

Intellectual Property Alert

U.S. House Advances Patent Reform Legislation

June 28, 2011

On June 23, 2011, the U.S. House of Representatives passed H.R. 1249, the “Leahy-Smith America Invents Act,” by a bipartisan vote of 304 to 117, representing the House’s version of a patent reform bill passed by the U.S. Senate in March.¹ H.R. 1249 closely mirrors the Senate version on several issues, such as, most significantly, transitioning the United States from a first-to-invent to a *first-inventor-to-file* system, establishing post-grant review procedures and giving the PTO more authority over the fees it collects from applicants. There are, however, a few notable differences between H.R. 1249 and the Senate bill, which will have to be reconciled before a final version of the bill can be presented to President Obama, who has previously stated support for patent reform. Those differences are outlined below.

- **Fee Diversion** – Currently, fees collected by the PTO are deposited into a U.S. Treasury account, and congressional appropriators decide the level of funding for the PTO. Under H.R. 1249, a new fund will be established to hold all fees collected by the PTO, which will only be accessible by the PTO and cannot be diverted to other federal spending. However, congressional appropriators retain control over the PTO’s funding, and the PTO must submit spending plans to Congress before being granted access to its fees. The Senate version differs in that the PTO has direct access to all of the fees it collects.
- **First-Window, Post-Grant Challenges** – Under H.R. 1249, third parties may petition the PTO to institute a review of the validity of a patent up to one year after the patent issues, instead of the nine-month window in the Senate bill. Additionally, H.R. 1249 provides an avenue to institute post-grant review whereby a petitioner can either “demonstrate that it is more likely than not that at least one of the claims challenged in the petition is unpatentable” or show “that the petition raises a novel or unsettled legal question that is important to other patents or patent applications.”
 - *Preissuance Submissions and Reexamination* – Revised procedures for preissuance submissions by third parties and for *inter partes* reexamination remain unchanged from the Senate bill. H.R. 1249 permits any third party to submit prior art for consideration during the pendency of a patent application and sets revised deadlines and thresholds for initiating and conducting *inter partes* reexamination that are designed to reduce delay.
- **Supplemental Examination** – As in the Senate bill, the patent owner may request supplemental examination of issued patents to consider or to correct information believed to be relevant to the patent. However, an additional provision in H.R. 1249 requires the director of the PTO to refer the matter to the Attorney General if the Director becomes aware that “a material fraud may have been committed in connection with the patent that is the subject of the supplemental examination.”
- **Automatic Stay of Civil Litigation** – In declaratory judgment (DJ) actions that challenge a patent’s validity, H.R. 1249 provides an automatic stay of civil litigation if the DJ plaintiff has already filed a petition in the

¹ See Akin Gump client alert “[U.S. Senate Passes Significant Patent Reform Legislation](#)” (March 10, 2011).



PTO for post-grant review or *inter partes* reexamination. 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. However, a petitioner is precluded from instituting post-grant review or *inter partes* reexamination if the DJ action is filed prior to petitioning the PTO.

- For non-automatic stay situations, H.R. 1249 specifically lists factors for a district court to consider in determining whether to grant a *discretionary* stay when a post-grant review proceeding and a civil litigation involving the same patent are co-pending. These factors mirror those currently considered by district courts when determining whether to grant a stay: (i) whether the stay would streamline issues for trial; (ii) whether discovery is complete and a trial has been set; (iii) whether the stay would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and (iv) whether a stay or denial thereof will reduce the burden of litigation on the parties and the court.
- **Prior Use Defense** – Currently, prior users of a method may assert a “prior use defense” to infringement in the event another party obtains a patent on that method. Significantly, this defense can only be asserted as a defense to infringement of a *method* patent. H.R. 1249 would extend the prior use defense to nearly all patents, with some specific exceptions. For example, the defense cannot be asserted if the patented invention was “at the time the invention was made, owned or subject to an obligation of assignment to either an institution of higher education ... 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.”
- **Studies** - H.R. 1249 requires various studies be conducted, including a study on the consequences of litigation by non-practicing entities, which would involve analysis of the volume of such litigation, the impact of such litigation on court dockets, the estimated costs associated with such litigation, and the benefit to commerce supplied by non-practicing entities. The study is to be reported to the House within one year of enactment of the bill. Additional studies include an analysis of the demographics of patent applicants, one on how the PTO (and other agencies) could help small businesses obtain patents, and another on effective ways to provide confirming genetic diagnostic testing where gene patents are at issue.
- **Business Method Patents** – Like the Senate bill, H.R. 1249 provides an alternative to civil litigation when challenging business method patents in the PTO, in light of last year’s decision by the U.S. Supreme Court in *Bilski v. Kappos*. This transitional proceeding is limited to specific categories of prior art and will be available for 10 years after the effective date of the provision.

Patent Reform Legislation Nears Final Stages

With the passage of H.R. 1249, patent reform legislation is closer to passage than previous efforts in recent history. H.R. 1249 must be reconciled with the Senate version, although it is unclear what procedure Congress will follow. If the Senate chooses to vote on and pass H.R. 1249 in its current form, then the legislation could reach President Obama as soon as early July. Otherwise, both chambers of Congress will follow reconciliation procedures to resolve any contentious provisions.

A complete version of H.R. 1249 is available [here](#).

Disclosure: Akin Gump Strauss Hauer & Feld LLP represents the Coalition for 21st Century Patent Reform and the Innovation Alliance, both of which have been actively involved in the patent reform debate.

CONTACT INFORMATION

If you have any questions concerning this alert, please contact —

Cono A. Carrano
ccarrano@akingump.com
202.887.4136
Washington, D.C.

Ashraf A. Fawzy
afawzy@akingump.com
202.887.4377
Washington, D.C.