June 24, 2011

Patent Reform Escapes the House, Back to the Senate

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On June 23, 2011, the House voted 304 to 117 to approve H.R. 1249. The approved bill differed from the bill passed by the House Judiciary Committee, and bears a new title, "The Leahy-Smith America Invents Act." If the bill can garner approval from the Senate and the President, it would constitute the first major overhaul of the patent system in decades.

OVERVIEW OF H.R. 1249

The House took up patent reform in March of this year after the Senate passed S. 23, "The America Invents Act," with overwhelming bipartisan approval. The House version of patent reform passed yesterday contains a number of provisions that differ from S. 23, including an altered funding mechanism for the Patent Office (Section 22), clarification of the prior user rights provision (Section 5), and a formal ban on inventions relating to human organisms. Additionally, although the version of the House bill that left the Judiciary Committee contained a provision clarifying the period for filing an application for patent term extension, this provision was struck by amendment prior to adoption of the bill by the House. Both versions of patent reform, however, would determine priority for patent rights on a "first to file" basis as opposed to the current "first to invent" standard. This transition would bring United States patent law into alignment with the patent laws of every other major industrial country on this fundamental issue.

Below is a comparison of some of the differences between the House and Senate versions of the patent reform legislation.

H.R. 1249	S. 23
• An end to fee diversion, with limitations.	• An end to fee diversion.
• Additional prior user rights.	• No additional prior user rights.
• Transitional program for validity challenges to certain business method patents withinthe financial sector for 8 years.	• Transitional program for validity challenges to certain business method patents within the financial sector for 4 years.
• "No patent may issue on a claim directed to or encompassing a human organism."	• No similar provision regarding ban on patents on human organisms.

FEE DIVERSION

Because of the House's unique authority to control appropriations, perhaps one of the most controversial issues of H.R. 1249, was one that received little debate in the Senate: an end to the diversion of fees collected by the Patent Office to other governmental agencies. During the period between when the bill was voted out of the House Judiciary Committee until it was introduced on the floor, numerous amendments were released that would have gutted the fee diversion portion of H.R. 1249. The result of the tumult was a manager's amendment to the bill, representing a compromise between those in the House who did not wish to cede their control over appropriations to the Patent Office, and those who wanted greater autonomy for the Patent Office to control its own funding.

Section 22 of H.R. 1249 ends the practice of diverting the fees collected by the Patent Office to other agencies, but creates a fund for all fees collected over the amount appropriated to the Patent Office for that year. The Patent Office must approach the House to request appropriations from the fund. The House's creation of this fund is in contrast to the corresponding provision of S. 23, which allows the Patent Office unfettered access to dispose of any and all fees collected by the Patent Office. Proponents of ending fee diversion argue that the greater resources will allow the Patent Office to clear the significant backlog of patent applications and thus spur innovation. The House's creation of the fund for the fees collected over the Patent Office's appropriation could hamstring the Patent Office's access to the money as some have expressed concern over management of similar funds in the past.

If the House's version of patent reform is ultimately passed by the Senate, patent applicants can expect some fee increases (at least initially). H.R. 1249 increases the fees for patent services by 15% beginning ten days after enactment of the bill.

PRIOR USER RIGHTS

As described in our previous alert, H.R. 1249 includes a significant expansion of so-called "prior user rights." In its current form, the patent code 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 against method patents. H.R. 1249 extends the prior use defense to all patents.

The Senate version of patent reform does not include this expansion, and this is a hot-button issue with some who argue that it will weaken patent rights by providing an additional defense and by dissuading innovators from disclosing their inventions to the public.

POST-GRANT REVIEW

H.R. 1249, as passed, includes a post-grant review process like that in S. 23 and described in our prior client alerts here and here. Although the House had initially provided that patents would be subject to this process for the first twelve months after issuance, the version of the bill that was passed conformed the timeline to that of S. 23 and provides that patents will be subject to post-grant review for the first nine months after issuance.

VALIDITY CHALLENGES FOR CERTAIN BUSINESS METHOD PATENTS

Both S. 23 and H.R. 1249 contain a special process whereby accused infringers may challenge certain qualifying business method patents that relate to the financial services industry. This validity challenge procedure contains a sunset provision that would eliminate the procedure after eight years (under H.R. 1249) and after four years (under S. 23). Opponents of this provision introduced an amendment in the House to remove this procedure from the bill, but that amendment failed. It is likely that this provision will be debated further once the Senate takes the reins back from the House.

PROHIBITION ON PATENTS TO HUMAN ORGANISMS

H.R. 1249 contains Section 30, which expressly provides that "no patent may issue on a claim directed to or encompassing a human organism." To date, such language has not been read to encompass human stems cells nor is it likely to signal any change in Congressional intent regarding the patentability of human genes. The language of this section merely codifies the Weldon Amendment, the Patent Office's long standing policy against issuing patents that cover human lifeforms, and serves to augment the 13th Amendment's prohibition on parties taking an ownership interest in a human being.

NEXT STOP: BACK TO THE SENATE

Because H.R. 1249 differs from S. 23, neither can be signed into law by President Obama in present form. It is possible that the House and the Senate could now hold a joint session called "reconciliation" to attempt to hash out their differences. What is far more likely, however, is that the Senate will take up the debate of H.R. 1249. While the patent reform process is farther along than it has been in decades, it is unlikely that the Senate will pass H.R. 1249's language regarding fee diversion.

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