

## House of Representatives Passes Patent Reform Act

June 24, 2011

On June 23, the U.S. House of Representatives passed the America Invents Act (304-117) (H.R. 1249), which will alter some central aspects of the current patent system.

### Background

Over the last five years, various members of Congress have been seeking to reform the Patent Act (Title 35 of the United States Code), and several key reforms have gained both bipartisan and broad industry support, e.g., a first-inventor-to-file (FITF) regime and expanded reexamination proceedings. However, there are some issues that have divided supporters of patent reform. In particular, groups representing the electronics and software industries have disagreed with groups representing the large pharmaceutical industry about the types of relief available for patent infringement, in particular the calculation of money damages.

H.R. 1249 adopts many of the key reforms that now have broad support. For example, this bill alters how the U.S. Patent and Trademark Office (USPTO) is funded. In addition, it calls for converting the patent system from the current first-to-invent system into a first-to-file system, creating a post-grant review system, establishing a pilot committee to review questionable business-method patents, and removing the qui tam provision from the false marking statute. The final vote (304-117) included 168 Republicans and 136 Democrats voting in favor of and 67 Republicans and 50 Democrats voting against the bill.

### U.S. Patent and Trademark Office Funding

The biggest point of contention raised by detractors from H.R. 1249 related to the provisions regarding the USPTO's funding. Currently, the USPTO collects various fees, but that money is not specifically allocated to the USPTO's budget. Instead, Congress can allocate those funds to any program, and it often does. As a result, the USPTO must rely on a separate appropriations process from Congress.

Rep. Lamar Smith (R-TX), the House bill's chief sponsor, included a manager's amendment into H.R. 1249 that allows the USPTO to hold all fees in a dedicated account. The USPTO must then seek approval from Congress before spending those fees. The manager's amendment passed 283-140, and was included in the final bill.

The Senate version of patent reform, the Patent Reform Act of 2011 (S. 23), would also give the USPTO more control over the filing fees that it collects. S. 23 calls for the creation of a “USPTO Revolving Fund” for the sole purpose of collecting fees and funding the USPTO.

### **First-Inventor-to-File Regime**

In addition to modifying the USPTO funding process, H.R. 1249 converts the current first-to-invent regime into the internationally adopted FITF regime. This change has been criticized by some as both unconstitutional and harmful to individual inventors and small businesses. Despite this opposition, however, the adoption of an FITF regime has gained broad support from various industry players over the last few years.

### **Post-Grant Review**

Another major change in H.R. 1249 requires the USPTO to create a new administrative procedure called the “post-grant review.” This process is intended to resolve disputes involving patent quality and scope. The post-grant review process allows any person the right to file a petition to institute an *inter partes* review shortly after the patent issues. The patent owner may then file a preliminary response that sets forth reasons why no *inter partes* review should be instituted by the USPTO. The post-grant review process then requires the USPTO to grant or deny the *inter partes* review within one year from the date the patent was granted.

H.R. 1249 also establishes a post-grant procedure specifically for reviewing business-method patents. This *inter partes* review functions in the same manner outlined above for the “post-grant review.” It also includes an automatic stay of any litigation pending the USPTO’s final determination of the business-method patent’s validity and scope.

### **False Marking Statute and Anticlone Provision**

This bill also modifies the false marking statute, which has seen hundreds of qui tam relators institute lawsuits against companies for alleged false marking based on expired patent markings. H.R. 1249 removes the qui tam provision and only allows the United States, via the U.S. Department of Justice, to institute a false marking lawsuit.

Finally, H.R. 1249 includes a prohibition on patenting any invention “directed to or encompassing a human organism.” This is widely seen as an anticloning provision.

### **Additional Amendments**

In addition to the main aspects of this bill, H.R. 1249 also includes the follow amendments:

- **FITF.** Not only does the bill convert the patent system into the internationally favored FITF regime, but it also includes Amendment No. 10, which establishes a procedure for the USPTO to determine the proper inventors through a process called “derivation.” This practice would replace the current interference practice and allow the USPTO to “prescribe a requirement that parties provide sufficient evidence to prove and rebut a claim of derivation.” This amendment was sponsored by Rep. Jackie Speier (D-CA).

- **Small business assistance.** Amendment No. 5 and Amendment No. 7 were included in the bill to support small businesses. In particular, Amendment No. 7 requires the USPTO to conduct a study to determine what the USPTO, the Small Business Administration, and other federal agencies “can do to help small businesses obtain, maintain, and enforce foreign patents.” Amendment No. 5 was sponsored by Rep. Sheila Jackson Lee (D-TX) and Amendment No. 7 was sponsored by Rep. Gary Peters (D-MI) and Rep. James B. Renacci (R-OH).
- **PTO satellite offices.** Amendment No. 6 requires the USPTO to establish up to three satellite offices, in addition to the previously announced Detroit satellite office. The USPTO would be required to consult with local communities and analyze the cost of building the office, the cost of recruiting talent, and the impact the office would have on the community. Amendment No. 6 was sponsored by Rep. Ben Ray Luján (D-NM).
- **Diversity study.** Amendment No. 4 to the bill requires the USPTO to perform an analysis of the “diversity of patent applicants, including those applicants who are minorities, women, or veterans.” This amendment was sponsored by Rep. Gwen Moore (D-WI).
- **Patent term extension.** H.R. 1249 initially included a section clarifying the method for calculating the 60-day period for patent owners to file for a patent term extension. This amendment removes this language and breathes new life into the patent at issue in the currently pending case *Medicines Co. v. Kappos*, No. 01:10-cv-286 (E.D. Va. Aug. 3, 2010). Amendment No. 9 was sponsored by Rep. John Conyers, Jr. (D-MI) and was ultimately adopted by a 223-198 vote.

## Conference Committee

Finally, H.R. 1249 includes many of the same reforms included in S. 23. However, each of the differences between these bills will now need to be reconciled. A conference committee will be established so members of the House and Senate can negotiate a compromise. To date, conferees have not been announced. If they succeed, they will issue a conference report, which will need to be approved by both the House and the Senate. If both the House and the Senate pass the conference report, the unified bill will be sent to the president for his review and signature. The primary sponsor of patent reform in the Senate is Patrick J. Leahy (D-VT). The primary sponsor of patent reform in the House is Lamar Smith.

The text of H.R. 1249 as reported by the Judiciary Committee is available at <http://pub.bna.com/ptcj/HR1249asreportedApr14.pdf>.

Lamar Smith’s final manager’s amendment, including the fee diversion compromise, is available at <http://pub.bna.com/ptcj/HR1249MgrAmendJun20.pdf>.

The House Judiciary Committee report on H.R. 1249 is available at <http://pub.bna.com/ptcj/HR1249ReportJun1.pdf>.

The text of S. 23 is available at <http://pub.bna.com/ptcj/S23aspassedMar8.pdf>.

H.R. 1249’s digest is available at <http://www.gop.gov/bill/112/1/hr1249>.

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