute prior art against that inventor's application. The bill thus effectively creates a "first to publish" rule that guarantees patent rights in the United States to whoever discloses the invention to the public first.

Of course, until the Europeans and the Japanese adopt a more substantial grace period, an inventor's pre-filing disclosure will prevent patenting in Europe and Japan. An inventor who is concerned about protecting his invention from theft, but who also wants to preserve his rights overseas, can instead file a provisional application in the United States. This inexpensive alternative protects the inventor's rights both in the United States and abroad.

Another change that this bill makes to chapter 10 is that the CREATE Act, formerly at section 103(c) of title 35, has been moved to section 102(c). The present bill departs from earlier versions of the bill by giving the CREATE Act is own subsection and making several clarifying and technical changes. In particular, the citation at the end of the chapeau is made more specific, and in paragraph (1) the words "was developed" are added because subject matter is not always "made," but is always "developed." Also in the same paragraph, the reference to "parties" is replaced with "1 or more parties", to further clarify that not all parties to the joint research agreement need have participated in developing the prior art or making the invention. Finally, as noted previously, the definition of "joint research agreement" is moved to section 100, which contains other definitions relevant to CREATE. As section 2(b)(2) of this bill notes, these changes are made with the same "intent" to promote joint-research activities that animated the CREATE Act. None of the changes in this legislation alter the meaning of the original law.

The present bill's new subsection 102(d) of title 35 makes several changes to earlier bills' version of this provision. Specifically, the chapeau of this subsection, which defines the effective date of patents and applications cited as prior art, is modified in the first clause by expressly stating the purpose of this subsection, and by otherwise clarifying the language employed. In paragraph (1), a clause is added at the outset to make clear that the paragraph applies only if paragraph (2) does not apply. Paragraph (2) is unmodified save for the nonsubstantive addition of a comma.

Though the language of section 102(d)(2) remains unchanged from earlier versions of the bill, that language deserves some comment. Paragraph (2) is intended to overrule what remains of In re Wertheim, 646 F.2d 527 (CCPA 1981), which appeared to hold that only an application that

could have become a patent on the day that it was filed can constitute prior art against another application or patent.

See id. at 537, noting that:

If, for example, the PTO wishes to utilize against an applicant a part of that patent disclosure found in an application filed earlier than the date of the application which became the patent, it must demonstrate that the earlier-filed application contains sections 120/112 support for the invention claimed in the reference patent. For if a patent could not theoretically have issued the day the application was filed, it is not entitled to be used against another as 'secret prior art,' the rationale of Milburn being inapplicable.

Wertheim, however, was already almost completely overruled by the American Inventors Protection Act of 1999, Public Law 106-113, which, by making any published application prior art, effectively displaced Wertheim's requirement that the application have been capable of becoming a patent on the day that it was filed. Two recent BPAI decisions, Ex parte Yamaguchi, 88 U.S.P.Q.2d 1606, BPAI 2008, and Ex parte Jo Anne Robbins, 2009 WL 3490271, BPAI October 26, 2009, confirm this overruling, holding that any application that is ultimately published is prior art as of its filing date, and that provisional applications--which typically cannot become patents as filed--also are prior art. See Robbins at page *4, noting that "[i]n our opinion, a published patent application which is statutorily destined to be published constitutes prior art for all that it discloses on its earliest filing date," and Yamaguchi at page 9, noting that "a provisional application--like a regular utility application-- constitutes prior art for all that it teaches," and the same case at page 13, Judge Torczon concurring that "[i]f [the majority] is correct, In re Wertheim is no longer tenable authority." Moreover, these BPAI decisions' holding that a patent has a patent-defeating effect as of the filing date of the provisional application to which it claims priority was recently affirmed by the Federal Circuit in In re Giacomini, 612 F.3d 1380 (Fed. Cir. 2010).

The caselaw also teaches that parent applications to the published application set the effective date of the prior art if they describe the invention and the invention is enabled before the filing of the patent under review, even if that prior-art description, standing alone, may not be adequate to show enablement. This point is illustrated by Application of Samour, 571 F.2d 559, CCPA 1978, which holds that prior art must be enabled before the effective filing date of the application or patent under review, but this enablement need not be disclosed at the same place and time as the primary reference relied on as prior art--and can even come later than the primary reference, so long as it still comes before the effective-filing date of the application under review. Samour at page 563, notes that:

we do not believe that a reference showing that a method of preparing the claimed subject matter would have been known by, or would have been obvious to, one of ordinary skill in the pertinent art, must antedate the primary reference. The critical issue under 35 U.S.C. Sec. 102(b) is whether the claimed subject matter was in possession of the public more than one year prior to applicant's filing date, not whether the evidence showing such possession came before or after the date of the primary reference.

Technically, In re Wertheim still controls the prior-art effect of the limited universe of applications that are not published before they are patented, but the Office's examination guidelines ignore even this vestigial effect, and extend prior-art effect to all prior applications that describe an invention as of the date of their filing. MPEP 21360.03, part IV, which notes that:

For prior art purposes, a U.S. patent or patent application publication that claims the benefit of an earlier filing date under 35 U.S.C. 120 of a prior nonprovisional application would be accorded the earlier filing date as its prior art date under 35 U.S.C. 102(e), provided the earlier-filed application properly supports the subject matter relied upon in any rejection in compliance with 35 U.S.C. Sec. 112, first paragraph.

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A prior-art parent application, however, must be copendent, have some continuity of disclosure, and be specifically referred to in the patent or published application. The continuous disclosure must be a description of the subject matter that is relied on as prior art. That description can become narrower in the intervening applications. But so long as there is still some description of the subject matter in the intervening applications, the Office can rely on an earlier application's fuller description as prior art.

The language of paragraph (2) is somewhat indirect in its imposition of these requirements. They are mostly incorporated through the paragraph's mandate that the prior-art application be "entitled to claim * * * priority or benefit" under section 120 et al. In section 100(i), which defines the effective-filing date of the patent under review, the patent must be entitled to the priority or benefit itself under the relevant sections. Here again in section 102(d), however, the application need only be entitled to claim the benefit or priority under those sections. This difference in language, which offers an excellent example of why people hate lawyers, distinguishes between the core requirement of section 120 et al.--that the application include an enabling disclosure--and the ministerial requirements of that section--that the application be copendent and specifically referenced. In effect, an application that meets the ministerial requirements of copendency and specific reference is entitled to claim the benefit or priority, but only an application that also offers an enabling disclosure is actually entitled to the benefit or priority itself. The language of paragraph (2) also expressly requires that the earliest application "describe" the subject matter, and the Office has traditionally required that this disclosure be continuous, as discussed above.

Paragraph (2) can be criticized as codifying current BPAI common law and examination practice without fully describing that practice. However, a fully descriptive codification of the principles codified therein would be unduly long, requiring repetition of the already somewhat inelegant language of section 120.

Another aspect of the bill's changes to current section 102 also merits special mention. New section 102(a)(1) makes two important changes to the definition of non-patent prior art. First, it lifts current law's geographic limits on what uses, knowledge, or sales constitute prior art. And second, it limits all non-patent prior art to that which is available to the public. This latter change is clearly identified in Senate Report 110-259, the report for S. 1145, the predecessor to this bill

in the 110th Congress. The words “otherwise available to the public” were added to section 102(a)(1) during that Congress’s Judiciary Committee mark up of the bill. The word “otherwise” makes clear that the preceding clauses describe things that are of the same quality or nature as the final clause--that is, although different categories of prior art are listed, all of them are limited to that which makes the invention “available to the public.” As the committee report notes at page 9, “the phrase ‘available to the public’ is added to clarify the broad scope of relevant prior art, as well as to emphasize the fact that it [i.e., the relevant prior art] must be publicly available.” In other words, as the report notes, “[p]rior art will be measured from the filing date of the application and will include all art that publicly exists prior to the filing date, other than disclosures by the inventor within one year of filing.”

The Committee’s understanding of the effect of adding the words “or otherwise available to the public” is confirmed by judicial construction of this phraseology. Courts have consistently found that when the words “or otherwise” or “or other” are used to add a modifier at the end of a string of clauses, the modifier thus added restricts the meaning of the preceding clauses. Strom v. Goldman, Sachs & Co., 202 F.3d 138, 146-47, Second Cir. 1999, states that:

The position of the phrase ‘or any other equitable relief’ in the sentence in which it appears indicates that it modifies one or both of the two specific remedies referred to just before it in the same sentence * * * [T]he use of the words ‘other’ immediately after the reference to back pay and before ‘equitable relief’ demonstrated Congress’ understanding that the back pay remedy is equitable in nature.

Strom construed the phrase “may include * * * back pay, * * * or any other equitable relief.” Universal City Studios, Inc. v. Reimerdes, 111 F.Supp.2d 294, 325, S.D.N.Y. 2000, holds that:

The statute makes it unlawful to offer, provide or otherwise traffic in described technology. To ‘traffic’ in something is to engage in dealings in it, conduct that necessarily involves awareness of the nature of the subject of the trafficking. * * * The phrase ‘or otherwise traffic in’ modifies and gives meaning to the words ‘offer’ and ‘provide.’ In consequence, the anti-trafficking provision of the DMCA is implicated where one presents, holds out or makes a circumvention technology or device available, knowing its nature, for the purpose of allowing others to acquire it.

Reimerdes construed the phrase “offer to the public, provide, or otherwise traffic in any technology.” Williamson v. Southern Regional Council, Inc., 223 Ga. 179, 184, 154 S.E.2d 21, 25 (Ga. 1967), noted that:

The words ‘carrying on propaganda’ in this statute must be construed in connection with the words following it, ‘or otherwise attempting to influence legislation.’ The use of the word ‘otherwise’ indicates that ‘carrying on propaganda’ relates to ‘attempting to influence legislation.’

Williamson construed the phrase “carrying on propaganda, or otherwise attempting to influence legislation.”

In other words, the Judiciary Committee’s design in adding the 2007 amendment to section 102(a)(1), as expressed in the relevant committee report, is consistent with the unanimous

judicial construction of the same turn of phrase. It appears that every court that has considered this question agrees with the committee's understanding of the meaning of this language.

Moreover, the fact that the clause "or otherwise available to the public" is set off from its preceding clauses by a comma confirms that it applies to both "public use" and "on sale." Finisar Corp. v. DirecTV Group, Inc., 523 F.3d 1323, 1336, Fed. Cir. 2008, notes that "when a modifier is set off from a series of antecedents by a comma, the modifier should be read to apply to each of those antecedents." Thus new section 102(a)(1) imposes a public-availability standard on the definition of all prior art enumerated by the bill--an understanding on which the remainder of the bill is predicated.

Whether an invention has been made available to the public is the same inquiry that is undertaken under existing law to determine whether a document has become publicly accessible, but is conducted in a more generalized manner to account for disclosures of information that are not in the form of documents.

A document is publicly accessible if it has been disseminated or otherwise made available to the extent that persons interested and ordinarily skilled in the subject matter or art, exercising reasonable diligence, can locate it and recognize and comprehend therefrom the essentials of the claimed invention without need of further research or experimentation.

That is a quotation from Cordis Corp. v. Boston Scientific Corp., 561 F.3d 1319, 1333, Fed. Cir. 2009. That decision also states that "[i]n general, accessibility goes to the issue of whether interested members of the relevant public could obtain the information if they wanted to." See also In re Lister, 583 F.3d 1307, Fed. Cir. 2009.

Another important aspect of public availability or accessibility is the doctrine of inherency. "Under the doctrine of inherency, if an element is not expressly disclosed in a prior art reference, the reference will still be deemed to anticipate a subsequent claim if the missing element is necessarily present in the thing described in the reference, and that it would be so recognized by persons of ordinary skill," a point noted in Rosco, Inc. v. Mirror Lite Co., 304 F.3d 1373, 1380, Fed. Cir. 2002. This doctrine applies to products sold to the public as well as published references. Thus once a product is sold on the market, any invention that is inherent to the product becomes publicly available prior art and cannot be patented.

The present bill's elimination of the patent forfeiture doctrines in favor of a general public availability standard also limits and reconciles the various purposes that previously have been ascribed to section 102's definition of prior art. Current 102(b), which imposes the forfeiture doctrines, has been described as being "primarily concerned

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with the policy that encourages an inventor to enter the patent system promptly," a quotation from Woodland Trust v. Flowertree Nursery, Inc., 148 F.3d 1368, 1370, Fed. Cir. 1998. And the "overriding concern of the on-sale bar" has been described as "an inventor's attempt to commercialize his invention beyond the statutory term," as stated in Netscape Communications Corp. v. Konrad, 295 F.3d 1315, 1323, Fed. Cir. 2002.

By adopting the first-to-file system, however, the present bill already provides ample incentive for an inventor to enter the patent system promptly. There is no need to also require forfeiture of patents simply because the inventor has made some use of the invention that has not made the invention available to the public. And the current on-sale bar imposes penalties not demanded by any legitimate public interest. There is no reason to fear "commercialization" that merely consists of a secret sale or offer for sale but that does not operate to disclose the invention to the public.

The current forfeiture doctrines have become traps for unwary inventors and impose extreme results to no real purpose. In Beachcombers International, Inc. v. Wildewood Creative Products, Inc., 31 F.3d 1154, 1159-60, Fed. Cir. 1994, for example, an improved kaleidoscope was held to be "in public use" within the meaning of current section 102(b) because the inventor had demonstrated the device to several guests at a party in her own home. And in JumpSport, Inc. v. Jumpking, Inc., 2006 WL 2034498, Fed. Cir. July 21, 2006, the court of appeals affirmed the forfeiture of a patent for a trampoline enclosure on the ground that the enclosure had been in "public use" because neighbors had been allowed to use it in the inventor's back yard. Obviously, neither of these uses made the inventions accessible to persons interested and skilled in the subject matter. The only effect of rulings like these is to create heavy discovery costs in every patent case, and to punish small inventors who are unaware of the pitfalls of the current definition of prior art.

The present bill's new section 102(a) precludes extreme results such as these and eliminates the use of the definition of prior art to pursue varied goals such as encouraging prompt filing or limiting commercialization. Instead, the new definition of prior art will serve only one purpose: "to prevent the withdrawal by an inventor of that which was already in the possession of the public," as noted in Bruckelmyer v. Ground Heaters, Inc., 335 F.3d 1374, 1378, Fed. Cir. 2006. The new definition is "grounded on the principle that once an invention is in the public domain, it is no longer patentable by anyone," as stated in SRI International, Inc. v. Internet Security Systems, Inc., 511 F.3d 1186, 1194, Fed. Cir. 2008.

The present definition thus abrogates the rule announced in Egbert v. Lippman, 104 U.S. 333, 336 (1881), one of the more unusual patent cases to come before the Supreme Court. That case held that:

whether the use of an invention is public or private does not necessarily depend upon the number of persons to whom its use is known. If an inventor, having made his device, gives or sells it to another, to be used by the donee or vendee, without limitation or restriction, or injunction of secrecy, and it is so used, such use is public, even though the use and knowledge of the use may be confined to one person.

Egbert v. Lippman is another case whose result can fairly be characterized as extreme. The invention there was an improved corset spring. The evidence showed only that the inventor had given the improved corset spring to one lady friend, who gave it to no other, and who used it in a corset, which of course was worn under her dress. The U.S. Supreme Court deemed this to be a "public use" of the invention within the meaning of section 102(b).

Justice Miller dissented. He began by noting that the word "public" in section 102(b) is "an important member of the sentence." Justice Miller went on to conclude:

A private use with consent, which could lead to no copy or reproduction of the machine, which taught the nature of the invention to no one but the party to whom such consent was given, which left the public at large as ignorant of this as it was before the author's discovery, was no abandonment to the public, and did not defeat his claim for a patent. If the little steep spring inserted in a single pair of corsets, and used by only one woman, covered by her outer-clothing, and in a position always withheld from public observation, is a public use of that piece of steel, I am at a loss to know the line between a private and a public use.

In this bill's revisions to section 102, vindication has finally come to Justice Miller, albeit 130 years late.

I emphasize these points about the bill's imposition of a general public availability standard and its elimination of secret prior art because they are no small matter. A contrary construction of section 102(a)(1), which allowed private and non-disclosing uses and sales to constitute invalidating prior art, would be fairly disastrous for the U.S. patent system. First, the bill's new post-grant review, in which any validity challenge can be raised, would be utterly unmanageable if the validity of all patents subject to review under the new system continued to depend on discovery-intensive searches for secret offers for sale and non-disclosing uses by third parties. Only patents issued under the new prior-art rules can be efficiently reviewed under chapter 32.

Second, a general public-availability standard is a necessary accompaniment to this bill's elimination of geographic restrictions on the definition of prior art. As unwieldy as the current rules may be, at least those rules allow only those secret sales and private third-party uses that occur in the United States to constitute prior art. Under the new regime, however, sales and uses occurring overseas will also constitute prior art. A sale or use that discloses an invention to the public is relatively hard to falsify. If the invention truly was made available to the public by sale or use, independent validation of that sale or use should be readily available. By contrast, the existence of a secret offer for sale, or a nondisclosing third-party use, largely will turn on the affidavits or statements of the parties to such an occurrence. Unfortunately, some foreign countries continue to have weak business ethics and few scruples about bending the rules to favor domestic interests over foreign competitors. A system that allowed foreign interests to invalidate a U.S. patent simply by securing statements from individuals that a secret offer for sale or non-disclosing third-party use of the invention had occurred in a foreign country would place U.S. inventors at grave risk of having their inventions stolen through fraud. That is not a risk that Congress is willing to accept.

In section 2(c), the present bill, for clarity's sake, changes the previous bills' recodification of section 103 of title 35 by replacing the word "though" with ", notwithstanding that". The modified text reflects more conventional English usage. Also, in both the present bill and earlier versions, former subsection (b) of section 103 has been dropped, since it has already been subsumed in caselaw. And subsection (c), the CREATE Act, has been moved to subsection (d) of section 102.

In section 2(e) of the present bill, an effective date is added to the repeal of statutory invention registrations. SIRs are needed only so long as interferences exist. The bill repeals the authority to initiate interferences 18 months after the date of enactment. The added effective-date language also repeals SIRs 18 months after enactment, making clear that preexisting SIRs will remain effective for purposes of pending interferences, which may continue under this bill.

Section 2(e)(2) of the bill strikes the citation to section 115 from section 111(b)(8)'s enumeration of application requirements that do not apply to provisionals. This conforming change is made because, in section 3 of the bill, section 115 itself has been amended so that it only applies to nonprovisionals. In other words, there is no longer any need for section 111(b)(8) to except out the oath requirement because that requirement no longer extends to provisionals. There is no need for an exception to a requirement that does not apply.

Sections 2(h) and (i) of the present bill make a number of changes to the previous bills' treatment of remedies for derivation. These changes are made largely at the Patent Office's suggestion. In particular, the new section 135 proceeding is simplified, the Office is given authority to implement the proceeding through regulations, the Office is permitted to stay a derivation proceeding pending an ex parte

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reexamintion, IPR, or PGR for the earlier-filed patent, and the Office is permitted but not required to institute a proceeding if the Office finds substantial evidence of derivation. In lieu of a section 135 proceeding, parties will be allowed to challenge a derived patent through a civil action under a revised section 291.

New section 2(k) of the bill eliminates the qui tam remedy for false marking, while allowing a party that has suffered a competitive injury as a result of such marking to seek compensatory damages. Section 292 of title 35 prohibits false patent marking and imposes a penalty of $500 for each such offense. Under current law, subsection (b) allows "any person" to sue for the penalty, and requires only that one half of the proceeds of the suit shall go to the United States. Current subsection (b) is, in effect, a qui tam remedy for false marking, but without any of the protections and government oversight that normally accompany qui tam actions.

The changes made by section 2(k) of the bill would allow the United States to continue to seek the $500-per-article fine, and would allow competitors to recover in relation to actual injuries that they have suffered as a result of false marking, but would eliminate litigation initiated by unrelated, private third parties.

In recent years, patent attorneys have begun to target manufacturers of high-volume consumer products with section 292(b) actions. Since the fine of up to $500 is assessed for each article that is falsely marked, such litigants have an incentive to target products that are sold in high volume. Though one might assume that section 292 is targeted at parties that assert fictitious patents in order to deter competitors, such a scenario is almost wholly unknown to false-marking litigation. False-marking suits are almost always based on allegations that a valid patent that did cover the product has expired, but the manufacturer continued to sell products stamped with the patent, or

allegations that an existing patent used to mark products is invalid or unenforceable, or that an existing and valid patent's claims should not be construed to cover the product in question.

Indeed, a recent survey of such suits found that a large majority involved valid patents that covered the products in question but had simply expired. For many products, it is difficult and expensive to change a mold or other means by which a product is marked as patented, and marked products continue to circulate in commerce for some time after the patent expires. It is doubtful that the Congress that originally enacted this section anticipated that it would force manufacturers to immediately remove marked products from commerce once the patent expired, given that the expense to manufacturers of doing so will generally greatly outweigh any conceivable harm of allowing such products to continue to circulate in commerce.

Indeed, it is not entirely clear how consumers would suffer any tangible harm from false marking that is distinct from that suffered when competitors are deterred from entering a market. Patent marking's primary purpose is to inform competitors, not consumers, that a product is patented. I doubt that consumers would take any interest, for example, in whether a disposable plastic cup is subject to a patent, to take one case recently decided by the courts. Even less clear is how the consumer would be harmed by such marking, absent a deterrence of competition. Current section 292(b) creates an incentive to litigate over false marking that is far out of proportion to the extent of any harm actually suffered or the culpability of a manufacturer's conduct.

To the extent that false patent marking deters competition, the bill's revised section 292(b) allows those competitors to sue for relief. This remedy should be more than adequate to deter false marking that harms competition. And to the extent that false marking somehow harms the public in a manner distinct from any injury to competitors and competition, revised section 292(a) would allow the United States to seek relief on behalf of the public. The Justice Department can be expected to be more judicious in its use of this remedy than is a private qui tam litigant seeking recovery that will benefit him personally. These revisions to section 292 should restore some equilibrium to this field of litigation.

Finally, because the Federal Circuit's recent decision in Forest Group, Inc. v. Bon Tool Co., 590 F.3d 1295, Fed Cir. 2009, appears to have created a surge in false-marking qui tam litigation, the changes made by paragraph (1) of section 2(k) of the bill are made fully retroactive by paragraph (2). Because the courts have had difficulty properly construing effective-date language in recent years, paragraph (2) employs the language of section 7(b) of Public Law 109-366, the Military Commissions Act of 2006, which recently was given an authoritative construction in Boumediene v. Bush, 476 F.3d 981, 987, D.C. Cir. 2007. As that court noted when construing effective-date language identical to that of section 2(k)(2):

Section 7(b) could not be clearer. It states that "the amendment made by subsection (a)"--which repeals habeas jurisdiction--applies to "all cases, without exception" relating to any aspect of detention. It is almost as if the proponents of these words were slamming their fists on the table shouting "When we say 'all,' we mean all--without exception!"

It is anticipated that courts will find the same clarity in the language of section 2(k)(2), and will apply the revised section 292(b) to cases pending at any level of appeal or review.

Section 2(l) of the present bill modifies the statute of limitations for initiating a proceeding to exclude an attorney from practice before the Office. Under this provision, a section 32 proceeding must be initiated either within 10 years of when the underlying misconduct occurred, or within 1 year of when the misconduct is reported to that section of PTO charged with conducting section 32 proceedings, whichever is earlier.

It is not entirely clear how the time limitation applies under present law. A recent D.C. Circuit case, 3M v. Browner, 17 F.3d 1461 D.C. Cir. 1994, effectively makes the 5-year statute of limitations that generally applies to enforcement of civil penalties, at 28 U.S.C. Sec. 2462, run from the date when a violation occurred, rather than from the date when the enforcement agency first learned of the violation or reasonably could have learned of it. A recent Federal Circuit case, Sheinbein v. Dudas, 465 F.3d 493, 496, Fed. Cir. 2006, applies the section 2462 5-year limitation to section 32 proceedings, and applies 3M v. Browner's general rule, as described by Sheinbein, that "[a] claim normally accrues when the factual and legal prerequisites for filing suit are in place." However, another court case, S.E.C. v. Koenig, 557 F.3d 736, 739, 7th Cir. 2009, has recently held that when a fraud has occurred, section 2462 only runs from when the fraud "could have been discovered by a person exercising reasonable diligence."

Although the Federal Circuit appears to be inclined to follow 3M v. Browner, it is not entirely clear that it would reject Koenig's exception for cases of fraud, Koenig having been decided subsequently to Sheinbein. In any event, neither rule would be entirely satisfactory for section 32 proceedings. On the one hand, a strict five-year statute of limitations that runs from when the misconduct occurred, rather than from when it reasonably could have been discovered, would appear to preclude a section 32 proceeding for a significant number of cases of serious misconduct, since prosecution misconduct often is not discovered until a patent is enforced. On the other hand, a fraud exception that effectively tolls the statute of limitations until the fraud reasonably could have been discovered would be both overinclusive and underinclusive. Such tolling could allow a section 32 proceeding to be commenced more than two decades after the attorney's misconduct occurred. This is well beyond the time period during which individuals can reasonably be expected to maintain an accurate recollection of events and motivations. And yet, a fraud exception would also be underinclusive, since there is a substantial range of misconduct that PTO should want to sanction that does not rise to the level of fraud, which requires reliance on the perpetrator's misrepresentations.

Section 2(1) of the bill adopts neither 3M v. Browner nor Koenig's approach, but instead imposes an outward limit of 10 years from the occurrence of the misconduct for the initiation of a section 32 proceeding. A 10-year limit

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would appear to allow a proceeding for the vast bulk of misconduct that is discovered, while also staying within the limits of what attorneys can reasonably be expected to remember.

Paragraph (2) of section 2(l) requires the Office to report to Congress every two years on incidents of misconduct that it becomes aware of and would have investigated but for the 10 year limit. By providing a description of the character and apparent seriousness of such incidents, these reports will alert a future Congress if there is a need to revisit the 10-year limit. If the

number and seriousness of such incidents is substantial enough, it may outweigh the interest in repose with regard to such matters.

Section 2(m) of the present bill requires the Small Business Administration to report to Congress on the expected impact of the first-to-file system on small businesses. On the one hand, some parties have suggested that the first-to-file system will be relatively burdensome for small businesses because it will require patent applicants to file their applications earlier, and will require that more applications be filed for a complex invention. On the other hand, others have suggested that the first-to-file system will be far simpler and cleaner to administer, that the ability to file provisional applications mitigates the burden of filing earlier, and that by inducing American patent applicants to file earlier, the first-to-file system is more likely to result in American patents that are valid and have priority elsewhere in the industrialized world.

Under current law, even if an American small business or independent inventor is legally sophisticated enough to maintain the type of third-party validation that will preserve his priority under the first-to-invent system, if that American inventor relies on first-to-invent rules to delay filing his application, he runs a serious risk that someone in another country will file an application for the same invention before the American does. Because the rest of the world uses the first-to-file system, even if the American inventor can prove that he was the first to have possession of the invention, the foreign filer would obtain the patent rights to the invention everywhere outside of the United States. In today's world, patent rights in Europe and Asia are valuable and important and cannot be ignored.

Section 2(n) of the bill requires the Director to report on the desirability of authorizing prior-user rights, particularly in light of the adoption of a first-to-file system.

In section 2(o) of the bill, the time for implementing the first-to-file system has been moved to 18 months, so that Congress might have an opportunity to act on the conclusions or recommendations of the reports required by subsections (m) and (n) before first-to-file rules are implemented.

Subsection (o) generally adopts the Office's preferred approach to transitioning to the first-to-file system. Under this approach, if an application contains or contained a claim to an invention with an effective-filing date that is 18 months after the date of enactment of the Act, the entire application is subject to the first-to-file regime. As a practical matter, this allows applicants to flip their applications forward into the first-to-file system, but prevents them from flipping backward into the first-to-invent universe once they are already subject to first-to-file rules.

New section 100(i)(2) of title 35 ensures that reissues of first-to-invent patents will remain subject to first-to-invent rules. Also, continuations of first-to-invent applications that do not introduce new matter will remain subject to first-to-invent rules. This last rule is important because if a continuation filed 18 months after the enactment of the Act were automatically subject to first-to-file rules, even if it introduced no new matter, the Office likely would see a flood of continuation filings on the eve of the first-to-file effective date. Under subsection (o), an applicant who wants to add to his disclosure after this section's 18-month effective date can choose to pull the whole invention into the first-to-file universe by including the new disclosure

in a continuation of his pending first-to-invent application, or he can choose to keep the pending application in the first-to-file world by filing the new disclosure as a separate invention.

Paragraph (2) of subsection (o) provides a remedy in situations in which interfering patents are issued, one of which remains subject to first-to-invent rules, and the other of which was filed earlier but has a later date of conception and has transitioned into the first-to-file system. Paragraph (2) subjects the latter patent to the first-to-invent rule, and allows the other patent owner and even third parties to seek invalidation of that later-conceived interfering patent on that basis.

In section 3(a) of the present bill, the language of section 115 of title 35, the inventor's oath requirement, has been tidied up from that appearing in earlier versions of the bill. A grammatical error is corrected, an unnecessary parenthetical is struck, and stylistic changes are made.

In the new section 115(g), a paragraph (2) has been added that allows the Director to require an applicant claiming the benefit of an earlier-filed application to include copies of previous inventor's oaths used in those applications. The Office cannot begin examining an application until it knows who those inventors are, since their identity determines which prior art counts as prior art against the claimed invention. However, a later-filed application is not currently required to name inventors. Such information is included in an application data sheet, but such data sheets are not always filed--the requirement is not statutory. Moreover, a later-filed application often will cite to multiple prior applications under section 120, each of which may list several inventors. Thus unless the Office can require the applicant to identify which oath or other statement applies to the later-filed application, the Office may not be able to figure out who the inventor is for that later application.

In new section 115(h)(2), the present bill replaces the word "under" with "meeting the requirements of" in order to conform to the formulation used later in the same sentence.

In section 3(a)(3) of the bill, the changes to section 111(a) are modified to reflect that either an oath or declaration may be submitted.

In section 3(b), the present bill adds a new paragraph (2) that modifies section 251 to allow an assignee who applied for a patent to also seek broadening reissue of the patent within two years of its issue. Notwithstanding the language of the fourth paragraph of current section 251, the Office currently does allow assignees to seek broadening reissue, so long as the inventor does not oppose the reissue. The Office views such unopposed applications for reissue as effectively being made "in the name" of the inventor. Expanding an assignee's right to seek broadening reissue is consistent with the bill's changes to sections 115 and 118, which expand assignees' rights by allowing assignees to apply for a patent against the inventor's wishes. If an assignee exercises his right to apply for a patent against the inventor's wishes, there is no reason not to allow the same assignee to also seek a broadening reissue within the section 251 time limits.

Turning to the issue of damages, at the end of the 110th Congress, I introduced a patent reform bill, S. 3600, that proposed restrictions on the use of some of the factors that are used to calculate a reasonable royalty. Discussions with patent-damages experts had persuaded me that several of the metrics that are employed by litigants are unsound, unduly manipulable and subjective, and

prone to producing excessive awards. The most significant of the restrictions that I proposed in S. 3600 were limits on the use of supposedly comparable licenses for other patents to value the patent in suit, and limits on the use of standardized measures such as the so-called rule of thumb. These proposals are discussed in my statement accompanying the introduction of S. 3600, at 154 Congressional Record S9982, S9984-85, daily ed. September 27, 2008. I argued at the time that the only way to ensure that courts and juries would stop using these metrics "is for Congress to tell the courts to disallow them."

It appears that I underestimated the courts' ability and willingness to address these problems on their own. And I certainly did not anticipate the speed with which they might do so. Three recent decisions from the Federal Circuit

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have sharply restricted the use of licenses for supposedly comparable patents to value the patent in suit. Lucent Technologies, Inc. v. Gateway, Inc., 580 F.3d 1301, 1328, Fed. Cir. 2009, makes clear that mere "kinship" in a field of technology is not enough to allow use of evidence of licenses for other patents. Lucent bars the use of other-patent licenses where there is no showing of the significance of such other patented inventions to their licensed products, or no showing of how "valuable or essential" those other licensed inventions are. In a similar vein, ResQNet.com, Inc. v. Lansa, Inc., 594 F.3d 860, 870, 872, Fed. Cir. 2010, condemns the use of "unrelated" licenses for other patents as a measure of value and makes clear that a supposedly comparable license must have "an economic or other link to the technology in question." And Wordtech Systems, Inc. v. Integrated Network Solutions, Inc., 609 F.3d 1308, 1320, Fed. Cir. 2010, recently reiterated that "comparisons of past patent licenses to the infringement must account for the technological and economic differences between them."

And just two months ago, I was particularly pleased to see the Federal Circuit announce, in Uniloc USA, Inc. v. Microsoft Corp.,____ F.3d____, 2011 WL 9738, Fed. Cir. 2011, that the "court now holds as a matter of Federal Circuit law that the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation." The court ruled that testimony based on the rule of thumb is inadmissible under the Daubert standard.

The rule of thumb is a particularly arbitrary and inaccurate measure of patent value. I am glad to see that it will no longer be used.

The Lucent case that I quoted earlier also struck down a damages award that was based on the entire market value of the infringing product. The court did so because there was no substantial evidence that the patented invention was the basis for consumer demand for the product. See Lucent, 580 F.3d at 1337-38. This holding addresses one of the principal complaints that I have heard about patent-damages calculations. And it effects a reform that Congress itself cannot enact. Existing law already required that the invention be the basis for consumer demand before damages can be assessed on the whole product, and the law already required parties to support their contentions with legally sufficient evidence. Congress can change the underlying law, but it cannot make the courts enforce it. The Lucent case did so.

The limits that I had proposed in S. 3600 on the use of metrics such as the rule of thumb, and that bill's restrictions on the use of licenses for comparable patents to value the patent in suit, are rendered superfluous by these intervening judicial decisions. The present bill appropriately leaves patent-damages law to common law development in the courts.

The present bill also makes no changes to the standard for awards of treble damages. As noted in the Minority Report to the committee report for the 2009 bill, Senate Report 111-18 at pages 58-60, that bill's grounds for allowing awards of treble damages were exceedingly narrow, and its safe harbors were overly broad. That bill would have created immunity from willfulness damages even for an infringer who was fully aware of a patent and had no real doubts as to its validity. It also created immunity, in some cases, even for infringers who had engaged in wanton conduct such as deliberate copying.

Awards of enhanced damages play an important role in the U.S. patent system. It is not uncommon that a manufacturer will find itself in a situation where it feels great pressure to copy a competitor's patented invention. In a typical scenario, the sales staff report that they are losing sales because the competitor's product has a particular feature. The manufacturer's engineers discover that the feature is protected by a valid patent, and they find that they are unable to produce the same feature without infringing the patent. The company then has two choices. It can choose to continue to try to reproduce or substitute for the patented feature, and as it does so, continue to lose market share, and in some cases, lose convoyed sales of associated products or services. Or it can choose to infringe the competitor's patent.

Treble damages are authorized in order to deter manufacturers from choosing the second option. Absent the threat of treble damages, many manufacturers would find that their most financially reasonable option is simply to infringe patents. Lost-profits damages are often hard to prove or unavailable. The patent owner is always entitled to a reasonable royalty, but under that standard, the infringer often can keep even some of the profits produced by his infringing behavior. Without treble damages, many companies would find it economically rational to infringe valid patents. Section 284's authorization of treble damages is designed to persuade these companies that their best economic option is to respect valid patents.

If patents were routinely ignored and infringed, the patent system would cease to be of use to many companies and other entities that do some of our nation's most important research and development. These companies are profitable because people respect their patents and voluntarily pay a license. They would not be viable enterprises if they always had to sue in order to get paid for others' use of their patented inventions.

By dropping the 2009 bill's restrictions on treble-damages awards, the present bill preserves these awards' role as a meaningful deterrent to reckless or wanton conduct. Ultimately, we want a treble-damages standard that creates an environment where the most economically reasonable option for a party confronted by a strong patent is to take a license--and where no one thinks that he can get away with copying.

Section 4(c) of the present bill adds a new section 298 to title 35. This section bars courts and juries from drawing an adverse inference from an accused infringer's failure to obtain opinion of counsel as to infringement or his failure to waive privilege and disclose such an opinion. The

provision is designed to protect attorney-client privilege and to reduce pressure on accused infringers to obtain opinions of counsel for litigation purposes. It reflects a policy choice that the probative value of this type of evidence is outweighed by the harm that coercing a waiver of attorney-client privilege inflicts on the attorney-client relationship. Permitting adverse inferences from a failure to procure an opinion or waive privilege undermines frank communication between clients and counsel. It also feeds the cottage industry of providing such opinions--an industry that is founded on an unhealthy relationship between clients and counsel and which amounts to a deadweight loss to the patent system. Some lawyers develop a lucrative business of producing these opinions, and inevitably become aware that continued requests for their services are contingent on their opinions' always coming out the same way--that the patent is invalid or not infringed. Section 298 reflects legislative skepticism of the probative value of such opinions.

Section 298 applies to findings of both willfulness and intent to induce infringement--and thus legislatively abrogates Broadcom Corp. v. Qualcomm Inc., 543 F.3d 683, Fed. Cir. 2008. That case held, at page 699, that:

Because opinion-of-counsel evidence, along with other factors, may reflect whether the accused infringer 'knew or should have known' that its actions would cause another to directly infringe, we hold that such evidence remains relevant to the second prong of the intent analysis. Moreover, we disagree with Qualcomm's argument and further hold that the failure to procure such an opinion may be probative of intent in this context.

Section 5 of the bill has been substantially reorganized and modified since the 2009 bill. In general, the changes to this part of the bill aim to make inter partes and post-grant review into systems that the Patent Office is confident that it will be able to administer. The changes also impose procedural limits on post-grant administrative proceedings that will prevent abuse of these proceedings for purposes of harassment or delay.

Accused infringers, however, also will benefit from some of the changes made by the present bill. The bill eliminates current law's requirement, at section 317(b) of title 35, that an inter partes reexamination be terminated if litigation results in a final judgment. It also removes the bar on challenging pre-1999 patents in inter partes proceedings. All patents can now be challenged in inter partes review.

In addition, the bill creates a new post-grant review in which a patent

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can be challenged on any validity ground during the first nine months after its issue. Challengers who use this proceeding will be estopped in litigation from raising only those issues that were raised and decided in the post-grant review, rather than all issues that could have been raised, the standard employed in inter partes reexamination.

The present bill also softens the could-have-raised estoppel that is applied by inter partes review against subsequent civil litigation by adding the modifier "reasonably." It is possible that courts would have read this limitation into current law's estoppel. Current law, however, is also amenable to the interpretation that litigants are estopped from raising any issue that it would have been physically possible to raise in the inter partes reexamination, even if only a scorched-

earth search around the world would have uncovered the prior art in question. Adding the modifier “reasonably” ensures that could-have-raised estoppel extends only to that prior art which a skilled searcher conducting a diligent search reasonably could have been expected to discover.

Section 5(a) of the 2009 version of the bill, which would amend section 301, has been modified and moved to section 5(g) of the bill. This provision allows written statements of the patent owner regarding claim scope that have been filed in court or in the Office to be made a part of the official file of the patent, and allows those statements to be considered in reexaminations and inter partes and post-grant reviews for purposes of claim construction. This information should help the Office understand and construe the key claims of a patent. It should also allow the Office to identify inconsistent statements made about claim scope--for example, cases where a patent owner successfully advocated a claim scope in district court that is broader than the “broadest reasonable construction” that he now urges in an inter partes review.

The present bill preserves the agreement reached in the 2009 Judiciary Committee mark up to maintain the current scope of inter partes proceedings: only patents and printed publications may be used to challenge a patent in an inter partes review.

One important structural change made by the present bill is that inter partes reexamination is converted into an adjudicative proceeding in which the petitioner, rather than the Office, bears the burden of showing unpatentability. Section 5(c) of the previous bill eliminated language in section 314(a) that expressly required inter partes reexamination to be run as an examinational rather than adjudicative proceeding, but failed to make conforming changes eliminating provisions in section 314(b) that effectively would have required inter partes reexamination to still be run as an examinational proceeding. In the present bill, section 316(a)(4) gives the Office discretion in prescribing regulations governing the new proceeding. The Office has made clear that it will use this discretion to convert inter partes into an adjudicative proceeding. This change also is effectively compelled by new section 316(e), which assigns to the petitioner the burden of proving a proposition of unpatentability by a preponderance of the evidence. Because of these changes, the name of the proceeding is changed from “inter partes reexamination” to “inter partes review.”

The present bill also makes changes to the petition requirements that appear in new sections 312(a)(5) and 322(a)(5). These sections have been modified to require petitioners to provide to the patent owner the same identification of any real parties in interest or privies that is provided to the Office. The Office anticipates that patent owners will take the initiative in determining whether a petitioner is the real party in interest or privy of a party that is barred from instituting a proceeding with respect to the patent.

Language that previously appeared as the last sentences of what are now sections 312(c) and 322(c), and which stated that failure to file a motion to seal will result in pleadings’ being placed in the record, has been struck. At best this sentence was redundant, and at worst it created an ambiguity as to whether material accompanying the pleadings also would be made public absent a motion to seal.

Many of the procedural limits added to inter partes and post-grant review by the present bill are borrowed from S. 3600, the bill that I introduced in the 110th Congress. My comments accompanying the introduction of that bill, at 154 Congressional Record S9982-S9993, daily ed. Sept. 27, 2008, are relevant to those provisions of the present bill that are carried over from S. 3600, particularly to the extent that the comments disclose understandings reached with the Patent Office, conscious use of terms of art, or the reasoning behind various provisions. Relevant passages include page S9987's discussion of the use of the adjudicative or oppositional model of post-grant review and estoppel against parties in privity, and page S9988's discussion of what is now section 324(b)'s additional threshold for instituting a post-grant review, the expectation that the Director will identify the issues that satisfied the threshold for instituting an inter partes or post-grant review, the meaning of "properly filed" when used in the joinder provisions in sections 315(c) and 325(c), the authorization to consolidate proceedings in sections 315(d) and 325(d), and the standards for discovery in sections 316(a)(6) and 326(a)(5). Also relevant is page S9991's discussion of the excesses and effects of inequitable-conduct litigation, which informs this bill's provisions relating to that doctrine.

Among the most important protections for patent owners added by the present bill are its elevated thresholds for instituting inter partes and post-grant reviews. The present bill dispenses with the test of "substantial new question of patentability," a standard that currently allows 95% of all requests to be granted. It instead imposes thresholds that require petitioners to present information that creates serious doubts about the patent's validity. Under section 314(a), inter partes review will employ a reasonable-likelihood-of-success threshold, and under section 324(a), post-grant review will use a more-likely-than-not-invalidity threshold.

Satisfaction of the inter partes review threshold of "reasonable likelihood of success" will be assessed based on the information presented both in the petition for review and in the patent owner's response to the petition. The "reasonable likelihood" test is currently used in evaluating whether a party is entitled to a preliminary injunction, and effectively requires the petitioner to present a prima facie case justifying a rejection of the claims in the patent.

Post-grant review uses the "more likely than not invalid" test. This slightly higher threshold is used because some of the issues that can be raised in post-grant review, such as enablement and section 101 invention issues, may require development through discovery. The Office wants to ensure that petitioners raising such issues present a complete case at the outset, and are not relying on obtaining information in discovery in the post-grant review in order to satisfy their ultimate burden of showing invalidity by a preponderance of the evidence.

Subsections (a) and (b) of sections 315 and 325 impose time limits and other restrictions when inter partes and post-grant review are sought in relation to litigation. Sections 315(a) and 325(a) bar a party from seeking or maintaining such a review if he has sought a declaratory judgment that the patent is invalid. This restriction applies, of course, only if the review petitioner has filed the civil action. These two subsections (a) do not restrict the rights of an accused infringer who has been sued and is asserting invalidity in a counterclaim. That situation is governed by section 315(b), which provides that if a party has been sued for infringement and wants to seek inter partes review, he must do so within 6 months of when he was served with the infringement complaint.

Section 325(b) provides that if a patent owner sues to enforce his patent within three months after it is granted, a court cannot refuse to consider a motion for a preliminary injunction on the basis that a post-grant review has been requested or instituted. A patent owner who sues during this period is likely to be a market participant who already has an infringer intruding on his market, and who needs an injunction in order to avoid irreparable harm.

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This provision strengthens and carries over to post-grant review the rule of Procter & Gamble Co. v. Kraft Foods Global, Inc., 549 F.3d 842, Fed. Cir. 2008.

Sections 315(c) and 325(c) allow joinder of inter partes and post-grant reviews. The Office anticipates that joinder will be allowed as of right--if an inter partes review is instituted on the basis of a petition, for example, a party that files an identical petition will be joined to that proceeding, and thus allowed to file its own briefs and make its own arguments. If a party seeking joinder also presents additional challenges to validity that satisfy the threshold for instituting a proceeding, the Office will either join that party and its new arguments to the existing proceeding, or institute a second proceeding for the patent. The Director is given discretion, however, over whether to allow joinder. This safety valve will allow the Office to avoid being overwhelmed if there happens to be a deluge of joinder petitions in a particular case.

In the second sentence of section 325(d), the present bill also authorizes the Director to reject any request for ex parte reexamination or petition for post-grant or inter partes review on the basis that the same or substantially the same prior art or arguments previously were presented to the Office. This will prevent parties from mounting attacks on patents that raise issues that are substantially the same as issues that were already before the Office with respect to the patent. The Patent Office has indicated that it currently is forced to accept many requests for ex parte and inter partes reexamination that raise challenges that are cumulative to or substantially overlap with issues previously considered by the Office with respect to the patent.

The second sentence of section 325(d) complements the protections against abuse of ex parte reexamination that are created by sections 315(e) and 325(e). The estoppels in subsection (e) will prevent inter partes and post-grant review petitioners from seeking ex parte reexamination of issues that were raised or could have been raised in the inter partes or post-grant review. The Office has generally declined to apply estoppel, however, to an issue that is raised in a request for inter partes reexamination if the request was not granted with respect to that issue. Under section 325(d), second sentence, however, the Office could nevertheless refuse a subsequent request for ex parte reexamination with respect to such an issue, even if it raises a substantial new question of patentability, because the issue previously was presented to the Office in the petition for inter partes or post-grant review.

Under paragraph (1) of sections 315(e) and 325(e), a party that uses inter partes or post-grant review is estopped from raising in a subsequent PTO proceeding any issue that he raised or reasonably could have raised in the post-grant or inter partes review. This effectively bars such a party or his real parties in interest or privies from later using inter partes review or ex parte reexamination against the same patent, since the only issues that can be raised in an inter partes review or ex parte reexamination are those that could have been raised in the earlier post-grant or

inter partes review. The Office recognizes that it will need to change its regulations and require that ex parte reexamination requesters identify themselves to the Office in order for the Office to be able to enforce this new restriction.

The present bill also incorporates S. 3600's extension of the estoppels and other procedural limits in sections 315 and 325 to real parties in interest and privies of the petitioner. As discussed at 154 Congressional Record S9987, daily ed. Sept. 27, 2008, privity is an equitable rule that takes into account the "practical situation," and should extend to parties to transactions and other activities relating to the property in question. Ideally, extending could-have-raised estoppel to privies will help ensure that if an inter partes review is instituted while litigation is pending, that review will completely substitute for at least the patents-and-printed-publications portion of the civil litigation. Whether equity allows extending privity estoppel to codefendants in litigation, however, will depend in large measure upon the actions of the patent owner, and whether he has made it reasonably and reliably clear which patent claims he is asserting and what they mean. If one defendant has instituted an inter partes review, but other defendants do not have an opportunity to join that review before it becomes reasonably clear which claims will be litigated and how they will be construed, it would be manifestly unfair to extend privity estoppel to the codefendants.

The Office also has the authority to address such scenarios via its authority under section 316(a)(5), which gives the Office discretion in setting a time limit for allowing joinder. The Office has made clear that it intends to use this authority to encourage early requests for joinder and to discourage late requests. The Office also has indicated that it may consider the following factors when determining whether and when to allow joinder: differences in the products or processes alleged to infringe; the breadth or unusualness of the claim scope that is alleged, particularly if alleged later in litigation; claim-construction rulings that adopt claim interpretations that are substantially different from the claim interpretation used in the first petition when that petition's interpretation was not manifestly in error; whether large numbers of patents or claims are alleged to be infringed by one or more of the defendants; consent of the patent owner; a request of the court; a request by the first petitioner for termination of the first review in view of strength of the second petition; and whether the petitioner has offered to pay the patent owner's costs.

Sections 316(a)(6) and 326(a)(5) prescribe standards for discovery. In inter partes review, discovery is limited to deposition of witnesses submitting affidavits or declarations, and as otherwise necessary in the interest of justice. In post-grant review, discovery is broader, but must be limited to evidence directly related to factual assertions advanced by either party. For commentary on these standards, which are adopted from S. 3600, see 154 Congressional Record S9988-89, daily ed. Sept. 27, 2008.

Sections 316(a)(12) and 326(a)(11) provide that inter partes and post-grant reviews must be completed within 12 months of when the proceeding is instituted, except that the Office can extend this deadline by 6 months for good cause. Currently, inter partes reexaminations usually last for 3 to 5 years. Because of procedural reforms made by the present bill to inter partes proceedings, the Patent Office is confident that it will be able to complete these proceedings within one year. Among the reforms that are expected to expedite these proceedings are the shift from an examinational to an adjudicative model, and the elevated threshold for instituting

proceedings. The elevated threshold will require challengers to front load their case. Also, by requiring petitioners to tie their challenges to particular validity arguments against particular claims, the new threshold will prevent challenges from “mushrooming” after the review is instituted into additional arguments employing other prior art or attacking other claims.

Although sections 316 and 326 do not regulate when and how petitioners will be allowed to submit written filings once a review is instituted, the Office has made clear that it will allow petitioners to do so via the regulations implementing the proceedings. Sections 316 and 326 do clearly allow petitioners to obtain some discovery and to have an oral hearing. Obviously, it would make no sense to do so if petitioners were not also allowed to submit written arguments. The bill conforms to the Office’s preference, however, that it be given discretion in determining the procedures for written responses and other filings, in order to avoid the formalism of current chapter 31, which adds substantially to the delays in that proceeding.

The bill also eliminates intermediate administrative appeals of inter partes proceedings to the BPAI, instead allowing parties to only appeal directly to the Federal Circuit. By reducing two levels of appeal to just one, this change will substantially accelerate the resolution of inter partes cases.

Sections 5(c)(2)(C) and 5(c)(3) of the bill provide for a transition from current inter partes reexamination to new inter partes review. To protect the Office from being overwhelmed by the

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new inter partes and post-grant proceedings, sections 5(c)(2)(C) and 5(f)(2) allow the Director to place a limit on the number of post-grant and inter partes reviews that will be instituted during the first four years that the proceedings are in effect. It is understood that if the Office rejects a petition during this period because of this numerical limit, it will make clear that the rejection was made because of this limit and not on the merits of the validity challenges presented in the petition. Otherwise, even a challenger with strong invalidity arguments might be deterred from using inter partes or post-grant review by fear that his petition might be rejected because of the numerical limit, and the fact of the rejection would then be employed by the patent owner in civil litigation to suggest that the experts at the Patent Office found no merit in the challenger’s arguments.

Similarly, under subsection (a)(2) of sections 316 and 326, the Office is required to implement the inter partes and post-grant review thresholds via regulations, and under subsection (b) of those sections, in prescribing regulations, the Office is required to take into account, among other things, the Office’s ability “to timely complete proceedings instituted under” those chapters. It is expected that the Office will include in the threshold regulations a safety valve that allows the Office to decline to institute further proceedings if a high volume of pending proceedings threatens the Office’s ability to timely complete all proceedings. The present bill’s inclusion of this regulations consideration in subsection (b) reflects a legislative judgment that it is better that the Office turn away some petitions that otherwise satisfy the threshold for instituting an inter partes or post-grant review than it is to allow the Office to develop a backlog of instituted reviews that precludes the Office from timely completing all proceedings. Again, though, if the Office rejects a petition on the basis of this subsection (b) consideration, rather than on the basis

of a failure to satisfy the substantive standards of the thresholds in section 314 or 324, it is expected that Office will make this fact clear when rejecting the petition.

Section 5(c)(3) of the present bill applies the bill's new threshold for instituting an inter partes review to requests for inter partes reexamination that are filed between the date of enactment of the bill and one year after the enactment of the bill. This is done to ensure that requesters seeking to take advantage of the lax standards of the old system do not overwhelm the Office with requests for inter partes reexamination during the year following enactment of the bill. Finally, section 5(h)(2) of the bill addresses an issue raised by a recent publication, Charles E. Miller & Daniel P. Archibald, The Destructive Potential of the Senate Version of the Proposed Patent Reform Act of 2010: The Abolition of de novo Review in Ex parte Patent Reexaminations (circulated April 16, 2010). This article criticizes the draft managers' amendment that Senators Leahy and Sessions circulated in March 2010 on the ground that it eliminates authority for a patent owner to have relief by civil action under section 145 from an adverse decision in the BPAI on review of an ex parte reexamination. It is fairly apparent, however, that this authority was intended to be eliminated by the amendments made by section 4605 of the American Inventors Protection Act of 1999, Public Law 106-113, to sections 134 and 141 of title 35. The 2010 managers' amendment simply maintained the AIPA's changes to sections 134 and 141.

The AIPA neglected, however, to eliminate a cross reference to section 145 in section 306 of title 35, which delineates the appeals available from ex parte reexaminations. The maintenance of this cross reference in section 306 created an ambiguity as to whether the AIPA did, in fact, eliminate a patent owner's right to seek remedy in the district court under section 145 from an adverse BPAI decision on review of an ex parte reexamination. See Sigram Schindler Beteiligungsgesellschaft mbH v. Kappos, 93 USPQ2d 1752, E.D. Va. 2009, (Ellis, J.), notes that "the fact that Sec. 306 continues to cross-reference Sec. 141 to 145 following the AIPA's enactment appears to be in tension with the AIPA amendment to Sec. 141."

Section 5(h)(2) of the present bill eliminates this ambiguity by striking the citation to section 145 from section 306 of title 35.

Section 6 of the bill includes all provisions of the bill addressing the jurisdiction of the Patent Trial and Appeal Board and administrative and judicial appeals. In section 6(a), the recodification of section 6 of title 35 is modified so that all members of the PTAB can participate in all proceedings. Also, subsection (d) is added to the recodification of section 6 of title 35. By omitting this provision, the 2009 bill would have effectively repealed the APJ "appointments fix" that had been enacted in 2008.

In section 6(c) of the bill, section 141 of title 35 is modified to allow appeals of PTAB decisions in inter partes and post-grant reviews, and the section is edited and reorganized. To address the continuing need to allow appeals of pending interferences, language has been added to section 5(f)(3) of the bill that deems references to derivation proceedings in the current appeals statutes to extend to interferences commenced before the effective date of the bill's repeal of interferences, and that allows the Director to deem the PTAB to be the BPAI for purposes of pending interferences and to allow the PTAB to conduct such interferences.

In section 6(c)(2) of the bill, section 1295(a)(4)(A) of title 28 is modified to authorize appeals of reexaminations and reviews. Interestingly, current 1295(a)(4)(A) only gives the Federal Circuit jurisdiction over appeals from applications and interferences. It appears that Congress never gave the Federal Circuit jurisdiction over appeals from reexaminations when it created those proceedings. The language of subparagraph (A) is also generalized and clarified, recognizing that the details of what is appealable will be in sections 134 and 141. Also, for logical consistency, language is added to subparagraph (A) making clear that section 145 and 146 proceedings are an exception to the Federal Circuit's otherwise exclusive appellate jurisdiction over applications and interferences under that subparagraph.

In section 6(c)(3) of the bill, section 143 of title 35 is modified to allow the Director to intervene in the appeal of a decision of the PTAB in an inter partes or post-grant review or a derivation proceeding.

In the effective-date provision at the end of section 6, various existing authorities are extended so that they may continue to apply to inter partes reexaminations commenced under the old system, and the apparent gap in current section 1295(a)(4)(A)'s authorization of jurisdiction is immediately filled with respect to all inter partes and ex parte reexaminations.

In section 7, the present bill makes several PTO-recommended changes to previous bill versions' authorization to make preissuance submissions of prior art. In paragraph (1) of new section 122(e) of title 35, the word "person" has been replaced with "third party," so that submissions may only be submitted by third parties. This addresses the Office's concern that applicants might otherwise use section 122(e) to submit prior art and thereby evade other examination disclosure requirements.

In subparagraph (A) of section 122(e)(1), the word "given" has been added. This has the effect of including email notices of allowances. In clause (i) of section 122(e)(1)(B), the word "first" has been added. This change was sought by the Office, which prefers to limit submissions to the first publication for two reasons. First, republications overwhelmingly only narrow the claims, and in such cases anyone who would want to submit prior art could have done so at the first publication. Second, and more importantly, most republications occur only after the first office action, when there is usually rapid back-and-forth action on the application between the applicant and the Office. Allowing third parties to make prior-art submissions at this point would require the Office to wait six months after the republication in order to allow such submissions, and would otherwise greatly slow down this otherwise relatively speedy final phase of prosecution.

Also in clause (i) of section 122(e)(1)(B), the words "by the Office" are added to ensure that only publication by the United States Patent and Trademark Office begins the period for

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making pre-issuance submissions. The Office sought this change because a foreign publication can be deemed a publication under section 122, and the Office wants to ensure that it is only required to collect third-party submissions for an application if that application is actually filed in the United States.

Section 8 of the present bill omits provisions appearing in prior bills that would have created an expanded right to an interlocutory appeal from claim-construction rulings. Even as revised in the 2009 Judiciary Committee mark up, previous section 8(b) gave the Federal Circuit insufficient discretion to turn away such appeals and posed a serious risk of overwhelming the court. The 2009 mark-up revisions allowed the Federal Circuit to reject an interlocutory appeal if it found clear error in the district court's certification that there is a sufficient evidentiary record for an interlocutory appeal and that such an appeal may advance the termination of the litigation or will likely control the outcome of the case. It would be difficult in any case, however, to reject a finding that an interlocutory appeal of claim-construction rulings may lead to the termination of the litigation. Moreover, if a district judge has certified a case for interlocutory appeal, it is very unlikely that the record that he has created would support a finding that his decision is clearly erroneous. And finally, given the disdain for patent cases felt by a substantial number of district judges, there is a serious likelihood that a large number of judges would take advantage of a new authorization from Congress to send away such cases to the Federal Circuit, with the hope that they do not return. Current law's grant of discretion to the Federal Circuit to entertain interlocutory appeals of claim-construction rulings strikes the appropriate balance.

Section 10 of the present bill authorizes supplemental examination of a patent to correct errors or omissions in proceedings before the Office. Under this new procedure, information that was not considered or was inadequately considered or was incorrect can be presented to the Office. If the Office determines that the information does not present a substantial new question of patentability or that the patent is still valid, that information cannot be used as a basis for an inequitable-conduct attack on the surviving patent in civil litigation. New section 257(c)(1) follows the usual practice of referring to inequitable-conduct attacks in terms of unenforceability, rather than invalidity, though courts have in the past used the terms interchangeably when describing the effect of fraud or inequitable conduct on a patent. J.P. Stevens & Co., Inc. v. Lex Tex Ltd., Inc., 747 F.2d 1553, 1560, Fed. Cir. 1984, notes that "[w]hether the holding should be one of invalidity or unenforceability has had no practical significance in cases thus far presented to this court." The term should be considered to be used interchangeably with "invalidity" in this bill as well. Obviously, Congress would not create a procedure for reexamining patents that allowed them to be protected against subsequent inequitable-conduct challenges of unenforceability, only to allow the same patents to be challenged on the same basis and declared invalid on the basis of inequitable conduct.

While some critics of this proposal have suggested that it would immunize misconduct by inventors and practitioners, I would note that the Patent Office has ample authority to sanction such misconduct. Under section 32 of title 35, the Office can bar an attorney from appearing before the Office if he has engaged in misconduct in any proceeding before the Office. In section 2(l) of this bill, we have extended the statute of limitations for initiating such a proceeding. Under current regulations, the Office also sanctions misconduct by striking offending filings or reducing the weight that they are given. And the Federal Circuit has recognized that the Office also "has inherent authority to govern procedure before the [Office]," as noted in In re Bogese II, 303 F.3d 1362, 1368, Fed. Cir. 2002, and that inherent authority to sanction attorneys for misconduct is not restricted to Article III courts, a point noted in In re Bailey, 182 F.3d 860, 864 n.4, Fed. Cir. 1999.

Given the Office's existing tools for sanctioning misconduct, there is no need to make the courts into supervisors of attorney conduct in Office proceedings. It is doubtful that a practitioner who is discovered to have engaged in substantial misconduct in proceedings before the Office would escape adequate and effective sanction by the Office itself.

Section 11 of the bill repeals the so-called Baldwin rule, which requires judges on the Federal Circuit to live within 50 miles of Washington, D.C. Subsection (b) provides that the repeal of the Baldwin rule shall not be construed to imply that the Administrative Office of the Courts must provide court facilities or administrative support services to judges who choose to reside outside of the District of Columbia. This proviso does not affect the AOC's existing authority to provide services to judges outside of the District of Columbia. Its reference to "court facilities" means space within a courthouse or federal building, and the reference to "administrative support services" means those services that would be provided to judges within a courthouse or federal building.

In section 15 of the bill, a conforming subsection (b) has been added to ensure that the best-mode requirement cannot be used to challenge a patent's entitlement to a right of priority or to the benefit of an earlier filing date. In the new effective-date subsection, the section is made applicable to all "proceedings" commenced after enactment of the Act, in order to make clear that the section's changes to the law will be immediately applicable not just in litigation but also in post-grant reviews of patents under chapter 32.

At subsections (a) through (h), section 16 of the bill has been modified by reinserting language that eliminates various deceptive-intent requirements that relate to correcting the naming of the inventor or a joint inventor, obtaining a retroactive foreign filing license, seeking section 251 reissue, or enforcing remaining valid claims if a claim is invalidated. See generally Kearney & Trecker Corp. v. Giddings & Lewis, Inc., 452 F.2d 579, 596, 7th Cir. 1971. These changes were first proposed in section 5 of the original Patent Reform Act of 2005, H.R. 2795, 109th Congress, and have been advocated by universities and their technology-transfer offices. For reasons that are not entirely clear, subsequent bills maintained this section and its addition of substructure and titles to the affected code sections, but struck the substantive part of the section--i.e., its elimination of the deceptive-intent requirements.

Eliminating the various deceptive-intent requirements moves the U.S. patent system away from the 19th century model that focused on the patent owner's subjective intent, and towards a more objective-evidence-based system that will be much cheaper to litigate and more efficient to administer.

Section 16(i) of the present bill corrects several errors and typos throughout title 35 that are noted in the reviser's notes to the U.S. Code.

Section 16(j) strikes unnecessary references to "of this title" that are sprinkled throughout title 35. The 1952 Act included such unnecessary references, but more recent additions to the code have not, and the current bill's changes omit such references. Because the unnecessary references greatly outnumber the necessary references, the provision is written to strike all references but then except out the necessary references.

The present bill's new section 17 enacts the so-called Holmes Group fix, H.R. 2955, 109th Congress, which was reported out of the House Judiciary Committee in 2006. The committee report accompanying that bill, House Report 109-407, explains the bill's reasons for abrogating Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc., 535 U.S. 826 (2002), and more fully precluding state court jurisdiction over patent legal claims.

Section 17 makes two modifications to the reported version of H.R. 2955. The first modification, at subsection (c), limits the bill's expansion of Federal Circuit jurisdiction to only compulsory counterclaims asserting patent rights, rather than the original bill's expansion of jurisdiction to include any counterclaim asserting patent rights. Compulsory counterclaims are defined at Rule 13(a) and basically consist of counterclaims that arise out of the same transaction or occurrence and that do not require the joinder of parties over whom the court would lack

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jurisdiction. A compulsory counterclaim must be raised as a counterclaim in the case in question, and cannot be asserted in a later case. Without this modification, it is possible that a defendant could raise unrelated and unnecessary patent counterclaims simply in order to manipulate appellate jurisdiction. With the modification, a defendant with a permissive patent counterclaim who wanted to preserve Federal Circuit appellate review of that counterclaim could simply wait to assert it in a separate action.

The second modification, in subsection (d), corrects an error in H.R. 2955 that would have required remand of patent and other intellectual-property counterclaims after their removal. H.R. 2955's proposed removal statute, at section 1454(c)(1) of title 28, required a remand to the state court of all claims that are not within the original or supplemental jurisdiction of the district court. Since the bill no longer amends section 1338 to give district courts original jurisdiction over patent counterclaims, however--and since, pursuant to Holmes Group itself, patent counterclaims are not within the district courts' original jurisdiction--then under paragraph (1), district courts would be required to remand the patent counterclaims. Courts would probably strain to avoid reading the paragraph this way, since doing so defeats the only apparent purpose of the section, and the amendments to section 1338 strip the state courts of jurisdiction over patent counterclaims. But that is exactly what H.R. 2955's proposed 1454(c)(1) ordered the court to do. In the modified text of section 17(d) of this bill, the court is instructed to not remand those claims that were a basis for removal in the first place--that is, the intellectual-property counterclaims.

Section 18 of the bill creates an administrative mechanism for reviewing the validity of business-method patents. In 1998, the U.S. Court of Appeals for the Federal Circuit, in its decision in State Street Bank & Trust Co. v. Signature Financial Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998), substantially expanded the patentability of business-method inventions in the United States, holding that any invention can be patented so long as it produces a "useful, concrete, and tangible result" and meets other requirements of title 35. In recent years, federal judicial decisions, culminating in the U.S. Supreme Court's decision in Bilski v. Kappos, 561 U.S. __, 130 S.Ct. 3218 (2010), have overruled State Street and retracted the patentability of business methods and other abstract inventions. This judicial expansion and subsequent judicial retraction of U.S. patentability standards resulted in the issuance, in the interim, of a large number of

business-method patents that are no longer valid. Section 18 creates a relatively inexpensive administrative alternative to litigation for addressing disputes concerning the validity of these patents.

This section grew out of concerns originally raised in the 110th Congress about financial institutions' inability to take advantage of the authority to clear checks electronically pursuant the Check Clearing for the 21st Century Act, at chapter 50 of title 12 of the U.S. Code, without infringing the so-called Ballard patents, patents number 5,910,988 and 6,032,137. See generally Senate Report 110-259 at pages 33 through 34. Once the committee began to examine this issue in greater depth, however, the question quickly turned from whether the Ballard patents should be allowed to disrupt compliance with the Check 21 Act, to how it is that the Ballard patents were issued in the first place. These patents consist of long recitations of technology created by others to implement the supposed "invention" of transmitting and processing checks and other business records electronically. The first of these patents was assigned to the class of cryptography inventions, but its specification itself concedes that the invention's "controller" will "execute[] an encryption algorithm which is well known to an artisan of ordinary skill in the field." The second patent is assigned to Class 705, home to many of the most notorious business-method patents. Both of these patents are obviously business-method patents, and it is difficult to see how they were even novel and nonobvious and otherwise valid under the more liberal State Street standard, much less how they could survive the strictures of Bilski.

Section 18's definition of business-method patent, and its authorization to raise prior-art challenges in the petition for review, are designed to allow the Office to recognize a business-method patent as such despite its recitation of technological elements that are not colorably novel and nonobvious. This definition does not require the Office to conduct a merits inquiry into the nonobviousness of a technological invention, and should not be construed in a way that makes it difficult for the Office to administer. But if a technological element in a patent is not even assertedly or plausibly outside of the prior art, the Office should not rely on that element to classify the patent as not being a business-method patent. Thus when patents such as the Ballard patents recite elements incorporating off-the-shelf technology or other technology "know to those skilled in the art," that should not preclude those patents' eligibility for review under this program.

At the request of other industry groups, section 18's definition of "covered business-method patent" has been limited to those patents that relate to a financial product or service. Given the protean nature of many business-method patents, it often will be unclear on the face of the patent whether it relates to a financial product or service. To make such a determination, the Office may look to how the patent has been asserted. Section 5(g) of the present bill modifies section 301 of title 35 to allow any person to submit to the Office the patent owner's statements in federal court or in any Office proceeding about the scope of the patent's claims. With this and other information, the Office should be able to determine whether the patent reads on products or services that are particular to or characteristic of financial institutions.

As the proviso at the end of the definition makes clear, business methods do not include "technological inventions." In other words, the definition applies only to abstract business concepts and their implementation, whether in computers or otherwise, but does not apply to

inventions relating to computer operations for other uses or the application of the natural sciences or engineering.

One feature of section 18 that has been the subject of prolonged discussion and negotiation between various groups during the last few weeks is its subsection (c), which concerns stays of litigation. The current subsection (c) reflects a compromise that requires a district judge to consider fixed criteria when deciding whether to grant a stay, and provides either side with a right to an interlocutory appeal of the district judge's decision. The appeal right has been modified to provide that such review "may be de novo," and in every case requires the Federal Circuit to ensure consistent application of established precedent. Thus whether or not every case is reviewed de novo, the court of appeals cannot simply leave the stay decision to the discretion of the district court and allow different outcomes based on the predilections of different trial judges.

It is expected that district judges will liberally grant stays of litigation once a proceeding is instituted. Petitioners are required to make a high threshold showing in order to institute a proceeding, and proceedings are required to be completed within one year to 18 months after they are instituted. The case for a stay is particularly pronounced in a section 18 proceeding, given the expectation that most if not all true business-method patents are abstract and therefore invalid in light of the Bilski decision.

In pursuit of this congressional policy strongly favoring stays when proceedings are instituted under this section, subsection (c) incorporates the four-factor test for stays of litigation that was first announced in Broadcast Innovation, L.L.C. v. Charter Communications, 2006 WL 1897165, D. Colo. 2006. Broadcast Innovation includes, and gives separate weight to, a fourth factor that has often been ignored by other courts: "whether a stay will reduce the burden of litigation on the parties and on the court."

In order to ensure consistency in decisions whether to stay, regardless of the court in which a section 281 action is pending, paragraph (2) of subsection (c) requires consistent application of

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"established precedent." This particular requirement is based on section 2245(d)(1) of title 28, which has been construed to require lower courts to look only to a fixed body of caselaw when making decisions under section 2254. Currently, district judge's decisions whether to stay litigation when a reexamination has been ordered are not appealable and therefore have never been reconciled by the Federal Circuit. Unsurprisingly, the resulting district-court caselaw is a dog's breakfast of different combinations of factors and different meanings ascribed to those factors. Although the cases applying Broadcast Innovation cite other opinions applying other tests as sources for some of its factors, by requiring application of "established precedent," subsection (c) limits the relevant precedent to that applying the four factors of Broadcast Innovation in combination. By requiring courts to apply this limited and relatively consistent body of caselaw when determining whether to grant a stay, subsection (c) should ensure predictability and stability in stay decisions across different district courts, and limit the incentive to forum shop. The existence of forum shopping is an embarrassment to the legal system. Federal courts should apply equal justice, and give federal law the same meaning, regardless of where

they are located. Mr. President, I will conclude by noting that the present bill is the product of almost a decade of hard work. The path to this bill included three Senate Judiciary Committee mark ups, as well as the untold hours devoted by Chairman Smith and other members of the House of Representatives to the development of the Patent Reform Act of 2005, the foundation of today's bill. The present bill will protect our heritage of innovation while updating the patent system for the current century. It will create clear and efficient rules for defining prior art and establishing patent priority. It will fix problems with current administrative proceedings, and create new means for improving patent quality. And it will move us toward a patent system that is objective, transparent, clear, and fair to all parties. I look forward to the Senate's passage of this bill and its enactment into law.

Mr. GRASSLEY. Mr. President, I urge my colleagues to support final passage on the America Invents Act. The Judiciary Committee has held numerous hearings on the need for patent reform, and has done a lot of work over the past several Congresses. We have had a good process on the floor. We adopted several amendments to improve the bill. We had votes on amendments and a pretty good open process, which we have not seen much of in the last few years. We have a good bipartisan bill--the chairman of the Judiciary Committee has successfully brought Senators and industry together to craft this compromise legislation. Now I urge my colleagues to support final passage on this important bill so we can conclude our work in the Senate.

The America Invents Act will protect inventors' rights and encourage innovation and investment in our economy. It will improve transparency and third party participation in the patent review process, which will strengthen patent quality and reduce costs. The bill will institute beneficial changes to the patent approval and review process, and will curb litigation abuses and improve certainty for investors and innovators. It will help companies do business more efficiently on an international basis.

The America Invents Act will also help small entities in their patent applications and provide for reduced fees for microentities and small businesses. The bill will prevent patents from being issued on claims for tax strategies, which can add unwarranted fees on taxpayers simply for attempting to comply with the Tax Code.

Finally, the America Invents Act will enhance operations of the Patent and Trademark Office with administrative reforms and will give the Office fee setting authority to reduce backlogs. It will end fee diversion, which will improve the ability of the Patent and Trademark Office to manage its affairs and allocate resources where they are most needed.

I thank Chairman Leahy and Senator Hatch for their hard work on this bill. Without their leadership, we would not be where we are today. I thank Senators Kyl, Sessions, and Coburn. They were instrumental in making improvements to the bill. I also wish to acknowledge the Senate Judiciary Committee staff for their efforts on this bill: in particular, Bruce Cohen, Aaron Cooper, and Curtis LeGeyt of Chairman Leahy's staff, Matt Sandgren of Senator Hatch's staff, Joe Matal of Senator Kyl's staff, and Sarah Beth Groshart of Senator Coburn's staff. I especially thank Kolan Davis and Rita Lari Jochum of my staff for their good work on this bill.

In conclusion, I urge my colleagues to vote for the America Invents Act. This is a bill that will spur inventions, create innovative new products and services, and stimulate job creation. This bill

will help upgrade and strengthen our patent system so America can stay competitive in an increasingly global environment. I urge my colleagues to support this carefully crafted bill.

Mr. LEAHY. Mr. President, the managers' amendment to the America Invents Act, adopted 97-2 on March 1, contained a rule of construction that nothing in section 14 of the act should be construed to imply that other business methods are patentable or that other business-method patents are valid. This provision was included merely as a clarification. No inference should be drawn in any way from any part of section 14 of the act about the patentability of methods of doing business.

Mr. President, I have discussed this with the Republican leadership, and we are prepared to yield back all time on both the Democratic and Republican sides.

The PRESIDING OFFICER. All time is yielded back.

Mr. LEAHY. Mr. President, I ask for the yeas and nays on the bill.

The PRESIDING OFFICER. Is there a sufficient second?

There appears to be a sufficient second.

The yeas and nays were ordered.

The bill was ordered to be engrossed for a third reading and was read the third time.

The PRESIDING OFFICER. The clerk will read the pay-go statement.

The bill clerk read as follows:

Mr. Conrad: This is the Statement of Budgetary Effects of PAYGO Legislation for S. 23, as amended.

Total Budgetary Effects of S. 23 for the 5-year statutory PAYGO Scorecard: net reduction in the deficit of $590 million.

Total Budgetary Effects of S. 23 for the 10-year statutory PAYGO Scorecard: net reduction in the deficit of $750 million.

Also submitted for the Record as part of this statement is a table prepared by the Congressional Budget Office, which provides additional information on the budgetary effects of this Act, as follows:

CBO ESTIMATE OF THE STATUTORY PAY-AS-YOU-GO EFFECTS FOR S. 23, THE AMERICA INVENTS ACT, WITH AMENDMENTS APPROVED BY THE SENATE THROUGH MARCH 8, 2010

	By fiscal year, in millions of dollars—												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2011–2016	2011–2021
NET DECREASE (−) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	−420	−90	−30	−20	−30	−30	−30	−30	−40	−30	−590	−750
Memorandum:													
Changes in Outlays	0	2,060	2,600	2,800	2,940	3,070	3,200	3,320	3,450	3,570	3,700	13,470	30,710
Changes in Revenues	0	2,480	2,690	2,830	2,960	3,100	3,230	3,350	3,480	3,610	3,730	14,060	31,460

Notes: Components may not sum to totals because of rounding.
The legislation would give the Patent and Trademark Office permanent authority to collect and spend fees.
Sources: Congressional Budget Office.

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The PRESIDING OFFICER. The bill having been read the third time, the question is, Shall the bill, as amended, pass?

The yeas and nays have been ordered.

The clerk will call the roll.

The bill clerk called the roll.

The result was announced--yeas 95, nays 5, as follows:

[Text of Votes and S. 23 Bill omitted]

Mr. LEAHY. Mr. President, it has been many years getting to this point. I cannot tell you the amount of pride I have in my fellow Senators, both Republicans and Democrats. I thank the Senator from Iowa who has been here with me and so many others I mentioned earlier. It is nice to finally have this bill through the Senate.

Mr. KYL. Mr. President, I rise today to recognize and thank the patent lawyers and Senate staff who have played a critical role in the drafting and enactment of the present bill.

Among the Senate staff who have played a role with regard to this bill are Chip Roy, Holt Lackey, and Zina Bash of Senator Cornyn's staff, David Barlow and Rob Porter of Senator Lee's staff, Walt Kuhn of Senator Graham's staff, and Danielle Cutrona and Bradley Hayes of Senator Sessions's staff. Special mention is merited for Matt Sandgren of Senator Hatch's staff, who fought tenaciously for the bill's supplemental examination provision, and who worked hard to defeat the amendment to strip the bill of its adoption of the first-to-file system, and Sarah Beth Groshart of Senator Coburn's staff, who helped draft the Coburn amendment, which will create a revolving fund for the PTO and put an end to fee diversion. Past staff who played an important role include Jennifer Duck of Senator Feinstein's staff, and Ryan Triplette, who managed the bill for Senator Hatch while he was chairman and for Senator Specter while he was the lead Republican on the committee. Miss Duck and Miss Triplette negotiated the managers' amendment that was adopted during the bill's 2009 committee mark up, and which represented a major breakthrough on this bill, resolving the contentious issues of damages and venue. In the House of Representatives, key staff include Blaine Merritt and Vishal Amin of Chairman Lamar Smith's staff, and Christal Sheppard of Mr. Conyers's staff. Bob Schiff of Senator Feingold's staff worked with my staff to develop minority views for the bill's 2009 committee report--I

believe that this is the only time that Senator Feingold and I ever submitted a minority report together. I should also acknowledge Tim Molino of Senator Klobuchar's staff, Rebecca Kelly of Senator Schumer's staff, Caroline Holland of Senator Kohl's staff, and Galen Roehl, who worked in past Congresses for Senator Brownback, and who currently staffs Senator Toomey. Much of S. 3600 was drafted in Senator Brownback's conference room. Let me also recognize the work of Rob Grant of Senate Legislative Counsel, who has drafted literally hundreds of versions of and amendments to this bill. And finally, I must acknowledge Rita Lari, who managed this bill for Senator Grassley on the Senate floor this past week, and the indispensable Aaron Cooper, who has managed the bill for the chairman since the beginning of 2009.

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Among those outside the Senate, I recognize and thank Hayden Gregory of the American Bar Association, Laurie Self and Rod McKelvie of Covington & Burling, and Hans Sauer, Mike Schiffer, Bruce Burton, Matt Rainey, David Korn, Carl Horton, Steve Miller, Doug Norman, and Stan Fendley. The Wisconsin Alumni Research Foundation has played an important role, particularly with regard to the bill's enhanced grace period. I thank Carl Gulbrandsen, Howard Bremmer, Andy Cohn, and Mike Remington. I thank Todd Dickinson and Vince Garlock of AIPLA, and Jim Crowne, who was willing to come to the Senate to double check the draft enrolled bill. I should also mention Herb Wamsley of Intellectual Property Owners, as well as Dana Colarulli, who has worn two hats during the course of his work on this bill, first with IPO, and subsequently as the head of legislative affairs at the PTO. Key participants at the PTO have also included Mike Fleming, John Love, Jim Toupin, and Rob Clarke. And of course I must mention the current Director, David Kappos, without whose effort and dedication the passage of the present bill would not have been possible.

Finally, allow me to acknowledge the key members of the 21st Century Coalition for Patent Reform, who have devoted countless hours to this bill, and stuck with it through thick and thin. They have also formed an important "kitchen cabinet" that has been indispensable to the committee's drafting of this bill and to the resolution of difficult technical questions. I thus acknowledge and thank Phil Johnson, Gary Griswold, Bob Armitage, and Mike Kirk for their key role in the creation of the America Invents Act.

I yield the floor. I suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. Bennet). The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. LEAHY. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Leahy-Hatch – 157 Cong. Rec. S1496-S1497

[Congressional Record Volume 157, Number 35 (Wednesday, March 9, 2011)]

[Senate]

[Pages S1496-S1497]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

AMERICA INVENTS ACT

Mr. LEAHY. Mr. President, Congress has been working on the America Invents Act going back many years. It has gone through numerous iterations and changes have been made over time. Accordingly, I want to take a few minutes to discuss some important legislative history of a critical piece of this bill—section 2 of the legislation, which amends section 102 of title 35 of the United States Code. There has been a great deal of attention paid to subsections 102(a) and (b) and how those two subsections will work together. Senator Bennet and others have asked about this issue in particular.Mr. HATCH. I thank the Senator. I agree with the chairman that it is important that we set down a definitive legislative history of those subsections, which will be important for each and every patent application.

Mr. LEAHY. One key issue on which people have asked for clarification is the interplay between patent-defeating disclosures under subsection 102(a) and the situations where those disclosures are excepted and have no patent-defeating effect under the grace period provided in subsection 102(b).

In particular, some in the small inventor community have been concerned that a disclosure by an inventor might qualify as patent-defeating prior art under subsection 102(a) because, for example, the inventor's public disclosure and by a "public disclosure" I mean one that results in the claimed invention being "described in a printed publication, or in public use, on sale, or otherwise available to the public"—might in some situation not be excluded as prior art under section 102(b)'s grace period. There is absolutely no situation in which this could happen given the interplay between subsections 102(a) and 102(b) as these subsections are drafted.

We intend that if an inventor's actions are such as to constitute prior art under subsection 102(a), then those actions necessarily trigger subsection 102(b)'s protections for the inventor and, what would otherwise have been section 102(a) prior art, would be excluded as prior art by the grace period provided by subsection 102(b). Indeed, as an example of this, subsection 102(b)(1)(A), as written, was deliberately couched in broader terms than subsection 102(a)(1). This means that any disclosure by the inventor whatsoever, whether or not in a form that resulted in the disclosure being available to the public, is wholly disregarded as prior art. A simple way of looking at new subsection 102(a) is that no aspect of the protections under current law for inventors who disclose their inventions before filing is in any way changed.

Mr. HATCH. The Senator from Vermont is correct. For the purposes of grace-period protection, the legislation intends parallelism between the treatment of an inventor's actions under subsection 102(a) that might create prior art and the treatment of those actions that negate any

prior-art effect under subsection 102(b). Accordingly, small inventors and others will not accidentally create a patent-defeating bar by their prefiling actions that would otherwise be prior art under subsection 102(a) as long as they file their patent applications within the grace period provided by subsection 102(b). But, the important point is that if an inventor's disclosure triggers the 102(a) bar with respect to an invention, which can only be done by a disclosure that is both made available to the public and enabled, then he or she has thereby also triggered the grace period under 102(b). If a disclosure resulting from the inventor's actions is not one that is enabled, or is not made available to the public, then such a disclosure would not constitute patent-defeating prior art under 102(a) in the first place. But even if the disclosure was enabled and available to the public so that it did qualify as prior art under subsection 102(a), subsection 102(b) would require that the disclosure be disregarded if it occurred during the 1-year grace period before the patent was sought. Indeed, a disclosure that does not satisfy the requirements to be prior art under subsection 102(a), nonetheless constitutes a disclosure that is fully protected under the more inclusive language of subsection 102(b). This relationship between these subsections will fully protect the inventor and, together with the provisions of subsection 101 limiting patenting to inventors, prevent others from obtaining a patent on the inventor's creation.

Mr. LEAHY. I agree. One of the implications of the point we are making is that subsection 102(a) was drafted in part to do away with precedent under current law that private offers for sale or private uses or secret processes practiced in the United States that result in a product or service that is then made public may be deemed patent-defeating prior art. That will no longer be the case. In effect, the new paragraph 102(a)(1) imposes an overarching requirement for availability to the public, that is a public disclosure, which will limit paragraph 102(a)(1) prior art to subject matter meeting the public accessibility standard that is well-settled in current law, especially case law of the Federal Circuit.

Mr. HATCH. An additional clarification we have been asked about deals

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with subparagraph 102(b)(1)(B). There has been some confusion over how this provision will work. It is my understanding that this provision ensures that an inventor who has made a public disclosure--that is, a disclosure made available to the public by any means--is fully protected during the grace period. The inventor is protected not only from the inventor's own disclosure being prior art against the inventor's claimed invention, but also against the disclosures of any of the same subject matter in disclosures made by others being prior art against the inventor's claimed invention under section 102(a) or section 103--so long as the prior art disclosures from others came after the public disclosure by the inventor. Is that the Senators' understanding of this provision?

Mr. LEAHY. That is correct. Subparagraph 102(b)(1)(B) is designed to work in tandem with subparagraph 102(b)(1)(A) to make a very strong grace period for inventors that have made a public disclosure before seeking a patent. Inventors who have made such disclosures are protected during the grace period, not only from their own disclosure, but also from disclosures by others that are made after their disclosure. This is an important protection we offer in our bill that will benefit independent and university inventors in particular.

House Report 112-98 – 112th Congress – To Accompany HR 1249

[From the U.S. Government Printing Office]

112th Congress
Rept. 112-98

HOUSE OF REPRESENTATIVES
1st Session
Part 1

AMERICA INVENTS ACT

June 1, 2011.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed Mr. Smith of Texas, from the Committee on the Judiciary, submitted the following

R E P O R T

together with
DISSENTING VIEWS AND ADDITIONAL VIEWS
[To accompany H.R. 1249]
[Including cost estimate of the Congressional Budget Office]

The Committee on the Judiciary, to whom was referred the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

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[Text of Bill, Agency Views, and Mark-up omitted from Report]

Purpose and Summary

The Constitution explicitly grants Congress the power to "promote the progress of science and useful arts, by securing for limited times to . . . inventors the exclusive right to their respective . . . discoveries."\1\ Congress has responded by authorizing patents to issue to inventors of new and useful inventions or improvements on inventions.\2\ The patent law thus accomplishes two objectives, consistent with the authorization granted by the Constitution: first, it encourages inventors by granting them limited, but exclusive rights to their inventions; second, in exchange for the grant of those exclusive rights, the patent law requires disclosure of the invention and terminates the monopoly after a period of years.\3\ This disclosure and limited time benefits both society and future inventors by making the details of the invention available to the public immediately, and the right to make use of that invention after the expiration of 20 years from the date the patent application was filed.

\1\U.S. Const. Art. 1, Sec. 8.

\2\See 35 U.S.C. Sec. 101.

\3\See Perspectives on Patents: Post-Grant Review Procedures and

Other Litigation Reforms: Hearing before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2006) (statement of Nathan P. Myhrvold, Chief Executive Officer, Intellectual Ventures); Perspectives on Patents: Hearing before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Dean Kamen, President, DEKA Research and Development Corp.).

Congress has not enacted comprehensive patent law reform in nearly 60 years.\4\ The object of the patent law today must remain true to the constitutional command, but its form needs to change, both to correct flaws in the system that have become unbearable, and to accommodate changes in the economy and the litigation practices in the patent realm. The need to update our patent laws has been meticulously documented in 15 hearings before the Committee or its Subcommittee on Courts, the Internet, and Intellectual Property, as well as eight hearings before the United States Senate Committee on the Judiciary. In addition, these legislative findings are augmented by the Federal Trade Commission and the National Academy of Sciences,\5\ both of which published authoritative reports on patent reform, and a plethora of academic commentary.\6\

\4\The last major revision of the patent laws was the Patent Act of 1952, P.L. 82-593.

\5\The National Academy of Sciences (NAS), and the Federal Trade Commission (FTC) conducted multi-year studies on the patent system and its need for reform. See National Research Council of the National Academies, A Patent System for the 21st Century (2004) (hereinafter "NAS Report"); and Federal Trade Comm'n, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy (2003) (hereinafter "FTC Report").

\6\See, e.g., Mark A. Lemley and Carl Shapiro, Patent Holdup and Royalty Stacking, 85 Tex. L. Rev. 1991 (2007); Donald S. Chisum, Reforming Patent Law Reform, 4 J. Marshall Rev. Intell. Prop. L. 336 (2005); Gerald J. Mossinghoff, The First-to-Invent Rule in the U.S. Patent System has Provided no Advantage to Small Entities, 87 JPTOS 514 (2005); Joseph Farrell & Robert P. Merges, Incentives to Challenge and Defend Patents: Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help, 19 Berkeley Tech. L.J. 943, 958 (2004); see also Adam B. Jaffe & Josh Lerner, Innovation and Its Discontents: How Our Broken Patent System is Endangering Innovation and Progress, and What to Do About It (2004); Kevin G. Rivette & David Kline, Rembrandts in the Attic, Unlocking the Hidden Value of Patents (2000).

While Congress has considered patent reform legislation over the last four Congresses, the need to modernize our patent laws has found expression in the courts, as well. The Supreme Court has reversed the Federal Circuit in six of the patent-related cases that it has heard since the beginning of the 109th Congress.\7\ The Court's decisions have moved in the direction of improving patent quality and making the determination of patent validity more efficient. The decisions reflect a growing sense that questionable patents are too easily obtained and are too difficult to challenge.\8\ Recent decisions by the Federal Circuit reflect a similar trend in response to these concerns.\9\ But the courts are constrained in their decisions by the text of the statutes at issue. It is time for Congress to act.

\7\See Bilski v. Kappos,___ U.S. __, 130 S.Ct. 3218 (2010) (reversing the Federal Circuit and holding that the machine-or-transformation test is not the sole test for determining the patent eligibility of a process); Quanta Computer, Inc. v. LG Elecs. Inc., 553 U.S. 617 (2008) (reversing the Federal Circuit and holding that patent exhaustion applies to method patents when the essential or inventive feature of the invention is embodied in the product); Microsoft Corp. v. AT&T Corp., 550 U.S. 437 (2007) (reversing the Federal Circuit and limiting the extraterritorial reach of section 271(f), which imposes liability on a party which supplies from the U.S. components of a patented invention for combination outside the U.S.); KSR Int'l Co. v. Teleflex Inc., 550 U.S. 398 (2007) (reversing the Federal Circuit and strengthening the standard for determining when an invention is obvious under section 103); MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118 (2007) (reversing the Federal Circuit and holding that the threat of a private enforcement action is sufficient to confirm standing under the Constitution); eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006) (reversing the Federal Circuit and holding that the generally applicable four-factor test for injunctive relief applies to disputes in patent cases).

\8\See generally Patent Reform in the 111th Congress: Legislation and Recent Court Decisions, Senate Judiciary Committee, 111th Cong. (2009) (statement of Professor Mark A. Lemley, Stanford Law School).

\9\See, e.g., In re Seagate Tech., LLC, 497 F.3d 1360 (Fed. Cir. 2007) (holding that willful infringement requires at least a demonstration of objectively reckless behavior and removing any affirmative obligation to obtain an opinion of counsel letter to combat an allegation of willful infringement).

The voices heard during the debate over changes to the patent law have been diverse and their proposals have been far from uniform. They have focused the Committee's attention on the value

of harmonizing our system for granting patents with the best parts of other major patent systems throughout the industrialized world for the benefit of U.S. patent holders; improving patent quality and providing a more efficient system for challenging patents that should not have issued; and reducing unwarranted litigation costs and inconsistent damage awards.

The purpose of the "America Invents Act," as reported by the Committee on the Judiciary, is to ensure that the patent system in the 21st century reflects the constitutional imperative. Congress must promote innovation by granting inventors temporally limited monopolies on their inventions in a manner that ultimately benefits the public through the disclosure of the invention to the public. The legislation is designed to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.

If the United States is to maintain its competitive edge in the global economy, it needs a system that will support and reward all innovators with high quality patents. The Committee has taken testimony from and its members have held meetings with interested parties that have different and often conflicting perspectives on the patent system. The Committee has taken all of those views into consideration, and drafted and then amended the "America Invents Act" to balance the competing interests. The legislation ordered reported by the Committee on a vote of 32-3 is a consensus approach that will modernize the United States patent system in significant respects.

Background and Need for the Legislation

First Inventor to File

The "America Invents Act" creates a new "first-inventor-to-file" system. Every industrialized nation other than the United States uses a patent priority system commonly referred to as "first-to-file." In a first-to-file system, when more than one application claiming the same invention is filed, the priority of a right to a patent is based on the earlier-filed application. The United States, by contrast, currently uses a "first-to-invent" system, in which priority is established through a proceeding to determine which applicant actually invented the claimed invention first. Differences between the two systems arise in large part from the date that is most relevant to each respective system. In a first-to-file system, the filing date of the application is most relevant;\10\ the filing date of an application is an objective date, simple to determine, for it is listed on the face of the patent. In contrast, in a first-to-invent system, the date the invention claimed in the application was actually invented is the determinative date. Unlike the objective date of filing, the date someone invents something is often uncertain, and, when disputed, typically requires corroborating evidence as part of an adjudication.

\10\When the term "filing date" is used herein, it is also meant to include, when appropriate, the effective filing date, i.e., the earliest date the claim in an application-claims priority.

There are significant, practical differences between the two systems. Among them is the ease of determining the right to a claimed invention in the instance in which two different people file patent applications for the same invention. In a first-to-file system, the application with the earlier filing date prevails and will be awarded the patent, if one issues. In the first-to-invent system, a lengthy, complex and costly administrative proceeding (called an "interference

proceeding") must be conducted at the United States Patent and Trademark Office ("USPTO") to determine who actually invented first.\11\ Interference proceedings can take years to complete (even if there is no appeal to the United States Court of Appeals for the Federal Circuit), cost hundreds of thousands of dollars, and require extensive discovery.\12\ In addition, because it is always possible that an applicant could be involved in an interference proceeding, companies must maintain extensive recording and document retention systems in case they are later required to prove the date they invented the claimed invention.

\11\See 35 U.S.C. Sec. 135.

\12\See, e.g., Robert W. Pritchard, The Future is Now—The Case for Patent Harmonization, 20 N.C. J. Int'l L. & Com. Reg. 291, 313 (1995).

Another important difference between the two systems is that in some first-to-file systems, prior art can include the inventor's own disclosure of his invention prior to the filing date of his application. Such systems do not provide the inventor any grace period during which time he is allowed to publish his invention without fear of its later being used against him as prior art. The Committee heard from universities and small inventors, in particular, about the importance of maintaining that grace period in our system.\13\ They argued that the grace period affords the necessary time to prepare and file applications, and in some instances, to obtain the necessary funding that enables the inventor to prepare adequately the application. In addition, the grace period benefits the public by encouraging early disclosure of new inventions, regardless of whether an application may later be filed for a patent on it.

\13\See, e.g., Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Charles E. Phelps, Provost, University of Rochester, on behalf of the Association of American Universities); Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Carl Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation (WARF)); Perspective on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of William Parker, Diffraction, Ltd.).

Numerous organizations, institutions, and companies have advocated that the U.S. adopt a first-to-file system similar to those used in the rest of the world.\14\ The National Academy of Sciences made a similar recommendation after an extensive study of the patent system.\15\ When the United States patent system was first adopted, inventors did not typically file in other countries. It is now common for inventors and companies to file for protection in several countries at the same time.\16\ Thus, United States applicants, who also want to file abroad, are forced to follow and comply with two different filing systems. Maintaining a filing system so different from the rest of the world disadvantages United States applicants who, in most instances, also file in other countries.\17\ A change is long overdue.\18\

\14\See, e.g., Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Gerald J. Mossinghoff, Former Assistant Secretary of Commerce and

Commissioner of Patents and Trademarks); Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Q. Todd Dickinson, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office); Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Jeffrey P. Kushan, Partner, Sidley Austin Brown & Wood, LLP); Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Mark A. Lemley, Professor, Stanford Law School); Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Robert A. Armitage, Senior Vice President and General Patent Counsel, Eli Lilly and Company);

Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Michael K. Kirk, Executive Director, American Intellectual Property Law Association).

\15\See NAS Report at 124; see also Perspectives on Patents:

Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Richard C. Levin, Yale University).

\16\See Perspectives on Patents: Harmonization and Other Matters:

Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Gerald J. Mossinghoff, Former Assistant Secretary of Commerce and Commissioner of Patents and Trademarks) .

\17\See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Richard C. Levin, President, Yale University, and Mark B. Meyers, Visiting Executive Professor, Management Department at the Wharton Business School, University of Pennsylvania), estimating that it costs as much as $750,000 to $1 million to obtain worldwide patent protection on an important invention, and the lack of harmonization regarding filing systems adds unnecessary cost and delay.

\18\The NAS recommended changing the U.S. to a first-to-file system, while maintaining a grace period. See NAS Report at 124-27. See also Patent Reform in the 111th Congress: Legislation and Recent Court Decisions: Hearing Before the Senate Comm. on the Judiciary, 111th Cong. (2009) (statement of Steven Appleton, Chairman and Chief Executive Officer, Micron Technologies, Inc.); Patent Reform in the 111th Congress: Legislation and Recent Court Decisions: Hearing Before the Senate Comm. on the Judiciary, 111th Cong. (2009) (statement of Philip S. Johnson, Chief Patent Counsel, Johnson & Johnson); Patent Reform in the 111th Congress: Legislation and Recent Court Decisions:

Hearing Before the Senate Comm. on the Judiciary, 111th Cong. (2009) (statement of Herbert C. Wamsley, Executive Director, Intellectual Property Owners Association); Patent Reform in the 111th Congress:

Legislation and Recent Court Decisions: Hearing Before the Senate Comm. on the Judiciary, 111th Cong. (2009) (statement of Mark A. Lemley, Professor, Stanford Law School).

Drawing on the best aspects of the two existing systems, the America Invents Act creates a new "first-inventor-to-file" system. This new system provides patent applicants in the United States the efficiency benefits of the first-to-file systems used in the rest of the world by moving the U.S. system much closer to a first-to-file system and making the filing date that which is most relevant in determining whether an application is patentable. The new system continues, however, to provide inventors the benefit of the 1-year grace period. As part of the transition to a simpler, more efficient first-inventor-to-file system, this provision eliminates costly, complex interference proceedings, because priority will be based on the first application. A new administrative proceeding—called a "derivation" proceeding—is created to ensure that the first person to file the application is actually a true inventor. This new proceeding will ensure that a person will not be able to obtain a patent for the invention that he did not actually invent. If a dispute arises as to which of two applicants is a true inventor (as opposed to who invented it first), it will be resolved through an administrative proceeding by the Patent Board. The Act also simplifies how prior art is determined, provides more certainty, and reduces the cost associated with filing and litigating patents.

The Act maintains a 1-year grace period for U.S. applicants. Applicants' own publication or disclosure that occurs within 1 year prior to filing will not act as prior art against their applications. Similarly, disclosure by others during that time based on information obtained (directly or indirectly) from the inventor will not constitute prior art. This 1-year grace period should continue to give U.S. applicants the time they need to prepare and file their applications.

This provision also, and necessarily, modifies the prior-art sections of the patent law. Prior art will be measured from the filing date of the application and will typically include all art that publicly exists prior to the filing date, other than disclosures by the inventor within 1 year of filing. Prior art also will no longer have any geographic limitations. Thus, in section 102 the "in this country" limitation as applied to "public use" and "on sale" is removed, and the phrase "available to the public" is added to clarify the broad scope of relevant prior art, as well as to emphasize the fact that it must be publicly accessible. Prior art based on earlier-filed United States applications is maintained,\19\ as is current law's grace period, which will apply to all actions by the patent owner during the year prior to filing that would otherwise create Sec. 102(a) prior art.\20\ Sections (and subsections) of the existing statute are renumbered, modified, or deleted consistent with converting to a first-inventor-to-file system.\21\ Finally, the intent behind the CREATE Act to promote joint research activities is preserved by including a prior art exception for subject matter invented by parties to a joint research agreement. The Act also provides that its enactment of new section 102© of title 35 is done with the same intent to promote joint research activities that was expressed in the Cooperative Research and Technology Enhancement Act of 2004 (Public Law 108-453), and that section 102© shall be administered in a manner consistent with such intent.

\19\Compare current Sec. 102(e) with new Sec. 102(a)(2).

\20\See generally 157 Cong. Rec. S.1496-97 (daily ed. March 9, 2011), S. 1370-71 (daily ed. March 8, 2011).

\21\The Committee does not intend a substantive change by replacing the word “negatived” in section 103 of title 35 with “negated.”

Inventor’s oath or declaration

The U.S. patent system, when first adopted in 1790, contemplated that individual inventors would file their own patent applications, or would have a patent practitioner do so on their behalf. It has become increasingly common for patent applications to be assigned to corporate entities, most commonly the employer of the inventor.\22\ In fact, many employment contracts require employees to assign their inventions to their employer.\23\

\22\See John R. Allison & Mark A. Lemley, The Growing Complexity of the United States Patent System, 82 B.U. L. Rev. 77, 97 (2002) (study showing that approximately 85% of the patents issued between 1996-98 were assigned by inventors to corporations; an increase from 79% during the period between 1976-78).

\23\See Jerry C. Liu, Overview of Patent Ownership Considerations in Joint Technology Development, 2005 Syracuse Sci. & Tech. L. Rep. 1 (2005).

Current law still reflects the antiquated notion that it is the inventor who files the application, not the company-assignee. For example, every inventor must sign an oath as part of the patent application stating that the inventor believes he or she is the true inventor of the invention claimed in the application.\24\ By the time an application is eventually filed, however, the applicant filing as an assignee may have difficulty locating and obtaining every inventor’s signature for the statutorily required oath. Although the USPTO has adopted certain regulations to allow filing of an application when the inventor’s signature is unobtainable,\25\ many have advocated that the statute be modernized to facilitate the filing of applications by assignees.\26\

\24\35 U.S.C. Sec. 115.

\25\See 37 C.F.R. Sec. 1.47, which permits an applicant to petition the Director of the USPTO to have the application accepted without every inventor’s signature in limited circumstances, e.g., when the inventor cannot be found or refuses to participate in the application.

\26\See Perspectives on Patents: Harmonization and Other Matters:

Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of David Beier, Senior Vice President of Global Government Affairs, Amgen).

The Act updates the patent system by facilitating the process by which an assignee may file and prosecute patent applications. It provides similar flexibility for a person to whom the inventor is obligated to assign, but has not assigned, rights to the invention (the “obligated assignee”).

Section 115 of title 35 is amended to allow a substitute statement to be submitted in lieu of an inventor’s oath when either the inventor (i) is unable to submit an oath, or (ii) is both unwilling to do so and under an obligation to assign the invention. If an error is discovered, the statement may later be corrected. A savings clause is included to prevent an invalidity or unenforceability

challenge to the patent based on failure to comply with these requirements, provided that any error has been remedied. Willful false statements remain punishable, however, under Federal criminal laws.\27\

\27\See 18 U.S.C. Sec. 1001.

Section 118 of title 35 is also amended to make it easier for an assignee to file a patent application. The amendment now allows obligated assignees—entities to which the inventor is obligated to assign the application—to file applications, as well. It also allows a person who has a sufficient proprietary interest in the invention to file an application to preserve that person's rights and those of the inventor.

Defense to infringement based on earlier inventor

Under current law, "prior user rights" may offer a defense to patent infringement when the patent in question is a "business method patent"\28\ and its inventor uses the invention, but never files a patent application for it.\29\ If the same invention is later patented by another party, the prior user may not be liable for infringement to the new patent holder, although all others may be.

\28\35 U.S.C. Sec. 273(a)(3) states: "The term 'method' means a method of doing or conducting business."

\29\See 35 U.S.C. Sec. 273.

Many counties include a more expansive prior-user rights regime within their first-to-file system. In the United States, this is particularly important to high-tech businesses that prefer not to patent every process or method that is part of their commercial operations. The Act responds to this point by revising US law as follows: First, the prior-use defense may be asserted against any patent (not just method patents), provided the person asserting the defense reduced the subject matter of the patent to practice and commercially used the subject matter at least 1 year before the effective filing date of the patent. Second, the defense cannot be asserted if the subject matter was derived from the patent holder or persons in privity with the patent holder. And third, the defense cannot be asserted unless the prior user both reduced the subject matter of the patent to practice and commercially used it at least 1 year before the effective filing date of the patent or the date that the patentee publicly disclosed the invention and invoked the Sec. 102(b) grace period, whichever is earlier.

This narrow expansion of prior-user rights balances the interests of patent holders, including universities, against the legitimate concerns of businesses that want to avoid infringement suits relating to processes that they developed and used prior to another party acquiring related patents.

Post-grant review proceedings

The Act amends ex parte and inter partes reexamination and establishes a new post-grant review procedure. Under current law, there are two ways to challenge the validity and enforceability of a patent that has issued. The patent may be challenged in district court litigation or in a reexamination at the USPTO.

Nearly 30 years ago, Congress created the administrative "reexamination" process, through which the USPTO could review the validity of already-issued patents on the request of either the patent holder or a third party,\30\ in the expectation that it would serve as an effective and efficient alternative to often costly and protracted district court litigation.\31\ Reexamination requires the USPTO to review the patent in light of a substantial new question of patentability not presented during the original examination.\32\ The initial reexamination statute had several limitations that later proved to make it a less viable alternative to litigation for evaluating patent validity than Congress intended. First, a reexamination request could only be based on prior art, and could not be based on prior public use or prior sales. Moreover, the requestor could not raise any challenge based on Sec. 101 (utility, eligibility) or Sec. 112 (indefiniteness, enablement, written description, best mode). A third party alleging a patent is invalid, therefore, had fewer challenges it could raise in the proceeding and, therefore, may instead opt to risk infringement and litigate the validity of the patent in court. Second, in the original reexamination system, the third-party challenger had no role once the proceeding was initiated, while the patent holder had significant input throughout the entire process.

Third, a challenger that lost at the USPTO under reexamination had no right to appeal an examiner's, or the Patent Board's, decision either administratively or in court. Restrictions such as these made reexamination a much less favored avenue to challenge questionable patents than litigation. Reexamination proceedings are also often costly, taking several years to complete,\33\ and are first conducted by examiners and, if the patent is rejected, then by Patent Board judges. Thus, many patents must go through two rounds of administrative review (one by the examiner, and a second by the Patent Board) adding to the length of the proceeding.\34\

\30\See 35 U.S.C. Sec. Sec. 301-307. A patent holder will typically request reexamination to bolster the patent in view of new prior art. A third party may request reexamination to challenge, and ultimately invalidate, the patent.

\31\"Reexamination will permit efficient resolution of questions

about the validity of issued patents without recourse to expensive and lengthy infringement litigation. . . . The reexamination of issued patents could be conducted with a fraction of the time and cost of formal legal proceedings and would help restore confidence in the effectiveness of our patent system. . . . It is anticipated that these measures provide a useful and necessary alternative for challengers and for patent owners to test the validity of united states patents in an efficient and relatively inexpensive manner." See H.R. Rep. No. 96-1307(I) at 3 (1980), reprinted in 1980 U.S.C.C.A.N. 6460, 6462-63.

\32\See 35 U.S.C. Sec. 303.

\33\See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of Jon W. Dudas, Undersecretary of Commerce for Intellectual Property, Director of the U.S. Patent and Trademark Office), explaining that "a large number of reexamination proceedings have been pending before the USPTO for more than 4 years," and questioning whether this amount of time is consistent with the statutory requirement that "[a]ll reexamination proceedings . . . will be conducted with special dispatch within the Office." See also 35 U.S.C. Sec. 305.

\34\For several years, the standard practice at the USPTO was to assign the reexamination to the patent examiner who had originally examined that patent. In addition, the same third-party requester could file multiple, serial reexaminations based on the same "substantial new question of patentability," so long as the initial reexamination was not complete. More recently, the USPTO ended some of these procedures, and now reexaminations are handled by a Central Reexamination Unit (CRU), and subsequent serial reexamination, based on the same "substantial new question of patentability," is no longer permitted. See, e.g., Manual of Patent Examining Procedure (MPEP) Sec. Sec. 2236 and 2240 (August 2006).

Congress has responded several times to criticisms of the reexamination system by making amendments to the process.\35\

In 1999, Congress created a second reexamination procedure—called inter partes reexamination—that gave third-party challengers greater input throughout the proceeding by permitting them to respond to every pleading submitted by the patent holder.\36\ Congress also eventually gave third-party challengers the right to appeal adverse decisions.\37\

\35\See e.g., 21st Century Dep't of Justice Appropriations Authorization Act, Pub. L. No. 107-273, Sec. Sec. 13105-06, 13202, 116 Stat. 1758, 1761 (2002) (effective Nov. 2, 2002); American Inventors Protection Act, Pub.L. 106-113, 113 Stat. 1536, Sec. 1501A et seq. (1999) (creating inter partes reexamination) (hereafter referred to as the "AIPA").

\36\See 35 U.S.C. Sec. Sec. 311-318.

\37\See 35 U.S.C. Sec. 315(b).

As part of the 1999 improvements to reexamination, Congress directed the USPTO to submit a report to Congress evaluating the inter partes reexamination process and making any recommendations for changes.\38\ Initially, the USPTO projected that in the first year after the creation of inter partes reexamination, it would receive 400 such requests and it projected that by 2004 it would receive nearly 600.\39\ No inter partes reexamination requests were actually filed in 2000 and only 27 such requests had been filed by 2004.\40\ Over the 5-year period studied by the USPTO, it issued 900,000 patents and received only 53 requests for inter partes reexamination.\41\

\38\AIPA, Pub. L. 106-113, Sec. 4606.

\39\See United States Patent and Trademark Office, Report to Congress on Inter Partes Reexamination (2004) (hereinafter referred to as "Report on Inter Partes Reexamination"), at 4.

\40\Id. at 5.

\41\Id.

The Act expands the category of documents that may be cited in a reexamination proceeding to include written statements of the patent owner that have been filed in a proceeding before a Federal court or the USPTO regarding the scope of claims. This addition will counteract the ability of patent owners to offer differing interpretations of prior art in different proceedings.

These written statements, which include documents, pleadings or evidence from proceedings that address the patent owner's statements, shall not be considered for any purpose other than to determine the proper meaning of the claims that are the subject of the request in a proceeding. Specifically, the Committee does not intend these statements to be a basis for the institution of a reexamination proceeding.

Reexaminations will continue to be available only on the basis of "patents or printed publications."\42\

\42\The scope of "patent and printed publication" prior art in the amended section 301 is intended to be coextensive with these terms in current section 102 of the title 35. Further, amendments made by Section 2 of the Act, which expand and contract the definition of certain other forms of prior art, are not intended to change the particular "patent or printed publication" prior art, which will continue to be the sole basis for initiating reexamination proceedings.

The Act also amends the ex parte reexamination procedure to allow the Director to institute a reexamination on the Director's own initiative if a substantial new question of patentability is raised by patents or publications.

The Act converts inter partes reexamination from an examinational to an adjudicative proceeding, and renames the proceeding "inter partes review." The Act also makes the following improvements to this proceeding:

L"Reasonable likelihood of success" for instituting inter partes review. The threshold for initiating an inter partes review is elevated from "significant new question of patentability"—a standard that currently allows 95% of all requests to be granted—to a standard requiring petitioners to present information showing that their challenge has a reasonable likelihood of success. Satisfaction of the new threshold will be assessed based on the information presented both in the petition for the proceeding and in the patent owner's response to the petition.

L"Reasonably could have raised" estoppel applied to subsequent administrative proceedings. A party that uses inter partes review is estopped from raising in a subsequent PTO proceeding (such as an ex parte reexam or inter partes review) any issue that it raised or reasonably could have raised in the inter partes review.

LRepeal of the 1999 limit. The limit on challenging patents issued before 1999 in inter partes reexamination is eliminated; all patents can be challenged in inter partes review.

LPreponderance burden. Petitioners bear the burden of proving that a patent is invalid by a preponderance of the evidence in inter partes review.

LTime limits during litigation. Parties who want to use inter partes review during litigation are required to seek a proceeding within 12 months of being served with a complaint alleging infringement of the patent, and are barred from seeking or maintaining an inter partes review if they file an action for a declaratory judgment that the patent is invalid. LDiscovery. Parties may depose witnesses submitting affidavits or declarations and seek such discovery as the Patent Office determines is otherwise necessary in the interest of justice.

L12- to 18-month deadline. Inter partes review must be completed within 1 year of when the proceeding is instituted, except that the Office can extend this deadline by 6 months for good cause.

LOral hearing. Each party has the right to request an oral hearing as part of an inter partes review.

LThree-judge panels. Inter partes reviews will be conducted before a panel of three APJs. Decisions will be appealed directly to the Federal Circuit.

The Act also creates a new post-grant opposition procedure that can be utilized during the first 12 months after the grant of a patent or issue of a reissue patent. Unlike reexamination proceedings, which provide only a limited basis on which to consider whether a patent should have issued, the post-grant review proceeding permits a challenge on any ground related to invalidity under section 282. The intent of the post-grant review process is to enable early challenges to patents, while still protecting the rights of inventors and patent owners against new patent challenges unbounded in time and scope. The Committee believes that this new, early-stage process for challenging patent validity and its clear procedures for submission of art will make the patent system more efficient and improve the quality of patents and the patent system. This new, but time-limited, post-grant review procedure will provide a meaningful opportunity to improve patent quality and restore confidence in the presumption of validity that comes with issued patents in court.

In utilizing the post-grant review process, petitioners, real parties in interest, and their privies are precluded from improperly mounting multiple challenges to a patent or initiating challenges after filing a civil action challenging the validity a claim in the patent. Further, a final decision in a post-grant review process will prevent the petitioner, a real party in interest, or its privy from challenging any patent claim on a ground that was raised in the post-grant review process. The post-grant review procedure is not intended, however, to inhibit patent owners from pursuing the various avenues of enforcement of their rights under a patent, and the amendment makes clear that the filing or institution of a post-grant review proceeding does not limit a patent owner from commencing such actions.

The Committee recognizes the importance of quiet title to patent owners to ensure continued investment resources. While this amendment is intended to remove current disincentives to current administrative processes, the changes made by it are not to be used as tools for harassment or a means to prevent market entry through repeated litigation and administrative attacks on the validity of a patent. Doing so would frustrate the purpose of the section as providing quick and cost effective alternatives to litigation. Further, such activity would divert resources from the research and development of inventions. As such, the Committee intends for the USPTO to address potential abuses and current inefficiencies under its expanded procedural authority.

Patent Trial and Appeal Board.

The Act renames the Patent Board the “Patent Trial and Appeal Board” and sets forth its duties, which are expanded to include jurisdiction over the new post-grant review and derivation

proceedings. This section strikes references to proceedings eliminated by the Act, including interference proceedings, and updates the various appeals statutes.

Preissuance submissions by third parties

After an application is published, members of the public—most likely, a competitor or someone else familiar with the patented invention's field—may realize they have information relevant to a pending application. The relevant information may include prior art that would prohibit the pending application from issuing as a patent. Current USPTO rules permit the submission of such prior art by third parties only if it is in the form of a patent or publication,\43\ but the submitter is precluded from explaining why the prior art was submitted or what its relevancy to the application might be.\44\ Such restrictions decrease the value of the information to the examiner and may, as a result, deter such submissions.\45\

\43\See 35 C.F.R. Sec. 1.99.

\44\See 35 C.F.R. Sec. 1.99(d) ("A submission under this section shall not include any explanation of the patents or publications, or any other information.").

\45\See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation).

The Act improves the process by which third parties submit relevant information to the UPSTO by permitting those third parties to make statements concerning the relevance of the patents, patent applications, and other printed publications that they bring to the USPTO's attention.

Venue

In 1999, as part of the American Inventors Protection Act (AIPA), Congress established that as a general matter the venue of the USPTO is the district where it resides.\46\ The USPTO currently resides in the Eastern District of Virginia. However, Congress inadvertently failed to make this change uniformly throughout the entire patent statute. As a result, certain sections of the patent statute (and one section of the trademark statute) continue to allow challenges to USPTO decisions to be brought in the District of Columbia, a place where the USPTO has not resided in decades.

\46\See 35 U.S.C. Sec. 1(b).

Because the USPTO no longer resides in the District of Columbia, the sections that authorize venue for litigation against the USPTO are consistently changed to reflect the venue where the USPTO currently resides.

Fee-setting authority

a) Agency fee setting authority

Although the USPTO has had the ability to set certain fees by regulation, most fees (e.g., filing fee, issuance fee, maintenance fees) are set by Congress.\47\ History has shown that such a scheme does not allow the USPTO to respond promptly to the challenges that confront it. The USPTO has argued for years that it must have fee-setting authority to administer properly the agency and its growing workload.

\47\See, e.g., 35 U.S.C. Sec. 41.

The Act allows the USPTO to set or adjust all of its fees, including those related to patents and trademarks, so long as they do no more than reasonably compensate the USPTO for the services performed. Prior to setting such fees, the Director must give notice to, and receive input from, the Patent or Trademark Public Advisory Committee (PPAC or TPAC). The Director may also reduce fees for any given fiscal year, but only after consultation with the PPAC or TPAC. The Act details the procedures for how the Director shall consult with the PPAC and TPAC, including providing for public hearings and the dissemination to the public of any recommendations made by either Committee. Fees shall be prescribed by rule. Any proposed fee change shall be published in the Federal Register and include the specific rationale and purpose for the proposed change. The Director must seek public comments for no less than 45 days. The Director must also notify Congress of any final decision regarding proposed fees. Congress shall have no more than 45 days to consider and comment on any proposed fee, but no proposed fee shall be effective prior to the expiration of this 45-day period.

b) “Micro entity” defined

As part of the ongoing effort to nurture U.S. innovation, Congress has long recognized that certain groups, including independent inventors, small business concerns, and non-profit organizations (collectively referred to as “small business entities”) should not bear the same financial burden for filing patent applications as larger corporate interests. The current statute provides for a significant reduction in certain fees for small business entities.\48\ The Committee was made aware, however, that there is likely a benefit to describing— and then accommodating—a group of inventors who are even smaller, in order to ensure that the USPTO can tailor its requirements, and its assistance, to the people with very little capital, and just a few inventions, as they are starting out.

\48\See 35 U.S.C. Sec. 41(h).

This section of the Act defines this even smaller group—the micro-entity—that includes only truly independent inventors. The Committee expects that the USPTO will make accommodations under its authority in recognition of the special status of micro-entities.

Supplemental examination

Patents are unenforceable and invalid if they are obtained through fraud. This concept is addressed in the “inequitable conduct” defense, which allows a defendant in an infringement suit to plead that the plaintiff patent-holder would not have received a patent but for misrepresentations made to the USPTO. Inequitable conduct requires proof of materiality as well as intent to deceive. These standards require courts and litigants to invest time and resources in determining the patent-holder’s state of mind or intent when developing the invention and

submitting the application. Critics of the inequitable conduct defense, including the National Academies and the Federal Trade Commission, argue that our patent system is hampered by provisions that require courts to divine the difficult-to-prove subjective intent of individuals in patent disputes. And most defendants reflexively plead inequitable conduct as a defense to infringement, prompting the Federal Circuit to label the practice a “plague” on the patent system.

The Act addresses the inequitable conduct doctrine by authorizing supplemental examination of a patent to correct errors or omissions in proceedings before the Office. Under this new procedure, information that was not considered or was inadequately considered or was incorrect can be presented to the Office. If the Office determines that the information does not present a substantial new question of patentability or that the patent is still valid, that information cannot later be used to hold the patent unenforceable or invalid on the basis for an inequitable-conduct attack in civil litigation.

Funding agreements

The Patent and Trademark Amendments Act of 1980 (commonly referred to as the Bayh-Dole Act)\49\ granted universities, other non-profit organizations, and small businesses the right to title to inventions developed using Federal funds. In 1984, Congress amended the law to ensure that universities and small businesses operating at Government facilities (GOCOs) reaped the benefits of Bayh-Dole by giving them the right to elect title to a subject invention.\50\ The 1984 Act permitted GOCOs to retain the balance of any royalties or income earned from licensing inventions, up to 5 percent of the annual budget of the facility, for further research, development, and related activities. If the balance exceeds 5 percent of the facility’s annual budget, however, 75 percent of the excess is recouped by the Government, with the remaining 25 percent of the excess also retained by the GOCO for further research, development, and related activities.\51\

\49\P.L. 96-517.

\50\P.L. 98-620, Sec. 501.

\51\35 U.S.C. Sec. 202(c)(7).

The Senate Judiciary Committee considered testimony that the requirement to repay the government 75 percent of the excess on royalty payments may be causing a disincentive for universities and small business operating under the GOCO provisions to commercialize products.\52\ Based on these concerns, the Act maintains the essence of the agreement GOCOs made with the taxpayers when they received funding that they would reimburse the taxpayer if they are sufficiently successful in commercializing a product invented with taxpayer dollars, but which reduces the burden on universities and small businesses, thereby encouraging commercialization. Pursuant to the Act, instead of reimbursing 75% of the excess to the Government, the GOCO will retain 85 percent for further research, development, and related activities and reimburse the Government 15 percent.

\52\See The Role of Federally-Funded University Research in the Patent System: Hearing Before the Senate Comm. on the Judiciary, 110th Cong. (2008) (statement of Dr. Elizabeth Hoffman, Executive Vice President and Provost, Iowa State University).

Tax strategies deemed within the prior art

In recent years, the numbers of patents on tax-strategies have increased. Critics assert that it is not fair to permit patents on techniques used to satisfy a government mandate, such as compliance with the Internal Revenue Code.

Tax preparers, lawyers, and planners have a long history of sharing their knowledge regarding how to file returns, plan estates, and advise clients. The ability to interpret the tax law and implement such interpretations should remain in the public domain, available to all taxpayers and their advisors.

The Act mandates that tax strategies are deemed "insufficient to differentiate a claimed invention from the prior art." In other words, any future tax strategy will be considered indistinguishable from all other publicly available information that is relevant to a patent's claim of originality. Under the Act, however, protection (an exclusion) is made available for software that enables individuals to file their income tax returns or that assists them with managing their finances. The exclusion does not apply to that part of the software related to a tax strategy.

Best mode requirement

The Act amends Sec. 282(b) to eliminate as a defense to patent infringement the patentee's failure to comply with the best mode requirement of Sec. 112. An applicant for a patent must disclose: (1) a written description of the invention; (2) a written description of the manner of making and using the invention, sufficient to enable one skilled in the art to make and use it (known as the "enablement requirement"); and (3) the best mode contemplated by the inventor of carrying out the invention.\53\ The disclosures required of an applicant are part of the important tradeoff that underlies the patent laws: the grant of a limited-term monopoly in exchange for disclosure of the invention.

\53\35 U.S.C. Sec. 112. Section 112 also requires an applicant to disclose a written description of the invention and a written description of the manner of making and using the invention, sufficient to enable one skilled in the art to make and use it.

Under current law, the defense of patent invalidity is available for failure to comply with any requirement of Sec. 112 (specification) or Sec. 251 (reissued patents).

Further, a defendant in patent litigation may also allege an intentional nondisclosure of the best mode, with intent to deceive the Office, as a basis for an unenforceability defense.

Many have argued in recent years that the best mode requirement, which is unique to American patent law, is counterproductive.\54\ They argue that challenges to patents based on best mode are inherently subjective and not relevant by the time the patent is in litigation, because the best mode contemplated at the time of the invention may not be the best mode for practicing or using the invention years later.

\54\Among those who have so argued are the National Academy of Sciences, the Biotechnology Industry Organization, the American Intellectual Property Law Association, the Intellectual Property Owners Association, and Pharmaceutical Research and Manufacturers of America.

In response to these concerns, the Act includes a provision that eliminates best mode as a basis for both invalidity and unenforceability defenses under Sec. 282; other defenses are unaffected.

Marking

a) Virtual Marking

In general, for patented "articles," a patent holder must give an alleged infringer notice of the claimed infringement, and the infringer must continue to infringe, before the patent holder may succeed in a suit for damages.\55\ Actual notice requires the affirmative communication of infringement to the defendant, which may include the filing of a lawsuit.

Constructive notice is possible by "marking" any patented article that the patent holder (or its licensee) makes, uses, sells or imports.\56\ Failure to appropriately mark an article can preclude the recovery of damages until notice is effective.

\55\See 35 U.S.C. Sec. 287.

\56\See id.

The Act permits patent holders to "virtually mark" a product by providing the address of a publicly available website that associates the patented article with the number of the patent. The burden will remain on the patent holder to demonstrate that the marking was effective. This amendment will save costs for producers of products that include technology on which a patent issues after the product is on the market, and will facilitate effective marking on smaller products.

b) False marking

The Federal Circuit's recent decision in Forest Group, Inc. v. Bon Tool Co., 590 F.3d 1295 (Fed. Cir. 2009), which held that section 292's $500 fine is assessed for each product that is falsely marked, has created a surge in false-marking qui tam litigation. Though one might assume that section 292 actions are targeted at parties that assert fictitious patents in order to deter competitors, such a scenario is almost wholly unknown to false-marking litigation. False-marking suits are almost always based on allegations that a valid patent that did cover the product has expired, but the manufacturer continued to sell products stamped with the patent; or that an existing patent used to mark products is invalid or unenforceable; or that an existing and valid patent's claims should not be construed to cover the product in question.

Indeed, a recent survey of such suits found that a large majority involved valid patents that covered the products in question but had simply expired. For many products, it is difficult and expensive to change a mold or other means by which a product is marked as patented, and marked products continue to circulate in commerce for some period after the patent expires. It is doubtful that the Congress that originally enacted this section anticipated that it would force manufacturers to immediately remove marked products from commerce once the patent expired, given that the expense to manufacturers of doing so will generally greatly outweigh any conceivable harm of allowing such products to continue to circulate in commerce.

To address the recent surge in litigation, the bill replaces the qui tam remedy for false marking with a new action that allows a party that has suffered a competitive injury as a result of such marking to seek compensatory damages. The United States would be allowed to seek the $500-per-article fine, and competitors may recover in relation to actual injuries that they have suffered as a result of false marking, but the bill would eliminate litigation brought by unrelated, private third parties.

Advice of Counsel

The Act includes a new provision that bars courts and juries from drawing an adverse inference from an accused infringer's failure to obtain opinion of counsel as to infringement or his failure to waive privilege and disclose such an opinion. Section 298 of title 35 is designed to protect attorney-client privilege and to reduce pressure on accused infringers to obtain opinions of counsel for litigation purposes. It reflects a policy choice that the probative value of this type of evidence is outweighed by the harm that coercing a waiver of attorney-client privilege inflicts on the attorney-client relationship. Section 298 applies to findings of both willfulness and intent to induce infringement—and thus legislatively abrogates the Federal Circuit's decision in Broadcom Corp. v. Qualcomm Inc., 543 F.3d 683, 699 (Fed. Cir. 2008).

Transitional program for covered business method patents

A number of patent observers believe the issuance of poor business-method patents during the late 1990's through the early 2000's led to the patent "troll" lawsuits that compelled the Committee to launch the patent reform project 6 years ago. At the time, the USPTO lacked a sufficient number of examiners with expertise in the relevant art area. Compounding this problem, there was a dearth of available prior art to assist examiners as they reviewed business method applications. Critics also note that most countries do not grant patents for business methods.

The Act responds to the problem by creating a transitional program 1 year after enactment of the bill to implement a provisional post-grant proceeding for review of the validity of any business method patent. In contrast to the era of the late 1990's-early 2000's, examiners will review the best prior art available. A petition to initiate a review will not be granted unless the petitioner is first sued for infringement or is accused of infringement. The program otherwise generally functions on the same terms as other post-grant proceedings initiated pursuant to the bill. Any party may request a stay of a civil action if a related post-grant proceeding is granted.

The program sunsets after 10 years, which ensures that patent holders cannot delay filing a lawsuit over a shorter time period to avoid reevaluation under the transitional program.

Jurisdictional and procedural matters

a) LState court jurisdiction and the US Court of Appeals for the Federal Circuit

The US district courts area given original jurisdiction to hear patent cases,\57\ while the US Court of Appeals for the Federal Circuit adjudicates all patent appeals.\58\ The Supreme Court ruled in 2002,\59\ however, that patent counterclaims do not give the Federal Circuit appellate jurisdiction over a case.

\57\28 USC Sec. 1338.

\58\28 USC Sec. 1295.

\59\Holmes Group, Inc., v. Vornado Air Circulation Systems, Inc. 535 U.S. 826 (2002).

The Act clarifies the jurisdiction of the US district courts and stipulates that the US Court of Appeals for the Federal Circuit has jurisdiction over appeals involving compulsory patent counterclaims. The legislative history of this provision, which we reaffirm and adopt as our own, appears in the Committee Report accompanying H.R. 2955 from the 109th Congress,\60\ which the Committee reported favorably to the House on April 5, 2006.

\60\H. Rep. 109-405.

b) Joinder

The Act also addresses problems occasioned by the joinder of defendants (sometimes numbering in the dozens) who have tenuous connections to the underlying disputes in patent infringement suits.

The Act amends chapter 29 of the Patent Act by creating a new Sec. 299 that addresses joinder under Rule 20 and consolidation of trials under Rule 42. Pursuant to the provision, parties who are accused infringers in most patent suits may be joined as defendants or counterclaim defendants only if: (1) relief is asserted against the parties, jointly, severally, or in the alternative, arising out of the same transaction regarding the manufacture, use, or importation of the accused product or process; and (2) questions of fact common to all of the defendants will arise in the action. New Sec. 299 also clarifies that joinder will not be available if it based solely on allegations that a defendant has infringed the patent(s) in question.\61\

\61\Section 299 legislatively abrogates the construction of Rule 20(a) adopted in MyMail, Ltd. v. America Online, Inc., 223 F.R.D. 455 (E.D. Tex. 2004); Sprint Communications Co. v. Theglobe.com, Inc., 233 F.R.D. 615 (D. Kan. 2006); Adrain v. Genetec Inc., 2009 WL3063414 (E.D. Tex. September 22, 2009); Better Educ. Inc. v. Einstruction Corp., 2010 WL 918307 (E.D. Tex. March 10, 2010); Mannatech, Inc. v. Country Life, LLC, 2010 WL 2944574 (N.D. Tex. July 26, 2010); Alford Safety Services, Inc., v. Hot-Hed, Inc., 2010 WL 3418233 (E.D. La. August 24, 2010); and Eolas Technologies, Inc. v. Adobe Systems, Inc., 2010 WL 3835762 (E.D. Tex. September 28, 2010)--effectively conforming these courts' jurisprudence to that followed by a majority of jurisdictions. See generally Rudd v. Lux Products Corp., 2011 WL 148052 (N.D. Ill. January 12, 2011).

Technical amendments

The Act contains technical amendments to improve the organization of the patent statute.

Travel expenses and payment of administrative judges

The USPTO Director is authorized to conduct programs or exchanges pertaining to intellectual property law and protection "domestically and throughout the world." The House bill clarifies

that this authority includes expending funds to cover the subsistence and travel expenses of non-Federal employees who attend these programs.

The House bill also clarifies that the Director may fix the pay for administrative patent judges and administrative trademark judges under the new Patent Trial and Appeal Board set forth in Section 6 of the bill.

Patent and Trademark Office funding

The USPTO is a fee-funded agency. The revenue it collects from fees imposed on inventors and trademark filers is deposited in a special USPTO appropriations account in the Treasury. To obtain funding for its operations, the agency must request the revenue back from congressional appropriators. Since the early 1990's, however, more than $800 million has been diverted from the agency and spent on non-USPTO initiatives.

The Committee believes the USPTO could operate more efficiently and productively if the agency had full access to all of its fee-generated revenue. The House bill therefore creates a USPTO revolving fund within the Treasury that allows the agency to keep all of the funds it raises until expended.

The provision also requires the Director to submit an annual spending plan as well as an annual year-end report to the House and Senate Appropriations and Judiciary Committees.

Satellite offices

The USPTO is conducting a pilot to create and operate a new satellite office located in Detroit. The bill requires the Director to establish three other satellite offices within a 3-year window, subject to available resources. The legislation includes criteria that must be invoked when selecting the new sites.

Designation of Detroit satellite office

The House and Senate bills contain a provision that designates the PTO satellite office in Detroit as the "Elijah J. McCoy United States Patent and Trademark Office." Elijah McCoy was an African-Canadian inventor who spent much of his life in Michigan and earned 57 US patents. His work on an automatic lubricator to oil railroad steam engines gave rise to the expression, "the real McCoy."

Patent Ombudsman Program for small business concerns

The Act requires the USPTO Director to establish a Patent Ombudsman Program to provide support and services regarding patent filings to small business concerns. The authorization is subject to available resources.

Priority examination for technologies important to American competitiveness

The Act stipulates that the USPTO may promulgate regulations, not inconsistent with law, that prioritize examination of applications for products, processes, or technologies that are important

to the national economy or national competitiveness. This may be done without recovering the aggregate extra cost of providing the prioritization.

Calculation of 60-day period for application of patent term extension

The USPTO has inconsistently applied “counting” rules that are imposed on patent holders who must submit documents to the agency within statutory time periods for consideration of additional patent term under Sec. 156 of the Patent Act. The Act clarifies that the agency should impose a “business-day” construction for application to Sec. 156, consistent with recent case law on the matter\62\.

\62\The Medicines Co. v. Kappos, et. al., 10-CV-286 (E.D. Va. August 3, 2010).

Study on implementation

The Act requires the USPTO Director to conduct a study regarding the implementation of the legislation and on such other aspects of Federal patent policies and practices with respect to patent rights, innovation in the United States, competitiveness of US markets, access by small business to capital and investment, and such other issues as the Director deems appropriate. The study must be completed within 4 years and the results submitted to the House and Senate Committees on the Judiciary.

Pro bono program

The Committee acknowledges the importance of individuals and small businesses to the patent system and our national culture of innovation. Consistent with this sentiment, the Act requires the USPTO Director to support intellectual property law associations across the United States to establish pro bono programs to assist under-resourced independent inventors and businesses.

Effective date

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

Budgetary effects

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

Hearings

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

Counsel, and Secretary for Cisco; and John Vaughn, Executive Vice President of the Association of American Universities.

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

Given that the bill is a 6-year work in progress, the legislative record should also reflect that the Subcommittee conducted related hearings on patent reform in the 109th through 111th Congresses. These hearings include the following:

"H.R. 2795, the 'Patent Reform Act of 2005"' (June 19, 2005); "Committee Print Regarding Patent Quality Improvement (Part I)" (April 20, 2005, Serial No. 109-11); "Committee Print Regarding Patent Quality Improvement (Part II)" (April 28, 2005, Serial No. 109-11); "Review of US Patent and Trademark Office Operations" (September 8, 2005, Serial No. 109-48);

"Patent Quality Enhancement in the Information-Based Economy" (April 5, 2006, Serial No. 109-99); "Patent Harmonization" (April 26, 2006, Serial No. 109-100); "Patent Trolls: Fact or Fiction?" (June 15, 2006, Serial No. 109-104); "Oversight Hearing on the US Patent and Trademark Office" (February 27, 2008, Serial No. 110-115); "The 'Patent Reform Act of 2007"' (April 26, 2007, Serial No. 110-65); "H.R. 1260, The 'Patent Reform Act of 2009"' (April 30, 2009, Serial No. 111-92); and "The US Patent and Trademark Office" (May 5, 2010, Serial No. 111-135).

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

Committee Consideration

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

Committee Votes

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

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

ROLLCALL NO. 1 [votes omitted]

2. Amendment #11 to the Manager's amendment, offered by Ms. Chu. The amendment strikes the inter partes review threshold and retains the lower threshold of a "substantial new questions of patentability." Failed by a rollcall of 7-21.

ROLLCALL NO. 2 [votes omitted]

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

ROLLCALL NO. 3 [votes omitted]

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

ROLLCALL NO. 4 [votes omitted]

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

ROLLCALL NO. 5 [votes omitted]

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

ROLLCALL NO. 6 [votes omitted]

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

ROLLCALL NO. 7 [votes omitted]

Committee Oversight Findings

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

New Budget Authority and Tax Expenditures

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

Congressional Budget Office Cost Estimate

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill, H.R. 1249, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act of 1974:

U.S. Congress,
Congressional Budget Office, Washington, DC, May 26, 2011.

Hon. Lamar Smith, Chairman, Committee on the Judiciary, House of Representatives, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1249, the "America Invents Act."

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

Sincerely,

Douglas W. Elmendorf, Director.

Enclosure.

cc:

Honorable John Conyers, Jr.
Ranking Member

H.R. 1249--America Invents Act.

SUMMARY

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

CBO estimates that enacting the bill would reduce net direct spending by $725 million and revenues by $8 million over the 2011-2021 period. Most of the change in direct spending would result from providing PTO with permanent authority to collect and spend certain fees. In total, the changes would decrease budget deficits by $717 million over the 2011-2021 period. Because

enacting the legislation would affect direct spending and revenues, pay-as-you-go procedures apply. CBO estimates that implementing H.R. 1249 would have a discretionary cost of $446 million over the 2011-2016 period, assuming appropriation of the necessary amounts.

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

ESTIMATED COST TO THE FEDERAL GOVERNMENT

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

By Fiscal Year, In Millions of Dollars

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2011–2016	2011–2021
CHANGES IN DIRECT SPENDING													
Reclassification of PTO Spending													
Estimated Budget Authority	0	2,266	2,573	2,784	2,907	3,017	3,143	3,262	3,375	3,472	3,593	13,547	30,392
Estimated Outlays	0	1,869	2,486	2,743	2,883	2,995	3,119	3,238	3,353	3,453	3,571	12,976	29,710
New and Amended PTO Processes													
Estimated Budget Authority	0	43	92	95	113	123	125	134	141	145	157	470	1,180
Estimated Outlays	0	35	83	97	110	121	127	134	140	147	155	446	1,149
PTO Administrative Costs													
Estimated Budget Authority	0	8	7	3	0	0	0	0	0	0	0	18	18
Estimated Outlays	0	8	7	3	0	0	0	0	0	0	0	18	18
Reclassification of PTO Collections													
Estimated Budget Authority	0	−2,318	−2,672	−2,886	−3,015	−3,140	−3,272	−3,396	−3,516	−3,620	−3,750	−14,035	−31,588
Estimated Outlays	0	−2,318	−2,672	−2,886	−3,015	−3,140	−3,272	−3,396	−3,516	−3,620	−3,750	−14,035	−31,588
Electronic Filing Incentive													
Estimated Budget Authority	0	−3	3	−2	−2	−2	−1	−1	−1	−1	−1	−12	−17
Estimated Outlays	0	−3	−3	−2	−2	−2	−1	−1	−1	−1	−1	−12	−17
Funding Agreements													
Estimated Budget Authority	*	1	1	*	*	*	*	*	*	-------	*	2	4
Estimated Outlays	*	1	1	*	*	*	*	*	*	*	*	2	4
Total Changes in Direct Spending													
Estimated Budget Authority	*	−3	−2	−2	−1	−2	−1	−1	−1	0	0	−10	−12
Estimated Outlays	*	−408	−98	−45	−28	−26	−27	−25	−24	−21	−25	−605	−725
CHANGES IN REVENUES													
Estimated Revenues	−1	−3	−2	−1	*	*	*	*	*	*	*	−7	−8
NET INCREASE OR DECREASE (−) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND RECEIPTS													
Impact on Deficit	1	−405	−96	−44	−28	−26	−27	−25	−24	−21	−25	−588	−717
CHANGES IN SPENDING SUBJECT TO APPROPRIATION													
Estimated Authorization Level	0	−76	−37	5	44	76	n.a.	n.a.	n.a.	n.a.	n.a.	13	n.a.
Estimated Outlays	0	254	−8	16	55	88	n.a.	n.a.	n.a.	n.a.	n.a.	446	n.a.

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

BASIS OF ESTIMATE

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

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

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

Direct Spending

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

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

New and Amended PTO Processes. H.R. 1249 would establish two new procedures to review or update patents and amend one process already available under current law to review existing patents. PTO would be authorized to collect fees to offset much of the costs associated with those activities. Based on information from PTO, CBO estimates that those new and amended

processes, taken together, would increase direct spending by $1.1 billion over the 2012-2021 period.

Specifically, the bill would:

LEstablish a new procedure, known as post-grant review, to review the validity of a patent. This option generally would be available within 12 months of the date the patent was issued and would take place in a court-like proceeding in which both the challenger and the owner of the patent present information regarding the validity of a patent. CBO estimates that implementing this new process would increase direct spending by $140 million over the 2012-2021 period.

LEstablish a new procedure that would allow patent holders to request that PTO review an existing patent to consider, reconsider, or correct information believed to be relevant to the patent. Should this supplemental review raise a new question of patentability, PTO would then reexamine the patent. CBO estimates that the supplemental reviews and the additional reexaminations that would result under the bill would increase direct spending by $758 million over the 2012-2021 period.

LAmend a process already existing under current law, inter partes reexamination, to expand the universe of patents that could be challenged through this proceeding but also limit the time period during which such a challenge could be raised. CBO estimates that implementing the changes to inter partes reexamination procedures would increase direct spending by $251 million over the 2012-2021 period.

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

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

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

Electronic Filing Incentive. In addition to fees PTO collects under current law, H.R. 1249 would establish a new fee that would be charged to patent applicants that do not use electronic means to file an application. Based on information from PTO, CBO estimates that about 5,000 paper

applications, on average, would be filed per year, generating collections of about $17 million over the 2012-2021 period. The bill would direct those collections to be recorded as offsets to direct spending and would make them unavailable for spending by PTO.

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

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

REVENUES

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

Information from the Department of Justice (DOJ) indicates that in 2010, the government collected fines (recorded as revenues) of about $3 million from false marking cases. Under current law, CBO expects that a diminishing number of new cases will be filed through 2011 and beyond, as courts define stricter standards for proving 'intent to deceive' on the part of the defendant, and as companies rectify their patent marking procedures in response to the risk of litigation. Based on information from DOJ, CBO estimates that about a third of currently pending cases will eventually be settled in court; we expect the rest to be dismissed with no monetary settlement. Thus, CBO estimates that under current law, by 2014, federal revenues from those cases will drop to less than $500,000 a year.

By changing both who can litigate and their incentives for doing so, H.R. 1249 would significantly reduce both the pending caseload and the number of future cases filed. Therefore,

CBO estimates that enacting the bill would reduce federal revenues by $7 million over the 2011-2016 period and by $8 million over the 2011-2021 period.

Spending Subject to Appropriation

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

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

PAY-AS-YOU-GO CONSIDERATIONS

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

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

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

By Fiscal Year, in Millions of Dollars

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

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

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

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

Mandates That Apply to Both Public and Private Entities

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

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

Restricting Prior-Use Defense. H.R. 1249 would prohibit public and private entities from using the prior-use defense to patent infringement claims for business processes brought by a university or technology-transfer organization. Consequently, public and private entities that have been using business processes which are later patented by a university or technology-transfer organization would no longer be eligible to use those processes without permission from the patent holder. That restriction would be an intergovernmental and private-sector mandate. The cost of the mandate would be the cost to purchase a license from the patent holder, or the amount of net income the entity would lose as a result of no longer being able to use that patent commercially. Based on the small number of public entities that use business methods, CBO estimates that the cost to comply with the mandate would be small for public entities. According to information from industry experts, the prior-use defense has never been asserted in a recorded case and therefore it is likely that the use of such a defense would be uncommon. Consequently, CBO estimates that the cost to comply with the mandate for private entities would probably be small.

Mandate That Applies to Public Entities Only

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

Mandate That Applies to Private Entities Only

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

PREVIOUS CBO ESTIMATE

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

On March 1, 2011, CBO transmitted a cost estimate for S.

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

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

ESTIMATE APPROVED BY:
Theresa Gullo
Deputy Assistant Director for Budget Analysis
Frank Sammartino
Assistant Director for Tax Analysis

Performance Goals and Objectives

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

Advisory on Earmarks

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

Section-by-Section Section 1. Short title; table of contents.

This Act may be cited as the “America Invents Act.”

Section 2. Definitions.

Section 2 defines the following terms: “Director,” “Office,” “Patent Public Advisory Committee,” “Trademark Act of 1946,” and “Trademark Public Advisory Committee”. Section 3. First inventor to file.

Subsection (a)--Sec. 100 is amended to include definitions for additional terms, including “effective filing date.”

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

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

Subsection (d)--Repeals Sec. 104 (Inventions Made Abroad).

Subsection (e)--Repeals Sec. 157 (Statutory Invention Registration).

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

Subsection (g)--Makes various conforming amendments.

Subsections (h), (i) & (j)--Repeals interference proceeding and makes conforming changes to Sec. 291. Amends Sec. 135(a) and provides for a “derivation proceeding,” designed to determine the inventor with the right to file an application on a claimed invention. An applicant requesting a derivation proceeding must set forth the basis for finding that an earlier applicant derived the claimed invention and without authorization filed an application claiming such invention. The request must be filed within 1 year of the date of first publication of an application for a claim that is substantially the same as the claimed invention. The Patent Trial and Appeal Board (the “Board”) shall determine the right to patent and issue a final decision thereon. Decisions of the Board may be appealed to the Federal Circuit, or to district court pursuant to Sec. 146.

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

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

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

Subsection (n)--Contains an effective date provision.

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

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

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

Section 4. Inventor's oath or declaration.

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

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

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

Section 5. Defense to infringement based on earlier inventor.

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

The prior-use defense may be asserted against any patent (not just methods), provided the person asserting the defense reduced the subject matter of the patent to practice and commercially used the subject matter at least 1 year before the effective filing date of the patent. However, the defense cannot be asserted if the subject matter was derived from the patent holder or persons in privity with the patent holder. Nor can the defense be asserted unless the prior user both reduced the subject matter of the patent to practice and commercially used it at least 1 year before the effective filing date of the patent or the date that the patentee publicly disclosed the invention and invoked the Sec. 102(b) grace period, whichever is earlier.

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

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

Section 6. Post-grant review proceedings.

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

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

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

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

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

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

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

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

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

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

(f) Post-grant review may not be used to challenge claims in a reissue patent that are the same as or narrower than claims in the original patent if the time for seeking review of the original patent has lapsed. Sec. Sec. 316 and 326. (a) The Director shall prescribe regulations that make the file in proceedings public; define standards for instituting reviews; allow submission of additional information; establish and govern review and its relationship to other proceedings; set a time limit for requesting joinder in inter partes review; set standards for discovery; prescribe sanctions for abuse of the proceedings; provide for protective orders for confidential information; allow the patent owner to file a response after an inter partes review has been instituted; allow the patent owner to amend the patent; provide either party with the right to an oral hearing; and set a 1-year time limit for completion of the proceeding, with a 6-month extension for good cause; and provide the petitioner with at least one opportunity to file written comments after the proceeding is instituted.

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

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

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

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

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

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

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

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

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

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

Subsection (h) amends Sec. 303 to provide that the Director may determine whether to initiate reexamination on the Director's own initiative based on citations by any person other than the owner of the patent under section 301 or 302. Also, Sec. 306 is amended to conform to the changes made by Sec. 4605 of the American Inventors Protection Act of 1999, Public Law 106-113, to Sec. Sec. 134 and 141 of title 35. Section 7. Patent Trial and Appeal Board.

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

Section 8. Preissuance submissions by third parties.

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

Section 9. Venue.

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

Section 10. Fee-setting authority.

This section gives the Director rulemaking authority to set or adjust any fee under Sec. Sec. 41 and 376, and section 1113 of title 15, provided that such fee amounts are set to reasonably compensate the USPTO for the services performed. The Director may also reduce such fees. The Director shall consult with the patent and trademark advisory committees as provided for in this section. Any proposal for a change in fees (including the rationale, purpose, and possible expectations or benefits that will result) shall be published in the Federal Register and shall seek public comment for a period of not less than 45 days. The Director shall notify Congress of any final proposed fee change and Congress shall have up to 45 days to consider and comment before any proposed fee change becomes effective.

Rules of construction are provided.

Section 11. Fees for patent services.

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

Section 12. Supplemental examination.

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

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

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

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

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

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

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

Section 13. Funding agreements.

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

Section 14. Tax strategies deemed within the prior art.

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

their claims in order to distinguish their claims from the prior art under the statutory novelty and non-obviousness requirements of those provisions.

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

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

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

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

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

Section 15. Best Mode Requirement.

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

Section 16. Marking.

Subsection (a) addresses virtual marking. The provision allows a patent holder to satisfy the requirements of Sec. 287 of the Patent Act by affixing to a patented article the word “patent” or the abbreviation “pat.” together with an Internet address that the public can access free of charge to determine the status of the patent. The USPTO is also instructed to submit a report to

Congress on the effectiveness of virtual marking that is due no later than 3 years after the date of enactment.

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

Section 17. Advice of Counsel.

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

Section 18. Transitional program for covered business method patents.

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

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

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

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

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

\63\28 USC Sec. 1400(b).

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

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

Section 19. Jurisdiction and procedural matters.

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

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

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

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

Section 20. Technical amendments.

This section sets forth technical amendments consistent with this Act.

Section 21. Travel expenses and payment of administrative judges. Subsection (a) authorizes the USPTO to expend funds to cover the subsistence and travel-related expenses of non-Federal employees attending intellectual property programs hosted by the agency.

Subsection (b) authorizes the Director to fix the rate of basic pay for administrative patent and trademark judges at a rate not greater than that payable for level III of the Executive Pay Schedule under 5 USC Sec. 5314. Section 22. Patent and Trademark Office funding.

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

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

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

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

Not later than 30 days after the beginning of each fiscal year, subsection (e) instructs the Director to notify the

Committees on Appropriations of both houses of Congress of the plan for the obligation and expenditure of the total amount of the funds for that fiscal year under Public Law 109-108. Subsection (f) mandates that the Director annually shall provide for an independent audit of the financial statement of the USPTO.

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

Section 23. Satellite offices.

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

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

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

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

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

Section 25. Patent Ombudsman Program for small business concerns. Section 25 states that, using available resources, the Director shall establish and maintain in the USPTO a Patent Ombudsman Program, whose staff shall provide support and services relating to patent filings to small business concerns. Section 26. Priority examination for technologies important to American competitiveness.

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

Section 27. Calculation of 60-day period for application of patent term extension. Subsection (a) clarifies USPTO "counting" rules that are used to determine whether an applicant has submitted an application to the agency in a timely manner under Sec. 156(d)(1) of the Patent Act. If the application is transmitted after 4:30 pm, EST, on a business day, or is transmitted on a day that is not a business day, the product addressed by the application shall be deemed to receive "permission" on the next business day. "Business day" means any Monday, Tuesday, Wednesday, Thursday, or Friday, excluding any legal holiday under 5 USC Sec. 6103. Subsection (b) states that subsection (a) shall apply to any application for extension of term under Sec. 156 of the Patent Act that is pending on, filed after, or as to which a decision regarding the application is subject judicial review on, the date of enactment of the Act.

Section 28. Study on implementation.

Subsection (a) requires the Director to conduct a study on the manner in which the Act is being implemented by the USPTO, along with a review of patent policies and practices of the Federal Government with respect to patent rights, US innovation, access by small business to capital, and other issues as the Director deems appropriate. Subsection (b) stipulates that the Director shall submit the results of the study along with his recommendations for any changes to the Senate and House Judiciary Committees not later than 4 years after the date of enactment of the Act.
Section 29. Pro bono program.

Section 29 requires the Director to work with and support intellectual law associations across the country to establish pro bono programs to assist financially under-resourced independent inventors and small businesses. Section 30. Effective date.

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

Section 31. Budgetary effects.

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

[Text omitted]

Dissenting Views

Patent reform is one of the most important issues facing Congress and the Nation. Increasingly our nation has an information based economy, and the key to such an economy is intellectual property such as patents, copyrights and trademarks. Studies establish that intellectual property drives this economy to the tune of $5 trillion dollars, accounting for half of all U.S. exports and employing nearly 18 million workers. This is why the House Judiciary Committee has been working on patent reform for over 6 years, under both parties.

Unfortunately, the legislation does not represent an overall improvement over the status quo and, as presently drafted is not one that I can support. Among other things, I object to provisions in the bill that apply retroactively with regard to business method patents\1\ and false markings cases.\2\ Most of the proposed reforms in both the House and Senate patent reform bills such as the other post-grant provisions are applicable going forward, not retroactively. If we are seeking to craft a bipartisan bill with consensus, stripping the legal rights of private parties involved in pending litigation is a non-starter.

\1\America Invents Act, H.R. 1249, 112th Cong. Sec. 18.

\2\Id. Sec. 15(b).

Section 18 in the bill is purportedly designed to create an administrative mechanism to review so-called business method patents whose validity has been questioned. However, Section 18 is both too broad and too narrow to serve its purported goal, and works an injustice on legitimate patent holders as a result. Section 18 is overly broad because it is retroactive, applying to patents granted more than a decade ago. It is also overly broad because it could affect patents that have been upheld as valid through additional review at the USPTO, such as ex parte re-examination, or that have been held valid by a federal court. It applies not only to business methods but also to apparatus inventions. On the other hand, Section 18 is too narrow because instead of applying to all kinds of business methods, it only applies to financially-related business methods. Further, it is unfair and inappropriate to force specific patent holders that have been through reexamination, or that have survived years of legal challenge, to defend their patents under an entirely new set of rules at the USPTO. It is also contrary to patent law norms and establishes a bad precedent for our trade partners to force a small subset of patent holders—those who have invented financially-related business methods and associated apparatus—to defend themselves in a new, retroactive procedure that does not apply to any other patent holders.I am also opposed to the section dealing with false markings cases. I say this as a member who has expressed concerns in the past with the Federal Circuit decision in Forest Group Inc. v. Bon Tool Co.\3\ The legislation, in essence, would change the rules of the game for cases that are currently being litigated. To the extent legislation is needed, I support applying the new rules going forward because these rules would be implemented and cases would be adjudicated in conjunction with the new broader reforms of the entire patent system the bill proposes, creating balance and fairness for all parties. Moreover, based on recent court decisions that have already imposed more restrictive standards concerning present claims, there is absolutely no reason for Congress to interfere in these claims

which are before the courts.\4\ \3\Forest Group, Inc. v. Bon Tool Co., 590 F.3d 1295 (Fed. Cir. 2009).

\4\Unique Product Solutions, Ltd. v. Hy-Grade Valve, Inc., No. 10-1912, 2011 U.S. Dist. LEXIS (N.D. Ohio Feb. 23, 2011); In re BP Lubricants USA Inc., Misc. Docket No. 960, 2011 U.S. App. LEXIS 5015 (Fed. Cir. March 15, 2011).

I am also concerned about the creation of a 3-year safe harbor for companies accused of false marking their products. Providing a safe harbor for expiring patents only compounds the retroactivity problem by ensuring that almost all ongoing litigation will be eliminated.

I would also like to express my support for the Additional Views being filed by other Democratic Members noting improvements that should be made in the bill regarding inter partes reexamination.

It is my hope that these and other problems can be alleviated and the bill modified so that it can become a true bipartisan consensus product.

John Conyers, Jr.

Additional Views

Congressional efforts to enact comprehensive patent reform began in the 107th Congress. Since that time, various iterations of patent reform bills have fallen short of the elusive finish-line. Today, however, we are closer than we have ever been to crafting legislation that will strengthen the patent system and afford the U.S. Patent and Trademark Office (PTO) the resources it requires to clear the still sizeable backlog of patent applications and move forward to deliver to all American inventors the first rate service they deserve. We are not there yet and the process has not been perfect. But Committee Democrats are encouraged that some of the core provisions we sought, for example, the expansion of prior user rights and the end to fee diversion, are in H.R. 1249. We write separately to highlight our concerns with modifications to the post-grant review procedures designed to provide controls on the quality of issued patents.

A longstanding goal of patent reform has been to improve the PTO's administrative procedures for challenging dubious patents through reexamination. H.R. 1249 creates a new post-grant review procedure to provide an additional check on poor-quality patents than currently available under current law.

However, this new procedure is limited to challenges filed within 12 months of the date that a patent is granted. This 12-month deadline will limit the utility of the post-grant review as an efficient, low-cost alternative to litigation. The lack of clear notice of the precise scope of a given patents is well documented.\1\ In several industries, patents are often multitudinous, vague, and highly abstract. This prevents practitioners from being able to identify and assess relevant patents before they receive some specific warning of liability, which often comes many years after a patent has been issued.

For this reason, the National Research Council of the National Academies recommended, at a minimum, the creation of a "second window" for post-grant review challenges triggered by litigation or a threat of enforcement by a patent owner.\2\

\1\See Federal Trade Commission, The Evolving IP Marketplace:

Aligning Patent Notice and Remedies with Competition (Mar. 2011), available at http://www.ftc.gov/os/2011/03/110307 patentreport.pdf.

\2\National Research Council of the National Academies, A Patent System for the 21st Century (2004) at 101.

In the absence of a second window, patent reform legislation should maintain the existing system for reexaminations by the PTO, through ex parte and inter partes procedures. Inter partes reexamination in particular provides important ongoing opportunities for expert review of patent validity in some cases. H.R. 1249 maintains this procedure with some changes. We support the continued existence of inter partes reexamination\3\ as well as the creation of the new post-grant review procedure. However, we have significant concerns about the limitations that H.R. 1249 imposes on inter partes review.

\3\Under Sec. 5 of H.R. 1249, inter partes reexamination is renamed as "inter partes review."

Use of inter partes reexamination is already exceedingly rare in the status quo. In Fiscal Year 2010, 281 reexamination petitions were filed,\4\ while 219,614 utility patents were granted.\5\ The limitations imposed by H.R. 1249 and the managers amendment are motivated by assertions that the inter partes procedure may be abused to harass patent owners and interfere with the enforcement of valid patents. However, no empirical evidence, even anecdotally, was proffered to the Committee to demonstrate such abuses occur in the current reexamination system. On the contrary, of the 253 inter partes reexaminations decided since the procedure was created in 1999,\6\ 224 (89%) resulted in the modification or nullification of at least one patent claim, which means that the challenges were ultimately found meritorious.\7\ This suggests that further limitations and deterrents against inter partes petitions, beyond those already in place in current law, are unnecessary and counterproductive.

\4\United States Patent and Trademark Office (USPTO), Inter Partes Reexamination Filing Data (Mar. 31, 2011), available at http:// www.uspto.gov/patents/IP_quarterly_ report_March_2011.pdf.

\5\United States Patent and Trademark Office, U.S. Patent Activity, Calendar Years 1790 to the Present, available at http://www.uspto.gov/ web/offices/ac/ido/oeip/taf/h_counts.htm.

\6\The Optional Inter Partes Reexamination Act, Pub. L. No. 106-113.

\7\See Inter Partes Reexamination Filing Data, supra note 4.

Patent reform legislation should seek to expand opportunities for low-cost, efficient alternatives to litigation as a way of resolving disputes about the validity of issued patents. In the context of inter partes reexamination, H.R. 1249 does the opposite, by placing unnecessary constraints on a

procedure that is already under-utilized. We are particularly concerned about two specific provisions.

First, H.R. 1249 as amended sets a 12-month deadline for a defendant in litigation to file a petition for inter partes review, starting from the date on which the party is served with a complaint for infringement. The length of this deadline is completely arbitrary, and does not account for the complexity of many patent cases that can encompass dozens of patents and defendants and hundreds of separate patent claims. In such complex cases, the 12-month period imposes an extremely compressed schedule that will not provide enough time for the defendants to prepare and file an inter partes petition.

Instead, the deadline should be tied to substantive progress in patent litigation, such as the entry of an order by the district court construing the relevant patent claims. This would ensure that defendants have an opportunity to prepare legitimate petitions for inter partes review based upon the core issues in a patent case.

Second, H.R. 1249 as amended raises the threshold for initiating an inter partes review procedure. In order to initiate a review, the Director must find "a reasonable likelihood that the petitioner would prevail with respect to at least one of the claims challenged in the petition." The existing threshold—whether a petition raises a "substantial new question of patentability"—should be maintained instead. As noted above, the overwhelming majority of inter partes reexaminations that have been initiated under the current standard have been ultimately deemed meritorious. A stricter threshold is therefore unjustified. Moreover, the practical meaning of the new standard in H.R. 1249 is not clear and creates a risk that the PTO will reject legitimate petitions at the outset of the procedure, without further inquiry.

Because of these provisions, we do not support Sec. 5(a) of H.R. 1249. Several Democratic amendments designed to address these provisions were offered but defeated during the markup of the bill. We believe that, at minimum, in order to preserve the existing utility of inter partes reexaminations, current law should be maintained. Ensuring the high caliber of patents circulating in the marketplace inures to the benefit of all Americans by stimulating innovation, encouraging investment and creating jobs. We hope that as H.R. 1249 moves closer to the floor, needed revisions will be made to ensure that inter partes reexamination remains a viable, efficient alternative to litigation for weeding out bad patents.

Howard L. Berman.

Melvin L. Watt.

Zoe Lofgren.

Leahy Chamber Letter – 157 Cong. Rec. S3768

[Congressional Record Volume 157, Number 85 (Tuesday, June 14, 2011)]

[Senate]

[Page S3768]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

AMERICA INVENTS ACT

Mr. LEAHY. Mr. President, I was pleased that the Chamber of Commerce today wrote to Members of the House of Representatives in support of the America Invents Act. The Senate-passed companion legislation was approved in March in a 95-5 vote. This bill will create jobs and grow the economy without adding a penny to the deficit. Today's announcement by the Chamber of Commerce is a strong indication of a growing consensus that this legislation is what America needs to win the future through innovation. I applaud the work that Chairman Smith, Mr. Watt, and others have done to move the legislation forward in the House, and I encourage the full House to act swiftly.I ask unanimous consent to have printed in the Record a full copy of the Chamber's letter.

There being no objection, the material was ordered to be printed in the Record, as follows:

Chamber of Commerce, United States of America, Washington, DC, June 14, 2011.

To the Members of the U.S. House of Representatives:

The U.S. Chamber of Commerce, the world's largest business federation representing the interests of more than three million businesses and organizations of every size, sector, and region, supports H.R. 1249, the "America Invents Act," which would encourage innovation and bolster the U.S. economy. The Chamber believes this legislation is crucial for American economic growth, jobs, and the future of U.S. competitiveness.

A key component of H.R. 1249 is section 22, which would ensure that fees collected by the U.S. Patent and Trademark Office (PTO) fund the office and its administration of the patent system. PTO faces significant challenges, including a massive backlog of pending applications, and this backlog is stifling domestic innovators. The fees that PTO collects to review and approve patent application are supposed to be dedicated to PTO operation. However, fee diversion by Congress has hampered PTO's efforts to hire and retain a sufficient number of qualified examiners and implement technological improvements necessary to ensure expeditious issuance of high quality patents. Providing PTO with full access to the user fees it collects is an important first step toward reducing the current backlog of 1.2 million applications waiting for a final determination and pendency time of 3 years, as well as to improve patent quality.

In addition, the legislation would help ensure that the U.S. remains at the forefront of innovation by enhancing the PTO process and ensuring that all inventors secure the exclusive right to their inventions and discoveries. The bill shifts the U.S. to a first-inventor-to-file system that we

believe is both constitutional and wise, ending expensive interference proceedings. H.R. 1249 also contains important legal reforms that would help reduce unnecessary litigation against American businesses and innovators. Among the bill's provisions, Section 16 would put an end to frivolous false patent marking cases, while still preserving the right of those who suffered actual harm to bring actions. Section 5 would create a prior user right for those who first commercially use inventions, protecting the rights of early inventors and giving manufacturers a powerful incentive to build new factories in the United States, while at the same time fully protecting universities. Section 19 also restricts joinder of defendants who have tenuous connections to the underlying disputes in patent infringement suits. Section 18 of H.R. 1249 provides for a tailored pilot program which would allow patent office experts to help the court review the validity of certain business method patents using the best available prior art as an alternative to costly litigation.

The Chamber strongly opposes any amendments to H.R. 1249 that would strike or weaken any of the important legal reform measures in this legislation, including those found in Sections 16, 5, 19 and 18. The Chamber supports H.R. 1249 and urges the House to expeditiously approve this necessary legislation.

Sincerely,

R. Bruce Josten,
Executive Vice President, Government Affairs.

House Debate – 157 Cong. Rec. H4420-H4452

[Congressional Record Volume 157, Number 90 (Wednesday, June 22, 2011)]

[House]
[Pages H4420-H4452]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

AMERICA INVENTS ACT

The SPEAKER pro tempore. Pursuant to House Resolution 316 and rule XVIII, the Chair declares the House in the Committee of the Whole House on the State of the Union for the consideration of the bill, H.R. 1249.

In the Committee of the Whole Accordingly, the House resolved itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform, with Mr. Graves of Georgia in the chair. The Clerk read the title of the bill.

The CHAIR. Pursuant to the rule, the bill is considered read the first time.

An initial period of general debate shall be confined to the question of the constitutionality of the bill and shall not exceed 20 minutes equally divided and controlled by the gentleman from Texas (Mr. Smith) and the gentlewoman from Ohio (Ms. Kaptur) or their designees. The Chair recognizes the gentleman from Texas.

Mr. SMITH of Texas. I yield myself such time as I may consume. Mr. Chairman, individuals who raise questions about the constitutionality of this legislation perhaps should review the Constitution itself. The Constitution expressly grants Congress the authority to "promote the progress of science and useful arts." That is precisely what this bill does. H.R. 1249 improves the patent system, ensuring the protection and promotion of intellectual property that spurs economic growth and generates jobs. The bill's inclusion of a move to a first-inventor-to-file system is absolutely consistent with the Constitution's requirement that patents be awarded to the "inventor."

A recent letter by professors of law from across the country—from universities including Emory, Indiana, Washington University in St. Louis, Missouri, NYU, New Hampshire, Wisconsin, Albany, Stanford, Chicago, Georgia, Richmond, Vanderbilt, and Washington—states that claims of unconstitutionality "cannot be squared with well-accepted and longstanding rules of current patent law." And [[Page H4421]] former Attorney General Michael B. Mukasey has said that the provision is both "constitutional and wise."

In a letter to PTO Director David Kappos, General Mukasey stated that the bill's constitutionality is assured because it "leaves unchanged the existing requirement that a patent issue only to one who 'invents or discovers.' " Also, this provision actually returns us to a system that our Founders created and used themselves. Early American patent law, that of our Founders' generation, did not concern itself with who was the first-to-invent. The U.S. operated

under a first-inventor-to-register, which is a system very similar to the first-inventor-to-file. It wasn't until the 1870s, when the courts created interference proceedings, that our patent system began to consider who was the first-to-invent an invention. These interference proceedings disadvantaged independent inventors and small businesses. Over time, interference proceedings have become a costly litigation tactic that has forced some manufacturers to take the path of least resistance and move operations and jobs overseas rather than risk millions or billions of dollars in capital investment. The America Invents Act does away with interference proceedings and includes a provision to address prior user rights without jeopardizing American businesses and jobs. Opponents of the first-inventor-to-file system claim that it may disadvantage independent inventors who cannot file quickly enough. But the current system lulls inventors into a false sense of security based on the belief that they can readily and easily rely on being the first-to-invent. Inventors forget that, to have any hope of winning an interference proceeding, they must comply with complex legal procedures and then spend over $500,000 to try to prove that they were the first-to-invent.

In the last 7 years, under the current system of interference proceedings, only one independent inventor out of 3 million patent applications has proved an earlier date of invention over the inventor who filed first, one out of 3 million. In fact, the current patent system's costly and complex legal environment is what truly disadvantages independent inventors, who often lose their patent rights because they can't afford the legal battle over ownership. The America Invents Act reduces frivolous litigation over weak or overbroad patents by establishing a pilot program to review a limited group of business method patents that never should have been awarded in the first place. Section 18 deals with mistakes that occurred following an activist judicial decision that created a new class of patents called business method patents in the late 1990s. The PTO was ill equipped to handle the flood of business method patent applications. Few examiners had the necessary background and education to understand the inventions, and the PTO lacked information regarding prior art. As a result, the PTO issued some weak patents that have lead to frivolous lawsuits. The pilot program allows the PTO to reexamine a limited group of questionable business method patents, and it is supported by the PTO.

Former 10th Circuit Federal Appeals Court Judge Michael McConnell sent me a constitutional analysis of the bill's reexamination proceedings. He stated that "there is nothing novel or unprecedented, much less unconstitutional, about the procedures proposed in sections 6 and 18. The application of these new reexamination procedures to existing patents is not a taking or otherwise a violation of the Constitution."

Supporters of this bill understand that if America's inventors are forced to waste time with frivolous litigation, they won't have time for innovation. That's why the U.S. Chamber of Commerce, National Association of Manufacturers, PhRMA, BIO, the Information Technology Industry Council, American Bar Association, Small Business & Entrepreneurship Council, Independent Community Bankers of America, Credit Union National Association, Financial Services Roundtable, American Insurance Association, Property Casualty Insurers Association of America, the Securities Industry and Financial Markets Association, the American Institute of CPAs, industry leaders, the Coalition for 21st Century Patent Reform, the Coalition for Patent Fairness, independent inventors, and all six major university associations all support H.R. 1249.

To quote the Chamber of Commerce: “This legislation is crucial for American economic growth, jobs, and the future of U.S. competitiveness.”

We can no longer allow our economy and job creators to be held hostage to legal maneuvers and the judicial lottery.

American inventors have led the world for centuries in new innovations, from Benjamin Franklin and Thomas Edison to the Wright Brothers and Henry Ford. But if we want to continue as leaders in the global economy, we must encourage the innovators of today to develop the technologies of tomorrow.

This bill holds true to the Constitution, our Founders and our promise to future generations that America will continue to lead the world as a fountain for discovery, innovation and economic growth. Mr. Chairman, I reserve the balance of my time.

Ms. KAPTUR. I yield myself such time as I may consume. Mr. Chairman, if this bill is passed into law, it will violate the first right explicitly named in our Constitution, the intellectual property clause. This bill makes a total mockery of article 1, section 8, clause 8, which requires Congress to secure for inventors the exclusive right to their respective writings and discovery. Supporters of this bill say it is an attempt to modernize our patent system. What they really mean is that this bill Europeanizes our patent system by granting the rights to an invention to whoever wins the race to the Patent Office.

The Supreme Court has been consistent on this issue throughout our history. First inventors have the exclusive constitutional right to their inventions. This right extends to every citizen, not just those with deep pockets and large legal teams. A politicized patent system will further entrench those very powerful interests with deep pockets and lots of lobbying offices over on K Street. Claiming to be an inventor is not the same thing as being that inventor, the person who actually made the discovery. A patent should be challenged in court, not in the U.S. Patent Office. Since the first Congress, which included 55 delegates to the Constitutional Convention, our nation has recognized that you are the owner of your own ideas and innovations. This bill throws that out the window and replaces it with a system that legalizes a rather clever form of intellectual property theft.

I assure you of one thing: If this bill mistakenly passes, this debate will not be over. We will see it head straight to the courts with extended litigation for years to come, along with complete uncertainty to our markets, killing jobs and killing innovation. I urge my colleagues to vote “no” on H.R. 1249. I yield 3 minutes to the former chairman of the Judiciary Committee, our esteemed colleague from Wisconsin (Mr. Sensenbrenner). Mr. SENSENBRENNER. Mr. Chairman, in the first day of this session we all took an oath to preserve and protect and defend the Constitution of the United States against all enemies, foreign and domestic. And a day or two later, for the first time in history, we read the Constitution on the floor from beginning to end.

We changed the rules to have a constitutional debate when the constitutionality of legislation before us was in question. And this is the first time in the history of the United States House of Representatives when a question serious enough to have a constitutional debate is being debated

on the floor for 20 minutes. Unlike what my friend from Texas (Mr. Smith) has said, this bill is unconstitutional, and voting for this bill will violate one's oath of office. And here is why.

The intellectual property clause of the Constitution gives the protection to the first-to-invent, and what happens later in the Patent Office only protects that right. It doesn't denigrate the right, and the right is given to the person who is first-to-invent. If someone who was the first-to-invent

[[Page H4422]]

ends up losing the race to the Patent Office, this bill takes away a property right, and that violates the Fifth Amendment. Now, inventor means first inventor in the Constitution. And earlier this month, in Stanford University v. Roche, the Chief Justice has said, since 1790 the patent law has operated on the premise that in an invention, the rights belong to the inventor. And since the founding of our Republic, that has been the law.

Even in the beginning of our Republic, the 1793 act created an interference provision and set up an administrative procedure to resolve competing claims for the same invention. The Patent Board rejected the proposal that the patent should be awarded to the first person to file an application. And Thomas Jefferson served on that Patent Board that rejected first-to-file.

Secondly, early Supreme Court decisions confirm that patents must be granted to inventors, not when they file, but when they invent it. And that began in 1813 with Chief Justice Marshall, reaffirmed in 1829, and last month in Stanford v. Roche in the Supreme Court of the United States.

I think it is clear from all of the precedents that a first-to-invent and a first-to-file provision is unconstitutional because it adds a layer of compliance in winning the race to the Patent Office for someone who already has that right.

Let's vote "no" to uphold our oaths of office under the Constitution of the United States.

Mr. SMITH of Texas. Mr. Chairman, I reserve the balance of my time.

Ms. KAPTUR. I yield 1 minute to the gentleman from Nebraska (Mr. Terry).

Mr. TERRY. Mr. Chairman, since the founding of the Republic, our patent system has been based on the premise that an inventor is entitled to a patent for their work, and not simply the first person to file a patent application. Indeed, article 1, section 8, clause 8 of the Constitution specifically states that to promote the progress of science and useful arts, Congress shall have the power to secure to authors and inventors the exclusive right to their respective writings and discoveries. Nowhere does it say filers have that right. Under no rule of construction or interpretation can this clause mean anything other than what it says.

And Mr. Chairman, I find it comforting to know that certainly I'm not alone in my concern over the constitutionality over first-to-file. None other than Chief Justice of the United States Supreme Court John Roberts recently wrote in an opinion, joined by six of his fellow Supreme Court justices that, "Since 1790, the patent law has operated on the premise that rights in an invention belong to the inventor." Mr. SMITH of Texas. It is nice to be able to yield 1 minute to the

gentleman from New York (Mr. Nadler), who is the ranking member of the Constitution Subcommittee of the Judiciary Committee. Mr. NADLER. Mr. Chairman, some have argued that the first-to-file provision in this bill violates the constitutional provision giving Congress the power to promote the progress of science and useful arts by securing for limited times for authors and inventors the exclusive rights to their respective writings and discoveries. The first key point to note is that the text does not define inventor. Under H.R. 1249, one still has to be an inventor to be awarded the patent, as the Constitution requires. Indeed, former Bush administration Attorney General Michael Mukasey noted in a May 2011 letter to Patent Office Director David Kappos that "the second inventor is no less an inventor for having invented second." And former Attorney General Mukasey correctly points out that the Constitution grants Congress the power to "promote the progress of the science and useful arts" but does not say how it can or should do so. Congress deciding that awarding patents to inventors who are the first-to-file is consistent with that constitutional power. The Patent Act of 1793 makes no mention of needing to be the first-to-invent. A patent was valid as long as the invention was not an invention already in the public domain or derived from another person. It was not until 1870 that there was a specific process put in place to even determine who the first-to-invent was. The bottom line is that this bill is a clear exercise of Congress' constitutional power to secure patent rights to inventors.

Ms. KAPTUR. Mr. Chairman, may I inquire as to my remaining time, please.

The CHAIR. The gentlewoman from Ohio has 4 minutes remaining.

Ms. KAPTUR. I yield 1 minute to the gentleman from New Jersey (Mr. Garrett).

Mr. GARRETT. Mr. Chairman, as founder and chairman of the Constitution Caucus, I applaud the opportunity to debate the constitutionality of this bill. This is the first of what I hope will be many more instances to discuss the constitutionality of legislation considered on this floor.

What this bill does is change the U.S. patent system from one which allows the moment of invention to determine who is entitled to a patent to one which confers this power to a government agency. Such a change would violate the intellectual property clause of the Constitution. Why is that? Because the Founders rejected the idea that rights are bestowed to the people by the government in favor of the revolutionary principle that men are born with natural rights. Our Constitution instituted a government that secures only these natural and preexisting rights. So inventions created by the fruits of intellectual labor are the property of the inventor. These and only these first and true inventors then are entitled to public protection of their rightful property. To remain true to the principles of liberty, we must preserve a system that protects the true and first inventor.

Mr. SMITH of Texas. Mr. Chairman, may I inquire as to how much time remains on each side.

The CHAIR. The gentleman from Texas has 2\1/2\ minutes remaining, and the gentlewoman from Ohio has 3 minutes remaining. Mr. SMITH of Texas. I yield 2 minutes to the gentleman from Virginia (Mr. Goodlatte), who is the chairman of the Intellectual Property Subcommittee of the Judiciary Committee. Mr. GOODLATTE. I also very much appreciate this debate on the constitutionality of this issue. I had the honor of leading the reading of the Constitution on the second day of this new Congress. I want to make it very clear because there's a lot of confusion

on the part of a lot of people who think this is a first-to-file—even if you're not the inventor—gets the patent. That is most assuredly not the case. This is first-inventor-to-file. You must be a bona fide inventor to qualify for this.

Our Constitution grants exclusive rights to inventors. Now, in point of fact, when our Constitution was first adopted and our Patent Office was established, there was no interference provision, and it was 80 years later before that took place. In fact, in at least one case patents were granted to more than one inventor. So the issue here I think is not at all well-founded.

This is clearly constitutional. We have submitted and we will make part of the Record writings by 20 constitutional law professors—

Attorney General Mukasey who has noted this as well. The Constitution grants Congress the authority to award inventors the exclusive rights to their inventions; however, the Constitution leaves to Congress how to settle disputes between two individuals who claim to have invented a certain idea.

Article I, section 8, of the Constitution declares that patent rights are to be granted in order to "promote the progress of science and useful arts." A first-inventor-to-file system ensures this by awarding patent protections to the first actual inventor to disclose and make productive use of its patent.

Our Nation has adopted different standards for settling these issues in the past. Currently, we have a first-to-invent standard. The reality is that a first-to-invent standard subjects small businesses and individual inventors who have filed for patent protection to surprise and costly litigation in what are called interference actions to determine who invented the idea first. This is a better idea, and this is a constitutional idea.

We can make this process much easier by awarding a patent to the first inventor to make

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use of his invention by seeking patent protection. This will reward the inventor who is making productive use of his patent and will discourage individuals from sitting idly on their ideas.

Let us make clear—switching to First-Inventor-to-File does not allow a subsequent party to steal an invention. It requires that a subsequent inventor had to have come up with the idea independently and separately.

Switching to a First-Inventor-to-File system fits squarely within the plain meaning of the Constitution and will reward inventors who are working to launch our nation into the next level of innovation and job creation.

Ms. KAPTUR. I yield 1 minute to my distinguished colleague and cosponsor in opposition to this bill, the gentleman from California (Mr. Rohrabacher).

Mr. ROHRABACHER. Mr. Chairman, our Constitution was designed and written to protect inventors, not filers. The words are very clear. "Inventor" is in the Constitution, "filers" is not in

the Constitution. So why are we having this dispute about the constitutionality of this provision which is very clearly in the Constitution?

Are there all sorts of problems that we have people fighting as to who really invented something? No, we don't have a lot of problems. The reason why we have to change this is to harmonize our law, American patent law, with Europe. There are opponents that stated this over and over again in the early part of this debate, that the purpose was harmonizing American law with the rest of the world. Well, American law has always been stronger; we've had the strongest patent protection in the world. So what does harmonize mean? It means weakening our constitutionally protected patent rights.

The purpose of the bill is to weaken a constitutionally protected right that has been in place since the founding of our country. It should be rejected.

Ms. KAPTUR. I would like to inquire as to the remaining time on both sides, please.

The CHAIR. The gentlewoman from Ohio has 2 minutes remaining; the gentleman from Texas has 30 seconds remaining. Ms. KAPTUR. Mr. Chairman, this bill is unconstitutional. It will stifle American job creation, cripple American innovation. It throws out over 220 years of patent protections for individual inventors and violates the CutGo rules, increasing our deficit by over $1 billion by 2021.

The proponents claim that the bill is constitutional because it contains the word "inventor" and leaves in place the existing statutory language awarding patents to those who invent or discover. But adding a word to the title of a bill cannot paper over its constitutional flaws. The bill denies a patent to the actual inventor simply because he or she files second, and therefore it is unconstitutional.

Earlier this month, in a decision issued on June 6, the Supreme Court reaffirmed that since 1790, the patent law has operated on the premise that the rights in an invention belong to the inventor. Chief Justice John Marshall explained in 1813 that the Constitution and law, taken together, give to the inventor from the moment of invention an inchoate property therein which is completed by suing out a patent. And in 1829, the Supreme Court held that under the Constitution the right is created by the invention and not by the patent. And a New York district judge stated in 1826 that it is very true that the right to a patent belongs to him who is the first inventor.

If this very flawed bill passes, I guarantee you it is going to be tied up in litigation for years to come. With the job situation being what it is, with our need for innovation in this economy, the last thing we should do is try to undermine a system that works. More patents are filed in this country than anyplace else in the world. It is dependable. And it is the first right, even before the Bill of Rights, contained in our Constitution.

We should stand for what is in the Constitution and not try to undermine it for any interest that comes before the Members of this Congress.

Mr. Chairman, I yield back the balance of my time and I ask my colleagues to vote against this bill. Support our own Constitution and the very successful record we've had of American innovation. Mr. SMITH of Texas. I yield myself the balance of my time. Mr. Chairman, I know

my colleagues know a lot about this subject, but I don't think they know more than the Founders themselves. The Founders, including those who wrote the Constitution, operated under a first-to-register patent system starting in 1790. This is a very similar system to the first-inventor-to-file provision in the bill. So if the Founders liked the concept and thought it was constitutional, so should Members of Congress.

Mr. Chairman, I yield back the balance of my time. The CHAIR. All time for debate on the question of the constitutionality of the bill has expired.

A subsequent period of general debate shall be confined to the bill and shall not exceed 1 hour equally divided and controlled by the chair and ranking minority member of the Committee on the Judiciary. The gentleman from Texas (Mr. Smith) and the gentlewoman from California (Ms. Zoe Lofgren) each will control 30 minutes. The Chair recognizes the gentleman from Texas.

Mr. SMITH of Texas. I yield myself such time as I may consume. Mr. Chairman, the foresight of the Founders in creating an intellectual property system in the Constitution demonstrates their understanding of how patent rights benefit the American people. Technological innovation from our intellectual property is linked to three-quarters of America's economic growth, and American IP industries account for over one-half of all of our 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 talent, helped create this prosperity. The last major patent reform was nearly 60 years ago. During this time we have seen tremendous technological advancements, going from computers the size of a closet to the use of wireless technology in the palm of your hand. But we cannot protect the technologies of today with the tools of the past.

The current patent system is outdated and dragged down by frivolous lawsuits and uncertainty regarding patent ownership. Unwarranted lawsuits that typically cost $5 million to defend prevent legitimate inventors and industrious companies from creating products and generating jobs. And while America's innovators are forced to spend time and resources defending their patents, our competitors are busy developing new products that expand their businesses and their economies.

According to a recent media report, China is expected to surpass the United States for the first time this year as the world's leading patent publisher. The more time we waste on frivolous litigation, the less time we have for innovation.

Another problem with the patent system is the lack of resources available to the PTO. The average wait time for a patent approval is 3 years or more. These are products and innovations that will create jobs and save lives. Inadequately funding the PTO harms inventors and small businesses.

The bill allows the Director to adjust the fee schedule with appropriate congressional oversight and prevents Congress from spending agency funds on unrelated programs. This will enable the PTO to become more efficient and productive, reducing the wait time for patent approval. Patent quality will improve on the front end, which will reduce litigation on the back end.

The patent system envisioned by our Founders focused on granting a patent to the first inventor who registered their invention. This is similar to the first-inventor-to-file provision in H.R. 1249. This improvement makes our system similar to the international standard that other countries use, only it is better. We retain both a 1-year grace period that protects universities and small inventors before they file, as well as the CREATE Act, which ensures collaborative research does not constitute prior art that defeats patentability. There are some who think this bill hurts small businesses and independent inventors, but they are wrong. It ensures that independent inventors are able to compete with larger companies,

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both here and abroad. American inventors seeking protection here in the United States will have taken the first step toward protecting their patent rights around the world.

The bill also makes the small business ombudsman at the PTO permanent. That means that small businesses will always have a champion at the PTO looking out for their interests and helping them as they secure patents for their inventions. This bill protects small businesses and independent inventors by reducing fees for both. This bill represents a fair compromise and creates a better patent system than exists today for inventors and innovative industries. Patents are important to the United States and the world. For example, during the War of 1812, American troops burned the Canadian town of York, known today as Toronto. In retaliation, the British marched on Washington in the summer of 1814 to put the capital city to the torch.

Dr. William Thorton, the Superintendent of the Patent Office, delivered an impassioned speech to the British officer commanding 150 Redcoats who were tasked to burn Blodgett's Hotel, where the Patent Office was located. Thorton argued that the patent models stored in the building were valuable to all mankind and could never be replaced. He declared that anyone who destroyed them would be condemned by future generations, as were the Turks who burned the library in Alexandria. The British officer relented and Blodgett's Hotel was spared, making it the only major public building in Washington not burned that day. American inventors have led the world in innovation and new technologies for centuries, from Benjamin Franklin and Thomas Edison to the Wright Brothers and Henry Ford. But if we want to foster future creativity, we must do more to encourage today's inventors. Now is the time to act.

I urge the House to support the America Invents Act.

Mr. Chairman, I reserve the balance of my time. Ms. ZOE LOFGREN of California. I yield myself such time as I may consume to oppose H.R. 1249.

I have worked on the patent reform effort since 1997 and am disappointed that here today I am unable to support the bill as it exists. I did vote to report this bill out of our Judiciary Committee, but since that time we have seen two unfortunate things occur that have made this bill simply not viable. The first, and exceedingly important, is the protections for patent fees, so that all the fees would stay in the office, have been removed. The regular appropriations process will allow for fee diversions in the future.

It has been the policy of the House, for example, not to divert fees from the Office. However, fees continue to be diverted. In fact, in the CR approved by the House this year, we diverted

between $85 million and $100 million in fees from the Patent Office, and that is under the existing prohibition. So that is a major reason why the bill is defective.

I would note also that if we are moving to a first-to-file system, there has to be robust protection for prior user rights, including prior user rights in the grace period that exists under current law. Sadly, those protections are missing in this bill. The manager's amendment talks about disclosures only. It is a shame that other prior art, such as trade secrets and the like, would not receive the same protection.

So I would urge that the bill, unfortunately, cannot be supported. I intend to oppose it, as well as the manager's amendment. I yield such time as he may consume to the honorable gentleman from North Carolina (Mr. Watt), the distinguished ranking member of the Intellectual Property Subcommittee.

Mr. WATT. I thank the gentlewoman for yielding time. As the gentlewoman has indicated, I am the ranking member of the Subcommittee on Intellectual Property of Judiciary, and I too supported reporting the bill favorably to the House floor. The problem is that the bill we may end up debating is not the bill that we reported favorably from the Judiciary Committee, and there are reasons for that. I understand what those reasons are, but if the amendment that is being offered as the manager's amendment passes, it will put us in a position where substantial people who supported the bill will be unable to do so.

Here is the equation. One of the primary purposes for which there was a strong alliance of people and groups and interests supporting patent reform was that in the past fees that have been paid to the Patent and Trademark Office have gone through the appropriations process, and over the last 10 years almost $800,000 of those fees have been diverted to other purposes, other than the use of the Patent and Trademark Office. The effect of that is that there has been a hidden tax on innovation in our country.

The United States Senate passed a bill that would end that diversion. They passed it by a vote of 85-4. We passed a bill out of our Judiciary Committee that would end that diversion, and all of a sudden we come to the floor and a manager's amendment is being offered that, if it is not defeated, will undermine that unifying thing that has held the groups together and allowed people to support the bill. So I have to be in a position where I am strongly opposing the manager's amendment to this bill.

I don't think the groups out there support it. It is not often that I come to the floor and say I am speaking for the U.S. Chamber of Commerce. The Chamber of Commerce would like for the diversion of fees to stop.

It's not often that I come to the floor and say that I'm speaking, I think, for the United States Senate. They've already passed a bill that would stop the diversion of fees. It's not often that I come to the floor standing up for the bill that came out of our committee against forces that have taken it over and are putting forward a manager's amendment that we simply cannot support. Now, I understand how we got here. The appropriators would like to continue to control the process. They said, Well, we are going to object to this, and we will raise a point of order. And they came up with language that professes to solve the problem. The problem is that that raised

another point of order because the Congressional Budget Office said, Well, if you do it that way, you are going to put yourself in a situation where we have to score this bill in a different way. So then the leadership on the chairman's side said, Okay, well, we can waive that rule. And I'm saying, Well, if you can waive the rule, you are the people who have been so much worried about the deficit, if you can waive the rule that gets around worrying about the deficit, why couldn't you waive the rule that allows us to take up the bill that we passed out of committee?

So I need to be addressing my Republican colleagues here. If they want to start this process over, the way to start the process over is to vote against the manager's amendment. That's the simple way to do it. At that point we can get back, hopefully, to a bill that does clearly not divert fees and that the whole population of supporters has said we would support.

That's where I am, Mr. Chairman. I don't want to belabor this. I don't want to take away time from other people who want to speak. But it's not the bill itself that came out of committee that's the problem. If we pass the manager's amendment, we've got a problem here. We could tinker around the edges of the bill that came out of the committee, and we could solve the minor concerns that we've got there. But there's no way to tinker around the edges of this diversion issue. Either you support diversion of money, or you don't support diversion of money. I think it's time for us to stop this hidden tax that we have imposed on innovation in this country. The only way to do that is to defeat the manager's amendment.

Mr. SMITH of Texas. Madam Chair, I yield 3 minutes to the gentleman from North Carolina (Mr. Coble), the chairman of the Courts, Commercial, and Administrative Law Enforcement Subcommittee of the Judiciary Committee.

Mr. COBLE. I thank the gentleman from Texas. And I say to my friend from North Carolina, it was my belief that diversion had ended. But let me make my statement, and maybe we can get to this subsequently. A robust patent system, Madam Chairman, is critical to a strong, developed economy. And H.R. 1249, in my

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opinion, serves that goal by ending diversion of user fees to other agencies. Ending diversion is essential to a robust and strong patent system, it seems to me. This is not a new concept. It's been a controversial issue for many years; but we're at a point where if something isn't done, the office is going to be overwhelmed. When someone asks why I support patent reform, I respond, The answer is simple, two words: backlog and pendency. The number of pending applications, I am told, is around 700,000, and the average time for an application to be reviewed is 30 months. This is unacceptable. The number of pending claims should be approximately 300,000 and the pendency time period should be approximately 20 months, or 10 months less than what it is now. Patents provide innovative and economic incentives for creators. If our patent system loses its efficacy, those incentives will become diluted. The dilution begins very simply when inventors decide to find other forms of protection for their ideas or begin marketing their ideas independently to avoid the cost and sometimes hassle of filing for patent protection. Reducing the backlog and pendency rate depends on the office's ability to improve the performance of examiners and to provide additional examiners. Enacting H.R. 1249, in my opinion, Mr.

Chairman, and ending diversion will provide that needed certainty for the office to begin making the changes to meet these goals. I urge Members to vote in favor of the bill.

Ms. ZOE LOFGREN of California. Madam Chairman, I yield 30 seconds to the gentlewoman from Ohio (Ms. Kaptur).

Ms. KAPTUR. I thank the gentlelady for yielding to me. I will place in the Record dozens and dozens of organizations that oppose this bill. They oppose the manager's amendment. And what is amazing about these groups is they range the vast ideological spectrum from liberal to conservative to moderate. And they all represent people—thousands and thousands of people—such as the American Bar Association, the Eagle Forum, the American Civil Rights Union, the Christian Coalition, the Family Research Council Action, Friends of the Earth, National Association of Realtors, Innovation Alliance. If one looks across this list, they have deep concerns about this bill and oppose it.

The following groups oppose H.R. 1249 or specific provisions of it or the Manager's Amendment: U.S. Business and Industry Council; National Association of Realtors;

Innovation Alliance, American Bar Association; American Medical Association; ACLU; Breast Cancer Action; US-Israel Science & Technology Foundation (Sections 3 and 5); Public Citizen (Section 16); American Association for Justice (Section 16); Joan Claybrook, President Emeritus, Public Citizen; National Consumers League; Trading Technologies;

Patent Office Professional Association (POPA); Generic Pharmaceutical Association (Section 12); Eagle Forum; Intellectual Ventures (Section 18); Data Treasury (Section 18).

Angel Venture Forum; BlueTree Allied Angels; Huntsville Angel Network; Private Investors in Entrepreneurial Endeavors; Institute of Electrical and Electronic Engineers (IEEE-USA); Wisconsin Alumni Research Foundation; Brigham Young University; University of Kentucky; Hispanic Leadership Fund; American Innovators for Patent Reform; National Association of Patent Practitioners (NAPP); National Small Business Association; IPAdvocate.org; National Association of Seed & Venture Funds; National Congress of Inventor Organizations; Inventors Network of the Capital Area; Professional Inventors Alliance USA; Public Patent Foundation; Edwin Meese, III, Former Attorney General of the United States; Let Freedom Ring.

American Conservative Union; Southern Baptist Ethics and Religious Liberty Convention; 60 Plus; Tradition, Family, Property; Gun Owners of America; Council for America; American Civil Rights Union; Christian Coalition; Patriotic Veterans, Inc.; Center for Security Policy; Family PAC Federal; Liberty Central; Americans for Sovereignty; Association of Christian Schools International; Conservative Inclusion Coalition; Oregon Health & Science University; North Dakota State University; South Dakota University; University of Akron Research Foundation; University of New Hampshire.

University of New Mexico; University of Utah; University of Wyoming; Utah Valley University; Weber State University; WeReadTheConstitution.com; Family Research Council Action; Friends of the Earth; National Women's Health Network; Our Bodies Ourselves; Center for Genetics and Society; International Center for Technology Assessment; Southern Baptist Ethics & Religious Liberty Commission; United Methodist Church—General Board of Church and

Society; American Society for Clinical Pathology; American Society for Investigational Pathology; Association for Molecular Pathology; College of American Pathologists; Association of Pathology Chairs.

Mr. SMITH of Texas. Madam Chair, I yield 5 minutes to the gentleman from Virginia (Mr. Goodlatte), who is the chairman of the Intellectual Property Subcommittee of the Judiciary Committee. Mr. GOODLATTE. I thank the chairman for yielding and for his leadership on this issue, and I rise in strong support of H.R. 1249. For the better part of the past decade, Congress has been working to update our patent laws to ensure that the incentives our Framers envisioned when they wrote article I, 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 during 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.

Furthermore, the bill contains a provision on fee diversion where any fees that are collected but not appropriated to the PTO will be placed in a special fund to be used only by the PTO for operations. This solves the fee diversion issue, and it assures that the problem that we have had in the past will not take place in the future; but at the same time it also assures that the Congress will continue its oversight authority because the Patent Office will have to come to the Congress, to the Appropriations Committee, to justify those expenditures. They can't be spent on anything else, but they have to be justified to the Congress before the funds are appropriated. These funds will still be subject to appropriation but will be set aside to only fund the PTO. With a backlog of almost a million patent applications and many waiting 3 years to get an initial action on their patent applications, this agreement could not come at a more crucial time. We have been trying for 10 years, by the way, and this is the closest we have ever come. In addition to these patent quality improvements, 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.

In addition, the bill allows the Patent and Trademark Office to reexamine some of the most questionable business method patents, which opportunists have used for years to extort money from legitimate businesses. By allowing the PTO to take another look at

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these patents, we help ensure that invalid patents will not be used by aggressive trial lawyers to game the system.

The bill also ensures that abusive false markings litigation is put to an end. Current law allows private individuals to sue companies on behalf of the government to recover statutory damages in false markings cases. After a court decision 2 years ago that liberalized the false markings damages awards, a cottage industry has sprung up, and false markings claims have risen exponentially. H.R. 1249 maintains the government's ability to bring these actions but limits private lawsuits to those who have actually suffered competitive harm. This will discourage opportunistic lawyers from pursuing these cases. The bill also restricts joinder rules for patent litigation. Specifically, it restricts joinder of defendants to cases arising out of the same facts and transactions, which ends the abusive practice of treating as codefendants parties who make completely different products and have no relation to each other.

Furthermore, the bill addresses the problem of tax strategy patents. Unbelievably, tax strategy patents grant monopolies on particular ways that individual taxpayers can comply with the Tax Code. The Acting CHAIR (Ms. Foxx). The time of the gentleman has expired.

Mr. SMITH of Texas. I yield the gentleman an additional 30 seconds. Mr. GOODLATTE. Over 140 tax strategy patents have already been issued, and more applications are pending. Tax strategy patents have the potential to affect tens of millions of everyday taxpayers, many who do not even realize that these patents exist. The Tax Code is already complicated enough without also expecting taxpayers and their advisers to become ongoing experts in patent law.

Scores, hundreds of organizations in fact, support these reforms. It is important that this House supports the manager's amendment; and by the way, the United States Chamber of Commerce supports the manager's amendment and the bill.

That is why I worked to include in H.R. 1249 a provision to ban tax strategy patents. H.R. 1249 contains such a provision which deems tax strategies insufficient to differentiate a claimed invention from the prior art. This will help ensure that no more tax strategy patents are granted by the PTO.

Importantly, the House worked hard to find a compromise that will ensure Americans have equal access to the best methods of complying with the Tax Code while also preserving the ability of U.S. technology companies to develop innovative tax preparation and financial management software solutions. I believe the language in H.R. 1249 strikes the right balance.

By giving the necessary tools to the Patent Office to issue strong patents and by enacting litigation reforms, we will help to inject certainty about the patents that emerge from this process—patents rights that are more certain to attract more investment capital. This will allow independent inventors, as well as small, medium and large-sized enterprises to grow our economy and create jobs. Ms. ZOE LOFGREN of California. Madam Chair, may I inquire as to how much time remains?

The Acting CHAIR. The gentlewoman from California has 20 minutes remaining, and the gentleman from Texas has 17\1/2\ minutes remaining. Ms. ZOE LOFGREN of California. At this point, I would be honored to yield 3 minutes to the gentlelady from Texas, a member of the Judiciary Committee, Ms. Sheila Jackson Lee.

Ms. JACKSON LEE of Texas. I thank the distinguished Member from California.

To my colleagues on the floor, this has to be, could have been or hopefully can be one of the greatest opportunities for bipartisanship that we have seen in any number of years. That was the process that was proceeded under on the Judiciary Committee, though obviously there are always disagreements; but the whole idea of our debate and the support of the present underlying legislation without the manager's amendment was to, in fact, create jobs.

In the committee, a number of my amendments were accepted, but in particular, the focus of converting from a first-inventor-to-use system to a first-inventor-to-file was thought to promote the progress of science by securing for a limited time to inventors the exclusive right for their discoveries and to provide inventors with greater certainty regarding the scope of protections granted by these exclusive rights. Further, this new system was to be, or should be, able to harmonize the United States patent registration system with similar systems used by nearly all other countries with whom the United States conducts trade. This was to shine the light and open the door on American genius.

In addition, so many of us have waited so long to be able to give the resources to the PTO in order for it to do its job. We were aghast in hearings to hear that there is a 7,000-application backlog, so I rise as well to express enormous concern with the manager's amendment, which, as the PTO director has indicated, Dave Kappos, every time we do not process a PTO, or a patent, for some genius here in the United States, for some hardworking inventor, every patent that sits on the shelf at the PTO office is taking away an American job, and that job is not being created. As well, it is denying a product from going to the market, and it is someone's life that is not being saved, and our country ceases to grow.

We need jobs in this country. We need a Patent Office that is going to expedite and move forward. We don't need discussions about lawyers fighting lawyers or trial lawyers. This is not a case of anti-lawyer legislation. We hope that some of the small businesses and large companies have their lawyers fighting to preserve and protect their patents. This bill will give them the opportunity to have that protection, but I am disappointed that all of a sudden the manager's amendment changed around and took an enormous amount of those fees and invested them elsewhere instead of helping our small businesses. I am also disappointed that we don't recognize that a bill that helps big businesses can help small businesses as well, so I had offered

an amendment that would extend the grace period while the small business is working to fund its patent.

The Acting CHAIR. The time of the gentlewoman has expired. Ms. ZOE LOFGREN of California. I yield the gentlewoman an additional 15 seconds.

Ms. JACKSON LEE of Texas. The period is now a year—I'd indicated 18 months—because small businesses have to reach to others to help fund their inventions, and they let their secrets out of the bag. Eighteen months protects their disclosures for a period of time for them to be able to move forward.

Lastly, I had a sunset provision that would help small businesses as well as relates to the sunset of the business method patents review. This could be a good bill. I hope that we can correct it, and I ask my colleagues to consider correcting this bill. Madam Chair, I rise in support of H.R. 1249, "America Invents Act." However I am concerned over the drastic fee charges that were made in the new Manager's Amendment completely contrary to our agreement in the House Judiciary markup—it takes enormous amounts of money from the work of the PTO. As a Senior member of the Judiciary Committee and a member of the Subcommittee on Intellectual Property, Competition and the Internet, I am proud to support this legislation because in many ways the current patent system is flawed, outdated, and in need of modernization.

The Judiciary Committee labored long and hard to produce legislation that reforms the American patent system so that it continues to foster innovation and be the jet fuel of the American economy and remains the envy of the world. This legislation incorporates amendments that I offered during the full committee markup as it recognizes the importance of converting from a first-inventor-to-use system to a first-inventor-to file will promote the progress of science by securing for a limited time to inventors the exclusive rights to their discoveries and provide inventors with greater certainty regarding the scope of protections granted by these exclusive rights. Further, this new system will harmonize the United States patent registration system with similar systems used by nearly all other countries with whom the United States conducts trade. This legislation will continue to ensure that the United States is at the helm of innovation.

Our Nation's Founders recognized the integral role the patent system would play in the

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growth of our nation. Within our Constitution, they explicitly granted Congress with the power to issue patents. The Founders were supporting a fundamental part of the American dream which is to live in a free land where ideas can be shared thereby leading to the individual ingenuity, invention, and innovation.

Madam Chair, Article I, Section 8, clause 8 of the Constitution confers upon the 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.

In order to fulfill the Constitution's mandate, we must examine the patent system periodically. The legislation before us represents the first comprehensive review of the patent system in more than a generation. It is right and good and necessary that the Congress now reexamine the patent system to determine whether there may be flaws in its operation that may hamper innovation, including the problems described as decreased patent quality, prevalence of subjective elements in patent practice, patent abuse, and lack of meaningful alternatives to the patent litigation process. On the other hand, we must always be mindful of the importance of ensuring that small companies have the same opportunities to innovate and have their inventions patented and that the laws will continue to protect their valuable intellectual property.

The role of venture capital is very important in the patent debate, as is preserving the collaboration that now occurs between small firms and universities. We must ensure that whatever improvements we make to the patent laws are not done so at the expense of innovators and to innovation. The legislation before us, while not perfect, does a surprisingly good job at striking the right balance. From small towns to big cities, our country is filled with talent and genius. As it stands, the United States has four times as many patent applications filed here per year than in Europe. The United States Patent and Trademark office must have the tools to meet this demand. Failing to change the patent system as we know it will deny the men and women from around our nation fair and equal access to a streamlined and effective patent system.

The current system has a backlog of hundreds of thousands of patents, nearly 700,000 applications are waiting to be reviewed. The USPTO is currently reviewing applications from 2007/2008, and using the fees received from the most recent patent applications to do so due to limitations in the current system under which the USPTO is funded. This has caused inventors and business creators to wait on average three years prior to receiving a determination on whether or not their patents are valid.

Without that determination it is nearly impossible for a small business to receive the necessary venture capital. That's a three-year waiting period for struggling small businesses; this is a three-year gap filled with financial uncertainty which leads to a three-year delay in job creation. Only 4 out of ten applications, or 42 percent, of patent applications are approved. It is vital to have approval prior to attaining financing because there is a 58 percent chance that a patent will not be approved. Given our current economic environment, a three year backlog is too long for any individual to wait to build a business which will create new jobs, especially at a time when jobs are sourly needed by many right now. Patent reform is the key to economic change that could lead to untapped job growth.

Since the creation of the USPTO in 1790 it has issued 7,752,677 patents and many of those patents have resulted in the creation of new jobs. In 2010, 121,179 patents granted by the USPTO originated in the United States of those granted 8,027 went to applicants in Texas. Imagine how many jobs could be created if there were not a 700,000 patent application backlog.

Our current system is outdated and the backlog makes it evident that our system is in serious need of change. Patent reform must reflect the major advances in our society over the last 50 years. Since the last major patent reform how we live has been transformed by a variety of inventions such as the home computer, ATM, video games, cellular phones and mobile devices,

and life saving technologies like the artificial heart, all of which have been invented since any major reform of our patent system.

Madam Chair, patent reform is a complex issue but one thing is clear the innovation ecosystem we create and sustain today will produce tomorrow's technological breakthroughs. That ecosystem is comprised of many different operating models. It is for that reason that we evaluated competing patent reform proposals thoroughly to ensure that sweeping changes in one part of the system do not result in unintended consequences to other important parts.

Let me discuss briefly some of the more significant features of this legislation, which I will urge all members to support. H.R. 1249 converts the U.S. patent system from a first-to-invent system to a first inventor-to-file system. The U.S. is alone in granting priority to the first inventor as opposed to the first inventor to file a patent. H.R. 1249 will inject needed clarity and certainty into the system. While cognizant of the enormity of the change that a "first inventor-to-file" system may have on many small inventors and universities, a study regarding first-to-file will be conducted by the Small Business Administration and the United States Patent Office to identify any negative impact this change may have on these inventors. Furthermore, H.R. 1249 adjusts the fee structure which funds the USPTO, giving them greater control over the fees they collect for patent services and enabling the USPTO to improve its efficiency and review more patents at a greater speed. Currently, the USPTO is funded solely by the fees its receives from it's users. However, not all the fees collected are available for use by the USPTO because Congress appropriates a specific amount, and any fees above the appropriated amount are used for other non-USPTO purposes. Under H.R. 1249, the USPTO will have greater control over the use of the fees it receives, giving them greater flexibility to make necessary improvements to the patent system.

SMALL BUSINESS FACTS

Several studies, including those by the National Academy of Sciences and the Federal Trade Commission, recommended reform of the patent system to address what they thought were deficiencies in how patents are currently issued.

The U.S Department of Commerce defines small businesses as businesses which employ less than 500 employees. According to the Department of Commerce in 2006 there were 6 million small employers representing around 99.7% of the nation's employers and 50.2% of its private-sector employment. In 2002 the percentage of women who owned their business was 28% while black owned was around 5%. Between 2007 and 2008 the percent change for black females who were self employed went down 2.5% while the number for men went down 1.5%. There were 386,422 small employers in Texas in 2006, accounting for 98.7% of the state's employers and 46.8% of its private-sector employment. Since small businesses make up such a large portion of our employer network, it is important to understand how they will be impacted as a result of patent reform.

In 2009, there were about 468,000 small women-owned small businesses compared to over 1 million owned by men The number of small employers in Texas was 386,422 in 2006, accounting for 98.7% of the state's employers and 46.8% of its private-sector employment,

88,000 small business owners are black, 77,000 are Asian, 319,000 are Hispanic, 16,000 are Native Americans.

SMALL BUSINESSES AND JOB CREATION

Small Businesses:

Represent 99.7 percent of all employer firms.

Employ just over half of all private sector employees.

Generated 64 percent of net new jobs over the past 15 years. Create more than half of the nonfarm private gross domestic product (GDP).

Hire 40 percent of high tech workers (such as scientists, engineers, and computer programmers).

Made up 97.3 percent of all identified exporters and produced 30.2 percent of the known export value in FY 2007. Produce 13 times more patents per employee than large patenting firms; these patents are twice as likely as large firm patents to be among the one percent most cited.

Creativity and technological change are the engines for our economic growth. In our current economic climate, patents spur innovation and lay the foundation for future growth, by assuring inventors that they will receive the rewards for their effort. I urge all members to join me in supporting passage of this landmark legislation. Mr. SMITH of Texas. Madam Chair, I yield 3 minutes to the gentleman from Ohio (Mr. Chabot), who is the senior member of the Constitution Subcommittee and a senior member of the Intellectual Property Subcommittee of the Judiciary Committee. Mr. CHABOT. I first want to thank Chairman Smith and Chairman Goodlatte for their leadership in getting us to the point that we are on this important legislation here this evening.

Section 8, clause 8 of the Constitution states that the Congress shall have 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 Constitution clearly grants Congress the authority to grant patent rights to inventors, and it defers to the discretion

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of Congress how best to procedurally award these rights to the inventor.

I rise in support of H.R. 1249, the America Invents Act. The first-inventor-to-file provision shifts us to a system used by all other modern, industrial nations. This system would end the need for expensive discovery and litigation over priority dates and would put an end to expensive interference proceedings that small entities overwhelmingly lose.

This provision also ensures that inventors can establish priority dates by filing simple and inexpensive provisional applications. This is a much needed change, which former U.S. Attorney General Michael Mukasey indicated would be both constitutional and wise. Congress has the right, in fact the duty, to protect those who invent or discover.

Through in-depth studies conducted by former U.S. PTO commissioners, the first-to-file system has been found to be faster and cheaper in resolving disputes among inventors. The current system creates an environment for exorbitantly expensive litigation. It has also become cost prohibitive for small businesses and independent inventors to fight the claims filed by larger corporations which can cost over half a million dollars just to litigate.

In the past 7 years, only one independent inventor out of 3 million patent applications filed has successfully proved an earlier date of invention over the inventor who filed first. However, with the new first-inventor-to-file system, a bold timeline of filing dates will allow these small businesses and independent inventors to more easily defend and settle their disputes over the rightful patent holder. Lastly, the Supreme Court has never held that first-to-file is an unconstitutional procedure. We are now simply returning to the system that our Founders originally established. It is a commonsense procedure that will spur more rapid innovation, yield new jobs, and stimulate the economy; and I think as we all know if we ever needed to get this economy moving and get America back to work, we're in that time right now.

Ms. ZOE LOFGREN of California. I yield 2 minutes to the gentleman from Illinois (Mr. Manzullo).

Mr. MANZULLO. Madam Chair, in my office there are two photographs, one with me and Edwards Deming and the other of Dr. Ray Damadian, who is the inventor of the MRI. Dr. Damadian visited our office, and I said, What's wrong with this bill? He said, Everything. He said, If this bill were law when I invented the MRI, today we would not have the MRI.

There are a lot of problems with this bill. This is my fourth patent fight with my esteemed colleague from Texas, but we do agree on most issues; but now we have two persons who simply disagree on policy. Back in 2004 when I chaired the Small Business Committee, I was instrumental in putting in a fixed-fee structure for small businesses; and to do that, I had stricken from the bill the authority of the PTO Director to set fees. This new bill gives to the PTO Director the ability to set fees, even though the initial filing fees for small businesses have been lowered. The problem is that the PTO can come in and simply raise fees to so-call "manage their operations." In fact, two reports, "The 21st Century Strategic Plan" filed in June of 2002 by the U.S. PTO, said fees were based upon a highly progressive system aimed at strictly limiting applications containing very high numbers of claims and also the same thing in 2007. Their idea of decreasing claims in the patent office is to raise fees. Obviously, who's that going to hurt? It's going to be the little guy, and that's why it's one of many reasons I oppose this bill. But we should not delegate the authority that Congress has to set fees in one of the few constitutional functions that we have in this body over to somebody who has already stated that he's going to raise fees. You raise fees, guess who gets hurt—the future Ray Damadian, the little inventor, the people who invent things in this country, the true creators of jobs.

Madam Chair, I rise in strong opposition to this anti-innovation bill. I believe this bill will stifle job creation and is unconstitutional.

Over the past 40 years, the value of corporations has shifted from tangible assets, such as real estate and machinery, to intellectual property. During this same time period, the primary source of all net new job creation has come from start-up small companies. However, since the first

major change to our patent system in 1994 that altered the length of the patent from 17 years from award to 20 years from filing, the number of patent awards from start-ups and small, individual inventors has dropped dramatically. Patents awarded to start-up firms decreased from 30 percent of all awards in 1993 to 18 percent in 2009. Patents awarded to small inventors dropped from 12 percent in 1993 to 5 percent in 2009.

Why? America has slowly shifted towards a European-style patent system, which gives more opportunities to challenge a patent, resulting in delays in receiving approval for granting a patent, thus shortening the length of the exclusive use of the patent. Now, the average wait is three years. This bill would finalize the shift towards a European-style patent system through changing from a "first-to-invent" to "first-to-file" system; establishing a new set of "prior use" rights; and adopting a third European-style "post-grant" challenge. This bill would prompt a litigation boom, primarily inside the administrative review processes at the U.S. Patent and Trademark Office. In Europe, five percent of patents are challenged. In the United States, only 1.5 percent of patents are challenged in court, contrary to the misinformation from the other side of this debate that there is a litigation boom in patent cases. Japan dropped post-grant review in 2004 because it consumed 20 percent of their patent office resources. Canada saw a one-third increase in patent applications and clogged up its system when it shifted to "first-to-file." Commenting on similar legislation in 2007, a former senior judge and Deputy Director of the IP Division of the Beijing High People's Court said the bill "will weaken the right of patentees greatly, increase their burden, and reduce the remedies for infringement . . . the bill favors infringers and burdens patentees . . . It is not bad news for developing countries which have lower technological development and relatively fewer patents." That is why entrepreneurial organizations such as the National Small Business Association (NSBA) and the Angel Venture Forum oppose H.R. 1249.

Second, I believe the bill is unconstitutional on several grounds. First, H.R. 1249 shifts from a "first-to-invent" system to "first-to-file." However, Article 1, Section 8 states that the Congress shall have power "to promote the progress of science . . . by securing for limited times to . . . inventors the exclusive rights to their respective . . . discoveries."

The First Congress included 23 of the 55 delegates to the Constitutional Convention. Three other delegates served in the Executive Branch, including President George Washington. When examining the 1790 Patent Act, we know the intent of the Founding Fathers in patent law—the legislation clearly states that the patent goes to the "first and true" inventor.

This was recently reaffirmed in a June 6, 2011, Supreme Court decision written by Chief Justice John Roberts in Stanford v. Roche, in which he said that "(s)ince 1790, the patent law has operated on the premise that rights in an invention belong to the inventor . . . Although much in intellectual property has changed in the 220 years since the first Patent Act, the basic idea that inventors have the right to patent their inventions has not."

In addition, two constitutional scholars specializing in patent law ranging the political spectrum agree that moving to a first to file system is unconstitutional. Jonathan Massey, former law clerk to Supreme Court Justice William Brennan and who represented former Vice President Al Gore in Bush v. Gore said, "Our nation's founders understood that technological progress depends on securing patent rights to genuine inventors, to enable them to profit from their talents,

investment, and effort . . . If the bill's provisions had been law in the 20th Century, the Wright Brothers would have been denied a patent for the airplane."

Adam Mossoff, Professor of Law at George Mason University and Chairman of the Intellectual Property Committee of the conservative Federalist Society said, "In shifting from a first-to-invent to a first-to-file system, the America Invents Act contradicts both the text and the historical understanding of the Copyright and Patent Clause in the Constitution." But more importantly, of the only nine peer-reviewed law journal articles on the subject of patent reform, all have concluded that adopting a "first-to-file" system is unconstitutional. So, if this bill becomes law, it will be tied up in litigation, further delaying innovation, until the Supreme Court rules on its constitutionality.

Section 18 of H.R. 1249 also creates a special class of patents in the financial services sector subject to their own distinctive post-grant administrative review and would apply retroactively to already existing patents. Governmental abrogation of patent rights represents a "taking" of property and therefore

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triggers Fifth Amendment obligations to pay "just compensation."

Section 18 would shift the cost of patent infringement from financial services firms to the U.S. Treasury. Finally, the "prior use" provision in H.R. 1249 violates the "exclusive" use provision guaranteed to inventors under the Constitution. Thus, because this bill will hurt jobs and is unconstitutional, I urge my colleagues to oppose the bill. The manager's amendment does not fix any of the problems with the bill; in fact, it further compounds the problems with the bill. The first step to fixing our patent system is to fix the PTO. This manager's amendment would still allow patent fee diversion to take despite promises made in recent days. Permitting the PTO to retain its fees will allow the agency to hire more examiners and modernize its information technology infrastructure to reduce the massive backlog of pending patent applications. That's real patent reform; not this bill.

Mr. SMITH of Texas. Madam Chair, I yield 1 minute to the gentleman from New Hampshire (Mr. Bass) for purposes of a colloquy. Mr. BASS of New Hampshire. I thank the chairman. I want to discuss some important legislative history of a critical piece of this bill, in particular, sections 102(a) and (b) and how those two sections will work together. I think we can agree that it is important that we set down a definitive legislative history of those sections to ensure clarity in our meaning.

Mr. SMITH of Texas. I want to respond to the gentleman from New Hampshire and say that one key issue for clarification is the interplay between actions under section 102(a) and actions under section 102(b). We intend for there to be an identity between 102(a) and 102(b). If an inventor's action is such that it triggers one of the bars under 102(a), then it inherently triggers the grace period subsection 102(b). Mr. BASS of New Hampshire. I believe that the chairman is correct. The legislation intends parallelism between the treatment of an inventor's actions under 102(a) and 102(b). In this way, small inventors and others will not accidentally stumble into a bar by their pre-filing actions. Such inventors will still have to be diligent and file within the grace

period if they trigger 102(a); but if an inventor triggers 102(a) with respect to an invention, then he or she has inherently also triggered the grace period under 102(b).

The Acting CHAIR. The time of the gentleman has expired.

Mr. SMITH of Texas. I yield myself 30 seconds.

Madam Chair, contrary to current precedent, in order to trigger the bar in the new 102(a) in our legislation, an action must make the patented subject matter "available to the public" before the effective filing date. Additionally, subsection 102(b)(1)(B) is designed to make a very strong grace period for inventors that have made a disclosure that satisfies 102(b). Inventors who have made such disclosures are protected during the grace period not only from their own disclosure but from other prior art from anyone that follows their disclosure. This is an important protection we offer in our bill. Ms. ZOE LOFGREN of California. Madam Chairwoman, I yield 2 minutes to my colleague from California (Mr. Rohrabacher). Mr. ROHRABACHER. Thank you very much, and I hope everyone is paying attention to what this is all about tonight.

First of all, we have Dan Lungren, one of our Members who is a former Attorney General of California, along with Jim Sensenbrenner and John Conyers both the former chairmen of the Judiciary Committees, all of them adamant that this bill is unconstitutional. And now we have a discussion and we have a lot of people talking about backlogs and what's wrong with the efficiency of the patent system or the patent office as if that's what this is all about.

It is not what this is all about. This, again, has been designed, this is a patent fight that's been going on 20 years. Basically, you have some very large multinational corporations who are trying to harmonize American patent law with the rest of the world, even though American patent law has been stronger than the rest of the world throughout our Republic's history. You weaken the patent protection of the American people; you are weakening their constitutional protections in the name of harmonizing it with Europe. Is that what we want to do? I don't think so. That will have dramatic impact on our country. Hoover Institution, one of the most highly respected think-tanks in the United States, had four of their scholars go after this bill; and here's three of the points they've made, through the many points, that said thumbs down on this America Invents Act. It is better called the patent rip-off bill. Here's what Hoover Institution said: the America Invents Act will protect large, entrenched companies at the expense of market challenging competitors. Read that: overseas multinational corporations. They also said, The bill wreaks havoc on property rights, and predictable property rights are essential for economic growth. This bill is a job killer, and the jobs that will be killed are in the United States of America, not the multinational corporation. The Acting CHAIR. The time of the gentleman has expired. Ms. ZOE LOFGREN of California. I yield the gentleman an additional 30 seconds.

Mr. ROHRABACHER. These multinational corporations, they're creating jobs overseas. They don't care if the jobs are lost here. The America Invents Act—here's Hoover Institution again—the America Invents Act would inject massive uncertainty into the patent system. We have had the strongest patent system in the world, and it has yielded us prosperity and security as a people. We do not need to change the fundamentals of this system and to harmonize with weaker systems throughout the world.

I call for the people to vote against this patent rip-off bill. Mr. SMITH of Texas. Madam Chair, I yield 2 minutes to the gentleman from Arizona (Mr. Quayle), who is also the vice chairman of the Intellectual Property Subcommittee of the Judiciary Committee. Mr. QUAYLE. I thank the gentleman for yielding. Madam Chair, I rise in support of H.R. 1249, and one of the reasons I do is because it encourages innovation and entrepreneurship by reducing costly litigation within our patent system. Innovation is the key to America's immediate and future economic growth; and right now, many American innovators are being held back by an onerous and backlogged patent system. In order to unleash their job-creating potential, we must reform this system which hasn't been reformed in almost 60 years.

One way this bill tackles patent reform is by creating a business method patent pilot program in which administrative patent judges will review the validity of these patents if a challenger presents evidence showing that a patent is more likely than not invalid. Business method patents were not patentable until the late 1990s and have resulted in frivolous lawsuits which have cost between $5 million to $10 million per patent.

These types of patents cover a "method of doing or conducting business" which includes printing ads at the bottom of a billing statement, ordering something online but picking it up in person, tax strategies, or getting a text when your credit card gets swiped. The tort abuse created by these patents has become legendary. Section 18 of this bill has broad bipartisan support in the Senate and is an alternative to costly litigation that will save 90 percent of the costs incurred in civil litigation.

I support Chairman Smith's work in creating a less costly, more efficient alternative to this abusive litigation and oppose any effort to strike section 18. As part of the Republican Conference's overall effort to spur job creation and economic growth, I urge passage of this important legislation.

Ms. ZOE LOFGREN of California. Madam Chairman, I yield myself such time as I may consume.

I want to talk a little bit about the manager's amendment under this general debate time because there is a very constrained amount of time for that discussion.

I want to touch on two things in particular. First is the fee issue.

I know that there's been discussion that somehow the fees won't be diverted under

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the manager's amendment, and I just think that is not a credible argument.

I remember back in the year 2000 when we were promised that the fees would not be diverted by the appropriators, but then subsequent to that, there was diversion. And the truth is that so long as this is part of the appropriations process, the fees can, and I predict will be, diverted just as they were diverted during the adoption of the CR this year. The PTO estimates an $85 million to $100 million diversion of fees in the CR that was adopted earlier this year. That conceptually is really just a special tax on innovators. If you raise the fees and you divert it for general purposes,

that's just a special tax on inventors, and I just think it's wrong and I cannot support it. I want to talk also, my colleague, Mr. Watt, said that other than the fee bill, we could resolve the issues, and I think we could have but we're not. There are two issues that I want to address and they are really closely related, and they're complicated but they're important. Under our laws, an idea must be new, useful, and nonobvious in order to receive patent protection, and this is evaluated in comparison to what's known as prior art. That's the state of knowledge that exists prior to an invention. If an idea already exists in the prior art, you can't get a patent. Under current law, a variety of different things create prior art, such as descriptions of an idea in previous patents, printed publications, as well as public uses or sales. But current law has what's known as the grace period, which provides 1 year for an inventor to file a patent application after certain activities that would otherwise create patent-defeating prior art. So, for example, if an inventor published an article announcing a new invention, he or she would have a year under this grace period to file a patent application for it, and this is a very important provision of patent law. It's pretty unique, actually, to the United States. The PTO director, David Kappos, referred to this grace period as "the gold standard of best practices."

As we move into the first-to-file system as is proposed in this bill, it is absolutely essential that the revised grace period extend to everything that is prior art under today's rules. Unfortunately, that is not the case in the manager's amendment. The grace period would protect, and this is a direct quote, "only disclosures." Well, what would that not protect? Trade secrets. Offers for sale that are not public. You could have entrepreneurs who start an invention and start a small business who won't be able to get a patent for their invention under the grace period, and entrepreneurs might then be forced to delay bringing their products to market, which would slow growth. This needs to be addressed, not in a colloquy but in language, and we agreed in the committee when we stripped out language that didn't fix this that we would fix the 102(a) and (b) problem in legislation. There was a colloquy on the Senate floor similar to one that has just taken place, but we know that the language of the bill needs to reflect the intent. Judges look to the statute first and foremost to determine its meaning, and the legislative history is not always included. So the ambiguity that's in the measure is troublesome. And although we prepared an amendment to delineate it, it has not been put in order, and, therefore, this remedy cannot be brought forth, and small inventors and even big ones may have a problem. We now have our iPads on the floor, and while I was sitting here, I got an email from the general counsel of a technology company. I won't read the whole thing, but here is what this general counsel said:

"The prior use rights clause as written will be a direct giveaway to foreign competitors, especially those from countries where trade secret test is rampant."

What we're saying to American companies is that if you have a trade secret that you want to protect under the grace period prior art rules, you're out of luck. You are quite potentially out of luck. You'll either have to disclose that trade secret, and we know that there are serious concerns in doing that. We don't want to get into maligning countries around the world, but there are some that do not have the respect for intellectual property that we have. Or else we will say to that inventor or company that you can't use your own invention that you have devised without being held up for licensing fees with somebody who got to the office before you did.

This is a big problem that is not resolved. Even if the manager's amendment is defeated, this problem will remain in the bill. It is an impediment to innovation and an impediment to making

first-to-file work. If we're going to have first-to-file, and I can accept that, it must have robust, broad, rigorous protection under the grace period with a broad definition of a prior art that is protected. That is just deficient in this bill.

This is, I know, down in the weeds. It's a little bit nerdy. We've spent many years talking about this in the Judiciary Committee. I'm just so regretful that this bill after so many years has gone sideways in the last 2 days and is something that we cannot embrace and celebrate.

I reserve the balance of my time.

Mr. SMITH of Texas. Madam Chair, I yield 2 minutes to the gentleman from Arkansas (Mr. Griffin), who is also a member of the Intellectual Property Subcommittee of the Judiciary Committee. Mr. GRIFFIN of Arkansas. Thank you, Mr. Chairman. Madam Chairman, I rise today in strong support of H.R. 1249, the America Invents Act, and I urge my colleagues to support it. Make no mistake, the America Invents Act is a jobs bills. At no cost to taxpayers, this legislation builds on what we as Americans do best:

We innovate. Bolstering American innovation will create jobs at a time when we need it most.

The America Invents Act ends fee diversion and switches the U.S. to a first-inventor-to-file system. These changes will streamline the patent application process to help American innovators bring their inventions to market. Each new commercialized invention has the potential to create American jobs. This is a jobs bill.

A provision that I worked on included in the bill would make permanent the Patent and Trademark Office's ombudsman program for small business concerns. This program will provide support and services for independent inventors who may not have the resources to obtain legal counsel for guidance on obtaining a patent. This provision ensures that the small guys will always have a champion at the PTO to help them navigate the process.

In addition, the America Invents Act finally puts an end to fee diversion, a practice that has siphoned almost $1 billion in fees from the PTO over the past 20 years. Too many patent applications have sat untouched for years because the PTO does not have the resources it needs to review them in a timely manner. Ending fee diversion will expedite the review and unleash their potential to create American jobs.

This bill is endorsed by the U.S. Chamber of Commerce, the National Association of Manufacturers, and the Small Business & Entrepreneurship Council. I urge my colleagues to support this jobs bill. Ms. ZOE LOFGREN of California. I continue to reserve the balance of my time.

Mr. SMITH of Texas. Madam Chair, I yield 3 minutes to the gentleman from Virginia (Mr. Goodlatte), as I mentioned awhile ago, the chairman of the Intellectual Property Subcommittee of the Judiciary.

Mr. GOODLATTE. Madam Chairman, it was mentioned earlier by one of those speaking in opposition to the bill that the National Association of Realtors was opposed to this legislation. And we will make available for the Record a letter that we received, dated 2 days ago, from the

National Association of Realtors: "On behalf of the 1.1 million members of the National Association of Realtors, we are pleased to support H.R. 1249, the America Invents Act." It goes on to explain in great detail why they, along with literally hundreds of other organizations, support this legislation. That includes the United States Chamber of Commerce, the National Association of Manufacturers, and the Retail Federation of America. There is a whole host of organizations and individual companies,

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both large and small, who support the legislation because they know

that this is what is vital for job creation in this country. We need to have reform of our patent laws because, unfortunately in recent years, countries like China have overtaken us in the productivity of their patent office. And the fact of the matter is, unless we change our patent laws, we are going to continue to be at a disadvantage. And the advantages that we've had in the past are no longer available to us because, quite frankly, the complexity of inventions has increased; and more and more, we find ourselves in a situation where the laws that we operate under today, which were last updated in 1952, need to be updated to address a lot of the abuses that you've heard described here this evening.

We also need to pass this legislation to make sure that the fee diversion, that, as has been noted, has kept nearly $1 billion from going to the operation of the Patent Office to work down the 3-year 1 million patent backlog, also can be addressed. And we also need to recognize that this legislation, in addition to being a jobs bill, as recognized by all of these many, many, many companies and associations of various trade groups, it is also major litigation reform. It cuts out the abuses with tax strategy patents and other business method types of patents, where individuals do not produce anything other than lie in wait for somebody else to come up with a similar idea and then come forward and say, Hey, that was really my idea, and now you pay me a lot of money. They aren't creating jobs. They, in fact, are causing jobs to leave this country.

So there are many reasons to support this legislation, and I would urge my colleagues to do so. We have not yet come to the manager's amendment, but it provides a critical component to making sure that fee diversion does not occur.

National Association of Realtors, Washington, DC, June 20, 2011.

House of Representatives, Washington, DC.

Dear Representative: On behalf of the 1.1 million members of the National Association of REALTORS we are pleased to support H.R. 1249, the America Invents Act. NAR's support, however, is predicated upon the retention of important anti-fee diversion provisions contained in section 22 of the bill. NAR believes it is critically important that the U.S. Patent Trademark Office have access to all user fees paid to the agency by patent and trademark applicants. Without this reform, delays in processing patent applications will continue to undermine American innovation and stymie the nation's economy.

NAR, whose members identify themselves as REALTORS represents a wide variety of real estate industry professionals. REALTORS have been early adopters of technology and are

industry innovators who understand that consumers today are seeking real estate information and services that are fast, convenient and comprehensive.

Increasingly, technology innovations are driving the delivery of real estate services and the future of REALTORS' businesses.

The nation's patent law system faces many of the same issues but has not kept pace. It has been more than 50 years since the patent system's last major overhaul. Modernization is critically needed to improve the quality of issued patents, reduce the burden of unnecessary litigation on businesses and refocus the nation's efforts on innovation and job creation.

As technology users, NAR and several of its members currently find themselves facing onerous patent infringement litigation over questionable patents launched by patent holding companies and other non-practicing entities. Without needed reforms that assure that asserted patent rights are legitimate, the ability of businesses owned by REALTORS many of which are small businesses, to grow, innovate and better serve modern consumers will be put at risk. For this reason, NAR supports reforms such as expanded post-grant review and prior user rights.

The America Invents Act contains needed reforms geared towards improving patent quality. NAR supports greater transparency in the patent application process including creating a mechanism to allow practitioners with the expertise and knowledge to review and comment on the appropriateness of a patent application prior to the issuance of the patent and the creation of a streamlined and more effective process for challenging a patent outside of the judicial system. Finally, it is critically important that the U.S. Patent Trademark Office have access to all user fees paid to the agency by patent and trademark applicants. Without this reform, delays in processing patent applications will continue to undermine American innovation.

The National Association of REALTORS supports HR with the section 22 anti-fee diversion provisions. We urge the House to pass this much needed legislation with these critical provisions.

Sincerely,

Ron Phipps,
2011 President.

Ms. ZOE LOFGREN of California. I yield myself such time as I may consume.

I want to get back to the original reason why we've worked so hard on this bill, only to be here at the end of this process with a bill that we can't support. We started with hearings in the 1990s with the Federal Trade Commission and the National Academy of Science. And one of the things they pointed out was that there are more patents than there are inventions. We started focusing in on the abuse of litigation that occurred as well as the needs of the office. My colleague is correct: The Patent Office has a tremendous backlog, and that is a serious concern for inventors and really for the country. The examiners have such an enormous backlog, they can't spend sufficient time reviewing the applicants. This has led to a flood of poor-quality patents that were issued over the last decade and a half that I think—and most believe—should have been denied by the office. These dubious patents do significant damage to particular industries, like the

information technology industry, as they can be used by nonpracticing entities to demand rents from legitimate businesses and to interfere with the development of legitimate products. Now, I don't blame the examiners at the PTO. They are working hard, but they don't have enough time to give each application the consideration it deserves.

A bill, as approved by the Judiciary Committee, would have helped remedy this problem by making sure—a lot of people don't realize that the Patent Office doesn't get any taxpayer money. The Patent Office is entirely supported by fees submitted by inventors. So keeping all of those fees that the inventors are paying in the office so that the patents can properly be dealt with in a timely fashion was a key component of this measure. Unfortunately, under the manager's amendment, that strong protection is simply gone. And I know, as I said in the past, we've had unanimous votes in the Judiciary Committee. We've had promises never to do it again; but the diversions have continued, and it is clear that they will continue under the manager's amendment provision because it allows the regular process to continue as it has in the past.

I have not submitted lists of letters of who's in favor, who's opposed to this bill. It's my understanding that the Realtors Association is, in fact, opposed to the manager's amendment; but we're not going to vote on these amendments tonight. We're rolling these votes until tomorrow. So we will research that, and we will find the truth of where they are and make that information available to the Members because certainly Realtors are a very valuable part of our Nation's economy.

I want to talk a little bit as well about whether we can fix the defect on prior art by an amendment that will be offered later in the week by the gentleman from Michigan (Mr. Conyers) and the gentleman from California (Mr. Rohrabacher). They propose that the first-to-file patent system that is being promoted to harmonize our system with other countries would not go into effect until the grace period, which is the critical part of the patent system, actually is fixed and harmonized. If the manager's amendment is passed, the fatal defect of defining the prior art is disclosures, I don't believe can be fully remedied by this amendment, although I think that this amendment is a good one, and I intend to support it. So I think it's very important that the manager's amendment be defeated. I would hope that if that happens, that we might have a chance to step back and to fully examine where we are in terms of the prior user rights and the grace period because, as the patent commissioner had said, this is the gold standard, the United States has had the gold standard in patents with this grace period. It would be a shame not just for the Congress but for our country and our future as innovators to lose this genius part of our patent system. I reserve the balance of my time.

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Mr. SMITH of Texas. Madam Chair, I yield 2\1/2\ minutes to the gentleman from Virginia (Mr. Goodlatte).

Mr. GOODLATTE. Madam Chairman, the gentlewoman has expressed concern about the fee diversion provision in the manager's amendment. I think it is actually a very good provision; and it will, for the first time, end fee diversion at the Patent and Trademark Office by statute. It accomplishes both our overarching policy goals and maintains congressional oversight.

For the first time, we are establishing an exclusive PTO reserve fund that will collect all excess PTO fees and bring an end to fee diversion. It's been expressed on the other side of the aisle that maybe with the authority to set fees that is granted for a limited period of time in this bill, there will be an abuse in the Patent Office. But it can't be abused very much because the fees will still be subject to appropriations here in the Congress. They can't spend them on other things. They can't divert them, but they can put them in escrow, and they can require the PTO to come in and justify those fees before they're authorized. There will be no incentive to have excess fees if there can't be excess expenditures because of congressional oversight.

Patent reform has been a long road; and with the inclusion of this provision, we have ensured that all funds collected by the PTO will remain available to them and may not be diverted to any other use. Ending fee diversion has been an important goal for all of us; and as we crafted legislation, our ultimate policy goal was to ensure that PTO funds are not diverted for other uses, such as earmarks or for other agencies.

Working with leadership and the Appropriations Committee, we developed a compromise provision that accomplishes our shared policy goal through a statutorily created PTO reserve fund. This compromise was carefully brokered by leadership to ensure that it aligned with House rules and did not include mandatory spending that would have resulted in a score. Just a few months ago, including a provision like this one would have been unheard of, and no such provision has been included in patent bills considered by previous Congresses.

All excess fees that the PTO collects will be deposited into the PTO reserve fund and amounts in the fund "shall be made available until expended only for obligation and expenditure by the Office." This compromise provision also ensures that the Appropriations and Judiciary Committees will continue to have oversight over the PTO. Though PTO remains within the appropriations process, the appropriators no longer have an incentive to divert fees. In other words, because excess fees are made available to the PTO, there will be no scoring advantage to the Appropriations Committee to decrease the appropriations, and this will not impact their 302(b) allocation for Commerce, Justice, State appropriations.

I urge my colleagues to support the manager's amendment. By creating the Reserve Fund, we have walled-off PTO funds from diversion. All the excess fees are collected and deposited into the Fund and are made available in Appropriations Acts and cannot be "diverted" to other non-PTO purposes.

PTO funding would still be provided in Appropriations Acts, but the language carried in those Acts will appropriate excess fee collections and provide a clear and easy mechanism for PTO to request access to those funds.

By giving USPTO access to all its funds, the Manager's Amendment supports the USPTO's efforts to improve patent quality and reduce the backlog of patent applications. To carry out the new mandates of the legislation and reduce delays in the patent application process, the USPTO must be able to use all the fees it collects. The language in the Manager's Amendment reflects the intent of the Judiciary Committee, the Appropriations Committee and House leadership to end fee diversion. USPTO is 100% funded by fees paid by inventors and trademark filers who are entitled to receive the services they are paying for. The language makes clear the intention

not only to appropriate to the USPTO at least the level requested for the fiscal year but also to appropriate to the USPTO any fees collected in excess of such appropriation.

Providing USPTO access to all fees collected means providing access at all points during that year, including in case of a continuing resolution. Access also means that reprogramming requests will be acted on within a reasonable time period and on a reasonable basis. It means that future appropriations will continue to use language that guarantees USPTO access to all of its fee collections. Appropriations Chairman Rogers is committed to this agreement and to ending fee diversion at the PTO, and I appreciate his efforts. This provision represents a sea change of improvement over the current system and I urge all Members to strongly support this end to fee diversion at the PTO. This amendment, including the commitment from Chairman Rogers to Leadership ensures that all the user fees that the PTO collects will be available to the PTO so that they can get to work to reduce patent pendency and the backlog, and issue strong patents. Ms. ZOE LOFGREN of California. May I inquire how much time remains. The Acting CHAIR. The gentlewoman from California has 15 seconds remaining.

Ms. ZOE LOFGREN of California. Well, I will use those 15 seconds, Madam Chair, by saying just a few things. First, the litigation reform mentioned is really to retroactively undo a case that was fairly and squarely won in the courts.

Number two, that section 18 is basically just a giveaway to the banks. There's some good things in this bill. The post-grant review, overall it does more harm than good.

I yield back the balance of my time.

Mr. SMITH of Texas. I yield myself the balance of the time. Madam Chair, in closing, I want to thank the patent principles who devoted so much time, energy and intellect to this project. We've worked together for the common goal of comprehensive patent reform for the better part of 6 years.

While some of us still have differences over individual items, I want these Members to know that I appreciate their contributions to the project. This includes, among many others, Mr. Goodlatte, Mr. Watt, Mr. Issa, and Mr. Berman.

In the Senate we've worked closely with Senators Leahy, Grassley, Kyl, Hatch and others; and I want to thank them as well. Also, we would not be at this point tonight without the support of Commerce Secretary Locke and PTO Director Kappos. Our country needs this bill. We can't thrive in the 21st century using a 20th-century patent system. At a time when the economy remains fragile and unemployment is unacceptably high, we must include the patent system and the PTO, an agency that has been called an essential driver of a pro-growth job-creating agenda.

This bill will catapult us into a new era of innovation and enhanced consumer choice. I urge my colleagues to support H.R. 1249. Mrs. CHRISTENSEN. Madam Chair, I rise today to express my strong support for H.R. 1249--a smart bill that fixes an anomaly in the patent law by addressing the confusion around the deadline for filing patent term extensions. This bill—which has broad bipartisan support in both chambers—will ensure that if the FDA notifies a company after normal business hours that its drug has been approved, then the time that the company has to file a patent term extension application does not begin to run until the next business day.

I support this bill not only because it protects the rights of patent holders, but also because it will help inspire greater investments in the development of new drugs that not only could save millions of lives, but also could play a pivotal role in reducing racial and ethnic health disparities. Take, for example, a blood thinning drug that was proven very effective in treating and preventing stroke—the third leading cause of death in the nation, and a cause of death from which African American men are 52% more likely to die than white men, and African American women are 36% more likely to die than white women. But for an unintentional one-day filing delay, the developer of this drug would have been entitled to secure a patent term restoration. And, with that term restoration, the company would have been positioned to invest the additional resources to qualify the drug for the treatment and prevention of stroke and for expanded use in heart surgeries. This medical advancement would undoubtedly have saved countless lives and improved the health and wellbeing of tens of thousands of Americans.

Absent the correction provided by this bill, however, none of what could have—and should have—happened ever did happen, and, as a result, a great medical advancement never came to fruition. This bill would ensure that the situation that occurred with the promising blood thinning drug does not happen

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again. And, this bill fixes an anomaly that not only jeopardizes the development of life-saving drugs, but also jeopardizes the health and wellness of innocent, hardworking Americans. I urge all of my colleagues to be a key part of the solution to this problem by supporting this bill.

Ms. PELOSI. Madam Chair, I rise in opposition to this patent reform bill, misnamed the America Invents Act.

It had been our hope that we would be voting on a patent bill that encourages entrepreneurship, protects intellectual property rights, and sends a message abroad that strengthens patent rights at home. The bill before us fails on all these scores.

Instead, by favoring large international companies, we have before us a missed opportunity to encourage entrepreneurship. It is a missed opportunity to strengthen intellectual property rights here at home. For these and other reasons, I urge my colleagues to vote no on the Manager's amendment, yes on the Boren-Sensenbrenner-Waters-Schock amendment, and no on the final passage of this disappointing bill. Let's go back to the drawing board for a real bill to keep America number one.

Ms. WASSERMAN SCHULTZ. Madam Chair, today I rise in support of H.R. 1249, the America Invents Act.

This vital reform to our nation's patent system would help spur innovation, foster competition, and create and support American jobs. Democrats in Congress have urged our colleagues across the aisle to bring legislation to the Floor and today we have an opportunity to support legislation to create jobs and support our recovering economy. That is why this legislation is a priority of the Obama Administration—the bill represents a significant step in the right direction toward American job growth and is crucial to winning the future through innovation.

I urge my colleagues to support this bill's benefits for American inventors, manufacturers, and jobs.

I also urge my colleagues to support this bill because it includes a provision that will help engender much-needed patient protection and choice for patients undergoing genetic diagnostic tests. As many, of you know, several years ago, I was diagnosed with breast cancer.

Through genetic testing, I discovered that I am a carrier of the BRCA-2 gene mutation, which drastically increased my lifetime risk of ovarian cancer and recurring breast cancer. As a result, I made the life-altering decision to have seven major surgeries—a double mastectomy and an oophorectomy—from a single administration of a single test.

You see, there is only one test on the market for this mutation. The maker of this test not only has a patent on the gene itself; they also have an exclusive license for limited laboratories to administer the test.

Like genetic tests for colon cancer, Parkinson's disease, Alzheimer's disease, stroke, and many other genetic disorders, there is no way to get a truly independent second opinion.

In approximately 20 percent of all genetic tests, only one laboratory can perform the test due to patent exclusivity for the diagnostic testing, and often the actual human gene being tested. Just imagine: Your genes hold the key to your survival; having major, body-altering surgery or treatment could save you life; but the test results fail to give you certainty.

The America Invents Act begins to address this problem. A provision in the Manager's amendment simply directs a study by the U.S. Patent and Trademark Office on ways to remove barriers for patient access to second opinions on genetic testing on patented genes. Such a study would address questions about the current effects such patents have on patient outcomes and how best to provide truly independent, confirmatory tests.

Given ongoing court cases on the issue of gene patents, let me be clear: the study's focus on second opinion genetic testing is not intended to express any opinion by Congress regarding the validity of gene patents.

By allowing clinical laboratories to confirm the presence or absence of a gene mutation found in a diagnostic test, we can help Americans access the second opinions they truly deserve. I know first-hand the stress of wanting a second opinion—but being unable to get it.

With so much at stake, it is incredibly important that we give everyone in this situation as much certainty as we possibly can. We owe that much to those whose lives are in the balance.

Mr. GALLEGLY. Madam Chair, I rise in support of this amendment. Development of new prescription drug therapies is critically important if we are to successfully treat—or even cure—diseases such as cancer, ALS and juvenile diabetes.

The problem is that medical research is expensive. A researcher can spend years trying various drug combinations before developing one that may be approved for testing in humans, and it can take even more years after that to get final Food and Drug Administration, FDA approval. If

patent protection expires soon after the drug is approved, companies may not be able to recover their investment, which would lead to less research and development.

Congress recognized this problem when it passed the Hatch-Waxman Act in 1984. Hatch-Waxman provides for extended patent protection if the company applies within 60 days after the FDA approves a new drug. Unfortunately, the FDA and the Patent and Trademark Office have different interpretations of when the company must file the application. The resulting confusion and uncertainty may be discouraging people from investing in life-saving medical research. This amendment simply clarifies when the 60-day period begins. This is completely budget neutral and does not make any substantive change to the law.

I urge my colleagues to support this common sense amendment.

Mr. GALLEGLY. Madam Chair, I rise in strong support of this bill. First, I would like to recognize Chairman Smith's extraordinary work on behalf of American inventors. This bill is a well-crafted compromise that will streamline the patent process, while improving the quality of patents.

Although I do not support every single provision of this legislation, it is critical that the House of Representatives pass H.R. 1249. I am especially pleased that Chairman Smith included a provision that helps many businesses in the United States, including several in my district, who have been forced to spend time and money to defend themselves against so-called "false marking" lawsuits. By law, patent holders are required to place the patent number on their products. The problem is that after the patent expires, it may be very costly for a business to recall their products to change the label. Unfortunately, several law firms have discovered that suing these manufacturers can be lucrative, and we have seen a sharp increase in the number of these nuisance lawsuits.

This bill includes a common sense solution that will stop these lawsuits and allow employers to devote resources to developing new products and creating jobs.

I urge my colleagues to support this important legislation.

Mr. SMITH of Texas. Madam Chair, I yield back the balance of my time.

The Acting CHAIR. All time for general debate has expired.

Pursuant to the rule, the amendment in the nature of a substitute printed in the bill shall be considered as an original bill for the purpose of amendment under the 5-minute rule and shall be considered read.

The text of the amendment in the nature of a substitute is as follows:

[Text of HR 1249 omitted]

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The Acting CHAIR. Pursuant to House Resolution 316, the gentleman from Texas (Mr. Smith) and a Member opposed each will control 5 minutes. The Chair recognizes the gentleman from Texas.

Mr. SMITH of Texas. I yield myself such time as I may consume. Madam Chair, the manager's amendment consists of numerous technical edits and other improvements to the bill. Some of the highlights include the following provisions:

Expansion and clarification of prior-user rights under section 273 of the Patent Act.

Institutions of higher education qualify for "micro-entity" status when paying fees. In other words, an inventor who works for a university or who assigns or conveys an invention to a university qualifies for lower micro-entity fee status.

Consolidation of numerous PTO reporting requirements. Inclusion of "Weldon amendment" language that forbids the patenting of inventions "directed to or encompassing a human organism." This language has been part of the CJS appropriations legislation for years. It's directed as preventing the PTO from approving inventions related to human cloning.

And deletion of a provision that provides special treatment to one company that wants to get additional patent term protection from the PTO.

These and other changes in the manager's amendment smooth out a few rough edges and improve the overall bill.

I reserve the balance of my time.

Mr. WATT. Madam Chair, I rise in opposition to the amendment. The Acting CHAIR. The gentleman from North Carolina is recognized for 5 minutes.

Mr. WATT. I yield 2 minutes to the gentleman from Wisconsin (Mr. Sensenbrenner).

Mr. SENSENBRENNER. Madam Chair, this manager's amendment is

substantive. It contains provisions that should not be buried in a manager's amendment, and it should be defeated. First of all, it does maintain the fee diversion. It maintains the fee diversion because of an alleged lock box. We've heard about this before, and I have in my hand the Congressional Record of June 23, 2000, where the chairman, at the time, of the State, Justice, Commerce Subcommittee stated that the fees that are generated by the Patent Office are not to be used by any other agency or any other purpose. They remain in that account to be used in succeeding years. We are not siphoning off Patent Office fees for other expenditures. Well, guess what? It happened. And it's happened in the last 10 to 12 years to the tune of $1 billion. And this is exactly the same promise that they're making now. Fool us once, shame on them. Fool us twice, shame on us.

Now, this change relative to the reported bill to what is in the manager's amendment is the thing that is subject to the waiver of CutGo to the tune of $717 million over the next 5 years. The proponents of this amendment say this is a mere technical waiver of CutGo.

$717 million is no mere technical waiver of CutGo.

If you believe in CutGo, you've got to vote down the manager's amendment where this change was protected by the waiver granted for the Rules Committee. The amendment is substantive, it ought to be defeated. Mr. SMITH of Texas. Madam Chair, I continue to reserve the balance of my time.

Mr. WATT. I yield myself the balance of my time. Let me first say I agree with Mr. Sensenbrenner. The Rules Committee says that this is a technical amendment, that it would make technical edits and a few necessary changes to more substantive issues. This is a very substantive manager's amendment; there is no question about that. There are many good parts to this bill, and a broad coalition of people supported the bill which was reported out of committee. But the one and only necessary part of the bill is the ability to give the Patent and Trademark Office its full funding. That was the whole purpose for which we started off this process. This whole reform process was conceived to address poor-quality patents and to reduce the backlog of patent applications, which now exceeds a 700,000 backlog of patent applications. And the reason it exceeds 700,000 is because the Patent and Trademark Office has not had the money because their fees that they have been charging have been diverted to the general fund. Without a clear path to access its own collection of fees, the PTO cannot properly plan or implement the other changes in the bill and fulfill its primary function of reducing the backlog and examining patent applications. The compromise that this manager's amendment proposes has been described by a patent news blog as, it says, It's still Lucy—that's the appropriators—holding the football that it will never let Charlie Brown have. That's really what we see here. This is a mirage, a promise that they are going to do something that, if they just did it in the bill the way we reported the bill out of the committee, you wouldn't need this subterfuge. There is no reason to be doing this. The Senate reported it out clean, no diversion, 95-4 they voted it out of the Senate.

I don't even know why we're here debating this at this point. If we believe that the one primary purpose of patent reform is to deal with the fee diversion, then we need to deal with that first, and that's exactly what we did in the Judiciary Committee. I don't know why I'm here defending what we, on a broad, bipartisan basis, reported out of our committee. It ought to be the chairman of the committee that's defending what we reported out of the committee. Yet we are here, instead of defending what we reported out of the committee, the manager's amendment waters it down and makes it ineffective, and that's not what we should be doing here. Now they said they got these letters of support, but the letters came supporting what came out of the committee, not the manager's amendment. The manager's amendment is going to destroy what came out of the committee. It is inconsistent with what came out of the committee. So we've got to defeat the manager's amendment and go back to the bill that came out of the Judiciary Committee, and that's what I'm advocating.

Mr. SMITH of Texas. I yield myself the balance of my time. Madam Chair, let me address some of the criticisms that have been made about the manager's amendment. There are some who want to make more changes to the business method patent provision in the bill. This topic is the primary reason the Judiciary Committee launched patent reform back in 2005.

In response to a number of poor-quality, business-method patents issued over the past decade, the bill creates a transitional program within PTO to evaluate these patents using the best prior

art available. Bad patents will be weeded out, but good ones will become gold-plated based on their enhanced legal integrity. There are others who have sought changes to the prior art provisions in the First-Inventor-to-File section. The language in our bill which replicates that in the Senate version has drawn support from a large cross-range of industries and investors.

Some colleagues have complained during this debate about the treatment of PTO funding in the manager's amendment. The bill that the House Judiciary Committee reported would allow the PTO to keep all the revenue it raises without having to request funding through the normal appropriations process. This is treated as mandatory spending and scored savings in excess of $700 million.

Because of concerns raised by the Appropriations Committee members, we worked with them to develop a compromise that eliminates fee diversion while permitting the appropriators to retain oversight through the traditional appropriations process. The manager's amendment accomplishes this goal, but it means that the mandatory spending provisions of the revolving fund become discretionary spending under the reserved fund. Because this change is contrary to CutGo requirements, we need a waiver for consideration of H.R. 1249.

I want to emphasize that the bill includes user fees paid by inventors and trademark filers to the PTO in return

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for services. This isn't the same thing as using tax revenue from the general treasury to fund the agency, so I am not sure that the CutGo rules even apply.

Very importantly, there is no impact on the deficit. The manager's amendment is constitutionally sound, improves the base text of the bill, and incorporates a funding agreement approved by the leadership to get this bill to the floor. It's important to pass it and then move on to the other amendments.

I urge my colleagues to vote "aye" on the amendment. Mr. RYAN of Wisconsin. Madam Chair, I rise today to provide an explanation of my support for a waiver of the Cut-go point of order on the Manager's Amendment to H.R. 1249, the America Invents Act. No matter how well-crafted a budget enforcement tool may be it can never be immune from all unintended consequences. There are two reasons I support this waiver. First, the violation arises from an anomaly associated with converting this program from discretionary to mandatory. Second, the Manager's Amendment does not cause an increase in direct spending relative to current law. With respect to the first point, CB0 currently records PTO fee collections on an annual basis with the enactment of the relevant appropriations bill. As a result, CBO shows no deficit impact from PTO for fiscal years after FY 2011 if the funding and fee collections remain subject to the appropriations process—what we call "discretionary spending."

The reported bill would have provided permanent authority to the PTO to collect fees and spend the fee collections. We call spending that is provided through permanent law "mandatory spending." CBO estimated this permanent authority for FY 2012-2021 would reduce mandatory spending by $712 million. The savings, however, are the result of CBO's estimate that the agency will not be able to spend the fees as quickly as they are collected, not from spending

reduction. This should be obvious because the whole rationale of this bill was to ensure the expenditure of all PTO fee collections. If the reported bill was mandating that all PTO collections be spent, how can it produce budgetary savings? It doesn't. The only savings are paper savings, resulting from an accounting change and not an actual reduction in spending.

The Cut-go rule was designed to prevent the total amount of mandatory spending in the Federal Budget from increasing by requiring a corresponding spending reduction for any proposal to increase direct spending, and not offset with an increase in revenue as was common practice under Pay-Go.

Ironically, the Manager's Amendment would prevent a discretionary program from turning into mandatory spending, but because Cut-go is measured relative to the reported bill and not to the baseline, it triggers a Cut-go violation. Cut-go was not intended to favor mandatory spending over discretionary spending.

With respect to the second point, the Manager's Amendment maintains the same basic fee and spending structure as the underlying legislation but keeps the program discretionary. CBO estimates the bill, with the Manager's Amendment, would decrease the deficit by $5 million over ten years, unrelated to the PTO classification. The Committee could have avoided a Cut-go point of order if it reported out a separate bill that reflected the Manager's Amendment.

I do not take waiving budget points of order lightly, but in this case it is justified.

Mr. SMITH of Texas. Madam Chair, I yield back the balance of my time. The Acting CHAIR. The question is on the amendment offered by the gentleman from Texas (Mr. Smith).

The question was taken; and the Acting Chair announced that the noes appeared to have it.

Mr. SMITH of Texas. Madam Chair, I demand a recorded vote. The Acting CHAIR. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from Texas will be postponed.

Mr. SMITH of Texas. Madam Chair, I move that the Committee do now rise.

The motion was agreed to.

Accordingly, the Committee rose; and the Speaker pro tempore (Mr. Goodlatte) having assumed the chair, Ms. Foxx, Acting Chair of the Committee of the Whole House on the state of the Union, reported that that Committee, having had under consideration the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform, had come to no resolution thereon.

Pence Extension – 157 Cong. Rec. – E1174-E1175 – June 22, 2011

[Congressional Record Volume 157, Number 91 (Thursday, June 23, 2011)]
[Extensions of Remarks]
[Pages E1174-E1175]
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AMERICA INVENTS ACT

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speech of
HON. MIKE PENCE
of indiana
in the house of representatives
Wednesday, June 22, 2011

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform:

Mr. PENCE. Madam Chair, I rise in support of H.R. 1249, the America Invents Act, which is a carefully-crafted compromise that will modernize our nation's patent laws to allow for greater innovation, economic growth and job creation.

Years of hard work have gone into this bill. I would like to congratulate and thank Chairman Smith and Rep. Goodlatte for their leadership and diligence.

The Constitution vests in Article I, Section 8, clause 8, the power to Congress to ``promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries."

Our patent laws were written nearly sixty years ago, and it is time to update them to account for changes in our modern economy. It is Congress's power and responsibility to do so, especially with the problems that are evident with the patent system today.

And not doing so will cost our country even more jobs. Patent reform is about jobs because intellectual property, like other forms of private property, is a pillar of economic prosperity. Part of creating a pro-growth environment in this country includes modernizing our patent laws.

I have heard about the need for modernization from countless Hoosier business leaders, patent holders and entrepreneurs. Indiana has a long tradition of leadership in the life sciences and medical industry. Indiana also has a robust university research system, growing tech industry and, of course, a manufacturing industry that grows more high-tech with each passing year.

These and many other sectors of the Hoosier economy will benefit from the reforms in this bill. When inventors and entrepreneurs are able to protect their inventions and speed

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them to market, it creates jobs not only for researchers and inventors, but also for factory workers, distributors, sales associates, and marketing teams to name a few.

This bill will ensure that newly-issued patents will be strong, high-quality patents that have gone through rigorous review. It will modernize the U.S. Patent and Trademark Office to reduce the current backlog of more than 700,000 patent applications, and it will ensure that the PTO, with proper congressional oversight, is able to retain the fees it collects to fund its operations. Finally, this patent reform bill will go a long way towards eliminating the lawsuit abuse that has become so prevalent in recent years.

Of personal interest to me, I am pleased that the bill before us incorporates the changes to best mode that I obtained during the 2007 patent reform debate and floor vote.

American patent law currently requires that a patent application ``set forth the best mode contemplated by the inventor of carrying out his invention'' at the time the application is filed. But providing the best mode is not a requirement in Europe, Japan or the rest of the world and it has become a vehicle for lawsuit abuse.

In my view, the best mode requirement of American law imposes extraordinary and unnecessary costs on inventors. I have maintained since 2007 that best mode should be repealed in full, and I would continue to support a full repeal if possible today.

But, at the very least, I am pleased that the bill before us, like my amendments from 2007, only retains best mode as a specifications requirement for obtaining a patent. Once the examiner is satisfied that the best mode has been disclosed, the issue is settled forever. Going forward, best mode cannot be used as a legal defense to infringement in patent litigation or a basis for a post-grant review proceeding.

The America Invents Act will enable America to continue to be the world's leader in innovation. It will lay the groundwork for intellectual property protection that will help grow our economy and create jobs both in the Hoosier state and across the nation.

After so many years, I am encouraged that we are on the cusp of passing this bill out of the Congress and sending it to the president. I urge my colleagues to support the America Invents Act today.

Smith and Weldon Speeches – 157 Cong. Rec. – E1177-E1180 – June 22, 2011

AMERICA INVENTS ACT
SPEECH OF
HON. CHRISTOPHER H. SMITH
OF NEW JERSEY
IN THE HOUSE OF REPRESENTATIVES

Wednesday, June 22, 2011

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform:

Mr. SMITH of New Jersey.

Madam Chair, for over two decades, USPTO has had an internal policy that human beings at any stage of development are not patentable subject matter under 35 U.S.C. Section 101. I commend Chairman LAMAR SMITH for including in the manager's amendment to H.R. 1249, the America Invents Act, a provision that will codify an existing pro-life policy rider included in the CJS Appropriations bill since FY2004. This amendment, commonly known as the Weldon amendment, ensures the U.S. Patent and Trade Office, USPTO, does not issue patents that are directed to or encompassing a human organism.

Codifying the Weldon amendment simply continues to put the weight of law behind the USPTO policy.

This amendment and USPTO policy reflect a commonsense understanding that no member of the human species is an "invention," or property to be licensed for financial gain. Patents on human organisms commodify life and allow profiteers to financially gain from the biology and life of another human person.

Codifying a ban on patenting of humans would not violate international obligations under the TRIPs agreement with the WTO, in which member countries can exclude from patentability subject matter to prevent commercial exploitation which is "necessary to protect ordre public or morality, [and] to protect human, animal or plant life." (The Agreement on Trade-Related Aspects of Intellectual Property Rights, Article 27, Section 5).

Even the European Union prevents patents on human embryos on the basis of morality and public order without conflicting with the TRIPs agreement. (See Guidelines for Substantive Examination. European Patent Office. Part C, Chapter IV, Section 4.5, iii (Rule 28c)) 4.5 Biotechnological inventions

In the area of biotechnological inventions, the following list of exceptions to patentability under Art. 53(a) is laid down in Rule 28. The list is illustrative and non-exhaustive and is to be seen as giving concrete form to the concept of "ordre public" and "morality" in this technical field.

Under Art. 53(a), in conjunction with Rule 28, European patents are not to be granted in respect of biotechnological inventions which concern:

(iii) uses of human embryos for industrial or commercial purposes; The exclusion of the uses of human embryos for industrial or commercial purposes does not affect inventions for therapeutic or diagnostic purposes which are applied to the human embryo and are useful to it (EU Dir.98/44/EC, rec. 42).

I also submit into the RECORD items from previous debate on the Weldon amendment that will add further clarification to the intent of this important provision.

SPEECH OF HON. DAVE WELDON OF FLORIDA IN THE HOUSE OF REPRESENTATIVES, JULY 22, 2003

H. Admt. 286 Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2004—(House of Representatives— July 22, 2003)

AMENDMENT OFFERED BY MR. WELDON OF FLORIDA

Mr. WELDON of Florida. Mr. Chairman, I offer an amendment.

The CHAIRMAN pro tempore. The Clerk will designate the amendment.

The text of the amendment is as follows:

Amendment offered by Mr. WELDON of Florida:

None of the funds appropriated or otherwise made available under by the act may be used to issue patents on claims directed to or encompassing a human organism.

Mr. WELDON of Florida. Mr. Chairman, technology proceeds at a rapid rate, bringing great benefits to humankind from treatments of disease to greater wealth and greater knowledge of our world. However, sometimes technology can be used to undermine what is meant to be human, including the exploitation of human nature for the purpose of financial gain.

Several weeks ago, at a meeting of the European Society of Human Reproduction and Embryology in Madrid, Spain, it was reported that scientists had created the first male-female hybrid human embryos. The researchers transplanted cells from male embryos into female embryos and allowed them to grow for 6 days. This research was universally condemned as unnecessary and unethical.

Reuters reported that one member of the European Society condemned this research, saying there are very good reasons why this type of research is generally rejected by the international research community. Furthermore, the scientists who created these shemale embryos reportedly want to patent this research.

It is important that we, as a civilized society, draw the line where some rogue scientists fail to exercise restraint. Just because something can be done does not mean that it should be done. A

patent on such human organisms would last for 20 years. We should not allow such researchers to gain financially by granting them an exclusive right to practice such ghoulish research.

Long-standing American patent and trademark policy states that human beings at any stage of development are not patentable, subject to matters under 35 U.S.C. section 101. Though current policy would not issue patents on human embryos, Congress has remained silent on this subject. Though this amendment would not actually ban this practice, it is about time that Congress should simply reaffirm current U.S. patent policy and ensure there is not financial gain or ownership of human beings by those who engage in these activities.

This amendment simply mirrors the current patent policy concerning patenting humans. The Patent Office has, since 1980, issued hundreds of patents on living subject matter, from microorganisms to nonhuman animals. It does not issue patents on human beings nor should it. Congress should reaffirm this policy, and this amendment simply accomplishes this by restricting funds for issuing patents on human embryos, human organisms.

Congress should speak out, and I encourage my colleagues to support this amendment. I would like to add, Mr. Chairman, that this has no bearing on stem cell research or patenting genes, it only affects patenting human organisms, human embryos, human fetuses or human beings.

Mr. OBEY. Mr. Chairman, will the gentleman yield?

Mr. WELDON of Florida. I yield to the gentleman from Wisconsin.

Mr. OBEY. Mr. Chairman, I thank the gentleman for yielding to me. I think I heard the gentleman say this, but I want it repeated again so it is clear. Is the gentleman saying that this amendment would not interfere in any way with any existing patents with respect to stem cells?

Mr. WELDON of Florida. Reclaiming my time, Mr. Chairman, I would respond that, no, it would not. And I recognize that there are many institutions, particularly in Wisconsin, that have extensive patents on human genes, human stem cells. This would not affect any of those current existing patents.

The Patent Office policy is not to issue these patents, and there never has been one. The Congress has been silent on this issue. I am trying to put us on record that we support the Patent Office in this position that human life in any form should not be patentable.

Mr. OBEY. I appreciate the gentleman’s clarification.

Mr. WELDON of Florida. Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN pro tempore (Mr. TERRY). The question is on the amendment offered by the gentleman from Florida (Mr. WELDON). The amendment was agreed to.

SPEECH OF HON. DAVE WELDON OF FLORIDA IN THE HOUSE OF REPRESENTATIVES WEDNESDAY, NOVEMBER 5, 2003

Mr. WELDON of Florida. Mr. Speaker, this summer I introduced an amendment that provides congressional support for the current federal policy against patenting humans. It was approved by the House of Representatives without objection on July 22, 2003 as Sec. 801 of the Commerce/Justice/ State appropriations bill.

Since that time, the Biotechnology Industry Organization (BIO) has launched a lobbying campaign against the amendment, and has now enlisted the political aid of the broader "Coalition for the Advancement of Medical Research" (CAMR), an umbrella organization of groups supporting human cloning for research purposes.

BIO and CAMR claim to support the current policy of the U.S. Patent and Trademark Office (USPTO) against patenting human beings. However, they oppose this amendment, saying it would have a far broader scope—potentially prohibiting patents on stem cell lines, procedures for creating human embryos, prosthetic devices, and in short almost any drug or product that might be used in or for human beings.

The absurdity of these claims is apparent when one compares the language of the amendment with the language of the current USPTO policy that these groups claim to support.

The House-approved amendment reads:

"None of the funds appropriated or otherwise made available under this Act may be used to issue patents on claims directed to or encompassing a human organism."

The current USPTO policy is set forth in two internal documents:

U.S. Patent and Trademark Office, "Notice: Animals—Patentability," 1077 Official Gazette U.S. Pat. and Trademark Off. 8 (April 21, 1987):

"The Patent and Trademark Office now considers non-naturally occurring nonhuman multicellular living organisms, including animals, to be patentable subject matter within the scope of 35 U.S.C. 101. . . . A claim directed to or including within its scope a human being will not be considered patentable subject matter under 35 U.S.C. 101. The grant of a limited, but exclusive property right in a human being is prohibited by the Constitution. Accordingly, it is suggested that any claim directed to a nonplant multicellular organism which would include a human being within its scope include the limitation 'non-human' to avoid this ground of rejection."

(This notice responded to the Supreme Court's 1980 decision in Chakrabarty concluding that a modified "microorganism," a bacterium, could be patented, and a subsequent decision by the USPTO's own Board of Appeals in Ex parte Allen that a multicellular organism such as a modified oyster is therefore patentable as well. The USPTO sought to ensure that these policy conclusions would not be misconstrued as allowing a patent on a human organism.)

U.S. Patent and Trademark Office, Manual of Patent Examining Procedure (Revised February 2003), Sec. 2105: "Patentable Subject Matter—Living Subject Matter":

"If the broadest reasonable interpretation of the claimed invention as a whole encompasses a human being, then a rejection under 35 U.S.C. 101 must be made indicating that the claimed invention is directed to nonstatutory subject matter." In other words, the USPTO clearly distinguishes between organisms that are nonhuman and therefore are patentable and those organisms that are human and therefore not patentable subject matter.

As a USPTO official testified recently to the President's Council on Bioethics:

"When a patent claim includes or covers a human being, the USPTO rejects the claim on the grounds that it is directed to nonstatutory subject matter. When examining a patent application, a patent examiner must construe the claim presented as broadly as is reasonable in light of the application's specification. If the examiner determines that a claim is directed to a human being at any stage of development as a product, the examiner rejects the claims on the grounds that it includes non-statutory subject matter and provides the applicant with an explanation. The examiner will typically advise the applicant that a claim amendment adding the qualifier, nonhuman, is needed, pursuant to the instructions of MPEP 2105. The MPEP does not expressly address claims directed to a human embryo. In practice, examiners treat such claims as directed to a human being and reject the claims as directed to non-statutory subject matter." (Testimony of Karen Hauda on behalf of USPTO to the President's Council on Bioethics, June 20, 2002, http://bioethicsprint.bioethics.gov/transcripts/ jun02/june2I session5.html)

Current USTPO policy, then, is that any claim that can reasonably be interpreted as "directed to" or "encompassing" a human being, and any claim reaching beyond "nonhuman" organisms to cover human organisms (including human embryos), must be rejected. My amendment simply restates this policy, providing congressional support so that federal courts will not invalidate the USPTO policy as going beyond the policy of Congress (as they invalidated the earlier USPTO policy against patenting living organisms in general). Literally the only difference between my amendment and some of these USPTO documents is that the amendment uses the term "human organism," while the USPTO usually speaks of the nonpatentability of (anything that can be broadly construed as) a "human being." But "human organism" is more politically neutral and more precise, having a long history of clear interpretation in federal law.

Since 1996, Congress has annually approved a rider to the Labor/HHS appropriations bill that prohibits federal funding of research in which human embryos are created or destroyed— and this rider defines a human embryo as a "human organism" not already protected by older federal regulations on fetal research. In December 1998 testimony before the Senate Appropriations Subcommittee on Labor/HHS/Education, a wide array of expert witnesses—including NIH Director Harold Varmus and the head of a leading company in BIO—testified that this rider does not forbid funding research on embryonic stem cells, because a human embryo is an "organism" but a stem cell clearly is not (see S. Hrg. 105–939, December 2, 1998). That same conclusion was later reached by HHS general counsel Harriet Rabb, in arguing that the Clinton administration's guidelines on stem cell research were in accord with statutory law; this same legal opinion was accepted by the Bush administration when it issued its more limited guidelines for funding stem cell research (Legal memorandum of HHS general counsel Harriet S. Rabb, "Federal Funding for Research Involving Human Pluripotent Stem Cells," January 15, 1999). To argue now that a ban on patenting "human organisms" somehow bans patenting of

stem cells or stem cell lines would run counter to five years of legal history, and would undermine the legal validity of any federal funding for embryonic stem cell research.

BIO also claims that the amendment raises new and difficult questions about "mixing" animal and human species. What about an animal that is modified to include a few human genes so it can produce a human protein or antibody? What about a human/animal "chimera" (an embryo that is half human, half animal)? The fact is, these questions are not new. The USPTO has already granted patents on the former (see U.S. patent nos. 5,625,126 and 5,602,306). It has also thus far rejected patents on the latter, the half-human embryo (see Biotechnology Law Report, July–August 1998, p. 256), because the latter can broadly but reasonably be construed as a human organism. The Weldon amendment does nothing to change this, but leaves the USPTO free to address new or borderline issues on the same case-by-case basis as it already does.

In short, my amendment has exactly the same scope as the current USPTO policy, and cannot be charged with the radical expansions of policy that BIO and its allies claim. In reality, BIO opposes this amendment because it opposes the current USPTO policy as well, and has a better chance of nullifying this policy in court (or having courts reinterpret it into uselessness) if it lacks explicit support in statutory law.

This goal is apparent from BIO's own "fact sheet" opposing the amendment (see www.bio.org/ip/cloningfactsheet.asp). There BIO argues that human beings should be patentable, if they arise from anything other than "conventional reproduction" or have any "physical characteristics resulting from human intervention." In other words, humans should be seen as "inventions" and thus be patentable on exactly the same grounds as animals are now.

The logic of this argument reaches beyond the human embryo, because an embryo who resulted from reproductive technology or received any physical or genetic modification presumably remains just as invented throughout his or her existence, no matter what stage of development he or she reaches.

BIO's stated support for reducing members of the human species to patentable commodities makes the passage of my amendment more urgently necessary than ever.

SPEECH OF HON. DAVE WELDON OF FLORIDA IN THE HOUSE OF REPRESENTATIVES FRIDAY, NOVEMBER 21, 2003

AMENDMENT TO SUPPORT CURRENT U.S. PATENT AND TRADEMARK OFFICE POLICY AGAINST PATENTING HUMAN ORGANISMS—(EXTENSIONS OF REMARKS—NOVEMBER 22, 2003).

Mr. WELDON of Florida. Mr. Speaker, this summer I introduced an amendment that provides congressional support for the current U.S. Patent and Trademark Office policy against patenting human organisms, including human embryos and fetuses. This amendment was approved by the House of Representatives with bipartisan support on July 22, 2003, as Sec. 801 of the Commerce/ Justice/State appropriations bill.

On November 5th of this year, I submitted to the Congressional Record an analysis of my amendment that offers a more complete elaboration of what I stated on July 22nd, namely, that this amendment "has no bearing on stem cell research or patenting genes, it only affects patenting human organisms, human embryos, human fetuses or human beings."

However, some have continued to misrepresent my amendment by claiming it would also prohibit patent claims directed to methods to produce human organisms. Moreover, some incorrectly claim that my amendment would prohibit patents on claims directed to subject matter other than human organisms. This is simply untrue.

What I want to point out is that the U.S. Patent Office has already issued patents on genes, stem cells, animals with human genes, and a host of non-biologic products used by humans, but it has not issued patents on claims directed to human organisms, including human embryos and fetuses. My amendment would not affect the former, but would simply affirm the latter. This position is reaffirmed in the following U.S. Patent Office letter of November 20, 2003.

I submit to the RECORD a letter from James Rogan, Undersecretary and Director of the U.S. Patent office, that supports the enactment of my amendment because it "is fully consistent with our policy."

U.S. PATENT AND TRADEMARK OFFICE, *November 20, 2003.*

Hon. TED STEVENS, Chairman, Committee on Appropriations, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: Thank you for the opportunity to present the Administration's position on the Weldon amendment adopted by the House during consideration of H.R. 2799, the Commerce-Justice-State Appropriations bill FY 2004, and the effect it would have on the United States Patent and Trademark Office (USPTO) policy on patenting living subject matter. For the reasons outlined below, we view the Weldon amendment as fully consistent with USPTO's policy on the non-patentability of human life-forms.

The Weldon Amendment would prohibit the U.S. Patent and Trademark Office from issuing any patent "on claims directed to or encompassing a human organism." The USPTO understands the Weldon Amendment to provide unequivocal congressional backing for the long-standing USPTO policy of refusing to grant any patent containing a claim that encompasses any member of the species Homo sapiens at any stage of development. It has long been USPTO practice to reject any claim in a patent application that encompasses a human life-form at any stage of development, including a human embryo or human fetus; hence claims directed to living "organisms" are to be rejected unless they include the adjective "nonhuman."

The USPTO's policy of rejecting patent application claims that encompass human lifeforms, which the Weldon Amendment elevates to an unequivocal congressional prohibition, applies regardless of the manner and mechanism used to bring a human organism into existence (e.g., somatic cell nuclear transfer, in vitro fertilization, parthenogenesis). If a patent examiner determines that a claim is directed to a human life-form at any stage of development, the claim is rejected as non-statutory subject matter and will not be issued in a patent as such.

As indicated in Representative WELDON's remarks in the Congressional Record of November 5, 2003 the referenced language precludes the patenting of human organisms, including human embryos. He further indicated that the amendment has "exactly the same scope as the current USPTO policy," which assures that any claim that can be broadly construed as a human being, including a human embryo or fetus, is not patentable subject matter. Therefore, our understanding of the plain language of the Weldon Amendment is fully consistent with the detailed statements that the author of the amendment, Representative Weldon, has made in the Congressional Record regarding the meaning and intent of his amendment.

Given that the scope of Representative WELDON's amendment does not alter the USPTO policy on the non-patentability of human life-forms at any stage of development and is fully consistent with our policy, we support its enactment. With best personal regards, I remain

Sincerely, JAMES E. ROGAN, Under Secretary and Director.

SPEECH OF HON. DAVE WELDON OF FLORIDA IN THE HOUSE OF REPRESENTATIVES MONDAY, DECEMBER 8, 2003

CONFERENCE REPORT ON H.R. 2673, CONSOLIDATED APPROPRIATIONS ACT, 2004—(HOUSE OF REPRESENTATIVES—DECEMBER 8, 2003)

Mr. WELDON of Florida. Mr. Speaker, on July 22, 2003, I introduced an amendment to provide congressional support for the current U.S. Patent and Trademark Office (USPTO) policy and practice against approving patent claims directed to human organisms, including human embryos and human fetuses. The House of Representatives approved the amendment without objection on July 22, 2003, as section 801 of the Fiscal Year 2004 Commerce/Justice/State Appropriations Bill. The amendment, now included in the Omnibus appropriations bill as section 634 of H.R. 2673, reads as follows: "None of the funds appropriated or otherwise made available under this Act may be used to issue patents on claims directed to or encompassing a human organism."

The current Patent Office policy is that "non-human organisms, including animals" are patentable subject matter under 35 U.S.C. 101, but that human organisms, including human embryos and human fetuses, are not patentable. Therefore, any claim directed to a living organism must include the qualification "non-human" to avoid rejection. This amendment provides unequivocal congressional support for this current practice of the U.S. patent office.

House and Senate appropriators agreed on report language in the manager's statement on section 634. The statement reads: "The conferees have included a provision prohibiting funds to process patents of human organisms. The conferees concur with the intent of this provision as expressed in the colloquy between the provision's sponsor in the House and the ranking minority member of the House Committee on Appropriations as occurred on July 22, 2003, with respect to any existing patents on stem cells."

The manager's statement refers to my discussion with Chairman DAVID OBEY, when I explained that the amendment "only affects patenting human organisms, human embryos, human fetuses or human beings." In response to Chairman OBEY's inquiry, I pointed out that there are existing patents on stem cells, and that this amendment would not affect such patents.

Here I wish to elaborate further on the exact scope of this amendment. The amendment applies to patents on claims directed to or encompassing a human organism at any stage of development, including a human embryo, fetus, infant, child, adolescent, or adult, regardless of whether the organism was produced by technological methods (including, but not limited to, in vitro fertilization, somatic cell nuclear transfer, or parthenogenesis). This amendment applies to patents on human organisms regardless of where the organism is located, including, but not limited to, a laboratory or a human, animal, or artificial uterus.

Some have questioned whether the term ”organism” could include “stem cells”. The answer is no. While stem cells can be found in human organisms (at every stage of development), they are not themselves human organisms. This was considered the “key question” by Senator HARKIN at a December 2, 1998 hearing before the Senate Appropriations Subcommittee on Labor, Health and Human Services and Education regarding embryonic stem cell research. Dr. Harold Varmus, then director of the NIH testified ”that pulripotent stem cells are not organisms and are not embryos. . . . “Senator HARKIN noted: “I asked all of the scientists who were here before the question of whether or not these stem cells are organisms. And I believe the record will show they all said no, it is not an organism.” Dr. Thomas Okarma of the Geron Corporation stated: “My view is that these cells are clearly not organisms . . . in fact as we have said, are not the cellular equivalent of an embryo.” Dr. Arthur Caplan agreed with this distinction, saying that a stem cell is “absolutely not an organism.” There was a unanimous consensus on this point at the 1998 hearing, among witnesses who disagreed on many other moral and policy issues related to stem cell research.

The term “human organism” includes an organism of the human species that incorporates one or more genes taken from a nonhuman organism. It includes a humananimal hybrid organism (such as a humananimal hybrid organism formed by fertilizing a nonhuman egg with human sperm or a human egg with non-human sperm, or by combining a comparable number of cells taken respectively from human and nonhuman embryos). However, it does not include a non-human organism incorporating one or more genes taken from a human organism (such as a transgenic plant or animal). In this respect, as well, my amendment simply provides congressional support for the Patent Office’s current policy and practice.

This amendment should not be construed to affect claims directed to or encompassing subject matter other than human organisms, including but not limited to claims directed to or encompassing the following: cells, tissues, organs, or other bodily components that are not themselves human organisms (including, but not limited to, stem cells, stem cell lines, genes, and living or synthetic organs); hormones, proteins or other substances produced by human organisms; methods for creating, modifying, or treating human organisms, including but not limited to methods for creating human embryos through in vitro fertilization, somatic cell nuclear transfer, or parthenogensis; drugs or devices (including prosthetic devices) which may be used in or on human organisms.

Jamed Rogan, undersecretary of the U.S. Patent and Trademark Office, has stated in a November 20, 2003, letter to Senate appropriators: ”The USPTO understands the Weldon Amendment to provide unequivocal congressional backing for the long-standing USPTO policy of refusing to grant any patent containing a claim that encompasses any member of the species Homo sapiens at any stage of development . . . including a human embryo or human fetus. . . . The USPTO’s

policy of rejecting patent application claims that encompass human lifeforms, which the Weldon Amendment elevates to an unequivocal congressional prohibition, applies regardless of the manner and mechanism used to bring a human organism into existence (e.g., somatic cell nuclear transfer, in vitro fertilization, parthenogenesis).” Undersecretary Rogan concludes: “Given that the scope of Representative WELDON’s amendment . . . is full consistent with our policy, we support its enactment.”

The advance of biotechnology provides enormous potential for developing innovative science and therapies for a host of medical needs. However, it is inappropriate to turn nascent individuals of the human species into profitable commodities to be owned, licensed, marketed and sold.

Congressional action is needed not to change the Patent Office’s current policy and practice, but precisely to uphold it against any threat of legal challenge. A previous Patent Office policy against patenting living organisms in general was invalidated by the U.S. Supreme Court in 1980, on the grounds that the policy has no explicit support from Congress. In an age when the irresponsible use of biotechnology threatens to make humans themselves into items of property, of manufacture and commerce, Congress cannot let this happen again in the case of human organisms. I urge my colleagues to support this Omnibus in defense of this important provision against human patenting.

Smith Extension Remarks – 157 Cong. Rec. E1182-E1185

[Congressional Record Volume 157, Number 91 (Thursday, June 23, 2011)]

[Extensions of Remarks]

[Pages E1182-E1185]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

AMERICA INVENTS ACT

speech of
HON. LAMAR SMITH
of Texas
in the house of representatives

Wednesday, June 22, 2011

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform:

Mr. SMITH of Texas. Madam Chair, I submit: (1) Manager's Statement on Supplemental Examination; (2) Manager's Statement on Genetic Test Study proposed in the Managers; (3) Statement on the codification of the Weldon amendment; (4) Statement on the business method patent transitional program; (5) Statement on the PTO fee compromise provision in the Manager's amendment; (6) November 2003 letter on the Weldon amendment from PTO Director James Rogan; (7) Information on the Weldon amendment from the Family Research Council.

Chairman's Floor Remarks/Manager's Statement: Supplemental Examination in H.R. 1249 Mr. Speaker, this bill also contains a very important new administrative proceeding available to patent owners, to help improve the quality of issued patents. This new "Supplemental Examination" procedure encourages the voluntary and proactive disclosure of information that may be relevant to patent prosecution for the Office to consider, reconsider, or correct. The voluntary disclosure by patentees serves to strengthen valid patents, while narrowing or eliminating patents or claims that should not have been issued. Both of these outcomes promote investment in innovation by removing uncertainty about the scope, validity or enforceability of patents, and thus the use of this new proceeding by patent owners is to be encouraged. Subparagraph © relating to Supplemental Examination is intended to address the circumstance where, during the course of a supplemental examination or reexamination proceeding ordered under this section, a court or administrative agency advises the PTO that it has made a determination that a fraud on the Office may have been committed in connection with the patent that is the subject of the supplemental examination. In such a circumstance, subparagraph © provides that, in addition to any other actions the Director is authorized to take, including the cancellation of any claims found to be invalid under section 307 as a result of the reexamination ordered under this section, the Director shall also refer the matter to the Attorney General. As such, this provision is not intended to impose any obligation on the PTO beyond those it already undertakes, or require it to investigate or prosecute any such potential fraud. Subparagraph © is

neither an investigative nor an adjudicative provision, and, as such, is not intended to expand the authority or obligation of the PTO to investigate or adjudicate allegations of fraud lodged by private parties. Further, any referral under this subjection is not meant to relieve the Director from his obligation to conclude the supplemental examination or reexamination proceeding ordered under this section. It is important for the process to proceed through conclusion of reexamination, so that any claims that are invalid can be properly cancelled. The decision to make referrals under subsection © is not meant to be delegated to examiners or other agents of the PTO, but rather is a determination that should only be made by the Director himself or herself.

Supplemental Examination has the potential to play a powerful role in improving patent quality and boosting investment in innovation, economic growth, and job creation. The Director should implement this new authority in a way that maximizes this potential.

[[Page E1183]]

Genetic Test Study in Manager's Amendment (DWS) Mr. Speaker, Section 27 of H.R. 1249 requires the Director of the U.S. Patent and Trademark Office to conduct a study on the availability of confirmatory genetic diagnostic testing services in the domestic market, and whether changes to existing patent law are necessary to promote such availability more effectively. Consistent with current law, the genetic inventions that form the basis for such diagnostic tests are eligible for patenting, and may be exclusively licensed by such patent holders for genetic diagnostic purposes.

This study is intended to provide unbiased, reliable, and empirical information about the existing availability of independent confirmatory genetic diagnostic testing services, as well as patient demand for such testing services, in situations where genetic diagnostic tests are indeed patented and exclusively licensed. Nothing in this section shall be construed as undermining existing patent law in this regard. This study is intended to include, but is not limited to, several specific aspects of this issue. Paragraph (1) of subsection (b) requires an assessment of whether the existing level of availability of confirmatory genetic diagnostic testing has an impact on the ability of medical professionals to provide the appropriate standard of medical care to recipients of genetic diagnostic testing, and includes an assessment of the role that patents play in innovation, quality of services, and investment in the genetic diagnostic marketplace. The assessment required by this paragraph also should include empirical information about the extent to which patents have actually been enforced or asserted against the unauthorized practice of confirmatory genetic diagnostic tests, and a comparison of the availability of and demand for confirmatory testing in situations where genetic tests are not patented or are non-exclusively licensed. Paragraph (2) requires the Director to assess the effects of independent, unauthorized confirmatory genetic testing on patent holders or exclusively licensed test providers. The Committee urges the Director to include in this assessment the possible effects of allowing confirmatory testing on authorized providers of non-exclusively licensed genetic diagnostic tests as well, given that such authorized providers may already provide confirmatory testing services. Paragraph (3) requires an evaluation of the impact of patents and exclusive licensing of genetic diagnostic tests on the practice of medicine, including, but not limited to, the ability of medical professionals to interpret test results, and the ability of licensed or unlicensed test providers to provide confirmatory genetic diagnostic tests. The Director's assessment should also include

information on the frequency at which confirmatory genetic diagnostic testing currently is performed by medical professionals in instances where an absence of patent protection or non-exclusive licensing permits multiple independent test providers. Paragraph (4) requires an assessment of the role that cost and insurance coverage have on access to and provision of confirmatory genetic diagnostic tests today, whether patented or not or exclusively licensed or not, and should include an assessment of whether private and public payors cover such costs and are likely to cover the costs of any expansion of confirmatory testing." Additional Legislative History for the Second Opinion Confirmation Test Study in Managers (H.R. 1249): Additional Information for the Record:

"Section 27 requires USPTO to conduct a study on the impact that a lack of independent second opinion testing has on providing medical care to patients and recipients of genetic diagnostic testing, the effect that providing such tests would have on patent holders of exclusive genetic tests, the impact the current exclusive licensing and patents on genetic testing activity has on the practice of medicine, and the role that cost and insurance coverage have on access to genetic diagnostic tests. Nothing in Section 27 shall be construed to reflect any expression by the Congress with respect to the patentability or non-patentability of genetic material or with respect to the validity or invalidity of patents on genetic material."

The Weldon Amendment

"None of the funds appropriated or otherwise made available by this act may be used to issue patents on claims directed to or encompassing a human organism."

Legislative History:

The legislation prohibits the use of appropriated funds by the Patent and Trademark Office to issue certain types of claims presented in patent applications. The types of patent claims subject to the prohibition are limited precisely to those that the Patent and Trademark Office, pursuant to its policies, has indicated may not be granted (see M.P.E.P 1st rev. 2105). Specifically, this section operates to prohibit the use of appropriated funds to issue a patent containing claim that encompasses a human individual.

The Committee recognizes that the economic viability of the biotechnology industry requires that patents be available for the full spectrum of innovation that may be subject to commercialization. The legislation, accordingly does not limit patent eligibility for any type of biotechnology invention that may be commercialized in the United States.

The Committee also recognizes that continued innovation in the biomedical and biotechnological fields will lead to new kinds of inventions, and it expects that the overwhelming majority of such inventions will not raise any of the concerns that the present legislation addresses. In particular, nothing in this section should be construed to limit the ability of the PTO to issue a patent containing claims directed to or encompassing:

1. any chemical compound or composition, whether obtained from animals or human beings or produced synthetically, and whether identical to or distinct from a chemical structure as found in an animal or human being, including but not limited to nucleic acids, polypeptides, proteins, antibodies and hormones;

2. cells, tissue, organs or other bodily components produced through human intervention, whether obtained from animals, human beings, or other sources; including but not limited to stem cells, stem cell derived tissues, stem cell lines, and viable synthetic organs;

3. methods for creating, modifying, or treating human organisms, including but not limited to methods for creating embryos through in vitro fertilization, methods of somatic cell nuclear transfer, medical or genetic therapies, methods for enhancing fertility, and methods for implanting embryos;

4. a nonhuman organism incorporating one or more genes taken from a human organism, including but not limited to a transgenic plant or animal, or animal models used for scientific research.

As the legislation addresses only the authority of the PTO to expend funds appropriated by this Act, it concerns patents that may issue on applications filed on or after the date of the legislation. The legislation does not create a claim or give rise to any cause of action to limit the rights associated with, or the enforceability of any patent duly granted by the PTO.

Section 18 (H.R. 1249)--Business Method Patent Transitional Program

The proceeding would create a cheap and speedy alternative to litigation—allowing parties to resolve these disputes rather than spend millions of dollars that litigation now costs. In the process, the proceeding would also prevent nuisance or extortion litigation settlements.

Business methods were generally not patentable in the United States before the late 1990s, and generally are not patentable elsewhere in the world, but the Federal Circuit (in what was an activist decision) created a new class of patents in its 1998 State Street decision.

In its 2010 decision in Bilski v. Kapoos, the U.S. Supreme Court clamped down on the patenting of business methods and other patents of poor quality.

It is likely that most if not all the business method patents that were issued after State Street are now invalid under Bilski. There is no sense in allowing expensive litigation over patents that are no longer valid.

This provision is strongly supported by community banks, credit unions and other institutions that are an important source of lending to homeowners and small businesses. Money spent litigating over invalid business-method patents, or paying nuisance settlements, cannot be loaned to Americans to purchase new homes and start new businesses.

Resolving the validity of these patents in civil litigation typically costs about $5-to-$10 million per patent. Resolving the validity of these patents through the bill’s administrative proceeding costs much less.

Moreover, the proceeding allows business-method patents to be reviewed by the experts at the Patent Office under the correct (Bilski) standard.

To use this proceeding, a challenger must make an up-front showing to the PTO of evidence that the business-method patent is more likely than not invalid. This is a high standard. Only the worst patents, which probably never should have been issued, will be eligible for review in this proceeding.

Additionally any argument about this provision and

Constitutionality is simply a red herring. Congress has the authority to create administrative proceedings to review the validity of existing patents. We have done it before and we will be doing it in the future.

This issue has been litigated and rejected by the courts, when Congress created ex parte reexam in 1980. Ex parte reexam was applied to all existing patents when that system was created. In Patlex Corp. v. Mossinghoff, the Federal Circuit rejected the argument that applying a new system of administrative review to existing patents is a taking. The same logic applies to this provision.

Never in the history of U.S. patent law has it been held, after a patent claim was determined to be invalid because it covered unprotectable subject matter, that the owner of the patent was nevertheless entitled to compensation on the basis of that invalid claim.

This section only creates a new mechanism for reviewing the validity of business-method patents. It does not alter the substantive law governing the validity of those patents.

Under settled precedent, the transitional review program is absolutely constitutional.

It is wrong and offensive for this provision to be referred to as a bail-out. The program does not give one cent to any private party and the costs of the proceeding are required to be fully recouped through the fee charged

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for initiating the proceeding. It is a necessary program to allow the PTO to fix mistakes that occurred in light of an activist judicial decision in the 1998 State Street decision that created this new patentable subject matter without Congress' approval.

This bill will provide the patent office with a fast, precise vehicle to review low quality business method patents, which the Supreme Court has acknowledged are often abstract and overly broad.

And it bears repeating that defendants cannot even start this program unless they can persuade a panel of judges at the outset of the proceeding that it is more likely than not that the patent is invalid. This is a high threshold, which requires the challenger to present his best evidence and arguments at the outset. Very few patents that undergo this review are likely to be valid patents.

Specifically, the bill's provision applies to patents that describe a series of steps used to conduct every day business applications in the financial products and retail service space. These are patents that can be and have been asserted against all types of businesses—from community banks and credit unions to retailers like Walmart, Bed Bath & Beyond, Best Buy, J.C. Penney,

Staples and Office Max to other companies like Dr. Pepper Snapple Group, UPS, Hilton, AT&T, Facebook, Frito-Lay, Google, Marriott, Walt Disney, Delta Airlines and YouTube.

This provision is not tied to one industry or sector of the economy—it affects everyone. For example, this program would allow the Patent Office to decide whether to review patents for business methods related to:

Printing ads at the bottom of billing statements

Buying something online and picking it up in the store

Re-ordering checks online

Converting a IRA to a Roth IRA

Getting a text message when you use your credit card. Those who argue that this provision is a Wall Street bailout are just plain wrong. This is about questionable patents and the frivolous litigation that results from them. This provision is important legal reform, supported by the U.S. Chamber of Commerce and is important for American job creators.

PTO Fee Diversion Compromise (H.R. 1249 Managers) By giving USPTO access to all its funds, the Manager's Amendment supports the USPTO's efforts to improve patent quality and reduce the backlog of patent applications. To carry out the new mandates of the legislation and reduce delays in the patent application process, the USPTO must be able to use all the fees it collects.

The language in the Manager's Amendment reflects the intent of the Judiciary Committee, the Appropriations Committee, and House leadership to end fee diversion. USPTO is 100% funded by fees paid by inventors and trademark filers who are entitled to receive the services they are paying for. The language makes clear the intention not only to appropriate to the USPTO at least the level requested for the fiscal year but also to appropriate to the USPTO any fees collected in excess of such appropriation.

Providing USPTO access to all fees collected means providing access at all points during that year, including in case of a continuing resolution. Access also means that reprogramming requests will be acted on within a reasonable time period and on a reasonable basis. It means that future appropriations will continue to use language that guarantees USPTO access to all of its fee collections. United States Patent and Trademark Office, Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark office, Alexandria, VA.

Hon. Ted Stevens, Chairman, Committee on Appropriations, U.S. Senate, Washington, DC.

Dear Mr. Chairman: Thank you for the opportunity to present the Administration's position on the Weldon amendment adopted by the House during consideration of H.R. 2799, the Commerce-Justice-State Appropriations bill FY 2004, and the effect it would have on the United States Patent and Trademark Office (USPTO) policy on patenting living subject matter. For the reasons outlined below, we view the Weldon amendment as fully consistent with USPTO's policy on the non-patentability of human life-forms.

The Weldon Amendment would prohibit the U.S. Patent and Trademark Office from issuing any patent "on claims directed to or encompassing a human organism." The USPTO understands the Weldon Amendment to provide unequivocal congressional backing for the long-standing USPTO policy of refusing to grant any patent containing a claim that encompasses any member of the species Homo sapiens at any stage of development. It has long been USPTO practice to reject any claim in a patent application that encompasses a human life-form at any stage of development, including a human embryo or human fetus; hence claims directed to living "organisms" are to be rejected unless they include the adjective "nonhuman."

The USPTO's policy of rejecting patent application claims that encompass human life- forms, which the Weldon Amendment elevates to an unequivocal congressional prohibition, applies regardless of the manner and mechanism used to bring a human organism into existence (e.g., somatic cell nuclear transfer. in vitro fertilization, parthenogenesis). If a patent examiner determines that a claim is directed to a human life-form at any stage of development, the claim is rejected as non-statutory subject matter and will not be issued in a patent as such.

As indicated in Representative Weldon's remarks in the Congressional Record of November 5, 2003, the referenced language precludes the patenting of human organisms, including human embryos. He further indicated that the amendment has "exactly the same scope as the current USPTO policy." which assures that any claim that can be broadly construed as a human being, including a human embryo or fetus, is not patentable subject matter. Therefore, our understanding of the plain language of the Weldon Amendment is fully consistent with the detailed statements that the author of the amendment, Representative Weldon, has made in the Congressional Record regarding the meaning and intent of his amendment.

Given that the scope of Representative Weldon's amendment does not alter the USPTO policy on the non-patentability of human life-forms at any stage of development and is fully consistent with our policy, we support its enactment.

With best personal regards, I remain

Sincerely,

James E. Rogan,
Under Secretary and Director.

FRCAction, Family Research Council.

Codify the Weldon Ban on Patenting Humans Current Weldon Patent Ban on Humans

The Weldon Amendment is contained in the annual Commerce, Justice and Science Appropriations bills (CJS) and prevents the patenting of humans. Congress has passed it each year since 2004, and it was included most recently as part of the FY2010 Omnibus (Section 518, Title V, Division B, of the FY2010 Consolidated Appropriations Act, 2010 (H.R. 3288, P.L. 111-117)) and extended by the FY2011 Omnibus spending bill (Department of Defense and Full-Year Continuing Appropriations Act, 2011 (H.R. 1473, P.L. 112-10)).

Weldon Amendment, Section 518: “None of the friends appropriated or otherwise made available under this Act may be used to issue patents on claims directed to or encompassing a human organism.”

Codify the Weldon Amendment—Add it to Patent Reform Legislation

Congress has each year since 2004 passed the Weldon Amendment to prevent any profiting from patents on humans. The Weldon Amendment restricts funds under the Commerce, Justice, Science Appropriations bill from being used by the U.S. Patent and Trademark Office (USPTO) to issue patents directed to “human organisms.”

The America Invents Act (H.R. 1249) may authorize the USPTO to pay for the issuance of patents with “user fees” instead of with Congressionally appropriated funds. If this funding mechanism becomes law, the Weldon Amendment restriction would not apply since it only covers funds appropriated under the CJS bill. The USPTO could, thereby, issue patents directed to human beings with non-appropriated funds.

Patenting human beings at any stage of development would overturn the long-standing USPTO policy against issuing such patents. As the Quigg Memo stated in 1987 (see below) a grant of a property right in a human being is unconstitutional, and patents on humans are grounds for rejection.

The Weldon restriction can be codified by adding a provision to the America Invents Act to ensure that human beings are not patentable subject matter.

Codifying a ban on patenting of humans would not violate international obligations under the TRIPs agreement with the WTO. The European Union prevents patents on human embryos on the ground that doing so would violate the public order and morality, an exception the TRIPs agreement specifically allows under Article 27, Section 5.

What the Weldon Patent Amendment Does and Does Not Affect

The Weldon Amendment does prevent the USPTO from patenting humans at any stage of development, including embryos or fetuses, by preventing patents on claims directed to “human organisms.”

The Weldon Amendment’s use of the term “human organism” does include human embryos, human fetuses, human-animal chimeras, “she-male” human embryos, or human embryos created with genetic material from more than one embryo.

The Weldon Amendment’s use of “human organism” does not include the process of creating human embryos, such as human cloning, nor does it include non-human organisms, e.g., animals.

Then Undersecretary James Rogan wrote to Senate Appropriators on November 20, 2003 stating that the Weldon Amendment gave congressional backing to long-standing USPTO policy against patenting humans stating:

"The Weldon Amendment would prohibit the U.S. Patent and Trademark Office from issuing any patent "on claims directed to or encompassing a human organism." The USPTO understands the Weldon Amendment to provide unequivocal congressional backing for the long-standing USPTO policy of refusing to grant any patent containing a claim that encompasses any member of the

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species Homo sapiens at any stage of development. It has long been USPTO practice to reject any claim in a patent application that encompasses a human life-form at any stage of development, including a human embryo or human fetus; hence claims directed to living "organisms" are to be rejected unless they include the adjective 'nonhuman."

Secretary Rogan concluded: "The USPTO's policy of rejecting patent application claims that encompass human life-forms, which the Weldon Amendment elevates to an unequivocal congressional prohibition, applies regardless of the manner and mechanism used to bring a human organism into existence (e.g., somatic cell nuclear transfer, in vitro fertilization, parthenogenesis). If a patent examiner determines that a claim is directed to a human life-form at any stage of development, the claim is rejected as non-statutory subject matter and will not be issued in a patent as such."

The Weldon Amendment does not prevent patents on human cells, genes, or other tissues obtained from human embryos or human bodies.

Rep. Dave Weldon submitted a statement to the Congressional Record on December 8, 2003 clarifying that the Weldon Amendment would not prevent patents for non-human organisms even with some human genes. Nor would it affect patents for human cells, tissues or body parts, or for methods of creating human embryos.

Rep. Weldon stated: "This amendment should not be construed to affect claims directed to or encompassing subject matter other than human organisms, including but not limited to claims directed to or encompassing the following: cells, tissues, organs, or other bodily components that are not themselves human organisms (including, but not limited to, stem cells, stem cell lines, genes, and living or synthetic organs); hormones, proteins or other substances produced by human organisms; methods for creating, modifying, or treating human organisms, including but not limited to methods for creating human embryos through in vitro fertilization, somatic cell nuclear transfer, or parthenogensis; drugs or devices (including prosthetic devices) which may be used in or on human organisms."

The Weldon amendment does not ban human stem cell patents, including patents on human embryonic stem cells. "Stem cells" are not "organisms."

On December 2, 1998, several scientists supportive of federal funding of human embryonic stem cell research testified before the Senate Subcommittee on Labor, Health and Human Services, and Education Committee on Appropriations that "stem cells" are not "human organisms." When asked, Dr. James Thomson who first obtained human embryonic stem cells, and has patents on those stem cell lines, responded:

"They am not organisms and they are not embryos."

Despite claims in 2003 that the Weldon amendment in 2003 would ban stem cell patents, the USPTO has maintained several embryonic stem cell patents issued previously. The USPTO has also issued several new patents on human embryonic stem cells since 2003, and has issued roughly 300 new patents on pluripotent stout cells. The Weldon amendment only affects patents on human organisms. (Note, the EU recently reaffirmed its rejection of patents on embryonic stem cells, yet, the Weldon amendment does not follow suit).

History and Background

Longstanding United States Patent and Trademark Office (USPTO) policy states that human beings at any stage of development are not patentable subject matter under 35 U.S.C. Section 101. In 1980, the U.S. Supreme Court in Diamond v Chakrabarty expanded the scope of patentable subject matter claiming Congress intended statutory subject matter to "include anything under the sun that is made by man." The USPTO eventually issued patents directed to non-human organisms, including animals. However, the USPTO rejected patents on humans (see below).

However, as early as 2003 U.S. researchers announced that they created human male-female embryos and reportedly wanted to patent this research (http://www.thenewatlantis.com/publications/my-mother-the-embryo). The researchers transplanted cells from male embryos into female embryos and allowed them to grow for six days.

Because of the possibility of court challenges to USPTO policy, Rep. Dave Weldon offered an amendment on July 22, 2003 to the CJS Appropriations bill to prevent funding for patents directed to "human organisms."

The Weldon amendment was adopted by voice vote, and was included as Section 634, Title VI of Division B, in the Consolidated Appropriations Act, 2004 (P.L. 108-199). The accompanying report language clarified its scope: "The conferees have included a provision prohibiting funds to process patents of human organisms. The conferees concur with the intent of this provision as expressed in the colloquy between the provisions sponsor in the House and the ranking minority member of the House Committee on Appropriations as occurred on July 22, 2003, with respect to any existing patents on stem cells." (Conference Report 108-401).

The Weldon amendment has been included each year in the CJS appropriations bill since 2004 and reflected the USPTO policy against patenting humans as outlined in 3 USPTO official documents.

First, the USPTO published the "Quigg memo" in its Official Gazette on January 5, 1993, which was written in 1917 stating: "The Patent and Trademark Office now considers nonnaturally occurring non-human multicellular living organisms, including animals, to be patentable subject matter within the scope of 35 U.S.C. 101. . . . A claim directed to or including within its scope a human being will not be considered patentable subject matter under 35 U.S.C. 101." Furthermore, it "suggests" that that any claim directed to "a non-plant multicellular organism

which would include a human being within its scope include the limitation ‘non-human’ to avoid this ground of rejection.”

Second, the USPTO policy is also contained in an official media advisory issued on April 2, 1998 in response to news about s patent application directed to a human/non-human chimera. USPTO claimed that patents “inventions directed to human/non-human chimera could, under certain circumstances, not be patentable because, among other things, they would fail to meet the public policy and morality aspects of the utility requirement.”

Third, the USPTO policy is contained in the Manual of Patent Examining Procedure (MPEP) section 2105 under “Patentable Subject Matter.” The MPEP states that the USPTO “would now consider nonnaturally occurring, nonhuman multicellular living organisms, including animals, to be patentable subject matter within the scope of 35 U.S.C. 101. If the broadest reasonable interpretation of the claimed invention as a whole encompasses a human being, then a rejection under 35 U.S.C. 101 must be made indicating that the claimed invention is directed to nonstatutory subject matter.”

Moran Extension Remarks – 157 Cong. Rec. E1189-E1190

[Congressional Record Volume 157, Number 91 (Thursday, June 23, 2011)]

[Extensions of Remarks]

[Pages E1189-E1190]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

AMERICA INVENTS ACT

speech of

HON. JAMES P. MORAN

of virginia

in the house of representatives

Wednesday, June 22, 2011

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform:

Mr. MORAN. Madam Chair, I rise today to express my concerns about the Manager's

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Amendment to the America Invents Act, H.R. 1249.

Specifically, I am troubled by language in the amendment that would weaken the ability of the U.S. Patent and Trademark Office to retain the fees it collects from inventors for use in improving the patent application process.

As reported by the Judiciary Committee, Section 22 of the underlying bill would establish a revolving fund at Treasury to collect all user fees from USPTO and restrict their use to only funding USPTO activities.

This section was necessary because Congress has habitually underfunded the Patent Office, siphoning more than $875 million over the past two decades from fees collected from inventors to fund other discretionary programs.

This fee diversion has severely hampered the ability of USPTO to promptly process patent applications, leading to a current backlog of 1.2 million applications and an average pendency time of 3 years. This is entirely unacceptable and a direct result of our decision not to provide full funding to the USPTO. Delays in processing patent applications drive up the costs and risks for inventors, harm our nation's global competitiveness, and literally stall the creation of jobs.

While I appreciate the efforts of Director Kappos over the past two years to reduce this backlog, USPTO will not be fully successful in this goal unless they are provided with the proper resources...resources, remember, they collect from the users of Patent Office services.

That is why I have concerns about a provision in the manager's amendment that would undermine this dedicated funding source, instead leaving USPTO funding up to annual appropriations. While the amendment creates a specific fund for USPTO fees and contains promises that this funding will be made available only for activities at the patent office, there is no guarantee this pledge will be honored in subsequent Congresses.

I am concerned this modified language does not give USPTO the predictability in funding and access to fees that are necessary to ensure it best serves the innovation community. Now, I understand USPTO has reluctantly agreed to support this compromise language, and I therefore plan to support the Manager's Amendment.

But we cannot let jurisdictional concerns here in Congress undermine the efficient functioning of the patent process. I encourage my colleagues to support the Manager's Amendment as a necessary compromise to move this legislation forward, but I plan to remain vigilant on this matter to ensure the promises made in this Manager's Amendment are kept and that USPTO has ready access to the fees it collects.

West Extension Remarks – 157 Cong. Rec. E1191

[Congressional Record Volume 157, Number 91 (Thursday, June 23, 2011)]

[Extensions of Remarks]

[Page E1191]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

AMERICA INVENTS ACT

speech of

HON. ALLEN B. WEST

of Florida

in the house of representatives

Wednesday, June 22, 2011

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform:

Mr. WEST. Madam Chair, the most sweeping patent reform legislation that has come before the House of Representatives in over half a century, the America Invents Act, H.R. 1249, makes significant substantive, procedural, and technical changes to current United States patent law.

Article I, Section 8 gives the United States 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."

Congress passed the first patent law just one year after ratifying the Constitution when it enacted the Patent Act of 1790. The law granted patent applicants the "sole and exclusive right and liberty of making, constructing, using and vending to others to be used" of his or her invention, clearly maintaining the intentions of patent protections the Framers had when they drafted Article I, Section 8, Clause 8 of the Constitution, commonly referred to as the Intellectual Property Clause.

Before discussing the ramifications of the America Invents Act, it is important for the American people to understand the reasoning behind the Intellectual Property Clause of the Constitution. The Framers recognized that a crucial component for success of the newly formed United States was economic strength and security, and they knew that American ingenuity and innovation was key to economic success. Thus, for more than 200 years, American patent law has used a first to invent system that addresses the circumstances when two or more persons independently develop identical or similar inventions at approximately the same time. When more than one patent application is filed at the Patent and Trademark Office (PTO) claiming the same invention, the

patent is awarded to the applicant who was the first inventor, even if the inventor was not the first person to file a patent application at the PTO.

Section 3 of H.R. 1249 would change this established system for determining which inventor obtains patent protection to a "first inventor to file" system. Under this new "first inventor to file" system, the law would not recognize the patent of an individual who did not file an invention first even if he or she was the first to complete an invention.

Proponents of Section 3 will argue that the United States is the only patent-issuing nation that does not employ a "first inventor to file" system, and that making this change will simplify the process for acquiring patent rights.

However, I believe that Section 3 on its face is unconstitutional. Over 200 years of evidenced-based, legal determination as to who is the true inventor of an invention should not be overturned because the rest of the world does it, or to make it easier for government bureaucrats to resolve patent disputes.

The United States is the greatest Nation on the face of the earth not because we conform our ways to the rest of the world, but instead because we operate in a way that makes the rest of the world want to follow our example.

Finally, and most importantly, I believe that awarding a patent to an individual who simply files before the inventor, violates the Framers' intent laid out in the Intellectual Property Clause. There can be no such thing as a "first inventor to file" since there can only be one inventor. Small inventors—the backbone of the American spirit of innovation—who do not have the funding or the legal staff to race to the PTO to file a patent will without question lose inventions to well-funded and well-staffed corporations.

I also have constitutional concerns with Section 18 of H.R. 1249. Section 18 of the America Invents Act would create a new Transitional Review proceeding at the Patent and Trademark Office that would only apply to "business method patents" dealing with data processing in the financial services industry. The Transitional Review would be available only to banks sued for patent infringement—even if the patent has already been upheld as valid by the PTO in a reexamination, or upheld by a federal court jury and/or judge in a trial. This new review process would ultimately lead to a delay, via a stay, of court proceedings that would interrupt inventors from capitalizing on their patents.

Constitutional scholars Richard Epstein and Jonathan Massey have concluded that Section 18 language constitutes a government taking by allowing banks to challenge all business method patents—even those that have been reexamined and affirmed by the PTO and upheld by a jury in federal court.

The House Judiciary Committee's consideration of H.R. 1249 proceeded rapidly. The committee held a hearing focused primarily on the broader patent provisions of the bill, and only the banking industry was invited to testify with regard to Section 18. Furthermore, there have been no hearings specifically relating to the implications of Section 18.

I have met with and spoken to a number of individuals representing both sides of this issue in order to fully understand the intent of H.R. 1249, as well as both its intended and unintended consequences. I have spoken to Director Kappos of the Patent and Trademark Office, and more importantly I have spoken with constituents in the 22nd Congressional District of Florida who are inventors that have received patents who would be adversely affected by certain provisions of this bill.

Madam Chair, I voted against H.R. 1249 because I believe that the major sections I have outlined raise serious Constitutional questions. Section 3 clearly violates the intent of our Framers when they drafted the Intellectual Property Clause. Section 18 opens the door for the Executive Branch to overturn the Judicial Branch, a clear violation of the separation of powers laid out by the United States Constitution. As a 22-year Army combat veteran, and now as a Member of the House of Representatives, I swore an oath to protect and defend the Constitution. Voting in favor of passage of H.R. 1249 I believe goes against this very sacred oath I took, both as a young Second Lieutenant over 25 years ago, and as a Congressman in this body earlier this year.

House Floor Debate – 157 Cong. Rec. H4480-H4505

[Congressional Record Volume 157, Number 91 (Thursday, June 23, 2011)]

[House]

[Pages H4480-H4505]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

AMERICA INVENTS ACT

The SPEAKER pro tempore (Mr. Woodall). Pursuant to House Resolution 316 and rule XVIII, the Chair declares the House in the Committee of the Whole House on the State of the Union for the further consideration of the bill, H.R. 1249.

In the Committee of the Whole

Accordingly, the House resolved itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform, with Mr. Poe of Texas (Acting Chair) in the chair. The Clerk read the title of the bill. The Acting CHAIR. When the Committee of the Whole rose on Wednesday, June 22, 2011, a request for a recorded vote on amendment No. 1 printed in part B of House Report 112-111 offered by the gentleman from Texas (Mr. Smith) had been postponed.

Amendment No. 1 Offered by Mr. Smith of Texas

The Acting CHAIR. Pursuant to clause 6 of rule XVIII, proceedings will now resume on the amendment printed in part B of House Report 112-111 on which further proceedings were postponed. The unfinished business is the demand for a recorded vote on the amendment offered by the gentleman from Texas (Mr. Smith) on which further proceedings were postponed and on which the noes prevailed by voice vote.

The Clerk will redesignate the amendment.

The Clerk redesignated the amendment.

Recorded Vote

The Acting CHAIR. A recorded vote has been demanded.

A recorded vote was ordered.

The vote was taken by electronic device, and there were—ayes 283, noes 140, not voting 8, as follows:

[Roll No. 481 – votes omitted]

Announcement by the Acting Chair

The Acting CHAIR (Mrs. Capito) (during the vote). There are 2 minutes remaining in this vote.

Mr. MACK changed his vote from “aye” to “no.”

Messrs. BARTLETT and MULVANEY changed their vote from “no” to “aye.”

So the amendment was agreed to.

The result of the vote was announced as above recorded.

Stated against:

Mr. AUSTIN SCOTT of Georgia. Madam Chair, on rollcall No. 481 I was unavoidably detained. Had I been present, I would have voted “nay.” Mrs. NAPOLITANO. Madam Chair, on Thursday, June 23, 2011, I was absent during rollcall vote No. 481 in order to attend my grandson’s graduation. Had I been present, I would have voted “nay” on the Smith (TX) Manager’s Amendment.

Amendment No. 2 Offered by Mr. Conyers

The Acting CHAIR. It is now in order to consider amendment No. 2 printed in part B of House Report 112-111.

Mr. CONYERS. Madam Chairman, I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 24, strike line 3 and all that follows through page 25, line 12, and insert the following:

(n) Effective Date.—

(1) In general.—The amendments made by this section—

(A) shall take effect 90 days after the date on which the President issues an Executive order containing the President’s finding that major patenting authorities have adopted a grace period having substantially the same effect as that contained under the amendments made by this section;

and

(B) shall apply to all applications for patent that are filed on or after the effective date under subparagraph (A).

(2) Definitions.—In this subsection:

(A) Major patenting authorities.—The term “major patenting authorities” means at least the patenting authorities in Europe and Japan.

(B) Grace period.—The term "grace period" means the 1-year period ending on the effective filing date of a claimed invention, during which disclosures of the subject matter by the inventor or a joint inventor, or by others who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor, do not qualify as prior art to the claimed invention.

(C) Effective filing date.—The term "effective filing date of a claimed invention" means, with respect to a patenting authority in another country, a date equivalent to the effective filing date of a claimed invention as defined in section 100(i) of title 35, United States Code, as added by subsection (a) of this section.

(3) Retention of interference procedures with respect to applications filed before effective date.—In the case of any application for patent that is filed before the effective date under paragraph (1)(A), the provisions of law amended by subsections (h) and (i) shall apply to such application as such provisions of law were in effect on the day before such effective date.

Page 11, lines 21-23, strike "upon the expiration of the 18-month period beginning on the date of the enactment of this Act," and insert "on the effective date provided in subsection (n)".

The Acting CHAIR. Pursuant to House Resolution 316, the gentleman from Michigan (Mr. Conyers) and a Member opposed each will control 5 minutes. The Chair recognizes the gentleman from Michigan. Mr. CONYERS. I ask unanimous consent that the gentleman from California, Dana Rohrabacher, be added to this amendment as a cosponsor.

The Acting CHAIR. The Chair would advise the gentleman that amendments do not have cosponsors.

Mr. CONYERS. I yield myself 2\1/2\ minutes.

Ladies and gentlemen, this bipartisan amendment adds an important provision to H.R. 1249. It would permit the conversion of the United States to a first-to-file system only upon a Presidential finding that other nations have adopted a similar one-year grace period. This one-year grace period protects the ability of an inventor to discuss or write about his or her ideas for a patent up to a year before he or she actually files for patent protection. And without this grace period, an inventor could lose his or her own patent.

This grace period provision within H.R. 1249 would grant an inventor a one-year period between the time he first publishes his invention to the time when he's required to file a patent. During this time, this would prohibit anyone else from seeing this publication, stealing the idea, and quickly filing a patent behind the inventor's back. Yet the only way for American inventors to benefit from the grace period provision contained in 1249 is to ensure that the foreign countries adopt a similar grace period as well.

The amendment would encourage other countries to adopt a similar period in their patent system consistent with a recommendation by the National Academy's National Research Council. Current law in the United States allows a grace period of 1 year, during which an applicant can disclose or commercialize an invention before filing for a patent. Japan offers a limited grace period, and Europe provides none. If the first-to-file provision in the bill is implemented, we

must ensure that American inventors are not disadvantaged. Small American inventors and universities are disadvantaged abroad in those nations where there is no grace period.

The grace period provision within H.R. 1249 would grant an inventor a one-year period between the time he first publishes his invention to the time when he is required to file a patent.

During this time, this would prohibit anyone else from seeing this publication, stealing the idea, and quickly filing a patent behind the inventor's back.

Yet, the only way for American inventors to benefit from the grace period provision contained in H.R. 1249 is to ensure that foreign countries adopt a grace period, as well.

Small American inventors and universities are disadvantaged abroad in those nations where there is no grace period. As a result, they often lose the right to patent because these other countries do not care about protecting small business and university research. The United States needs to do more to protect the small inventor and universities not just here but abroad.

Unfortunately, other countries will not do it on their own even though they want the United States to convert to a "first-to-file" system.

If H.R. 1249 passes without my Amendment, we will be giving away a critical bargaining chip that we can use to encourage other countries to follow our lead.

My Amendment ensures that the only way to benefit from the grace period in H.R. 1249 is to have foreign countries adopt a grace period. Without this Amendment, we will be unilaterally transitioning the United States to a "first-to-file" system with a weak grace period without any incentive for foreign countries to adopt a grace period. I should also note that identical language was included in H.R. 1908, the "Patent Reform Act of 2007," which the House passed on September 7, 2007.

Accordingly, I urge my colleagues to support this Amendment.

Mr. SMITH of Texas. I rise in opposition to the amendment.

The Acting CHAIR. The gentleman is recognized for 5 minutes.

Mr. SMITH of Texas. Madam Chair, the Conyers amendment to tie the changes proposed in the America Invents Act to future changes that would

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be made in foreign law is unworkable. I oppose providing a trigger in U.S. law that leaves our patent system at the mercy of actions to be taken at a future date by the Chinese, Russians, French, or any other country. It is our constitutional duty to write the laws for this great land. We cannot delegate that responsibility to the whims of foreign powers.

I know that this idea has been floated in the past, but after working on several pieces of patent legislation over the past several Congresses, and particularly this year on H.R. 1249, it has become clear that this type of trigger idea is simply not workable and is counterproductive.

The move to a first-inventor-to-file system creates a more efficient and reliable patent system that benefits all inventors, including independent inventors. The bill provides a more transparent and certain grace period, a key feature of U.S. law, and a more definite filing date that enables inventors to promote, fund, and market their technology, while making them less vulnerable to costly patent challenges that disadvantage independent inventors. Under first-inventor-to-file, an inventor submits an application to the Patent Office that describes their invention and how to make it. That, along with a $110 fee, gets them a provisional application and preserves their filing date. This allows the inventor an entire year to complete the application, while retaining the earlier filing date. By contrast, the cost of an interference proceeding before the PTO often runs to $500,000.

The current first-to-invent system harms small businesses and independent inventors. Former PTO Commissioner Gerald Mossinghoff conducted a study that proves smaller entities are disadvantaged in PTO interference proceedings that arise from disputes over patent ownership under the current system. Independent inventors and small companies lose more often than they win in these disputes, plus bigger companies are better able to absorb the cost of participating in these protracted proceedings.

In addition, many inventors also want protection for their patents outside the United States. If you plan on selling your product overseas, you need to secure an early filing date. If you don't have a clear filing date, you can be shut off from the overseas market. A change to first-inventor-to-file will help our businesses grow and ensure that American goods and services will be available in markets across the globe.

In the last 7 years, only one independent inventor out of 3 million patent applications filed has prevailed over the inventor who filed first. One out of 3 million. So there is no need for this amendment. Independent inventors lose to other applicants with deeper pockets that are better equipped to exploit the current complex legal environment. So the first-to-file change makes it easier and less complicated for U.S. inventors to get patent protection around the world. And it eliminates the legal bills that come with the interference proceedings under the current system. It is a key provision of this bill that should not be contingent upon actions by foreign powers and delay what would be positive reforms for independent inventors and our patent system.

The first-inventor-to-file provision is necessary for U.S. competitiveness and innovation. It makes our patent system stronger, increases patent certainty, and reduces the cost of frivolous litigation.

However, if you support the U.N. having military control over our troops, or if you support the concept of an international court at The Hague, then you would support this amendment's proposal of a trigger that subjects U.S. domestic law to the whims of governments in Europe, China, or Russia.

It really would be unprecedented to hold U.S. law hostage to legal changes made overseas, and would completely go against what this great country stands for and what our Founders fought for: the independent rights and liberties we have today.

For these reasons, Madam Chair, I am strongly opposed to the amendment.

I yield back the balance of my time.

Mr. CONYERS. I yield the balance of my time to the gentleman from California (Mr. Rohrabacher).

The Acting CHAIR. The gentleman from California is recognized for 2\1/2\ minutes.

Mr. ROHRABACHER. Let's just note that Ms. Lofgren last night presented a case to this body which I felt demonstrated the danger that we have in this law. A move to first-to-file system, which is what this bill would do, without a corresponding 1-year grace period in other countries dramatically undermines the patent protection of American inventors. Some of us believe that's the purpose of this bill because they want to harmonize American law with the weak systems overseas. Well, without this amendment that we are talking about right now, without the Conyers-Rohrabacher amendment, if an inventor discloses his discoveries, perhaps to potential investors, his right to patent protection is essentially gone. It's not gone from just Americans. Yes, he would be protected under American law; but from all those people in foreign countries without a similar grace period to what we have here in our system, these people are not restricted. Thus, they could, once an American inventor discloses it, at any time they can go and file a patent and steal our inventors' discoveries.

The only way for American inventors to benefit from a grace period here, which this bill is all about, is to ensure that foreign countries adopt the same grace period. And that's what this amendment would do. It would say our bill, which will make our inventors vulnerable to foreign theft, will not go into place until those foreign countries have put in place a similar grace period, which then would prevent them and their citizens from coming in and stealing our technology. Ms. Lofgren detailed last night in great detail how that would work. I call this bill basically the Unilateral Disclosure Act, if not the Patent Rip-Off Act, because we are disclosing to the world what we've got. And our people can't follow up on it because there's a grace period here, but overseas they don't have that same grace period. So what we're saying is, to prevent foreigners from stealing American technology, this will not go into effect until the President has issued a statement verifying that the other countries of the world have a similar grace period so they can't just at will rip off America's greatest entrepreneurs and inventors.

The Acting CHAIR. The question is on the amendment offered by the gentleman from Michigan (Mr. Conyers).

The question was taken; and the Acting Chair announced that the noes appeared to have it.

Mr. CONYERS. Madam Chair, I demand a recorded vote. The Acting CHAIR. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from Michigan will be postponed.

Amendment No. 3 Offered by Ms. Baldwin

The Acting CHAIR. It is now in order to consider amendment No. 3 printed in part B of House Report 112-111.

Ms. BALDWIN. Madam Chair, I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Strike section 5 ("Defense to Infringement Based on Prior Commercial Use"), as amended, and redesignate succeeding sections and references thereto (and conform the table of contents) accordingly.

Page 68, line 9, strike "section 18" and insert "section 17".

Page 115, line 10, strike "6(f)(2)(A)" and insert "5(f)(2)(A)".

The Acting CHAIR. Pursuant to House Resolution 316, the gentlewoman from Wisconsin (Ms. Baldwin) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentlewoman from Wisconsin.

Ms. BALDWIN. I yield myself 3\1/2\ minutes.

Madam Chair, I rise to urge adoption of the Baldwin-Sensenbrenner amendment that strikes section 5 in the America Invents Act. Section 5 expands the prior-user rights defense from its present narrow scope to broadly apply to all patents with minimal exceptions.

As we work to rebuild our economy, Congress should be doing all that it can

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to foster small business innovation and investment. I believe that section 5 will do just the opposite. Expanding prior-user rights will be disastrous for small American innovators, as well as university researchers, and ultimately slow job creation.

Despite current challenges, the U.S. patent system remains the envy of the world. Since the founding of our Nation, inventions have been awarded exclusive rights in exchange for public disclosure. This system also creates incentives for investing in new ideas, fostering new ways of thinking, and encouraging further advancement and disclosures. It promotes progress.

If proponents of expanding prior-user rights have their way with this legislation, they will give new rights to those who have previously developed and used the same process or product even if they never publicly divulged their innovation and never even applied for a patent. It will transform our patent system from one that values transparency to one that rewards secrecy.

To understand why expanding prior-user rights runs counter to the public interest, it is important to reiterate how critical exclusive rights are for inventions to gain marketplace value and acquire capital. For start-ups and small businesses, raising necessary capital is vital and challenging. The expansion of prior-user rights would only make that task all the more difficult.

Under the system proposed in the American Invents Act, investors would have no way of determining whether anyone had previously developed and used the process or product that they were seeking to patent. In such a scenario, a patent might be valuable or relatively worthless; and the inventor and potential investors would have no means of determining which was true.

Madam Chairwoman, I would like to boast for a moment if I could about Stratatech, a fiercely innovative small business in Madison run by a top researcher at the University of Wisconsin who, through her research there, developed a human living skin substitute. This living skin is a groundbreaking treatment method that we hope will ultimately save the lives of American troops who have suffered burns while serving in Iraq and Afghanistan.

The company was recently awarded nearly $4 million to continue clinical trials for their tissue product. And what can save lives in a desert combat setting abroad will assuredly transform the way doctors save lives of burn victims in hospitals around our country and around the world.

Now, I wonder if Stratatech would have been able to drive this phenomenal innovation and life-saving technology as far as they have with a patent that provides only conditional exclusivity. Would investors have felt as secure advancing this technology in a system shrouded in secrecy? What if Stratatech's patent was subject to the claims of an unlimited number of people or companies who could later claim "prior use"?

The Acting CHAIR. The time of the gentlewoman has expired.

Ms. BALDWIN. I yield myself 15 additional seconds.

If we let section 5 stand, it is unclear to me whether a similar

company would ever secure the funding that they need to grow.

I urge my colleagues to adopt the Baldwin-Sensenbrenner amendment.

I reserve the balance of my time.

Mr. SMITH of Texas. I rise in opposition to the amendment.

The Acting CHAIR. The gentleman is recognized for 5 minutes.

Mr. SMITH of Texas. Madam Chair, this amendment strikes the prior-user rights provision from the bill. I strongly oppose this amendment. The bill expands prior-user rights—a strong, pro-job, pro-manufacturing provision. This provision will help bring manufacturing jobs back to this country. It allows factories to continue using manufacturing processes without fear of costly litigation. It is absolutely a key component of this bill.

This provision has the strong support of American manufacturers and the support of all the major university associations and technology-transfer associations. These include 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, and the Council on Government Relations representing the vast majority of American Universities. Prior-user rights ensure that the first inventor of a new process or product using manufacturing can continue to do so. This provision has been carefully crafted between stakeholders and the university community. The language provides an effective exclusion for most university patents, so this provision focuses on helping those in the private sector.

The prior-use defense is not overly expansive and will protect American manufacturers from having to patent the hundreds or thousands of processes they already use in their plants. After getting initial input from the university community, they recommended that we make the additional changes reflected in this bill to ensure that prior-user rights will work effectively for all private sector stakeholders.

Prior-user rights are important as part of our change to a first-to-file system. I believe it is important to ensure that we include these rights to help our job-creating manufacturers across the United States. The philosophical objections of a lone tech-transfer office in Wisconsin should not counter the potential of this provision for job creation throughout America.

There are potentially thousands or hundreds of thousands of unemployed Americans who are looking for manufacturing jobs and could benefit from this provision. Without this provision, businesses say they may be unable to expand their factories and hire American workers if they are prevented from continuing to operate their facilities the way they have for years.

For many manufacturers, the patent system presents a catch-22. If they patent a process, they disclose it to the world and foreign manufacturers will learn of it and, in many cases, use it in secret without paying licensing fees. The patents issued on manufacturing processes are very difficult to police, and oftentimes patenting the idea simply means giving the invention away to foreign competitors. On the other hand, if the U.S. manufacturer doesn't patent the process, then under the current system a later party can get a patent and force the manufacturer to stop using a process that they independently invented and used.

In recent years, it has become easier for a factory owner to idle or shut down parts of his plant and move operations and jobs overseas rather than risk their livelihood through an interference proceeding before the PTO. The America Invents Act does away with these proceedings and includes the pro-manufacturing and constitutional provision of prior-user rights.

This provision creates a powerful incentive for manufacturers to build new plants and new facilities in the United States. Right now, all foreign countries recognize prior-user rights, and that has played a large role in attracting American manufacturing jobs and facilities to these countries. H.R. 1249 finally corrects this imbalance and strongly encourages businesses to create manufacturing jobs in this country.

The prior-user rights provision promotes job creation in America. Prior-user rights will help manufacturers, small business and other innovative industries strengthen our economy. It will help our businesses grow and allow innovation to flourish.

I strongly support prior-user rights, and so I oppose this amendment.

I yield back the balance of my time.

Ms. BALDWIN. I yield the balance of my time to the gentleman from Wisconsin (Mr. Sensenbrenner).

The Acting CHAIR. The gentleman from Wisconsin is recognized for 1\1/ 4\ minutes. Mr. SENSENBRENNER. Madam Chair, this expansion of prior-user rights is a step in the wrong direction. It goes against what this House determined 4 years ago when we last debated this issue, and also it is different than what the Senate has done in March of this year.

The fundamental principle of patent law is disclosure, and the provision in this bill that the amendment seeks to strike goes directly against disclosure and instead encourages people who may invent not to even file for a patent, and that will slow down research

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and expanding the knowledge of humans.

The gentleman from Texas talks about manufacturing. I am all for manufacturing. I think we all are all for manufacturing. But what this does is it helps old manufacturing, which we need to help, but it also puts new manufacturing in the deep freeze because they use the disclosures that are required as a part of a patent application. You vote for the amendment if you want disclosure and advancement of human knowledge. You vote against the amendment if you want secrecy in this process.

The Acting CHAIR. All time has expired.

The question is on the amendment offered by the gentlewoman from Wisconsin (Ms. Baldwin).

The question was taken; and the Acting CHAIR announced that the noes appeared to have it.

Ms. BALDWIN. Madam Chair, I demand a recorded vote. The Acting CHAIR. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentlewoman from Wisconsin will be postponed.

Amendment No. 4 Offered by Ms. Moore

The Acting CHAIR. It is now in order to consider amendment No. 4 printed in part B of House Report 112-111.

Ms. MOORE. Madam Chair, I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 139, insert the following after line 12 and redesignate succeeding sections (and conform the table of contents) accordingly:

SEC. 29. ESTABLISHMENT OF METHODS FOR STUDYING THE DIVERSITY OF APPLICANTS.

The Director shall, not later than the end of the 6-month period beginning on the date of the enactment of this Act, establish methods for studying the diversity of patent applicants, including those applicants who are minorities, women, or veterans. The Director shall not use the results of such study to provide any preferential treatment to patent applicants.

The Acting CHAIR. Pursuant to House Resolution 316, the gentlewoman from Wisconsin (Ms. Moore) and a Member opposed each will control 5 minutes. The Chair recognizes the gentlewoman from Wisconsin.

Ms. MOORE. Madam Chair, I yield myself such time as I may consume. My amendment would ensure that we have the proper data to identify and work with sectors of the U.S. economy that are participating in the patent process at significantly lower rates.

Specifically, my amendment allows the USPTO to develop methods for ways to track the diversity of patent applicants. It also specifically prohibits the office from using any such results for any preferential treatment in the application process.

I certainly do applaud the USPTO for their outreach to the Women's Chamber of Commerce and to the National Minority Enterprise Development Conferences to try to increase diversity with utilizing the patent process. But some recent data have raised concern that minorities and women-owned businesses are just not keeping up with the patent process. Preliminary data from a 2009 Kauffman Foundation survey of new businesses show that minority-owned technology companies hold fewer patents and copyrights after the fifth year of starting than comparable nonminority businesses. In fact, the Kauffman data show that minority-owned firms with patents hold only two on average, compared with the eight of their counterparts. Another survey uses National Science Foundation data to suggest that women commercialize their patents 7 percent less than their male counterparts.

Now, the best example I can think of this is the late great George Washington Carver, who we all know discovered 300 uses for peanuts and hundreds more for other plants. He went on to help local farmers with many improvements to their farm equipment, ingredients, and chemicals. However, Carver only applied for three patents.

Some historians have written on whether or not Eli Whitney was, indeed, the original inventor of the cotton gin or whether the invention could have originated from the slave community. At the time, slaves were unable to register an invention with the Patent Office, and the owner could not patent on their behalf because of the requirement to be an original inventor.

Now, African Americans and women have a long history of inventing some of the most influential products in our society, but we also simply do not have enough information to further

explore and explain these results. And as our government and industry leaders look into these problems and possibly fix these deficiencies, they run into a major hurdle.

Currently, the Patent and Trade Office only knows the name and general location of a patent applicant. In most cases, only the physical street address that the office collects is for the listed patent attorney on the application. Such limited information prevents us from fully understanding the nature and scope of the underrepresentation of minority communities in intellectual property. Until we can truly understand the nature of this problem, we cannot address it or do the appropriate outreach.

Mr. SMITH of Texas. Will the gentlewoman yield?

Ms. MOORE. I yield to the gentleman from Texas.

Mr. SMITH of Texas. Madam Chair, I just want to say to the gentlewoman from Wisconsin that I appreciate her offering the amendment, and I urge my colleagues to support it.

Ms. MOORE. I certainly again want to commend efforts from Director

Kappos and the Patent and Trade Office that, despite their not having to do it, they do reach out to women and minority communities to try to get them to utilize the Patent Office.

I can say that the ability to innovate and create is just one part of the equation. The key to success for minorities in our community as a whole also depends upon the ability to get protection for their intellectual property.

I urge the body to vote for this amendment.

I would yield back the balance of my time.

The Acting CHAIR. The question is on the amendment offered by the gentlewoman from Wisconsin (Ms. Moore).

The amendment was agreed to.

Amendment No. 5 Offered by Ms. Jackson Lee of Texas

The Acting CHAIR. It is now in order to consider amendment No. 5 printed in part B of House Report 112-111.

Ms. JACKSON LEE of Texas. I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 139, insert the following after line 12 and redesignate succeeding sections (and conform the table of contents) accordingly:

SEC. 29. SENSE OF CONGRESS.

It is the sense of Congress that the patent system should promote industries to continue to develop new technologies that spur growth and create jobs across the country which includes protecting the rights of small businesses and inventors from predatory behavior that could result in the cutting off of innovation.

The Acting CHAIR. Pursuant to House Resolution 316, the gentlewoman from Texas (Ms. Jackson Lee) and a Member opposed each will control 5 minutes. The Chair recognizes the gentlewoman from Texas.Ms. JACKSON LEE of Texas. Madam Chair, as I rise to offer my amendment, I take just a moment of personal privilege to say that, whatever side Members are on on this issue, I know that Members want to protect the genius of America.

I would like to thank my ranking member, Mr. Conyers, for that commitment, as he comes from one of the original genius proponents, and that is the auto industry that propelled America into the job creation of the century, and to the chairperson of the committee, Mr. Smith, who ventured out in efforts to provide opportunities for protecting, again, the opportunities for invention and genius.

My amendment speaks, I think, in particular to the vast population of startups and small businesses that are impacted by this legislation. In particular, it is a reinforcement of Congress' position that indicates that the patent system should promote industries to continue to develop new technologies that spur growth and create jobs across the country, which includes protecting the rights of small businesses and inventors from predatory

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behavior that could result in the cutting off of innovation.

We recognize that small and minority businesses and women-owned businesses, which dominate the landscape of America, are really major job creators. Small business is thriving in my own home State of Texas, as well. There were 386,422 small employers in Texas in 2006, accounting for 98.7 percent of the State's employers and 46.8 of its private sector employment. We know that there are a large number of women-owned businesses and as well growing African American and Latino. But we need more growth—with Asian businesses, small businesses, Hispanic, Native American, African American—all forms of businesses that are part of growing this economy.

Small business makes up a large portion of our employer network. It is important to understand how they will be impacted as a result of patent reform. In this first-to-file, for example, small businesses may in fact be concerned about trying to get investors. As they get investors, they may have to disclose. This sense of Congress will put us on notice that we need to be careful that we allow at least the opportunity for these investors, and that we continue to look at the bill to ensure that it responds to that opportunity. We must recognize again, as I said, that small businesses create jobs. And the number of new jobs that they have created are 64 percent of net jobs over the past 15 years. My amendment, again, reinforces the idea that small businesses can survive in this climate.

I did offer an amendment which provided for a transitional review program for 5 years or add for that to be sunsetted. It was all about trying to protect our small businesses. But I believe this amendment, with its firm statement, gathers Congress around the idea that nothing in this bill will inhibit small businesses from being creative. We can as well recognize all of the growth that has come about from the ideas of small businesses.

I think my amendment also reinforces that we do not wish to engage in any undue taking of property because we indicate that we want to see the innovativeness of American businesses continue. I believe this is an important statement, because the bill is about innovation, genius, creation, job creation, and it should be about small businesses. Small businesses should be as comfortable with going to the Patent Office as our large businesses. In years to come, because of this major reform, we should see small businesses creating opportunity for growth as they develop not into small-and medium-sized but huge international companies.

So I am asking my colleagues to support this amendment, and as well I am recognizing that we do have the opportunity to turn the corner and to put a stamp of new job creation on America.

I rise today to offer an amendment to H.R. 1249, the "America Invents Act." My amendment adds a section to the end of the bill expressing the sense of Congress that "the patent system should promote industries to continue to develop new technologies that spur growth and create jobs across the country, which includes protecting the rights of small businesses and inventors from predatory behavior that could result in the cutting off of innovation."

We must always be mindful of the importance of ensuring that small companies have the same opportunities to innovate and have their inventions patented and that the laws will continue to protect their valuable intellectual property. Several studies, including those by the National Academy of Sciences and the Federal Trade Commission, recommended reform of the patent system to address what they thought were deficiencies in how patents are currently issued.

The U.S. Department of Commerce defines small businesses as businesses which employ less than 500 employees.

According to the Department of Commerce in 2006 there were 6 million small employers representing around 99.7% of the nation's employers and 50.2% of its private-sector employment.

In 2002 the percentage of women who owned their business was 28% while black owned was around 5%. Between 2007 and 2008 the percent change for black females who were self employed went down 2.5% while the number for men went down 1.5%.

Small business is thriving in my home state of Texas as well. There were 386,422 small employers in Texas in 2006, accounting for 98.7% of the state's employers and 46.8% of its private-sector employment. In 2009, there were about 468,000 small women-owned small businesses compared to over 1 million owned by men.

88,000 small business owners are black, 77,000 are Asian, 319,000 are Hispanic, and 16,000 are Native Americans.

Since small businesses make up such a large portion of our employer network, it is important to understand how they will be impacted as a result of patent reform.

Given the current state of the economy, we cannot afford to overlook the opportunities for job growth that small businesses create. According to the Bureau of Labor Statistics, between the 1992 and 2005, small businesses accounted for 65% of quarterly net employment growth in the private sector.

Even in unsteady economic times, small businesses can be counted on for job creation. Between 1992 and 2004, the net job creation rate was the highest at the smallest establishments.

Small Businesses Create Jobs. It is a fact. According to the Small Business Administration, small businesses:

Represent 99.7 percent of all employer firms.

Employ just over half of all private sector employees.

Generated 64 percent of net new jobs over the past 15 years. Create more than half of the nonfarm private gross domestic product (GDP).

Hire 40 percent of high tech workers (such as scientists, engineers, and computer programmers).

Made up 97.3 percent of all identified exporters and produced 30.2 percent of the known export value in FY 2007.

Produce 13 times more patents per employee than large patenting firms; these patents are twice as likely as large firm patents to be among the one percent most cited.

Many successful business owners will credit at least part of their success to the ability to innovate—in technologies, in strategies, and in business models. A huge part of this innovation comes from the ability to create and patent ideas.

According to a study conducted by Business Week, half of all business innovation resources are dedicated to creating new products or services.

Patents are the driving force behind this product innovation, and without strong patent protection, businesses will lack the incentive to attract customers and contribute to economic growth.

While I am happy to be here debating this all important amendment to this bill, it is unfortunate that some of my other amendments supporting small businesses and acknowledging the “takings clause” in the U.S. Constitution were not accepted. In yesterday’s Rules Committee meeting, I offered a number of amendments:

I offered amendments that ensure the inclusion of minority and women owned businesses in the definition of “small entities” to ensure they receive the benefits of reduced user fees.

I also offered an amendment ensuring the inclusion of Historically Black Colleges and Universities and Hispanic Serving Institutions amongst entities that receive fee discounts.

Another pro-small business amendment I offered would have extended the grace period for small businesses from one year to 18 months, enabling them enough time to secure financial support and develop their invention in order to bring it to market.

Section 18 of the bill, which creates a transitional review program for business method patents, has raised concerns about the potential to create situations which could run afoul of the “takings clause” in the U.S. Constitution. To address these concerns, I offered a number of amendments:

One of my amendments would have shortened the sunset on Section 18 from 10 years to 5 years.

I also introduced an amendment that would have required the Director of the USPTO to make a determination of whether or not a condition causing an unlawful taking is created by this section.

Lastly, I introduced a sense of Congress amendment that affirms that no provisions in this bill should create a unconstitutional taking. Despite my concerns with certain provisions in this bill, overall, I believe H.R. 1249 will usher in the reforms needed to improve the patent system, making it more effective and efficient, and therefore encouraging innovation and job creation.

I yield back the balance of my time.

Mr. SMITH of Texas. Madam Chair, I claim the time in opposition, although I support the amendment.

The Acting CHAIR. Without objection, the gentleman is recognized for 5 minutes.

There was no objection.

Mr. SMITH of Texas. Madam Chair, I understand the underlying point of the Member’s amendment, and I want to make it clear that my interpretation of this amendment and its intent is to

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highlight the problem posed by entities that pose as financial or technological businesses but whose sole purpose is not to create but to sue. I am talking about patent trolls—those entities that vacuum up patents by the hundreds or thousands and whose only innovations occur in the courtroom. This sense of Congress shows how these patent trolls can hurt small businesses and independent inventors before they even have a chance to get off the ground. This bill is designed to help all inventors and ensure that small businesses will continue to be a fountain for job creation and innovation.

For these reasons, Madam Chair, I support the amendment.

I yield back the balance of my time.

The Acting CHAIR. The question is on the amendment offered by the gentlewoman from Texas (Ms. Jackson Lee).

The question was taken; and the Acting Chair announced that the ayes appeared to have it.

Ms. JACKSON LEE of Texas. Madam Chair, I demand a recorded vote. The Acting CHAIR. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentlewoman from Texas will be postponed.

Amendment No. 6 Offered by Mr. Lujan

The Acting CHAIR. It is now in order to consider amendment No. 6 printed in part B of House Report 112-111.

Mr. LUJAN. Madam Chair, I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 135, line 22, strike the period and insert a semicolon.

Page 135, after line 22, insert the following:

(C) shall evaluate and consider the extent to which the purposes of satellite offices listed under subsection (b) will be achieved;

(D) shall consider the availability of scientific and technically knowledgeable personnel in the region from which to draw new patent examiners at minimal recruitment cost; and (E) shall consider the economic impact to the region.

Page 136, line 9, insert before the semicolon the following: “, including an explanation of how the selected location will achieve the purposes of satellite offices listed under subsection (b) and how the required considerations listed under subsection (c) were met”.

The CHAIR. Pursuant to House Resolution 316, the gentleman from New Mexico (Mr. Lujan) and a Member opposed each will control 5 minutes. The Chair recognizes the gentleman from New Mexico. Mr. LUJAN. Madam Chair, I rise today in support of my amendment to H.R. 1249, the America Invents Act. The America Invents Act provides for the creation of United States Patent and Trademark Office satellite offices. For many small businesses and independent inventors, navigating the patent application process can be challenging. Small businesses, entrepreneurs, and innovators are the foundation of our economy but do not always have the resources that larger corporations or institutions have to assist them in obtaining a patent. By improving access to the United States Patent and Trademark Office, satellite offices have the potential to help small businesses and independent inventors navigate the patent application process. However, this bill essentially provides no guidance to determine the location of such satellites offices.

While the language in the bill contains stated purposes for satellite offices, it does not specify that these purposes be part of the selection process. This amendment makes it explicit that the purposes of the satellite offices, which are included in the underlying bill, such as increasing outreach activities to better connect patent filers and innovators with the USPTO, be part of the selection process. It also specifies that the economic impact to the region be considered, as well as the availability of knowledgeable personnel, so that the new patent examiners can be hired at minimal recruitment costs, saving taxpayers money.

The selection of USPTO satellite offices should be done in a way that supports economic growth and puts investors and inventors on a path to success. I think this is a commonsense amendment, and I urge the adoption.

I reserve the balance of my time.

Mr. SMITH of Texas. Madam Chair, I rise to claim the time in opposition, though I am in favor of the amendment. The Acting CHAIR. Without objection, the gentleman is recognized for 5 minutes.

There was no objection.

Mr. SMITH of Texas. Madam Chair, section 23 of the bill requires the PTO Director to establish three or more satellite offices in the United States, subject to available resources. The provision lists criteria that the Director must take into account when selecting each office. This is a good addition to H.R. 1249, and I urge my colleagues to support it. I also hope that one of those offices is in Austin, Texas. I yield back the balance of my time.

Mr. LUJAN. Madam Chair, I yield back the balance of my time. The Acting CHAIR. The question is on the amendment offered by the gentleman from New Mexico (Mr. Lujan).

The amendment was agreed to.

Ms. JACKSON LEE of Texas. Madam Chair, because of the graciousness of the ranking member, Mr. Conyers, and the chairman, Mr. Smith, of agreeing to my amendment, Jackson Lee No. 5 that was just debated, I ask unanimous consent to withdraw my request for a record vote. The Acting CHAIR. Is there objection to the request of the gentlewoman from Texas?

Without objection, the request for a recorded vote on amendment No. 5 is withdrawn and the amendment stands adopted by the voice vote thereon.

There was no objection.

Amendment No. 7 Offered by Mr. Peters

The Acting CHAIR. It is now in order to consider amendment No. 7 printed in part B of House Report 112-111. Mr. PETERS. I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 139, insert the following after line 12 and redesignate succeeding sections (and conform the table of contents) accordingly:

SEC. 29. USPTO STUDY ON INTERNATIONAL PATENT PROTECTIONS FOR SMALL BUSINESSES.

(a) Study Required.—The Director, in consultation with the Secretary of Commerce and the Administrator of the Small Business Administration, shall, using the existing resources of the Office, carry out a study—

(1) to determine how the Office, in coordination with other Federal departments and agencies, can best help small businesses with international patent protection; and

(2) whether, in order to help small businesses pay for the costs of filing, maintaining, and enforcing international patent applications, there should be established either—

(A) a revolving fund loan program to make loans to small businesses to defray the costs of such applications, maintenance, and enforcement and related technical assistance; or

(B) a grant program to defray the costs of such applications, maintenance, and enforcement and related technical assistance.

(b) Report.—Not later than 120 days after the date of the enactment of this Act, the Director shall issue a report to the Congress containing—

(1) all findings and determinations made in carrying out the study required under subsection (a);

(2) a statement of whether the determination was made that—

(A) a revolving fund loan program described under subsection (a)(2)(A) should be established;

(B) a grant program described under subsection (a)(2)(B) should be established; or

(C) neither such program should be established; and

(3) any legislative recommendations the Director may have developed in carrying out such study.

The Acting CHAIR. Pursuant to House Resolution 316, the gentleman from Michigan (Mr. Peters) and a Member opposed each will control 5 minutes. The Chair recognizes the gentleman from Michigan.

Mr. PETERS. While the America Invents Act makes a number of important changes to our patent system which are targeted at reducing the USPTO's backlogs and driving innovation, I believe that we must do more to help our Nation's small businesses compete in the global

marketplace. Success in the global economy depends more and more on IP assets. America's IP-intensive industries employ nearly 18 million workers at all education and skill levels and represent 60 percent of U.S. exports.

While obtaining a U.S. patent is a critical first step for our innovators towards recouping their R&D costs, capitalizing on their inventions and creating jobs, a U.S. patent only provides

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protection against infringement here at home. If inventors do not register in a foreign market, such as China, they have no protection there if the Chinese economy begins production of their patented inventions. Not only is a foreign patent protection necessary to ensure the ability to enforce patent rights abroad; it is necessary to defend American inventors against foreign lawsuits.

High costs, along with language and technical barriers, prevent many American small businesses from filing for foreign patent protection. Lack of patent protection both at home and abroad increases uncertainty for innovators and the likelihood of piracy. While we must reduce backlogs at the USPTO to make domestic patent protection more attainable, we must also look forward to find ways to help our manufacturers and other IP-intensive industries compete globally. This is why I am offering a commonsense, bipartisan amendment to the America Invents Act along with my colleague, Representative Renacci, whom I would also like to thank for working with me on this important issue.

This amendment mandates a USPTO-led study with SBA to determine the best method to help small businesses obtain, maintain and enforce foreign patents. This study is to be conducted using existing resources at no cost to the taxpayers, and does not alter the score of the bill. I believe our amendment will help Congress and the USPTO determine the best ways to help American small businesses protect their IP assets, compete globally and boost exports.

I would like to thank Chairman Smith and Ranking Member Conyers for working with us on this amendment; and I urge passage of the Peters-Renacci amendment.

I yield my remaining time to my colleague from Ohio, Representative Renacci.

The Acting CHAIR. The gentleman from Ohio is recognized for 2\1/2\ minutes.

Mr. RENACCI. I thank the gentleman for yielding and also for his hard work on the amendment on behalf of American small businesses. I rise today in strong support of the Peters-Renacci amendment—a commonsense, no-cost study to determine the best method for American small businesses to obtain and enforce patent protections in foreign countries.

Industries that rely on intellectual property employ nearly 18 million American workers and represent 60 percent of American exports. As these industries continue to grow globally, foreign patent protection will become increasingly important to protect these workers' jobs, promote exports and expand our economy.

Our economy is becoming more global by the day, with foreign innovators testing the outer reaches of imagination and enjoying the strong support of their home nations. China, for example, is becoming increasingly aggressive at protecting their innovators' intellectual property rights and is subsidizing applications for foreign patents. We must develop a way here at home to make American small businesses equally competitive in the foreign marketplace. In order to compete with China, we have to stand behind our innovators with equal force. Our amendment simply directs the U.S. Patent and Trademark Office to conduct a joint study with the Small Business Administration to issue recommendations on how America can do just that. Furthermore, this study is to be completed within 120 days, giving the 112th Congress ample time to implement its recommendations.

Not only are jobs and the economy paramount, but promoting American innovation is also important. Innovation is about much more than economic growth. It breaks boundaries, connects people from distant lands, fires the imagination, and sends a message of hope to those who need it most. Americans should be on the cutting edge of innovation, and this amendment is a good first step toward that direction. I would again like to thank Mr. Peters as well as Chairman Smith and Ranking Member Conyers. I urge support of the amendment. Mr. SMITH of Texas. Madam Chair, I claim the time in opposition, although I support the amendment.

The Acting CHAIR. Without objection, the gentleman is recognized for 5 minutes.

There was no objection.

Mr. SMITH of Texas. Madam Chair, I understand the underlying point of the Member's amendment, but other legislation and patent reform in particular have taught us that even small changes can have unintended consequences unless they have been vetted and have gone through the regular committee process.

The problem is in the details. This amendment is drafted as a study. I agree with the first part of the amendment but not the second because its objectives are written very much like a piece of legislation. It seeks to create support for a new program whereby taxpayer funds would be used to pay patent fees in foreign countries.

I am strongly committed to helping our small businesses and independent inventors secure their rights and have a level playing field abroad, but I can't support a result that could create a new entitlement program, a new bureaucracy and the transferring of taxpayer dollars directly to the treasuries of foreign governments. We should not use taxpayer funds to pay patent filing fees to foreign governments.

I do agree with the first part of this study, and am interested to see how the PTO, in coordination with other agencies, can figure out ways to help small businesses with international patent protection. I hope that this will be the focus of the study. The results of this study will show that small business outreach and educational and technical assistance programs are the most effective tools for small business and independent inventors.

I think that the PTO needs to continue its efforts to reach out to small businesses and independent inventors. This bill includes a provision which creates a permanent small business ombudsman at the PTO to work with small businesses to help them secure their patent rights.

The PTO also conducts small business outreach programs throughout the country, teaching small businesses about IP enforcement and how to protect their intellectual property both at home and abroad. Though I do not agree with the policy outline in the second part of the study and will strongly recommend that the PTO and SBA determine that such a program should not be established, I will support this amendment to initiate the study, and I hope that the bulk of it will focus on how to better utilize existing government resources for education and technical assistance to help small businesses with international patent protection.

Before I yield back the balance of my time, I hope that the movers of this amendment might be willing to reassure me and others about the intent and goals of this study.

I yield back the balance of my time.

The Acting CHAIR. The gentleman from Michigan has 15 seconds remaining.

Mr. PETERS. I just appreciate the support for this amendment. It is an important amendment that will give us information we can then use to support our small businesses as they're doing business abroad, and I urge its adoption.

I yield back the balance of my time.

The Acting CHAIR. The question is on the amendment offered by the gentleman from Michigan (Mr. Peters).

The amendment was agreed to.

Amendment No. 8 Offered by Mr. Polis

The Acting CHAIR. It is now in order to consider amendment No. 8 printed in part B of House Report 112-111. Mr. POLIS. I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 108, beginning on line 18, strike "pending on, or filed on or after," and insert "filed on or after".

The Acting CHAIR. Pursuant to House Resolution 316, the gentleman from Colorado (Mr. Polis) and a Member opposed each will control 5 minutes. The Chair recognizes the gentleman from Colorado.

Mr. POLIS. Madam Chair, H.R. 1249 correctly changes the policy involving tax strategy patents. Under current law, although it was current law that was never specifically contemplated by lawmakers, tax strategy methods are

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patentable. Now these tax strategy patents have complicated the tax filing process and have allowed commonsense filing techniques to be patentable, so H.R. 1249 removes this complication by mandating that tax strategies are deemed insufficient to differentiate a claimed invention from the prior art. I strongly support this provision. However, there are a number of folks who are currently involved with the process of applying for tax strategy patents, and in effect, we risk changing the rules of the game retroactively for them, a form of takings. There are currently 160 tax strategy patent applications in the process. Many of the inventors have decided to devote thousands of hours of time to disclose their innovations. Again, had this window of patentability never been opened—and it never should have been—this would not have been an issue because these inventors would have retained their innovations as trade secrets.

However, you can't blame them for saying, okay, there's a window on patentability; I will disclose so that I can have the 17-year exclusive. And now the risk is that that calculation that they made to disclose is being changed retroactively insofar as they will no longer have the ability to protect their innovation as a trade secret. In their patent applications, these applicants have described how to make and use their invention. Many have even provided computer programs, including code, to carry them out. The patent applications have been published, and some of them are pending for many years. Changing the law midstream fundamentally hurts these applicants who did all that was proper under the law at the time they filed their patent application.

The underlying bill as drafted would make those patent applications useless; and because the patent applications have been published, the patent applicant will get nothing for disclosing their secrets, except the expense of pursuing a patent and of course the ability of others to replicate their innovation. Competitors will be free to use their disclosures in the published patent application process. Changing the law midstream simply sends the wrong message to inventors that one cannot trust the law that is in place when they file a patent. Congress would be sending a message, unless my amendment is incorporated into the underlying bill, that all inventors on any subject matter may have their disclosures taken away from them after they have made the decision to apply for a patent by retroactively negating the possibility of them receiving a patent. Tax strategy patents should never have been allowed under the law. I think there's broad agreement among all of us in this Chamber on that topic. It's unfortunate that there was a window. However, rational inventors, making a conscious choice, said, hey, in favor of disclosing, I will then accept a 17-year monopoly, and are now being penalized for making what was a very reasonable decision.

Restore equity to the America Invents Act by supporting my amendment. I hope Members on both sides of the aisle will support this, which effectively addresses only those 160 applications that are in effect now. It certainly continues and am in support of the ban on future patents for tax strategies, but there seem to be very few alternatives or remedies to the takings that would otherwise occur under this bill unless my amendment is incorporated.

I strongly urge a "yes" vote on the amendment.

I yield back the balance of my time.

Mr. SMITH of Texas. Madam Chair, I rise in opposition to the amendment.

The Acting CHAIR. The gentleman is recognized for 5 minutes. Mr. SMITH of Texas. I yield 2 minutes to the gentleman from Virginia (Mr. Goodlatte), who is the chairman of the Intellectual Property Subcommittee of the Judiciary Committee. Mr. GOODLATTE. Madam Chairman, I rise in strong opposition to this amendment.

Increasingly, individuals and companies are filing patents to protect tax strategies. When one individual or business is given the exclusive right to a particular method of complying with the Tax Code, it increases the costs and complexity for every other citizen or tax preparer to comply with the Tax Code. It is not difficult to foresee a situation where taxpayers are forced to choose between paying a royalty in order to reap the best tax treatment and complying with the Tax Code in another, less favorable way. Tax strategy patents add additional costs and complications to an already overly complex process, and this is not what Congress intended when it passed the Federal tax laws or the patent laws.

The problem of tax strategy patents has been a growing concern for over a decade. Over 140 tax strategy patents have already been issued, and more applications are pending. Tax strategy patents have the potential to affect tens of millions of everyday taxpayers, many who do not even realize these patents exist. The Tax Code is already complicated enough without also expecting taxpayers and their advisers to become ongoing experts in patent law.

That is why I advocated for inclusion in H.R. 1249 of a provision to ban tax strategy patents. H.R. 1249 contains such a provision which deems tax strategies insufficient to differentiate a claimed invention from the prior art. This will help ensure that no more tax strategy patents are granted by the PTO.

Importantly, the House worked hard to find a compromise that will ensure Americans have equal access to the best methods of complying with the Tax Code, while also preserving the ability of U.S. technology companies to develop innovative tax preparation and financial management solutions. I believe the language in H.R. 1249 does just that.

This amendment would allow any tax strategy patent that was filed as of the date of enactment of the bill to move toward issuance by the PTO. However, tax strategy patents are bad public policy whether they were filed the day before or the day after this bill happens to be enacted. The effective date in the underlying bill rightly applies to any patent applications pending on the date of enactment. In order to reduce the cost of filing taxes for all Americans and to restore common sense to our patent system, I urge my colleagues to oppose this amendment.

Mr. SMITH of Texas. Madam Chair, I yield 1 minute to the gentleman from California (Mr. Sherman).

Mr. SHERMAN. I have tremendous respect for the gentleman from Colorado, but I rise in opposition to this amendment. This amendment would cover not only those patent applications that were on file yesterday but, as I understand it, also those that are filed tomorrow. Tax strategy patents are a bad idea, as the American Institute of Certified Public Accountants states. “It’s bad public policy. No one should be granted a monopoly over a form of compliance with the Federal Tax Code.”

This amendment is opposed not only by the American Institute of Certified Public Accountants but also my colleague, co-chair of the CPA Caucus, Mike Conaway, and a majority of the CPA and accountants caucus, together with the American College of Trusts and Estate Counsel and the Certified Financial Planner Board of Standards. Keep in mind, the purpose of a patent is to encourage innovation. What interest does the Federal Government have in encouraging innovative ways to avoid paying taxes to the Federal Government? It is now time to draw a line against patents on tax compliance. Mr. SMITH of Texas. I yield myself the balance of my time. Madam Chair, I oppose the amendment to change the effective date for the tax strategy method section of the bill.

It is possible to patent tax strategy methods, but it is bad policy. It is not fair to permit patents on techniques regularly used to satisfy a government mandate, such as one that requires individuals and businesses to pay taxes.

Tax preparers, lawyers, and planners have a long history of sharing their knowledge regarding how to file returns, plan estates, and advise clients. They maintain that allowing the patentability of tax strategy methods will complicate the tax filing process and inhibit the ability of preparers to provide quality services for their clients.

The effective date applies to any patent application that is pending on, or

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filed on or after, the date of enactment and to any patent that is issued on or after that date.

The gentleman's amendment eliminates the application of this provision to those applications pending on the date of enactment. These applications have not been approved so I disagree with excluding these patents-in-waiting.

It was a mistake for the PTO to issue these patents in the first place, given their potential to harm individual taxpayers and tax return preparers. We shouldn't leave the door ajar by allowing more applications in. This just compounds the very problem we're trying to solve.

I oppose the gentleman's amendment, and I urge my colleagues to vote against it.

I yield back the balance of my time.

The Acting CHAIR. The question is on the amendment offered by the gentleman from Colorado (Mr. Polis).

The amendment was rejected.

Amendment No. 9 Offered by Mr. Conyers

The Acting CHAIR. It is now in order to consider amendment No. 9 printed in part B of House Report 112-111.

Mr. CONYERS. Madam Chairman, I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Add at the end the following new section (and conform the table of contents accordingly):

SEC. 32. CALCULATION OF 60-DAY PERIOD FOR APPLICATION OF PATENT TERM EXTENSION.

(a) In General.—Section 156(d)(1) of title 35, United States Code, is amended by adding at the end the following flush sentence:

“For purposes of determining the date on which a product receives permission under the second sentence of this paragraph, if such permission is transmitted after 4:30 P.M., Eastern Time, on a business day, or is transmitted on a day that is not a business day, the product shall be deemed to receive such permission on the next business day. For purposes of the preceding sentence, the term ‘business day’ means any Monday, Tuesday, Wednesday, Thursday, or Friday, excluding any legal holiday under section 6103 of title 5.”.

(b) Applicability.—The amendment made by subsection (a) shall apply to any application for extension of a patent term under section 156 of title 35, United States Code, that is pending on, that is filed after, or as to which a decision regarding the application is subject to judicial review on, the date of the enactment of this Act.

The Acting CHAIR. Pursuant to House Resolution 316, the gentleman from Michigan (Mr. Conyers) and a Member opposed each will control 5 minutes. The Chair recognizes the gentleman from Michigan. Mr. CONYERS. This bipartisan amendment makes a technical revision to H.R. 1249. It addresses the confusion regarding the calculation of the filing period for patent term extension applications under the Hatch-Waxman Act. By eliminating confusion regarding the deadline for patent term extension applications, this amendment provides the certainty necessary to encourage costly investments in life-saving medical research. It also is consistent with the only court case to address this issue entitled, The Medicines Co. v. Kappos. As a result of this amendment, all applications and cases will be treated henceforth in the same manner.

I also want to point out that this exact language has passed the House overwhelmingly on a voice vote in the past, and the prior version of the provision was unanimously passed by the House on two previous occasions and was also in another instance voted out by the Senate Judiciary Committee on a bipartisan basis. It was also accepted in a voice vote by the House Judiciary Committee at a markup earlier this year.

Madam Chair, I reserve the balance of my time.

Mr. SMITH of Texas. Madam Chair, I rise in opposition to the amendment.

The Acting CHAIR. The gentleman is recognized for 5 minutes. Mr. SMITH of Texas. Madam Chair, in 2001, a biotech entity called the Medicines Company, or MedCo, submitted an application for a patent extension that the PTO ruled was 1 day late. This application would have

extended patent protection for a drug the company developed called Angiomax. In August 2010, a U.S. district court ordered the PTO to use a more consistent way of determining whether the patent holder submitted a timely patent extension application. The PTO is implementing that decision and believes the court's decision resolves the problem for MedCo. Because of this ongoing litigation, the manager's amendment struck language pertaining to MedCo. The Conyers amendment seeks to reinsert that provision.

The Conyers amendment essentially codifies the district court's decision, but it ignores the fact that this case is on appeal. We need to let the courts resolve the pending litigation. It is standard practice for Congress not to interfere when there is ongoing litigation. If the Federal circuit rules against MedCo, generic manufacturers of the drug could enter the marketplace immediately rather than waiting another 5 years. This has the potential to save billions of dollars in health care expenses. While the amendment is drafted so as to apply to other companies similarly situated, as a practical matter, this is a special fix for one company.

Finally, it would be more appropriate for this to be considered as a private relief bill. Private relief bills are designed to provide benefits to a specific individual or corporate entity. The House and the Judiciary Committee have procedures in place to ensure that such bills are properly vetted. This amendment ignores those procedures and denies Members the opportunity to know the consequences of what they are voting on.

To summarize, Madam Chair, we should not interfere with ongoing litigation which may be unprecedented, and we should give this issue regular process in the Judiciary Committee.

I oppose the amendment and urge my colleagues to defeat it.

I yield back the balance of my time.

Mr. CONYERS. I would like to yield 1 minute to the distinguished

gentleman from Massachusetts, Ed Markey, of the Energy and Commerce Committee.

Mr. MARKEY. Madam Chairman, this amendment eliminates confusion regarding the deadline for filing patent term extensions under the Hatch-Waxman Act and provides the certainty needed to encourage critical medical research. It also promotes good government by ensuring that the Patent Office and the FDA adopt consistent interpretations of the very same statutory language. And finally, this amendment is consistent with the only court decision addressing this issue. The court stated that the interpretation that is reflected in this amendment—this is from the court—is "consistent with the statute's text, structure, and purpose."

Right now, America's next Lipitor or Prozac could be bottled up at the Patent Office and never made available because of uncertainty regarding the patent term extension process. In order to uncork American innovation and invention, we need a patent extension process that is clear, consistent, and fair. That's exactly what the Conyers amendment does. It enjoys broad bipartisan support, and it confirms and clarifies existing law. It is cost-neutral.

I urge support for the amendment.

Mr. CONYERS. I yield, unfortunately only 75 seconds, to my good friend, also from Massachusetts, Mr. Richard Neal.

Mr. NEAL. Madam Chair, I understand Mr. Smith's position here, but the truth is that when he suggests that we're doing things that are interfering with ongoing court tests, there have been a series of votes here already about the health care law and guaranteed to have more coming in this institution. So I'm not going to spend a lot of time on that suggestion.

But I rise today in support of the amendment. It addresses the deadline for filing patent term extension applications under the Hatch-Waxman Act. By adopting a clear standard, the amendment would provide the opportunity and certainty needed to allow innovators to conduct the time-consuming and expensive medical research necessary to bring new lifesaving drugs to market.

The amendment clarifies the law in a manner that tracks the only court decision to have addressed this particular provision. It will ensure that all applications and all cases are treated the same.

Because the amendment merely

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confirms existing law, it is budget-neutral.

The amendment enjoys broad support on both sides of the aisle. I hope that all of my colleagues will join me in supporting it. Mr. CONYERS. Madam Chair, I am proud now to yield 30 seconds to the distinguished gentleman from Kansas, Mike Pompeo. Mr. POMPEO. I rise in support of this amendment. As a former business owner, compliance with senseless government regulations was one of my biggest frustrations and, honestly, one of the primary reasons I ran for Congress. But it is impossible to comply with regulations when you get two different interpretations from two different agencies, and that's what we have here with this intellectual property rule.

The PTO and the FDA have established two different standards, and this amendment simply seeks to fix that, to give an identical outcome from two different agencies that resulted from different interpretations of the Hatch-Waxman Act of 1984. Inventors shouldn't have to guess. We can make a clean deadline. I urge my colleagues to support this amendment.

Mr. CONYERS. I yield the balance of my time to the distinguished gentleman from New Jersey, Scott Garrett.

The Acting CHAIR. The gentleman from New Jersey is recognized for 45 seconds.

Mr. GARRETT. Madam Chair, the Hatch-Waxman Act provides for the extension of patent terms covering drug products that must be approved by the FDA. And the extension that we're talking about here, while seemingly straightforward, the Patent Office and the FDA have interpreted it, as we have said, in two different ways, creating uncertainty that has led to miscalculations.

So our amendment, consistent with a court ruling, will clarify that when the FDA provides the final approval after normal business hours, the 60-day clock begins on the next business day. So by doing this, by ensuring that patent holders will not lose their rights prematurely, what this amendment does is it will not only resolve a longstanding problem but will encourage the development of innovative new drugs as well.

With that, I urge the adoption of this very commonsense amendment. The Acting CHAIR. The question is on the amendment offered by the gentleman from Michigan (Mr. Conyers).

The question was taken; and the Acting Chair announced that the noes appeared to have it.

Mr. CONYERS. Madam Chair, I demand a recorded vote. The Acting CHAIR. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from Michigan will be postponed.

Amendment No. 10 Offered by Ms. Speier

The Acting CHAIR. It is now in order to consider amendment No. 10 printed in part B of House Report 112-111.

Ms. SPEIER. Madam Chair, I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 16, line 3, insert before the period the following:

“, including requiring parties to provide sufficient evidence to prove and rebut a claim of derivation”.

The Acting CHAIR. Pursuant to House Resolution 316, the gentlewoman from California (Ms. Speier) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentlewoman from California.

Ms. SPEIER. Madam Chair, my amendment enhances the derivations proceedings provision in the first-inventor-to-file section of the bill.

As we know, the U.S. Patent Office is a vital tool that facilitates universities and businesses of all sizes to turn ideas and discoveries into successful products. Having said that, we must ensure that our patent system provides strong and predictable intellectual property protections.

This act creates a new process called “derivation,” by which a party can defeat an earlier filed patent application by showing that the invention in the earlier application was derived from the party’s invention or concept. The bill requires a party to support a petition for derivation by “substantial evidence” in order to initiate a proceeding.

The derivation proceedings in this legislation must be a process that is fair, reliable, and permits the Patent and Trademark Office to make a decision based on a solid record of relevant evidence. This amendment helps to accomplish this by requiring the PTO to provide rules for the exchange of relevant information by both parties.

The substantial evidence threshold at the petition stage of the proceedings may not be reasonable in some circumstances. For example, consider a situation where an inventor discloses an invention to a venture capitalist who declines to invest in it. The venture capitalist has conversations with several other VCs about the invention, and eventually a company funded by one of those VCs files a patent application for something very much like the original invention. If a company funded by the original VC has filed the application, the inventor would be able to show substantial evidence of derivation through the disclosure to the VC and the link between the VC and the company filing the application. However, in the instance when an inventor did not personally make a disclosure to other VCs or the company that filed an application, it would be difficult for the inventor to show substantial evidence, particularly relevant to disclosures about which the inventor is unaware.

The public's interest in fostering innovation requires that the derivation proceedings be equitable to both parties and that the PTO have a complete record of evidence on which to make its decision. Inventors must have a fair chance to prove their claim, and defending parties must be able to provide evidence to rebut claims. This amendment accomplishes these goals by requiring the PTO to provide rules for the exchange of relevant information and evidence by both parties.

I reserve the balance of my time.

Mr. SMITH of Texas. Madam Chair, I claim the time in opposition, although I support the amendment.

The Acting CHAIR. Without objection, the gentleman is recognized for 5 minutes.

There was no objection.

Mr. SMITH of Texas. Madam Chair, I think this is a good amendment. I urge my colleagues to support it.

I yield back the balance of my time.

Ms. SPEIER. Madam Chair, I yield the balance of my time to the gentleman from Maryland (Mr. Hoyer).

The Acting CHAIR. The gentleman from Maryland is recognized for 2\1/ 2\ minutes.

Mr. HOYER. I thank the gentlewoman for yielding.

Madam Chair, I rise in support of this legislation.

I am a strong supporter, as many of you know, of what we call our Make It In America agenda. "Make It In America" simply means that we're going to provide jobs, we're going to provide

opportunities, and we're going to build the manufacturing sector of our economy. In order to do that, we also need to enhance the inventive, innovative, and development phases of our economy. This bill, I think, will facilitate this.

I congratulate the gentlewoman from California for this amendment as well, which I think improves this bill, and I rise in strong support and urge my colleagues to support this piece of legislation. I congratulate all of those who have worked on this legislation. It is, obviously, not perfect. But then again, no piece of legislation that we adopt is perfect. It is, however, a significant step forward to make sure that America remains the inventive, innovative, development capital of the world. In order to do that, we need to manufacture goods here in America; manufacture the goods that we invent, innovate, and develop. Because if we continue to take them to scale overseas, then the inventors, innovators, and developers will themselves move overseas.

So I thank Mr. Smith, I thank Mr. Watt, and I thank others who have worked so hard on this legislation, Ms. Lofgren as well, who have dedicated themselves to try to make sure that we have a context and environment in America which will facilitate the inventive, innovative sector of our economy.

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The Acting CHAIR. The question is on the amendment offered by the gentlewoman from California (Ms. Speier). The amendment was agreed to.

Amendment No. 11 Offered by Mr. Watt

The Acting CHAIR. It is now in order to consider amendment No. 11 printed in part B of House Report 112-111.Mr. WATT. Madam Chair, we were expecting Congresswoman Waters. I would ask unanimous consent that this amendment be delayed until we can determine whether she is still planning to offer it.

The Acting CHAIR. The Committee of the Whole is unable to reorder the amendments.

Mr. WATT. In that case, I offer the amendment as the designee of the gentlewoman from California.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 139, insert the following after line 12 and redesignate succeeding sections (and conform the table of contents) accordingly:

SEC. 29. SEVERABILITY.

If any provision of this Act or amendment made by this Act, or the application of a provision or amendment to any person or circumstance, is held to be unconstitutional, the remainder of this

Act and amendments made by this Act, and the application of the provisions and amendment to any person or circumstance, shall not be affected by the holding.

The Acting CHAIR. Pursuant to House Resolution 316, the gentleman from North Carolina (Mr. Watt) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman from North Carolina. Mr. WATT. Madam Chair, I yield myself such time as I may consume solely to say that this is a straightforward amendment that provides that if one part of the bill is determined to be unconstitutional, it can be severable from the rest of the bill and it doesn't bring the rest of the provisions down. That's a standard policy to put in most legislation.

With that, I reserve the balance of my time.

Mr. SMITH of Texas. Madam Chair, I rise to claim the time in opposition, although I support the amendment.

The Acting CHAIR. Without objection, the gentleman is recognized for 5 minutes.

There was no objection.

Mr. SMITH of Texas. I thank the gentleman for offering the amendment, and I urge my colleagues to support it.

I yield back the balance of my time.

Mr. WATT. Madam Chair, I have just been advised that we were mistaken in the desire of Ms. Waters to offer the amendment. She didn't want me to offer it in her stead, and that's why she didn't show up. I would just ask unanimous consent to withdraw the amendment, unless the chairman has an objection.

The Acting CHAIR. Without objection, the amendment is withdrawn.

There was no objection.

Amendment No. 12 Offered by Mr. Sensenbrenner

The Acting CHAIR. It is now in order to consider amendment No. 12 printed in part B of House Report 112-111.

Mr. SENSENBRENNER. Madam Chair, I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Strike section 3 ("First Inventor to File"), as amended, beginning on page 5, line 1, and redesignate succeeding sections and references thereto (and conform the table of contents) accordingly.

Page 68, line 9, strike “section 18” and all that follows through “3(n)(1)” on line 11 and insert “section 17 and in paragraph (3), shall apply to any patent for which an application is filed on or after that effective date”.

Page 74, line 3, strike “derivation” and insert “interference”.

Page 74, line 7, strike “derivation” and insert “interference”.

Page 76, line 7, strike “Derivation” and insert “Interference”.

Page 76, lines 7 and 8, strike “a derivation” and insert “an interference”.

Page 76, lines 12 and 25, strike “derivation” and insert “interference”.

Page 77, line 6, strike “a derivation” and insert “an interference”.

Page 77, line 10, strike “derivation” and insert “interference”.

Page 77, line 23, strike “a derivation” and insert “an interference”.

In section 7 (“Patent Trial and Appeal Board”), as amended, strike subsection (d) (“Conforming Amendments”) and insert the following:

(d) Conforming Amendments.—

(1) Amendments to title 35.—Sections 134, 145, 146, 154, and 305 of title 35, United States Code, are each amended by striking “Board of Patent Appeals and Interferences” each place that term appears and inserting “Patent Trial and Appeal Board”.

(2) Atomic energy act of 1954.—Section 152 of the Atomic Energy Act of 1954 (42 U.S.C. 2182) is amended, in the third undesignated paragraph, by striking “Board of Patent Appeals and Interferences” each place it appears and inserting “Patent Trial and Appeal Board”.

(3) Title 51.—Section 20135 of title 51, United States Code, is amended, in subsections (e) and (f), by striking “Board of Patent Appeals and Interferences” each place it appears and inserting “Patent Trial and Appeal Board”.

Page 113, line 20, strike “as in effect” and all that follows through “3(n)(1),” on line 22.

Page 113, line 25, strike “(as in” and all that follows through “date)” on page 114, line 1.

Page 114, line 9, strike “(as in effect” and all that follows through “3(n)(1)” on line 11.

Page 115, line 10, strike “6(f)(2)(A)” and insert “5(f)(2)(A)”.

The Acting CHAIR. Pursuant to House Resolution 316, the gentleman from Wisconsin (Mr. Sensenbrenner) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman from Wisconsin.

Mr. SENSENBRENNER. I yield myself 1\1/2\ minutes.

Madam Chair, section 3 of this bill creates a first-to-file patent system. The sponsors believe that the United States should harmonize with other countries' first-to-file systems. There's no reason to do that.

Our patent system is the strongest in the world, and it's based upon the first recognition of the Constitution in any country that inventors should be protected. I think that the Constitution empowers Congress to give patents only to inventors. We had a significant constitutional argument on this issue yesterday. If the amendment is not adopted, the issue will be litigated all the way up to the Supreme Court.

The current first-to-invent system has been key in encouraging entrepreneurial innovation and evens the playing field for individual inventors who are not represented by a major industry. The first-inventor-to-file system violates the Constitution because it would award a patent to the winner of the race to the PTO and not the actual inventor who makes the first discovery.

If we change to a first-to-file system, inventors who believe they do not have sufficient resources to win the race to the PTO will not have any motivation at all to continue developing the new invention. This will stifle innovation, and given the current state of our economy, that's the last thing we need.

The Acting CHAIR. The time of the gentleman has expired.

Mr. SENSENBRENNER. I yield myself an additional 15 seconds. First-to-file also invites excessive filing and will add to the burden of the USPTO by increasing the examiner's workload. We already have financing problems there. If this amendment is not adopted, it will be worse.

I reserve the balance of my time.

Mr. SMITH of Texas. I rise in opposition to the amendment.

The Acting CHAIR. The gentleman is recognized for 5 minutes. Mr. SMITH of Texas. Madam Chair, the gentleman's amendment strikes the first-inventor-to-file provisions from the bill. I strongly oppose the amendment.

The move to a first-inventor-to-file system creates a more efficient and reliable patent system that benefits all inventors, including independent inventors. This provision provides a more transparent and certain grace period, a key feature of U.S. law, and a more definite filing date that enables inventors to promote, fund, and market their technology while making them less vulnerable to costly patent challenges that disadvantage independent inventors.

The first-inventor-to-file system is absolutely consistent with the Constitution's requirement that patents be awarded to the inventor.

Former Attorney General Michael Mukasey has stated that the "provision is constitutional and helps assure that the patent laws of this country accomplish the goal set forth in the Constitution: 'to promote the Progress of Science and useful Arts.' "

Under first-inventor-to-file, patent rights are reserved to someone who

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independently conceived of an invention before it was in the public domain. And under the Constitution, that is what is required to be considered an "inventor."

In fact, early American patent law, that of our Founders' generation, did not concern itself with who was the first to invent. The U.S. operated under a first-inventor-to-register system for nearly half a century, starting in 1790. The first-inventor-to-register system is similar to first-inventor-to-file, a system that the Founders themselves supported early in our Nation's history. The courts did not even concern themselves with who was the first person to invent until 1870, with the creation of interference proceedings. Those proceedings are the ones that disadvantage independent inventors and small businesses. And over the years, and in subsequent revisions of the law, those proceedings have morphed into a costly litigation tactic.

Under first-inventor-to-file, an inventor submits an application to the Patent Office that describes their invention and how to make it. That, along with just a $110 fee, gets them a provisional application and preserves their filing date. This allows the inventor an entire year to complete the application, while retaining the earlier filing date. By contrast, the cost of an interference proceeding in today's law could run an inventor $500,000.

Accusations that the bill doesn't preserve the 1-year grace period are simply false. This bill provides a stronger, more transparent and certain 1-year grace period for disclosures. This enhances protection for inventors who have made a public or private disclosure of their invention during the grace period.

The grace period protects the ability of an inventor to discuss or write about their ideas for a patent up to 1 year before they file for patent protection. These simple requirements create a priority date that is fixed and public so that everyone in the world can measure the patent against competing applications and patents and relevant prior art.

In addition, many inventors also want protection for their patents outside of the United States. If you plan on selling your product overseas, you need to secure an early filing date. If you don't have a clear filing date, you can be shut out from the overseas market. A change to a first-inventor-to-file system will help our businesses grow and ensure that American goods and services will be available in markets across the globe.

The current first-to-invent system seriously disadvantages small businesses and independent inventors. Former PTO Commissioner Gerald Mossinghoff conducted a study that proved smaller entities are disadvantaged in PTO interference proceedings that arise from disputes over patent ownership under the current system.

In the last 7 years, only one independent inventor out of 3 million patent applications filed has proved an earlier date of invention than the inventor who filed first.

Madam Chair, let me repeat that: in the last 7 years, only one independent inventor out of 3 million patent applications filed has proved an earlier date of invention than the inventor who

filed first. Independent inventors lose to other applicants with deeper pockets that are better equipped to exploit the current complex legal environment. So the first-inventor-to-file change makes it easier and less complicated for U.S. inventors to secure their patent rights, and it protects their patents overseas. And it eliminates the legal bills that come with interference proceedings under the current system. It is a key provision of this bill.

Madam Chair, the amendment should not be approved, and I urge my colleagues to vote against it.

I yield back the balance of my time.

Mr. SENSENBRENNER. Madam Chair, I yield 1 minute to the gentleman from California (Mr. Schiff).

Mr. SCHIFF. Madam Chair, I find myself in reluctant opposition to my colleague from Texas in support of the Sensenbrenner amendment. Section 3 shifts our patent system from the unique first-to-invent system to a first-to-file system.

As I speak to inventors, startups, venture capitalists and angel investors in California, I'm convinced that the proposed transition to first-to-file would be harmful to innovation and burdensome to the most dynamic and innovative sector of our economy.

With the shift to first-to-file, the rush to the Patent Office will lead to new costs for small businesses as they prepare applications for inventions that they may ultimately find impractical. For small startups, the cost of retaining outside counsel for this purpose will be a drain on their limited resources and mean less money for hiring and the actual act of innovation.

Supporters of first-to-file argue inventors can turn to provisional applications to protect their patent rights. But from talking to small inventors, I have learned that good provisional applications require substantial legal fees and time investment on the part of the inventor to make them sufficiently detailed to be of use.

The Acting CHAIR. The time of the gentleman has expired.

Mr. SENSENBRENNER. I yield the gentleman an additional 15 seconds. Mr. SCHIFF. I appreciate the hard work that has gone into the bill by the gentleman from Texas. However, I remain deeply concerned that the shift to first-to-file will have lasting negative consequences for small investors, and I urge the House to improve the bill by adopting the Sensenbrenner amendment.

Madam Chair, following is my statement in its entirety: I rise in support of the Sensenbrenner amendment to strike Section 3 of the underlying legislation. Section 3 shifts our patent system from our unique First to Invent system to a First to File system. As I speak to inventors, startups, venture capitalists and angel investors in California, I am convinced that the proposed transition to First to File would be harmful to innovation and burdensome to the most dynamic and innovative sector of our economy.

With the shift to First to File, the rush to the patent office will lead to new costs for small businesses as they prepare applications for inventions that they ultimately find impractical. The result will be more and lower quality patent applications, undermining the improved patent quality H.R. 1249 seeks to achieve. For small startups, the costs of retaining outside counsel for this purpose will be a drain on their limited resources, and it will mean less money for hiring and the actual act of invention.

Supporters of First to File argue that it will increase certainty in the patent process, but I am skeptical that any such gains in efficiency will result. The interference proceedings at the PTO that are used to resolve disputes regarding patent rights are rare, representing only a tiny fraction of patent filings. Moreover, there is an established, century old body of law on FIrst to Invent. It will take years, if not decades, for similar clarity to develop on a First to File.

Supporters of First to File argue that inventors can turn to provisional applications to protect their patent rights. That sounds good in theory, but from talking to small inventors I have learned that good provisional applications require substantial legal fees and time investment on the part of the inventor to make them sufficiently detailed to be of any use should another entity file a similar patent application.

Madam Chair, I appreciate the hard work that has gone into this bill and the leadership of the gentleman from Texas. However, I remain deeply concerned that the shift to First to File will have lasting negative consequences for small inventors, and I urge the House to improve the bill by adopting the Sensenbrenner amendment. Mr. SENSENBRENNER. Madam Chair, I yield 1 minute to the gentlewoman from California (Ms. Zoe Lofgren).

Ms. ZOE LOFGREN of California. Madam Chair, I rise in support of the Sensenbrenner amendment. Actually, I don’t agree that first-to-file is unconstitutional, and I, in general, am not opposed to the idea of first-to-file.

But, unfortunately, the bill is flawed, and you cannot have first-to-file without robust prior-user rights and a broad prior-user rights used in the grace period. We don’t have that in this bill.

And so what we will have are established businesses having to either reveal trade secrets or be held up, have to license their own trade secrets. For startups this is a very serious problem. And coming from Silicon Valley, I’ll tell you I’ve heard from a lot of startups and the venture world that supports them that this provision is defective.

There were other remedies. They were not adopted. All we can do now is

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to strike the first-to-file provision. I do that without any reluctance. It will serve our economy best. And I thank the gentleman for offering his amendment.

Mr. SENSENBRENNER. I yield myself the balance of the time. Madam Chair, the reason that first-to-invent is important is that it allows an inventor to talk to investors, conduct trial and error innovation and deal with leaks, because commercially important patent rights are determined by ordinary, nonburdensome business activities. Where this hurts the ordinary inventor by going to

first-to-file is that he needs to get his venture capital together, and then go ahead and file for a patent. With first-to-file, he has to put all of the money up front to file in order to protect himself; and what that will do is have a chilling effect on the small inventor who needs to get capital in order to perfect a patent and in order to market it. That's why this amendment should be adopted. I urge the Members to do so. I yield back the balance of my time.

The Acting CHAIR. The question is on the amendment offered by the gentleman from Wisconsin (Mr. Sensenbrenner).

The question was taken; and the Acting Chair announced that the noes appeared to have it.

Mr. SENSENBRENNER. Madam Chair, I demand a recorded vote. The Acting CHAIR. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from Wisconsin will be postponed.

Amendment No. 13 Offered by Mr. Manzullo

The Acting CHAIR. It is now in order to consider amendment No. 13 printed in part B of House Report 112-111.

Mr. MANZULLO. Madam Chair, I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Strike section 10 (beginning on page 81, line 14; "Fee Setting Authority"), as amended, and insert the following (and conform the table of contents accordingly):

SEC. 10. ELECTRONIC FILING INCENTIVE.

(a) In General.—An additional 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.

(b) Effective Date.—This section shall take effect upon the expiration of the 60-day period beginning on the date of the enactment of this Act.

The Acting CHAIR. Pursuant to House Resolution 316, the gentleman from Illinois (Mr. Manzullo) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman from Illinois.

Mr. MANZULLO. Madam Chair, there are a lot of problems with this bill as we have heard about already. In fact, on the wall of my office here in Washington, I have two pictures, among

many. One is a picture of W. Edwards Deming and myself, taken just before he passed away in 1993-- the real inventor of Lee Manufacturing. The other is of Dr. Ray Damadian, the inventor of the MRI who, when examining this legislation, said if the new changes had taken place in the patent law, had they been part of the patent system when he invented the MRI, the MRI never would have been invented. He knows more than anybody how flawed this bill is.

I want to focus in particular on section 10 of the bill, which allows the Director of the Patent Office to set fees. I'm very concerned about this because, in the last patent fight, in 2004, when I chaired the House Small Business Committee, in return for supporting higher fees with a reduced rate structure for small businesses, the provision in that bill allowing the PTO Director to set fees was removed.

This new bill abrogates that hard-won compromise and allows the director of the PTO to set the fees. It is not wise for the legislative branch to give up more power and authority to the executive branch. I know it's inconvenient to have Congress set fees, but that's the job of Congress, not the job of an unelected bureaucrat. When I chaired the House Small Business Committee, I continued the tradition of preventing the SBA from unilaterally being able to set fees to whatever level they sought. I don't see why we have to do this with the PTO. Now in the present bill, section 11 actually lowers fees for small business people and has a good patent fee structure. However, section 10 would allow the PTO Director to proceed with the administrative process to eviscerate that section and impose its own fees.

To compound the problem, the Patent Office has been saying for years that if they had the authority to raise fees, they would. In 2002, the PTO strategic plan said they needed to have a fee based upon a progressive system aimed at limiting applications. In 2010, in the white paper on patent reform, they said the same thing.

The Patent Office's idea of cutting back on the backlog is to raise fees. That doesn't make sense. But let's eliminate that authority from the Patent Office. Let's leave that authority with the United States Congress.

I reserve the balance of my time.

Mr. SMITH of Texas. Madam Chair, I rise in opposition to the amendment.

The Acting CHAIR. The gentleman is recognized for 5 minutes. Mr. SMITH of Texas. Madam Chair, I oppose the gentleman's amendment to strike the PTO fee-setting authority from H.R. 1249.

Although the PTO has the ability to set certain fees by regulation, most fees are set by Congress. History has shown that such a scheme does not allow the PTO to respond to the challenges that confront it. The PTO, most stakeholders, and the Judiciary Committee have agreed for years that the agency must have fee-setting authority to address its growing workload. This need is critical. The agency's backlog exceeds 1 million patent applications. This means it takes 3 years to get a patent in the United States—far too long. The wasted time leads to lost commercial opportunities, fewer jobs, and fewer new products for American consumers. Moreover, the new fee structure will not only retain the existing 50 percent discount for small businesses, it creates a

new 75 percent discount for micro entities. This benefit helps independent inventors and small businesses.

The bill allows the PTO to set or adjust all of its fees, including those related to patents and trademarks, so long as they do no more than reasonably compensate the agency for the services performed. To the charge that we are abandoning our oversight of the process, I urge the Members to review the oversight mechanisms in the bill. For example, prior to setting such fees, the director must give notice to and receive input from the Patent Public Advisory Committee or the Trademark Public Advisory Committee. The director may also reduce fees for any given fiscal year, but only after consultation with the advisory committees.

The bill details the procedures for how the director shall consult with the advisory committees, which includes providing for public hearings and the dissemination to the public of any recommendations made by either advisory committee.

Fees shall be prescribed by rule. Any proposed fee change shall be published in the Federal Register and include the specific rationale and purpose for the proposed change.

The director must seek public comments for no less than 45 days. The director must also notify Congress of any final decision regarding proposed fees. Congress shall have no more than 45 days to consider and comment on any proposed fee, but no proposed fee shall be effective prior to the expiration of this 45-day period.

Congress will remain part of the process, but PTO is better able to respond to their own resource needs, which, after all, will benefit patent holders and subsequently the economy.

I urge my colleagues to oppose the amendment.

Madam Chair, I yield the balance of my time to the gentleman from Virginia (Mr. Goodlatte), the chairman of the Intellectual Property Subcommittee.

The Acting CHAIR. The gentleman from Virginia is recognized for 2\1/ 2\ minutes.

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Mr. GOODLATTE. I thank the chairman for yielding.

Madam Chairman, I rise in opposition to this amendment.

The Senate-passed patent bill granted the PTO fee-setting authority into perpetuity. The Senate's goal was laudable. It wanted to allow the PTO to have control over the fees that it charges so that it would have more certainty about rolling out new programs and hiring new examiners to deal with pendency and quality issues. We have, as you know, a very long backlog--3 years, 1 million patents. However, I had strong concerns with granting this much authority to a government agency. Currently, the PTO must come before Congress to request any fee increases. This forces the PTO to use its current resources in the most efficient manner and also strengthens Congress' hand when it comes to oversight over the agency. Thus, I worked to get a provision into the House bill that would sunset the PTO's fee-setting authority. The bill now terminates the fee-

setting authority after 7 years unless Congress proactively acts to extend it. This will allow the PTO sufficient time to structure its fees but will ensure that Congress continues to have a strong influence over that process.

And I might add that the manager's amendment to the bill also strengthens Congress' hand and limits the objective of the PTO to arbitrarily raise its fees because the Congress still appropriates the funds and can only escrow funds—can't divert them to another purpose, but escrows them. PTO will have to come back to the Congress and justify additional funds it receives.

I believe the bill, as it is written right now, strikes the right balance. And I urge Members to oppose this amendment, which would altogether eliminate PTO fee-setting authority.

Mr. MANZULLO. I yield myself the balance of my time. Madam Chair, you don't strike the right balance between an inventor's constitutional right to file for an invention and giving a patent czar the authority to keep him out of the box by allowing him to raise the fees. Mr. Smith from Texas said it himself; he coupled patent backlog with the ability of the patent director to set the fees. That can only lead to one conclusion: They're going to raise the fees in order to cut down on the patent backlog. It doesn't make sense.

This is the people's House. The Patent Office is the people's house for the little inventor. He must have every opportunity to exercise his constitutional right and file that patent. But if Congress cedes the authority to set those fees to a new authority of the patent director—or we can call him now the patent czar—that patent czar will control for 7 years, at the minimum, the flow of traffic coming through his office. And you know who gets slowed? Do you know who gets hurt? It's the little guy. And the purpose of my amendment is to protect the little guy to make sure those fees are not raised, and also to make sure that the people in this country elect representatives in Congress because it's our job to set the fees, not the job of an unelected person, the person in charge of the Patent Office.

I would therefore urge my colleagues to vote for the Manzullo amendment, to support the little inventor, to support the spirit of entrepreneurship in this country.

Madam Chair, I yield back the balance of my time.

The Acting CHAIR. The question is on the amendment offered by the gentleman from Illinois (Mr. Manzullo).

The question was taken; and the Acting Chair announced that the noes appeared to have it.

Mr. MANZULLO. Madam Chair, I demand a recorded vote. The Acting CHAIR. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from Illinois will be postponed.

Amendment No. 14 Offered by Mr. Rohrabacher

The Acting CHAIR. It is now in order to consider amendment No. 14 printed in part B of House Report 112-111.

Mr. ROHRABACHER. Madam Chairman, I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 73, after line 2, insert the following new subsection:

(i) Inapplicability of Post-grant Review to Certain Small Entities.—

(1) In general.—Notwithstanding any other provision of law, a patent granted to a United States citizen, an individually lawfully admitted for permanent residence in the United States, or a United States company with less than 100 employees shall not be subject to any form of post-grant review or reexamination.

(2) Rulemaking.—The Director shall issue such regulations as may be necessary to carry out this subsection.

The Acting CHAIR. Pursuant to House Resolution 316, the gentleman from California (Mr. Rohrabacher) and a Member opposed each will control 5 minutes.

The Chair recognizes the gentleman from California.

Mr. ROHRABACHER. In this debate, Madam Chairman, we have heard over and over and over again about the gridlock at the Patent Office, which is supposedly what we're trying to correct with this legislation, H.R. 1249, which I have been contending is not designed to help the Patent Office, but to harmonize American law with the rest of the world and make it weaker patent protection for our people.

But what does it do about the backlog, if that's really what people are concerned about? H.R. 1249 would actually tremendously add to the PTO backlog by requiring further post-grant review proceedings at the Patent Office, proceedings which would consume even more limited personnel and money. Added procedures add to the gridlock at the PTO, at the Patent Office, and it will also do what? It will break the back of small inventors and startup companies who are trying to get a new product on the market.

It will empower the multinational and foreign corporations who can grind down the little guy, because what we are doing in this bill is adding even further procedures they have to go through, even after they have got their patent issued to them.

This is the big guy versus little guy legislation. That was even pointed out by the Hoover Institution, which did an analysis of this bill and said, "The American Invents Act will protect large entrenched companies at the expense of market challenging competitors." "A patent should be challenged in court, not in the U.S. Patent Office."

"A politicized patent system will further entrench those companies with the largest lobbying shops on K Street."

“The bill wreaks havoc on property rights, and predictable property rights are essential for economic growth.”

“If America weakens its patent enforcement at home, it will set a dangerous precedent overseas.”

“The America Invents Act would inject massive uncertainty into the patent system.”

This is a travesty. It is an attack on American well-being, because we depend on our small inventors to come up with the ideas. The Kaptur-Rohrabacher amendment limits this new burden. If we can’t get rid of it, at least we can limit this new burden of all these post-grant reviews they are going to add to companies that have more than 100 employees. It frees up the Patent Office personnel to do their job, helps with that gridlock, and protects the small business man and small inventors at the same time.

I would ask my colleagues to support the Kaptur-Rohrabacher amendment.

I yield such time as she may consume to the gentlewoman from Ohio (Ms. Kaptur).

Ms. KAPTUR. I thank the gentleman for yielding and urge my colleagues to support the Rohrabacher-Kaptur amendment, which ensures fairness for small and independent inventors. Without it, this bill will destroy American job creation and innovation since it throws out 220 years of patent protections for individual inventors.

Our amendment addresses a major shortcoming of the bill by eliminating the burden of post-grant reviews and reexaminations on individual inventors and small businesses with 100 or fewer employees.

The new procedures and regulations in this bill will make it extremely difficult for the average citizen to ever get a patent or defend one without our amendment. Our amendment clearly gives the Patent Office the authority to issue appropriate regulations that

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ensure that the new regulatory burdens in this bill do not disproportionately impact individual inventors. This amendment is about ensuring fairness for small inventors. We urge our colleagues to support the Kaptur-Rohrabacher amendment so all inventors in America have a chance to realize their dreams, and, in realizing their dreams, assuring that we will have robust innovation and job creation in our country.

The Acting CHAIR. The gentleman from California has 1\1/2\ minutes remaining.

Mr. ROHRABACHER. Let me just note, our amendment empowers the Director of the Patent Office to extend this 100-employee standard to other small businesses and individual inventors overseas if this is required by a treaty; yes, small businesses and individual inventors overseas. So our amendment does nothing to violate any treaty obligations by giving our own people special rights over foreign individuals.

What it does do, however, is prevent foreign corporations from grinding down our inventors here, like they grind down their inventors overseas. This is what we are doing to prevent a harmonization of our laws, because we don't want weaker patent protection for our people. They already got it overseas against their foreign corporations that grind them down. We want to protect our own people. I reserve the balance of my time.

Mr. SMITH of Texas. Madam Chair, I rise in opposition to the amendment.

The Acting CHAIR. The gentleman is recognized for 5 minutes. Mr. SMITH of Texas. Madam Chair, almost everyone in Congress wants to help small businesses. They are the foundation of our economy and are the primary job creators. But this amendment includes certain terms or phrases that have nothing to do with the underlying goal that it purports to achieve.

This amendment appears to focus on small businesses, but in reality the amendment attempts to provide the trial lawyer lobby and patent trolls with an exemption from PTO reexamination, allowing them to continue suing job creators using frivolous or questionable patents. This amendment has nothing to do with small businesses and everything to do with providing an exemption for some of the worst offenders of our patent system.

This amendment will not help independent inventors or small businesses. Small businesses need the PTO reexamination proceedings. Those proceedings strengthen patents, and strong patents are what investors look for when making decisions about whether or not to provide venture capital funding.

The argument that reexam proceedings harass or hurt small businesses is just plain wrong. The reexam proceedings are a cheaper, quicker, better alternative to resolve questions of patentability than costly litigation in Federal court, which can run into the millions of dollars and last for years. This amendment is an immunity agreement for patent trolls, those entities who do not create jobs or innovation but simply game the legal system.

Additionally, this amendment appears to violate our international obligations under the TRIPS agreement. Under TRIPS, we are obligated not to discriminate against any field of technology or categories of patent holders. By providing an exemption from all reexamination proceedings for technological patents granted to patent trolls or nonpracticing entities, this would create a clear violation of our legal obligations.

Our patent system should be designed to ensure that it produces strong patents and patent certainty. The PTO reexamination proceedings help ensure that these important goals are accomplished. This amendment bars any form of reexam for U.S.-owned patents and, thus, would also prevent U.S. inventors themselves from using supplemental examination to even be able to correct errors in the record about their own patents.

This amendment creates a huge loophole in our patent system by exempting entities with 100 or fewer employees. This will not help small businesses but will allow patent troll entities, foreign companies, and foreign governments to manipulate our patent system. It would bar use of the business-methods transitional proceeding against most business-method patents.

This amendment is a recipe for allowing patent trolls and foreign companies and their governments to bypass normal post-grant challenges and enables weak or questionable patents to bypass further scrutiny. There is no legitimate public policy objective in exempting large numbers of those who manipulate our patent system from the rules of the road. It is for these reasons that I strongly oppose this amendment. I yield the balance of my time to the gentleman from Virginia (Mr. Goodlatte).

The Acting CHAIR. The gentleman from Virginia is recognized for 2 minutes.

Mr. GOODLATTE. Madam Chairman, I rise in strong opposition to this amendment, which is a bad idea. Post-grant review is one of the most important provisions in this bill. It allows third parties, for a limited window of 9 months after a patent is issued, to submit evidence that the patent should not have been granted in the first place. This allows third parties, many of whom will be small businesses themselves who are familiar with the subject matter, to provide a check on patent examiners. If the evidence shows that the patent is indeed invalid, then the patent applicant should never have received the patent in the first place. If the evidence shows that the patent is valid, then the patent is made stronger and more certain by surviving a post-grant review.

The amendment would exempt small businesses from the post-grant opposition proceeding. However, the quality of a patent examination does not hinge on the size of the applicant, whether it was a small business, an independent inventor, or a large corporation. It hinges on the PTO job of scrutinizing that patent. A bogus patent held by an independent inventor is no less deserving of a second look than a bogus patent held by a Fortune 500 company.

For these reasons, I urge opposition to this very bad amendment. The Acting CHAIR. The gentleman from California has 30 seconds remaining.

Mr. ROHRABACHER. I yield the balance of my time to the gentlewoman from Ohio (Ms. Kaptur).

Ms. KAPTUR. I would like to refute Mr. Smith's argument. In fact, he has manufactured an argument against our amendment that says it will violate WTO obligations, specifically citing TRIPS. He seems to object to the use of references to American citizens and U.S. companies, but obviously failed to read the entire amendment which allows the Patent Office to issue relevant regulations for properly implementing this amendment. And if he was so concerned about WTO compliance, he should strike section 18 of his own bill which is clearly WTO noncompliant because it creates a special class for only one industry, the banking industry.

I urge my colleagues to vote against the bill and for the Rohrabacher-Kaptur amendment.

The Acting CHAIR. The question is on the amendment offered by the gentleman from California (Mr. Rohrabacher).

The question was taken; and the Acting Chair announced that the noes appeared to have it.

Mr. ROHRABACHER. Madam Chair, I demand a recorded vote. The Acting CHAIR. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from California will be postponed.

Amendment No. 15 Offered by Mr. Schock

The Acting CHAIR. It is now in order to consider amendment No. 15 printed in part B of House Report 112-111.

Mr. SCHOCK. Madam Chairwoman, I have an amendment at the desk.

The Acting CHAIR. The Clerk will designate the amendment.

The text of the amendment is as follows:

Page 112, strike line 18 and all that follows through page 118, line 2, and redesignate succeeding sections and references thereto (and conform the table of contents) accordingly.

Page 68, line 9, strike “in section 18 and”.

The Acting CHAIR. Pursuant to House Resolution 316, the gentleman from Illinois (Mr. Schock) and a Member opposed each will control 5 minutes.

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The Chair recognizes the gentleman from Illinois.

Mr. SCHOCK. I thought when we started this Congress that we had agreed to no more earmarks, no more handouts, no more special privileges for any specific industry. But based on reading H.R. 1249, it’s obvious to see that it includes controversial language which does just that—section 18, which sets forth a new and different process for certain business method patents for any other patents seeking approval. Section 18 carves out a niche of business method patents covering technology used specifically in the financial industry and would create a special class of patents in the financial services field subject to their own distinctive post-grant administrative review. This new process allows for retroactive reviews of already-proven patents that have undergone initial scrutiny, review, and have even been upheld in court. Now these patents will be subjected to an unprecedented new level of interrogation.

The other side will argue that somehow magically a number of these financially related patents breezed through the patent office and thus must be reviewed. Well, nothing could be further from the truth. In fact, the allowance rate for these business method patents is the smallest of any of the art forms. In fact, roughly 10 percent of those business method patents applied for are actually approved. At a time when these small entrepreneurs and innovators need to be dedicating their resources and new advancements to innovation, they will instead, because of section 18, be required to divert research funds to lawyers to fight the deep pockets of Wall Street, who will now attempt to attack their right to hold these financially related patents.

With that, Madam Chair, I reserve the balance of my time. Mr. SMITH of Texas. Madam Chair, I rise in opposition to the amendment.

The Acting CHAIR. The gentleman is recognized for 5 minutes.

Mr. SMITH of Texas. I yield myself 1 minute.

Madam Chair, I strongly oppose this amendment. It strikes a useful provision that would provide a way to review the validity of certain business method patents. The proceeding would create an inexpensive and faster alternative to litigation, allowing parties to resolve their disputes rather than spending millions of dollars that litigation now costs. In the process, the proceeding would also prevent nuisance or extortion lawsuits.

This provision is strongly supported by community banks, credit unions, and other institutions that are an important source of lending to homeowners and small businesses. Finally, this bill only creates a new mechanism for reviewing the validity of business method patents. It does not alter the validity of those patents. Under settled precedent, the transitional review program is absolutely constitutional. Madam Chair, I now yield 1 minute to the gentleman from New York (Mr. Grimm), a member of the Financial Services Committee. Mr. GRIMM. I rise today to call on my colleagues to oppose the Schock-Waters amendment. This amendment would strike one of the legislation's most important reforms, a crackdown on low-quality business method patents, which have weakened the patent system and cost companies and their customers millions of dollars. Infamous patent trolls—people who aggressively try to enforce patents through courts in friendly venues—have made business method patents their specialty in recent years. These same patent trolls have funded an elaborate propaganda campaign targeting the reforms in section 18. Let us simply set the record straight. Section 18 allows patent experts to reexamine through temporary pilot programs legally questionable business method patents, a problem that the Patent Office has already said it is ready and willing to tackle. Opponents have asserted that the measure would help only the banks. This isn't true. The National Retail Federation and the U.S. Chamber of Commerce have endorsed this provision. Companies impacted include McDonald's, Walmart, Costco, Home Depot, Best Buy, and Lowes. These don't sound like banks to me.

Opponents also claim that this section is unconstitutional.

The Acting CHAIR. The time of the gentleman has expired.

Mr. SMITH of Texas. I yield the gentleman an additional 15 seconds.

Mr. GRIMM. Again, there has been a tremendous propaganda campaign basically to sell untruths that we simply need to get past. The truth is, this is best for the small guy. If we really care about the small inventors that create innovation in this country, then we should oppose this amendment.

Don't take my word for it—read the words of Judge Michael McConnell—once the most influential federal appeal court judge in the nation—and now the head of the Constitutional Law Center at Stanford Law School:

He said, “There is nothing novel or unprecedented, much less unconstitutional, about the procedures proposed,” and “we can state with confidence that the proposed legislation is supported by settled precedent.”

I think it is time we stop listening to patent trolls who abuse our court system, and start listening to the businesses that drive job creation and economic growth in this country. Madam Chairman, I strongly urge my colleagues to support this bill and oppose the Schock-Waters amendment to strike Section 18. Mr. SCHOCK. Madam Chair, I yield 1 minute to my friend, the cosponsor of this amendment, the gentlewoman from California (Ms. Waters). Ms. WATERS. As a member of the Judiciary Committee, I rise in strong support of the Schock-Boren-Waters-Sensenbrenner-Franks-Kaptur amendment to strike section 18. For years, the too-big-to-fail banks have attempted to eliminate their patent infringement liabilities to smaller companies and inventors that have patented financial services-related business method patents. They are now coming to Congress in hopes that you will help them steal a specific type of innovation and legislatively take other financial services-related business method patents referenced in H.R. 1249, section 18. This is simply wrong. Elected Members of Congress should not allow the banks to use us to steal legally issued and valid patents. Financial services-related business method patents have saved financial services companies billions of dollars. But that’s not enough for the banks. Because the banks have failed at every attempt to void these patents, they’re attempting to use their power to write into law what they could not achieve at PTO or in the courts.

Don’t be tricked, don’t be fooled, and don’t be used. I urge my colleagues to listen to the floor debates.

Mr. SMITH of Texas. Madam Chair, I yield 1\1/2\ minutes to the gentleman from New York (Mr. Crowley), who is a member of the Ways and Means Committee.

Mr. CROWLEY. I thank the gentleman for yielding. Madam Chair, I rise in strong opposition to the amendment that would eliminate section 18 of the underlying patent reform bill. Section 18 empowers the Patent and Trademark Office to review the validity of so-called business method patents. This language was drafted in close cooperation with the Patent and Trademark Office and the Department of Commerce. It also enjoys the wide bipartisan support of the Judiciary Committee, which defeated a similar amendment during committee consideration of this bill.

Further, this amendment does not hurt any legitimate inventors. It only allows for the review of abstract patents issued since 1988 when a Federal court ruled that business methods could be patented—a ruling which the U.S. Supreme Court limited significantly last year. What are these business methods I’m talking about? In one case, a business method patent was issued for interactive fund-raising across a data packet transferring computer network. Once obtained, the patent holder sued the Red Cross for soliciting charitable contributions on the Internet, claiming that his patent covers this entire field. In another example, a patent was granted covering the printing of marketing materials on billing statements.

These patents, and many others in this space, are not legitimate patents that help advance America. They are nuisance patents used to sue legitimate businesses and nonprofit business organizations like the Red Cross or any other merchants who engage in normal activity that

should never be patented. In fact, this language will not go after any legitimate patent, but only allow a

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review of illegitimate patents, like those looking to patent the “office water cooler discussion.” No legitimate inventor needs to worry about a post-grant review. In fact, under this section, the PTO cannot even look at a patent unless they determine that it “more likely than not” would be invalid. That’s a very high standard. Let’s help America grow and succeed and oppose this amendment. Mr. SCHOCK. Mr. Chairman, I yield 30 seconds to my friend and cosponsor of this amendment, the gentleman from Oklahoma (Mr. Boren). Mr. BOREN. Mr. Chairman, I rise today in support of the amendment that I’ve coauthored with Mr. Schock. During my time in Congress I have been a consistent supporter of small businesses. Here on the House floor we are told nearly every day that small businesses are the engine of our Nation’s economy, and there’s no discounting that fact. If included in the final bill, I believe section 18 will pose a devastating threat to America’s small business community. Business method patents already endure a lengthy approval process, and section 18 would only make it more difficult for inventors to defend their patents. I ask my colleagues to support this amendment.

Mr. SMITH of Texas. Mr. Chairman, I yield the balance of my time to the gentleman from Virginia (Mr. Goodlatte). The Acting CHAIR (Mr. Yoder). The gentleman from Virginia is recognized for 1\1/4\ minutes.

Mr. GOODLATTE. Mr. Chairman, I rise in opposition to this amendment. There is no doubt that the PTO has issued business method patents of questionable merit over the years. Many of these patents are still on the books. Unfortunately, many of these patents are being used by aggressive trial lawyers to extort money from deep pockets. Section 18 of the bill simply creates a process that allows experts at the PTO to reexamine the types of business method patents that the PTO believes to be of the poorest quality. This section was drafted in close coordination with the USPTO and is a pilot program that simply allows them to review certain business methods patents against the best prior art in a reexamination process.

Why would anyone oppose a process that allows low-quality patents, as identified by the USPTO, to be reviewed by the experts?

Business method patents on financial activities are the type of patents that are the subject of lawsuits and abuse most often. They are litigated at a rate 39 times greater than any other patents. Section 18 is designed to correct a fundamental flaw in the system that is costing consumers millions each year. The provision is supported by a broad bipartisan coalition that includes the U.S. Chamber of Commerce. I urge Members to reject this amendment, which strikes an important litigation reform provision in the underlying bill. Mr. SCHOCK. Mr. Chairman, I would like to inquire of my time remaining.

The Acting CHAIR. The gentleman from Illinois has 1\1/2\ minutes remaining.

Mr. SCHOCK. I now yield 1 minute to my friend from California (Mr. Lungren).

Mr. DANIEL E. LUNGREN of California. Mr. Chairman, I might just say that, in answer to the question raised by my friend from Virginia "why would anyone oppose this?" it is because of the Constitution. This provision, section 18, is clearly violative of the Constitution. It would have you believe that you could go to court, an article III court, and have a final decision—a final judgment—rendered by a court, including a jury. Then after that, there's not an appeal to an appellate court but an appeal somehow back to an administrative agency? Does anybody sense there is a violation of the separation of powers? Does anybody understand what the Court said in the Plaut case, which said that the Constitution gives the Federal judiciary the power to not merely rule on cases but to decide them subject to review only by superior courts in article III hierarchy?

You can argue all you want, but that's what the Supreme Court says. This is an obvious, blatant violation of the Constitution. That's the answer to my friends who say we have to have this provision. Yes, it may be that the U.S. Constitution is the inconvenient truth here. We are not allowed to violate it even though we do it with the best of intentions.

The Acting CHAIR. The gentleman from Illinois is recognized for 30 seconds.

Mr. SCHOCK. Mr. Chairman, for so many reasons, this provision of the bill is flawed. I ask my colleagues to join me in supporting the repeal of section 18, and simply ask this:

Regardless of where your support lies as to the underlying bill, why are we doing something separate for financial services patents? Why are we doing something separate for the business method patents? Shouldn't all reforms affect all patents and all industries? I would argue this is an earmark and a special provision for one industry, and for so many reasons would ask for a "yes" vote on my amendment.

Mr. SMITH of Texas. Mr. Chair, I want to clarify that Section 18 is designed to address the problem of low-quality business method patents that are commonly associated with the Federal Circuit's 1998 State Street decision. Not all business method patents are eligible for review by the patent office under Section 18. Towards that end, Section 18 of the bill specifically exempts "patents for technological inventions" from review.

Patents for technological inventions are those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution. The technological innovation exception does not exclude a patent simply because it recites technology. Inventions related to manufacturing and machines that do not simply use known technology to accomplish a novel business process would be excluded from review under Section 18.

Section 18 would not cover patents related to the manufacture and distribution of machinery to count, sort, and authenticate currency. It is the intention of Section 18 to not review mechanical inventions related to the manufacture and distribution of machinery to count, sort and authenticate currency like change sorters and machines that scan currency whose novelty turns on a technological innovation over the prior art. These types of patents would not be eligible for review under this program.

Mr. SHUSTER. Mr. Chair, I would like to place in the record my understanding that the definition of "covered business method patent," Section 18(d)(1) of H.R. 1249, the America Invents Act, is intended to be narrowly construed to target only those business method patents that are unique to the financial services industry in the sense that they are patents which only a financial services provider would use to furnish a financial product or service. The example that I have been given is a patent relating to electronic check scanning, which is the type of invention that only the financial services industry would utilize as a means of providing improved or more efficient banking services. In contrast, Section 18 would not encompass a patent that can be used in other industries, but which a financial services provider might also use. Lastly, it is also my understanding from discussions with the Committee that Section 18 is targeted only towards patents for non-technological inventions.

Mr. GRIMM. Mr. Chair, I rise in strong support of the America Invents Act. This is a historic bill. It will drive innovation, create jobs, improve patent quality, and reduce frivolous litigation. This is a good bill for current and future patent holders—big and small. I do rise today with some disappointment, however, that opponents of this bill have recklessly spread misinformation about the bill and some of its most important provisions. The move to first inventor to file is wholly constitutional and it will strengthen the patent system for entrepreneurs and small businesses. They will no longer have to compete with big business to prove the validity of their patents after filing. Mr. Chair, I would also like to speak to one of the legislation's most important reforms—a crackdown on low-quality business-method patents, which have weakened the patent system and cost companies and their customers millions of dollars in extra fees. Infamous "patent trolls"—people who aggressively try to enforce patents through the courts in friendly venues—have made business-method patents their specialty in recent years.

These same patent trolls have funded an elaborate propaganda campaign targeting the reforms in Section 18. Let us set the record straight—

Section 18 simply allows patent experts to re-examine—through a temporary, pilot program—legally questionable business-method patents. A problem the patent office has said it is ready and willing to tackle.

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Opponents have asserted that the measure would help only banks. That isn't true. The National Retail Federation and the U.S. Chamber of Commerce have endorsed this bill. Companies impacted include Wal-Mart, Costco, McDonalds, Best Buy, Home Depot, and Lowes. Do any of these companies sound like banks to you? They don't to me, either. Opponents also claim that this section too is unconstitutional—another untruth. Don't take my word for it—read the words of Judge Michael McConnell—once the most influential federal appeal court judge in the nation—and now the head of the Constitutional Law Center at Stanford Law School: He said, "There is nothing novel or unprecedented, much less unconstitutional, about the procedures proposed," and "we can state with confidence that the proposed legislation is supported by settled precedent."

I think it is time we stop listening to patent trolls who abuse our court system, and start listening to the businesses that drive job creation and economic growth in this country. Support this bill

and oppose the Schock-Waters amendment to strike Section 18. Mr. SCHOCK. I yield back the balance of my time. The Acting CHAIR. The question is on the amendment offered by the gentleman from Illinois (Mr. Schock).

The question was taken; and the Acting Chair announced that the ayes appeared to have it.

Mr. SMITH of Texas. Mr. Chairman, I demand a recorded vote. The Acting CHAIR. Pursuant to clause 6 of rule XVIII, further proceedings on the amendment offered by the gentleman from Illinois will be postponed.

[Text of Votes omitted]

Van Hollen Extension Remarks – 157 Cong. Rec. E1206

Congressional Record Volume 157, Number 92 (Friday, June 24, 2011)]

[Extensions of Remarks]

[Page E1206]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

AMERICA INVENTS ACT

speech of
HON. CHRIS VAN HOLLEN
of Maryland
in the house of representatives

Wednesday, June 22, 2011

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform:

Mr. VAN HOLLEN. Madam Chair, America's patent system and the protection of intellectual property is an important source of innovation and national strength for our country. For that reason, any patent reform proposal must be judged based on its ability to improve patent quality, reduce the current backlog and provide patent holders greater certainty with respect to their patent rights. On that score, I believe the America Invents Act, on balance, achieves that objective. In particular, our office received a number of calls regarding the proposed change to a first-inventor-to-file system. A variety of stakeholders—from the U.S. Patent Office to large multinational companies to biotech firms and angel investors in my district to the academic research community to independent inventors on both sides of this issue—weighed in with their respective points of view. In the final analysis, I concluded that the first-inventor-to-file standard in today's legislation will provide greater certainty for innovators, produce stronger patents and enhance our nation's economic competitiveness.

Waxman Extension Remarks – 157 Cong. Rec. E1208

[Congressional Record Volume 157, Number 92 (Friday, June 24, 2011)]

[Extensions of Remarks]

[Page E1208]

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AMERICA INVENTS ACT

speech of
HON. HENRY A. WAXMAN
of California
in the house of representatives

Wednesday, June 22, 2011

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform:

Mr. WAXMAN. Madam Chair, it is with great frustration that I rise in opposition to H.R. 1249, the America Invents Act. Our nation's patent system is the backbone of our knowledge-based economy and the well-spring of our most competitive industries. Since the era of the Founding Fathers, the patent system has evolved on the principle that individuals are entitled and encouraged to claim ownership of their thoughts and discoveries. For this reason we continue to be a world leader in innovation, producing some of the greatest scientific advances of the modern era and serving as a robust market for all around in the world who want to invest in or introduce the next "big idea."

The objective of patent reform is to improve patent quality, reduce uncertainty and modernize a Patent and Trademark Office (PTO) mired in inefficiencies and delays. Regrettably, this bill as amended fails to achieve these critical goals.

On the issue of patent quality, I am deeply disappointed that Section 12 of the bill introduces a new supplemental examination procedure permitting patent holders a second chance to correct or revise information that was inaccurate or omitted at the time the patent was filed. The provision also prohibits any information provided in a reexamination proceeding from being used as evidence that a patent holder committed inequitable conduct and deliberately filed a patent application that was misleading or deceptive.

Effectively, this amounts to a "get out of jail free card" for any company fearful of having their patent invalidated because they deceived the PTO. Furthermore, nothing in the bill would stop a patent holder from seeking a supplemental examination with information that wasn't even available at the time the patent was originally filed. What is to stop a drug company from submitting new clinical studies conducted after the patent was filed to shore up questionable

claims in an original application? And what is to stop a company from cutting corners on a patent application when they know they can just fix it later?

If this bill is enacted into law, I am hopeful that the PTO will, at a minimum, adopt reasonable limitations on this procedure such as prohibiting reexamination of information that didn't exist at the time of the original filing. It is essential that the agency carefully police what stands to be an abusive practice.

On the issue of certainty, I am concerned that this bill fails to offer greater clarity of the protection available to inventors during the "grace period," or the one year period an inventor has to file a patent application after disclosing or publishing information about the invention. This time is critical for small inventors to conduct market research, pitch their ideas to investors, and raise sufficient capital to file a quality patent application. As our system shifts from a first-inventor-to-file to a first-to-file paradigm, small inventors face an increased risk that someone will hear their idea and race ahead of them to file a patent or use their own pitch materials against them to claim there is prior art undermining the patent application. Which brings me to the issue of modernization. This legislation is a leap of faith. It represents a dramatic transformation of the patent system and introduces a host of new mechanisms for pre-grant submissions, post-grant challenges, and revamped derivation proceedings at an agency already mired in backlogs. Rather than giving the PTO the resources it needs to implement these sweeping changes, the Republican leadership has refused to let the agency collect and allocate the fees paid by patent filers. Instead, the agency must remain at the mercy of the appropriations committee for annual allocations. It's one thing to ask inventors to take a leap of faith on the bold restructuring of our patent system. But now they are being asked to take another leap of faith that appropriators won't fall back on their long history of poaching patent fee revenues for other uses. Congress can do better and inventors deserve better. If this legislation passes the House, I am hopeful we will have an opportunity to fix these problems in negotiations with the Senate.

Smith Extension Remarks – 157 Cong. Rec. E1219

[Congressional Record Volume 157, Number 94 (Tuesday, June 28, 2011)]

[Extensions of Remarks]

[Page E1219]

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AMERICA INVENTS ACT

speech of
HON. LAMAR SMITH
of Texas
in the house of representatives

Wednesday, June 22, 2011

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform:

Mr. SMITH of Texas. Madam Chair, H.R. 1249 makes a significant change to the system by which patents are filed and granted in the United States. Moving to a first-inventor-to-file system will modernize and harmonize our patent system with our international trading partners. In so doing, we recognize that we are also modifying other parts of our patent system as part of this change. One key part of the transition that has already been recognized by the House Judiciary Committee is the necessary inclusion of prior user rights under the new first-inventor-to-file system. The inclusion of prior user rights is essential to ensure that those who have invented and used a technology but choose not to disclose that technology—generally to ensure that they not disclose their trade secrets to foreign competitors—are provided a defense against someone who later patents the technology. Even as we make this make this change, we recognize that uncertainty remains as to the appropriate scope of the prior-user-rights defense and how best to provide protections for America's most innovative companies.

H.R. 1249 takes steps to explore these issues, including requiring an important PTO study of prior user rights and whether we should expand the defense created by the America Invents Act. One important area of focus will be how we protect those who make substantial investments in the development and preparation of proprietary technologies. For example, in the semiconductor industry, the design of a state of the art processor takes roughly three years from the high-level specification to the production of the first silicon, at a cost of billions of dollars. Inventions such as these, which are present throughout our economy, should be protected. I should also note that parties who commercialize a product will still be able to assert a defense of prior art invalidation. Upon release of the forthcoming PTO report, we may introduce legislation that implements its conclusions and refines the nature and scope of the prior-user rights defense. This will ensure that our most innovative companies who hold many of the keys to U.S. economic competitiveness are provided sufficient prior user right protections to put them on an even competitive field internationally.

Kyl Remarks – 157 Cong. Rec. S5319-S5321

[Congressional Record Volume 157, Number 130 (Tuesday, September 6, 2011)]

[Senate]

[Pages S5319-S5321]

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AMERICA INVENTS ACT

Mr. KYL. Mr. President, I rise today to urge my colleagues to support H.R. 1249, the Leahy-Smith America Invents Act. Some other responsibilities may take me from the Senate floor during this coming week when we will be debating the act and therefore I wanted to lay out my views at this time, strongly urging my colleagues to support the bill.

Although the present bill originates in the House of Representatives, it is actually based on and is substantially identical to the bill that passed the Senate in March by a vote of 95 to 5. Also, before Chairman Smith brought his bill to the House floor, he negotiated final changes to the bill with the lead supporters of the measure in the Senate Judiciary Committee. The House and Senate have now been working on patent reform for 6 years. The present bill is a good bill. It reflects a genuine compromise between the House and the Senate. It is a bill that will provide substantial benefits to the U.S. economy in the coming years, so I hope that, as I said, the Senate will adopt this legislation and be able to pass it on directly to the President for his signature.

The overarching purpose and effect of the present bill is to create a patent system that is clearer, fairer, more transparent, and more objective. It is a system that will ultimately reduce litigation costs and reduce the need to hire patent lawyers. The bill will make it simpler and easier to obtain valid patents and to enforce those patents, and it will cure some very clear litigation abuses that have arisen under the current rules, abuses that have done serious harm to American businesses.

By adopting the first-to-file system, for example, the bill creates a rule that is clear and easy to comply with and that avoids the need for expensive discovery and litigation over what a patent's priority date is. By adopting a simple definition of the term "prior art," the bill will make it easier to assess whether a patent is valid and cheaper for an inventor to enforce his patent. By recognizing a limited prior user right, the bill creates a powerful incentive for manufacturers to build factories and create jobs in this country. By allowing post-grant review of patents, especially low quality, business method patents, the bill creates an inexpensive substitute for district court litigation and allows key issues to be addressed by experts in the field. By eliminating the recent surge of false-marking litigation, the bill effectively repeals what amounts to a litigation tax on American manufacturing.

Let me take a few moments to describe how the provisions of this bill will provide concrete benefits to American inventors, both large and small, and to the American manufacturing economy. First, prior commercial use defense.

A new provision of the present bill that was added by the House of Representatives will provide important advantages to U.S. manufacturers. Section 5 of the bill creates a new defense to patent infringement of prior commercial use. This new defense will ensure that the first inventor of a new process, or of a product used in a manufacturing process, can continue to use the invention in a commercial process even if a subsequent inventor later patents the idea. For many manufacturing processes the patent system presents a Catch-22. If the manufacturer patents the process, he effectively discloses it to the world. But patents for processes that are used in closed factories are difficult to police. It is all but impossible to know if someone in a factory in China, for example, is infringing such a patent. As a result, unscrupulous foreign and domestic inventors will simply use the invention in secret without paying licensing fees. Patenting such manufacturing processes effectively amounts to giving away the invention to foreign manufacturers.

On the other hand, if the U.S. manufacturer does not patent the process, a subsequent party may obtain a patent on it and the U.S. manufacturer will be forced to stop using a process that he was the first to invent and which he has been using for years.

The prior commercial use defense provides relief to U.S. manufacturers from this Catch-22, allowing them to continue to use a manufacturing process without having to give it away to competitors or running the risk that it will be patented out from under them. To establish a right to this defense, however, the America Invents Act requires the manufacturer to use the process in the United States. As a result, the AIA creates a powerful incentive for manufacturers to build their factories and plants in the United States. Currently, most foreign countries recognize some prior user rights that encourage manufacturers to build facilities in those countries. This bill corrects this imbalance and creates a strong incentive for businesses to create manufacturing jobs in this country.

Second, something called supplemental examination. A provision of this bill that will particularly benefit small and startup investors is section 12, which authorizes supplemental examination of patents. It is one of the reasons the bill has such strong support in the small business community. Currently, even minor and inadvertent errors in the patent application process can lead to expensive and very unpredictable and very inequitable conduct litigation. It is often the case that startup companies or university researchers cannot afford to hire the very best patent lawyers. Their patents are prosecuted by an in-house attorney who does a good enough job but who is unfamiliar with all of the sharp corners and pitfalls of the inequitable conduct doctrine, such as the need to present cumulative studies and prior art. Later, when more legally sophisticated investors evaluate the patent for potential investment or purchase, these minor flaws in prosecution can deter the investor from purchasing or funding the development of the invention. An investor would not risk spending hundreds of millions of dollars to develop a product if a potential inequitable conduct attack may wipe out the whole investment.

Parties on both sides of these exchanges report that investors routinely walk away from inventions because of their inability under current law to resolve uncertainties whether a flaw in prosecution was, in fact, inequitable conduct. These decisions not to invest in a new invention represent important new cures never tested and brought to market and other important inventions that are never developed. The America Invents Act provides a solution to this problem by authorizing supplemental examination of patents. This new proceeding will allow inventors or

patent purchasers to return to the Patent Office with additional material and have the Patent Office reevaluate the patent in light of that material. If the patent is invalid in light of the new material, the Patent Office will cancel the claims. But if the office finds that the patent is valid, the parties will have a patent that they can be legally certain will be upheld and enforced. The authorization of supplemental examination will result in path-breaking inventions being developed and brought to market that otherwise would have lingered on the shelf because of legal uncertainty over the patent. It will ensure that small and startup companies with important and valid patents will not be denied investment capital because of legal technicalities.

Let me talk about what I think is undoubtedly the most important among

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the bill's changes to current law, and that is its transition to the first-to-file system. This long overdue reform will create a system for establishing a patent's priority date that is official, simple, transparent, and fair. Priority dates not only establish priorities between competing patent applications for the same invention but are also used to measure a patent against potentially invalidating prior art. Currently, establishing a priority date requires expensive litigation and discovery into what the inventor's notebooks show and when they show it and whether the inventor diligently perfected his invention after he conceived of it.

Also, for businesses seeking legal certainty, our current system can be a nightmare. A company hoping to bring a new product to market in a particular field of technology has no way of knowing whether a competitor that belatedly sought the patent on its new product will succeed in securing a valid patent on the product. It all depends on the invention date the competitor will be able to prove relative to the company that the company developing the product can prove. Given that both the product developer and competitor can rely on their own secret documents that the other side will not see until litigation over the patent commences, neither of these two parties can gain a clear picture of whether a patent is valid without years of litigation and millions of dollars of discovery and other litigation costs. Under first to file, by contrast, inventors will file informal and inexpensive provisional applications. These applications need only disclose what the invention is and how to make it, information the inventor already needs to have in his possession anyway in order to establish a priority date under the current system. Under first to file, once the inventor files this information with the Patent Office, he has a priority date that is both secure and public. The application is a government document. There is no need to litigate over its priority date. We know that.

Other industry participants will be able to easily determine the patent's priority date, allowing them to measure the patent against prior art and determine if it is valid. There will be no opportunity to fraudulently backdate the priority date. That date will depend on a government document, not privately held files.

Most U.S. businesses already effectively operate under the first-to-file system. They file applications promptly because it is difficult and risky to rely on proof of invention dates to defeat a competing application that was filed earlier. Also, because the rest of the world uses first to file, U.S. investors need to secure first-to-file priority if they want their patents to be valid anywhere outside of this country.

For many U.S. businesses the America Invents Act does not change the system under which they operate. Rather, it simply allows American businesses to comply with just one set of rules rather than being forced to operate under two different systems.

Another one of the bill's clear improvements over current law is its streamlined definition of the term "prior art." Public uses and sales of an invention will remain prior art, but only if they make the invention available to the public. An inventor's confidential sale of his invention, his demonstration of its use to a private group, or a third party's unrestricted but private use of the invention will no longer constitute private art. Only the sale or offer for sale of the invention to the relevant public or its use in a way that makes it publicly accessible will constitute prior art.

The main benefit of the AIA public availability standard of prior art is that it is relatively inexpensive to establish the existence of events that make an invention available to the public. Under current law, depositions and litigation discovery are required in order to identify all of the inventor's private dealings with third parties and determine whether those dealings constitute a secret offer for sale or third party use that invalidates the patent under the current law's forfeiture doctrines. The need for such discovery is eliminated once the definition of "prior art" is limited to those activities that make the intention accessible to the public. This will greatly reduce the time and cost of patent litigation and allow the courts and the PTO to operate much more efficiently.

Both of these last two changes—the first to file and the new definition of "prior art"—will also protect American inventors against theft of their invention both at home and abroad. Under current law, if an American inventor sells or otherwise discloses his invention, there is a risk that an unscrupulous third party will steal the idea and file a U.S. patent for it. If the thief claims he himself made the invention before the U.S. inventor, then the U.S. inventor will need to prove the invention was stolen from him. Current law even allows activities that occur in a foreign country to establish a priority date for a U.S. patent. Thus, if a U.S. inventor who has been a victim of theft is unable to prove that activities alleged to have occurred in China or India, say, never actually took place, he not only loses his patent but the foreign thief can obtain a U.S. patent and block the U.S. inventor from practicing his own invention.

Finally, under current law, even if the U.S. inventor files a patent application right away, his rights still are not secure. Under current law, an early filing date can be defeated by another applicant's claim that he conceived of the invention earlier. Thus a foreign thief can claim he came up with the idea in his overseas laboratory, and the U.S. inventor would bear the burden of proving that a fraud had been perpetrated in a foreign country.

Under the America Invents Act, by contrast it will be much harder for thieves, both foreign and domestic, to steal a U.S. inventor's invention. Under this bill, if a U.S. inventor publicly discloses his invention, no third party's application filed after that date can be valid because the filing date is what will determine priority, not a purported date of conception. Nor can a third party easily contrive fake prior art to defeat the patent. Under the AIA, only those actions that made the invention publicly available will constitute prior art, and these are much harder to fake than are claims of having secretly made the invention in a private laboratory, again, say, in China. Under new section 102(b)(1)(B), once the U.S. inventor discloses his invention, no subsequent prior art can defeat the invention. The U.S. inventor does not need to prove that the

third party disclosures following his own disclosures are derived from him. He can thus take full advantage of the grace period and disclose his invention in academic papers and at trade shows without worrying that such disclosures will lead to theft or fraudulent invalidation of his patent.

Similarly, under the America Invents Act, once the U.S. inventor files even a provisional application, his rights will be secured. Under this bill, no one can file a later application but claim an earlier priority date because the priority date is set by the filing date. The provisional application also constitutes section 103 prior art as of its filing date. As a result, a third party's patent for a trivial or obvious variation of the patent will be invalid and will not crowd out the original inventor's patent rights. Finally, validating prior art will depend on publicly accessible information, not private activities that take place, for example, in a foreign land. As a result, it will be impossible for a third party who derived the invention from a U.S. inventor's public disclosure or patent application to steal the invention or sabotage the U.S. inventor's patent. The only way to obtain priority or invalidate the invention would be to file or publicly disclose the invention before the U.S. inventor has done so—something that will obviously be impossible for the deriver to do.

Finally, I would like to talk about false marking for a moment. I would like to describe the bill's important reforms to the false marking statute. The America Invents Act reins in abuses that are reflected in a recent surge in false marking litigation. It allows such suits to be brought only by those parties who have actually suffered a competitive injury as a result of false marking.

Currently, such suits are often brought by parties asserting no actual competitive injury from the marking—or who do not even patent or manufacture anything in a relevant industry. Many cases have been brought by patent lawyers themselves claiming the right to enforce a fine of $500 for every marked product. One manufacturer of plastic cups who stamped his patent number on his cups was recently sued by a lawyer for $500 for each disposable

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cup that was sold, for a gargantuan total of $9 trillion.

In reality, the bulk of these suits settle for their nuisance value, the costs of continuing to litigate. They represent a tax that patent lawyers are imposing on domestic manufacturing—a shift in wealth to lawyers that comes at the expense of manufacturing jobs. Well, this bill prevents such abuses by repealing the statute's qui tam action while still allowing parties who have separate actual injury from false marking to sue and allowing the United States to enforce a $500-per-product fine where appropriate. Qui tam statues are a relic of the 19th century and generally produce far more litigation than is in the public interest. Almost all of these statutes have been repealed.

The America Invents Act continues this trend. By repealing the false marking qui tam statute, the AIA will allow American companies to spend money hiring new workers rather than fighting off frivolous false marking suits.

In conclusion, the America Invents Act will provide important benefits to U.S. inventors of all sizes, to startup companies, to domestic manufacturing, and to the U.S. economy generally. I look forward to its passage by the Senate and its enactment into law. As the majority leader

stated in his remarks in leader time, I hope those who may have amendments will immediately file those amendments so the Senate can take them up in good order, have plenty of time to debate them, and dispose of them in the appropriate way. It would be my hope the Senate will end up passing the bill adopted by the House of Representatives so our action can result in sending the bill directly to the President for his signature. That is an accomplishment that could be achieved with cooperation between the House and the Senate, between Democrats and Republicans, between the legislative and executive branches, and I think it would certainly begin to mark the time when the American people could see their legislative representatives begin to work together on their behalf.

Mr. President, I note the absence of a quorum.

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. REID. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. Franken). Without objection, it is so ordered.

Senate Debate – 157 Cong. Rec. S5322-S5328

[Congressional Record Volume 157, Number 130 (Tuesday, September 6, 2011)]

[Senate]

[Pages S5322-S5328]

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EXECUTIVE SESSION

[Text of S5322-S5325 and portions of S5326 omitted]

America Invents Act

Mr. LEAHY. Mr. President, I ask unanimous consent that I use my remaining time to speak as in morning business about the America Invents Act and the cloture vote that will be taken tonight on proceeding to that important measure.

The PRESIDING OFFICER. Without objection, it is so ordered. Mr. LEAHY. The Senate is today turning its attention back to the America Invents Act—a measure that will help create jobs, energize the economy and promote innovation without adding a penny to the deficit. This legislation is a key component of both Democratic and Republican jobs agendas, and is a priority of the Obama administration. Too often in recent years, good legislation has failed in the Senate because bills have become politicized. That should not be the case with patent reform. Innovation and economic development are not uniquely Democratic or Republican objectives—they are American goals. That is why so many Democratic and Republican Senators have worked closely on this legislation for years, along with a similar bipartisan coalition of House Members.

And that is why a Democratic chairman of the Senate Judiciary Committee can stand on the floor of the Senate and advocate, as I do today, that the Senate pass a House bill, H.R. 1249, sponsored by the Republican chairman of the House Judiciary Committee, Lamar Smith of Texas. As Chairman Smith and I wrote earlier this year in a joint editorial, “Patent reform unleashes American innovation, allowing patent holders to capitalize on their inventions and create products and jobs.”

This bill, which passed the House with more than 300 votes, will make crucial improvements to our outdated patent system. These improvements can be divided into three important categories that are particularly noteworthy.

First, the bill will speed the time it takes for applications on true inventions to issue as high quality patents, which can then be commercialized and used to create jobs. There are nearly 700,000 applications pending at the Patent and Trademark Office (PTO) that have yet to receive any action by the PTO. The Director of the PTO often says that the next great invention that will drive our economic growth is likely sitting in that backlog of applications. The America Invents Act will ensure that the PTO has the resources it needs to work through its backlog of

applications more quickly. The bill accomplishes this objective by authorizing the PTO to set its fees and creates a PTO reserve fund for any fees collected above the appropriated amounts in a given year—so that only the PTO will have access to these fees.

Importantly, the bill also provides immediate tools the PTO needs to fast track applications, and continues discounts for fast tracked applications requested by small business, as well as for applications involving technologies important to the Nation's economy or national competitiveness, thanks to amendments offered in the Senate by Senators Bennet and Menendez.

Second, the America Invents Act will improve the quality of both new patents issued by the PTO, as well as existing patents. High quality patents incentivize inventors and entrepreneurs by providing a limited monopoly over the invention. Low quality patents, conversely, can impede innovation if the product or process already exists. The bill makes commonsense improvements to the system by allowing, for example, third parties to comment on pending applications so that patent examiners will have more and better information readily available. The bill also implements a National Academy of Sciences recommendation by creating a postgrant review process to weed out recently issued patents that should not have been issued in the first place.

The bill will also improve upon the current system for challenging the validity of a patent at the PTO. The current inter partes reexamination process has been criticized for being too easy to initiate and used to harass legitimate patent owners, while being too lengthy and unwieldy to actually serve as an alternative to litigation when users are confronted with patents of dubious validity. Third, the America Invents Act will transition our patent filing system from a first-to-invent system to the more objective first-inventor-to-file system, used throughout the rest of the world, while retaining the important grace period that will protect universities and small inventors, in particular. As business competition has gone global, and inventors are increasingly filing applications in the United States and other countries for protection of their inventions, our current system puts American inventors and businesses at a disadvantage.

The differences cause confusion and inefficiencies for American companies

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and innovators. These problems exist both in the application process

and in determining what counts as "prior art" in litigation. We debated this change at some length in connection with the Feinstein amendment in March. That amendment was rejected by the Senate by a vote of 87 to 13. The Senate has come down firmly and decisively in favor or modernizing and harmonizing the American patent system with the rest of the world.

The House, to its credit, improved on the Senate bill in this area by including an expanded prior user right with the transition to a first-inventor-to-file system. Prior user rights are important for American manufacturing, in particular.

There is widespread support for the America Invents Act, and with good reason. In March, just before the Senate voted 95-5 to pass the America Invents Act, The New York Times editorialized that the America Invents Act will move America "toward a more effective and

transparent patent protection system" that will "encourage investment in inventions" and "should benefit the little guy" by transitioning to a first-inventor-to-file system.

A few weeks ago, the Washington Post editorial board added that "[i]n the six decades since its last overhaul, the patent system has become creaky," but the patent bill "poised for final approval in the Senate would go a long way toward curing [the] problems." The Obama administration issued a Statement of Administration Policy in connection with the House bill, in which it argued that "[t]he bill's much-needed reforms to the Nation's patent system will speed deployment of innovative products to market and promote job creation, economic growth, and U.S. economic competitiveness all at no cost to American taxpayers."

The House bill is not the exact bill I would have written. It contains provisions that were not in the Senate bill, and it omits or changes other provisions from the Senate bill that I supported. But that is the legislative process, and the core elements of the House bill are identical or nearly identical to the core elements of the Senate bill. In addition, the House bill retains amendments adopted during Senate consideration of S. 23, including amendments offered by Senator Bennet, Senator Menendez, Senator Kirk, Senator Stabenow, Senator Bingaman, and Senator Reid, among others. The America Invents Act, as passed by the House, will not only implement an improved patent system that will grow the economy and create jobs, but it is the product of a process of which we should all be proud. Democrats and Republicans in the House and Senate have worked together with the administration and all interested stakeholders large and small to craft legislation that has near unanimous support. I thank Senator Kyl, the minority whip, for his comments early today. I agree with him that sending this House-passed bill directly to the President will begin the process of demonstrating to the American people that we can work together, Democrats and Republicans, House and Senate, on their behalf.

Those now advocating for enactment of the America Invents Act without further amendment include the United States Chamber of Commerce, the United Steelworkers, the National Association of Manufacturers, the Association of American Universities, BIO and PhRMA, Community Bankers, the Coalition for 21st Century Patent Reform, the Coalition for Patent Fairness, the Small Business & Entrepreneurship Council, and businesses representing virtually every sector of our economy. In a recent letter from Louis Foreman, a well known independent inventor, he wrote of his support for the America Invents Act saying:

The independent inventor has been well represented throughout this process and we are in a unique situation where there is overwhelming support for this legislation. . . . H.R. 1249 is the catalyst necessary to incentivize inventors and entrepreneurs to create the companies that will get our country back on the right path and generate the jobs we sorely need.

American ingenuity and innovation have been a cornerstone of the American economy from the time Thomas Jefferson examined the first patent application to today. A recent Department of Commerce report attributes three-quarters of America's post-World War II economic growth to innovation. It is the patent system that incentivizes that innovation when it holds true to the constitutional imperative to "promote the progress of science and useful arts, by securing for limited times to . . . inventors the exclusive right to their respective . . . discoveries."

The Founders recognized the importance of promoting innovation. A number were themselves inventors. The Constitution explicitly grants Congress the power to "promote the progress of science and useful arts, by securing for limited times to . . . inventors the exclusive right to their respective . . . discoveries." The time for Congress to undertake this responsibility and enact patent reform legislation into law is now.

The discoveries made by American inventors and research institutions, commercialized by American companies, and protected and promoted by American patent laws have made our system the envy of the world. But we cannot stand on a 1950s patent system and expect our innovators to flourish in a 21st century world.

The America Invents Act will keep America in its longstanding position at the pinnacle of innovation. This bill will establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs, while making sure no party's access to court is denied. The President recently called on Congress to pass patent reform as soon as it returned from recess because it will create jobs and improve the economy without adding to the deficit. This bill is bipartisan, it is the product of years of thoughtful bicameral discussions, and it should be sent to the President's desk this week. There is no reason for delay.

When we proceeded to the Senate version of this legislation last February, we did so by unanimous consent. The Senate proceeded to approve patent reform legislation with 95 votes. It is disappointing

that we are being delayed from completing this important legislation. Further delay does nothing for American inventors, the American economy or the creation of American jobs. It is time, time to take final action on the America Invents Act.

I see the time has arrived. Is the rollcall automatic?

I ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second?

There is a sufficient second.

Is all time yielded back?

Mr. LEAHY. I yield back.

[Remaining text and vote count omitted]

Senate Debate – 157 Cong. Rec. S5353-S5356

[Congressional Record Volume 157, Number 131 (Wednesday, September 7, 2011)]

[Senate]

[Pages S5353-S5356]

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LEAHY-SMITH AMERICA INVENTS ACT—MOTION TO PROCEED

The ACTING PRESIDENT pro tempore. Under the previous order, the Senate will resume consideration of the motion to proceed to H.R. 1249, which the clerk will report by title.

The assistant legislative clerk read as follows:

Motion to proceed to the consideration of H.R. 1249, an act to amend title 35, United States Code, to provide for patent reform.

The ACTING PRESIDENT pro tempore. The Senator from Vermont.

Mr. LEAHY. Madam President, every time I hear discussion about how we balance the budget, especially coming from the other side of the aisle—maybe because I have been here long enough—I remember the last time we did balance the budget during President Clinton's term. We balanced the budget. We

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created an amazing surplus. We created millions and millions of new jobs.

But you know what. Not a single Republican voted for that. It passed in the Senate only because the Vice President of the United States cast the deciding vote. No Republican voted—we actually had to do more than just have a bumper sticker "Let's Balance the Budget." We actually did balance the budget, which required some very tough choices. No Republican voted for that.

In fact, they all condemned it saying: This would bring about wrack and ruin, and on and on. It did not. It created an enormous budget surplus and created 22 million new jobs. We were paying down the national debt. We left a very large surplus to President Clinton's successor, President Bush, who immediately wasted it on a needless war in Iraq and tax cuts, both of which I voted against.

It is also interesting to be lectured by the other side of the aisle about balancing the budget when they voted to go into two of the longest wars in our history, and for the first time in our history voted to pay for them by borrowing the money. Now look where trillions of dollars will have gone because of Iraq and Afghanistan, and now to be told that to continue to pay for unnecessary wars we must cut out things for Americans such as education, medical care, housing, scientific research, and things such as finding cures for cancer, Alzheimer's, repairing our aging bridges,

roads—even hearing a Member of the other body saying: We cannot respond to the tragedies caused by Irene in the distinguished Presiding Officer's home State, mine and others, unless we take the money from other needs in this country. Yet that same Member supported an unnecessary war in Iraq and supports paying for it on the credit card. Come on. Let's be real. Let's start thinking about things in America.

The Senate began debate last night on the America Invents Act. Unfortunately, as has happened so many times, we had to invoke cloture on a motion to proceed to something that has strong support. I would note that 93 Senators, Republicans and Democrats alike, voted to invoke cloture on the motion to proceed.

This is a bipartisan consensus bill. It is largely similar to the legislation the Senate passed in March. Incidentally, we passed that on a vote of 95 to 5. Some would say these days that we cannot even have a vote like that on a resolution saying the Sun rises in the east. Here Republicans and Democrats came together 95 to 5. The Senate can and should move immediately to pass this bill. It will create good jobs. It will encourage innovation. It will strengthen our recovering economy, and it will not cost the taxpayers anything.

I want to commend Senator Hatch, the longtime Republican lead sponsor of this measure; Senator Grassley, the ranking Republican on the Senate Judiciary Committee; and Senator Kyl, the Republican whip, for their support of the bill and for their commitment to making patent reform become a reality.

This is an effort we have worked on for nearly 6 years. I sometimes shudder to think of the amount of time my staff and I have spent on this issue. During those 6 years it has become even more important to the economy. The time has come to enact this bipartisan, bicameral legislation.

I ask unanimous consent to have printed in the Record the Statement of Administration Policy on H.R. 1249 from the Obama administration. There being no objection, the material was ordered to be printed in the Record, as follows:

Statement of Administration Policy

H.R. 1249--America Invents Act

(Rep. Smith, R-Texas, and 5 cosponsors, June 21, 2011)

The Administration supports House passage of H.R. 1249 as modified by the Manager's Amendment, but final legislative action must ensure that fee collections fully support the Nation's patent and trademark system.

The bill's much-needed reforms to the Nation's patent system will speed deployment of innovative products to market and promote job creation, economic growth, and U.S. economic competitiveness—all at no cost to American taxpayers. The bill represents a balanced and well-crafted effort to enhance the services to patent applicants and America's innovators provided by the United States Patent and Trademark Office, USPTO. It does so by supporting the USPTO's efforts to improve patent quality and reduce the backlog of patent applications, reducing

domestic and global patenting costs for U.S. companies, providing greater certainty with respect to patent rights, and offering effective administrative alternatives to costly and complex litigation.

By adopting a first-inventor-to-file system, the bill simplifies the process of acquiring intellectual property rights. This provision provides greater certainty for innovators, reduces legal costs that often burden small businesses and independent inventors, and makes it easier for innovators to market their inventions in the global marketplace. This legislation also provides authority for the USPTO to establish and adjust its fees to reflect the actual costs of the services it provides. In addition, the Manager's Amendment provides important authority for a 15 percent surcharge on patent fees and additional fees for "fast-track" patent applications, which will enable the USPTO to reduce the backlog. Finally, to increase the quality and certainty of patent rights and offer cost-effective, timely alternatives to district court litigation, the Administration also supports provisions in the legislation that would enhance the opportunities for post-grant review of patents by the USPTO.

To carry out the new mandates of the legislation and reduce delays in the patent application process, the USPTO must be able to use all the fees it collects to serve the users who pay those fees. In this light, the Administration is concerned that Section 22 of the Manager's Amendment to H.R. 1249 does not by itself ensure such access. The Administration looks forward to working with Congress to provide additional direction that makes clear that the USPTO will have timely access to all of the fees collected, subject to the congressional oversight provisions in the bill.

House passage of H.R. 1249 would foster innovation, improve economic competitiveness, and create jobs at no expense to taxpayers—all of which are key Administration goals. The Administration looks forward to working with Congress to finalize this important bipartisan legislation and ensure that the USPTO can effectively accomplish its mission to support America's innovators.

Mr. LEAHY. The statement describes the bill as a balanced and well-crafted effort to enhance the services to patent applicants and America's innovators provided by the U.S. Patent Office. The Statement of Administration Policy emphasizes the bill supports the USPTO's efforts to improve patent quality, reduce the backlog of patent applications, reducing domestic and global costs for U.S. companies. I underscore these points because they are exactly the goals Chairman Smith of the other body and I set out to achieve when we first introduced patent reform legislation 6 years ago. It has been over half a century since our patent laws were updated.

Look at the changes that have occurred during that time. We have become even more of a global economy than ever before. We have become more of an innovative economy than ever before. Improving patent quality will benefit businesses across the economic spectrum. The America Invents Act will improve patent quality by expanding the role of third parties to the patent examination process, creating a streamlined first-window, postgrant review to quickly challenge and weed out patents that never should have been issued in the first place. It improves the funding mechanism for the Patent Office to confront its backlog of nearly 700,000 patent applications. Those are patents that could be creating jobs and improving our economy. For years, low-quality patents have been a drain on our patent system, and in turn our economy, by undermining the value of what it means to hold a patent. Higher quality patents will bring

greater certainty in the patent system. That is going to make it easier to get investment in American businesses, create jobs, and grow our economy. This act is bipartisan legislation. It is going to lead to long-needed improvements in our patent system and laws. I would note that no one Senator, no industry, no interest group, got everything it wanted in this bill. I suggested that if we were going to write this bill exactly the way we wanted in this body, we would have 100 separate bills. But we can only pass one. That is the nature of compromise.

This bill represents a significant step forward in preparing the Patent Office and, in turn businesses, to deal with the challenges of the 21st century. Support for the bill has grown over time. It is now endorsed by an extensive list of supporters across the political spectrum. Look at who we have here. How often do you see this kind of a breakdown?

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The National Association of Manufacturers, the United Steelworkers, the U.S. Chamber of Commerce, the Association of American Universities, the American Intellectual Property Law Association, Coalition for the 21st Century Patent Reform, Small Business and Entrepreneurship Council, the National Retail Federation, the Financial Services Roundtable, the American Bar Association, the United Inventors Association of America, the Association of Competitive Technology, the Association of University Technology Managers, the Information Technology Council, American Institute of Certified Public Accountants, and so many more.

I cannot remember a time in my years in the Senate where we have seen such a broad coalition come together: business, labor, high-tech, and others, coming together to pass legislation. We should grant this legislation final approval.

The Senate and the House have now both considered it. A host of associations, interested parties from the private sector have endorsed passing the bill without further amendment. At a time when we can do something to create jobs and not cost the taxpayers money, every day we wait, every day we delay is another day before those jobs are created.

Every day we wait, every day we delay is another day that we hold back the innovative genius of America. Every day we wait, every day we delay is another day we are unable to compete with the rest of the world on a level playing field.

Any amendment—any amendment, including ones I might like—would force reconsideration by the House, and more unnecessary delay, and longer before we can create those jobs, longer before we can innovate, longer before we can compete with the rest of the world. I can think of a half dozen amendments that I would like to have in the bill.

I will vote against them because it is time to get this done. Patent reform legislation has been debated exhaustively in both the Senate and the House for the past four Congresses. It is the product of dozens of hearings and weeks of committee markups. We should proceed to the bill and pass it.

Let’s not have any one person feeling they have the magic point everybody else has somehow overlooked. That is not the way the legislative process works. There are 100 here in the Senate and 435 in the House. Nobody gets every single thing they want. But here, the vast majority of

Republicans and Democrats in the House and the Senate are getting what they feel is best for America.

It is time for the Senate to serve the interests of the American people by passing the legislation before us. We have before us a consensus bill that will facilitate invention, innovation, and job creation today. This can help everybody from startups and small businesses to our largest cutting-edge corporations.

Let's put Americans back to work. Let's show the American people that the Congress can actually accomplish something and do it for America.

Here is something on which both Republicans and Democrats can come together. Let's not delay any longer. We have taken 6 years to get here. We had a vote yesterday where over 90 Senators voted to proceed, which indicates it is time to get moving, it is time to stop debating, and it is time to vote.

Madam President, I yield the floor and suggest the absence of a quorum.

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. CARPER. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

[Remaining Text omitted]

Senate Debate – 157 Cong. Rec. S5356-S5357

[Congressional Record Volume 157, Number 131 (Wednesday, September 7, 2011)]

[Senate]

[Pages S5356-S5357]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

AMERICA INVENTS ACT

Ms. KLOBUCHAR. I thank very much the Senator from Delaware, and I appreciate the ability to go ahead. I know the Senator from Arizona is waiting as well.

I rise to speak in support of the America Invents Act, a bill to revamp our patent system. As a member of the Judiciary Committee, I worked on this bill. I was one of the cosponsors, and I also helped manage the bill the last time it was on the floor. I am here to make sure we get it over the finish line.

It is without dispute that intellectual property is one of our Nation's most valuable assets, and our patent system plays a vital role in maintaining the value of our intellectual property. In fact, the Commerce Department estimates that up to 75 percent of economic growth in our Nation since World War II is due to technological innovation—innovation that was made possible, in part, by our patent system. I see firsthand the importance of success of a robust patent system whenever I am visiting Minnesota companies and talking with business leaders in our State, as I did many times over the past month. Minnesotans have brought the world everything from the pacemaker to the Post-It-Note. These innovations would not have been possible without the protection of the patent system. This strong commitment to innovation and development is why our State ranks sixth in the Nation in patents per capita, and we are No. 1 per capita for Fortune 500 companies.

Companies such as 3M, Ecolab, and Medtronic need an efficient patent system. But it is also medium-sized companies, such as Imation in Oakdale and Polaris in Medina, that rely on patents to grow their companies and create jobs in America. In fact, from 1980 to 2001, all the net job growth in our country came from companies that were less than 5 years old. It is the person in the garage building a mousetrap or, in the case of Medtronic, the first battery-powered pacemaker who drives our economy forward and creates the products Americans can make and sell to the world.

I truly believe, to get out of this economic rut, we need to be a country that makes stuff again, that invents, that exports to the world. That is why it is so critical we pass the America Invents Act. Unfortunately, our patent laws haven't had a major update since 1952.

The system is outdated, and it is quickly becoming a burden on our innovators and entrepreneurs. Because of these outdated laws, the Patent and Trademark Office faces a backlog of over 700,000 patent applications. Many would argue that all too often the office issues low-quality patents. One of these 700,000 patents may be the next

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implantable pacemaker or a new and improved hearing aid.

Our current patent system also seems stacked against small entrepreneurs. I have spoken to small business owners and entrepreneurs across Minnesota who are concerned with the high cost and uncertainty of protecting their inventions. For example, under the current system, when two patents are filed around the same time for the same invention, the applicants must go through an arduous and expensive process called an interference, to determine which applicant will be awarded the patent. Small inventors rarely, if ever, win interference proceedings because the rules for interferences are often stacked in favor of companies with deep pockets. This needs to change. Our current patent system also ignores the realities of the information age we live in. In 1952, the world wasn't as interconnected as it is today. There was no Internet and people didn't share information, as they do in this modern age. In 1952, most publicly available information about technology could be found either in patents or scientific publications. So patent examiners only had to look to a few sources to determine if the technology described in the patent application was both novel and nonobvious. Today, there is a vast amount of information readily available everywhere we look. It is unrealistic to believe a patent examiner would know all the places to look for this information. Even if the examiner knew where to look, it is unlikely he or she would have the time to search in all these nooks and crannies. The people who know where to look are the other scientists and innovators who also work in the field. But current law does not allow participation by third parties in the patent application process, despite the fact that third parties are often in the best position to challenge a patent application. Without the benefit of this outside expertise, an examiner might grant a patent for technology that simply isn't a true invention, and those low-quality patents clog the system and hinder true innovation.

Our Nation can't afford to slow innovation any more. While China is investing billions of dollars in its medical technology sector, we are still bickering about the regulations. While India encourages invention and entrepreneurship, we are still giving our innovators the runaround—playing red light, green light, with stop-and-go tax incentives. The truth is, America can no longer afford to be a country that simply exists on churning money and shuffling paper, a country that consumes imports and spends its way to huge trade deficits. What we need to be is that Nation that invents again, that thinks again, and that exports to the world, a country where we can walk into any store and pick up a product and turn it over and it says "Made in the USA." That is what our country needs to be. It is what Tom Friedman, who writes for the New York Times and is a Minnesota native, calls nation building in our own nation.

As innovators and entrepreneurs across Minnesota have told me, we need to rejuvenate our laws to ensure that our patent system supports the needs of a 21st century economy. The America Invents Act does just that.

First, the America Invents Act increases the speed and certainty of a patent application process by transitioning our patent system from a first-to-invent system to a first-inventor-to-file system. This change to a first-inventor-to-file system will increase predictability by creating brighter lines to guide patent applicants and Patent Office examiners.

By simply using the filing date of an application to determine the true inventors, the bill increases the speed of the patent application process while also rewarding novel, cutting-edge inventions. To help guide investors and inventors, this bill allows them to search the public record to discover with more certainty whether their idea is patentable, helping eliminate duplication and streamlining the system. At the same time, the bill still provides a safe harbor of 1 year for inventors to go out and market their inventions before having to file for their patent.

This grace period is one of the reasons our Nation's top research universities, such as the University of Minnesota, support the bill. The grace period protects professors who discuss their inventions with colleagues or publish them in journals before filing their patent application. The grace period, along with prior user rights, will encourage cross-pollination of ideas and eliminate concerns about discussing inventions with others before a patent application is filed. This legislation also helps to ensure that only true inventions receive protection under our laws. By allowing third parties to provide information to the patent examiner, the America Invents Act helps bridge the information gap between the patent application and existing knowledge.

The legislation also provides a modernized, streamlined mechanism for third parties who want to challenge recently issued, low-quality patents that should never have been issued in the first place. Eliminating these potential trivial patents will help the entire patent system by improving certainty.

The legislation will also improve the patent system by granting the U.S. Patent and Trademark Office the authority to set and adjust its own fees. Allowing the office to set their own fees will give them the resources to reduce the current backlog and devote greater resources to each patent that is reviewed to ensure higher quality. The fee-setting authority is why IBM—one of the most innovative companies around, that has facilities in Rochester, MN, and in the Twin Cities—was granted a record 5,896 patents in 2010 and why they support this bill. They want to bring even more inventions and more jobs to America. As chair of the Subcommittee on Competitiveness, Innovation, and Export Promotion, I have been focused on ways to promote innovation and growth in the 21st century. Stakeholders from across the spectrum agree this bill is a necessary step to ensure the United States remains the world leader in developing innovative products that bring prosperity and happiness to our citizens. Globalization and technology have changed our economy. This legislation will ensure that our patent system rewards the innovation of the 21st century. I know this is not the exact bill we passed in the Senate earlier this year, but the major components of that earlier bill are in the one on the floor today. Those components are vital to bringing our patent system into the 21st century and unleashing American ingenuity as never before. Sometimes it is obvious how one can get a job, but sometimes it is harder to see, such as when one has to get an invention developed and get it approved and get the patent on it and get it to market. That is the hard work that goes on in this bill.

I urge my colleagues to support this bill, and I yield the floor to my colleague and friend from Arizona, Senator McCain. The ACTING PRESIDENT pro tempore. The Senator from Arizona. Mr. McCAIN. Madam President, I ask unanimous consent to address the Senate as in morning business, and I additionally ask unanimous consent that I be joined in a colloquy with Senator Graham from South Carolina and Senator Lieberman from Connecticut.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

Senate Debate – 157 Cong. Rec. S5370-S5378

[Congressional Record Volume 157, Number 131 (Wednesday, September 7, 2011)]

[Senate]

[Pages S5370-S5378]

From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

LEAHY-SMITH AMERICA INVENTS ACT

Mr. REID. Mr. President, I ask unanimous consent that the remaining time postcloture be yielded back, and the motion to proceed to H.R. 1249, the America Invents Act, be agreed to; that there be debate only on the bill until 5 p.m., and at 5 p.m. the majority leader be recognized.

The PRESIDING OFFICER. Is there objection?

The Senator from Kentucky.

Mr. PAUL. I ask that the unanimous consent request be modified so once we are on the bill I can offer an amendment related to the Secretary of the Treasury and that a vote on that issue be reported. Mr. REID. Mr. President, I object to my friend's request. I ask that once we get on the bill that the Senator from Kentucky, Mr. Paul, be recognized to speak for up to 10 minutes in order to explain the amendment that he had hoped to offer and will offer at some point in the future.

The PRESIDING OFFICER. Is there objection to the request as so modified?

Mr. REID. I modify my request to that effect.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

The clerk will report the bill.

The legislative clerk read as follows:

A bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform.

The PRESIDING OFFICER. The Senator from Kentucky.

[Text of portions of S5370, S5371, and portions of S5372 omitted]

Mr. LEAHY. Mr. President, I have worked on efforts to prevent the diversion of fees collected by the U.S. Patent and Trademark Office for years. When the distinguished Senator from Oklahoma, Mr. Coburn, took on the issue, I urged him to work with me, to withhold the amendment during the Judiciary Committee's consideration of the bill, and I would work with him to include improvements on the Senate floor. I did. I kept my word. In fact, I included language he drafted in the managers' amendment and worked hard to pass it despite the

misgivings of several Senators on both sides of the aisle. However, when our bill went over to the House of Representatives, they preserved the principle against fee diversion but changed the language. The language of the bill is that which the House devised and voted to include as worked out by the House Republican leadership to satisfy House rules. The provisions Senator Coburn had drafted—and I understand may offer with his amendment—apparently violate House rule 21, which prohibits authorizing legislation from converting discretionary spending into mandatory spending. So instead of a revolving fund, the House established a reserve fund.

The America Invents Act, as passed by the House, continues to make important improvements to ensure that fees collected by the U.S. Patent and Trademark Office are used for USPTO activities. That office is entirely fee-funded and does not rely upon taxpayer dollars, but it has been and continues to be subject to annual appropriations bills. That allows Congress greater opportunity for oversight.

The legislation that passed the Senate in March would have taken the Patent and Trademark Office out of the appropriations process by setting

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up a revolving fund that allowed the PTO to spend all money it collects

without appropriations legislation or congressional oversight. But instead of a revolving fund the House formulation against fee diversion establishes a separate account for the funds and directs they be used for the U.S. Patent and Trademark Office.

The House forged a compromise with its appropriators to reduce any incentive to divert fees from the PTO and to provide the PTO with access to all fees that it collects while keeping the PTO within the normal appropriations process with the oversight that process includes. The America Invents Act thus creates a new Patent and Trademark fee reserve fund into which all fees collected by PTO in excess of that amount appropriated in a fiscal year are to be deposited. Fees in the reserve fund may only be used for operations of the PTO. In effect, they are doing what we have asked but staying within the House rules. In fact, in addition, the House appropriators agreed to carry language in their appropriations bills that would guarantee that fees collected by the PTO in excess of the appropriated amounts would remain available to the PTO until expended and could be accessed by the PTO through reprogramming procedures without the need for subsequent legislation.

This may sound kind of convoluted, but what a number of people, including Senator Coburn, wanted to do was to make sure the fees went to PTO. I happen to agree with that. What the House did has the effect of making sure the fees go to the PTO.

What I hope we not do now is try to offer amendments that may change that and in effect kill the bill. Through the creation of the reserve fund, as well as the commitment by House appropriators, H.R. 1249 makes important improvements in ensuring that user fees collected by the PTO for services are used by the PTO for those services. So while I oppose fee diversion, I also oppose the Coburn amendment, and I will tell you why. After 6 years of work getting this bill here, this may kill the bill over a formality: the difference between a revolving fund and a reserve fund. One would be hard-pressed to know what the difference is except it would kill the

bill. It would require the House to consider the whole bill again. They spent days and weeks in heavy debate working out their compromise in good faith. It was worked out by the House Republican leadership. There is no reason to think that having done that, they are going to reconsider and allow the original Coburn language to violate the rules and avoid oversight. In fact, I ask that a letter from Congressmen Rogers and Ryan to Chairman Smith be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

Congress of the United States, Washington, DC, June 6, 2011.

Hon. Lamar Smith, Chairman, Committee on the Judiciary, House of Representatives, Washington, DC.

Chairman Smith: It is our understanding that H.R. 1249, the America Invents Act, is likely to be considered on the House floor in the upcoming weeks.

As you know, section 22 of H.R. 1249 would strike the current appropriations account language for the Patent Trademark Office (PTO), replace it with a "United States Patent and Trademark Office Public Enterprise Fund," and permit the PTO to collect and spend authorized fees—all without requiring action or approval from Congress.

We strongly oppose this proposed shift of billions in discretionary funding and fee collections to mandatory spending. Putting PTO funding on auto-pilot is a move in exactly the wrong direction, given the new Republican majority's commitment to restraining spending, improving accountability and transparency, and reducing the nation's unparalleled deficits and debt.

Placing PTO spending on mandatory auto-pilot as outlined in H.R. 1249 would also hand the Congressional "power of the purse"—bestowed in the Constitution—to the Obama White House, and essentially eliminate the ability of Congress to perform substantive oversight of the PTO. We strongly oppose undermining these critical efforts, particularly when House Republicans have pledged to strengthen oversight of federal agencies to ensure resources are being used wisely and appropriately, and to prevent federal agencies from over-stepping their authority.

Oversight of the PTO belongs with the Congress, and should not be abdicated to the Executive Branch of government. Patent applications are filed by U.S. citizens and companies from all 50 states and territories, ranging from as many as 66,191 from California, 16,545 from Texas, 15,258 from New York, 8,128 from Ohio, 3,577 from Virginia, and 600 from Nebraska in 2010. Virtually every Member of Congress represents constituents who have a stake in the oversight of PTO—and often businesses and livelihoods depend on actions the agency undertakes. It would be both irresponsible and unwise to allow the PTO to operate solely under the authority of bureaucrats and White House political appointees—without being held accountable to the American public through their elected Representatives in Congress.

Given these concerns, we ask that section 22 be deleted or otherwise be modified prior to floor consideration in order to strengthen oversight of this important agency, and to ensure American citizens are getting the most from every dollar.

Sincerely,

Harold Rogers, Chairman, House Committee on Appropriations.

Paul Ryan, Chairman, House Committee on the Budget.

Mr. LEAHY. I know the members of the Senate Appropriations Committee. I know them. I trust Senator Inouye, someone awarded the Congressional Medal of Honor for his bravery and valor in World War II. I trust the senior Senator from Mississippi and the senior Senator from Alabama with whom I have served for many years. They will follow the law. They will abide by the Supreme Court. I was disturbed to read a comment that this amendment is being brought forward out of distrust of these Senators. These are Senators I have served with for decades. They can and should be trusted. We should not kill this bill over this amendment. Instead, we should reject the amendment and pass the bill. (Mr. BENNET assumed the Chair.)

Mr. WHITEHOUSE. Mr. President, I rise today to speak in favor of H.R. 1249, the Leahy-Smith America Invents Act. This is a vital piece of job-creating legislation and I urge my colleagues to support it. Before I turn to the merits of the bill, let me start by applauding the long, hard work of Chairman Leahy. He has led the effort on this legislation for many years, patiently working towards a bill that would win broad support from the many interested stakeholders while achieving the crucial goals of spurring innovation, generating jobs, and securing America's place as the world leader in the intellectual property economy. It has been a pleasure to work with him on this important issue. I likewise applaud the hard work of colleagues on both sides of the aisle who have sought to support continued American leadership in technology, medicine, and countless other fields. Our patent system unfortunately has become a drag on that leadership, largely because it has gone 60 years without improvements. It is long past time to repair that system and thereby energize our innovation economy and create jobs.

Our Nation long has led the world in hard work and ingenuity. My home State of Rhode Island, for example, has a long and proud history of industry and innovation, from the birth of the American industrial revolution to the high-tech entrepreneurs leading our State forward today. An area has developed in Providence, for example, that is rightfully known by the nickname "the Knowledge District" for its remarkable innovation. Rhode Island likewise is the home of remarkable research universities, individual inventors, and businesses of all sizes that have contributed giant leaps forward in the fields of technology, medicine, and mechanical science. Innovators like these in Rhode Island, and across America, are the drivers of our future economic well-being. My conversations with these Rhode Islanders, however, have made clear to me that the current patent system is making it unnecessarily difficult for them to innovate. Innovators who can solve the most complicated problems of medicine, mechanics, or technology are losing out because of basic problems in our patent system. We need to fix these problems now. Fail to do so and we will pay the price in jobs and international competitiveness. I have heard two complaints over and over back home in Rhode Island.

The first relates to delays in the issuance of patents. Enormous backlogs persist at the Patent and Trademark Office. As a result, our innovators have no certainty whether they have successfully

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established intellectual property rights in their inventions. This

dampens and frustrates innovation.

The America Invents Act takes on the backlog in a number of different ways. It allows the Patent and Trademark Office discretion to set its own fees and includes a provision that will discourage fee diversion. While I would have preferred to have seen Senator Coburn's anti-fee-diversion amendment accepted by the House, I am confident that these provisions, coupled with exceptions that will ensure low fees for small businesses, will enable the Patent and Trademark Office to better manage its resources and reduce examination times. My conversations with Rhode Island inventors also identified a second clear problem in our patent system: the threat of protracted litigation. Unfortunately, numerous poor quality patents have issued in recent years, resulting in seemingly endless litigation that casts a cloud over patent ownership. Administrative processes that should serve as an alternative to litigation also have broken down, resulting in further delay, cost, and confusion.

The America Invents Act will address these problems by ensuring that higher quality patents issue in the future. This will produce less litigation and create greater incentives for innovators to commit the effort and resources to create the next big idea. Similarly, the bill will improve administrative processes so that disputes over patents can be resolved quickly and cheaply without patents being tied up for years in expensive litigation. The bill also moves America to the simple First-Inventor-to-File system which will eliminate needless uncertainty and litigation over patent ownership, and it eliminates so-called "tax patents."

In all, the Leahy-Smith America Invents Act is an important and much-needed reform of our patent system. True, every intellectual property stakeholder did not get everything they wanted in this version of the patent bill. I am sure every participant in this process would like a few things added to the bill and a few things taken out. That is inevitable in a bill that has been crafted in a true spirit of compromise. The result is a bill that may not please everyone in all respects but that satisfies its core responsibility to remove existing burdens on American innovation and allow the growth of high quality, high technology jobs in our country. It is extremely important in this time of economic hardship that we put people to work. That is exactly what this bill will do and I believe we should pass it immediately. We should not amend it further in a manner that will risk the bill's ultimate defeat. This is a long journey and we are at the finish; let's get this bill done for American inventors and workers. Let's see this much-needed piece of patent reform passed into law. I once again urge my colleagues to vote to pass this important piece of legislation into law.

Mr. KYL. Mr. President, I rise today to submit for the Record two letters addressed to the chairman and ranking member of the House Judiciary Committee. The letters were written by Judge Michael McConnell, a former member of the U.S. Court of Appeals for the Tenth Circuit and the current the director of the Constitutional Law Center at Stanford Law School. Judge McConnell's letters examine the constitutionality of section 18 of the America Invents Act, a section of the bill that authorizes a temporary program for administrative review of business-method patents. The letters thoroughly refute the arguments being presented by some opponents of section 18 that the provision either constitutes a taking or runs afoul of the rule of Plaut v. Spendthrift Farm, Inc., 514 U.S. 211 1995. Because these letters have circulated widely among

members and staff and have played a substantial role in the debate about section 18, I think that it is appropriate that they be published in the Record. I ask unanimous consent that the following materials be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

Michael W. McConnell, Stanford, CA, June 16, 2011.

Dear Chairman Smith and Ranking Member Conyers: I am the Richard and Frances Mallery Professor and Director of the Constitutional Law Center at Stanford Law School, and a Senior Fellow of the Hoover Institution at Stanford University, where I teach and write in the field of constitutional law. I previously served as a judge on the United States Court of Appeals for the Tenth Circuit.

Congress is now considering legislation (the "America Invents Act") that would expand the grounds on which patents may be reexamined by the Patent and Trademark Office ("PTO"), after their initial issuance. I write to address the constitutionality of those sections: Section 6 (Post-grant Review Proceedings) and Section 18 (Transitional Program for Covered Business Method Patents) of the America Invents Act. Based on my review, these sections of the proposed Act are constitutional as drafted.

As you are aware, for the past thirty years, this nation's patent laws have included procedures for reexamination of already-issued patents. In two leading cases, parties challenged the constitutionality of reexamination of patents in court, raising all the the theories now propounded in opposition to sections 6 and 18 of the proposed America Invents Act—takings, due process, retroactivity, and separation of powers. The court of appeals carefully considered and rejected those challenges, upholding the reexamination process in all respects. Sections 6 and 18 of the proposed Act merely expand the grounds on which reexamination is available under current law, but do not change substantive patent law at all, nor the fundamental procedure of reexamination in any constitutionally significant way. We may therefore state with confidence that the proposed legislation is supported by settled precedent.

Moreover, the proposed measure conforms to the purposes of the Patent Clause of the Constitution, Article I, Section 8, Clause 8, which grants Congress authority to "promote the Progress of Science and the useful Arts." By means of this provision, the Framers sought to balance the goal of encouraging innovation against the dangers and economic loss of monopoly. The reexamination process serves to preserve that balance by adopting a procedure by which the PTO can identify patents that were issued in error. Challenges to the reexamination process proceed on the theory that a patent is a vested right, which once granted may not be taken away, at least not by the agency that granted it. This is a fundamental misconception. If a party is issued a patent that does not comply with the patent laws—and the patent is therefore invalid—it is not a "taking" for either a court or the PTO to determine that the patent is invalid. Just as it is not a taking to determine that a person occupying land has a defective title to it, it is not a taking to determine that a patent holder never had a right to a patent in the first place.

Unlike many other familiar forms of property, the validity of a patent is never determined once and for all; members of the public with competing or adverse interests have long had a

continuing right to demonstrate, through reexamination before the PTO, that a patent was invalidly issued. And a party threatened with a patent infringement action has always had the right to seek to demonstrate that the patent is invalid, regardless of whether the same issue has been previously litigated in a different case. In other words, there is no such thing as "adverse possession" in patent law. The only change wrought by the proposed Act is to expand the grounds under which such reexaminations are made by the PTO in the first instance. As a constitutional matter, Congress is entitled to allocate the responsibility of determining whether a patent was properly granted to the courts or to the expert agency, in its discretion. As long as interested parties have the ultimate right to challenge the agency's decisions in court, the administrative nature of the proceeding has no constitutional significance. Moreover, I see nothing in sections 6 and 18 of the proposed Act that would alter or interfere with existing principles of res judicata or collateral estoppel in the context of a final judgment, much less allow the PTO to disturb the final judgment of a court.

I offer no view on the merits or policy of the Act, but offer my judgment that it is entirely consistent with the Constitution for Congress to bring to bear the experience and expertise of the PTO in providing for more robust review of issued patents.

I. Background Principles

I begin with the basic background principles. The Framers of the United States Constitution were well aware of the dangers of monopoly, and sought to ensure that patents could be granted only when they served an overriding public interest. An invalidly issued patent does not properly reward innovation, but instead impedes commerce, hence "the public good." The Federalist, No. 43 (Madison), at 268 [1788] (C. Rossiter ed., 1961). The Framers were also painfully aware of the propensity of governmental agencies and bureaucracies to err. They would not, therefore, have been surprised by efforts to ensure that patent rights may be exercised only when the underlying patent claim is valid and the patent was properly issued. That is why, from the beginning, patents have never been regarded as a fully and irrevocably vested right. As the Supreme Court has explained, the Patent Clause of the Constitution "is both a grant of power and a limitation," and Congress' actions

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must be directed to striking the balance between encouraging innovation and stifling competition through the grant of patents that do not promote "the Progress of . . . useful Arts. This is the standard expressed in the Constitution and it may not be ignored." Graham v. John Deere Co., 383 U.S. 1, 5 (1966) (internal citations and quotation marks omitted); see also Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 146-47 (1989).

Patents are unquestionably property rights. Consolidated Fruit Jar Co. v. Wright, 94 U.S. 92, 96 (1876). However, unlike many property rights, the right to exclude under a patent "is a right that can only be conferred by the government." Patlex Corp. v. Mossinghoff, 758 F.2d 594, 604 (Fed. Cir. 1985). A patent is not a natural right, but solely a product of positive law; its extent, duration, and validity is a matter that must be determined by the legislative branch. In contrast with purely private rights, "the grant of a valid patent is primarily a public concern." Id. In assessing the validity of a patent, the "threshold question usually is whether the PTO, under the

authority assigned to it by Congress, properly granted the patent." Id. As the Supreme Court recently reaffirmed, the statutory presumption of validity found in 35 U.S.C. Sec. 282, is a reflection of the presumption of administrative correctness by the PTO. Microsoft Corp. v. i4i Ltd. P'ship, -- U.S. --, No. 10-290, slip op. 16-17 (2011).

Patents are issued after a limited, ex parte process in which the public has no opportunity to participate. The PTO largely only has before it the information provided by the inventor's attorney. As a result, as courts have recognized, the PTO may not have all of the material information at the time it issues a patent. Therefore, although patents are presumed valid, "if the PTO did not have all material facts before it, its considered judgment may lose significant force." i4i, slip op at 17.

The validity of a patent is not a matter that is ever fully and finally settled. Rather, it remains "ever-present," Patlex Corp., 758 F.2d at 600, because any defendant may assert an invalidity defense in patent litigation—even if the same issue has been previously litigated by another defendant. Prior to 1980, the only means by which a party could challenge the validity of a patent was through litigation in court. In 1980, however, Congress created an administrative reexamination procedure, designed to weed out patents that are invalid because they did not meet the requirements for patentability set forth in the Patent Act. See Public Law No. 96-517. Under these procedures, "[a]ny person at any time may file a request for reexamination by the [PTO] of any claim of a patent on the basis of any prior art" that was published. 35 U.S.C. Sec. 302 (emphasis added).

Since 1980, therefore, the validity of a patent may be challenged several ways: A party who is sued for patent infringement may assert a defense of invalidity, which must be proven by the higher standard of clear and convincing evidence (in deference to the presumed correctness of the PTO's decision), or a patent's validity can be reviewed through a reexamination proceeding. Upon reexamination, the PTO may confirm any patentable claim or cancel any unpatentable claim. Reexamination thus provides an opportunity for the PTO to review and correct its own work based on fuller information. As the Federal Circuit has described, "[t]he innate function of the reexamination process is to increase the reliability of the PTO's action in issuing a patent by reexamination of patents thought 'doubtful.' " In re Etter, 756 F.2d 852, 857 (Fed. Cir. 1985).

The reexamination process created in 1980 endured constitutional challenges similar to what opponents of the America Invents Act are marshalling today: the 1980 reexamination procedure was challenged by patent holders as an unconstitutional taking, as a violation of due process, as a violation of the Seventh Amendment right to a jury trial, and as a violation of separation of powers. See Patlex Corp., 758 F.2d 598-599; Joy Technologies v. Manbeck, 959 F.2d 226 (Fed. Cir. 1992). Each of these challenges was soundly rejected by the United States Court of Appeals for the Federal Circuit.

Thus, to be clear, under current law, at the instance of a party, the PTO may reexamine a patent that has been issued, and the validity of which has been unsuccessfully challenged in litigation. With this in mind, I first address the constitutionality of Sections 6 and 18 of the America Invents Act.

II. Section 6 of the America Invents Act Is Constitutional

Section 6 of the America Invents Act amends the Patent Act to create a post-grant review procedure available for a limited time (one year, in the current America Invents Act legislation) after the date a patent is granted. Section 6 also amends existing inter partes reexamination procedures to make them available after the period of time for post-grant review has passed or, if post-grant review has been initiated, after that post-grant review is complete. A key distinction between the post-grant review procedures and the inter partes reexamination procedures is the grounds and evidence that can be considered for invalidating a patent: as with current law, the inter partes reexamination procedure of Section 6 is limited to considering (1) whether a patent is invalid for failing to meet the Patent Act's requirements of novelty and non-obviousness (2) based on patents or printed publications.

Section 6 is in harmony with the first principles of the Constitution and with the body of legal precedent addressing the existing reexamination procedures. The Patent Clause of the Constitution empowers Congress to "promote the Progress of Science and useful Arts" by granting patents to inventors, but it correspondingly limits Congress' authority to grant patents that do not advance "the Progress of Science and useful Arts." The Supreme Court has recognized that from the beginning our Founders have sought to strike that constitutional balance: "Thus, from the outset, federal patent law has been about the difficult business of 'drawing a line between the things which are worth to the public the embarrassment of an exclusive patent, and those which are not." Bonito Boats, 489 U.S. at 148 (quoting 13 Writings of

Thomas Jefferson (Memorial ed. 1904) at 335). One manner in which Congress has fulfilled this mandate to strike the proper balance is through the existing reexamination procedures, which provide a mechanism for removing patents that should never have been granted by the PTO because they did not meet the requirements for a valid patent set by Congress in the Patent Act. As the Federal Circuit has observed, "[t]he reexamination statute's purpose is to correct errors made by the government, to remedy defective governmental (not private) action, and if need be to remove patents that should never have been granted." Patlex Corp., 758 F.2d at 604 (emphasis added). A determination that a patent should never have been granted is no more a "taking" than is a determination that a putative landowner suffers a defect in title.

Accordingly, the revised inter partes reexamination procedures and the post-grant review procedures of Section 6 are hardly novel but rather are based on longstanding procedures established by Congress and repeatedly recognized as constitutional by the Federal Circuit in decisions such as Patlex Corp., 758 F.2d 594, 607 (Fed. Cir. 1985) (emphasis added), Joy Technologies, 959 F.2d 226, 228-29 (Fed. Cir. 1992), and In re Swanson, 540 F.3d 1368, 1379 (Fed. Cir. 2008). As such, Section 6 does little more than expand the grounds for reexamination of patents, something Congress is plainly entitled to do pursuant to its authority under the Patent Clause (Article I, Section 8, Clause 8) of the Constitution.

Nor is there any conflict between Section 6 and other parts of the Constitution such as Article III and the Seventh Amendment. The gist of the arguments suggesting a conflict is that the PTO would be permitted to "overrule" final judicial determinations made by an Article III court and/or jury of a patent's validity. But these arguments fail to understand the nature of judicial review of patent validity and fail to recognize the body of precedent that has rejected these arguments as applied against the current legal regime.

To begin, what exactly happens when issues of patent validity are litigated in district courts should be placed in proper context. As the Federal Circuit has explained, “Courts do not find patents ‘valid,’ only that the patent challenger did not carry the burden of establishing invalidity in the particular case before the court under 35 U.S.C. 282.” Ethicon, Inc. v. Quigg, 849 F.2d 1422, 1429 n.3 (Fed. Cir. 1988) (emphasis original and internal quotation marks omitted). For this reason, “a prior holding of validity is not necessarily inconsistent with a subsequent holding of invalidity and is not binding on subsequent litigation or PTO reexaminations.” In re Swanson, 540 F.3d 1368, 1377 (Fed. Cir. 2008) (internal citations and quotation marks omitted). In other words, a district court decision that a patent is “not invalid” merely means that the challenger did not carry his burden; it does not mean that the patent is valid.

The existing reexamination procedures and the new post-grant review procedures proposed in the America Invents Act vest authority to determine validity upon reexamination in the agency entrusted by Congress with making the validity decision in the first instance—the PTO. It is entirely proper that this corrective action be taken by the PTO, with review 67 the Federal Circuit. It need not be limited to an Article III court in the first instance. “A defectively examined and therefore erroneously granted patent must yield to the reasonable Congressional purpose of facilitating the correction of governmental mistakes. This Congressional purpose is presumptively correct, and we find it carries no insult to the Seventh Amendment and Article III.” Patlex Corp., 758 F.2d at 604. In other words, under a well-settled body of case law, “the Constitution does not require that [courts] strike down statutes, otherwise having a reasonable legislative purpose, that invest administrative agencies with regulatory functions.” Id. at 604,305. That holding is just as applicable to Section 6 of the America Invents Act as it is to the original reexamination procedures adopted in 1980.

Nor does it matter, for constitutional purposes, that the PTO may reconsider the validity of patents’ that are, or have been, adjudicated by district courts. In In re Swanson, 540 F.3d 1368 (Fed. Cir. 2008), the Federal Circuit specifically considered and rejected the argument that Plaut v. Spendthrift Farm, Inc., 514 U.S. 211 (1995), prohibited reexamination of a patent by the PTO after that patent had survived an invalidity challenge in court. See Swanson, 540 F.3d at 1378,79 (“[The patentee] argues that this reading of the statute—allowing an executive agency to find patent claims invalid after an Article III court has upheld their validity—violates the constitutionally mandated separation of powers, and therefore must be avoided. We disagree.”). As the Federal Circuit held, “the

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court’s final judgment and the examiner’s rejection are not duplicative—They are differing proceedings with different evidentiary standards for validity. Accordingly, there is no Article III issue created when a reexamination considers the same issue of validity as a prior district court proceeding.” In re Swanson, 540 F.3d 1368, 1379 (Fed. Cir. 2008) (citation omitted). Because Section 6 merely broadens the kinds of invalidity challenges that can be pursued during reexamination, that holding would apply to the America Invents Act as well. Plaut simply does not apply.

Relatedly, invalidation of a patent by the PTO (or by a court, for that matter), after it has been adjudicated “not invalid” in one particular case, does not purport to undo a court’s judgment in

an earlier case. The PTO has no authority to disturb a final judgment of a court, and nothing in the proposed Act would change that. Rather, it would remain within the discretion of the district court to determine whether relief from a final judgment was appropriate under Rule 60(b) based on changed circumstances. See Amado v. Microsoft Corp., 517 F.3d 1353, 1363 (Fed. Cir. 2008). Nothing in Section 6 purports to alter the standards under which a court determines whether to grant relief from a final judgment. Accordingly, there is no constitutional problem under Plaut.

III. Section 18 of the America Invents Act is Constitutional Section 18 of the America Invents Act is equally constitutional. As an initial matter, it is important to recognize that Section 18 does nothing more than apply the more robust post-grant review provisions of Section 6 to existing business-method patents. By any measure, this is not a "taking" within the meaning of the constitution (unless for the past thirty years patent law has been effecting "takings" each time a reexamination takes place). The constitutional arguments that have been marshaled against Section 18--that it applies "retroactively" to existing patents, that it would change the rules of the game, or that it would upset settled property rights—were rejected by the Federal Circuit in Patlex Corp. and again in Joy Technologies. These are the precedents that would govern any future challenge to Section 18.

I understand that critics of Section 18 are arguing that it improperly singles out business-method patents and that it creates a "second bite at the apple." I find both sets of arguments to be unpersuasive as a constitutional matter.

First, Congress is well within its authority to determine that a particular subset of patents warrant closer administrative review than other patents due to their history and development. Business-method patents are relatively novel creatures, and far removed from what the Founders would have envisioned when they sought to "promote the Progress of Science and the useful Arts." Prior to the 1990s, business-method patents were largely unheard of. The surge in the issuance of such patents followed the 1998 decision of the Federal Circuit in State Street Bank & Trust Co. v. Signature Financial Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998), which has been widely viewed as having opened the door to business-method patenting. The increase in business method patents does not appear to be abating. According to the PTO, the number of business-method patent applications that issued as patents jumped from 494 in 2002 to 3649 in 2010. See http://www.uspto.gov/patents/resourcesimethods/applicationfiling.jsp (last visited June 14, 2011). In the intervening 13 years since State Street, the PTO and the courts have struggled to determine when such patents should issue. The Supreme Court's decision last Term in Bilski v. Kappos, 130 S. Ct. 3218 (2010), offered some clarification, reaffirming the basic minima required to be patent-eligible subject matter under 35 U.S.C. Sec. 101. Nonetheless, in light of the continuing confusion over such patents, and the paucity of traditional published prior art at the time such patents were issued, it is entirely rational—and thus constitutionally appropriate—for Congress to make the judgment that it wants to provide a mechanism for ensuring that adequate vigor went into the PTO's decision to issue a business-method patent, and that such further review helps to ensure that this category of patents is subject to the same quality of review as other patents were. See eBay Inc. v. MercExchange, LLC, 547 U.S. 388, 397 (Kennedy, J., concurring) (noting the "suspect validity of some" business-method patents). Given Congress's general authority to allow administrative reexamination, as well as judicial challenge, to an already-issued patent, there can be no valid objection to Congress's decision to

focus these reexaminations on a class of patents that, because of their novelty, were especially prone to improvident grant.

Second, providing a more robust reexamination procedure does not create a second bite at the apple. By their nature, patents are continuously subject to challenge, whether in court or before the PTO. As noted above, patents are initially issued after an entirely ex parte process in which no one else is allowed to participate. To the extent a patent's validity has been challenged in court, the challenge is only reviewed for clear and convincing evidence that the PTO erred in granting the patent. That does not answer the question of whether or not the PTO made a mistake—only reexamination provides a vehicle for answering that question. To the extent this is a second bite, it is at a different apple. Section 18 does not create any more opportunities for challenge than there are under existing law. It simply allows reexamination on a broader array of theories than allowed today.

Moreover, just as a criminal defendant can be acquitted under a beyond-a-reasonable-doubt standard, but found civilly liable under a preponderance standard, there is also nothing unusual about the fact that a patent may be upheld in court (where a thumb is decidedly on the scale of the patentee), but subsequently rejected as invalid by the PTO during reexamination. That is exactly what happened in Translogic Technology, Inc. v. Hitachi, Ltd, 250 F. App'x 988 (Fed. Cir. 2007), and In re Translogic Tech., Inc., 504 F.3d 1249 (Fed. Cir. 2007). In the Translogic cases, the district court found the asserted patent to be infringed and not invalid. While the case was pending, the PTO reexamined the patent in an inter partes proceeding and found the patent was improperly issued and, thus, invalid. The Federal Circuit affirmed, and thus found that the judgment of infringement in the case against Hitachi had to be vacated. The only material difference between the law today and the procedures contemplated in Section 18, is that Section 18 allows a broader array of invalidity arguments to be presented to the PTO. Moreover, nothing in Section 18 purports to alter how principles of res judicata and collateral estoppel would apply to a final judgment after all appeals are resolved, or to change the standard for a district court to determine whether relief should be granted under Rule 60(b). Thus, as discussed above, the procedures in Section 18 and Section 6 do not present any of the constitutional concerns identified in Plaut v. Spendthrift Farm, Inc., 514 U.S. 211 (1995).

Nor is there anything constitutionally suspect about limiting the review of existing business-method patents to those that have actually been asserted in court (or threatened to be asserted, such that a declaratory judgment action could be brought). Rather, such a decision serves to limit the burden on the PTO and to focus the use of limited resources on reexamining patents that, if improperly issued, are more detrimental to the economy. It is like limiting challenges to land claims to competing users of the land. Again, I see nothing in section 18 that purports to alter or interfere with application of existing principles of res judicata or collateral estoppel in the context of a final judgment, or to alter the standard for obtaining relief from a final judgment. Finally, Section 18(c) provides that a party that initiates a PTO reexamination may also seek a stay of ongoing litigation pending reexamination from the court where ongoing litigation is pending. It is the court, not the PTO, that decides whether or not to grant a stay. That is consistent with existing law. See, e.g., Medichem, S.A. v. Rolabo, S.L., 353 F.3d 928, 936 (Fed. Cir. 2003) (IA] stay of proceedings in the district court pending the outcome of the parallel proceedings in the PTO remains an option within the district court's discretion."). Although Section 18(c) provides a list of factors for a district court should consider, these factors are quite

balanced and provide the district court with ample discretion. Indeed, these are the factors currently used by district courts in deciding whether to grant a stay pending reexamination. See, e.g., Akeena Solar Inc. v. Zep Solar Inc., 2010 WL 1526388, *1 (N.D. Cal. 2010); Broadcast Innovation, L.L.C. v. Charter Communications, Inc., 2006 WL 1897165, *4 (D. Colo. 2006); Mots Fr ove Co., 2005 WL 3465664, *1 (D.N.J. 2005); Tap Pharm. Prods. Inc. v. Atrix Labs., Inc., 70 U.S.P.Q. 2d 1319, 1320 (N.D. III. 2004). Moreover, Section 18© provides for immediate appellate review of a decision to grant or deny a stay, ensuring that this discretion is not abused.

In sum, there is nothing novel or unprecedented, much less unconstitutional, about the procedures proposed in sections 6 and 18 of the America Invents Act. The proposed procedures simply expand existing reexamination procedures to a broader array of invalidity issues. And under settled case law, the application of these new reexamination procedures to existing patents is not a taking or otherwise a violation of the Constitution. Congress's decision, to make these new reexamination procedures available only to a subset of existing patents—a category of patents that Congress could rationally believe were more suspect than other patents—represents a constitutionally proper decision on how to expend limited resources.

Sincerely,

Michael W. McConnell.

Michael W. McConnell,
Stanford, CA,
June 23, 2011.

Dear Chairman Smith and Ranking Member Conyers: I am the Richard and Frances Mallery Professor and Director of the Constitutional Law Center at Stanford Law School, and a Senior Fellow of the Hoover Institution at Stanford University, where I teach and write in the field of constitutional law. I previously served as a judge on the United States Court of Appeals for the Tenth Circuit. On June 16, I wrote to you regarding several constitutional issues that have arisen regarding proposed changes to patent reexamination procedures in sections 6 and 18 of the America Invents Act. Since then, two distinguished constitutional authorities, my old friends Richard Epstein and Charles Cooper have written responses to my letter. I thought it would be helpful for me to address those two responses directly and to explain why I remain convinced my original analysis was correct.

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Both responses give far too broad a reading to Plaut v. Spendthrift Farm, Inc., 514 U.S. 211 (1995), and give short shrift to binding precedent of the U.S. Court of Appeals for the Federal Circuit that directly addresses the very kinds of constitutional objections that are being made with respect to sections 6 and 18 of the America Invents Act. Indeed Professor Epstein and Mr. Cooper acknowledge, as they must, that their position is contradicted by In re Swanson, 540 F.3d 1368 (Fed. Cir. 2008). This shows that their analysis, whatever its abstract merits, is a departure from actual judicial precedent governing these questions. Most fundamentally, the Epstein and Cooper critiques refuse to accept the importance of the fact that judicial review of invalidity in

the context of a patent infringement suit applies a different standard than administrative reexamination. When the PTO (and subsequently the Federal Circuit) reviews invalidity in the context of a reexamination, a court is not "rehearing" the same issue, much less "reopening" a final judgment (as Professor Epstein erroneously posits), nor does it somehow render an earlier decision that an accused infringer had failed to carry its burden of proving invalidity by clear and convincing evidence an "advisory opinion" (as suggested by Mr. Cooper). Indeed, this fundamental point was critical to the holding in Swanson. See 540 F.3d at 1377 ("[A] prior holding of validity is not necessarily inconsistent with a subsequent holding of invalidity and is not binding on subsequent litigation or PTO reexaminations"). Plaut does not need to be "overcome"—it is simply inapplicable.

Professor Epstein attempts to distinguish the well-developed body of case law upholding the constitutionality of reexamination procedures, on which sections 6 and 18 of the proposed act are based, by highlighting factual differences in those cases that are, in my view, simply irrelevant to the constitutional analysis. For example, he contends Patlex Corp. v. Mossinghoff, 758 F.2d 594 (Fed. Cir. 1985), is different because there was no final judgment at the time the reexamination had begun. However, the Federal Circuit ascribed no significance to that fact—and with good reason. The case rests on the necessarily provisional and correctable nature of patents, not on whether they had previously gone unchallenged in court. A prior judicial decision that a patent was not invalid would mean only that the initial PTO decision was not bereft of substantial support in the evidence—not that it was correct for all time, under a de novo standard. The court rejected the notion that there was a "right to judgment by an Article III court on those issues" of invalidity. Id. at 600. The court reasoned that "[t]he reexamination statute's purpose is to correct errors made by the government, to remedy defective governmental (not private) action, and if need be to remove patents that should never have been granted." Id. at 604. That holding and reasoning would apply equally whether or not the reexamination was commenced before entry of a final judgment.

Likewise, Professor Epstein attempts to distinguish Joy Technologies v. Manbeck, 959 F.2d 226 (Fed. Cir. 1992), by saying it arose in the context of a settlement. But regardless of the context in which it arose, the court there considered and rejected the same constitutional objections being raised by the objectors to sections 6 and 18 in the context of reexamination. The attempt to distinguish Ethicon, Inc. v. Quigg, 849 F.2d 1422 (Fed. Cir. 1988), is also unavailing. That case cogently explains the distinction between a court considering a challenge to validity under the clear and convincing standard, and reexamination by the PTO under the preponderance standard.

In addressing Swanson, Professor Epstein suggests that it is "strange" to "think that the PTO will help purge the legal system of weak patents when it allows itself to use a weaker standard than those involved in litigation." But under the clear-and-convincing evidence standard used for reviewing the PTO's work in court, an improperly issued patent will often survive even in the face of significant evidence that the patent should not have issued. Thus, there are many mistakes that can be corrected only by the PTO—the agency that erroneously issued the patent in the first place.

Professor Epstein further suggests that Swanson is of "dubious validity." However, I am not aware of any subsequent court decision calling Swanson's holding into question. That Professor Epstein disagrees with Swanson shows only that his analysis is contrary to precedent, not that the

precedent is "dubious." He also contends that the reexamination procedures in Swanson are distinguishable because they were limited to new prior art. However, he ignores the higher-threshold gatekeeping function required under sections 6 and 18 of the proposed Act to obtain reexamination in the first place. In any event, the distinction is one without constitutional significance: there is no constitutional basis for confining reexamination to only one of possible correctable defects in the original issuance of a patent.

Professor Epstein asserts that I am incorrect in stating that under current law, at the instance of a party, the PTO may reexamine a patent that has issued, and the validity of which has been unsuccessfully challenged in litigation. Yet, that is essentially what happened in Translogic Technology, Inc. v. Hitachi, Ltd., 250 F. App'x 988 (Fed. Cir. 2007), and In re Translogic Technology, Inc., 504 F.3d 1249 (Fed. Cir. 2007)--cases that he simply does not address.

Mr. Cooper barely addresses the above-mentioned precedent at all, except to assert that the unanimous decision of the U.S. Court of Appeals for the Federal Circuit in In re Swanson is inconsistent with his reading of Plaut. In so doing, Mr. Cooper suggests that there is something unseemly about the fact that a patent could be found "not invalid" in a proceeding against an infringer, but then subsequently found invalid by the PTO through reexamination at the behest of the infringer. Yet that is the law today. Sections 6 and 18 do nothing more than expand the types of invalidity challenges that may be considered by the PTO. Mr. Cooper's analysis is not really a critique of sections 6 and 18; it is a critique of patent law as it has existed for thirty years. By analogy, the fact that a party may be acquitted by one court under a reasonable doubt standard, but found civilly liable by another court under a preponderance standard does not render either decision "advisory." So too here. Finally, the passage Mr. Cooper cites from Plaut is simply inapplicable. The standard of patentability is not being changed, and the use of a clear-and-convincing standard of review in court is merely an acknowledgement of the presumption of administrative correctness, which is inapplicable when the PTO reviews its own work.

At bottom, nothing in sections 6 and 18 of the proposed Act purports to change the substantive law regarding when a patent is validly issued. They merely broaden the availability of one of the preexisting procedural vehicles (reexamination) for assessing validity. Matters of a technical nature, such as this, are especially appropriate to administrative as opposed to judicial redetermination. Courts have consistently rejected the notion that there is a property right in having patent validity reviewed only in an Article III court. And courts have rejected the argument that the PTO cannot reconsider its own decision to issue a patent merely because a court has found in a particular proceeding that an accused infringer failed to carry its burden of proving the patent invalid by clear and convincing evidence. Against this backdrop, we may be confident that the amendments to the reexamination procedure provided by sections 6 and 18 will be judged to pass constitutional muster.

Sincerely,

Michael W. McConnell.

Mr. KYL. I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant editor of the Daily Digest proceeded to call the roll.

Mr. REID. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. Begich.) Without objection, it is so ordered.

Mr. REID. Mr. President, I ask unanimous consent that on Thursday, September 8, when the Senate resumes consideration of the America Invents Act, the following amendments be the only first-degree amendments in order: Coburn No. 599, Sessions No. 600, Cantwell No. 595; that there be 5 hours of debate on the amendments divided in the following manner: 75 minutes for Senator Coburn or his designee; 1 hour for Senator Sessions or his designee; 45 minutes for Senator Cantwell or her designee; 1 hour for Senator Grassley or his designee; and 1 hour for Senator Leahy or his designee; that upon the use or yielding back of time, the Senate proceed to votes in relation to the amendments in the following order: Sessions No. 600; Cantwell No. 595; Coburn No. 599; that no other amendments or points of order be in order to any of the amendments or the bill prior to the votes; finally, that following disposition of the amendments, the Senate proceed to vote on passage of the bill, as amended, if amended.

The PRESIDING OFFICER. Without objection, it is so ordered.

[Text of rollcall votes and up to portions of S5379 omitted]

Senate Debate – 157 Cong. Rec. S5402-S5443

[Congressional Record Volume 157, Number 132 (Thursday, September 8, 2011)]

[Senate]

[Pages S5402-S5443]

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LEAHY-SMITH AMERICA INVENTS ACT

The PRESIDING OFFICER. Under the previous order, the Senate will resume consideration of H.R. 1249, which the clerk will report by title.

The assistant legislative clerk read as follows:

An Act (H.R. 1249) to amend title 35, United States Code, to provide for patent reform.

Amendment No. 600

Mr. SESSIONS. Mr. President, I ask unanimous consent to call up my amendment No. 600, which is at the desk. The PRESIDING OFFICER. The clerk will report.

The assistant legislative clerk read as follows:

The Senator from Alabama [Mr. Sessions], for himself, Mr. Manchin, Mr. Coburn, and Mr. Lee, proposes an amendment numbered 600.

Mr. SESSIONS. Mr. President, I ask unanimous consent that the reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

AMENDMENT NO. 600

(Purpose: To strike the provision relating to the calculation of the 60-day period for application of patent term extension)

On page 149, line 20, strike all through page 150, line 16.

Mr. SESSIONS. Mr. President, the amendment that I have offered is a very important amendment. It is one that I believe is important to the integrity of the U.S. legal system and to the integrity of the Senate. It is a matter that I have been wrestling with and objecting to for over a decade. I thought the matter had been settled, frankly, but it has not because it has been driven by one of the most ferocious lobbying efforts the Congress maybe has seen. The House patent bill as originally passed out of committee and taken to the floor of the House did not include a

bailout for Medco, the WilmerHale law firm, or the insurance carrier for that firm, all of whom were in financial jeopardy as a result of a failure to file a patent appeal timely.

I have practiced law hard in my life. I have been in court many times. I spent 12 years as a U.S. Attorney and tried cases. I am well aware of how the system works. The way the system works in America, you file lawsuits and you are entitled to your day in court. But if you do not file your lawsuit in time, within the statute of limitations, you are out.

When a defendant raises a legal point of order—a motion to dismiss—based on the failure of the complaining party to file their lawsuit timely, they are out. That happens every day to poor people, widow ladies. And it does not make any difference what your excuse is, why you think you have a good lawsuit, why you had this idea or that idea. Everyone is required to meet the same deadlines.

In Alabama they had a situation in which a lady asked a probate judge when she had to file her appeal by, and the judge said: You can file it on Monday. As it turned out, Monday was too late. They went to the Alabama Supreme Court, and who ruled: The probate judge—who does not have to be a lawyer—does not have the power to amend the statute of limitations. Sorry, lady. You are out.

Nobody filed a bill in the Congress to give her relief, or the thousands of others like her every day. So Medco and WilmerHale seeking this kind of relief is a big deal. To whom much has been given, much is required. This is a big-time law firm, one of the biggest law firms in America. Medco is one of the biggest pharmaceutical companies in the country. And presumably the law firm has insurance that they pay to insure them if they make an error. So it appears that they are not willing to accept the court's ruling.

One time an individual was asking me: Oh, Jeff, you let this go. Give in and let this go. I sort of as a joke said to the individual: Well, if WilmerHale will agree not to raise the statute of limitations against anybody who sues their clients if they file a lawsuit late, maybe I will reconsider. He thought I was serious. Of course WilmerHale is not going to do that. If some poor person files a lawsuit against someone they are representing, and they file it one hour late, WilmerHale will file a motion to dismiss it. And they will not ask why they filed it late. This is law. It has to be objective. It has to be fair.

You are not entitled to waltz into the U.S. Congress—well connected—and start lobbying for special relief.

There is nothing more complicated about that than this. So a couple of things have been raised. Well, they suggest, we should not amend the House patent bill, and that if we do, it somehow will kill the legislation. That is not so. Chairman Leahy has said he supports the amendment, but he doesn't want to vote for it because it would keep the bill from being passed somehow.

It would not keep it from being passed. Indeed, the bill that was

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brought to the House floor didn't have this language in it. The first vote rejected the attempt to put this language in it. It failed. For some reason, in some way, a second vote was held, and it was passed by a few votes. So they are not going to reject the legislation if we were to amend it.

What kind of system are we now involved in in the Senate if we can't undo an amendment? What kind of argument is it to say: Jeff, I agree with your amendment, and I agree it is right that they should not get this special relief, but I can't vote for it because it might cause a problem? It will not cause a problem. The bill will pass. It should never have been put in there in the first place.

Another point of great significance is the fact that this issue is on appeal. The law firm asserted they thought—and it is a bit unusual—that because it came in late Friday they had until Monday. We can count the days to Monday—the 60 days or whatever they had to file the answer. I don't know if that is good law, but they won. The district court has ruled for them. It is on appeal now to the court of appeals. This Congress has no business interfering in a lawsuit that is ongoing and is before an appeals court. If they are so confident their district court ruling is correct, why are they continuing to push for this special relief bill, when the court of appeals will soon, within a matter of months, rule?

Another point: We have in the Congress a procedure to deal with special relief. If this relief is necessary at all, it should go through as a special relief bill. I can tell you one reason it is not going there now: you can't ask for special relief while the matter is still in litigation, it is still on appeal. Special relief also has procedures that one has to go through and justify in an objective way, which I believe would be very healthy in this situation.

For a decade, virtually—I think it has been 10 years—I have been objecting to this amendment. Now we are here, I thought it was out, and all of a sudden it is slipped in by a second vote in the House, and we are told we just can't make an amendment to the bill. Why? The Senate set up the legislation to be brought forward, and we can offer amendments and people can vote for them or not.

This matter has gotten a lot of attention. The Wall Street Journal and the New York Times both wrote about it in editorials today. This is what the New York Times said today about it:

But critics who have labeled the provision "The Dog Ate My Homework Act" say it is really a special fix for one drug manufacturer, the Medicines Company, and its powerful law firm, WilmerHale. The company and its law firm, with hundreds of millions of dollars in drug sales at stake, lobbied Congress heavily for several years to get the patent laws changed.

That is what the Wall Street Journal said in their editorial. The Wall Street Journal understands business reality and litigation reality. They are a critic of the legal system at times and a supporter at times. I think they take a principled position in this instance. The Wall Street Journal editorial stated:

We take no pleasure in seeing the Medicine Company and WilmerHale suffer for their mistakes, but they are run by highly paid professionals who know the rules and know that consistency of enforcement is critical to their businesses. Asking Congress to break the rules as a special favor corrupts the law.

I think that is exactly right. It is exactly right. Businesses, when they are sued by somebody, use the statute of limitations every day. This law firm makes hundreds of millions of dollars in income a year. Their partners average over $1 million a year, according to the New York Times. That is pretty good. They ought to be able to pay a decent malpractice insurance premium. The New York Times said WilmerHale reported revenues of $962 million in 2010, with a profit of $1.33 million per partner.

Average people have to suffer when they miss the statute of limitations. Poor people suffer when they miss the statute of limitations. But we are undertaking, at great expense to the taxpayers, to move a special interest piece of legislation that I don't believe can be justified as a matter of principle. I agree with the Wall Street Journal that the adoption of it corrupts the system. We ought not be a part of that.

I love the American legal system. It is a great system, I know. I have seen judges time and time again enter rulings based on law and fact even if they didn't like it. That is the genius and reliability and integrity of the American legal system. I do not believe we can justify, while this matter is still in litigation, passing a special act to give a wealthy law firm, an insurance company, and a health care company special relief. I just don't believe we should do that. I oppose it, and I hope my colleagues will join us.

I think we have a real chance to turn this back. Our Congress and our Senate will be better for it; we really will. The Citizens Against Government Waste have taken an interest in this matter for some time.

They said:

Congress has no right to rescue a company from its own mistakes.

Companies have a right to assert the law. Companies have a right to assert the law against individuals. But when the time comes for the hammer to fall on them for their mistake, they want Congress to pass a special relief bill. I don't think it is the right thing to do. Mr. President, let's boil it down to several things. First, if the company is right and the law firm is right that they did not miss the statute of limitations, I am confident the court of appeals will rule in their favor, and it will not be necessary for this Senate to act. If they do not prevail in the court of appeals and don't win their argument, then there is a provision for private relief in the Congress, and they ought to pursue that. There are special procedures. The litigation will be over, and they can bring that action at that time. That is the basic position we ought to be in. A bill that comes out of the Judiciary Committee ought to be sensitive to the legal system, to the importance of ensuring that the poor are treated as well as the rich. The oath judges take is to do equal justice to the poor and the rich.

How many other people in this country are getting special attention today on the floor of the Senate? How many? I truly believe this is not good policy. I have had to spend far more hours fighting this than I have ever wanted to when I decided 10 years ago that this was not a good way to go forward. Many battle this issue, and I hope and trust that the Members of the Senate who will be voting on this will allow it to follow the legitimate process. Let the litigation work its way through the system.

If they do not prevail in the litigation, let a private relief bill be sought and debated openly and publicly to see if it is justified. That would be the right way to do it—not slipping through this amendment and then not voting to remove it on the basis that we should not be amending a bill before us. We have every right to amend the bill, and we should amend the bill. I know Senator Grassley, years ago, was on my side. I think it was just the two of us who took this position.

I guess I have more than expressed my opinion. I thank the chairman for his leadership. I thank him and Senator Grassley for their great work on this important patent bill. I support that bill. I believe they have moved it forward in a fair way.

The chairman did not put this language into the bill; it was put in over in the House. I know he would like to see the bill go forward without amendments. I urge him to think it through and see if he cannot be willing to support this amendment. I am confident it will not block final passage of the legislation.

I yield the floor.

The PRESIDING OFFICER. The Senator from Vermont.

Mr. LEAHY. Mr. President, I will speak later about the comments made by the distinguished Senator from Alabama. He has been very helpful in getting this patent bill through. He is correct that this amendment he speaks to is one added in the other body, not by us. We purposely didn't have it in our bill. I know Senator Grassley will follow my remarks.

There is no question in my mind that if the amendment of the Senator from Alabama were accepted, it in effect will kill the bill. Irrespective of the merits, it can come up on another piece of legislation or as freestanding legislation. That is fine. But on this bill, after 6 years of effort to get this far, this bill would die because the other body will not take it up again.

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[Text from portions of S5404 omitted]

The PRESIDING OFFICER. The senior Senator from Iowa.

Amendment No. 600

Mr. GRASSLEY. Mr. President, I rise to rebut the points Senator Sessions made, and I do acknowledge, as he said on the floor, that 2 or more years ago I was on the same page he is on this issue. What has intervened, in the meantime, that causes me to differ from the position Senator Sessions is taking? It is a district court case giving justice to a company—as one client—that was denied that sort of justice because bureaucrats were acting in an arbitrary and capricious way. Senator Sessions makes the point you get equal justice under the law from the judicial branch of government and that Congress should not try to override that sort of situation. Congress isn't overriding anything with the language in the House bill that he wants to strike because that interest was satisfied by a judge's decision; saying that a particular entity was denied equal justice under the law because a bureaucrat, making a decision on just exactly what counts as 60 days, was acting in an arbitrary and capricious way. So this language in the House

bill has nothing to do with helping a special interest. That special interest was satisfied by a judge who said an entity was denied equal justice under the law because a bureaucrat was acting in an arbitrary and capricious manner.

This amendment is not about a special interest. This amendment is about

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uniformity of law throughout the country because it is wrong—as the judge says—for a bureaucracy to have one sort of definition of when 60 days begins—whether it is after business hours, if something goes out, or, if something comes in, it includes the day it comes in. So we are talking about how we count 60 days, and it is about making sure there is a uniform standard for that based upon law passed by Congress and not upon one judge's decision that applies to one specific case. I would say, since this case has been decided, there are at least three other entities that have made application to the Patent Office to make sure they would get equal justice under the law in the same way the entity that got help through the initial decision of the judge. So this is not about special relief for one company. This is about what is a business day and having a uniform definition in the law of the United States of what a business day is, not based upon one district court decision that may not be applied uniformly around our Nation. So it is about uniformity and not about some bailout, as Senator Sessions says. It is not about some ferocious lobbying effort, as Senator Sessions has said. It is not just because one person was 1 hour late or 1 day late, because how do you know whether they are 1 hour late or 1 day late if there is a different definition under one circumstance of when 60 days starts and another definition under other circumstances of when a 60-day period tolls?

Also, I would suggest to Senator Sessions that this is not Congress interfering in a court case that is under appeal because the government lost this case and the government is not appealing. Now, there might be some other entity appealing for their own interests to take advantage of something that is very unique to them.

But just in case we have short memories, I would remind my colleagues that Congress does sometimes interject itself into the appeal process, and I would suggest one time we did that very recently, maybe 6 years ago—and that may not be very recent, but it is not as though we never do it—and that was the Protection of Lawful Commerce Act of 2005, when Congress interjected itself into an issue to protect gun manufacturers from pending lawsuits. It happens that 81 Senators supported that particular effort to interject ourselves into a lawsuit.

So, Mr. President, in a more formal way, I want to repeat some of what I said this past summer when I came to the Senate floor and suggested to the House of Representatives that I would appreciate very much if they would put into the statutes of the United States a uniform definition of a business day and not leave it up to a court to maybe set that standard so that it might not be applied uniformly and, secondly, to make sure it was done in a way that was treating everybody the same, so everybody gets equal justice under the law, they know what the law is, and they don't have to rely upon maybe some court decision in one part of the country that maybe they can argue in another part of the country, and also to tell bureaucrats, as the judge said, that you can't act in an arbitrary and capricious way. But bureaucrats might act in an arbitrary and

capricious way, in a way unknown to them, if we don't have a uniform definition of what a business day is.

So I oppose the effort to strike section 37 from the patent reform bill for the reasons I have just given, but also for the reasons that were already expounded by the chairman of this committee that at this late date, after 6 years of trying to get a patent reform bill done—and we haven't had a patent reform bill for over a decade, and it is badly needed—we shouldn't jeopardize the possible passage of this bill to the President of the United States for his signature by sending it back to the other body and perhaps putting it in jeopardy. But, most important, I think we ought to have a clear signal of what is a business day, a definition of it, and this legislation and section 37 makes that very clear.

This past June, I addressed this issue in a floor statement, and I want to quote from that because I wanted my colleagues to understand why I hoped the House-passed bill would contain section 37 that was not in our Senate bill but that was passed out of the House Judiciary Committee unanimously. Speaking as ranking member of the Senate Judiciary Committee now and back in June when I spoke, I wanted the House Judiciary Committee to know that several Republican and Democratic Senators had asked me to support this provision as well.

Section 37 resulted from a recent Federal court case that had as its genesis the difficulty the FDA—the Food and Drug Administration—and the Patent Office face when deciding how to calculate Hatch-Waxman deadlines. The Hatch-Waxman law of the 1980s was a compromise between drug patent holders and the generic manufacturers. Under the Waxman-Hatch law, once a patent holder obtains market approval, the patent holder has 60 days to request the Patent Office to restore the patent terms—time lost because of the FDA's long deliberating process eating up valuable patent rights.

The citation to the case I am referring to is in 731 Federal Supplement 2nd, 470. The court found—and I want to quote more extensively than I did back in June. This is what the judge said about bureaucrats acting in an arbitrary and capricious way and when does the 60 days start.

The Food and Drug Administration treats submissions to the FDA received after its normal business hours differently than it treats communications from the agency after normal business hours.

Continuing to quote from the decision:

The government does not deny that when notice of FDA approval is sent after normal business hours, the combination of the Patent and Trademark Office's calendar day interpretation and its new counting method effectively deprives applicants of a portion of the 60-day filing period that Congress expressly granted them . . . Under PTO's interpretation, the date stamped on the FDA approval letter starts the 60-day period for filing an application, even if the Food and Drug Administration never sends the letter . . . An applicant could lose a substantial portion, if not all, of its time for filing a Patent Trademark Extension application as a result of mistakes beyond its control . . . An interpretation that imposes such drastic consequences when the government errs could not be what Congress intended.

So the judge is telling us in the Congress of the United States that because we weren't precise, there is a question as to when Congress intended 60 days to start to toll. And the question then is, If it is treated one way for one person and another way for another person, or if one agency treats it one way and another agency treats it another way, is that equal justice under the law? I think it is very clear that the judge said it was not. I say the judge was correct. Congress certainly should not expect nor allow mistakes by the bureaucracy to up-end the rights and provisions included in the Hatch-Waxman Act or any other piece of legislation we might pass. The court ruled that when the Food and Drug Administration sent a notice of approval after business hours, the 60-day period requesting patent restoration begins the next business day. It is as simple as that.

The House, by including section 37, takes the court case, where common sense dictates to protect all patent holders against losing patent extensions as a result of confused counting calculations. Regrettably, misunderstandings about this provision have persisted, and I think you hear some of those misunderstandings in the statement by Senator Sessions.

This provision does not apply to just one company. The truth is that it applies to all patent holders seeking to restore the patent term time lost during FDA deliberations—in other words, allowing what Hatch-Waxman tries to accomplish: justice for everybody. In recent weeks, it has been revealed that already three companies covering four drug patents will benefit by correcting the government's mistake. It does not cost the taxpayers money. The Congressional Budget Office determined that it is budget-neutral.

Section 37 has been pointed out as maybe being anticonsumer, but it is anything but anticonsumer. I would quote Jim Martin, chairman of the 60-Plus Association. He said:

We simply can't allow bureaucratic inconsistencies to stand in the way of cutting-edge medical research that is so important to the increasing number of Americans over the age of 60. This provision is a commonsense response to a problem that unnecessarily has ensnared far too many pharmaceutical companies and caused inexcusable delays in drug innovations.

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We have also heard from prominent doctors from throughout the United States. They wrote to us stating that section 67 "is critically important to medicine and patients. In one case alone, the health and lives of millions of Americans who suffer from vascular disease are at stake . . . Lives are literally at stake. A vote against this provision will delay our patients access to cutting-edge discoveries and treatments. We urgently request your help in preserving section 37." So section 37 improves our patent system fairness through certainty and clarity, and I urge my colleagues to join me in voting to preserve this important provision as an end in itself, but also to make sure we do not send this bill back to the House of Representatives and instead get it to the President, particularly on a day like today when the President is going to be speaking to us tonight about jobs. I think having an updated patent law will help invention, innovation, research, and everything that adds value to what we do in America and preserve America's greatness in invention and the advancement of science. In conclusion, I would say it is very clear to me that the court concluded that the Patent and Trademark Office, and not some company or its lawyers, had erred, as is the implication here. A consistent interpretation ought to apply to all patent

holders in all cases, and we need to resolve any uncertainty that persists despite the court's decision. I yield the floor.

The PRESIDING OFFICER. The senior Senator from Vermont is recognized. Mr. LEAHY. Mr. President, I thank the distinguished Senator from Iowa for his words, and I join with the Senator from Iowa in opposing the amendment for two reasons. First, as just simply as a practical matter, the amendment would have the effect, if it passed, of killing the bill because it is not going to be accepted in the other body, and after 6 years or more of work on the patent bill, it is gone. But also, on just the merits of it, the provision this amendment strikes, section 37 of H.R. 1249, simply adopts the holding of a recent district court decision codifying existing law about how the Patent and Trademark Office should calculate 5 days for the purpose of considering a patent term extension. So those are the reasons I oppose the amendment to strike it.

The underlying provision adopted by the House is a bipartisan amendment on the floor. It was offered by Mr. Conyers, and it has the support of Ms. Pelosi and Mr. Berman on the Democratic side and the support of Mr. Cantor, Mr. Paul, and Mrs. Bachmann on the Republican side. I have a very hard time thinking of a wider range of bipartisan support than that.

The provision is simply about how they are calculating filing dates for patent extensions, although its critics have labeled it as something a lot more. A patent holder on a drug is entitled by statute to apply for an extension of its patent term to compensate for any delay the Food and Drug Administration approval process caused in actually bringing the drug to market. The patent holder not only has to file the extension within 60 days beginning on the date the product received permission for marketing, but there is some ambiguity as to when the date is that starts the clock running.

Only in Washington, DC, could the system produce such absurd results that the word "date" means not only something different between two agencies—the PTO and the FDA—but then it is given two different constructions by the FDA. If this sounds kind of esoteric, it is. I have been working on this for years and it is difficult to understand.

But the courts have codified it. Let's not try to change it yet again.

What happens is that the FDA treats submissions to it after normal hours as being received the next business day. But the dates of submissions from the FDA are not considered the next business day, even if sent after hours. To complicate matters, the PTO recently changed its own method of defining what is a "date."

If this sounds confusing even in Washington, you can imagine how it is outside of the bureaucracy. Confusion over what constitutes the "date" for purposes of a patent extension has affected several companies. The most notable case involves the Medicines Company's ANGIOMAX extension application request.

The extension application was denied by the PTO because of the difference in how dates are calculated. MedCo challenged the PTO's decision in court, and last August the federal district court in Virginia held the PTO's decision arbitrary and capricious and MedCo received its patent term extension.

Just so we fully understand what that means, it means PTO now abides by the court's ruling and applies a sensible "business day" interpretation to the word "date" in the statute. The provision in the America Invents Act simply codifies that.

Senator Grassley has spoken to this. As he said a few weeks ago, this provision "improves the patent system fairness through certainty and clarity."

This issue has been around for several years and it was a controversial issue when it would have overturned the PTO's decision legislatively. For this reason Senator Grassley and others opposed this provision when it came up several years ago. But now that the court has ruled, it is a different situation. The PTO has agreed to accept the court's decision. The provision is simply a codification of current law.

Is there anyone who truly believes it makes sense for the word "date" to receive tortured and different interpretations by different parts of our government rather than to have a clear, consistent definition? Let's actually try to put this issue to bed once and for all.

The provision may solidify Medco's patent term extension, but it applies generally, not to this one company, as has been suggested. It brings common sense to the entire filing system. However, if the Senate adopts the amendment of the Senator from Alabama, it will lead to real conflict with the House. It is going to complicate, delay, and probably end passage of this important bipartisan jobs-creating legislation.

Keep in mind, yesterday I said on the floor that each one of us in this body could write a slightly different patent bill. But we do not pass 100 bills, we pass 1. This bill is supported by both Republicans and Democrats across the political spectrum. People on both sides of the aisle have been working on this issue for years and years in both bodies. We have a piece of legislation. Does everybody get every single thing they want? Of course not. I am chairman of the Senate Judiciary Committee. I don't have everything in this bill I want, but I have tried to get something that is a consensus of the large majority of the House and the Senate, and we have done this. In this instance, in this particular amendment, the House expressly considered this matter. They voted with a bipartisan majority to adopt this provision the amendment is seeking to strike. With all due respect to the distinguished Senator from Alabama, who contributed immensely to the bill as ranking member of the committee last Congress, I understood why he opposed this provision when it was controversial and would have had Congress override the PTO. But now that the PTO and court have resolved the matter as reflected in the bill, it is not worth delaying enactment of much-needed patent reform legislation. It could help create jobs and move the economy forward. We will have three amendments on the floor today that we will vote on. This one and the other two I strongly urge Senators, Republicans and Democrats, just as the ranking member has urged, to vote them down. We have between 600,000 and 700,000 patents applications that are waiting to be taken care of. We can unleash the genius of our country and put our entrepreneur class to work to create jobs that can let us compete with the rest of the world. Let's not hold it up any longer. We have waited long enough. We debated every bit of this in this body and passed it 95 to 5. On the motion to proceed, over 90 Senators voted to proceed. It has passed the House overwhelmingly. It is time to stop trying to throw up roadblocks to this legislation. If somebody does not like the legislation, vote against it. But this is the product of years of work. It is the best

we are going to have. Let us get it done. Let us unleash the ability and inventive genius of Americans. Let us go forward.

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We have a patent system that has not been updated in over a half century, yet we are competing with countries around the world that are moving light years ahead of us in this area. Let's catch up. Let's put America first. Let's get this bill passed. I yield the floor.

Amendment No. 595

The PRESIDING OFFICER (Mrs. Hagan). The Senator from Washington.

Ms. CANTWELL. Madam President, I call up Cantwell amendment No. 595.

The PRESIDING OFFICER. The clerk will report.

The bill clerk read as follows:

The Senator from Washington [Ms. Cantwell] proposes an amendment numbered 595.

Ms. CANTWELL. Madam President, I ask unanimous consent the reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

(Purpose: To establish a transitional program for covered business method patents)

On page 119, strike line 21 and all that follows through page 125, line 11, and insert the following:

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 1 year after the date of 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 exceptions and qualifications:

(A) Section 321(c) and subsections (e)(2), (f), and (g) 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 his 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 prior to the date of 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 prior to the date of enactment of this Act); or

(ii) prior art that—

(I) discloses the invention more than 1 year prior to 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 prior to the date of 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 his 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 pursuant to paragraph (1) shall take effect on the date that is 1 year after the date of enactment of this Act and shall apply to all covered business-method patents issued before, on, or after such date of enactment, except that the regulations shall not apply to a patent described in section 6(f)(2)(A) 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 pursuant to this subsection, are repealed effective on the date that is 4 years after the date that the regulations issued pursuant to paragraph (1) take effect.

(B) Applicability.—Notwithstanding subparagraph (A), this subsection and the regulations implemented pursuant to this subsection shall continue to apply to any petition for a transitional proceeding that is filed prior to the date that this subsection is repealed pursuant to subparagraph (A).

(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 in relation 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 the district court's decision to ensure consistent application of established precedent, and such review may be de novo.

(d) Definition.—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 operations utilized in the practice, administration, or management of a financial product or service, except that the term shall not include patents for technological inventions. Solely for the purpose of implementing the transitional proceeding authorized by this subsection, the Director shall prescribe regulations for determining whether a patent is for a technological invention.

(e) 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.

Ms. CANTWELL. Madam President, simply my amendment restores section 18 of the language that was passed out of the Senate. Basically it implements the Senate language. I come to the floor today with much respect for my colleague Chairman Leahy, who has worked on this legislation for many years, and my colleagues on the other side of the aisle who have tried to work on this important legislation and move it forward. I am sure it has been challenging. I mean no offense to my colleagues about this legislation. It simply is my perspective about where we need to go as a country and how we get there.

I am excited that we live in an information age. In fact, one of the things that I count very fortunate in my life is that this is the age we live in. I often think if I lived in the agrarian age, maybe I would be farming. That is also of great interest, given the State of Washington's interests in agriculture. Maybe I would live in the industrial age when new factories were being built. That would be interesting. But I love the fact that whether you are talking about agriculture, whether you are talking about automotive, whether you are talking about health care, whether you are talking about software, whether you are talking about communications, whether you are talking about space travel, whether you are talking about aviation, we live in an information age where innovation is created every single day. In fact, we are transforming our lives at a much more rapid pace than any other generation because of all that transformation.

I love the fact that the United States has been an innovative leader. I love the fact that the State of Washington has been an innovative leader. If there is one thing I pride myself on, it is representing a State that has continued to pioneer new technology and innovations. So when I look at this patent bill, I look at whether we are going to help the process of making innovation happen at a faster rate or more products and services to help us in all of those industries I just mentioned or whether we are going to gum up the wheels of the patent process. So, yes, I joined my colleagues who have been out here on the Senate floor, such as Senator Feinstein and others who debated this issue of changing our patent system to the "first to file," which will disadvantage inventors because "first to file" will lead to big companies and organizations getting the ability to have patents and to slow down innovation.

If you look at what Canada and Europe have done, I don't think anybody in the world market today says: Oh, my gosh, let's change to the Canadian system because they have created incredible innovation or let's look to Europe because their "first to file" has created such innovation.

In fact, when Canada switched to this "first to file" system, that actually slowed down the number of patents filed. So I have that concern about this legislation.

But we have had that discussion here on the Senate floor. I know my colleague is going to come to the floor and talk about fee diversion, which reflects the fact that the Patent Office actually

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collects money on patents. That is a very viable way to make the Patent Office effective and efficient because it can take the money it collects from these patents and use it to help speed up the process of verifying these patents and awarding them. But the Senate chose good action on this issue, and good measure, and simply said that the money collected by the Patent Office should stay in the Patent Office budget. But that is not what the House has done. The House has allowed that money to be diverted into other areas of appropriations, and the consequence will be that this patent reform bill will basically be taking the economic engine away from the Patent Office and spreading it out across government. So the reform that we would seek in patents, to make it a more expeditious process, is also going to get down. I could spend my time here today talking about those two things and my concerns about them, but that is not even why I am here this morning. I am here to talk about how this legislation has a rifleshot earmark in it for a specific industry, to try to curtail the validation of a patent by a particular company. That is right, it is an earmark rifleshot to try to say that banks no longer have to pay a royalty to a particular company that has been awarded a patent and that has been upheld in court decisions to continue to be paid that royalty. That is why I am here this morning. You would say she is objecting to that earmark, she is objecting to that personal approach to that particular industry giveaway in this bill. Actually, I am concerned about that, but what I am concerned about is, given the way they have drafted this language to benefit the big banks of America and screw a little innovator, this is basically drafted so broadly that I am worried that other technology companies are going to get swept up in the definition and their patents are also going to be thrown out as invalid. That is right. Every State in the United States could have a company that, under this language, could now have someone determine that their patent is no longer viable even though the Patent Office has awarded them a patent. Companies that have revenue streams from royalties that are

operating their companies could now have their bank financing, everything pulled out from under them because they no longer have royalty streams. Businesses could lay off people, businesses could shut down, all because we put in broad language in the House version that exacerbates a problem that was in the Senate version to begin with.

Now I could say this is all a process and legislation follows a process, but I object to this process. I object to this language that benefits the big banks but was never debated in the committee of jurisdiction, the Judiciary Committee. It was not debated. It was not voted on. It was not discussed there. It was put into the managers' amendment which was brought to the Senate floor with little or no debate because people wanted to hurry and get the managers' amendment adopted. Now, I objected to that process in driving this language because I was concerned about it. I sought colloquy at that point in time and was not able to get one from any of my colleagues, and I so opposed this legislation. Well, now this legislation has been made even worse in the House of Representatives by saying that this language, which would nullify patents—that is right. The Senate would be participating in nullifying patents that the Patent Office has already given to companies, and it can now go on for 8 years--8 years is what the language says when it comes back from the House of Representatives. All I am asking my colleagues to do today is go back to the Senate language they passed. Go back to the Senate language that at least says this earmark they are giving to the big banks so they can invalidate a patent by a company because they don't like the fact they have to pay a royalty on check imaging processing to them—I am sorry you don't like to pay the royalty. But when somebody innovates and makes the technology, they have the right to charge a royalty. You have been paying that royalty. I am sorry, big banks, if you don't like paying that royalty anymore. You are making a lot of money. Trying to come to the Senate with an earmark rifle shot to X out that competition because you don't want to pay for that technology—that is not the way the Senate should be operating.

The fact that the language is so broad that it will encompass other technologies is what has me concerned. If all my colleagues want to vote for this special favor for the big banks, go ahead. The fact that my colleagues are going to basically pull us in to having other companies covered under this is a big concern.

The section I am concerned about is business method patents, and the term "covered business method patent" means patents or claims or method or corresponding apparatus for performing data processing or other operations. What does "or other operations" mean? How many companies in America will have their patents challenged because we don't know what "or other operations" means? How many? How many inventors will have their technology basically found null and void by the court process or the Patent Office process because of this confusing language?

I am here to ask my colleagues to do a simple thing: revert to the Senate language. It is not a perfect solution. If I had my way, I would strip the language altogether. If I had my way, I would have much more clarity and predictability to patent lawyers and the Patent Office so the next 3 or 4 years will not be spent in chaos between this change in the patent business method language and the whole process that is going to go on. Instead, we would be moving forward with predictability and certainty.

I ask my colleagues to just help this process. Help this process move forward by going back to the Senate language. I know my colleagues probably want to hurry and get this process done, but I guarantee this language with the Senate version could easily go back to the House of Representatives and be passed. What I ask my colleagues to think about is how many companies are also going to get caught in this process by the desire of some to help the big banks get out from under something the courts have already said they don't deserve to get out of.

I hope we can bring closure to this issue, and I hope we can move forward on something that gives Americans the idea that people in Washington, DC, are standing up for the little guy. We are standing up for inventors. We are standing up for those kinds of entrepreneurs, and we are not spending our time putting earmark rifle shot language into legislation to try to assuage large entities that are well on their way to taking care of themselves.

I hope if my colleagues have any questions on this language as it relates to their individual States, they would contact our office and we would be happy to share information with them.

I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. SCHUMER. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered. Mr. SCHUMER. Madam President, I rise today to urge this body to complete the extensive work that has been done on the Leahy-Smith America Invents Act and send this bill to the President for signature. The America Invents Act has been years in the making. The time has come to get this bill done once and for all.

The importance of patent law to our Nation has been evidenced since the founding. The Constitution sets control over patent law as one of the enumerated powers of the Congress. Specifically, it gives the 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." Today we take an important step toward ensuring that the constitutional mandate of Congress is met as we modernize our patent system. This bill is the first major overhaul of our patent laws in literally decades.

My colleagues have spoken at length about the myriad ways the America

Invents Act will bring our patent law

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into the 21st century. What I want to focus on, of course, is jobs. The America Invents Act is fundamentally a jobs bill. Innovation and intellectual property has always been and always will be at the heart of the American economy. By rewarding innovators for inventing newer and

better products, we keep America's creative and therefore economic core healthy. Over the last few decades, however, innovation has outpaced our patent system. We have an enormous backlog at the PTO. The result of this backlog is that it is much harder for creators to obtain the property rights they deserve in their inventions. That challenge in turn makes it harder for inventions to be marketed and sold, which reduces the incentive to be innovative. Eventually, this vicious cycle becomes poisonous.

The America Invents Act cuts this cycle by making our patent system more efficient and reliable. By providing the Patent and Trademark Office the resources it needs to reduce the backlog of nearly 700,000 patent applications, the bill will encourage the innovation that will create and protect American jobs. In addition, the bill streamlines review of patents to ensure that the poor-quality patents can be weeded out through administrative review rather than costly litigation. I am especially pleased that H.R. 1249 contains the Schumer-Kyl provisions that we originally inserted in the Senate to help cut back on the scourge of business method patents that have been plaguing American businesses. Business method patents are anathema to the protection that the patent system provides because they apply not to novel products or services but to abstract and often very common concepts of how to do business. Often business method patents are issued for practices that have been in widespread use for years, such as check imaging or one-click checkout. Imagine trying to patent the one-click checkout long after people have been using it.

Because of the nature of the business methods, these practices aren't as easily identifiable by the PTO as prior art, and bad patents are issued. Of course, this problem extends way beyond the financial services industry. It includes all businesses that have financial practices, from community banks to insurance companies to high-tech startups. Section 18, the Schumer-Kyl provision, allows for administrative review of those patents so businesses acting in good faith do not have to spend the millions of dollars it costs to litigate a business method patent in court.

That is why the provision is supported not only by the Financial Services Roundtable and the Community Bankers, but by the Chamber of Commerce, the National Retail Foundation, and in my home State by the Partnership for a Greater New York.

Madam President, I ask unanimous consent that letters in support of section 18 from all of these organizations be printed in the Record. There being no objection, the material was ordered to be printed in the Record, as follows:

Independent Community Bankers of America,
Washington, DC,
June 14, 2011.

House of Representatives, Washington, DC.

Dear Member of Congress: On behalf of ICBA's nearly 5,000 community bank members, I write to voice strong support for Section 18 of the America Invents Act (H.R. 1249), which addresses the issue of poor-quality business-method patents. I strongly urge you to oppose efforts to strike or weaken the language in Section 18, which creates a program to review business-method patents against he best prior art.

Poor-quality business-method patents represent an extremely problematic aspect of the current system for granting, reviewing and litigating patents. The problems with low-quality patents are well documented and beyond dispute. On an escalating basis, financial firms are the target of meritless patent lawsuits brought by non-practicing entities. Such entities exploit flaws in the current system by bringing action in friendly venues, where they wring money from legitimate businesses by asserting low-quality business-method patents.

Section 18 addresses this problem by establishing an oppositional proceeding at the United States Patent and Trademark Office (PTO), where business-method patents can be re-examined, using the best prior art, as an alternative to costly litigation. This program applies only to business-method patents, which are defined using suggestions proffered by the PTO. Concerns about the scope of the definition have been addressed by exclusion of technological innovations. Additionally, it has been well-settled law for over 25 years that post-grant review of patent validity by the PTO is constitutional. The Federal Circuit explained that a defectively examined and therefore erroneously granted patent must yield to the reasonable Congressional purpose of facilitating the correction of governmental mistakes. This Congressional purpose is presumptively correct and constitutional. Congress has given the PTO a tool to ensure confidence in the validity of patents. Section 18 furthers this important public purpose by restoring confidence in business-method patents.

I urge you to oppose changes to Section 18, including changes that would create a loophole allowing low-quality business-method patent holders to wall off their patents from review by the PTO. Congress should ensure that final patent-reform legislation addresses the fundamental, and increasingly costly, problem of poor-quality business-method patents.

Sincerely,

Camden R. Fine, President and CEO.

Chamber of Commerce of the United States of America, Washington, DC, June 14, 2011.

To the Members of the U.S. House of Representatives: The U.S. Chamber of Commerce, the world's largest business federation representing the interests of more than three million businesses and organizations of every size, sector, and region, supports H.R. 1249, the "America Invents Act," which would encourage innovation and bolster the U.S. economy. The Chamber believes this legislation is crucial for American economic growth, jobs, and the future of U.S. competitiveness.

A key component of H.R. 1249 is section 22, which would ensure that fees collected by the U.S. Patent and Trademark Office (PTO) fund the office and its administration of the patent system. PTO faces significant challenges, including a massive backlog of pending applications, and this backlog is stifling domestic innovators. The fees that PTO collects to review and approve patent application are supposed to be dedicated to PTO operation. However, fee diversion by Congress has hampered PTO's efforts to hire and retain a sufficient number of qualified examiners and implement technological improvements necessary to ensure expeditious issuance of high quality patents. Providing PTO with full access to the user fees it collects is an important first step

toward reducing the current backlog of 1.2 million applications waiting for a final determination and pendency time of 3 years, as well as to improve patent quality.

In addition, the legislation would help ensure that the U.S. remains at the forefront of innovation by enhancing the PTO process and ensuring that all inventors secure the exclusive right to their inventions and discoveries. The bill shifts the U.S. to a first-inventor-to-file system that we believe is both constitutional and wise, ending expensive interference proceedings. H.R. 1249 also contains important legal reforms that would help reduce unnecessary litigation against American businesses and innovators. Among the bill's provisions, Section 16 would put an end to frivolous false patent marking cases, while still preserving the right of those who suffered actual harm to bring actions. Section 5 would create a prior user right for those who first commercially use inventions, protecting the rights of early inventors and giving manufacturers a powerful incentive to build new factories in the United States, while at the same time fully protecting universities. Section 19 also restricts joinder of defendants who have tenuous connections to the underlying disputes in patent infringement suits. Section 18 of H.R. 1249 provides for a tailored pilot program which would allow patent office experts to help the court review the validity of certain business method patents using the best available prior art as an alternative to costly litigation.

The Chamber strongly opposes any amendments to H.R. 1249 that would strike or weaken any of the important legal reform measures in this legislation, including those found in Sections 16, 5, 19 and 18. The Chamber supports H.R. 1249 and urges the House to expeditiously approve this necessary legislation.

Sincerely,

R. Bruce Josten,
Executive Vice President,
Government Affairs.

National Retail Federation,
Washington, DC, June 21, 2011.

Hon. Lamar S. Smith, Chairman,
Committee on the Judiciary,
House of Representatives,
Washington, DC.

Hon. John Conyers, Jr.,
Ranking Member,
Committee on the Judiciary,
House of Representatives,
Washington, DC.

Dear Chairman Smith and Ranking Member Conyers: I am writing in support of Section 18 of H.R. 1249, the American Invents Act of 2010. This provision would provide the Patent and Trademark Office (PTO) the ability to re-examine qualified business method patents against the best prior art.

As the world's largest retail trade association, the National Retail Federation's global membership includes retailers of all sizes, formats and channels of distribution as well as chain restaurants and industry partners from the U.S. In the U.S., NRF represents the breadth and diversity of an industry with more than 1.6 million American companies that employ nearly 25 million workers and

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generated 2010 sales of $2.4 trillion. Retailers have been inundated by spurious claims, many of which, after prolonged and expensive examination, are subsequently found to be less than meritorious.

Increasingly, retailers of all types are being sued by non-practicing entities for infringing low-quality business method patents which touch all aspects of our business: marketing, payments, and customer service to name a few aspects. A vast majority of these cases are brought in the Eastern District of Texas where the statistics are heavily weighted against defendants forcing our members to settle even the most meritless suits.

Section 18 moves us closer to a unified patent system by putting business method patents on par with other patents in creating a post-grant, oppositional proceeding that is a lower cost alternative to costly patent litigation. The proceeding is necessary to help ensure that the revenues go to creating jobs and bringing innovations to our customers, not paying litigation costs in meritless patent infringement litigation.

We appreciate the opportunity to support this important section and oppose any efforts to strike or weaken the provision. Please do not hesitate to contact me with any questions.

Best regards,

David French,
Senior Vice President,
Government Relations.

Mr. SCHUMER. A patent holder whose patent is solid has nothing to fear from a section 18 review. Indeed, a good patent will come out of such a review strengthened and validated. The only people who have any cause to be concerned about section 18 are those who have patents that shouldn't have been issued in the first place and who were hoping to make a lot of money suing legitimate businesses with these illegitimate patents. To them I say the scams should stop.

In fact, 56 percent of business patent lawsuits come in to one court in the Eastern District of Texas. Why do they all go to one court? Not just because of coincidence. Why do people far and wide seek this?

Because they know that court will give them favorable proceedings, and many of the businesses that are sued illegitimately spend millions of dollars for discovery and everything else in a court they believe they can't get a fair trial in, so they settle. That shouldn't happen, and that is what our amendment stops. It simply provides review before costly litigation goes on and on and on.

Now, my good friend and colleague, Senator Cantwell, has offered an amendment that would change the section 18 language and return to what the Senate originally passed last March. Essentially, Senator Cantwell is asking the Senate to return to the original Schumer-Kyl language. Of course, I don't have an inherent problem with the original Schumer-Kyl language. However, while I might ordinarily be inclined to push my own version of the amendment, I have to acknowledge that the House made some significant improvements in section 18.

First, H.R. 1249 extends the transitional review program of section 18 from 4 to 8 years in duration. This change was made to accommodate industry concerns that 4 years was short enough, that bad actors would just wait out the program before bringing their business method patent suits. The lying-in-wait strategy would be possible under the Cantwell amendment because section 18 only allows transitional review proceedings to be initiated by those who are facing lawsuits.

On a 20-year patent, it is not hard to wait 4 years to file suit and therefore avoid scrutiny under a section 18 review. It would be much harder, however, to employ such an invasive maneuver on a program that lasts 8 years.

Second, the Cantwell amendment changes the definition of business method patents to eliminate the House clarification that section 18 goes beyond mere class 705 patents. Originally, class 705 was used as the template for the definition of business method patents in section 18. However, after the bill passed the Senate, it became clear that some offending business method patents are issued in other sections. So the House bill changes the definition only slightly so that it does not directly track the class 705 language.

Finally, the Cantwell amendment limits who can take advantage of section 18 by eliminating access to the program by privies of those who are sued. Specifically, H.R. 1249 allows parties who have shared interests with a sued party to bring a section 18 proceeding. The Cantwell amendment would eliminate that accommodation. All of the House changes to section 18 of the Senate bill are positive, and I believe we should keep them. But to my colleagues I would say this in closing: The changes Senator Cantwell has proposed do not get to the core of the bill, and the most profound effect they would have is to delay passage of the bill by requiring it to be sent back to the House, which is something, of course, we are all having to deal with on all three of the amendments that are coming up.

I urge my colleagues to remember that this bill and the 200,000 jobs it would create are too important to delay it even another day because of minor changes to the legislation. I urge my colleagues to vote against the amendment of my good friend Maria Cantwell and move the bill forward.

With that, I yield the floor.

The PRESIDING OFFICER. The Senator from Utah.

Mr. HATCH. Madam President, I rise to express my continued support for the America Invents Act. We have been working on patent reform legislation for several years now—in fact, almost the whole time I have been in the Senate—so it is satisfying to see the Senate again voting on this bipartisan bill.

It is important to note that this bill before us is the same one that was passed by the Republican-controlled House of Representatives in June. I commend House Judiciary chairman Lamar Smith for his leadership on this monumental legislation. He has worked hard on this for many years, and I wish to pay a personal tribute to him. I also wish to recognize the efforts of my colleague from Vermont, Senate Judiciary Committee chairman Patrick Leahy. Over the years, he and I have worked tirelessly to bring about long overdue reform to our Nation's patent system, and I personally appreciate Pat for his work on this matter.

I also wish to recognize the efforts of Senate Judiciary Committee ranking member Chuck Grassley of Iowa, as well as many other Senate colleagues who have been instrumental in this legislative process. The Constitution is the supreme law of the land and the shortest operating Constitution in the world. America's Founders put only the most essential provisions in it, listing the most essential rights of individuals and the most essential powers the Federal Government should have. What do we think made it on to that short list? Raising and supporting the Army and maintaining the Navy? No question there. Coining money? That one is no surprise. But guess what else made the list. Here is the language: The Founders granted to Congress the power "To promote the Progress of Science and useful Arts, by securing for . . . Authors and Inventors the exclusive Right to their Respective Writing and Discoveries."

In other words, the governance of patents and copyrights is one of the essential, specifically enumerated powers given to the Federal Government by our Nation's Founders. In my view, it is also one of the most visionary, forward-looking provisions in the entire U.S. Constitution.

Thomas Jefferson understood that giving people an exclusive right to profit from their inventions would give them "encouragement . . . to pursue ideas which may produce utility." Yet Jefferson also recognized the importance of striking a balance when it came to granting patents—a difficult task. He said:

I know well the difficulty of drawing a line between the things which are worth to the public the embarrassment of an exclusive patent and those which are not.

As both an inventor and a statesman, he understood that granting a person an exclusive right to profit from their invention was not a decision that should be taken lightly. This bill is not perfect, but I am pleased with the deliberative process that led to its development, and I am confident that Congress followed Jefferson's lead in striking a balanced approach to patent reform.

There can be no doubt that patent reform is necessary, and it is long overdue. Every State in the country has a vested interest in an updated patent system. When patents are developed commercially they create jobs, both for the company marketing products and for their suppliers, distributors,

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and retailers. One single deployed patent affects almost all sectors of our economy.

Utahns have long understood this relationship. Ours is a rich and diverse and inventive legacy. In the early 1900s, a young teenager approached his teacher after class with a sketch he had been

working on. It was a drawing inspired by the rows of dirt in a potato field the teenager had recently plowed. After examining the sketch, the teacher told the young student that he should pursue his idea, and he did. That teenager was Philo Farnsworth, a Utah native who went on to patent the first all-electronic television.

Farnsworth had to fight for many years in court to secure the exclusive rights to his patent, but he continued to invent, developing and patenting hundreds of other inventions along the way. Another Utah native developed a way to amplify sound after he had trouble hearing in the Mormon Tabernacle. His headphones were later ordered by the Navy for use during World War I. His name was Nathaniel Baldwin.

William Clayton, an early Mormon pioneer, grew tired of manually counting and calculating how far his wagon company had traveled each day. So, in the middle of a journey across the plains, he and others designed and built a roadometer, a device that turned screws and gears at a set rate based on the rotation of the wagon wheel. It worked based on the same principles that power modern odometers. John Browning, the son of a pioneer, revolutionized the firearm, securing his inventions through a patent. He is known all over the world for the work he did.

Robert Jarvik, who worked at the University of Utah—a wonderful doctor whom I know personally—invented the first successful permanent artificial heart while at the University of Utah. These and countless other stories illustrate the type of ingenuity that was required by the men and women who founded Utah, the type of ingenuity that has been exemplified in every generation since. Last year, Utah was recognized as one of the most inventive States in the Union. Such a distinction did not surprise me, especially since the University of Utah recently logged the university's 5,000th invention disclosure and has over 4,000 patent applications filed to date. This impressive accomplishment follows on the heels of news that the University of Utah overtook MIT in 2009 to become America's No. 1 research institution for creating startup companies based on university technology.

A group of students at Brigham Young University recently designed a circuit that was launched with the shuttle Endeavour, and another group developed a prosthetic leg that costs $25 versus the $10,000 a prosthetic leg may typically cost. Utah inventors contribute to everything from electronic communications, to biotechnology, to computer games.

Like my fellow Utahns, citizens across the country recognize that technological development is integral to the well-being of our economy and the prosperity of our families and communities. As technology advances, it is necessary at times to make adjustments that will ensure Congress is promoting the healthy progress of science and useful arts. The America Invents Act will improve the patent process, giving inventors in Utah and across the country greater incentives to innovate. Strengthening of our patent system will not only help lead us out of these tough economic times, but it will help us maintain our competitive edge both domestically and abroad. Take, for example, the transition to a first-inventor-to-file system and the establishment of a post-grant review procedure. These changes alone will decrease litigation costs so that small companies and individuals will not be dissuaded from protecting their patent rights by companies with greater resources.

This bill provides the USPTO with rulemaking authority to set or adjust its own fees for 7 years without requiring a statutory change every time an adjustment is needed. Providing the USPTO with the ability to adjust its own fees will give the agency greater flexibility and control, which, in the long run, will benefit inventors and businesses.

The legislation enables patent holders to request a supplemental examination of a patent if new information arises after the initial examination. By establishing this new process, the USPTO would be asked to consider, reconsider, or correct information believed to be relevant to the patent.

Further, this provision does not limit the USPTO's authority to investigate misconduct or to sanction bad actors. I am confident this new provision will remove the uncertainty and confusion that defines current patent litigation, and I believe it will enhance patent quality.

The America Invents Act creates a mechanism for third parties to submit relevant information during the patent examination process. This provision will provide the USPTO with better information about the technology and claimed invention by leveraging the knowledge of the public. This will also help the agency increase the efficiency of examination and the quality of patents.

This bill would create a reserve fund for user fees that exceed the amount appropriated to the USPTO. I prefer the language in the Senate-passed bill, which created a new revolving fund for the USPTO separate from annual appropriations. Certainty is important for future planning, but the appropriations process is far from reliable. While conceptually I understand why our House counterparts revised the Senate-passed language—and I am in agreement about maintaining congressional oversight—I believe this is one area that should be reconsidered. It is just that important. That is why I support Senator Tom Coburn's amendment. If passed, his amendment will preserve congressional oversight and give the USPTO the necessary flexibility to operate during these critical times.

The House-passed compromise language is a step in the right direction, especially since the chairman of the House Appropriations Committee has committed that all fees collected by the USPTO in excess of its annual appropriated level will be available to the USPTO. However, I remain concerned that the budget uncertainties that exist today may negatively impact the USPTO and its ability to implement many of the new responsibilities required by the America Invents Act. I remain concerned about some provisions the House either expanded or added. On balance, however, the positives of this legislation far outweigh the negatives, and I am confident it will contribute to the greater innovation and productivity our economy demands. It provides essential improvements to our patent system, such as changes to the best mode disclosure requirement; expansion of the prior user rights defense to affiliates, with an exemption for university-owned patents; incentives for government laboratories to commercialize inventions; restrictions on false marking claims; removal of restrictions on the residency of Federal circuit judges; clarification of tax strategy patents; providing assistance to small businesses through a patent ombudsman program and establishing additional USPTO satellite offices.

We all know every piece of legislation has its shortcomings. That is the reality of our legislative process. However, taken as a whole, the America Invents Act further builds upon our country's

rich heritage of intellectual property protections—a cornerstone provided by article I, section 8 of the Constitution.

Passage of the America Invents Act will update our patent system, help strengthen our economy, and provide a springboard for further improvements to our intellectual property laws. I urge all of my colleagues to join in this monumental undertaking, and I appreciate those who have worked so hard on these programs. Again, I mentioned with particularity the Congressman from Texas, Lamar Smith, and also my friend and colleague, Senator Leahy, and others as well, Senator Grassley especially. There are others as well whom I should mention, but I will leave it at that for this particular time. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

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[Text of S5412 up to portions of S5416 omitted]

The PRESIDING OFFICER. The Senator from Oklahoma.

Mr. COBURN. Mr. President, I wish to talk about an amendment, but also I had one of my colleagues who was sitting in your position as President pro tempore notice an error I made on July 27. Senator Whitehouse questioned my numbers and, in fact, he was right. I said $115 million in regard to the savings on limousines. It was $11.5 million per year, not $115 million. It was $115 million over 10 years. So I wish to stand to put that in the Record that I was in error and Senator Whitehouse as a cordial colleague questioned me on it and I thank him for his accountability.

We have before the Senate now a patent bill. There is no question there is a lot of work we need to do on patents. I know the President pro tempore sits on the committee that I do and we have spent a lot of time on this. But I am very concerned, I have to say, about what we are hearing in the Senate about why we wouldn't do the right thing that everybody agrees we should be doing because somebody doesn't want us to do that in the House, and I think it is the worst answer we could ever give the American people.

When we have a 12-percent approval rating, and the Republicans have worse than that, why would we tell the American people we are not going to do the right thing for the right reason at the right time because somebody in the House doesn't want us to and that we are going to say we are not going to put these corrections into a patent bill that are obviously important and we are going to say it is going to kill the bill when, in fact, it is not going to kill the bill? But that is what we use as a rationalization. So let me describe for a minute what has gone on over the years and what has not happened.

The first point I would make is there has not been one oversight hearing of the Patent Office by the Appropriations Committee in either the House or the Senate for 10 years. So they haven't even looked at it. Yet the objection to, and what we are seeing from an appropriations objection is—and even our chairman of our Committee on the Judiciary, who is an appropriator, supports

this amendment but isn't going to vote for it because somebody in the House is going to object to it. But the point is, we have money that people pay every day. From universities to businesses to individual small inventors, they pay significant dollars into the Patent Office. Do you know what has happened with that money this year? Eighty-five million dollars that was paid for by American taxpayers for a patent examination and first looks didn't go to the Patent Office. Yet we have over 1 million patents in process at the Patent Office, and over 700,000 of those haven't ever had their first look.

So when we talk about our economy and we talk about the fact that we want to do what enhances intellectual property in our country—which is one of our greatest assets—and then we don't allow the money that people actually pay for that process to go for that process and we have backlogged for years now patent applications, we have done two things.

One is we have limited the intellectual property we can capture. No. 2 is we have allowed people to take those same patents,

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when we have limited ability, especially some of our smaller organizations, and patent them elsewhere. So the lack of a timely approach on that is lacking. The process is broken. Since 1992, almost $1 billion has been taken out of the Patent Office. So we wonder, why in the world is the Patent Office behind?

The Patent Office is behind because we will not allow them to have the funds the American taxpayers who are trying to get ideas and innovations, copyrights, trademarks, and patents done—we will not allow the Patent Office to have the money.

The amendment I am going to be offering—and I have a modification on it that is trying to be cleared on the other side, and I will not actually call up the amendment at this time until I hear whether that has been accepted. The amendment I have says we will no longer divert the money that American businesses, American inventors, American universities pay to the Patent Office to be spent somewhere else; that it has to be spent on clearing their patents.

I ask unanimous consent to have printed in the Record—and I will submit a copy at this time—a letter I received August 1 from the head of the Patent Office.

There being no objection, the material was ordered to be printed in the Record, as follows:

United States Patent and Trademark Office, Alexandria, VA, Aug. 1, 2011.

Hon. Tom Coburn,
U.S. Senate,
Washington, DC.

Dear Senator Coburn: Per your request, I am writing today to follow up on our discussion last week regarding United States Patent and Trademark Office (USPTO) funding.

As you know, the House-passed version of the America Invents Act (H.R. 1249) replaces a key funding provision that would have created the USPTO Public Enterprise Fund—effectively sheltering the USPTO from the uncertainties of the appropriations process and ensuring the agency's ability to access and spend all of the fees it collects—with a provision creating the Patent and Trademark Reserve Fund. This provision keeps the USPTO in the current appropriations process, but requires that all fees collected in excess of the annual appropriated amount be deposited into the Reserve Fund, where they will be available to the extent provided for in appropriations acts. In a June 22, 2011 letter to Speaker Boehner, House Appropriations Committee Chairman Rogers committed to ensuring that the Committee on Appropriations carry language providing that all fees collected in excess of the annual appropriated amount would be available until expended only to the USPTO for services in support of fee-paying patent and trademark applicants. I was pleased to see that the fiscal year 2012 appropriations bill reported by the Committee did in fact carry this language.

I would like to reiterate how crucial it is for the USPTO to have access to all of the fees it collects. This year alone, we anticipate that the agency will collect approximately $80 million in fees paid for USPTO services that will not be available for expenditure in performing those services. Quite clearly, since the work for which these fees were paid remains pending at USPTO, at some point in the future we will have to collect more money in order to actually perform the already-paid-for services. If USPTO had received the authority to expend these funds, we would have paid for activities such as overtime to accelerate agency efforts to reduce the backlog of nearly 700,000 patent applications, as well as activities to improve our decaying IT systems, which are a constant drag on efficiency. As history has demonstrated, withholding user fees from USPTO is a recipe for failure. Effecting real reforms at the USPTO requires first and foremost financial sustainability.

Ensuring that the agency has consistent access to adequate funding is a key component of achieving this.

Further, the unpredictability of the annual appropriations cycle severely hinders USPTO's ability to engage in the kind of multi-year, business-like planning that is needed to effectively manage a demand-driven, production-based organization. The only way we will be able to effectively implement our multi-year strategic plan, and achieve our goals of reducing the patent backlog and pendency to acceptable levels, is through an ongoing commitment to ensuring the USPTO has full access to its fee collections—not just in fiscal year 2012, but for each and every year beyond FY 2012. Only this assurance will enable the agency to move forward with the confidence that we are basing critical multi-year decisions about staffing levels, IT investment, production, and overtime on an accurate and reliable funding scenario.

Along these lines, if America is to maintain its position as the global leader in innovation, it is essential that American businesses and inventors not suffer the adverse effects of drawn-out continuing resolutions (CR), which have become common in recent years. The constant stops and starts associated with the CR cycle can have disastrous consequences, especially for a fee-based agency with a growing workload, as is the case for USPTO. The challenges presented by the pending patent reform legislation will be particularly difficult to undertake if the agency is not allowed to grow along a steady path to address our increasing requirements. As such, we must be assured that the USPTO will have full access to its fees throughout the year—not just

after a full year appropriations act is enacted. Therefore, a commitment to include language in future continuing resolutions that will address the USPTO's unique resource needs is paramount.

As outlined in our Strategic Plan and in our FY 2012 budget submission, USPTO has a multi-year plan in place to reduce patent pendency to 10 months first action and 20 months final action pendency, and to reduce the patent application backlog to 350,000. During the next three to four years, we will continue and accelerate implementation of a series of initiatives to streamline the examination process, including efforts to improve examination efficiency and provide a new, state-of-the-art end-to-end IT system, which will support each examiner's ability to process applications efficiently and effectively.

While efficiency gains are essential, we will not reach our goals without also increasing the capacity of our examination core. As outlined in the FY 2012 budget, we plan to hire an additional 1,000 patent examiners in FY 2012, with another 1,000 examiner hires planned for FY 2013. This added capacity, combined with full overtime, will allow us to bring the backlog and pendency down to an acceptable level.

Let me also be clear that while these enhancements are necessary to allow the USPTO to tackle the current backlog, the agency is not planning to continue growing indefinitely. An important part of our multi-year plan is an eventual moderation of our workforce requirements, once we have achieved a sustainable steady state.

At the same time that USPTO is working to achieve these goals, we will also be working to restructure our fees to ensure that the agency is recovering adequate costs to sustain the organization. Once our fees have been set, we will continually monitor our collections over the next several years to ensure that our operating reserve does not grow to unacceptably high levels at the expense of USPTO's stakeholders.

Thank you again for your support and your superb leadership on this important issue. With the continued commitment of the House and Senate Committees on Appropriations to ensuring the USPTO's ongoing ability to utilize its fee collections, we can put the agency on a path to financial sustainability, and enable it to deliver the services paid for and deserved by American innovators.

Sincerely,
David J. Kappos,
Under Secretary and Director.

Mr. COBURN. I must tell you that we are so fortunate that we have Director Kappos. We have a true expert in patents, with great knowledge, who has made tremendous strides in making great changes at our Patent Office. But he requires a steady stream of money, and he requires the ability to manage the organization in a way where he can actually accomplish what we have asked him to do. Frankly, I have spent a lot of time working with the Patent Office—not with everybody else who wants an advantage in the patent system but with the Patent Office—and I am convinced we have great leadership there.

In his letter, he talks about their inability to update their IT because the money is not there because we will not let him have the money—their money, the money from the American

taxpayers. Let me give a corollary. If, in fact, you drive your car into the gas station, you give them $100 for 25 or 28 gallons of gas, and they only give you 12 gallons of gas and they say: Sorry, the Appropriations Committee said you couldn't have all the gas for the money you paid, you would be outraged. If you go to the movie, you pay the fee to go to the movie and you buy a ticket, you walk in, and halfway through the movie they stop the projection and say: Sorry, we are not going to give you the second half of the movie even though you paid for it—inventors in this country have paid the fees to have their patents examined and evaluated and reviewed. Yet we, because of the power struggle, have decided we are not going to let that money go to the Patent Office. The amendment I have says we are going to allow that to happen. If money is paid and it goes into a proper fund that is allocatable only to the Patent Office, it cannot be spent anywhere else and has to go to the Patent Office.

Some of the objections, especially from the House Appropriations Committee, are that there is no oversight.

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The reason there is no oversight is because they have not done any oversight and neither have we, so you cannot claim that as an excuse as to why you are afraid. This patent bill will give an authorization for 7 years for the fees. We can change that if we want, but the fact is that we are never going to know if we need to change it if we never do oversight, which we have not done. Nobody has done oversight on patents. I am talking aggressive oversight: What did you start? What was your end? How much did you spend? Where did you spend the money? What is your employee turnover? What is your employee productivity?

What should we expect?

None of that has been asked. I believe it is probably pretty good based on the fact that I have a lot of confidence in the management at the Patent Office, especially what I have seen in terms of performance for the last couple of years versus before that, but the fact is that oversight has not been done.

It is not just the Patent Office. It hasn't been done anywhere. Very little oversight has been done by the Senate, and it is one of the biggest legitimate criticisms that can be made of us as a body, that we are lazy in our oversight function. Of the $3.7 trillion that is going to be spent, we are going to have oversight of about $100 billion of the total.

The amendment does a couple of things. Let me kind of detail that for a moment. One of the things is that by returning the money to the Patent Office, the Director thinks he can actually cut the backlog in half. In other words, we have over 700,000 patents that have never been looked at sitting at the Patent Office now, and he believes that in a very short period of time they could cut that to 350,000.

From 1992 through 2011, $900 million has been taken from the PTO. In 2004 Congress diverted $100 million, in 2007 it diverted $12 million, last year it diverted $53 million, and it is $80 million to $85 million that is going to be diverted this year. In 4 years out of the last 10, Congress gave the Patent Office all the money because it was so slow, so lethargic in terms of meeting the needs of inventors. The only thing we have in the current bill is the promise of a

Speaker and the promise of a chairman that they will do that. There is nothing in law that forces them to do it. There is nothing that will make sure the money is there. No matter how good we fix the patent system in this country, if there is not the money to implement it, we will not have solved the problems.

In June of 2000, the House debated the PTO funding, and an interesting exchange took place between Representative Roybal-Allard and Representative Rogers, who was a cardinal at the time. Representative Allard discussed the problem of PTO fee diversion and the need for user fees to pay for the work of the agency. She asked—in the documentation of the Congressional Record, she asked Chairman Rogers if 100 percent of the user fees would go to the PTO, and Mr. Rogers stated that the fees would not be siphoned off for any other agency or purpose and remain in the account for future years. But according to the PTO, in fiscal year 2000, $121 million was, in fact, diverted. So when we have the chairman of the committee say we should not doubt the word of the Appropriations Committee, yet we have in the Record the exact opposite of what the Appropriations Committee said was going to happen, we should be concerned and we should fix it to where the money for patent examination goes for patent examination. So we have a clear record of a statement that says it was not going to happen, and, in fact, $121 million was diverted from the Patent Office. Finally, from 1992 to 2007, $750 million more in patent and trademark fees was collected than was allowed to be spent by the Patent and Trademark Office. Had they had that money, we would have a backlog of about 100,000 patents right now, not 750,000. We would have intellectual property as a greater value in our country, with greater advantage over our trading partners because that money would have been effectively used.

On July 12, former CBO Director Douglas Holtz-Eakin wrote to Senators Reid and McConnell noting:

The establishment of the Patent and Trademark reserve fund in H.R. 1249 would be ineffective in stopping the diversion of the fees from the U.S. Patent Office.

In other words, what is in this bill now will not stop the diversion of the fees. Just so people think I am not just picking on one area, this is a bad habit of Congress. It is not just in the Patent and Trademark Office that we tell people to pay a fee to get something done and we steal the money and use it somewhere else. For example, in the Nuclear Waste Fund at the Department of Energy, utility payments by individual consumers pay for a nuclear waste fee. That money has been spent on tons of other things through the years rather than on the collection and management of nuclear waste. To the tune of $25 billion has been spent on other things.

The Securities and Exchange Commission is a fee-based agency. Since the SEC was established, it has collected money via user fees, charged for various transactions in order to cover the cost of its regulation. The primary fees are for sales of stock, registration of a new stock, mergers, tender offers. It also collects fees for penalty fines, for bad behavior. They go into the Treasury's general fund, and amounts collected above the SEC budget were diverted to other government programs.

In 2002, Congress changed the treatment of the fees of the SEC so they would only go to a special appropriation account solely for the SEC. SEC would not have access to the fees, however, should it collect more than its appropriation.

In the Dodd-Frank bill, Congress again changed the treatment of the fees and required some of the fees to go to the General Treasury and others to the reserve fund. As a result, lots of complaints with the SEC, and they still do not have access to their funds. Thus, like the PTO, if Congress chooses not to provide all the funds in the initial appropriation, they will not have them.

In the 2012 budget justification from the Securities and Exchange Commission, they noted it had significant challenges maintaining a staffing level sufficient to carry out its core mission. From 2005 to 2077, SEC had frozen or reduced budgets that forced reduction of 10 percent of their staff and 50 percent of technology investment. What happened in 2007 in this country? What were the problems? So the diversion of the money from the SEC actually contributed to the problems we had in this country. So it does not work.

Finally, one that is my favorite and that I have fought against every year that I have been here is the Crime Victims Fund, and that is a fund where people who are criminals actually have to pay into a fund to do restitution for criminal victims, and we have stolen billions of dollars from that fund. They are not taxes, they are actually restitution moneys, but the Congress has stolen it and spent it on other areas. The morality of that I don't think leads anybody to question that that is wrong.

Amendment No. 599, as Modified

Now, if I may, let me call up amendment 599. I ask that the pending amendment be set aside and ask that the amendment be modified with the changes at the desk.

The PRESIDING OFFICER (Mr. Sanders). Is there objection?

Mr. LEAHY. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The Senator from Oklahoma has the floor.

Is there objection?

Mr. LEAHY. Reserving the right to object, the Senator from Oklahoma knows that the basic thing he is trying to do is something I had supported. As he knows, I put it in the managers' package. He also is aware that my belief is—obviously we disagree—my belief is that the acceptance of his amendment will effectively kill the bill. Even today the leadership in the House told me they would not accept that bill with it. I say this only because tactically it would be to my advantage to object to the amendment. But the distinguished Senator is one of the hardest working members of the Judiciary Committee. He is always there when I need a quorum. Out of respect for him, I will not object.

Mr. COBURN. I thank the Senator for this. This is a minor technical correction.

The PRESIDING OFFICER. Without objection, the clerk will report.

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The bill clerk read as follows:

The Senator from Oklahoma [Mr. Coburn], for himself, Mr. DeMint, Mrs. Feinstein, Mrs. Boxer, Mr. Udall of Colorado, Mr. Enzi, and Mr. Burr, proposes an amendment (No. 599), as modified.

The amendment is as follows:

(Purpose: To amend the provision relating to funding the Patent and Trademark Office by establishing a United States Patent and Trademark Office Public Enterprise Fund, and for other purposes)

On page 137, line 1, strike all through page 138, line 9, and insert the following:

SEC. 22. PATENT AND TRADEMARK OFFICE FUNDING.

(a) Definitions.—In this section, the following definitions shall apply:

(1) Director.—The term "Director" means the Director of the United States Patent and Trademark Office.

(2) Fund.—The term "Fund" means the public enterprise revolving fund established under subsection (c).

(3) Office.—The term "Office" means the United States Patent and Trademark Office.

(4) Trademark act of 1946.—The term "Trademark Act of 1946" means an Act entitled "Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes", approved July 5, 1946 (15 U.S.C. 1051 et seq.) (commonly referred to as the "Trademark Act of 1946" or the "Lanham Act").

(5) Under secretary.—The term "Under Secretary" means the Under Secretary of Commerce for Intellectual Property.

(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". Any amounts in the Fund shall be available for use by the Director without fiscal year limitation.

(2) Derivation of resources.—There shall be deposited into the Fund [and recorded as offsetting receipts] on or after the effective date of subsection (b)(1)--

(A) any fees collected under sections 41, 42, and 376 of title 35, United States Code, provided that 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, provided, however, that 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 Under Secretary to be ordinary and reasonable, incurred by the Under Secretary and 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 Under Secretary and 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 Under Secretary 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.

(h) Surcharge.—Notwithstanding section 11(i)(1)(B), amounts collected pursuant to the surcharge imposed under section 11(i)(1)(A) shall be credited to the United States Patent and Trademark Office Public Enterprise Fund.

Mr. COBURN. I thank the chairman of the Judiciary Committee. I noted earlier, before I came to the floor, he supported it in principle and we have a difference in principle about what would happen to the bill. This is a minimal technical correction that was recommended to us, and I appreciate the Senator for allowing that to be considered.

Let me spend a moment talking about the chairman and his belief that this will not go anywhere. This is a critical juncture for our country, when we are going to make a decision to not do what is right because somebody is threatening that they do not agree with doing what is right and that they will not receive it. In my life of 63 years, that is how bullies operate, and the way you break a bully is you challenge a bully.

The fact is, I have just recorded into the history of the House the statements by the chairman of the Appropriations Committee in the House in terms of his guarantee for protecting the funds for PTO, which he turned around and took $121 million out of the funds that very same year that he guaranteed on the floor that he wouldn't do. So what I would say is we ought not worry about idle threats. What we ought to be worried about is doing what is best and right for our country. What is best and right is to give the money to the Patent Office that people are paying for so the patents will get approved and our technological innovations will be protected. I don't buy the idea the House is not going to take this if we modify it.

Actually, what 95 percent of the people in this country would agree to is that the Patent Office ought to get the money we are paying for patent fees, just as the FDA should get the money paid by drug companies for new applications, just as the Park Service should put the money for the camping sites—the paid-for camping sites—back into the camping sites. Why would we run away from doing the right thing? I find it very difficult when we rationalize down doing the correct thing that everybody agrees should be done but we will not do it for the right reasons. That is why we have a 12-percent approval rating. That is why people don't have confidence in Congress—because we walk away from the tough challenges of bullies who say they won't do something if we do what is right. I am not going to live that way. I am not going to be a Senator that way. I am going to stand on the position of principle.

This is a principle with which 95 Senators in this body agree. We are going to have several of our leaders try to get them not to do that on the basis of rationalization to a bully system that says: We will not do the oversight, but we still want to be in control.

In fact, in the process of that, America loses because we have 750,000 patents that are pending right now, and there should only be about 100,000.

The bullies have won in the past, and I am not going to take it anymore. I am going to stand up and challenge it every time. I am going to make the argument that if a person pays a fee for something in this country for the government to do, that money ought to be spent doing what it was paid to the government to do. It is outside of a tax; it is a fee. It is immoral and close

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to being criminal to not correctly spend that money from that fee. If our body decides today we are going to table this amendment, the question the American people have to ask is, Where is the courage in the Senate to do what is best for our country? Why are the Senators here if they are not going to do what is best for the country? Why are they going to play the game of rationalization and extortion on principles that matter so much to our future? I will not do that anymore. Everybody knows this is the right thing to do. We are babysitting some spoiled Members of Congress who don't want to carry out their responsibilities in an honorable way and do the oversight that is necessary. What they want to do is complain that they do not have control.

Well, this bill authorizes funds for 7 years. We can change that number of years. We can actually change the actual amount of fees if, in fact, they are not doing a good job. But right now, as already put in the Record, there is no history of significant oversight to the Patent Office, so they

would not know in the first place. So what we are asking is to do what is right, what is transparent, what is morally correct and give the Patent Office the opportunity to do for America what it can do for them instead of handcuffing us and handicapping us where we cannot compete on intellectual property in our country. I have said enough. I will reserve the remainder of my time when I finish talking about one other item.

There is an earmark in this patent bill for The Medicines Company. It ought not be there. This is something that is being adjudicated in the courts right now. Senator Sessions has an amendment that would change it. I believe it is inappropriate to specify one company, one situation on a drug that is significant to this country, and we are fixing the wrong problem. We probably would not win that amendment. I think it is something the American people ought to look at and say: Why is this here? Why is something in this big bill that is so important to our country?

I agree with our chairman. He has worked months, if not years, over the last 6 years trying to get to this process, and now we have this put in. We did not have it in ours. The chairman did not have it in ours. It came from the House.

We ought to ask the question Why is it there? Why are we interfering in something that is at the appellate court level right now? Why are we doing that? None of us can feel good about that. None of us can say it is the right thing to do. Why would we tolerate it? It is this lack of confidence in America; it is about a lack of confidence in us. When people know and find out what has happened here, they are going to ask the question. The powerful and the wealthy advantage themselves at the expense of everybody else. They have access. Those who are lowly, those who are minimal in terms of their material assets do not. It is the type of thing that undermines the confidence we need to have.

I just wanted to say I am a cosponsor of Senator Sessions' amendment.

I believe he is accurate. I think they have won this in court. It is on appeal. They will probably win it on appeal. This will end up being necessary, and there is a way for us to fix it if, in fact, they lose, if it is appropriate to do that. I believe it is inappropriate at this time.

I yield the floor and reserve the remainder of my time.

Mr. McCAIN. Mr. President, I rise in support of the Sessions amendment which seeks to remove an egregious example of corporate welfare and blatant earmarking, to benefit a single interest, in the otherwise worthwhile patent reform bill before the Senate. Needed reform of our patent laws should not be diminished nor impaired by inclusion of the shameless special interest provision, dubbed "The Dog Ate My Homework Act" that benefits a single drug manufacturer, Medicines & Company, to excuse their failure to follow the drug patent laws on the books for over 20 years.

The President tonight will deliver another speech to tell us that unemployment is too high and that we need to get America back to work to turn around our near stagnant economy. While it may end up being more of the same policies that have not worked for the last 2\1/2\ years, I look forward to hearing what he has to say. But, look at what is going on here today, just a couple hours before the President tells us how he proposes to fix the economy, there are 14 million Americans out of work and a full day of the Senate's time is being spent debating a bailout of a

prominent law firm and a drug manufacturer. I think the American people would be justified in wondering if they were in some parallel universe.

Patent holders who wish to file an extension of their patent have a 60-day window to make the routine application. There is no ambiguity in this timeframe. In fact, there is no reason to wait until the last day.

A patent holder can file an extension application any time within the 60-day period. Indeed, hundreds and hundreds of drug patent extension applications have been filed since the law was enacted. Four have been late. Four! Why is this provision in the patent reform bill? One reason: special interest lobbying to convince Congress to relieve the company and its law firm from their mistakes. Millions of dollars in branded drug profits are at stake for a single company who will face generic competition much earlier than if a patent extension would have been filed on time.

Let me read from the Wall Street Journal Editorial page today:

As blunders go, this was big. The loss of patent rights means that generic versions of Angiomax might have been able to hit pharmacies since 2010, costing the Medicines Co. between $500 million and $1 billion in profits.

If only the story ended there.

Instead, the Medicines Co. has mounted a lobbying offensive to get Congress to end run the judicial system. Since 2006, the Medicines Co. has wrangled bill after bill onto the floor of Congress that would change the rules retroactively or give the Patent Office director discretion to accept late filings.

One version was so overtly drawn as an earmark that it specified a $65 million penalty for late filing for “a patent term extension . . . for a drug intended for use in humans that is in the anticoagulant class of drugs.”

. . . no one would pretend the impetus for this measure isn’t an insider favor to save $214 million for a Washington law firm and perhaps more for the Medicines Co. There was never a problem to fix here. In a 2006 House Judiciary hearing, the Patent Office noted that of 700 patent applications since 1984, only four had missed the 60-day deadline. No wonder critics are calling it the Dog Ate My Homework Act.

The stakes are also high for patients in our health care system. Let me read an excerpt from the Generic Pharmaceutical Association letter dated July 20, 2011:

The Medicines Company amendment adopted during House consideration of H.R. 1249 modifies the calculation of the 60-day period to apply for a patent term extension and applies that new definition to ongoing litigation. We are deeply concerned about the precedent of changing the rules of the patent extension process retroactively, which appears to benefit only one company—The Medicines Company, which missed the filing deadline for a patent extension for its patent on the drug Angiomax.

If enacted into law, this provision would change the rules to benefit one company that, by choice, waited until the last minute to file a simple form that hundreds of other companies have filed in a timely manner since the enactment of the Hatch-Waxman Act in 1984. In doing so, the amendment would ultimately cost consumers and the government hundreds of millions of dollars by delaying the entry of safe, affordable generic medications. . . .

The rules and regulations that govern patents and exclusivity pertaining to both generic and brand drugs are important public policy. While it is Congress's prerogative to change or clarify statutory filing deadlines, we strongly urge you to do so in a manner that does not benefit one company's litigating position. GPhA urges you to strike section 37 from H.R. 1249.

Passing the Sessions amendment and removing the provision from the bill is not detrimental to passing the patent reform bill. The bailout provision was not included in the Senate-passed patent bill earlier this year. It was added in the House. The provision can and should be stripped in this vote today. The House can easily re-pass the bill without the bailout provision and send it to the President.

Support the Sessions amendment and send a loud signal to the American public, who are watching what we do, that laws matter and that this kind of business has no place in Congress.

Mr. LEAHY. Mr. President, this is an amendment that can derail and even kill this bill—a bill that would otherwise help our recovering economy, unleash innovation and create the jobs

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that are so desperately needed. I have worked for years against Patent Office fee diversion, but oppose this amendment at this time. Its formulation was rejected by the House of Representatives, and there is no reason to believe that the House's position will change. Instead, for ideological purity, this amendment can sink years of effort and destroy the job prospects represented by this bill. So while I oppose fee diversion, I also oppose the Coburn amendment.

I kept my commitment to Senator Coburn and included his preferred language in the managers' amendment which the Senate considered last March. The difference between then and now is that the Republican leadership of the House of Representatives rejected Senator Coburn's formulation. They preserved the principle against fee diversion but changed the language.

The language in the bill is that which the House devised and a bipartisan majority voted to include. It was worked out by the House Republican leadership to satisfy House rules. The provision Senator Coburn had drafted and offers again with his amendment today apparently violates House Rule 21, which prohibits converting discretionary spending into mandatory spending. So instead of a revolving fund, the House established a reserve fund. That was the compromise that the Republican House leadership devised between Chairmen Smith, Rogers and Ryan. Yesterday I inserted in the Record the June letter for Congressmen Rogers and Ryan to Chairman Smith of the House Judiciary Committee. Today I ask consent to insert into the Record the commitment letter from Chairman Rogers to Speaker Boehner.

The America Invents Act, as passed by the House, continues to make important improvements to ensure that fees collected by the U.S. Patent and Trademark Office (USPTO) are used for Patent

and Trademark Office activities. That office is entirely fee-funded and does not rely on taxpayer dollars. It has been and continues to be subject to annual appropriations bills. That allows Congress greater opportunity for oversight.

The legislation that passed the Senate in March would have taken the Patent and Trademark Office out of the appropriations process, by setting up a revolving fund that would have allowed the office to set fees and collect and spend money without appropriations legislation and congressional oversight. Instead of a revolving fund, the House formulation against fee diversion establishes a separate account for the funds and directs that they be used for U.S. Patent and Trademark Office. The House Appropriations Chairman has committed to abide by that legal framework.

The House forged a compromise. Despite what some around here think, that is the essence of the legislative process. The Founders knew that when they wrote the Constitution and included the Great Compromise. Ideological purity does not lead to legislative enactments. This House compromise can make a difference and make real progress against fee diversion. It is something we can support and there are many, many companies and organizations that do support this final workout in order to get the bill enacted without further delay, as do I.

The America Invents Act, as passed by the House, creates a new Patent and Trademark Fee Reserve Fund (the "Reserve Fund") into which all fees collected by the USPTO in excess of the amount appropriated in a fiscal year are to be deposited. Fees in the Reserve Fund may only be used for the operations of the Patent and Trademark Office. Through the creation of the Reserve Fund, as well as the commitment by House appropriators, H.R. 1249 makes important improvements in ensuring that user fees collected for services are used by the Patent and Trademark Office for those services.

Voting for the Coburn amendment is a vote to kill this bill. It could kill the bill over a formality—the difference between a revolving fund and a reserve fund. It would require the House to reconsider the whole bill again. They spent days and weeks working out their compromise in good faith. And it was worked out by the House Republican leadership. There is no reason to think they will reconsider and allow the original Coburn language to violate their rules and avoid oversight. They have already rejected that language, the very language proposed by the Coburn amendment.

We should not kill this bill over this amendment. We should reject the amendment and pass the bill. The time to put aside individual preferences and ideological purity is upon us and we need to legislate. That is what the American people elected us to do and expect us to do.

The time to enact this bill is now. Vote no on the Coburn amendment. I have listened to the Senator from Oklahoma, and no matter what we say about it, his is an amendment that can derail and even kill this bill. He expresses concern as to why the bill should be sought because somebody objects to the bill. I sometimes ask myself that question. Of course, the distinguished Senator from Oklahoma has objected to many items going forward on his own behalf, but this is an amendment that could derail or even kill the bill. This is a bill that would otherwise help our recovering economy to unleash innovation, create the jobs so desperately needed.

I probably worked longer in this body than anybody against Patent Office fee diversion. As the Senator from Oklahoma knows, I put a provision in the managers' package to allow the fees to go to the Patent Office. Now it is a lobby to keep that in in the other body. Its formulation was rejected by the House of Representatives. There is no reason to believe the House position will change. I checked with both the Republican and Democratic leaders over there. There is no reason to believe their position will change, but we insist on ideological purities—including something I would like. The amendment would take years of effort, destroy the job prospects represented by this bill. While I oppose the fee diversion, I also oppose this amendment.

Does this bill have every single thing in it I want? No. We could write 100 patent reform legislations in this body where each one of us has every single thing we want, and we would have 100 different bills. We only have one. It does not have all the things I like, but that is part of getting legislation passed.

I did keep my commitment to Senator Coburn. I kept his language in the managers' amendment, and I caught a lot for doing that—I am a member of the Appropriations Committee—but I kept it in there. The difference between then and now is that the Republican leadership of the House of Representatives rejected Senator Coburn's formulation. They preserved the principle against fee diversion but changed the language. In doing that, however, it is not a total rejection. They actually tried to work out a compromise. The language of the bill, which the House devised—a bipartisan majority voted to include—was worked out by the House Republican leadership to satisfy the House rules.

The provision that Senator Coburn has drafted and offers, again, with his amendment today apparently violates House rule 21 which prohibits converting discretionary spending into mandatory spending. What the House did—and actually accomplished what both Senator Coburn and I and others want—instead of a revolving fund was to establish the reserve fund. That was the compromise that the Republican House leadership devised between Chairman Smith, Chairman Rogers, and Chairman Ryan.

Yesterday, I inserted into the Record the June letter from Congressmen Rogers and Ryan to Chairman Smith to the House Judiciary Committee.

I ask unanimous consent to have printed in the Record the commitment letter from Chairman Rogers to Speaker Boehner.

There being no objection, the material was ordered to be printed in the Record, as follows:

Committee on Appropriations, Washington, DC, June 22, 2011.

Hon. John Boehner,
Speaker of the House,
House of Representatives,
Washington, DC.

Hon. Eric Cantor,
Majority Leader,

House of Representatives,
Washington, DC.

Dear Speaker Boehner and Leader Cantor:
I write regarding provisions in H.R. 1249, The America Invents Act, affecting funding of the Patent Trademark Office (PTO). Following constructive discussions with Chairman Smith of the Judiciary Committee, this legislation now includes language that will preserve Congress' "power of

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the purse," under Article I, Section 9, Clause 7 of the Constitution. The language ensures: the PTO budget remains part of the annual appropriations process; all PTO collected fees will be available only for PTO services and activities in support of the fee paying community; and finally, this important agency will continue to be subject to oversight and accountability by the Congress on an annual basis.

To assure that all fees collected for PTO remain available for PTO services, H.R. 1249 provides that if the actual fees collected by the PTO exceed its appropriation for that fiscal year, the amount would continue to be reserved only for use by the PTO and will be held in a "Patent Trademark Fee Reserve Fund".

At the same time, consistent with the language included in H.R. 1249, the Committee on Appropriations will also carry language that will ensure that all fees collected by PTO in excess of its annual appropriated level will be available until expended only to PTO for support services and activities in support of the fee paying community, subject to normal Appropriations Committee oversight and review.

I look forward to working with the relevant stakeholders in efficiently implementing this new process.

I believe this approach will help U.S. innovators remain competitive in today's global economy and this in turn will contribute to significant job creation here in the United States, while holding firm to the funding principles outlined in the Constitution.

Sincerely,

Harold Rogers,
Chairman,
House Committee on Appropriations.

Mr. LEAHY. I would note that it has been suggested somehow the Appropriations chairman is not going to keep his word. Well, Chairman Rogers is a Republican. I have worked with him a lot. He has always kept his word to me, just as we have the most decorated veteran of our military serving in either body as chairman of the Senate Appropriations Committee, the only Medal of Honor recipient now serving, Senator Inouye. Both he and the ranking Republican, Senator Cochran, have always kept their word to me certainly in more than the third of a century I have served on that committee.

The America Invents Act, as passed by the House, continues to make important improvements. It ensures the fees collected by the U.S. Patent and Trademark Office are used for Patent and Trademark Office activities. The one thing in there is that we in the Congress at least have a chance to make sure they are using it the way they are supposed to.

The office is entirely fee funded. It does not rely on taxpayer dollars. It has been and continues to be subject to the annual appropriations bill which allows the oversight that we are elected and paid for by the American people to do.

The legislation we passed in March would have taken the Patent Trademark Office out of the appropriations process by setting up a revolving fund. Instead of a revolving fund, the House formulation against fee diversion established a separate account and directs that account be used only by the U.S. Patent and Trademark Office. The House Appropriations chairman is committed to abide by that legal framework.

The Speaker is committed to that. The House forged a compromise. That is the essence of the legislative process.

The Founders knew when they wrote the Constitution to include the Great Compromise. Ideological purity does not lead to legislative enactments. Ideological purity does not lead to legislative enactments.

The House compromise can make a difference. It made real progress against fee diversion, which is something we can support. There are many companies and organizations that do support this in order to get the bill enacted without delay. After 6\1/2\ years, let's not delay any more.

This is going to create jobs. We have 600,000 to 700,000 patents sitting there waiting to be processed. Let's get on with it. For all of these fees and the reserve fund can only be used for the operations of the Patent and Trademark Office. I don't know what more we can do. But I would say I am perfectly willing to accept what the House did because it assures that the fees go to the Patent Office.

I am also well aware that voting for this amendment kills the bill. It could kill the bill over a formality—the difference between a reserve fund and a revolving fund.

I think the House Republican leadership worked out their compromise in good conscience, and I agree with it.

The U.S. Patent and Trademark Office is funded entirely by user fees, and the Leahy-Smith America Invents Act will ensure the PTO has access to the fees it collects. We have heard from a number of organizations which agree with that, and I ask unanimous consent that a sample of these letters from the Business Software Alliance, the Small Business and Entrepreneurship Council, DuPont, and other financial organizations be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

Business Software Alliance, June 29, 2011.

Hon. Harry Reid,
Majority Leader,
Washington, DC.

Hon. Mitch McConnell,
Minority Leader,
Washington, DC.

Dear Senator Reid and Senator McConnell:
We urge you to bring H.R. 1249 to the Senate floor as soon as the Senate's schedule permits.

The Business Software Alliance (BSA) strongly supports modernizing our patent system. An efficient and well-operating patent system is necessary to promote healthy and dynamic innovation. Innovation is critically important to software and computer companies' ability to provide new and better tools and technologies to consumers and customers.

BSA member companies believe H.R. 1249 establishes a transparent and efficient patent system. It will make the Patent and Trademark Office more accessible and useful to all inventors, large and small. In addition, the provisions of H.R. 1249 on Patent and Trademark Office funding will ensure that the user fees paid to the USPTO will be available to the Office for processing patent applications and other important functions of the Office.

H.R. 1249 and S. 23 are the products of many years of skillful and difficult legislative work in both the House and the Senate. H.R. 1249 represents a thoughtful and balanced compromise that is endorsed by virtually all stakeholders. We urge the Senate to adopt H.R. 1249 as acted upon by the House and pass it without amendment as soon as possible.

Sincerely,

Robert W. Holleyman,
President and CEO. SBE Council,
Oakton, VA, June 29, 2011.

Dear Chairman Leahy and Ranking Member Grassley:
The Small Business & Entrepreneurship Council (SBE Council) has been a leading advocate for patent reform within the small business community, and we urge you to work with the leadership of the Senate to bring the America Invents Act (H.R. 1249) to the Senate floor for approval.

H.R. 1249 would improve the patent system in key ways. For example, the U.S. patent system would be brought in step with the rest of the world. The U.S. grants patents on a first-to-invent basis, rather than the first-inventor-to-file system that the rest of the world follows. First-to-invent is inherently ambiguous and costly, and that's bad news for small businesses and individual inventors.

A shift to a "first-inventor-to-file" system creates greater certainty for patents, and amounts to a far simpler and more transparent system that would reduce costs in the rare cases when conflict exists over who has the right to a patent. By moving to a first-inventor-to-file system, small firms

will in no way be disadvantaged, as some claim, while opportunities in international markets will expand.

In addition, an Associated Press report, for example, noted “that it takes an average of three years to get a patent approved and that the agency has a backlog of 1.2 million pending patents, including more than 700,000 that haven’t reached an examiner’s desk.” Part of the problem here is that revenues from patent fees can be drained off by Congress to be spent elsewhere.

The agreement reached in the House on USPTO funding will assure that the fees paid to the USPTO by inventors will not be diverted elsewhere, but instead be made available for processing patent applications. While the Senate’s approach in S. 23 to prevent diversion of USPTO funds would have been a better choice, the House bill still provides an effective option.

Patent reform is needed to clarify and simplify the system; to properly protect legitimate patents; and to reduce costs in the system, including when it comes to litigation and the international marketplace. All of this, of course, would aid small businesses and the overall economy.

H.R. 1249, like S. 23, is a solid bill, and the opportunity for long overdue and much-needed patent reform should not be lost.

Thank you for considering the views of the small business community. Please feel free to contact SBE Council with questions or if we can be of assistance on this important issue for small businesses.

Sincerely,

Karen Kerrigan
President & CEO.

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Dupont, Wilmington, DE,
July 6, 2011.

Hon. Patrick J. Leahy, Chairman,
Committee on the Judiciary,
Washington, DC.

Hon. Charles E. Grassley,
Ranking Member,
Committee on the Judiciary,
Washington, DC.

Dear Chairman Leahy and Ranking Member Grassley:
As a world leader in science and innovation, including agriculture and industrial biotechnology, chemistry, biology, materials science and manufacturing, DuPont recognizes the nation’s patent system is a cornerstone in fostering innovation and creating jobs. Patents continue to be one of the engines for innovation and a process for discovery that leads to rich, new offerings for our

customers and gives our company the edge to continue transforming markets and society. Our stake in the patent system is significant—in 2010, DuPont filed over 2,000 patent applications and was awarded almost 700 U.S. patents. Given the importance of its patents, DuPont has been a strong supporter of efforts to implement patent reform legislation that will improve patent quality and give the U.S. Patent and Trademark Office the resources it needs to examine and grant patents in a timely manner.

We believe that any changes to the patent system need to be made in a way that strengthens patents and supports the important goals of fostering innovation and creating jobs. In our view, the Leahy-Smith America Invents Act, H.R. 1249, achieves these objectives, and we urge you to consider adoption of this bill.

The agreement reached in the House on USPTO funding will assure that the fees paid to the USPTO by inventors will not be diverted and will be made available to the Office for processing patent applications and other important functions of the Office. While we would have preferred the Senate's approach in S. 23 to prevent diversion of USPTO funds, we believe that acceptance of the House bill provides an effective and the most immediate path forward to address problems of the patent office. H.R. 1249, like S. 23, is an excellent bill. These bills are the product of many years of skillful and difficult legislative work in both the House and the Senate. We believe the time has now come for the Senate to take the final legislative act required for enactment of these historic reforms.

We look forward to patent reform becoming a reality in the 112th Congress, due in significant measure to your leadership, and we thank you for your efforts in this critical policy area.

Very truly yours,

P. Michael Walker, Vice President,
Assistant General Counsel and Chief Intellectual Property Counsel.

June 29, 2011.

Hon. Harry Reid,
Majority Leader,
U.S. Senate, Washington, DC.

Hon. Mitch McConnell,
Republican Leader,
U.S. Senate, Washington, DC.

Dear Leaders Reid and McConnell:
We are writing to encourage you to bring H.R. 1249, the "Leahy-Smith America Invents Act," to the Senate floor at your earliest possible convenience and send the bill to the President's desk to be signed into law. H.R. 1249 closely mirrors the Senate bill that passed earlier this year by an overwhelming 95-5 vote.

Patent reform is essential legislation: enactment will spur innovation creating jobs and ensure that the Patent and Trademark Office (PTO) has the tools necessary to maintain our patent

system as the best in the world. We strongly support the improved re-examination procedures in H.R. 1249, which will allow the experts at PTO to review low-quality business-method patents against the best prior art. Equally important, the bill provides the PTO with increased and predictable funding. This certainty is absolutely critical if the PTO is to properly allocate resources and hire and retain the expertise necessary to benefit the entire user-community.

This bill has been nearly a decade in the making and is supported by a vast cross-section of all types of inventors and businesses. It is time to send patent reform to the President for signature, and we strongly encourage the Senate to take up and pass H.R. 1249 without delay.

Sincerely,

American Bankers Association, American Council of Life Insurers, American Financial Services Association, American Insurance Association, The Clearing House Association, Consumer Bankers Association, Credit Union National Association, The Financial Services Roundtable, The Independent Community Bankers of America, Mortgage Bankers Association, National Association of Mutual Insurance Companies, Property Casualty Insurers Association of America, Securities Industry and Financial Markets Association.

Mr. LEAHY. Mr. President, I ask unanimous consent that I be allowed to reserve the remainder of my time, and I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant bill clerk proceeded to call the roll.

Mr. COBURN. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. COBURN. Mr. President, I wish to respond to my chairman’s comments. First of all, what we have proposed came out of the Judiciary Committee in the House 32 to 3. In other words, only three people on the Judiciary Committee in the House objected to this.

The other point I wish to make is the letter from Chairman Rogers does not bind the next Appropriations Committee chairman. I think everybody would agree with that. It only binds him and it only binds him as long as he honors his commitment. I have no doubt he will honor his commitment as long as he is chairman.

The third point I wish to make is what the House has set up doesn’t make sure the funds go to the PTO, it just means they can’t go somewhere else. That is what they have set up. They do not have to allow all the funds collected to go to the PTO. So they can reserve $200 million or $300 million a year and put it over there in a reserve fund and send it to the Treasury which will cause us to borrow less, but the money won’t necessarily go to the PTO. There is nothing that mandates the fees collected go to the Patent and Trademark Office.

I understand my chairman. I understand his frustration with trying to get this bill through, and I understand that he sees this as a compromise. I don't. I understand we are going to differ on that and agree to disagree.

With that, I yield the floor to allow the chairman to speak, and I reserve the remainder of my time.

Mr. LEAHY. I thank the Senator. I reserve the remainder of my time and suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant bill clerk proceeded to call the roll.

Mr. SANDERS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. Leahy). Without objection, it is so ordered.

Flooding in Vermont

Mr. SANDERS. Mr. President, I wish to pick up on a point the senior Senator from Vermont made earlier today. Both he and I have had the opportunity to travel throughout the State of Vermont to visit many of our towns which have been devastated by one of the worst natural disasters in our State's history.

We have seen in the southern part of the State—in Wilmington, for example—the entire business district severely damaged. I have seen in central Vermont a mobile home park almost completely wiped out, with people who are in their eighties and are now having to look to find new places in which to live. I have seen a public housing project for seniors in Brattleboro severely damaged. A lot of seniors there are now having to find new places to live. We have seen the State office complex in Waterbury—the largest State office building in the State, housing 1,700 Vermont workers, the nerve center of the State—devastated. Nobody is at work there today.

We have seen hundreds of bridges and roads destroyed, and right now, as we speak, there are rains coming in the southern part of the State, causing more flooding, more damage. We have seen a wonderful gentleman from Rutland lose his life because he was doing his job to make sure the people of that area were protected. So we have seen damage the likes of which we have never seen in our lifetime.

What I would say—and I know I speak for the senior Senator from Vermont as well—is that our country is the United States of America—the United States of America. What that means is we are a nation such that when disaster strikes in Louisiana or Mississippi in terms of Hurricane Katrina—I know the Presiding Officer remembers the outpouring of support from Vermont for the people in that region. All of our hearts went out to the people in Joplin, MO, when that community suffered an incredible tornado that took 150 or so lives and devastated that city. What America is about and what a nation is about is that when disaster hits one part of the country, we unite as a nation to give support to

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help those communities, those businesses, those homeowners who have been hurt get back on their feet.

I know the senior Senator from Vermont has made this point many times: Right now we are spending billions of dollars rebuilding communities in Afghanistan and Iraq. Well, I think I speak for the vast majority of the people in this country and in my State of Vermont that if we can spend billions rebuilding communities in Iraq and Afghanistan, we surely can rebuild communities in Vermont, New Jersey, North Carolina, and other parts of the United States of America that have been devastated by Hurricane Irene.

I think as a body, as a Congress, the House and Senate have to work as expeditiously as we can to come up with the funds to help rebuild all of the communities that have been so severely damaged by this terrible flood. I look forward to working with my colleagues to make that happen.

With that, I yield the floor and note the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant bill clerk proceeded to call the roll.

Mr. LEAHY. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. Sanders). Without objection, it is so ordered.

Mr. LEAHY. Mr. President, when the America Invents Act was first considered by the Senate last March, I spoke about the contributions Vermonters have made to innovation in America since the founding of our Nation. The distinguished Presiding Officer and I know about what Vermont has done. I wish to remind everybody that from the first patent ever issued by our government to cutting-edge research and inventions produced today Vermonters have been at the forefront of innovation since the Nation's birth.

Many may think of our Green Mountain State as being an unlikely hotbed of innovation, but we have actually over the last few years issued the most patents per capita of any State in the country—actually more patents than a lot of States that are larger than we are.

It is a small State, to be sure, but it is one that is bursting with creativity.

The rich history of the inventive spirit of Vermont is long and diverse. Vermonters throughout have pursued innovations from the time of the Industrial Revolution to the computer age. Vermont inventors discovered new ways to weigh large objects as well as ways to enjoy the outdoors. They have perfected new ways to traverse rivers and more environmentally friendly ways to live in our homes. Over the years, as America has grown and prospered, Vermont's innovative and creative spirit has made the lives of all Americans better and possibly made them

more productive. The patent system in this country has been the catalyst that spurred these inventors to take the risks necessary to bring these ideas to the marketplace.

The story of innovation in Vermont is truly the American story. It has been driven by independent inventors and small businesses taking chances on new ideas. A strong patent system allowed these ideas to flourish and brought our country unprecedented economic growth. These same kinds of inventors exist in Vermont today, as they do throughout our great country.

But these inventors need to be assured that the patent system that served those who came before them so well can do the same today. The America Invents Act will provide that assurance for years to come. My distinguished colleague from Vermont and I have both spoken several times on the Senate floor since the Senate came back in session about the devastation in Vermont. I cannot help but think of the devastation that Irene has caused in so many of our communities at home. Just as Senator Sanders and Congressman Welch and Governor Shumlin, I have seen the damage and heartbreak firsthand. But I also saw the fruits of innovation that will help bring recovery to communities throughout Vermont: the heavy machinery that helped to clear debris and that will build our roads and our bridges and our homes; the helicopters that brought food and water to stranded residents; and the bottles that allowed safe drinking water to reach them.

The American patent system has helped to develop and refine countless technologies that drive our country in times of prosperity but also in times of tragedy. It is critical we ensure that this system remains the best in the world.

Vermont and the rest of the country deserve the world's best patent system. The innovators of the past had exactly that, but we can ensure that the innovators who are among us today and those who will come in succeeding generations will have it as well by passing the America Invents Act.

I am proud of the inventive contributions that Vermonters have made since the founding of this country. I hope to honor their legacy. I hope to inspire the next generation by securing the passage of this legislation.

I have been here for a number of years, but this is one of those historic moments. The patent system is one of the few things enshrined in our Constitution, but it is also something that has not been updated for over half a century. We can do that. We can do that today with our vote. We can complete this bill. We can send it to the President. The President has assured me he will sign it. We will make America stronger. We will create jobs. We will have a better system. And it will not cost American taxpayers anything. That is something we ought to do.

Mr. President, the America Invents Act is supported by dozens of businesses and organizations, large and small, active in all 50 States. The America Invents Act is the product of more than 6 years of debate and compromise. The stakeholders have crossed the spectrum—from small businesses to high-tech companies; financial institutions to labor organizations; life sciences to bar associations.

More than 180 companies, associations, and organizations have endorsed the Leahy-Smith America Invents Act. I ask unanimous consent that a list of these supporters be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

List of Supporters of the America Invents Act 3M; Abbott Adobe Systems Incorporated; Advanced Micro Devices; Air Liquide; Air Products; American Bar Association; American Bankers Association; American Council of Life Insurers; American Council on Education; American Financial Services Association; American Institute of Certified Public Accountants; American Insurance Association; American Intellectual Property Law Association; American Trucking Association; Apple, Inc.; Applied Materials, Inc.; Aruba Networks, Inc.; Assoc. for Competitive Technology; Assoc. of American Medical Colleges.

Association of American Universities; Association of Public and Land-grant Universities; Association of University Technology Managers; AstraZeneca; Atheros Communications, Inc.; Autodesk, Inc.; Avaya Inc.; Avid Technology, Inc.; Bank of America; Baxter Healthcare Corporation; Beckman Coulter; Biotechnology Industry Organization; Borealis Ventures; Boston Scientific; BP; Bridgestone American Holdings, Inc.; Bristol-Meyers Squibb; Business Software Alliance; CA, Inc.; Cadence Design Systems, Inc.; California Healthcare Institute.

Capital One; Cardinal Intellectual Property; Cargill, Inc.; Caterpillar; Charter Communications; CheckFree; Cisco Systems Citigroup; The Clearing House Association; Coalition for Patent and Trademark Information Distribution; Collexis Holdings, Inc.; Computer & Communications Ind. Assoc.; Computing Technology Industry Association; Consumer Bankers Association; Corning; Council on Government Relations; Courion; Credit Union National Association; Cummins, Inc.; Dell; The Dow Chemical Company.

DuPont; Eastman Chemical Company; Eastman Kodak; eBay Inc.; Electronics for Imaging; Eli Lilly and Company; EMC Corporation; EnerNOC; ExxonMobil; Facebook; Fidelity Investments; Financial Planning Association; FotoTime; General Electric; General Mills; Genzyme; GlaxoSmithKline; Google Inc.; Hampton Roads Technology Council; Henkel Corporation.

Hoffman-LaRoche; HSBC North America; Huntington National Bank; IAC; IBM; Illinois Technology Association; Illinois Tool Works; Independent Community Bankers of America; Independent Inventors; Infineon Technologies; Information Technology Council; Integrated DNA Technologies; Intel; Intellectual Property Owners Association; International Trademark Association; International Intellectual Property Institute; Intuit, Inc.; Iron Mountain; Johnson & Johnson; Kalido.

Lexmark International, Inc. Logitech, Inc.; Massachusetts Technology Leadership Council; Medtronic; Merck & Co, Inc.; Micron Technology, Inc.; Microsoft; Millennium

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Pharmaceuticals; Milliken and Company; Molecular; Monster.com; Motorola; Mortgage Bankers Association; National Association of Federal Credit Unions; National Association of Manufacturers; National Assoc. of Mutual Insurance Cos.; National Association of Realtors; National Semiconductor Corporation; National Retail Federation; National Treasury Employees Union; Native American IP Enterprise Council; Net Coalition; Netflix, Inc.; Network Appliance, Inc.; Newegg Inc.; News Corporation; Northrop Grumman; Novartis; Numenta, Inc.; Nvidia

OpenAir, Inc.; Oracle; Overstock.com; Partnership for New York City; Patent Cafe.com, Inc.; PepsiCo, Inc.; Pfizer; PhRMA; Procter & Gamble Company; Property Casualty Insurers Association of America; Red Hat.

Reed Elsevier Inc.; RIM; Salesforce.com, Inc.; SanDisk Corporation; San Jose Silicon Valley Chamber of Commerce; SAP America, Inc.; SAS Institute; Seagate Technology, LLC; Sebit, LLC; Securities Industry & Financial Markets Association; SkillSoft; Small Business and Entrepreneurship Council; Software Information and Industry Association; Sun Microsystems, Inc.; Symantec Corporation; Tax Justice Network USA; TECHQuest Pennsylvania; Teradata Corporation; Texas Instruments; Texas Society of CPAs.

The Financial Services Roundtable; Toyota Trimble Navigation Limited; The United Inventors Association of America; United Steelworkers; United Technologies; U.S. Chamber of Commerce; USG Corporation; VeriSign Inc.; Verizon; Visa Inc.; Visi-Trak Worldwide, LLC; VMware, Inc.; Vuze, Inc.; Western Digital Technologies, Inc.; Weyerhaeuser; Yahoo! Inc.; Ze-gen; Zimmer; ZSL, Inc.

Mr. LEAHY. I yield the floor.

I suggest the absence of a quorum.

The PRESIDING OFFICER (Mrs. McCaskill). The clerk will call the roll.

The assistant bill clerk proceeded to call the roll.

Mr. KERRY. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. KERRY. Madam President, regarding the parliamentary situation, how much time remains for Senator Cantwell?

The PRESIDING OFFICER. Thirteen minutes remains.

Mr. KERRY. It is my understanding that Senator Cantwell wants to preserve a component of that, so I would, on behalf of Senator Cantwell, yield myself 5 minutes at this time.

The PRESIDING OFFICER. Without objection, it is so ordered.

Amendment No. 600

Mr. KERRY. Madam President, I appreciate the comments of our friend from Alabama, Senator Sessions, regarding his amendment to strike section 37 of the patent reform bill, but I disagree with him on substantive terms, and I ask our colleagues to look carefully at the substance of this amendment and the importance of this amendment with respect to precedent not for one company from Massachusetts or for one entity but for companies all over the country and for the application of patent law as it ought to be applied.

The only thing section 37 does—the only thing—is it codifies what a Federal district court has already said and implements what the U.S. Patent and Trademark Office is already doing. There is no breaking of new ground here. This is codifying a Federal district court, codifying what the Patent Office has done, and, in fact, codifying common sense.

It is putting into effect what is the right decision with respect to how we treat patents in our country.

Section 37 is, in fact, a very important clarification of a currently confusing deadline for filing patent term extension applications under the Hatch-Waxman Act. Frankly, this is a clarification, I would say to the Senator from Alabama, that benefits everybody in the country. In fact, this is a clarification which has already been put into effect for other types of patents that were once upon a time treated with the same anomaly. They rectified that. They haven't rectified it with respect to this particular section of patent law.

So all we are doing is conforming to appropriate law, conforming to the standards the Patent Office applies, and conforming for all companies in the country, for any company that might be affected similarly. If this were a bailout for a single firm or a pharmaceutical company, as some have tried to suggest it might be, why in the world did a similar provision previously get reported out of the Senate Judiciary Committee by a vote of 14 to 2? How in the world could this provision have then passed the House of Representatives as it did? And why would many House Republicans have supported it as they did? The answer is very simple: Because it is the right thing to do under the law and under the common sense of how we want patents treated in the filing process.

The law as currently written, frankly, was being wrongly applied by the Patent and Trademark Office. And you don't have to take my word for that; that is what a Federal court has said on more than one occasion.

Each time, the court has ruled that it was the Patent and Trademark

Office, not an individual firm called WilmerHale or Medicines Company—not those two—that made a mistake.

Let me make that very clear so the record is as clear as it can be.

The current law as it is written says that "to obtain an extension of the term of a patent under this section, the owner of record of the patent or its agent shall submit an application to the Director. . . .

Such an application may be only submitted within the sixty-day period beginning on the date the product received permission" under the appropriate provision of law.

Now, the FDA reasonably interprets this language to mean that if something is received after the close of business on a given business day, it is deemed to be received the next business day. Under this interpretation, the filing by the Medicines Company was indisputably timely.

So my colleagues should not come to the floor and take away from entities that are trying to compete and be in the marketplace over some technicality: the suggestion that because something was filed electronically on a particular given day at 5 o'clock in the afternoon when people had gone home—they weren't open—that somehow they deem that not to have been appropriately filed.

But rather than accept that commonsense interpretation, the Patent and Trademark Office told the Medicines Company it was late. They just decided that. They said: You are late, despite the fact that interpretation contradicted the same-business-day rule the FDA uses when interpreting the very same statute. So as a result, the issue went to court, and guess what. The court told the PTO it was wrong. A Federal judge found that the Patent Office and FDA had been applying inconsistent interpretations of the exact same statutory language in the Hatch-Waxman Act. The FDA uses one interpretation that has the effect of extending its own internal deadlines, but the PTO insisted on using a different interpretation. The result was a "heads I win, tails you lose."

The PRESIDING OFFICER. The Senator's time has expired.

Mr. KERRY. Madam President, I ask unanimous consent to speak for 1 additional minute.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. KERRY. For companies investing in innovative medicines, the court found that the PTO failed to provide any plausible explanation for this inconsistent approach. It further found that the PTO's interpretation had the effect of depriving applicants of a portion of their time for filing an application.

After considering all the relevant factors, the court adopted the FDA's interpretation. So the court told the PTO that they were wrong and it was they, and not the Medicines Company, who made a mistake.

So this is not an earmark. It isn't, as Senator Sessions contends, a single-company bailout. It is a codification of a court ruling. It is a clarification. It is common sense. It puts a sensible court decision into legislative language, and it is legislative language that applies to all companies across the country equally. It doesn't single out any particular company but amends the patent law for the benefit of all applicants.

I ask my colleagues to oppose the Sessions amendment on the merits.

More importantly, we need to move forward with this important bill on which Chairman Leahy and Senator Grassley have worked so hard. Passing the Sessions amendment would stop that. It would require a House-Senate conference on the bill, and it would at best seriously delay and at worst make it impossible to exact patent reform during this Congress.

So

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this is, on the merits, for all companies. This is common sense. This is current law. This is current practice. So I ask my colleagues accordingly to vote appropriately.

Madam President, I ask unanimous consent that at 4 p.m. the Senate proceed to the votes in relation to the amendments and passage of H.R. 1249, the America Invents Act, with all other provisions of the previous order remaining in effect; that the final 10 minutes of debate be equally divided between the chairman and ranking member of the Judiciary Committee or their designees, with the chairman controlling the final 5 minutes; further, that there be 4 minutes equally divided between proponents and opponents prior to each vote.

The PRESIDING OFFICER. Is there objection?

Without objection, it is so ordered.

Mr. KERRY. Madam President, I reserve the remainder of Senator Cantwell's time.

The PRESIDING OFFICER. The Senator from Texas.

Mr. CORNYN. May I inquire of the Chair how much time remains for me to speak before getting to the last order?

The PRESIDING OFFICER. There is 4\1/2\ minutes remaining.

Texas Wildfires

Mr. CORNYN. Madam President, I wish to speak for about 4\1/2\ minutes on the natural disasters that have been confronting our Nation and in particular Texas, where the State has had about 3\1/2\ million acres of land burned, with many people now finding themselves literally homeless as a result of fires that many of my colleagues have seen on TV or watched on the Internet but which, frankly, do not capture the scale of the devastation.

Just to give you an idea of the scope of this natural disaster, so far, in 2011, more than 18,000 wildfires have been reported in the State. As I mentioned, it has burned an area roughly the size of Connecticut. Nearly 2,900 structures have been lost and, unfortunately, there has also been a loss of life in these fires, as well as 5,000 Texans have now been evacuated from their homes. Unfortunately, these fires have been a feature of life in parts of Texas for most of the year because we are in the middle of a historic drought where, because of La Nina, the weather pattern, we have had an abnormally dry year, and, indeed, it has caused more than $5 billion of agricultural losses alone as a result of that drought.

I have not only seen some of the devastation myself before I left Austin, but I have also talked to a number of people on the ground who are well informed.

Representative Tim Kleinschmidt, who represents the Texas district east of Austin in sort of the Bastrop area, told me that as many as 1,000 people have been evacuated from their homes in that area and have been living in shelters since Sunday. Water and electricity are also down in many areas, and the wind has unfortunately swept the fire into other areas and now is only about 30 percent contained.

I have also talked to some of our other local leaders, our county judges, such as Grimes County judge Betty Shiflett, who told me that while they have no unmet needs right now, they are very concerned about the threat to life and property and are working as hard as they can to contain the fires.

I have also talked to our outstanding chief of the Texas Department of Emergency Management and the Director of the Texas Forest Service who tell me that as many as 2,000 Americans from places other than Texas have come to the State to help fight these fires and help protect property and life.

We have had a good Federal response to one extent, and that is the U.S. Forest Service has provided planes, bulldozers, and other equipment. Unfortunately, we have seen the White House so far not extend the disaster declaration beyond the original 52 counties approved for FEMA assistance on May 3. I should say that assistance ran out on May 3, more than 4 months ago. Suffice it to say, the disaster declaration should be extended to cover the rest of the State, at least 200 more Texas counties that need Federal assistance.

I am informed from reading the newspaper that President Obama reached out to Governor Perry yesterday to extend his condolences. But, frankly, more than condolences, what we need are the resources to help fight these fires to deal with the disaster and to help get people back into their homes as soon as possible.

I would just say in conclusion, Madam President, that the majority leader has raised the question of whether disaster relief should be paid for or whether it should be borrowed money. I come down on the side of believing that we can't keep borrowing money we don't have.

That is what the American people keep telling us. That is what the last election was all about. That is what the financial markets are telling us, and I believe the American people believe we have plenty of money in the Federal Government for Congress to do its job by setting priorities and funding those priorities.

I believe emergency assistance to the people who have been hit hardest by these natural disasters is one of those priorities. We should fund it instead of funding wasteful spending and duplicative programs and engaging in failed Keynesian stimulus schemes.

I yield the floor.

Section 5

Mr. BLUNT. Madam President, a significant change contained in H.R. 1249 from S. 23, the version of the bill debated and overwhelmingly passed by the Senate earlier this year, is the inclusion of the defense of prior commercial use against infringement of a later granted patent. Specifically, section 5 of H.R. 1249 creates a prior user right for processes, or machines, or compositions of matter used in a manufacturing or other commercial process, that would otherwise infringe a claimed invention if: (1) the person commercially used the subject matter in the United States, either in connection with an internal commercial use or an actual arm's length sale or other arm's length commercial transfer of a useful end result of such commercial use; and (2) the commercial use occurred at least one year before the earlier of either the effective filing

date of the claimed invention or the date on which the claimed invention was disclosed to the public in a manner that qualified as an exception from prior art.

As the distinguished chairman of the Committee on the Judiciary knows, such prior user rights, if properly crafted and understood, can be of great benefit to keeping high paying jobs in this country by giving U.S. companies a realistic option of keeping internally used technologies as trade secrets.

Mr. LEAHY. Madam President, my colleague and friend from Missouri is correct Prior user rights, if properly crafted and asserted, can be of great benefit to keeping high-paying jobs here at home.

Mr. BLUNT. I thank my good friend. A robust prior user right is not needed in today's first-to-invent regime. This is because, if a prior-user was sued for infringement, the patent could be invalidated under section 102(g)(2) because the prior-user was the first-to-invent.

However, should H.R. 1249's first-to-file system become law, the prior invention bar to patentability under section 102(g)(2) will be eliminated. This switch to first-to-file then presents the question of whether a non-patent-filing manufacturer should be given some prior user rights that would continue to allow these non-patented internal uses. Section 5 of H.R. 1249 attempts to settle the question by granting prior user rights but only when the prior use is for certain "commercial" uses.

The prior user rights provided under section 5 of H.R. 1249 will allow developers of innovative technologies to keep internally used technologies in-house without publication in a patent. This will help U.S. industry to keep jobs at home and provide a basis for restoring and maintaining a technology competitive edge for the U.S. economy. For these reasons, I believe the Senate should support this valuable addition to the America Invents Act and I applaud the leadership of my friend from Vermont.

Mr. LEAHY. I thank the Senator.

Mr. BLUNT. However, as noted a moment ago, the utility of the prior user defense is linked to its clarity surrounding its scope and its limitations. Many innovative companies may be reticent to opt for the protection of prior user rights for fear that the defense may not stand against a charge of infringement by a later patent owner who sues for infringement. Many innovators may feel the need to rush to

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the patent office in order to assure their long term freedom to operate. I do not need to belabor my colleagues with the attendant benefit the publication of patents provides to global competitors who are not respectful of intellectual property rights. The reason for this detrimental reliance on patents for internal technology is that the utility and reliability of section 5 is dependent on the prior use being an "internal commercial use"—a term for which there is no readily available judicial precedent. Should section 5 of H.R. 1249 become law, an innovator and his legal counsel need some reasonable assurance that an internal use will, in fact, be deemed to be a commercial use protectable under the law. These assurances are all the more important for

U.S. companies in the biotechnology field with extraordinarily long lead times for commercialization of its products. Does my colleague from Vermont understand the concern I am raising?

Mr. LEAHY. Madam President, I will say to my good friend that he is not the first to raise this issue with me and the other Members of the House and Senate Judiciary Committees who have worked on this bill. I have discussed section 5 at length with the distinguished House Judiciary Committee Chairman Lamar Smith. Perhaps I can help provide some of the needed clarity for my colleague concerning what we intend to be within the confines of the definition of "internal commercial use" as it is used in section 5 of the bill.

Mr. BLUNT. I thank my colleague for his willingness to discuss this matter here on the floor of the Senate. It is my reading of the bill's language under section 5 that prior use rights shall vest when innovative technology is first put into continuous internal use in the business of the enterprise with the objective of developing commercializable products. Does the chairman of the Judiciary Committee share this understanding?

Mr. LEAHY. Yes. My colleague and I are in agreement that it is our intention, as the sponsors of this comprehensive measure, that the prior use right set forth in section 5 of H.R. 1249 shall vest when innovative technology is first put into continuous internal use in the business of an innovator's enterprise with the objective of making a commercializable product.

Mr. BLUNT. I thank my colleague from Vermont. If he would permit me to clarify this matter further. Am I correct in understanding that, so long as that use begins more than 1 year prior to the effective filing date of a subsequent patent or publication by a later inventor, the initiation of continuous internal use by an original innovator in a manufacturing of a product should guarantee the defense of prior use regardless of whether the product is a prototype with a need for quality improvements?

Mr. LEAHY. I thank my colleague for the question. His understanding is correct. So long as the prior use begins more than 1 year prior to the effective filing date of a subsequent patent or publication by a later inventor, the initiation of continuous internal use in the manufacture of products should guarantee the defense of prior use. Mr. BLUNT. I thank my colleague. Let me illustrate by showing the impact of the ambivalence of the statutory language on agricultural research which is a major industry not only in Midwestern States like Missouri, Iowa, Kansas, Nebraska, Illinois, but in States ranging from California to Connecticut from Texas to Minnesota from North Carolina to Idaho. Virtually every State in this Union has an investment in agricultural research. The productivity of U.S. farmers provides a significant positive input to the U.S. balance of trade due in large part to the high technology adopted by U.S. farmers. That high technology is provided from multiple sources ranging from research at land grant universities, the USDA and private for-profit companies all of whom have internal technology that provides a competitive edge for maintaining agricultural competitive advantage for the U.S. economy. To specifically illustrate let us consider that U.S. researchers are leading the world in discovering genetic markers that are associated with important agronomic traits which serves as breeding production tools. Instead of teaching foreign competitors these production tools, a preferred alternative may be to rely on prior user rights for such innovative crop breeding technology which is used in the manufacture of new plant varieties although the use may only occur once a

year after each growing season and for many years to selectively manufacture a perfected crop product that is sold.

As another example let us consider an innovation in making potential new genetically modified products all of which need years of testing to verify their viability, repeatabilty and commercial value. Of the thousands of new potential prototype products made, only a few may survive initial screening to begin years of field trials. We should agree that a continuously used process qualifies as internal commercial use despite the fact that many prototypes will fail to have commercial merit.

As my examples illustrate, for section 5 to have its intended benefit, internal commercial use must vest when an innovator reduces technology to practice and takes diligent steps to maintain continuous, regular commercial use of the technology in manufacturing operations of the enterprise.

Mr. LEAHY. My colleague is correct in his reasoning and his understanding of what is intended by section 5. The methods used by Edison in producing multiple failures for electric light bulbs were no less commercial uses before the ultimate production of a commercially successful light bulb. Let us agree that internally used methods and materials do qualify for the defense of prior user rights when there is evidence of a commitment to put the innovation into use followed by a series of diligent events demonstrating that the innovation has been put into continuous—into a business activity with a purpose of developing new products for the benefit of mankind. Mr. BLUNT. I thank my colleague.

Section 5

Mr. KOHL. Madam President, I have long supported reforming our patent system and was pleased with the bill the Senate passed in March. It was not what everyone wanted, but it was an effective compromise that would spur innovation and economic growth. I am disappointed with changes the House made to the bill, specifically the expansion of the “prior user rights” defense a provision which raises serious concerns for the University of Wisconsin’s patent licensing organization which fosters innovative discoveries, spawning dozens of small businesses and spurring economic growth in Wisconsin.

Let me explain why. A patent grants an innovator the right to exclude others from using an invention in exchange for making that invention public. The publication of patents and the research behind them advance further innovation and discovery. Anyone who uses the invention without permission is liable for infringement, and someone who was using the invention prior to the patent has only a limited defense for infringement. The purpose of limiting this defense to infringement is to encourage publication and disclosure of inventions to foster innovation. So by expanding the prior user defense we run the real risk of discouraging disclosure through the patent system. This is concerning to the University of Wisconsin because they depend on publication and disclosure to further research and innovation.

I appreciate the inclusion of a carve-out to the prior user rights defense provision so that it does not apply to patents owned by a university “or a technology transfer organization whose primary

purpose is to facilitate the commercialization of technologies developed by one or more such institutions of higher education."

However, I have some concerns about how the carve out will work in practice and I would like to clarify its application.

It is my understanding that the term "primary purpose" in this exception is intended to be consistent with and have a similar scope as the "primary functions" language in the Bayh-Dole Act. In particular, if a nonprofit entity is entitled to receive assignment of inventions pursuant to section 207(c)(7) of title 35 because one of its primary functions is the management of inventions, presumably it falls under the primary purpose prong of the prior user rights exception. Is that the Senator's understanding of the provision?

Mr LEAHY. The senior Senator from Wisconsin is correct. That is also my

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view of the exception. I understand the Senator has consistently opposed the expansion of prior user rights, but I agree with his analysis of the scope of the exception in section 5 of H.R. 1249.

Section 18

Mr. PRYOR. I would like to ask my colleague from Vermont, the Chairman of the Judiciary Committee and lead sponsor of the America Invents Act before us today, to further clarify an issue relating to Section 18 of that legislation. Ideally, I would have liked to modify the Section 18 process in accordance with the Cantwell amendment. It is of crucial importance to me that we clarify the intent of the process and implement it as narrowly as possible.

As I understand it, Section 18 is intended to enable the PTO to weed out improperly issued patents for abstract methods of doing business.

Conversely, I understand that Section 18 is not intended to allow owners of valid patents to be harassed or subjected to the substantial cost and uncertainty of the untested review process established therein. Yet I have heard concerns that Section 18 would allow just such harassment because it enables review of patents whose claims have been found valid both through previous reexaminations by the PTO and jury trials. In my mind, patent claims that have withstood multiple administrative and judiciary reviews should be considered presumptively valid. It would not only be unfair to the patent holder but would be a waste of both PTO's time and resources to subject such presumptively valid patent claims to yet another administrative review. It would be particularly wasteful and injurious to legitimate patent holders if the "transitional review" only considered prior art that was already considered in the previous administrative or judicial proceedings. Can the Chairman enlighten me as to how the PTO will ensure that the "transitional process" does not become a tool to harass owners of valid patents that have survived multiple administrative and judicial reviews"?

Mr. LEAHY. The proceeding created by Section 18 is modeled on the proposed post-grant review proceeding under Section 6 of the Act. As in other post-grant proceedings, the claims should typically be evaluated to determine whether they, among other things, meet the

enablement and written description requirements of the act, and contain patentable subject matter under the standards defined in the statutes, case law, and as explained in relevant USPTO guidance. While the program will generally otherwise function on the same terms as other post-grant proceedings, the USPTO should implement Section 18 in a manner that avoids attempts to use the transitional program against patent owners in a harassing way. Specifically, to initiate a post issuance review under the new post grant or transitional proceedings, it is not enough that the request show a substantial new question of patentability but must establish that "it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable." The heightened requirement established by this bill means that these proceedings are even better shielded from abuse than the reexamination proceedings have been. In fact, the new higher standard for post issuance review was created to make it even more difficult for these procedures to be used as tools for harassment. Therefore, the rule that bars the PTO from reconsidering issues previously considered during examination or in an earlier reexamination still applies. While a prior district court decision upholding the validity of a patent may not preclude the PTO from considering the same issues resolved in that proceeding, PTO officials must still consider the court's decision and deviate from its findings only to the extent reasonable. As a result, I expect the USPTO would not initiate proceedings where the petition does not raise a substantial new question of patentability than those that had already been considered by the USPTO in earlier proceedings. Does that answer my colleague's question?"

Mr. PRYOR. I thank my colleague for that explanation.

Section 18

Mr. DURBIN. I would like to clarify an issue with my colleague from New York, who is the author of Section 18. Legislative history created during earlier consideration of this legislation makes clear that the business method patent problem that Section 18 is intended to address is fundamentally an issue of patent quality. Does the Senator agree that poor quality business method patents generally do not arise from the operation of American companies who use business method patents to develop and sell products and employ American workers in doing so? Mr. SCHUMER. My friend from Illinois is correct. I have previously inserted into the Record a March 3 letter from the Independent Community Bankers of America which stated that "Under the current system, business method patents of questionable quality are used to force community banks to pay meritless settlements to entities that may have patents assigned to them, but who have invented nothing, offer no product or service and employ no one. . . . The Schumer-Kyl amendment is critical to stopping this economic harm."

Mr. DURBIN. I thank the Senator. I want to point out that there are a number of examples of companies that employ hundreds or thousands of American workers in developing and commercializing financial sector products that are based on business method patents. For example, some companies that possess patents categorized by the PTO as class 705 business method patents have used the patents to develop novel software tools and graphical user interfaces that have been widely commercialized and used within the electronic trading industry to implement trading and asset allocation strategies. Additionally, there are companies that possess class 705 patents which have used the patents to manufacture and commercialize novel machinery to count, sort, and authenticate currency and paper instruments. Are these the types of patents that are the target of Section 18? Mr. SCHUMER. No. Patent holders who have

generated productive inventions and have provided large numbers of American workers with good jobs through the development and commercialization of those patents are not the ones that have created the business method patent problem. While merely having employees and conducting business would not disqualify a patent-holder from Section 18 review, generally speaking, it is not the understanding of Congress that such patents would be reviewed and invalidated under Section 18. Mr. COBURN. Madam President, today, I rise to discuss section 18 of H.R. 1249, the Leahy-Smith America Invents Act. Consistent with the statement in the Record by Chairman Lamar Smith on June 23, 2011, I understand that section 18 will not make all business method patents subject to review by the U.S. Patent and Trademark Office. Rather, section 18 is designed to address the problem of low-quality business method patents that are commonly associated with the Federal circuit's 1998 State Street decision. I further understand that section 18 of the bill specifically exempts "patents for technological inventions" from this new review at USPTO.

Patents for technological inventions are those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution. The technological innovation exception does not exclude a patent from section 18 simply because it recites technology. Inventions related to manufacturing and machines that do not simply use known technology to accomplish a novel business process would be excluded from review under section 18.

For example, section 18 would not cover patents related to the manufacture and distribution of machinery to count, sort, and authenticate currency. It is the intention of section 18 to not review mechanical inventions related to the manufacture and distribution of machinery to count, sort, and authenticate currency like change sorters and machines that scan paper instruments, including currency, whose novelty turns on a technological innovation over the prior art. These types of patents would not be eligible for review under this program.

American innovation is an important engine for job growth and our economic revitalization. To this end, the timely consideration of patent applications and the issuance of quality patents are critical components and should remain

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the primary goal of the U.S. Patent and Trademark Office.

Mr. KYL. Madam President, I rise today to say a few words about aspects of the present bill that differ from the bill that passed the Senate in March. I commented at length on the Senate bill when that bill was before this body. Since the present bill and the Senate bill are largely identical, I will not repeat what I said previously, but will simply refer to my previous remarks, at 157 Cong. Rec. 1368-80, daily ed. March 8, 2011, which obviously apply to the present bill as well.

As I mentioned earlier, Mr. Smith negotiated his bill with Senators Leahy, Grassley, and me as he moved the bill through the House of Representatives. The final House bill thus represents a compromise, one which the Senate supporters of patent reform have agreed to support in the

Senate. The provisions that Mr. Smith has added to the bill are ones that we have all had an opportunity to consider and discuss, and which I fully support.

Section 19(d) of the present bill adds a new section 299 to title 35.

This new section bars joinder of accused infringers as codefendants, or consolidation of their cases for trial, if the only common fact and transaction among the defendants is that they are alleged to have infringed the same patent. This provision effectively codifies current law as it has been applied everywhere outside of the Eastern District of Texas. See Rudd v. Lux Products Corp., 2011 WL 148052. (N.D. Ill. January 12, 2011), and the committee report for this bill at pages 54 through 55.

H.R. 1249 as introduced applied only to joinder of defendants in one action. As amended in the mark up and in the floor managers' amendment, the bill extends the limit on joinder to also bar consolidation of trials of separate actions. When this change was first proposed, I was skeptical that it was necessary. A review of legal authority, however, reveals that under current law, even if parties cannot be joined as defendants under rule 20, their cases can still be consolidated for trial under rule 42. For example, as the district court held in Ohio v. Louis Trauth Dairy, Inc., 163 F.R.D. 500, 503 (S.D. Ohio 1995), "[e]ven when actions are improperly joined, it is sometimes proper to consolidate them for trial." The same conclusion was reached by the court in Kenvin v. Newburger, Loeb & Co., 37 F.R.D. 473 (S.D.N.Y. 1965), which ordered severance because of misjoinder of parties, concluding that the claims against the defendants did not arise out of single transaction or occurrence, but then suggested the desirability of a joint trial, and expressly made its severance order without prejudice to a subsequent motion for consolidation under rule 42(a).

Similarly, in Stanford v. TVA, 18 F.R.D. 152 (M.D. Tenn. 1955), a court found that the defendants had been misjoined, since the claims arose out of independent transactions, and ordered them severed. The court subsequently found, however, that a common question existed and ordered the defendants' cases consolidated for trial.

That these cases are not just outliers is confirmed by Federal Practice and Procedure, which comments as follows at Sec. 2382:

Although as a general proposition it is true that Rule 42(a) should be construed in harmony with the other civil rules, it would be a mistake to assume that the standard for consolidation is the same as that governing the original joinder of parties or claims. . . . [M]ore than one party can be joined on a side under Rule 20(a) only if there is asserted on behalf of or against all of them one or more claims for relief arising out of the same transaction or occurrence or series of transactions or occurrences. This is in addition to the requirement that there be some question of law or fact common to all the parties. But the existence of a common question by itself is enough to permit consolidation under Rule 42(a), even if the claims arise out of independent transactions.

If a court that was barred from joining defendants in one action could instead simply consolidate their cases for trial under rule 42, section 299's purpose of allowing unrelated patent defendants

to insist on being tried separately would be undermined. Section 299 thus adopts a common standard for both joinder of defendants and consolidation of their cases for trial.

Another set of changes made by the House bill concerns the coordination of inter partes and postgrant review with civil litigation. The Senate bill, at proposed sections 315(a) and 325(a), would have barred a party or his real party in interest from seeking or maintaining an inter partes or postgrant review after he has filed a declaratory-judgment action challenging the validity of the patent. The final bill will still bar seeking IPR or PGR after a declaratory-judgment action has been filed, but will allow a declaratory-judgment action to be filed on the same day or after the petition for IPR or PGR was filed. Such a declaratory-judgment action, however, will be automatically stayed by the court unless the patent owner countersues for infringement. The purpose of allowing the declaratory-judgment action to be filed is to allow the accused infringer to file the first action and thus be presumptively entitled to his choice of venue.

The House bill also extends the deadline for allowing an accused infringer to seek inter partes review after he has been sued for infringement. The Senate bill imposed a 6-month deadline on seeking IPR after the patent owner has filed an action for infringement. The final bill extends this deadline, at proposed section 315(b), to 1 year. High-technology companies, in particular, have noted that they are often sued by defendants asserting multiple patents with large numbers of vague claims, making it difficult to determine in the first few months of the litigation which claims will be relevant and how those claims are alleged to read on the defendant's products. Current law imposes no deadline on seeking inter partes reexamination. And in light of the present bill's enhanced estoppels, it is important that the section 315(b) deadline afford defendants a reasonable opportunity to identify and understand the patent claims that are relevant to the litigation. It is thus appropriate to extend the section 315(b) deadline to one year.

The final bill also extends intervening rights to inter partes and post-grant review. The bill does not allow new matter to be introduced to support claims in IPR and PGR and does not allow broadening of claims in those proceedings. The aspect of intervening rights that is relevant to IPR and PGR is section 252, first paragraph, which provides that damages accrue only from the date of the conclusion of review if claim scope has been substantively altered in the proceeding. This restriction applies even if the amendment only narrowed the scope of the claims. See Engineered Data Products, Inc. v. GBS Corp., 506 F.Supp.2d 461, 467 (D. Colo. 2007), which notes that "the Federal Circuit has routinely applied the intervening rights defense to narrowing amendments." When patent-defeating prior art is discovered, it is often impossible to predict whether that prior art will be found to render the entire invention obvious, or will only require a narrowing amendment. When a challenger has discovered such prior art, and wants to practice the invention, intervening rights protect him against the risk of gong forward—provided, of course, that he is correct in his judgment that the prior art at least requires a substantive narrowing of claims.

The final bill also adds a new subsection to proposed section 257, which authorizes supplemental examination of patents. The new subsection provides that the Director shall refer to the U.S. Attorney General any "material fraud" on the Office that is discovered during the course of a Supplemental Examination. Chairman Smith's explanation of this addition, at 157 Cong. Rec. E1182-83 (daily ed. June 23, 2011), clarifies the purpose and effect of this new provision. In light of his remarks, I find the addition unobjectionable. I would simply add to the Chairman's

remarks that, in evaluating whether a fraud is "material" for purpose of referral, the Director should look to the Federal Circuit's decision in Therasense, Inc. v. Becton, Dickinson and Co., __F.3d__, 2011 WL 2028255 (May 25, 2011). That case holds, in relevant part, that:

[T]he materiality required to establish inequitable conduct is but-for materiality. When an applicant fails to disclose prior art to the PTO, that prior art is but-for material if the PTO would not have allowed a claim had it been aware of the undisclosed prior art. Hence, in assessing the materiality of a withheld reference, the court must determine whether the PTO would have allowed the claim if it had been aware of the undisclosed reference.

Finally, perhaps the most important change that the House of Representatives has made to the America Invents

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Act is the addition of a prior-commercial-use defense. Current law, at section 273, creates a defense of prior-user rights that applies only with respect to business-method patents. The final bill rewrites section 273, creating a PCU defense that applies to all utility patents.

University researchers and their technology-transfer offices had earlier objected to the creation of such a defense. Their principal concern was that the defense would lead to a morass of litigation over whether an infringer was entitled to assert it, and the expense and burden of this litigation would ultimately prevent universities and small companies from enforcing valid patents. The compromise reached in the House of Representatives addresses university concerns by requiring a defendant to show that he commercially used the subject matter that infringes the patent at least 1 year before the patent owner either filed an application or disclosed the invention to the public. The House compromise also precludes assertion of the defense against most university-owned patents.

The PCU defense is similar to the prior-user right that exists in the United Kingdom and Germany. The defense is a relatively narrow one. It does not create a general license with respect to the patented invention, but rather only allows the defendant to keep making the infringing commercial use that he establishes that he made 1 year before the patentee's filing or disclosure. The words "subject matter," as used in subsection (a), refer to the infringing acts of the defendant, not to the entire patented invention. An exception to this limit, which expands the defense beyond what would be allowed in the United Kingdom, appears in subsection (e)(3), which allows the defendant to increase the quantity or volume of the use that he establishes that he made of the invention. Subsection (e)(3) also confirms that the defendant may improve or otherwise modify his activities in ways that do not further infringe the patent, although one would think that this would go without saying.

The PCU defense is principally designed to protect the use of manufacturing processes. For many manufacturing processes, the patent system presents a catch-22: if the manufacturer patents the process, he effectively discloses it to the world. But patents for processes that are used in closed factories are difficult to police. It is all but impossible to know if someone in a factory in China is infringing such a patent. As a result, unscrupulous foreign and domestic manufacturers will simply use the invention in secret without paying licensing fees. Patenting

such manufacturing processes effectively amounts to giving away the invention to competitors. On the other hand, if the U.S. manufacturer does not patent the process, a subsequent party may obtain a patent for it, and the U.S. manufacture will be forced to stop using a process that he was the first to invent and which he has been using for years.

The prior-commercial-use defense provides relief to U.S. manufacturers from this Catch-22, allowing them to make long-term use of a manufacturing process without having to give it away to competitors or run the risk that it will be patented out from under them.

Subsection (a) expands the defense beyond just processes to also cover products that are used in a manufacturing or other commercial process. Generally, products that are sold to consumers will not need a PCU defense over the long term. As soon as the product is sold to the public, any invention that is embodied or otherwise inherent in that product becomes prior art and cannot be patented by another party, or even by the maker of the product after the grace period has expired. Some products, however, consist of tools or other devices that are used only by the inventor inside his closed factory. Others consist of substances that are exhausted in a manufacturing process and never become accessible to the public. Such products will not become prior art. Revised section 273 therefore allows the defense to be asserted with respect to such products.

The defense can also be asserted for products that are not used to make a useful end result that is sold to others, but that are used in an internal commercial process. This would include, for example, customized software that is used to run a company's human-resources system. So long as use of the product is integrated into an ongoing commercial process, and not merely fleeting or experimental or incidental to the enterprise's operations, the PCU defense can be asserted with respect to that product.

The present bill requires the defendant to commercially use the invention in order to be able to assert the defense. Chairman Smith has suggested, at 157 Cong. Rec. E1219 (daily ed. June 28, 2011), that in the future Congress should expand the defense so that it also applies when a company has made substantial preparations to commercially use an invention. Some have also suggested that the defense should be expanded to cover not just using, but also making and selling an invention if substantial preparations have been made to manufacture the invention. This would expand the defense to more fully compensate for the repeal of current section 102(g), which allows a party to invalidate a patent asserted against it if the party can show that it had conceived of the invention earlier and diligently proceeded to commercialize it.

On the one hand, universities and others have expressed concern that a "substantial preparations" predicate for asserting the PCU defense would lead to expensive and burdensome litigation over whether a company's activities reflect conception and diligent commercialization of the invention. Some argue that it is often the case that different companies and researchers are working on the same problem, and it is easy for the unsuccessful parties to later recharacterize their past efforts as capturing or diligently implementing the successful researcher's invention. Questions have also arisen as to how tentative preparations may be and still qualify as "substantial preparations." For example, if a company had not broken ground for its factory, but had commissioned an architect to draw up plans for it, would that qualify? Would taking out a loan to build the factory qualify as substantial preparations?

On the other hand, proof of conception and diligent commercialization are currently used to apply section 102(g)(2), and I have not heard complaints that the current defense has resulted in overly burdensome litigation.

In the end, however, a substantial-preparations predicate is not included in this bill simply because that was the agreement that was struck between universities and industry in the House of Representatives last summer, and we are now effectively limited to that agreement. Perhaps this issue can be further explored and revisited in a future Congress, though I suspect that many members will want a respite from patent issues after this bill is completed. The final bill also drops the requirement of a showing of a reduction to practice that previously appeared in subsection (b)(1). This is because the use of a process, or the use of product in a commercial process, will always constitute a reduction to practice. One change made by the original House bill that proved contentious is the expansion of the personal nature of the defense, now at subsection (e)(1)(A), to also include uses of the invention made by contractors and vendors of the person asserting the defense. The House bill originally allowed the defendant to assert the defense if he performed the commercial use or "caused" its performance. The word "caused," however, could be read to include even those uses that a vendor made without instructions or even the contemporaneous knowledge of the person asserting the defense. The final bill uses the word "directed," which limits the provision only to those third-party commercial uses that the defendant actually instructed the vendor or contactor to use. In analogous contexts, the word "directed" has been understood to require evidence that the defendant affirmatively directed the vendor or contractor in the manner of the work or use of the product. See, for example, Ortega v. Puccia, 75 A.D. 54, 59, 866 N.Y.S.2d 323, 328 (N.Y. App. 2008).

Subsection (e)(1)(A)'s reference to entities that "control, are controlled by, or under common control with" the defendant borrows a term that is used in several federal statutes. See 12 U.S.C. 1841(k), involving bank holding companies, 15 U.S.C. 78c(a)(4)(B)(vi), involving securities regulation, 15 U.S.C. 6809(6), involving financial privacy, and 49 U.S.C. 30106(d)(1), involving motor vehicle safety. Black's Law Dictionary 378 (9th ed. 2009) defines "control" as the "direct or indirect power to govern

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the management and policies of a person or entity, whether through ownership of securities, by contract, or otherwise; the power or authority to manage, direct, or oversee."

A few other aspects of the PCU defense merit brief mention. Subsection (e)(5)(A), the university exception, was extended to also include university technology-transfer organizations, such as the Wisconsin Alumni Research Foundation. Subparagraph (B), the exception to the university exception, is only intended to preclude application of subparagraph (A) when the federal government is affirmatively prohibited, whether by statute, regulation, or executive order, from funding research in the activities in question.

In the course of the recodification of former subsection (a)(2) as new (c)(2), the former's subparagraph (B) was dropped because it is entirely redundant with subparagraph (A).

Finally, subsection (e)(4), barring assertion of the defense if use of the subject matter has been abandoned, should not be construed to necessarily require continuous use of the subject matter. It is in the nature of some subject matter that it will be used only periodically or seasonally. If such is the case, and the subject has been so used, its use has not been abandoned.

I would also like to take a moment to once again address the question of the grace period created by this bill. During the House and Senate debates on the bill, opponents of the first-to-file system have occasionally asserted that they oppose the bill's move to first to file because it weakens the grace period. See 157 Cong. Rec. S1094, S1096, S1112 (daily ed. March 2, 2011), and 157 Cong. Rec. H4424, H4430 (daily ed. June 22, 2011).

Some of these arguments are difficult to understand, in part because opponents of first to file have used the term "grace period" to mean different things. Some have used the term to mean the period between the time when the inventor conceives of the invention and the time when he files a full or even provisional application. Obviously, if the "grace period" is defined as the first-to-invent system, then the move to first to file eliminates that version of the grace period. Others, however, have suggested that public uses, sales, or "trade secrets" will bar patenting under new section 102(b), even if they consist of activities of the inventor during the year before filing. This is not the case, and I hope that courts and executive officials interpreting this act will not be misled by arguments made by opponents of this part of the bill. The correct interpretation of section 102 and the grace period is that which has been consistently advanced in the 2007 and 2011 committee reports for this bill, see Senate Report 110-259, page 9, and House Report 112-98, page 43, as well as by both Chairman Smith and Chairman Leahy, see 157 Cong. Rec. S1496-97 (daily ed. March 9, 2011), and 157 Cong. Rec. H4429 (daily ed. June 22, 2011). These two chairmen are the lead sponsors and authorizing chairmen of this year's bills, which are identical with respect to section 102. As Chairman Smith most recently explained in his June 22 remarks, "contrary to current precedent, in order to trigger the bar in new 102(a) in our legislation, an action must make the patented subject matter 'available to the public' before the effective filing date." Therefore, "[i]f an inventor's action is such that it triggers one of the bars under 102(a), then it inherently triggers the grace period in section 102(b)."

When the committee included the words "or otherwise available to the public" in section 102(a), the word "otherwise" made clear that the preceding items are things that are of the same quality or nature. As a result, the preceding events and things are limited to those that make the invention "available to the public." The public use or sale of an invention remains prior art, thus making clear that an invention embodied in a product that has been sold to the public more than a year before an application was filed, for example, can no longer be patented. Once an invention has entered the public domain, by any means, it can no longer be withdrawn by anyone. But public uses and sales are prior art only if they make the invention available to the public.

In my own remarks last March, I cited judicial opinions that have construed comparable legislative language in the same way. Since that time, no opponent of the first-to-file transition has identified any caselaw that reads this legislative language any other way, nor am I aware of any such cases. I would hope that even those opponents of first to file who believe that supporters of the bill cannot rely on committee reports and sponsors' statements would at least concede that Congress is entitled to rely on the consistent judicial construction of legislative language.

Finally, I would note that the interpretation of 102 that some opponents appear to advance—that nondisclosing uses and sales would remain prior art, and would fall outside the 102(b) grace period—is utterly irrational. Why would Congress create a grace period that allows an invention that has been disclosed to the world in a printed publication, or sold and used around the world, for up to a year, to be withdrawn from the public domain and patented, but not allow an inventor to patent an invention that, by definition, has not been made available to the public? Such an interpretation of section 102 simply makes no sense, and should be rejected for that reason alone. Let me also address two other misstatements that have been made about the bill's first-to-file system. In remarks appearing at 157 Cong. Rec. S1095 (daily ed. March 2, 2011), it was suggested that a provisional application filed under the first-to-file system will be vulnerable to an attack that the inventor failed to disclose the best mode of the invention. This is incorrect. Section 15 of this bill precludes the use of the best-mode requirement as a basis for cancelling a claim or holding it invalid. It was also suggested, at the same place in the record, that discovery would not be allowed in the derivation proceedings created by section 3(i) of the bill. That is incorrect. Section 24 of title 35 allows discovery in any "contested case." The Patent Office's regulations, at 37 CFR 41.2(2), indicate that contested cases included Board proceedings such as interferences. It is not apparent to me why these laws and regulations would suggest anything other than that discovery will be allowed in derivation proceedings. Finally, let me close by commenting on section 18 of the bill. Some legitimate interests have expressed concern that non-business-method patents will be subject to challenge in this proceeding. I have been asked to, and am happy to, reiterate that technological inventions are excluded from the scope of the program, and that these technological inventions include inventions in the natural sciences, engineering, and computer operations—and that inventions in computer operations obviously include software inventions. This does not mean that a patent is ineligible for review simply because it recites software elements or has been reduced to a software program. If that were the case, then very few of even the most notorious business-method patents could be reviewed under section 18. Rather, in order to fall within the technological-invention exclusion, the invention must be novel as software. If an invention recites software elements, but does not assert that it is novel as software, or does not colorably appear to be so, then it is not ineligible for review simply because of that software element. But an actual software invention is a technological invention, and is not subject to review under section 18.

Mr. LEVIN. Madam President, I support the America Invents Act.

Right now, as our economy struggles to recover, this legislation is needed to help create jobs and keep our manufacturers competitive. It will further strengthen and expand the ability of our universities to conduct research and turn that research into innovative products and processes that benefit Michigan and our Nation.

Because of this legislation, we will be able to see that boost up close in my home State of Michigan, where a new satellite Patent and Trademark Office will be established in Detroit. This office will help modernize the patent system and improve the efficiency of patent review and the hiring of patent examiners.

In addition, in an important victory after years of effort to address the problem, section 14 of the act finally

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bans tax patents, ending the troubling practice of persons seeking patents for tax avoidance strategies.

Issuing such patents abuses the Tax Code by granting what some could see as a government imprimatur of approval for dubious tax strategies, while at the same time penalizing taxpayers seeking to use legitimate strategies. The section makes it clear that patents can still be issued for software that helps taxpayers prepare their tax returns, but that provision is intended to be narrowly construed and is not intended to authorize patents for business methods or financial management software.

The bill will put a halt to both new and pending tax patent applications. Although it does not apply on its face to the 130-plus tax patents already granted, if someone tries to enforce one of those patents in court by demanding that a taxpayer provide a fee before using it to reduce their taxes, I hope a court will consider this bill's language and policy determination when deciding whether such efforts are consistent with public policy.

This legislation is an important step forward and I urge my colleagues to support it.

Mr. SCHUMER. Madam President, I would like to clarify the record on a few points related to section 18 of the America Invents Act. Section 18, of which Senator Kyl and I were the authors, relates to business method patents. As the architect of this provision, I would like to make crystal clear the intent of its language.

It is important that the record reflect the urgency of this provision. Just today, while the Senate has been considering the America Invents Act, Data Treasury—the company which owns the notorious check imaging patents and which has already collected over half a billion dollars in settlements—filed suit in the Eastern District of Texas against 22 additional defendants, primarily community banks. These suits are over exactly the type of patents that section 18 is designed to address, and the fact that they continue to be filed highlights the urgency of signing this bill into law and setting up an administrative review program at the PTO. I would like to elucidate the intent behind the definition of business method patents. Other Members have attempted to suggest a narrow reading of the definition, but these interpretations do not reflect the intent of Congress or the drafters of section 18. For example, in connection with the House vote on the America Invent Act, H.R. 1249, Congressman Shuster submitted a statement in the Record regarding the definition of a "covered business method patent" in section 18. 157 Cong. Rec. H4497 (daily ed. June 23, 2011). In the statement, Mr. Shuster states: "I would like to place in the record my understanding that the definition of 'covered business method patent' . . . is intended to be narrowly construed to target only those business method patents that are unique to the financial services industry." Mr. Shuster's interpretation is incorrect. Nothing in the America Invents Act limits use of section 18 to banks, insurance companies or other members of the financial services industry. Section 18 does not restrict itself to being used by petitioners whose primary business is financial products or services. Rather, it applies to patents that can apply to financial products or services. Accordingly, the fact that a patent is being used by a company that is not a financial services company does not disqualify the patent from section 18 review. Conversely, given the statutory and regulatory limitations on the activities of financial services

companies, if a patent is allegedly being used by a financial services company, the patent will qualify as a "covered business method patent."

The plain meaning of "financial product or service" demonstrates that section 18 is not limited to the financial services industry. At its most basic, a financial product is an agreement between two parties stipulating movements of money or other consideration now or in the future. Types of financial products include, but are not limited to: extending credit, servicing loans, activities related to extending and accepting credit, leasing of personal or real property, real estate services, appraisals of real or personal property, deposit-taking activities, selling, providing, issuing or accepting stored value or payment instruments, check cashing, collection or processing, financial data processing, administration and processing of benefits, financial fraud detection and prevention, financial advisory or management consulting services, issuing, selling and trading financial instruments and other securities, insurance products and services, collecting, analyzing, maintaining or providing consumer report information or other account information, asset management, trust functions, annuities, securities brokerage, private placement services, investment transactions, and related support services. To be eligible for section 18 review, the patent claims must only be broad enough to cover a financial product or service.

The definition of "covered business method patent" also indicates that the patent must relate to "performing data processing or other operations used in the practice, administration, or management" of a financial product or service. This language makes it clear that section 18 is intended to cover not only patents claiming the financial product or service itself, but also patents claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity. Any business that sells or purchases goods or services "practices" or "administers" a financial service by conducting such transactions. Even the notorious "Ballard patents" do not refer specifically to banks or even to financial transactions. Rather, because the patents apply to administration of a business transactions, such as financial transactions, they are eligible for review under section. To meet this requirement, the patent need not recite a specific financial product or service.

Interestingly, Mr. Shuster's own actions suggest that his interpretation does not conform to the plain meaning of the statute. In addition to his statement, Mr. Shuster submitted an amendment to the Rules Committee that would exempt particular types of business-method patents from review under section 18. That amendment was later withdrawn. Mr. Shuster's subsequent statement in the Record appears to be an attempt to rewrite through legislative history something that he was unable to change by amendment.

Moreover, the text of section 18 further demonstrates that section 18 is not limited to patents exclusively utilized by the financial services industry. As originally adopted in the Senate, subsection (a)(1)(B) only allowed a party to file a section 18 petition if either that party or its real parties in interest had been sued or accused of infringement. In the House, this was expanded to also cover cases where a "privy" of the petitioner had been sued or accused of infringement. A "privy" is a party that has a direct relationship to the petitioner with respect to the allegedly infringing product or service. In this case, it effectively means customers of the petitioner. With the addition of the word "privy," a company could seek a section 18 proceeding on the basis that customers of the petitioner had been sued for infringement. Thus, the addition of the "privy"

language clearly demonstrates that section 18 applies to patents that may be used by entities other than the financial services industry. The fact that a multitude of industries will be able to make use of section is evident by the broad based support for the provision, including the U.S. Chamber of Commerce and the National Retail Federation, among many others.

Mr. KIRK. Madam President, I support H.R. 1249, the Leahy-Smith America Invents Act, because this long-overdue patent reform will spur innovation, create jobs and strengthen our economy.

In particular, I am proud that this legislation contains a provision I worked to include in the Senate companion, S.23, that would establish the US Patent and Trademark Office Ombudsman Program to assist small businesses with their patent filing issues. This Ombudsman Program will help small firms navigate the bureaucracy of the patent system. Small businesses are the economic engine of our economy. According to the Small Business Administration, these companies employ just over half of all private sector employees and create over fifty percent of our nonfarm GDP. Illinois alone is

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home to over 258,000 small employers and more than 885,000 self-employers. Small businesses are also helping to lead the way on American innovation. These firms produce thirteen times more patents per employee than large patenting firms, and their patents are twice as likely to be the most cited among all patents. Small business breakthroughs led to the development of airplanes, FM radio and the personal computer. It is vital that these innovators spend their time developing new products and processes that will build our future, not wading through government red tape.

However, I vote for this legislation with the understanding that Section 18, which establishes a review process for business-method patents, is not too broadly interpreted to cover patents on tangible products that claim novel and non-obvious software tools used to execute business methods. H.R. 1249 seeks to strengthen our patent system in order to incentivize and protect our inventors so that Americans can grow our economy and bolster our global competiveness. Thus, it would defy the purpose of this bill if its authority were used to threaten the viable patents held by companies that employ hundreds of Americans by commercializing software products they develop and engineer.

Our Founding Fathers recognized the importance of a strong patent system. I am proud to support H.R. 1249, which will provide strong intellectual property rights to further our technological advancement. Mr. DURBIN. Madam President, I rise to speak about the Leahy-Smith America Invents Act. This is bipartisan legislation that will enhance and protect innovation in our country. I want to commend Senator Leahy, the chairman of the Judiciary Committee, for his leadership and tireless work on this bill. I also want to commend my Republican colleagues on the Judiciary Committee, particularly Senators Grassley, Kyl, and Hatch, who have worked diligently with Chairman Leahy in this effort to reform our patent system.

In this country, if you have a good idea for a new and useful product, you can get a patent and turn that idea into a thriving business. Millions of good American jobs are created in this way. The goals of today's legislation are to improve the operations of the Patent and Trademark Office and to help inventors in this country better protect their investments in innovation. By protecting innovations, we will help grow our economy and help businesses create jobs for American workers.

I regret that after the Senate passed a version of this legislation in March in a broadly bipartisan vote of 95-5, the House of Representatives modified the Senate-passed legislation. Not all of those changes improved the bill. Today, we voted on several amendments that responded to changes made by the House. I voted in support of an amendment that sought to strike Section 37, which the House had added to the bill. This section unnecessarily interferes with a matter that is currently being considered on appeal in the federal courts. I also voted reluctantly to table an amendment to restore the Senate-passed language regarding funding of the Patent and Trademark Office. I supported the tabling motion because of the significant risk that the bill would fail if the Senate sent it back to the House with that amendment included. It is unfortunate that disagreement between the House and Senate has prevented the PTO funding issue from being more clearly resolved in the current legislation, and I believe Congress must work diligently in the future to ensure PTO has the funding and resources it needs to effectively carry out its mission. I also voted against an amendment relating to section 18 of the bill which creates a transitional review process for certain business method patents. I cast this vote after receiving assurances from my colleagues that the scope and application of section 18 would be appropriately constrained, as it is critically important that this section not be applied in a way that would undermine the legislation's focus on protecting legitimate innovation and job creation. I want to note specifically that there are companies in many states, including my state of Illinois, that employ large numbers of American workers in bringing to market legitimate, novel and non-obvious products that are based on and protected by business method patents. Examples of such patent-protected products include machinery that counts, sorts or authenticates currency and paper instruments, and novel software tools and graphical user interfaces that are used by electronic trading industry workers to implement trading or asset allocation strategies. Vibrant industries have developed around the production and sale of these tangible inventions, and I appreciate that patents protecting such job-creating products are not understood to be the target of section 18.

I also note that there is an exemption in section 18 for patents for technological inventions. House Judiciary Chairman Smith provided useful clarification with respect to the scope of that exemption in the June 23, 2011, Record, stating that:

Patents for technological inventions are those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution. The technological innovation exception does not exclude a patent simply because it recites technology. Inventions related to manufacturing and machines that do not simply use known technology to accomplish a novel business process would be excluded from review under Section 18.

Section 18 would not cover patents related to the manufacture and distribution of machinery to count, sort, and authenticate currency. It is the intention of Section 18 to not review mechanical

inventions related to the manufacture and distribution of machinery to count, sort and authenticate currency like change sorters and machines that scan currency whose novelty turns on a technological innovation over the prior art. These types of patents would not be eligible for review under this program.

I agree with Chairman Smith, and would note again that vibrant and job-creating industries have developed around the types of mechanical inventions he describes that deal with the counting, sorting, authentication and scanning of currency and paper instruments. I am confident that the PTO will keep this in mind as it works to craft regulations implementing the technological invention exception to section 18. I also expect the PTO to keep in mind as it crafts these regulations Congress's understanding that legitimate and job-creating technological patents such as those protecting the novel electronic trading software tools and graphical user interfaces discussed above are not the target of section 18.

Overall, I am pleased that the Congress has passed patent reform legislation with strong bipartisan support and has sent the legislation to the President's desk. It has been a long time in the making, and I again want to congratulate Chairman Leahy for his leadership and hard work on this issue.

The PRESIDING OFFICER. The Senator from Iowa has 5 minutes. Mr. GRASSLEY. Madam President, I urge my colleagues to oppose all three amendments to the patent bill so we can send this important jobs bill to the President of the United States for his signature. I then urge my colleagues to support final passage of the Leahy-Smith America Invents Act. This is a strong bipartisan bill that will enhance America's innovation and give us economic growth. It will protect inventors' rights and improve transparency and third-party participation in the patent review process. It will strengthen patent quality and reduce costs and will curb litigation abuses and improve certainty for investors and innovators.

The Leahy-Smith America Invents Act will also help small entities with their patent applications and provide for reduced fees for micro entities and small businesses. It will help companies do business more efficiently both here and abroad.

The bill includes a provision that will prevent patents from being issued on claims of tax strategies. These strategies can add unwarranted fees on taxpayers for attempting to comply with the Tax Code.

Finally, the bill will enhance the operations of the Patent and Trademark Office with administrative reforms, give the Patent and Trademark Office fee-setting authority which we hope will then lead to a reduction of backlog and improve the ability of the Patent and Trademark Office to manage its affairs.

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I thank Chairman Leahy and Senator Hatch, the lead sponsors of this legislation, for the tremendous amount of work they put into this America Invents Act, not only for this Congress but over the past 3 to 4 years that this bill has been worked on. This has been a long process spanning those several Congresses, and without the leadership of these two Senators on patent reform we wouldn't be ready to cross the finish line today.

In addition, I thank the staff of the Judiciary Committee: Bruce Cohen, Aaron Cooper, Curtis LeGeyt of Chairman Leahy's staff, Matt Sandgren of Senator Hatch's staff, and Joe Matal of Senator Kyl's staff. I would like to thank the floor staff for their help in processing this bill in an efficient manner, and I would like to especially thank Kolan Davis and Rita Lari Jochum of my staff for their hard work on the bill.

So for a third time I urge my colleagues to vote for the Leahy-Smith America Invents Act and to oppose the three amendments we are going to be voting on so we can keep the bill clean and send it to the President without delay.

Senator Leahy has made it very clear to all 100 Senators that, if we support this bill, it is a gamble to say it will be law if we have to move it beyond the Senate to the House. This bill will help American inventors create innovative new products and services and stimulate job creation. The bill will upgrade and strengthen our patent system and keep America competitive in an increasingly global economy. This is a good bill, and I urge all of my colleagues to support it. Madam President, how much time do I have?

The PRESIDING OFFICER. There is 1 minute remaining. Mr. GRASSLEY. I would urge my colleagues—because I rebut Senator Sessions' amendment—to keep in mind that when somebody tells us this is to bail out one company, understand that one company has gotten justice from the judicial branch of our government because a judge has said for that company that they were denied their rights under the 60-day rule to file for an extension of patent. So what that judge said was bureaucrats in our agencies acted in an arbitrary and capricious manner by not having the same rules that designate when the 60-day period of time starts.

So we have a judge that says so, so maybe people can refer to that opinion and get what they want. But we ought to have it in the statute of what is uniform, and that is what the bill does, and the Sessions amendment would strike that.

I yield the floor.

The PRESIDING OFFICER. The Senator from Vermont has the remainder of the time until 4 p.m.

Mr. LEAHY. Madam President, I thank the distinguished Senator from Iowa for his strong support of this bill.

In a few moments the Senate is going to have the opportunity to make significant reforms to our Nation's patent system for the first time in more than half a century.

The America Invents Act is the product of extensive consideration. We have worked on this for four Congresses. We have had dozens of hearings, weeks of committee debate, and I have lost count of the hundreds of other meetings we have had. This bill is an opportunity to show the American people that Democrats and Republicans can come together to enact meaningful legislation for the American people. The time to do that is now.

The only remaining issues that stand in the way of this long overdue reform are three amendments. Each of them carries some merit. In the past, I might have supported them. But this

is a compromise. No one Senator can have everything he or she may want. The underlying issues have been debated. The bill as written represents a bipartisan, bicameral agreement that should be passed without changes. Any amendment to this bill risks killing it. I would urge all Senators, Republicans and Democrats alike, to join me and join Senator Grassley in opposing these amendments. They are the final hurdles standing in the way of comprehensive patent reform. I ask unanimous consent to have printed in the Record letters from businesses and workers representing the spectrum of American industry and labor urging the Senate to pass the America Invents Act without amendment.

There being no objection, the material was ordered to be printed in the Record, as follows:

The Coalition for 21st Century Patent Reform.

Hon. Patrick J. Leahy, Chairman,
Committee on the Judiciary,
Washington, DC.

Hon. Charles E. "Chuck" Grassley,
Ranking Member,
Committee on the Judiciary,
Washington, DC.

Dear Chairman Leahy and Ranking Member Grassley:
We urge you to work with the leadership of the Senate to bring H.R. 1249 to the Senate floor as soon the Senate's schedule might permit and pass the bill as is.

Our Coalition believes that this legislation will fully modernize our patent laws. Indeed, it will give the world the first truly 21st century patent law—creating patentability standards that are transparent, objective, predictable and simple in their application. It will enhance the inventor-friendly and collaboration-friendly features of our existing patent law. At the same time, it will increase public participation in the patenting process, while maintaining strong protections for inventors in the provisions that do so.

The agreement reached in the House on USPTO funding will assure that the fees paid to the USPTO by inventors will not be diverted and will be made available to the Office for processing patent applications and other important functions of the Office. While we would have preferred the Senate's approach in S. 23 to prevent diversion of USPTO funds, we believe that acceptance of the House bill provides an effective and the most immediate path forward to address problems of the patent office. H.R. 1249, like S. 23, is an excellent bill. These bills are the product of many years of skillful and difficult legislative work in both the House and the Senate. We believe the time has now come for the Senate to take the final legislative act required for enactment of these historic reforms.

Sincerely,

Gary L. Griswold.
Coalition for Patent Fairness,
June 27, 2011.

Hon. Patrick J. Leahy,
Chairman, U.S. Senate, Committee on the Judiciary,
Washington, DC.

Hon. Charles E. Grassley,
Ranking Member, Committee on the Judiciary,
Washington, DC.

Dear Chairman Leahy and Ranking Member Grassley:
After years of effort, both houses of Congress have now successfully passed patent reform by impressive margins. On behalf of the high tech community, we congratulate you, as well as your House colleagues, on this achievement.

The Coalition for Patent Fairness supports Senate acceptance of H.R. 1249 as passed by the House. While neither bill is as we would have written it, we believe that the House passed bill represents the best opportunity to improve the patent system at the present time. We are also quite aware that House leaders worked very hard to take into account the views of the Senate during their deliberations.

H.R. 1249, as passed, offers us a chance of consensus and we believe it should be passed and signed into law. We are looking forward to advancing other policy matters that boost innovation and growth in this country.

Sincerely,

Coalition for Patent Fairness.

Chamber of Commerce of the United States of America,
Washington, DC,
September 6, 2011.

To the Members of the United States Senate: The U.S. Chamber of Commerce, the world's largest business federation representing the interests of more than three million businesses and organizations of every size, sector, and region, strongly supports H.R. 1249, the "America Invents Act," which would encourage innovation and bolster the U.S. economy. The Chamber believes this legislation is crucial for American economic growth, jobs, and the future of U.S. competitiveness.

A key component of H.R. 1249 is section 22, which would help ensure that fees collected by the U.S. Patent and Trademark Office (PTO) fund the office and its administration of the patent system. PTO faces significant challenges, including a massive backlog of pending applications, and this backlog is stifling domestic innovators. The fees that PTO collects to review and approve patent applications should be dedicated to PTO operation. However, fee diversion by Congress has hampered PTO's efforts to hire and retain a sufficient number of qualified examiners and implement technological improvements necessary to ensure expeditious issuance of high quality patents. Though the PTO funding compromise embodied in the House-passed bill could be strengthened to match the fee diversion provision originally passed by the Senate, as crafted, Section 22 represents a meaningful step toward ensuring that PTO has better access to

the user fees it collects, and would better allow the agency to address the current backlog of 1.2 million applications waiting for a final determination and pendency time of three years, as well as to improve patent quality.

In addition, the legislation would help ensure that the U.S. remains at the forefront of

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innovation by enhancing the PTO process and ensuring that all inventors secure the exclusive right to their inventions and discoveries. The bill shifts the U.S. to a first-inventor-to-file system that the Chamber believes is both constitutional and wise, ending expensive interference proceedings. H.R. 1249 also contains important legal reforms that would help reduce unnecessary litigation against American businesses and innovators. Among the bill's provisions, Section 16 would put an end to frivolous false patent marking cases, while still preserving the right of those who suffered actual harm to bring actions. Section 5 would create a prior user right for those who first commercially use inventions, protecting the rights of early inventors and giving manufacturers a powerful incentive to build new factories in the United States, while at the same time fully protecting universities. Section 19 also restricts joinder of defendants who have tenuous connections to the underlying disputes in patent infringement suits. Section 18 of H.R. 1249 provides for a tailored pilot program which would allow patent office experts to help the court review the validity of certain business method patents using the best available prior art as an alternative to costly litigation.

The Chamber strongly opposes any amendments to H.R. 1249 that would strike or weaken any of the important legal reform measures in this legislation, including those found in Sections 16, 5, 19 and 18.

The Chamber strongly supports H.R. 1249. The Chamber may consider votes on, or in relation to, H.R. 1249--including procedural votes, and any weakening Pamendments—in our annual How They Voted scorecard.

Sincerely,

R. Bruce Josten,
Executive Vice President,
Government Affairs.

United Steelworkers,
Pittsburgh, PA,
July 15, 2011.

Hon. Patrick J. Leahy, Chairman,
Committee on the Judiciary,
U.S. Senate, Washington, DC.

Dear Chairman Leahy:
On behalf of the United Steelworkers, I am writing to urge you to consider support for the recently passed House bill, H.R. 1249. Over the past several years the USW has been deeply

involved in discussions concerning comprehensive patent reform. We were principally concerned with issues dealing with how damages are calculated for infringed patents, new post-grant review procedures, and publication requirements for pending patents. H.R. 1249, as did S. 23 which passed earlier this year, satisfactorily addresses these issues and has our support. While we prefer the provision in the Senate bill dealing with USPTO funding, we nevertheless believe that the House bill moves in the right direction and will help insure that the patent office has the appropriate and necessary resources to do its important work.

Certainly, no bill is perfect. But H.R. 1249 goes a long way toward balancing different interests on a very difficult and contentious issue. We believe it warrants your favorable consideration and enactment by the Senate so that it can be moved to the President's desk and signed into law without undue delay.

We worked closely with your office, and others in the Senate, in finding a consensus approach that would promote innovation, investment, production and job creation in the U.S. We believe that H.R. 1249, which builds on your work in the Senate, strikes a proper balance.

The U. S. economy remains in a very fragile state with high unemployment and stagnant wages. Patent reform can be an important part of a comprehensive approach to getting the economy moving again and I urge its enactment.

Sincerely,

Leo W. Gerard,
International President.

June 27, 2011.

Hon. Patrick Leahy,
Chairman,
Senate Committee on the Judiciary, Washington, DC.

Hon. Chuck Grassley,
Ranking Member,
Senate Committee on the Judiciary, Washington, DC.

Dear Chairman Leahy and Ranking Member Grassley:
We write on behalf of six university, medical college, and higher education associations to encourage you to work with the leadership of the Senate to bring H.R. 1249 before the Senate as soon as possible for a vote on passage of the bill as is.

The patent system plays a critical role in enabling universities to transfer the discoveries arising from university research into the commercial sector for development into products and processes that benefit society. H.R. 1249 closely resembles S. 23; both bills contain provisions that will improve patent quality, reduce patent litigation costs, and provide increased funding for the USPTO. Although we preferred the USPTO revolving fund established in S. 23, we believe that the funding provisions adopted by the House in the course of passing H.R. 1249 provide an effective means of preventing fee diversion. Together with the expanded fee-setting authority

included in both bills, H.R. 1249 will provide USPTO with the funding necessary to carry out its critical functions.

We very much appreciate the leadership of the Senate Judiciary Committee in crafting S. 23, which brought together the key elements of effective patent reform and formed the basis for H.R. 1249. These bills represent the successful culmination of a thorough, balanced effort to update the U.S. patent system, strengthening the nation's innovative capacity and job creation in the increasingly competitive global economic environment of the 21st century. Senate passage of H.R. 1249 will assure that the nation secures these benefits.

Sincerely,

Hunter R. Rawlings III, President,
Association of American Universities.

Molly Corbett Broad, President,
American Council on Education.

Darrell G. Kirch,
President and CEO,
Association of American Medical Colleges.

Peter McPherson, President,
Association of Public and Land-grant Universities.

Robin L. Rasor, President,
Association of University Technology Managers.

Anthony P. DeCrappeo, President,
Council on Governmental Relations.

June 25, 2011.

Dear Chairman Leahy and Ranking Member Grassley:
As an independent inventor and someone who has personally interacted with thousands of other independent inventors and entrepreneurs, we urge you to work with the leadership of the Senate to bring H.R. 1249 to the Senate floor as soon the Senate's schedule might permit and pass the bill as is.

Over the past few months, my enthusiasm and belief in the legislative process has grown as I have participated in the debate over patent reform. I believe that this legislation will fully modernize our patent laws. It will give independent inventors and entrepreneurs the speed and certainty necessary to go out and commercialize their inventions, start companies, and create jobs.

There has been a great deal of compromise amongst industries to balance the unique needs of all constituents. The independent inventor has been well represented throughout this process and we are in a unique situation where there is overwhelming support for this legislation.

The fee diversion debate has been important, since it has shed light on the fact that nearly a billion dollars has been diverted from the USPTO. These are dollars that inventors have paid to the USPTO expecting the funds to be used to examine applications as expeditiously as possible. While I would have preferred the Senate's approach in S. 23 to prevent diversion of USPTO funds, I believe that acceptance of the House bill provides the best way to ensure that the funds paid to the patent office will be available to hire examiners and modernize the tools necessary for it to operate effectively.

H.R. 1249 is the catalyst necessary to incentivize inventors and entrepreneurs to create the companies that will get our country back on the right path and generate the jobs we sorely need. I hope that you will take the needs of the "little guy" into consideration and move this legislation forward and enact these historic reforms.

Sincerely,
Louis J. Foreman, CEO.

Mr. LEAHY. The bill is important for our economy. It is important for job creation. It is a product of bipartisan and bicameral collaboration. It is the way our system is supposed to work. I look forward to passing the bill and sending it directly to the President's desk for his signature. I know my friends both on the Republican side and Democratic side have amendments to this bill, but they are not amendments that should pass. I mentioned the one earlier. I talked about the amendment that would put all our—well, Madam President, which amendment is the first in order?

The PRESIDING OFFICER. Sessions amendment No. 600. Mr. LEAHY. Madam President, I yield the floor. I know both Senator Sessions and Senator Grassley wish to speak to that.

The PRESIDING OFFICER. The Senators will have 4 minutes equally divided.

The Senator from Alabama.

Mr. SESSIONS. Madam President, the oath that judges take is to do equal justice, and it says for the poor and the rich.

Every day statutes of limitations require that a litigant file a lawsuit within so many days and file petitions in so many days. I see Senator Cornyn, a former justice on the Texas Supreme Court and attorney general of Texas. He fully understands that. I know he supports my view of this issue; that is, that the rules have to be equally applied.

It is just not right to the little widow lady, it is not right that somebody

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with a poor lawyer, or whatever, misses a deadline and a judge throws the case out. And they do. Big law firms such as WilmerHale file motions every day to dismiss cases based on delay in filing those cases. Big insurance companies file lawsuits, file motions to dismiss every day against individuals who file their claims too late—and they win. So when this big one has a good bit of risk, presumably they have a good errors and omissions policy—that is what they are

supposed to do. One reason they get paid the big bucks—and the average partner makes $1 million-plus a year—is because they have high responsibilities, and they are required to meet those responsibilities and be responsible. So I believe it is improper for us, while this matter is on appeal and in litigation, to take action driven by this continual lobbying pressure that would exempt one company. They can say it is others involved, but, look, this is always about one company. I have been here for 10 years. I know how it is played out. I have seen it. I have talked to the advocates on their behalf. I just haven't been able to agree to it because I see the average person not getting the benefit they are due.

So I urge my colleagues to join in support of this amendment. The Wall Street Journal and others have editorialized in favor of it, and I urge my colleagues to support it.

Mr. GRASSLEY. How much time do I have?

The PRESIDING OFFICER. Two minutes in opposition to the amendment. Mr. GRASSLEY. I think the Senator from Alabama has given me a reason to suggest the importance of the language of the bill he wants to strike because he said that law ought to be equally applied. The law for this one company is that they were not given justice by bureaucrats who acted in an arbitrary and capricious manner and they were denied their rights under the law. So that company is taken care of because there was an impartial judge who believed they had been abused in their rights under Hatch-Waxman to be able to extend their patent.

You might be able to argue in other places around the country when you are likewise denied your right that you have this court case to back you up, but we cannot have one agency saying when a 60-day period of time starts for mail going in or mail going out to exercise your 60-day period, and for another agency to do it another way. That is basically what the judge said, that Congress surely could not have meant that.

The language of this section 37 does exactly what Senator Sessions wants, which is to guarantee in the future that no bureaucrat can act in an arbitrary and capricious way when they decide when does the 60-day period of time start. We put it in the statute of the United States so the courts look at it and the bureaucrats look at it in exactly the same way.

If you are a citizen of this country, you ought to know what your rights are. You ought to know that a bureaucrat treats you the same way they treat, in like situations, somebody else. You cannot have this sort of arbitrary and capricious action on the part of faceless bureaucrats that denies the rights. This puts it in statute and solidifies it so everybody knows what the law is, rather than relying upon one judge or in the future having to rely upon the court someplace else. I ask my colleagues not to support the Sessions amendment because it would deny equal rights to some people in this country, as this judge said those equal rights were already denied.

The PRESIDING OFFICER (Ms. Klobuchar). The time has expired. The Senator from Vermont.

Mr. LEAHY. Madam President, I ask unanimous consent that after the first vote—we have several more votes—the remaining votes be 10-minute votes.

The PRESIDING OFFICER. Without objection, it is so ordered.

The Senator from Vermont.

Mr. LEAHY. Have the yeas and nays been ordered?

The PRESIDING OFFICER. They have not.

The question is on agreeing to the Sessions amendment No. 600.

Mr. SESSIONS. I ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second?

There appears to be a sufficient second.

The clerk will call the roll.

The bill clerk called the roll.

Mr. DURBIN. I announce that the Senator from West Virginia (Mr. Rockefeller) is necessarily absent.

Mr. KYL. The following Senator is necessarily absent: the Senator from Indiana (Mr. Coats).

The PRESIDING OFFICER. Are there any other Senators in the Chamber desiring to vote?

The result was announced—yeas 47, nays 51, as follows:

[Rollcall Vote No. 126 Leg. Votes omitted]

The amendment was rejected.

Mr. LEVIN. Madam President, I move to reconsider the vote.

Mr. KERRY. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Amendment No. 595

The PRESIDING OFFICER. There will now be 4 minutes equally divided prior to a vote in relation to the Cantwell amendment. The Senator from Washington. Ms. CANTWELL. Madam President, I encourage my colleagues to support the Cantwell amendment. The Cantwell amendment is the reinstatement of section 18 language as it passed the Senate. So casting a vote for the Cantwell amendment will be consistent with language previously supported by each Member.

The reason we are trying to reinstate the Senate language is because the House language broadens a loophole that will allow for more confusion over patents that have already been issued. It will allow for the cancellation of patents already issued by the Patent Office, throwing

into disarray and legal battling many companies that already believe they have a legitimate patent.

The House language, by adding the word “other,” broadens the definition of section 18 and extends it for 8 years, so this chaos and disarray that is supposedly targeted at a single earmark for the banking industry to try to get out of paying royalties is now so broadened that many other technology companies will be affected. I urge my colleagues to support the Cantwell amendment and reinstate the language that was previously agreed to.

The PRESIDING OFFICER. The Senator from New York. Mr. SCHUMER. Madam President, I rise in opposition to the amendment of my dear friend, Senator Cantwell.

Business method patents are a real problem. They never should have been patented to begin with. Let me give an example: double click. We double click on a computer or something such as that and after it becomes a practice for awhile, someone files a patent and says they want a patent on double clicking. Because of the way the Patent Office works, the opponents of that never get a chance to weigh in as to whether it should be a patent. The Patent Office has gone way overboard in allowing these business method patents.

One might say: Then you get your day in court. That is true, except 56

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percent—more than half—of all the business method patent litigation goes to one district, the Eastern District of Texas, which is known to be extremely favorable to the plaintiffs. It takes about 10 years to litigate. It costs tens of millions of dollars. So the people who are sued over and over for things such as double clicking or how to photograph a check—common things that are business methods and not patents—settle. It is a lucrative business for a small number of people, but it is wrong. What this bill does is very simple. What the bill does, in terms of this amendment, is very simple. It says the Patent Office will make an administrative determination before the years of litigation as to whether this patent is a legitimate patent so as not to allow the kind of abuse we have seen. It applies to all financial transactions, whether it be a bank or Amazon or a store or anybody else, and it makes eminent sense.

So as much respect as I have for my colleague from Washington, I must strongly disagree with her argument and urge that the amendment be voted down.

I yield back the remainder of my time.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

Ms. CANTWELL. I ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second? There appears to be a sufficient second.

The clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. PAUL (when his name was called). Present.

The PRESIDING OFFICER. Are there any other Senators in the Chamber desiring to vote?

Mr. DURBIN. I announce that the Senator from West Virginia (Mr.

Rockefeller) is necessarily absent.

The result was announced—yeas 13, nays 85, as follows:

[Rollcall Vote No. 127 Leg. – votes omitted]

The amendment was rejected.

Amendment No. 599, as Modified

The PRESIDING OFFICER. There is now 4 minutes equally divided prior to the vote in relation to the Coburn amendment. The Senator from Oklahoma is recognized. Mr. COBURN. Madam President, this is a straightforward amendment that says if you pay into the Patent Trademark Office to have a patent evaluated, that money ought to be spent on the process. We have now stolen almost $900 million from the Patent Office. We have almost a million patents in arrears. We have fantastic leadership in the Patent Office, and we will not send them the money to do their job. It is unconscionable that we will not do this.

I understand the arguments against it, and I reserve the remainder of our time.

Mrs. FEINSTEIN. Madam President, I rise today in support of Senator Coburn's amendment to prevent the diversion of patent and trademark fees to other purposes.

I am pleased to be a cosponsor of this amendment. I believe this amendment is critical for this bill to have the innovation-encouraging, job-creating effects that its proponents say it will.

Prior to 1990, taxpayers supported the operations of the Patent and Trademark Office, or PTO. In 1990, this was changed through a 69 percent user fee "surcharge," so that the PTO became funded entirely through fees paid by its users, the American inventors who seek to protect the genius of their inventions from those who would copy these innovations for their own profit.

In short order, Congress began using the funds that inventors paid to protect their inventions for other purposes. In 1992, $8.1 million in user fees were diverted. In 1993, $12.3 million was diverted. In 1994, $14.7 million. And so it continued, escalating every year, until what started as a trickle became a flood in 1998, with $200.3 million in PTO user fees diverted. All told, since 1992, an estimated $886 million in fees that were paid for the efficient and effective operation of the Patent and Trademark Office have been diverted to other uses, according to the Intellectual Property Owners Association.

Meanwhile, at the same time that these fees were being taken away, the length of time that it takes to get a patent out of the Patent Office has steadily increased. In fiscal year 1991, average patent pendency was 18.2 months. By fiscal year 1999, it had increased to 25 months. By fiscal year 2010, average patent pendency had increased all the way to 35.3 months.

These are not just numbers. This is innovation being stifled from being brought to market. The longer it takes to get a patent approved, the longer a new invention, a potential technological breakthrough, sits on the shelf gathering dust instead of spurring job growth and scientific and economic progress.

Ultimately, this hurts the competitiveness of the American economy. America has a stunning record of leading the world in innovation, which has provided us a competitive edge over the decades and even centuries. By stifling the progress of our innovation within the PTO, we are dulling that competitive edge.

Obviously, there is a direct relationship between fee diversion and patent pendency. The more fees that are diverted away from the PTO, the fewer patent examiners they can hire, the more patents each examiner has to process, and the longer it takes them to get to any individual patent—a longer patent pendency.

The manager of this bill, the distinguished chairman of the Judiciary Committee, has argued that "the bill will speed the time it takes for applications on true inventions to issue as high quality patents, which can then be commercialized and used to create jobs. . . . The America Invents Act will ensure that the PTO has the resources it needs to work through its backlog of applications more quickly. The bill accomplishes this objective by authorizing the PTO to set its fees . . ."

But what this bill gave with the one hand, in authorizing the PTO to set its fees, the House of Representatives took away with the other hand, by striking the strong antifee diversion language that the Senate included in its patent bill earlier this year. Setting higher fee levels to reduce patent pendency does no good if those fees are simply diverted away from the PTO, and not used to hire additional patent examiners. Indeed, requiring the payment of higher patent fees which are then used for general government purposes really amounts to a tax on innovation—which is the last thing we should be burdening in today's technology-driven economy.

The chairman argues that the bill "creates a PTO reserve fund for any fees collected above the appropriated amounts in a given year—so that only the PTO will have access to these fees." However, with all due respect, the language that the House put into the bill is not really different from previous bill language that proved ineffective to prevent diversion.

The 1990 law that authorized the patent user surcharge provided that the surcharges "shall be credited to a separate account established in the Treasury . . .; " and "shall be available only

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to the Patent and Trademark Office, to the extent provided in appropriation Acts. . . ." However, notwithstanding this language, the Congressional Budget Office found in 2008 that $230 million had been diverted from the surcharge account.

Similarly, the House changed the bill before us today to "establish[] in the Treasury a Patent and Trademark Fee Reserve Fund . . .; " and "to the extent and in the amounts provided in appropriations Acts, amounts in the Fund shall be made available until expended only for obligation and expenditure by the Office . . ." The key language is the same—"to the extent provided in appropriation Acts." Calling it a "fund" rather than an "account" should not lead anyone to expect a different result.

Indeed, the Senate bill that we passed earlier this year explicitly struck the existing statutory language, "To the extent and in the amounts provided in advance in appropriations Acts . . ." And the House specifically restored that language, omitting only the words "in advance." The Coburn amendment would restore the changes we made earlier this year, eliminating that language again.

The Coburn amendment, like the Senate bill, contains other key language, providing that amounts in the fund it establishes "shall be available for use by the Director without fiscal year limitation." The bill before us today provides no such protection against diversion. In short, this bill will permit the continued diversion of patent fees, to the detriment of American inventors and innovation. But don't just take my word for this. The Intellectual Property Owners Association, which includes more than 200 companies, just yesterday said:

The greatest disappointment with the House-passed patent reform bill H.R. 1249 . . . is its failure to stop USPTO fee diversion. The House-passed patent reform bill creates another USPTO account, a "reserve fund," but nothing in the proposed statutory language guarantees the USPTO access to the funds in this new account. The language of H.R. 1249 defers to future appropriations bills to instruct the USPTO on how to access fees in the new USPTO account. Therefore, despite some claims to the contrary, the creation of this new account, alone, will not stop diversion.

The Innovation Alliance, a major coalition of innovative companies, and CONNECT, an organization dedicated to supporting San Diego technology and life science businesses, among others, also believe that the House language is insufficient to prevent fee diversion. Without this protection from fee diversion, this bill could well make our patent system worse, not better. Many of the changes made by this bill will impose additional burdens on the PTO. For example, the CBO found that the new post-grant review procedure would cost $140 million to implement over a 10-year period; the new supplemental review procedure would cost $758 million to implement over that period; and the changes to the inter partes reexamination procedure would cost $251 million to implement. All told, these changes would impose additional duties on the PTO costing over $1 billion to implement over a 10-year period. If the PTO is not permitted to keep the fees it needs to meet these obligations, patents will take even longer to be issued, and the promised improvements in patent quality may prove to be ephemeral. We won't encourage innovation; we won't create new jobs.

Therefore, I urge my colleagues to support the amendment by the Senator from Oklahoma, to support the strong antidiversion language that we passed this Spring, and to end fee diversion once and for all. Ms. MIKULSKI. Madam President, I rise in opposition to the amendment to the America Invents Act offered by the Senator from Oklahoma. I, along with my fellow members of the Appropriations Committee, share the Senator from Oklahoma's goal of ensuring

that all fees paid by inventors to the U.S. Patent and Trademark Office, PTO, are used only for the operations of the PTO. The PTO fosters American innovation and job creation by providing protections for ideas and products developed by our entrepreneurs, businesses and academic institutions. As the chairwoman of the Appropriations Subcommittee that funds the PTO, I have worked to ensure that PTO receives every dollar it collects from inventors. But, while I share the Senator's goal, I oppose his amendment for three reasons.

First, the amendment is unnecessary. It is a solution in search of a problem. The underlying America Invents Act before the Senate today ensures that PTO can keep and spend all of the fees collected. This legislation establishes a Patent and Trademark Fee Reserve Fund. Any fees collected in excess of annual appropriations would be deposited into the fund, and those fees would remain available until expended solely for PTO operations.

The creation of this fund is not a new idea. Provisions of several bills reported out of the Senate Appropriations Committee in prior years allowed PTO to keep and spend fee revenue in excess of appropriations levels. I can assure my colleagues that the committee will continue to support such language.

Second, the amendment would significantly reduce oversight of the PTO. The Senator from Oklahoma's amendment would establish a new, off-budget revolving fund for PTO fees. This would put the PTO on autopilot, without the oversight of an annual legislative vehicle to hold the agency accountable for progress and wise use of taxpayer funding.

Since fiscal year 2004, funding for PTO has increased by over 70 percent. At the same time, however, the backlog of patent applications has climbed to more than 700,000. It now takes over three years for PTO to make a decision on a patent application. This is unacceptable. While America's inventors are waiting in line, their ideas are being stolen by other countries.

Through annual appropriations bills, the Appropriations Committee has succeeded in forcing management reforms that have slowed the growth of PTO's backlogs and improved employee retention. While further accountability is needed, the America Invents Act keeps PTO on budget and on track for continued oversight by the Appropriations Committee each year.

Finally, the Senator's amendment could have unintended consequences. If PTO were permitted to operate on autopilot, the agency could face fee revenue shortfalls and the Appropriations Committee would not be poised to assist. The committee continually monitors the agency's fee projections to ensure the agency can operate effectively. It is not widely known, but over the past 6 years, PTO has actually collected nearly $200 million less than the appropriated levels. In fact, I recently received a letter from the Director of the PTO informing my Subcommittee that fee estimates for fiscal year 2012 have already dropped by $88 million. I will ask consent to have this letter printed in the Record. If PTO was put on autopilot as proposed by the Senator's amendment, the committee would no longer have the tools to provide the necessary funding to keep our patent and trademark system operating should a severe funding gap occur. The PTO's full access to fee revenue is critical to American innovation and job creation. I commend Chairman Leahy for his efforts to improve the patent system and ensure that PTO funding is spent wisely and effectively. I support the funding provisions of the America Invents Act and oppose the Coburn amendment. I urge my colleagues to do the same.

Madam President, I ask unanimous consent to have printed in the Record the letter to which I referred.

There being no objection, the material was ordered to be printed in the Record, as follows:

United States Patent and Trademark Office,
Alexandria, VA,
September 1, 2011.

Hon. Barbara A. Mikulski, Chairwoman,
Subcommittee on Commerce,
Justice, Science, and Related Agencies,
Committee on Appropriations,
U.S. Senate, Washington, DC.

Dear Madam Chair:

This letter provides you with the United States Patent and Trademark Office's (USPTO) current, revised fee collection estimates for fiscal year (FY) 2012, as requested in the report accompanying H.R. 3288 (Pub. L. No. 111-117).

The President's FY 2012 Budget supports an aggressive approach to improving operations at the Agency, reducing the patent backlog and contributing to economic recovery efforts.

The fee collection estimate submitted with the FY 2012

President's Budget

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earlier this year was $2,706.3 million, including a 15% interim increase to certain patent user fee rates. This increase will help fund efforts to reduce the backlog of unexamined patent applications. Using more recent information, outcomes of events, and projections of demand for USPTO services, we now expect fee collections for FY 2012 to be in the $2,431.9 million to $2,727.6 million range, with a working estimate of $2,618.2 million (a decrease of $88.1 million from the FY 2012 President's Budget estimate).

The projected decrease is attributable to factors both internal and external to the USPTO; namely, a change in strategic direction resulting in the Office not pursuing a cost recovery regulatory increase to Request for Continued Examination fee rates (this was estimated to generate about $70 million in patent application fees), the decision not to pursue a Consumer Price Index increase to patent statutory fees, and the decrease in demand for USPTO services as a result of processing reengineering gains from compact prosecution. The USPTO bases these revisions on current demand as well as discussions with our stakeholders about expected trends. The USPTO also reviews filing trends in foreign patent offices, which have experienced similar difficulties in estimating demand.

In closing, the USPTO would like to thank the subcommittee for their support of the Leahy-Smith America Invents Act. We are especially grateful for the subcommittee's support in ensuring all fees collected by the USPTO will be made available for the USPTO to use in examination and intellectual property activities supporting the fee paying community.

If you or your staff have any questions, please contact Mr. Anthony Scardino, the USPTO's Chief Financial Officer, at (571) 272-9200. Thank you for your continued support of the United States Patent and Trademark Office.

Sincerely,
David J. Kappos,
Under Secretary and Director.

Identical Letters sent to:

The Hon. Kay Bailey Hutchison, Ranking Member,
Subcommittee on Commerce, Justice, Science and Related Agencies,
Committee on Appropriations, U.S. Senate, Washington, DC.

The Hon. Frank R. Wolf, Chairman,
Subcommittee on Commerce, Justice, Science, and Related Agencies,
Committee on Appropriations, House of Representatives, Washington, DC.

The Hon. Chaka Fattah, Ranking Member,
Subcommittee on Commerce, Justice, Science and Related Agencies,
Committee on Appropriations, House of Representatives, Washington, DC.

The PRESIDING OFFICER. Who yields time?

The Senator from Vermont is recognized.

Mr. LEAHY. Madam President, I understand what the Senator from Oklahoma says, but the Coburn amendment can derail and even kill this bill. So, as I have told the Senator, I will move to table in a moment. But this bill would otherwise help our recovering economy. It would unleash innovation and create jobs.

I have worked for years against Patent Office fee diversion, but I oppose this amendment. Its formulation was already rejected by the House of Representatives. They have made it very clear. There is no reason they will change. This amendment can sink years of efforts by both Republicans and Democrats in this body and the other body to pass it. Actually, this amendment could kill the bill over a mere formality: the difference between a revolving fund and a reserve fund. We have worked out a compromise in good faith. The money, the fees—under the bill as it is here—can only be spent at the PTO, but the only thing is, we actually have a chance to take a look at what they are spending it on, so they could not buy everybody a car or they could not have a gilded palace. They actually have to spend it on getting through the backlog of patents. It will not go anywhere else. It will only go to the Patent Office.

So we should not kill the bill over this amendment. We should reject the amendment and pass the bill. It is time for us to legislate. That is what the American people elected us to do. That is what they expect us to do. Let's not kill the bill after all this work over something that will really make no difference in the long run. So I therefore will move to table the Coburn amendment.

The PRESIDING OFFICER. All time has not yet expired.

Mr. COBURN. Madam President, I think I have reserved my time. The PRESIDING OFFICER. The Senator from Oklahoma has reserved his time. He has 1\1/2\ minutes.

Mr. COBURN. Madam President, I will make the following points, and I would ask for order before I do that.

The PRESIDING OFFICER. Could we please have order so the Senator from Oklahoma can speak.

Mr. COBURN. It is true that the House bill moves the money to where it cannot be spent elsewhere, but there is no requirement that the money be spent in the Patent Office. There is a written agreement between an appropriations chairman and the Speaker that is good as long as both of them are in their positions. This is a 7-year authorization. It will not guarantee that the money actually goes to the Patent Office.

This bill, with this amendment in it, went out of the House Judiciary Committee 32 to 3 in a strong, bipartisan vote. It was never voted on in the Senate because the appropriators objected because of a technical error, which has been corrected in this amendment. So it violates no House rules, it violates no condition and, in fact, will guarantee that the Patent Office has the funds it needs to have to put us back in the place we need to be.

This bill will not be killed because we are going to make sure the money for patents goes to the Patent Office. Anybody who wants to claim that, ask yourself what you are saying. We are not going to do the right thing because somebody says they will not do the right thing? We ought to do the right thing.

I yield back the remainder of my time.

Mr. LEAHY. Madam President, because this amendment would kill the bill, I move to table the amendment and ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second?

There appears to be a sufficient second.

The question is on agreeing to the motion.

The clerk will call the roll.

The legislative clerk called the roll.

Mr. DURBIN. I announce that the Senator from West Virginia (Mr. Rockefeller) is necessarily absent.

Mr. KYL. The following Senator is necessarily absent: the Senator from Florida (Mr. Rubio).

The PRESIDING OFFICER (Mr. Franken). Are there any other Senators in the Chamber desiring to vote?

The result was announced—yeas 50, nays 48, as follows:

[Rollcall Vote No. 128 Leg. – votes omitted]

The motion was agreed to.

The PRESIDING OFFICER. The majority leader.

Mr. REID. Mr. President, we have one more vote. We will have 4 minutes of debate and then a vote on final passage. This is important legislation.

The President's speech is at 7 o'clock. We will gather here at 6:30 to proceed to the House Chamber.

When the President's speech is over, we will come back here, and I will move to proceed to the debt ceiling vote that we know is coming. If that motion to proceed fails, then we will be through for the week as far as votes go. If the vote to proceed is affirmative in nature, we will be back tomorrow, and there will be 10 hours allowed, but we don't have to use it all.

We will have to finish this matter tomorrow. I think it is clear that I hope we don't proceed to that, but we will have to see. I am here tomorrow. That

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vote will start very quickly tonight, as soon as the speech is over. We will be in recess subject to the call of the Chair. The vote will start quickly.

Also, I have talked to the Republican leader about how we are going to proceed next week. We don't have that defined, but I am waiting to hear from the Speaker, either tonight or tomorrow, to make more definite what we need to do next week.

Again, we have one more vote after the President's speech tonight.

Mr. President, I move to reconsider the last vote.

Mr. KERRY. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

The PRESIDING OFFICER. There will now be 4 minutes of debate equally divided prior to the vote on passage of the measure. Who yields time? The Senator from Vermont is recognized.

Mr. LEAHY. Mr. President, 6 months ago, the Senate approved the America Invents Act to make the first meaningful, comprehensive reforms to the Nation's patent system in nearly 60 years. Today, the Senate has come together once again, this time to send this important, job-creating legislation to the President to be signed into law. Casting aside partisan rhetoric, and working together in a bipartisan and bicameral manner, Congress is sending to President Obama the most significant jobs bill of this Congress. The bill originated 6 years ago in the House of Representatives, when Chairman Smith and Mr. Berman introduced the first patent reform proposals.

After dozens of congressional hearings, markup sessions, and briefings, and countless hours of Member and staff meetings, through two Presidential administrations, and three Congresses, patent reform is finally a reality.

The Leahy-Smith America Invents Act is a bipartisan bill and a bipartisan accomplishment. This is what we in Washington can do for our constituents at home when we come together for the benefit of the country, the economy, and all Americans.

I especially thank Senator Kyl for his work in bringing this bill to the floor of the Senate—twice—and Senator Grassley for his commitment to making patent reform the Judiciary Committee's top priority this year. Chairman Smith, in the other body, deserves credit for leading the House's consideration of this important bill. I look forward to working with him on our next intellectual property priority—combating online infringement.

I thank the members of the Senate Judiciary Committee, who worked together to get quorums and get this passed. I thank them for their contribution.

Mr. President, I acknowledge several members of my Judiciary Committee staff, specifically Aaron Cooper, who sits here beside me. He spent more hours than I even want to think about, or his family wants to think about, working with me, other Senators, Members of the House, other staff, and stakeholders to preserve the meaningful reforms included in the America Invents Act, as did Susan Davis before him. Ed Pagano, my chief of staff, kept everybody together. I also thank Bruce Cohen, my chief counsel on the Judiciary Committee, who every time I thought maybe we are not going to make it would tell me "You have to keep going," and he was right. Erica Chabot, Curtis LeGeyt, and Scott Wilson of my Judiciary Committee staff have also spent many hours working on this legislation.

I also commend the hard-working staff of other Senators, including Joe Matal, Rita Lari, Tim Molino, and Matt Sandgren for their dedication to this legislation. Chairman Smith's dedicated staff deserves thanks as well, including Richard Hertling, Blaine Merritt, Vishal Amin, and Kim Smith.

I would also like to thank the majority leader for his help in passing this critical piece of legislation.

The America Invents Act is now going to be the law of the land. I thank all my colleagues who worked together on this.

In March, the Senate passed its version of the America Invents Act, S. 23, by a 95-5 vote. One of the key provisions of the legislation transitions the United States patent system from a first-to-invent system to a first-inventor-to-file system. The Senate considered and rejected an amendment to strike this provision, with 87 Senators voting to retain the transition.

When this body first considered the America Invents Act, some suggested that along with the first-inventor-to-file transition, the legislation should expand the prior user rights defense. The prior user rights defense, in general, is important for American manufacturers because it protects companies that invent and use a technology, whether embodied in a process or product, but choose not to disclose the invention through the patenting process, and instead rely on trade secret protection. The use of trade secrets instead of patenting may be justified in certain instances to avoid, for example, the misappropriation by third parties where detection of that usage may be difficult. These companies should be permitted to continue to practice the invention, even if another party later invents and patents the same invention.

In the United States, unlike in our major trading partners, prior user rights are limited to inventions on methods of doing or conducting business. The Senate bill included only a very limited expansion of this defense, and required the Director of the Patent and Trademark Office, "PTO", to study and report to Congress on the operation of prior user rights in other countries in the industrialized world, and include an analysis of whether there is a particular need for prior user rights given the transition to a first-inventor-to-file system. The House-originated bill, the Leahy-Smith America Invents Act, which the Senate is considering today, makes important improvements to expand prior user rights beyond just methods of doing business. These improvements will be good for domestic manufacturing and job creation. I agree with the chairman of the House Committee on the Judiciary that inclusion of expanded prior user rights is essential to ensure that those who have invested in and used a technology are provided a defense against someone who later patents the technology.

I understand that there is some confusion regarding the scope of the defense in the bill. The phrase "commercially used the subject matter" is intended to apply broadly, and to cover a person's commercial use of any form of subject matter, whether embodied in a process or embodied in a machine, manufacture, or composition of matter that is used in a manufacturing or other commercial process. This is important particularly where businesses have made substantial investments to develop these proprietary technologies. And if the technology is embedded in a product, as soon as that product is available publicly it will constitute prior art against any other patent or application for patent because the technology is inherently disclosed.

The legislation we are considering today also retains the PTO study and report on prior user rights. I again agree with the chairman of the House Committee on the Judiciary, that one important area of focus will be how we protect those who make substantial investments in the development and preparation of proprietary technologies. It is my hope and expectation that Congress will act quickly on any recommendations made by the PTO.

Section 27 of the Leahy-Smith America Invents Act requires a study by the United States Patent and Trademark Office, USPTO, on effective ways to provide independent, confirming genetic diagnostic test activity where gen patents and exclusive licensing for primary genetic diagnostic tests exist. I support this section, which was championed by Ms. Wasserman Schultz, and look

forward to the USPTO's report. I want to be clear that one of the reasons I support section 27 is that nothing in it implies that "gene patents" are valid or invalid, nor that any particular claim in any particular patent is valid or invalid. In particular, this section has no bearing on the ongoing litigation in Association for Molecular Pathology v. Myriad Genetics, ___ F.3d ___, 2011 WL 3211513 (Fed. Cir. July 29, 2011).

In Kappos v. Bilksi, ___ U.S. ___, 130 S. Ct. 3218 (2010), the Court found that the fact that a limited defense to business method patents existed in title 35 undermined the argument that

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business method patents were categorically exempt from patentability. Specifically, the Court held that a "conclusion that business methods are not patentable in any circumstances would render Sec. 273 [of title 35] meaningless." Bilski, 130 S. Ct. at 3228. But the section 27 study is readily distinguishable from the substantive prior user rights defense codified in title 35 referenced in Bilski. A "gene patent" may or may not be valid, and that has no impact on the USPTO study, which mentions the existence of gene patents issued by the USPTO (but still subject to a validity challenge), but focuses on the effect of patents and exclusive licensing of genetic diagnostic tests, regardless of whether there are relevant patents. This study will be useful and informative for policymakers no matter how section 101 of title 35 is interpreted by the courts. There has been some question about the scope of patents that may be subject to the transitional program for covered business method patents, which is section 18 of the Leahy-Smith America Invents Act. This provision is intended to cover only those business method patents intended to be used in the practice, administration, or management of financial services or products, and not to technologies common in business environments across sectors and that have no particular relation to the financial services sector, such as computers, communications networks, and business software.

A financial product or service is not, however, intended to be limited solely to the operation of banks. Rather, it is intended to have a broader industry definition that includes insurance, brokerages, mutual funds, annuities, and an array of financial companies outside of traditional banking.

Section 34 of the Leahy-Smith America Invents Act requires a study by the Government Accountability Office, GAO, on the consequences of patent infringement lawsuits brought by non-practicing entities under title 35, United States Code. The legislation requires that GAO's study compile information on (1) the annual volume of such litigation, (2) the number of such cases found to be without merit, (3) the impact of such litigation on the time to resolve patent claims, (4) the related costs, (5) the economic impact, and (6) the benefit to commerce. Following the House passage of H.R. 1249, the Comptroller General expressed concern that Section 34 may require it to answer certain questions for which the underlying data either does not exist, or is not reasonably available. Where that is the case, I want to make clear my view that GAO is under no obligation to include or examine information on a subject for which there is either no existing data, or that data is not reasonably obtainable. Further, GAO is not required to study a quantity of data that it deems unreasonable.

In my view, GAO can satisfy its requirements under section 34 by compiling reasonably available information on the nature and impact of lawsuits brought by non-practicing entities under title 35 on the topics outlined in section 34(b). Where it deems necessary, GAO may use a smaller sample size of litigation data to fulfill this obligation. GAO should simply note any limitations on data or methodology in its report.

I ask unanimous consent to have printed in the Record a letter from Gene L. Dodaro, Comptroller General of the United States, detailing GAO's possible limitations in complying with section 34. There being no objection, the material was ordered to be printed in the Record, as follows:

United States Government Accountability Office

Washington, DC,
September 7, 2011.

Hon. Patrick J. Leahy, Chairman,
Hon. Charles E. Grassley, Ranking Member,
Committee on the Judiciary, U.S. Senate.

Hon. Lamar S. Smith, Chairman,
Hon. John Conyers, Jr., Ranking Member,
Committee on the Judiciary, House of Representatives.

Hon. Jason Chaffetz, House of Representatives.

I am writing to express our concern regarding a provision relating to GAO in H.R. 1249, the Leahy-Smith America Invents Act. Section 34 of the bill would require GAO to conduct a study of patent litigation brought by so-called non-practicing entities, that is, plaintiffs who file suits for infringement of their patents but who themselves do not have the capability to design, manufacture, or distribute products based on those patents. As the Supreme Court and Federal Trade Commission have noted, an industry of such firms has developed; the firms obtain patents not to produce and sell goods but to obtain licensing fees from other companies.

The GAO study required by H.R. 1249 would mandate a review of: (1) the annual volume of such litigation for the last 20 years; (2) the number of these cases found to be without merit after judicial review; (3) the impacts of such litigation on the time required to resolve patent claims; (4) the estimated costs associated with such litigation; (5) the economic impact of such litigation on the economy; and (6) the benefit to commerce, if any, supplied by such non-practicing entities.

We believe this mandate would require GAO to undertake a study involving several questions for which reliable data are not available and cannot be obtained. In the first instance, the mandate would require identification of non-practicing entities that bring patent lawsuits. While some information about these entities may be obtainable, a definitive list of such entities does not exist and there is no reliable method that would allow us to identify the entire set from court documents or other available databases. Moreover, quantifying the cases found to be meritless by a court would produce a misleading result, because we understand most of these lawsuits are

resolved by confidential settlement. Similarly, there is no current reliable source of information from which to estimate the effects of litigation by such entities on patent claims, litigation costs, economic impacts, or benefits to commerce. Further, because GAO does not have legal access to these private parties, we would have to rely on voluntary production of such information, a method we believe would be unreliable under these circumstances and would yield information that is not likely to be comparable from entity to entity.

Finally, empirical estimates of the effects of patent litigation on various economic variables would likely be highly tenuous. Measures of the cost of litigation or other variables related to quantifying patents or litigation would be highly uncertain and any relationships derived would likely be highly sensitive to small changes in these measures. Such relationships are likely to lead to inconclusive results, or results so heavily qualified that they likely would not be meaningful or helpful to the Congress. In that regard, we understand recent regulatory efforts to determine the economic and anti-competitive effects of such litigation have not been successful.

We appreciate your consideration of this matter and we would be happy to work with your staff regarding potential alternatives. GAO could, for example, identify what is currently known about each of the specific elements identified in Section 34. Managing Associate General Counsel Susan Sawtelle, at (202) 512-6417 or SawtelleS@gao.gov, or Congressional Relations Assistant Director Paul Thompson, at (202) 512-9867 or ThompsonP@gao.gov, may be contacted regarding these matters.

Sincerely yours,
Gene L. Dodaro,
Comptroller General of the United States.

Mr. LEAHY. The America Invents Act is now going to be the law of the land. I thank all my colleagues who worked together on this. The PRESIDING OFFICER. The Senator from Washington is recognized. Ms. CANTWELL. Mr. President, rising in opposition, this is not a patent reform bill, this is a big corporation patent giveaway that tramples on the rights of small inventors. It changes “first to invent” to “first to file,” which means if you are a big corporation and have lots of resources, you will get there and get the patent. Secondly, it doesn’t keep the money where it belongs. It belongs in the Patent Office. Yet, instead of having reforms that will help us expedite patents, it is giving away the money that is needed to make this kind of innovation work. Third, the bill is full of special giveaways to particular industry corporations, as we have just witnessed with votes on the floor. Fourth, by taking away the business patent method language, you will make it more complicated and have years and years of lawsuits on patents that have already been issued. If this is job creation, I have news for my colleagues; in an innovation economy, it is siding with corporate interests against the little guy. I urge a “no” vote.

Mr. LEAHY. Mr. President, I ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second?

There is a sufficient second.

The yeas and nays were ordered.

The PRESIDING OFFICER. The question is on the third reading and passage of the bill.

The bill (H.R. 1249) was ordered to a third reading and was read the third time.

The PRESIDING OFFICER. The bill having been read the third time, the question is, Shall the bill pass?

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The clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. DURBIN. I announce that the Senator from West Virginia (Mr. Rockefeller) is necessarily absent.

Mr. KYL. The following Senator is necessarily absent: the Senator from Florida (Mr. Rubio).

The PRESIDING OFFICER. Are there any other Senators in the Chamber desiring to vote?

The result was announced—yeas 89, nays 9, as follows:

[Rollcall Vote No. 129 Leg. – votes omitted]

The bill (H.R. 1249) was passed.

Mr. McCAIN. Mr. President, today I voted against passage of the patent reform bill because it contained an egregious example of corporate welfare and blatant earmarking. Unfortunately, this special interest provision was designed to benefit a single interest and was tucked into what was otherwise a worthwhile patent reform bill. As I noted earlier today when I spoke in support of the amendment offered by my colleague from Alabama, Senator Sessions, needed reform of our patent laws should not be diminished nor impaired by inclusion of the shameless special interest provision, dubbed “The Dog Ate My Homework Act” that benefits a single drug manufacturer, Medicines & Company, to excuse their failure to follow the drug patent laws on the books for over 20 years.

Again, as I said earlier today, patent holders who wish to file an extension of their patent have a 60-day window to make the routine application. There is no ambiguity in this timeframe. In fact, there is no reason to wait until the last day. A patent holder can file an extension application anytime within the 60-day period. Indeed, hundreds and hundreds of drug patent extension applications have been filed since the law was enacted. Four have been late. Four.

I remind my colleagues of what the Wall Street Journal had to say about this provision:

As blunders go, this was big. The loss of patent rights means that generic versions of Angiomax might have been able to hit pharmacies since 2010, costing the Medicines Co. between $500 million and $1 billion in profits.

If only the story ended there.

Instead, the Medicines Co. has mounted a lobbying offensive to get Congress to end run the judicial system. Since 2006, the Medicines Co. has wrangled bill after bill onto the floor of Congress that would change the rules retroactively or give the Patent Office director discretion to accept late filings.

One version was so overtly drawn as an earmark that it specified a $65 million penalty for late filing for "a patent term extension . . . for a drug intended for use in humans that is in the anticoagulant class of drugs."

. . . no one would pretend the impetus for this measure isn't an insider favor to save $214 million for a Washington law firm and perhaps more for the Medicines Co. There was never a problem to fix here. In a 2006 House Judiciary hearing, the Patent Office noted that of 700 patent applications since 1984, only four had missed the 60-day deadline. No wonder critics are calling it the Dog Ate My Homework Act.

This bailout provision was not included in the Senate-passed Patent bill earlier this year. It was added by the House of Representatives. The provision should have been stripped by the Senate earlier today.

The fact that it wasn't required me to vote against final passage. Mr. RUBIO. Mr. President, due to health concerns of my mother, I was absent for the motion to table amendment No. 599 offered by Senator Coburn to H.R. 1249, the America Invents Act, final passage of H.R. 1249, and on S.J. Res. 25.

Had I been present for the motion to table amendment No. 599 offered by Senator Coburn to H.R. 1249, I would have opposed the motion in support of the underlying amendment, and would have voted "nay" on final passage of the America Invents Act. H.R. 1249 is significantly different than the original Senate bill that I supported, and will ultimately not accomplish the goal of modernizing the patent process in the United States in the most effective manner.

The patent process in our country is painfully slow and inefficient. It takes years from the time an invention is submitted to the Patent and Trade Office, PTO, to the time that the patent is granted and the holder of the patent gains legal rights to their invention. Currently, there are over 700,000 patents waiting for their first review by the PTO. I supported the original Senate bill, S.23, which would have ensured that the PTO was properly funded, reducing the time between the filing of a patent and the granting of the same. This bill, which passed the Senate by a 95-5 margin on March 8, 2011, included critical provisions that would have ensured that user fees paid to the PTO would stay within the Office to cover its operating costs, rather being diverted to fund unrelated government programs.

Unfortunately, the House of Representatives removed these important provisions, which were critical to securing my support for patent reform. A modernized patent process that restricted "fee diversion" would have spurred innovation and job creation. Small inventors have raised concerns about the new patent processes that the bill sets forth, and without adequate protections against fee diversion, I am unable to support this bill. Additionally, I have concerns about House language that resolves certain legal issues for a limited group of patent holders. I support the

underlying goals of this bill, but for the aforementioned reasons, I would have voted "nay" on H.R. 1249 had I been present.

Had I been present for the rollcall vote on S.J. Res. 25, I would have voted "yea." I strongly disapprove of the surge in Federal spending that has pushed our national debt to $14.7 trillion, and firmly believe that Congress must cut spending immediately and send a strict constitutional balanced budget amendment to the States for ratification. We must also give job creators the certainty they need to hire new workers and expand operations, growing the economy and increasing revenue in the process. Instead of pretending that more debt-financed spending will create prosperity, Congress should take job-destroying tax hikes off the table, overhaul our burdensome regulatory system, and immediately pass the pending free trade agreements with South Korea, Colombia, and Panama.

Mr. BENNET. Mr. President, I rise to explain my vote on one amendment today. But I would first like to commend Chairman Leahy for his long years of work on patent reform, which culminated in final passage this evening of the America Invents Act. I proudly supported this legislation, and I am sure it's gratifying for the senior Senator from Vermont that the Senate overwhelmingly voted to send this bill to the President's desk.

But like most bills that the Senate considers, this legislation is not perfect, as I know the chairman himself has said. There is one major way that the bill we approved today could have been improved, and that is if we had retained language in the original Senate bill that guaranteed that the U.S. Patent and Trademark Office would be able to maintain an independent funding stream. For that reason, I commend Senator Coburn for his effort to amend the bill to revert back to that better funding mechanism. For years, we have asked the PTO to do more than its funding levels have allowed it to do well. And while the bill we passed today takes important steps towards committing more resources to

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the PTO, I did prefer the independent funding stream approach. Senator Coburn's amendment may have been the better approach, but I voted to table the amendment because it could well have permanently sunk this enormously important legislation. Sending the bill back to the House with new language that the House has rejected and says it would reject again would have, at best, substantially delayed the reform effort and, at worst, stymied the bill just when we were reaching the finish line. And this bill is important it can help our economy at a critical juncture and can even result in my state of Colorado getting a satellite PTO office, which would be a major jobs and economic driver. I also worked with colleagues on both sides of the aisle to include important provisions that will help small businesses. None of this would have been possible if we amended the bill at this late stage. I remain committed to working with colleagues in the coming months and years to make sure that PTO gets the resources it needs to do the job that Congress has asked it to do.

Mr. REID. Mr. President, I move to reconsider the vote by which the bill was passed, and I also move to lay that motion on the table. The motion to lay on the table was agreed to.

Conyers Extension Remarks Regarding effective date of Section 37 – 157 Cong. Rec. E1940

[Congressional Record Volume 157, Number 162 (Wednesday, October 26, 2011)]
[Extensions of Remarks]
[Page E1940]
From the Congressional Record Online through the Government Printing Office [www.gpo.gov]

SECTION 37 OF THE AMERICA INVENTS ACT

_____

HON. JOHN CONYERS, JR.
of michigan
in the house of representatives
Wednesday, October 26, 2011

Mr. CONYERS. Mr. Speaker, last month, the President signed into law the Leahy-Smith America Invents Act. I was a co-sponsor of a bipartisan amendment that added Section 37 to the House bill, which then passed the Senate and was enacted into law.

Section 37 is an important provision that clarified the procedure for filing patent term extension applications under the Hatch-Waxman Act. It codified a sensible decision by a federal district judge and was meant to end years of confusion about this issue that had threatened to stifle innovation.

Before the Senate voted on the House patent bill, an amendment was offered to strike Section 37. That amendment was fully debated and was defeated on a bipartisan basis. Last week, however, there was discussion of Section 37 on the floor of the Senate and it was suggested that Section 37 does not take effect for a year. But that is incorrect.

Section 37 explicitly says that it ``shall apply" to applications and court cases that are pending on the date of enactment of the bill. To apply to pending applications and cases, Section 37 obviously had to be effective immediately. Section 37 says very clearly exactly what it applies to so the default effective date provision for the Act does not apply here.

During the entire debate over Section 37, not a single person suggested that Section 37 would not be effective immediately. In fact, everyone understood it would take effect right away and would govern currently pending applications and cases. The United States Patent and Trademark Office agreed with this interpretation. In fact, just last week, the Department of Justice explained in a court filing that this is the only possible interpretation of the law.

In the end, the amendment to strike Section 37 was defeated during Senate debate. It is too late now to re-write history. And it is clear that Section 37 explicitly says that it is to be effective immediately.

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