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House Weighs in with Its Version of Patent Reform

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The House of Representatives entered the recent debate on patent reform today with the introduction of H.R. 1249 by Representative Lamar Smith (R-Texas). The release of this bill was widely anticipated and had been foreshadowed by a draft version of the bill, which began circulating on the Internet last week. This bill follows on the heels of the Senate's passage of S. 23 ("The America Invents Act"). If completed, this would be the first major overhaul to the patent system in almost 60 years. Please read our [client alert](#) on S. 23 for background on the Senate patent reform bill.

COMPARING H.R. 1249 TO S. 23

H.R. 1249 largely tracks S. 23. As with the Senate's bill, the House's bill revises the patent code on a range of issues, including the best mode defense and the residency requirement of Federal Circuit judges. Below we summarize the similarities and distinctions between the two bills on the larger areas of patent reform.

S. 23

- "First to file" not "first to invent"
- Post-grant opposition system
- Greater power for patent office to set its own funding

H.R. 1249

- "First to file" not "first to invent"
- Slightly different post-grant opposition system
- Greater power for patent office to set its own funding (with conditions?)
- Expansion of prior use defense

"FIRST TO FILE"

As with S. 23, H.R. 1249 proposes transforming the United States patent system from a "first to invent" system to a "first to file system." The language of H.R. 1249 and S. 23 on this issue is virtually identical. What this means is that in order to gain patent protection for his or her invention, an inventor must be the first person to actually file a patent application on the invention. Under current law an inventor may challenge a patent application through the interference process by arguing that he or she can document an invention date prior to the applicant's filing date. Changing the law to "first to file" would harmonize the United States' patent system with that of every other major jurisdiction around the world.

Critics of the "first to file" system say that it disadvantages independent inventors, who frequently lack the resources to support early patent filings for their inventions. This issue was hotly contested in the Senate with respect to S. 23, and will likely be vigorously debated in the House.

POST-GRANT OPPOSITION SYSTEM

Like S. 23, H.R. 1249 proposes a post-grant opposition system. H.R. 1249's proposal, however, contains some subtle differences from the system proposed in S. 23.

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The post-grant review system of H.R. 1249 increases the window within which a challenge may be filed to 12 months after the issuance (or re-issuance) of a patent. The post-grant review process proposed in S. 23 provides a 9-month window.

As with S. 23, the post-grant review process of H.R. 1249 allows a third party to challenge the patent on a broader range of issues than are currently available to reexamination petitioners. The process proposed in the House's bill provides the same standard for the PTO to apply when determining whether or not to accept the post-grant review. The petitioner must show that "it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable." H.R. 1249 also provides the petitioner with the alternative of persuading the PTO to accept the petition if the "petition raises a novel or unsettled legal question that is important to other patents or patent applications."

Unlike S.23, however, H.R. 1249 provides (in very limited situations) an automatic stay of civil litigation if the litigated patent is also the subject of post-grant review. Under the House's bill this automatic stay would arise in declaratory judgment ("DJ") actions that challenge the patent's validity, where the DJ plaintiff is also the real party-in-interest in petitioning for post-grant review of the same patent. The stay would be automatically entered in the litigation until either the patent owner requested it to be lifted, the patent owner filed a counterclaim in the civil action alleging that the petitioner infringed the patent, or the petitioner moved to dismiss the civil action.

The House bill also lists factors for a district court to consider in determining whether to grant a discretionary stay when a post-grant review had been accepted and there is a co-pending litigation involving the same patent. These factors are the same as those that district courts routinely apply when considering whether to grant a stay pending reexamination proceedings: (1) whether the stay would streamline issues for trial; (2) whether discovery is complete and a trial has been set; (3) whether the stay would unduly prejudice the non-moving party or present a clear tactical advantage for the moving party; and (4) whether a stay or denial thereof will reduce the burden of litigation on the parties and the Court.

PATENT OFFICE FUNDING

As with S.23, the House's bill includes a provision that provides the Patent Office with more authority to set its own funding. H.R. 1249's provision to empower the Patent Office to set its own funding and to end fee diversion is very similar to the corresponding provision of S. 23. This additional power would likely result in fee hikes by the PTO, but would also result in greater resources to help the speed and quality of the examining process. The current backlog of patent applications has been estimated at over 700,000 and insufficient funding is frequently identified as a causative factor for the backlog.

H.R. 1249 includes an additional section, which details the fees to be set for Patent Services (Section. 10). Section 10 would revise current 35 U.S.C. 41 to update the statute to reflect the current fees charged by the PTO. The inclusion of precise fee amounts in H.R. 1249 may appear to some to be at odds with the provisions of the bill that provides the PTO with greater latitude with its fee setting authority. It seems more likely, however, that section 10 was included to clean up the statute as it currently reads and is not a limitation to the fee setting authority otherwise provided in the bill.

EXPANSION OF THE PRIOR USE DEFENSE

In its current form, 35 U.S.C. 273 provides prior users of a method with a defense to infringement in the event that someone obtains a patent for that method. Right now this defense is available only as against method patents. H.R. 1249 would extend the prior use defense to all patents. This defense implicates broader intellectual property strategies. Currently, people are faced with a choice between keeping an invention as a trade secret, or disclosing it to the public in

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exchange for a patent on that invention. The down side for someone that chooses to keep an invention secret is if another party gains patent protection for that invention, the prior user may be subject to a suit for patent infringement. Under the House's bill, the prior user would be able to rely on its prior use of the invention as a defense to infringement. Opponents of this change will argue that it will harm innovation by weakening patent rights by providing this additional defense and by dissuading innovators from disclosing their inventions to the public. The Senate did not include this expansion of the prior use defense in its bill, and this issue is likely to spur debate in the House.

WHAT'S NEXT FOR PATENT REFORM

The debate of H.R. 1249 will begin in the House Judiciary Committee, which is chaired by Rep. Smith. Once the bill makes it out of the Committee, it will head to the House for a full debate. If H.R. 1249 is passed by the House in its current form, it will need to be reconciled with S. 23 before patent reform can be presented to President Obama to be signed into law.

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