
By a vote of 95-5 on March 8, 2011, the U.S. Senate approved its patent law reform bill, S. 23, renamed the “America Invents Act.”\(^1\) It includes several amendments made in the Judiciary Committee and on the Senate floor, the most significant of which would create a revolving fund for financing the Patent and Trademark Office (PTO), ending PTO fee diversion. Patent law reform activity now moves to the House of Representatives, where its Judiciary Committee appears likely to propose a similar House bill, rather than start with S. 23 itself.

**Major Changes from Current Law**

Most significantly, S. 23 would establish a **first inventor to file system** in the United States, would give the PTO **fee-setting authority** and would **end PTO fee diversion**. The definition of **prior art** would be expanded to include public use and “on sale” activity outside the United States. Substantial changes would be made in the procedures for **post-grant review** of patents by the PTO. Private **false marking** claimants would have to plead and prove competitive injury. Earlier proposals to regulate **trial of damages** and several other litigation-related proposals have been omitted, primarily because the subjects are being addressed by the courts.

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\(^1\) 112\(^{th}\) Cong., S. 23, engrossed version, March 8, 2011, available at [http://www.gpo.gov/fdsys/pkg/BILLS-112s23es/pdf/BILLS-112s23es.pdf](http://www.gpo.gov/fdsys/pkg/BILLS-112s23es/pdf/BILLS-112s23es.pdf). This summary is intended to apprise the IP community of recent legislative developments relating to patent law reform, and is not intended to advocate any particular positions. It is for educational purposes only and is not to be relied on as legal advice.
The effective dates of most provisions affecting PTO proceedings would be 1 year from enactment, reduced in many cases from the 18 month delay proposed when S. 23 was reported by the Judiciary Committee. Several other provisions, including the false marking amendment and an advice of counsel provision, would be effective upon enactment.

History
S. 23 was introduced on January 25, 2011 as the "Patent Law Reform Act of 2011" and referred to the Senate Judiciary Committee. It was based on the Managers' Amendment version of S. 515 in the 111th Congress, with antecedents tracing back to a bill offered in 2005 by the present chair of the House Judiciary Committee, Lamar Smith, and H.R. 1908, which was approved by the House in September 2007.

On February 3, 2011, the Senate Judiciary Committee adopted amendments proposed by the managers, Senators Leahy, Grassley and Hatch, and by Senators Feinstein and Kyl. Substantially all 10 committee members present spoke in favor of elimination of PTO fee diversion; however, Senator Coburn withdrew his anti-diversion amendment after Chairman Leahy questioned the jurisdiction of the Judiciary Committee to offer a bill on that subject. S. 23, as amended, was unanimously approved by a 15-0 vote of the committee and reported to the Senate on the same day.

S. 23 was brought to the Senate floor for debate on February 28th. Senator Coburn's proposal to create a revolving fund for the PTO, ending fee diversion, was included in a Managers' Amendment adopted by a 97-2 vote on March 2nd. Senator Feinstein offered an amendment to strike the first-inventor-to-file provisions, which was rejected in a 87-13 vote to table that amendment. The bill, with several other, unopposed amendments, was adopted by a 95-5 vote of the Senate on March 8, 2011.

\footnote{Id. at 32, 45, 46, 60, 64, 70, 72, 84, 97, 103, 116 (page numbers provided for convenience of reference to this version).}
Meanwhile, the House Judiciary IP subcommittee has held hearings relating to patent law reform on January 25, February 11, and March 9 and 10, 2011. It is expected to introduce and consider a bill similar to S. 23 later this spring. A vote on the House floor is possible this summer.

Further details of the history of S. 23 and other patent law reform activity may be found on our 2011 Patent Law Reform Update page, and our archive pages here and here.

**Condensed summary of S. 23 as adopted by the Senate**

**Substantive Patent Law**

S. 23 retains the earlier proposals to shift from a first to invent system to the first inventor to file system. (Sec 2(a)). Amendments on the Senate floor changed the effective date back from 18 months to the previously proposed 1 year from enactment. (Sec. 2(o)). The PTO and Small Business Administration would be required to study and report to Congress within 1 year of enactment regarding the effects of eliminating the use of invention dates in determining whether an applicant is entitled to a patent. (Sec. 2(m)).

The current grace period for all applicants would be replaced by a personal grace period system. The applicant’s own disclosures within 1 year before the “effective filing date” (first priority date) of a U.S. application, and information derived therefrom, would not be prior art. (Sec. 2(b)). Patent interferences would be abolished, but derivation proceedings would be available before the renamed Patent Trial and Appeal Board. (Sec. 2(b), (h) & (i), & 6).

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5 *Id.* at 22-23.

6 *Id.* at 19-21.

7 *Id.* at 4-5.

8 *Id.* at 5, 11-15 & 65-71.
As in the earlier proposals, the **prior art effect** of prior knowledge or use evidence would no longer be limited to evidence of such knowledge or use “in this country.” (Sec. 2(b) & (c)).

The provisions concerning **common ownership under joint research agreements** were supplemented by an amendment on February 3rd, to clarify the Congressional intent regarding such agreements. (Sec. 2(d) & (f)).

As in the Senate’s April, 2009 bill, the existing **best mode** requirement would continue for patent applications; however, failure to disclose the best mode could not be used to invalidate a patent. (Sec. 15).

S. 23 would repeal the current provisions in 35 U.S.C. § 104 and § 157, limiting rights in connection with certain **inventions made abroad** and providing for **statutory invention certificates**, respectively. (Sec. 2(d) & (e)).

Proposals for broadened **prior user rights** were dropped from the patent lawreform proposals a few years ago, but the subject is not dead. S. 23 would require the PTO Director to study the operation of prior user rights in selected countries and report to the Judiciary Committees within 1 year from enactment. (Sec. 2(n)). 35 U.S.C. § 273, which now provides a **limited prior user defense** for methods of conducting or doing business, would be amended to more fully define the personal nature of that defense. (Sec. 4(a)).

Under a new **tax strategy** limitation in S. 23, “any strategy for reducing, avoiding, or deferring tax liability” would be deemed insufficient to differentiate a claimed invention

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9 Id. at 4-8.  
10 Id. at 6 & 9.  
11 Id. at 90-91.  
12 Id. at 8-9.  
13 Id. at 21-22.  
14 Id. at 32-33.
from the prior art. This proposal was clarified by amendment on the Senate floor. (Sec. 14).°

**PTO Practice**

*Assignee filing* of applications would be permitted by S. 23; however, an *inventor's oath or declaration* would be required before patent grant. (Sec. 3).°

**Third party submissions of prior art during patent prosecution** would be encouraged. (Sec. 7).°

The amended bill would permit the PTO to establish an *ombudsman program for small business concerns*, “subject to available funding” (Sec. 22)° and would permit the Office to *prioritize examination* of applications for inventions important to the national economy or national competitiveness, without recovery from the applicants of additional costs. (Sec. 23).

A *statute of limitations* would limit the period in which disciplinary actions could be taken for misconduct before the Office to the earlier of 10 years from the misconduct or 1 year from discovery. The PTO would be required to report to Congress biennially about the effects of this limitation. (Sec. 2(l)).

**Post-grant PTO Proceedings**
As in prior proposals, the procedures for PTO review of patents after grant would be substantially revised by S. 23. (Sec. 5).° No major changes to this section of the bill were made in the Judiciary Committee or on the Senate floor.

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° *Id.* at 89-90.
° *Id.* at 24-32.
° *Id.* at 71-728.
° *Id.* at 114.
° *Id.* at 114-15.
° *Id.* at 17-18.
° *Id.* at 34-65.
Ex-Parte reexamination by Examiners (presumably in the Central Reexamination Unit) would continue to be available upon request by a patent owner or a third party, on a showing of a substantial new question of patentability, as presently required.

S. 23 now also includes the supplemental examination proposal, a form of reexamination originally introduced in a Judiciary Committee amendment. (Sec. 10). It would permit patent owners to purge inequitable conduct allegations relating the original patent prosecution by making a post-grant disclosure and submitting the patent for review by the PTO. Although several members of Congress would like to do more to limit allegations of inequitable conduct and patent unenforceability litigation, no proposal other than supplemental examination achieved broad support.

Inter-partes reexamination would be abolished, effective 1 year from enactment, and replaced by two new inter-partes procedures before administrative law judges of the renamed Patent Trial and Appeal Board, post-grant review and inter partes review. These changes are expected to expedite PTO review of issued patents by setting tight time schedules and avoiding the current delays resulting from an appeal to the Board following inter partes reexamination.

The post-grant review procedure would only be available within 9 months following grant of an original or reissue patent and not more than 6 months after the petitioner is served with a complaint alleging infringement of the patent. The threshold for initiating post-grant review would be a nonappealable determination by the PTO Director that the information presented in the petition, if not rebutted, would demonstrate that “it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable” or “that the petition raises a novel or unsettled legal question that is important to other patents or patent applications.” (Sec. 5(d)-(f)). Post-grant review may be conducted

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22 Id. at 81-84.
23 Id. at 48-72.
on any ground of invalidity that could be raised under paragraph (2) or (3) of 35 U.S.C. § 282(b), which includes all of the prior art and Section 112 defenses.

A petition for inter partes review could be filed only after the later of either 9 months after the grant of a patent issuance of a reissue of a patent; or termination of a post-grant review. This type of review would be permitted only on a ground that could be raised under 35 U.S.C. § 102 or §103, and only on the basis of prior art consisting of patents or printed publications. (Proposals for inter partes review based on evidence of prior use or on-sale activity were removed in an earlier version of patent lawreform proposals and are omitted now.) The threshold requirement would be a nonappealable determination by the PTO Director that there is a “reasonable likelihood” that the petitioner would prevail with respect to at least one challenged claim.” (Sec. 5(a)-(c)).

Final written decisions in both post-grant reviews and inter partes reviews would create an estoppel against raising a claim on the same ground of invalidity in a district court or ITC proceeding. In addition, the estoppel arising out of an inter partes review would bar court or ITC litigation of claims on any ground that could have been reasonably raised in the inter partes review.

Only minor amendments were made to the post-grant and inter partes review proposals on the Senate floor. They would eliminate a previously proposed provision that would have barred initiating inter partes review more that 3 months after the petitioner is required to respond in a civil action asserting infringement of the patent. (Sec. 5, creating 35 U.S.C. § 318). Another Senate floor amendment would require the PTO to release data about the time between commencement and conclusion of such proceedings. (Sec. 5, creating 35 U.S.C. §§ 318(c) & 328(c)).

24 Id. at 34-48.
25 Id. at 38-39 & 53-54.
26 Id. at 45.
27 Id. at 45 & 60.
A Managers’ Amendment on the Senate floor added a section that would create a 5 year transitional program for post-grant review of asserted patents that claim a “covered business method” or corresponding apparatus for performing data processing operations utilized in the practice, administration, or management of a financial product or service, except patents for technological inventions. (Sec. 18).\(^{28}\)

**PTO Fees, Financing and Operations**

The PTO would be granted **fee setting authority** subject to: (1) review by the Public Advisory Committees, (2) reporting the fee proposal to Congress, and (3) a waiting period in which Congress might act on the proposal. The proposed authority was clarified by an amendment on the Senate floor. (Sec. 9(a)).\(^{29}\) The 50% reduction in major fees for **small entities** would continue and a new category of **microentities** would be entitled to a 75% fee reduction. (Sec. 9(a)(2) & 12).\(^{30}\) Amendments on the Senate floor expanded the microentity category, and would expand fee categories subject to the small entity and microentity reductions, including the fee for accelerated examination. (Sec. 9(a)(2) & 9(i)).

As a result of a Managers’ Amendment on the Senate floor, S. 23 incorporates Senator Coburn’s proposal to establish a USPTO “Public Enterprise Revolving Fund to receive patent and trademark fees and pay PTO expenses “without fiscal year limitation.” (Sec. 20).\(^{31}\) The 112\(^{th}\) Congress has not yet favorably on the PTO’s request for an immediate, **15% temporary fee surcharge**, which—in spite of lobbying—was omitted from the recent continuing resolutions for temporary funding of the federal government..

\(^{28}\) *Id.* at 100-105.  
\(^{29}\) *Id.* at 100-105.  
\(^{30}\) *Id.* at 79-80 & 91-93.  
\(^{31}\) *Id.* at 106-12.
A Senate floor amendment also would **authorize payment** by the PTO of travel expenses for certain persons not employed by the government and allow the PTO to set the base **pay for its administrative judges.** (Sec. 19).\(^{32}\)

The amended bill would authorize the establishment of three or more PTO satellite offices. Another amendment would name the first such office, in Detroit, the “Elijah J. McCoy” office after the Afro-American inventor, one of whose inventions gave rise to the expression, “The real McCoy.” (Sec. 21 & 24).\(^{33}\)

**Patent Litigation**

A Senate floor Managers’ Amendment struck out the 2008 proposal that would have made the district judge a gatekeeper who would instruct the jury regarding the methodologies and factors to be considered in determining the damages. The same amendment also deleted a March 2010 Judiciary Committee proposal, which would have required courts to routinely grant a request for **sequencing of trials**, absent good cause, to decide questions of infringement and validity before the issues of damages and willful infringement.

The Feinstein-Kyl amendment in the Judiciary Committee on February 3rd deleted the proposal for codifying the standard for finding **willful infringement**. S. 23 retains a related proposal, which would preclude use of evidence that an alleged infringer failed to obtain or rely on the **advice of counsel** to prove that the accused infringer willfully infringed the patent or intended to induce infringement. (Sec. 4(c)).\(^{34}\) This provision would be effective in actions filed on or after enactment date.

S. 23, as adopted by the Senate, did not include either a proposal to limit **venue** in patent infringement litigation, as earlier bills would have, or the proposal in earlier versions of S. 23 that would was intended to ease **transfer** of patent actions to a more convenient venue.

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\(^{32}\) *Id.* at 105-6.

\(^{33}\) *Id.* at 112-14 & 115-16.

\(^{34}\) *Id.* at 33-34.
The false marking law, 35 U.S.C. § 292, would be modified by S. 23 (1) to permit only the United States to sue for the current $500 penalty and (2) to limit private parties permitted to sue for false marking to those who have “suffered a competitive injury” as a result of a violation of that section, who may recover “damages adequate to compensate for the injury.” These amendments would apply to all cases pending on or after the date of the enactment. (Sec. 2(k)).

A new and different proposal, specifically addressing marking with expired patent numbers, H.R. 1056, was introduced in the House by Repr. Issa on March 14, 2011. It appears to be under active consideration. That bill would bar recovery of penalties (1) if there was no change in the manufacturing or production process of the item occurs after the expiration of the patent or (2) the marking is modified to add the word “expired”.

In a new provision, S. 23 would permit virtual marking of patent numbers, by marking with an Internet address that associates the patented article with the patent number. (Sec. 4(b)).

Courts of Appeal

Two proposals concerning appellate jurisdiction were added to S. 23 by a February 3rd amendment in the Judiciary Committee, in a new section headed “Clarification of Jurisdiction.” (Sec. 17). Judging from the introductory remarks of Judiciary Committee Chair Leahy, they were added at the suggestion of the House Judiciary Committee and IP subcommittee leadership. One would extend Federal Circuit jurisdiction to appeals in cases having a counterclaims under the patent or plant variety protection law, overruling Holmes Group v. Vornado Air Circ. Sys., 535 U.S. 826 (2002). The other would clarify the exclusivity of federal jurisdiction under the patent, plant variety protection and

35 Id. at 17.
37 S. 23, supra note 2 at 33-34.
38 Id. at 97-100.
copyright laws, and provide for removal of civil actions asserting a claim for relief under any of those laws from state to federal courts. An amendment on the Senate floor would further clarify jurisdiction in patent actions removed from state courts.

S. 23 retains the proposal to repeal the current requirement in 28 U.S.C. § 44(c) that **Federal Circuit judges** reside within 50 miles of Washington, DC. A February 3rd amendment in the Judiciary committee and an amendment on the Senate floor, however, emphasized that no facilities or administrative support services would be provided for such judges outside the District of Columbia. (Sec. 11).39

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39 *Id.* at 85.