



Legislative Bulletin.....June 20, 2011

Contents:

H.R. 1249—The America Invents Act

Key Take Away Points

- Transforms core patent law fundamentals in U.S. patent law from a first to invent to a first-inventor-to file system, challenging the constitutional interpretation of the Intellectual Property Clause.
- Removes funding of the U.S. Patent and Trademark Office from the annual appropriations process; permits the office to collect and spend all patent and trademark user fee revenue without fiscal year limitations; and authorizes the office to set its own fees.
- Creates at least three new satellite offices of the U.S. Patent and Trademark Office throughout the country.
- Creates a new patent review process for financial service “business method patents.”

For more details on these points, see below.

H.R. 1249— America Invents Act (Smith, R-TX)

Order of Business: The bill is scheduled to be considered on Wednesday, June 22, 2011 under a yet to be determined (but presumably) structured rule.

Background: Article I, Section 8, Clause 8 of the U.S. Constitution 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.”

Otherwise known as the Intellectual Property Clause, this constitutional authority for Congress to grant inventors an exclusive monopoly to their discoveries for a limited period against all others predates the Bill of Rights.

Congress passed the first patent law shortly after ratifying the Constitution when it enacted the Patent Act of 1790. This Act created the U.S. Patent and Trademark Office (PTO) and directed applicants to file a petition for exclusive rights to discoveries with the Secretary of State. The PTO remained under the jurisdiction of the Department of State until 1849 before transferring to the Department of the Interior. In 1925, it was transferred to where it currently remains today as an agency of the Department of Commerce.

The PTO's mission is to foster innovation and competitiveness by providing high quality and timely examination of patent and trademark applications; guiding domestic and international intellectual property policy; and delivering intellectual property information and education worldwide.

Inventors must submit applications to the PTO if they wish to obtain patent protection granted by PTO officials (examiners) who assess whether the patent application merits awarding of a patent. For a more detailed description of patent reform, please refer to this Congressional Research Service (CRS) [Report](#).

Summary: Congress last enacted patent reform legislation nearly 60 years ago when it passed the Patent Act of 1952.¹ Recent legislative attempts of revising the U.S. patent system in the last four Congresses have picked up momentum this Congress with the Senate overwhelmingly passing with 95 votes its version of patent reform legislation ([S. 23](#)) that—with few exceptions—closely resembles H.R. 1249.²

H.R. 1249 makes significant substantive, procedural, and technical changes to current U.S. patent law that is designed to make the prosecution of patent applications more efficient as well as harmonize U.S. patent law with the prevailing laws of our U.S. foreign trading partners in the industrialized world. These significant changes include PTO fee setting and funding operations (sections 10 & 22), the awarding of patents to inventors in disputes as to the identity of the true inventor (Section 3, “First Inventor to File”), the reexamination processes of previously granted patents (Section 6—“Post-Grant Review & Section 18—“Transitional Business Method patent program”), and other important reforms described below in this bulletin.

Key Provisions & Potential Conservative Concerns: Please see the recently released [RSC Policy Brief: Issues of Note on H.R. 1249, Patent Reform Legislation](#) for a summary of this heading.

¹ P.L. 82-593 codified at Title 35 United States Code.

² Page six of the Congressional Research Service report [R41638](#) highlights the substantive differences between S. 23 and H.R. 1249 in chart format.

Section-by-Section Analysis: The specific provisions of the bill are summarized below by section.

Section 1 & 2 – Short Title; Table of Contents, and Definitions

- Includes the short title of the bill, table of contents, and defines certain terms in the bill.

Section 3 – First Inventor to File

- Changes U.S. patent law to award patents on a first-inventor-to-file instead of the current first-to-invent priority basis
- Prohibits a patent from being issued if the claimed invention was (already) patented, described in a printed publication, in public use, or on sale (i.e. – if “prior art” exists) either: 1) one year before the effective filing date or 2) one year or less before the effective filing date other than through disclosures made by the inventor that filed the patent (or by persons who obtained the disclosed information from the inventor).

In other words, this provision retains current law which provides an inventor a one-year grace period in which he can make his invention/process publicly available prior to filing a patent application without this activity being used against him in seeking the patent later (so long as he files his patent application within one year of the initial publication of the invention).

Note: “Prior Art” generally refers to any and all information regarding a particular invention that has been made publicly available, in any form, during a specified period of time.

- Recodifies the Cooperative Research and Technology Enhancement (CREATE) Act (P.L. 108-453). This law is intended to provide a safe harbor for research institutions such that confidential communications would not invalidate patent material when a joint research agreement between interested parties is made before an invention is completed.
- Repeals existing provisions for inventions made abroad (which have been in place for decades and reports claim are obsolete).
- Repeals existing provisions authorizing the PTO Director to publish a statutory invention registration containing the specification and drawings of a regularly filed application for a patent without examination under certain conditions.
- Replaces current interference proceedings (currently used to determine who the first inventor is) with new derivation proceedings (used to determine if a patent application that was first filed was misappropriated from another inventor). This provision allows an applicant to request initiation of a derivation proceeding (conducted by the PTO) to determine the right of the applicant to a patent. The request must explain the basis for finding that another applicant derived the claimed invention from the application requesting the proceedings and then filed an application claiming the invention (without authorization). The request must be

made within 12 months of the date of first publication of an application for a claim that is substantially the same as the claimed invention in question.

- Requires the Patent Trial and Appeal Board (PTAB) to oversee derivation proceedings. Allows the PTAB to defer action on the proceedings for up to three months after the PTO issued a patent to the applicant that filed the earlier application.

Note: The PTAB is established in Section 7 of the bill (discussed below), and also oversees post-grant review proceedings (discussed in Section 6).

- Requires the following reports:
 - Within a year after enactment, a Small Business Administration report on the results of the transition to first-inventor-to-file to be submitted to both the House and Senate Judiciary and Small Business Committees.
 - Within four months after enactment, a report from the PTO Director on the operation of prior user rights in selected countries in the industrialized world to both the House and Senate Judiciary Committees.
 - Within a year after enactment, a GAO study of the consequences of patent litigation and its effect on the patent system
- Senses of Congress:
 - Sets forth the sense of Congress that the first-to-file system promotes the purposes of Article I, Section 8, Clause 8, of the U.S. Constitution.
 - 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

- 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.
- Amends Section 115 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 unable to do so or 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.
- 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.

Section 5 – Defense to Infringement Based on Earlier Inventor

- Amends current law to allow the prior-use defense to be asserted against any patent (not just business methods 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 unless the subject matter was derived from the patent holder or persons in privity with the patent holder.
- Also, 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 § 102(b) grace period, whichever is earlier.
 - 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.
 - Requires that the prior use 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 business to which the defense relates.

Section 6 – Post Grant Review Proceedings

- Permits *inter partes* review of a granted patent 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.
 - *Inter partes* review must be sought by a party within 12 months of the date when the party is served with a legal 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.
- Prohibits *inter partes* review unless the information in the petition for review 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.
 - 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.

- Permits the PTO Director to allow other petitioners to join an *inter partes* or post-grant review; consolidate multiple proceedings or matters concerning the same patent; as well as decline requests for repeated proceedings on the same question.
- Prohibits petitioners for *inter partes* and post-grant petitioners from raising in a subsequent PTO office proceeding any issue that they raised or reasonably could have raised in the *inter partes* or post grant review.
- Prohibits *inter partes* petitioners 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 prevented from raising in civil litigation or ITC proceedings those issues that they actually raised in the post-grant review.
- Prohibits challenges in post grant review on claims in a reissued 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.
- Requires the Director to prescribe regulations to establish and govern post-grant review proceedings and related procedures. Those regulations must:
 - establish a time limit for requesting joinder in *inter partes* review;
 - provide for discovery (information sharing and examination among parties);
 - prescribe sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding;
 - allow for protective orders governing the exchange and submission of 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;
 - require that a final determination in a post-grant proceeding be made within one year of the date the review was initiated, except the Director may grant one six-month extension upon order of the Director; and
 - provide the petitioner with at least one opportunity to file written comments after the proceeding is instituted.
- Allows the patent owner to 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.
- Allocates to the challenger the burden of providing unpatentability by a preponderance of the evidence.
- Provides that a post-grant review proceeding will be terminated upon the joint request of the petitioner and the patent owner (settlement). This provision requires that any settlement agreement regarding the cancellation be in writing and filed at PTO.
- Requires the PTAB to issue a final written decision regarding the patentability of any patent claim challenged (and any new claim added based on a patent

amendment), provided the review was initiated and not previously dismissed or settled.

- Permits a party dissatisfied with the final written PTAB decision to appeal its decision to the U.S. Court of Appeals for the Federal Circuit.
- Requires the PTO Director to issue regulations implementing the new reviews within one year and create transition provisions for proceedings pending between enactment and full implementation of the new reviews.
- Provides that the submission of prior art or statements to the PTO will become part of the official file of the patent *if* the person submitting the information explains in writing the pertinence and manner of applying the prior art or written submission to at least one claim of the patent.
- Permits the PTO Director the ability to initiate a reexamination on the Director's own initiative.

Section 7 – Patent Trial and Appeal Board

- Eliminates the Board of Patent Appeals and Interferences and creates a new Patent Trial and Appeal Board with the following duties:
 - Reviewing adverse decisions of examiners on applications and reexamination proceedings;
 - Conducting derivation proceedings; and
 - Conducting the post grant review proceedings.

Section 8 – Preissuance Submissions by Third Parties

- This section amends current law to allow third parties to submit pre-issuance information relevant to the examination of the application (and to be included in the record of a patent application). The relevant information may include prior art that could prohibit the pending application from issuing as a patent. The submission must include:
 - a concise statement of the relevance of the submission.
 - a fee to be determined by the PTO Director
- This section will be effective one year after enactment and applies to any patent application filed before, on, or after that effective date.

Section 9 – Venue

- According to the committee report, Congress established that the venue of the PTO is the district where it resides. The PTO currently resides in the Eastern District of Virginia. However, Congress inadvertently failed to make this change throughout the entire patent statute. Consequently, certain sections of the patent statute (and one section of the trademark statute) continue to allow challenges to PTO decisions to be brought in the District of Columbia, a place the PTO has not resided in decades.
- This section changes 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.
- This section will be effective immediately after enactment and will apply to any civil action commenced on or after that date.

Section 10 – Fee Setting Authority

- This section permits the PTO Director rulemaking authority to set or adjust any fee provided that such fee amounts are set to reasonably compensate the PTO for the services performed. The PTO Director may also reduce such fees.
- The PTO Director shall consult with the patent and trademark advisory committees as provided for in this section.
- Requires that 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 PTO 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.
- “Micro-Entity” defined:
 - According to the committee report, Congress has long recognized that certain groups that include independent inventors, small business concerns, and non-profit organizations should not be treated equally compared with all patent filers regarding patent application fees. Under current law, certain fees for these smaller entities are reduced.
 - This section defines even a smaller group (“Micro Entity”) to include only truly independent inventors. The PTO will make accommodations under its authority in recognition of the special status of micro-entities.

Section 11 – Fees for Patent Services

- This section describes the current patent fee schedule in the text, which represents a reference point for any future adjustments to the fee schedule by the PTO Director.

Section 12– Supplemental Examination

- This section creates a new authority for ‘supplemental examination’ of a patent to correct errors or omissions in proceedings before the PTO. Information that was not considered or was inadequately considered or was incorrect can be presented to the PTO.
- Under this new authority, the PTO 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.
 - If the PTO Director certifies 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).
 - This reexamination requires 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.

- Patent challengers may still argue in a separate court proceedings that the PTO'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 (intentional conduct on behalf of the patent applicant involving omission of material information relating to the subject matter of the patent).
- This section enumerates three exceptions to these terms:
 - prior allegations involving certain new drug applications (21 USC Sec. 355(j));
 - 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
 - instances in which fraud on the PTO was practiced or attempted.
- This section authorizes the PTO Director to establish fees, by regulation, to help defray the cost of a supplemental examination
- This section affirms that nothing in this section limits the application of criminal or antitrust laws or the ability of the PTO Director to investigate and sanction persons or their representatives for misconduct before the Office.

Section 13– Funding Agreements

- Amends current law 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 Prior Art

- Prohibits the patentability of strategies for reducing, avoiding, or deferring tax liability In other words, patent applicants will no longer be able to rely on the novelty or non-obviousness of a tax strategy embodied in their patent application in order to distinguish their claims from the prior art under the statutory novelty and non-obviousness requirements of those provisions.
- Defines the term 'tax liability' to refer 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 section 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.
- According to the committee report, situations may arise 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.
 - Permits the PTO to seek advice and assistance from U.S. Treasury and the Internal Revenue Service to 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

- Eliminates as a defense to patent infringement the patentee’s failure to comply with the best mode requirement (35 U.S.C. § 112).

Section 16– Marking

- Virtual Marking:
 - The section allows a patent holder to satisfy the requirements under current law in section 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 PTO 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.
- False Marking
 - This section changes current law such that only the United States or a person who has suffered a competitive injury as a result of a false marking violation (Sec. 292 of the Patent Act, i.e. the false marking statute) may bring a civil action in US district court for compensatory damages.
 - Persons or companies otherwise liable under 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.

Section 17– Advice of Counsel

- This adds new section to current law stating that the failure of a patent 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

- This section creates a transitional program to allow post-grant review of the validity of business method patents.
- The PTO 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 the following 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.
 - The petitioner or his real party in interest cannot 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(c) of the Patent Act as set forth in Section 6 of the bill. **The program sunsets after 10 years.**
- Subsection (b) addresses requests for a stay of a civil action alleging infringement under Sec. 281 of the Patent Act. A US district court shall decide to grant a stay based on the following prescribed criteria:
 - whether a stay (or denial thereof) will simplify the issues in question and streamline the trial;
 - whether discovery is complete and whether a trial date has been set;
 - 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
 - whether a stay (or the denial thereof) will reduce the burden of litigation on the parties and on the court.

- This section allows a party to 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 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.
- 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 U.S. district courts’ jurisdiction over patent legal claims.
- Subsection (e) creates a new section 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:
 - 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
 - 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.
- Effective Date—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– Travels Expenses and Payment of Administrative Judges

- This section authorizes the PTO to expend funds to cover the subsistence and travel-related expenses of non-Federal employees attending intellectual property programs hosted by the agency.
- Authorizes the PTO 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 PTO 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 U.S. Treasury. Any amounts in the Fund shall be available for use by the PTO 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 PTO Director to be ordinary and reasonable.
- Subsection (d) requires the PTO Director, not later than 60 days after the end of each fiscal year, to submit a report to Congress that summarizes the PTO 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 PTO 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 PTO Director annually shall provide for an independent audit of the financial statement of the PTO.
- Subsection (g) requires the PTO 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 PTO Director shall establish three or more satellite offices in the United States to carry out the responsibilities of the PTO. 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 PTO 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 PTO Director to submit a report to Congress on the rationale of the PTO 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 PTO 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

- This section requires that, using available resources, the PTO 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

- This section amends Sec. 2(b)(2) of the Patent Act by permitting the PTO 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-Grace Period for Application of Patent Term Extension

- Subsection (a) clarifies PTO '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 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 PTO Director to conduct a study on the manner in which the Act is being implemented by the PTO, 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 PTO 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

- This section requires the PTO 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.

Amendments: Amendments submitted to the Rules Committee and made in order under the structured rule will be summarized in a separate RSC Legislative Bulletin. The Rules Committee website posted an [announcement](#) that it is scheduled to meet on Tuesday, June 21, 2011 at 5:00pm to consider H.R. 1249.

Outside Organizations Supporting:

3M; Abbott; Adobe Systems Incorporated; Allianz Life Insurance Company of North America; The Allstate Corporation; American Bankers Association American Council on Education (1600 plus institutions and associates); American Institute of Certified Public Accountants; American Intellectual Property Law Association; Ameriprise Financial, Inc.; Apple, Inc.; Association of American Medical Colleges; Association of American Universities; Association of Public and Land-grant Universities; Bank of America; Biotechnology Industry Organization; Boston Scientific; Bristol-Myers Squibb; Caterpillar; The Charles Schwab Corporation; Dell; Dupont; eBay, Inc.; Eastman Chemical Company; Eli Lilly and Company; E*Trade Financial Corporation; Exxon Mobil Corp.; Facebook; Ford Motor Co.; Google; GlaxoSmithKline; Independent Community Bankers of America; Intuit, Inc.; Johnson & Johnson; JPMorgan Chase; Liberty Mutual Holding Company, Inc.; Mastercard Worldwide; Medtronic; Microsoft; Monster.com; Motorola; The NASDAQ OMX Group, Inc.; Netflix, Inc.; News

Corporation; New York Life Insurance; Northrop Grumman Corporation; Novartis; Oracle; Patent Café'.com; Pfizer; Pharmaceutical Research & Manufacturers of America (PhRMA); Proctor & Gamble Company; RBC Bank, USA; Sallie Mae, Inc.; Securities Industry and Financial Markets Association; Small Business & Entrepreneurship Council; State Farm Insurance Companies; Sun Microsystems, Inc.; SunTrust Banks, Inc.; Symantec Corporation; TD Bank; Texas Instruments; Toyota Motor Credit Corporation; UBS; the United Inventors Association of America; United Technologies; U.S. Bancorp; U.S. Chamber of Commerce, Verizon; Visa, Inc.; Wells Fargo & Company; Western Digital Technologies, Inc.; Yahoo!; Zions Bancorporation.

For the complete list of supporters, click [here](#).

Outside Organizations Opposing:

Heritage Action for America (key score); Eagle Forum (double key score); U.S. Business and Industry Council; National Consumers League; Trading Technologies; Institute of Electrical and Electronic Engineers (IEEE-USA); Wisconsin Alumni Research Foundation; American Innovators for Patent Reform; Angel Venture Forum; National Association of Patent Practitioners (NAPP); National Small Business Association; IP Advocate; National Association of Seed & Venture Funds; National Congress of Inventor Organizations; Inventors Network of the Capital Area; Professional Inventors Alliance USA; Public Patent Foundation; Let Freedom Ring, Southern Baptist Ethics and Religious Liberty Convention; 60 Plus, 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; Tradition, Family, Property; WeReadTheConstitution.com; and Conservative commentators/radio hosts Glenn Beck, Frank Gaffney with townhall.com, and Erick Erickson with redstate.com.

Outside Groups that Oppose Specific Sections of the Bill: US-Israel Science & Technology Foundation (Sections 3 and 5); Public Citizen (Section 16); American Association for Justice (Section 16); Generic Pharmaceutical Association (Section 12); Biotechnology Industry Organization (Section 12); Intellectual Ventures (Section 18); Data Treasury (Section 18); and Trading Technologies International (Section 18).

Additionally, a number of universities have expressed concerns with the bill including Brigham Young University, University of Kentucky, Oregon Health & Science University, North Dakota State University, South Dakota State University, University of Akron Research Foundation, University of New Hampshire, University of New Mexico, University of Utah, University of Wisconsin, University of Wyoming, Utah Valley University, Weber State University.

Committee Action: H.R. 1249 was introduced by Judiciary Chairman Lamar Smith (R-TX) on March 30, 2011 and referred to the Committee on the Judiciary and the Committee on Budget. That same day the Subcommittee on Intellectual Property, Competition, and the Internet held a hearing on the bill. The Subcommittee also

conducted three separate (but related) hearings on January 25, 2011, February 11, 2011, and March 10, 2011. On April 14, 2011, the full Judiciary Committee held a markup on the bill and reported it out favorably by a vote of 32-3 (see vote tally at pg 62 of the committee [report](#)). The Committee on the Budget discharged the bill on June 1, 2011.

Administration Position: There is no Statement of Administrative Policy (SAP) available as of press time. However, page 85 of the committee report includes a letter from Secretary of the US Department of Commerce, Gary Locke, supporting the bill.

Cost to Taxpayers: The Congressional Budget Office (CBO) released a cost estimate of the bill on May 26, 2011. It estimates that enacting the bill would reduce net direct spending by \$725 million and revenues by \$8 million over the 2011-2021 period. In total, it would decrease budget deficits by \$717 million over the same period. It also estimates that implementing the bill would have a discretionary cost of \$446 million over the 2011-2016 period, assuming appropriation of the necessary amounts.

Does the Bill Expand the Size and Scope of the Federal Government?: Yes. The bill requires the PTO to establish at least three satellite offices throughout the United States. It also requires a shift in U.S. patent law to a new first-inventor-to file system and removes the PTO office from receiving its funding from the traditional appropriations process.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: Yes. The bill imposes four mandates. First, allowing the PTO to set or adjust its fees is a mandate because the federal government controls the PTO and no alternative for the PTO's services exists. Secondly, prohibiting public and private entities from using a prior user rights defense to patent infringement claims for business processes brought by a university or technology transfer organization is an intergovernmental and private sector mandate. Thirdly, the bill preempts the authority of U.S. district courts to hear certain patent cases, which constitutes an intergovernmental mandate. Lastly, the bill imposes a mandate on patent applications by prohibiting certain tax strategies from being patented (applies to both pending and future patent applicants).

Does the Bill Comply with House Rules Regarding Earmarks/Limited Tax Benefits/Limited Tariff Benefits?: In accordance with clause 9 of rule XXI of the Rules of the House of Representatives, H.R. 1246 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.

Constitutional Authority: The Constitutional Authority Statement submitted by the sponsor of the bill upon introduction states, "Congress has the power to enact this legislation pursuant to the following: Clause 8 of section 8 of Article I of the Constitution."

RSC Staff Contact: Joe Murray, joe.murray@mail.house.gov, (202) 226-0678

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