

# A Guide to the Legislative History of the America Invents Act: Part II of II

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## Introduction

This is the second Article in a two-part series about the legislative history of the recently enacted Leahy-Smith America Invents Act (“AIA”).<sup>1</sup> The first Article addressed those sections of the AIA that apply to an application before a patent has issued—principally, the bill’s amendments to §§ 102, 103, 115, 122, and 135 of title 35, and several of the AIA’s uncodified provisions.<sup>2</sup> This second Article addresses those changes made by the AIA that apply only after a patent has been granted. It examines the legislative history of the AIA’s provisions concerning post-grant review of patents; inter partes proceedings; supplemental examination; the section 18 business-method-patent-review program; the new defense of prior commercial use; the partial repeal of the best-mode requirement; and other changes regarding virtual and false marking, advice of counsel, court jurisdiction, USPTO funding, and the deadline for seeking a patent term extension. This second Article consists of two parts: Part I addresses sections of the U.S. Code that were amended by the AIA, and Part II addresses sections of the AIA that are uncodified.

## I. Sections of the U.S. Code That Are Amended by the AIA

### A. 28 U.S.C. §§ 1295(a)(1), 1338(a), and 1454: The Holmes Group v. Vornado Fix

Section 19 of the AIA, at subsections (a) through (c), enacts the so-called *Holmes Group*<sup>3</sup> fix.<sup>4</sup> These provisions: (1) amend title 28 to clarify that state

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<sup>1</sup> Pub. L. No. 112-29, 125 Stat. 284 (2011). The first Article appeared in volume 21, page 435, of the Federal Circuit Bar Journal. Joe Matal, *A Guide to the Legislative History of the America Invents Act: Part I of II*, 21 FED. CIR B.J. 435 (2012).

<sup>2</sup> Matal, *supra* note 1, at 436.

<sup>3</sup> *Holmes Grp., Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002).

<sup>4</sup> H.R. REP. NO. 112-98, at 81 (2011).

courts lack jurisdiction over legal claims arising under patent, copyright, and plant-variety-protection statutes, and deem the various overseas territories to be States for this purpose; (2) extend the Federal Circuit's appellate jurisdiction to compulsory patent and plant-variety-protection counterclaims, thereby abrogating *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*;<sup>5</sup> and (3) allow removal of civil actions in which "any party" asserts legal claims under patent, copyright, or plant-variety-protection statutes.<sup>6</sup>

A provision appearing in earlier versions of the AIA as § 19(d), which would have required the Federal Circuit to transfer cases that had been appealed as patent or plant-variety-protection cases but in which no such legal claim "is the subject of the appeal by any party," was eliminated from the AIA during House floor consideration.<sup>7</sup>

The 2011 Committee Report briefly described these provisions, noted that similar legislation was reported by the House Judiciary Committee in 2006, and "reaffirm[ed]" the Committee Report for that earlier bill.<sup>8</sup>

The Committee Report for the 2006 *Holmes Group* bill stated that:

The [House Judiciary] Committee believes *Holmes Group* contravened the will of Congress when it created the Federal Circuit. That is, the decision will induce litigants to engage in forum-shopping among the regional circuits and State courts. Extending the argument, the Committee is concerned that the decision will lead to an erosion in the uniformity or coherence in patent law that has been steadily building since the Circuit's creation in 1982.<sup>9</sup>

The *Holmes Group* provisions were added to the AIA during the Senate Judiciary Committee's markup of the bill on February 3, 2011.<sup>10</sup> During the Senate debates in March 2011, Senator Kyl noted that the AIA modified the 2006 bill by limiting its expansion of Federal Circuit jurisdiction to "only compulsory counterclaims."<sup>11</sup> Senator Kyl stated: "Compulsory counterclaims are defined at Rule 13(a) and basically consist of counterclaims that arise out of the same transaction or occurrence and that do not require the joinder of parties over whom the court would lack jurisdiction."<sup>12</sup> He explained that "[w]ithout this modification, it is possible that a defendant could raise unrelated and unnecessary patent counterclaims simply in order to manipulate appellate jurisdiction."<sup>13</sup> Senator Kyl also noted that § 1454, the new removal

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<sup>5</sup> *Holmes*, 535 U.S. 826.

<sup>6</sup> Leahy-Smith America Invents Act, sec. 19, 125 Stat. at 332.

<sup>7</sup> 157 CONG. REC. H4446 (daily ed. June 22, 2011).

<sup>8</sup> H.R. REP. NO. 112-98, at 81; *see also id.* pt. 1, at 54.

<sup>9</sup> H.R. REP. NO. 109-407, at 5 (2006).

<sup>10</sup> S. 23, 112th Cong., sec. § 17 (2011).

<sup>11</sup> 157 CONG. REC. S1378 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>12</sup> *Id.* at S1378-79.

<sup>13</sup> *Id.* at S1379.

statute, had been modified to clarify that intellectual-property counterclaims would not be remanded.<sup>14</sup>

### **B. 28 U.S.C. § 1295(a)(4)(A): Jurisdiction of the Federal Circuit**

This subparagraph was revised to identify all of the various Patent Trial and Appeal Board proceedings from which the Federal Circuit shall entertain appeals.<sup>15</sup>

Senator Kyl addressed these revisions during the March 2011 debates, commenting that “[t]he language of subparagraph (A) is also generalized and clarified, recognizing that the details of what is appealable will be in sections 134 and 141.”<sup>16</sup> He also noted that it “appears that Congress never gave the Federal Circuit jurisdiction over appeals from reexaminations when it created those proceedings,” and that the AIA’s recognition of such jurisdiction was therefore made retroactive.<sup>17</sup> Finally, he noted that “[i]n the effective-date provision . . . , various existing authorities are extended so that they may continue to apply to inter partes reexaminations commenced under the old system.”<sup>18</sup>

### **C. 35 U.S.C. §§ 6, 141: Patent Trial and Appeal Board and Appeals to the Federal Circuit**

Section 6 of title 35 is revised by section 7(a) of the AIA to (i) redesignate the Board of Patent Appeals and Interferences (“BPAI”) as the Patent Trial and Appeal Board (“PTAB” or “Board”), (ii) to authorize the new Board to hear appeals of examinations and reexaminations, and (iii) to enable the Board to conduct derivation proceedings and inter partes and post-grant reviews.<sup>19</sup> Consistent with this change, in section 7(c) of the AIA, “section 141 of title 35 [was] modified to allow appeals of PTAB decisions in inter partes and post-grant reviews, and the section is edited and reorganized.”<sup>20</sup>

The Committee Report briefly commented on these revisions,<sup>21</sup> as did Senator Kyl, who noted that the recodification of section 6 departs from previous

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<sup>14</sup> *Id.*

<sup>15</sup> See Leahy-Smith America Invents Act, Pub. L. No. 112–29, sec. 6(f)(3)(C), § 1295(a)(4)(A), 125 Stat. 284, 313 (2011); see also 157 CONG. REC. S1377 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>16</sup> 157 CONG. REC. S1377 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

<sup>19</sup> Leahy-Smith America Invents Act, sec. 7(a), 125 Stat. at 313.

<sup>20</sup> 157 CONG. REC. S1377 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>21</sup> H.R. REP. NO. 112–98, at 48, 77 (2011).

versions of the bill by allowing all members of the PTAB to participate in all proceedings.<sup>22</sup>

Section 6(f)(2)(B) of the AIA provides that, for purposes of pending interferences, “the Director may deem the Patent Trial and Appeal Board to be the Board of Patent Appeals and Interferences” and conduct “any further proceedings in that interference.”<sup>23</sup> Paragraphs (2) and (3) of section 7(e) of the bill create similar authority for pending inter partes reexaminations.<sup>24</sup> And in conformity with this change, “language [was] added to section [6(f)(3)(C)] of the bill that deems references to derivation proceedings in the current appeals statutes to extend to interferences commenced before the effective date of the bill’s repeal of interferences.”<sup>25</sup>

#### D. 35 U.S.C. § 32: Suspension or Exclusion from Practice

Section 3(k) of the AIA modifies the statute of limitations for initiating a proceeding under 35 U.S.C. § 32 to exclude an attorney from practice before the USPTO.<sup>26</sup> It requires that such a proceeding be initiated within the earlier of either the ten-year period after the misconduct occurred, or one year after the misconduct was reported to the USPTO “as prescribed in \* \* \* regulations.”<sup>27</sup> Section 3(k) also requires the USPTO to report every two years to Congress on substantial incidents of misconduct that evade investigation because of the ten-year time limit.<sup>28</sup>

Senator Kyl commented on these provisions during the March 2011 Senate debates, describing the ambiguity that existed as to which deadline applied to § 32 proceedings under pre-AIA law.<sup>29</sup> He also noted that “[a] 10-year limit would appear to allow a proceeding for the vast bulk of misconduct that is discovered,”<sup>30</sup> while staying within the time period “during which individuals can reasonably be expected to maintain an accurate recollection of events and motivations.”<sup>31</sup>

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<sup>22</sup> 157 CONG. REC. S1377 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>23</sup> Leahy-Smith America Invents Act, sec. 6(f)(2)(B), 125 Stat. at 311.

<sup>24</sup> *Id.* at secs. 7(e)(2), 7(e)(3), 125 Stat. at 315.

<sup>25</sup> 157 CONG. REC. S1377 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) (“In the effective-date provision at the end of section [7], various existing [appeal] authorities are extended so that they may continue to apply to inter partes reexaminations commenced under the old system.”).

<sup>26</sup> Leahy-Smith America Invents Act, § 3(k), 125 Stat. at 291.

<sup>27</sup> *Id.* § 3(k)(1).

<sup>28</sup> *Id.* § 3(k)(2).

<sup>29</sup> See 157 CONG. REC. S1372 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>30</sup> *Id.*

<sup>31</sup> *Id.* at S1372–73.

### **E. 35 U.S.C. § 143: Proceedings on Appeal**

Section 7(c)(3) of the AIA amends § 143 of title 35 to allow the Director to intervene in a Federal Circuit appeal of the PTAB's decision in a derivation proceeding or in an inter partes or post-grant review.<sup>32</sup> Senator Kyl noted this provision in passing during the March 2011 debates on the bill.<sup>33</sup>

### **F. 35 U.S.C. § 202(b): Bayh-Dole Funding Agreements and Technical Corrections**

Prior to the enactment of the AIA, § 202(c)(7)(E)(i) of title 35 provided that, if a government-owned, contractor-operated facility received net royalty income from patented inventions developed through federally funded research in an amount that exceeded 5% of the facility's annual budget, then 75% of any such royalty income received in excess of that 5% must be paid by the facility to the federal government.<sup>34</sup> Section 13 of the AIA reduced this 75% toll to just 15%.<sup>35</sup>

The 2011 Committee Report commented briefly on this provision in its background section, noting that:

The Senate Judiciary Committee considered testimony that the requirement to repay the government 75 percent of the excess on royalty payments may be causing a disincentive for universities and small business operating under the GOCO provisions to commercialize products.<sup>36</sup> Based on these concerns, the Act maintains the essence of the agreement GOCOs made with the taxpayers when they received funding[:] that they would reimburse the taxpayer if they are sufficiently successful in commercializing a product invented with taxpayer dollars, but which reduces the burden on universities and small businesses, thereby encouraging commercialization.<sup>37</sup>

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<sup>32</sup> Leahy-Smith America Invents Act § 7(c)(3), 125 Stat. at 314–15.

<sup>33</sup> See 157 CONG. REC. S1377 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>34</sup> 35 U.S.C. § 202(c)(7)(E)(i) (2006), *amended by* Leahy-Smith America Invents Act § 13(a)(1), 125 Stat. at 327.

<sup>35</sup> Leahy-Smith America Invents Act § 13(a)(1), 125 Stat. at 327.

<sup>36</sup> H.R. REP. NO. 112-98, at 51 n.52 (2011). A footnote that appears in the Report at this point cites to the following hearing testimony: *The Role of Federally-Funded University Research in the Patent System: Hearing Before the S. Comm. on the Judiciary*, 110th Cong. (2007) (statement of Dr. Elizabeth Hoffman, Executive Vice President and Provost, Professor of Economics, Iowa State University).

<sup>37</sup> H.R. REP. NO. 112-98, at 51; *see also id.* at 79 (section-by-section analysis); S. REP. NO. 111-18, at 46 (2009) (additional views of Sen. Grassley); 157 CONG. REC. S1366 (daily ed. Mar. 8, 2011) (Republican Policy Committee Legislative Notice) (summarizing section 13's amendments to the America Invents Act).

The AIA also corrected several minor errors in § 202,<sup>38</sup> conformed it to the adoption of the first-to-file system,<sup>39</sup> and softened language that had previously provided that, except where infeasible after a reasonable inquiry, federally funded patented inventions must be licensed to small firms.<sup>40</sup> The AIA replaced the previous requirement to license to small firms with a requirement that such firms simply be given a “preference” in licensing.<sup>41</sup>

### **G. 35 U.S.C. § 251: Allowing Assignees to Seek Broadening Reissue**

Section 4(b)(2) of the AIA amends the third paragraph of section 251 (which will be designated as subsection (c) by the AIA)<sup>42</sup> to allow an assignee of a patent to seek a broadening reissue of the patent if the entire interest in the invention was assigned before the application for patent was filed.<sup>43</sup> Prior to the enactment of this provision, an assignee was barred from seeking broadening reissue.<sup>44</sup> And even after its enactment, an assignee who acquired the patent or application from the inventor (that is, in cases where the inventor himself filed the application) will continue to be barred from seeking broadening reissue.<sup>45</sup>

Senator Kyl commented on this change, and the USPTO’s construction the pre-AIA law, during the March 2011 debates on the bill:

[T]he present bill . . . modifies section 251 to allow an assignee who applied for a patent to also seek broadening reissue of the patent within two years of its issue. Notwithstanding the language of the fourth paragraph of current section 251, the Office currently does allow assignees to seek broadening reissue, so long as the inventor does not oppose the reissue. The Office views such unopposed applications for reissue as effectively being made “in the name” of the inventor.<sup>[46]</sup> Expanding an assignee’s right to seek broadening reissue is consistent with the bill’s changes to sections 115 and 118, which expand assignees’ rights by allowing assignees to apply for a patent against the inventor’s wishes. If an assignee exercises his right to apply for a patent

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<sup>38</sup> See Leahy-Smith America Invents Act, secs.13(a)(3), 20(i)(2)(A), 125 Stat. at 327.

<sup>39</sup> See *id.* sec. 3(g)(7), 125 Stat. at 288.

<sup>40</sup> See *id.* sec. 20(i)(2)(B), 125 Stat. at 335.

<sup>41</sup> *Id.*

<sup>42</sup> *Id.* sec. 20(d)(3), 125 Stat. at 334.

<sup>43</sup> *Id.* sec. 4(b)(2), § 251, 125 Stat. at 296.

<sup>44</sup> 35 U.S.C. § 251 (2006), *amended by* Leahy-Smith America Invents Act § 4(b)(2), 125 Stat. at 296.

<sup>45</sup> See Leahy-Smith America Invents Act, sec. 4(b)(2), 125 Stat. at 296; 35 U.S.C. § 251.

<sup>46</sup> The regulations governing this matter are somewhat contradictory. Although 37 C.F.R. § 1.172 (2011) emphasizes that “[a] reissue oath must be signed and sworn to or declaration made by the inventor,” it then adds “except as otherwise provided,” and cites to 37 C.F.R. § 1.47. Section 1.47 in turn provides that an assignee may file an application for patent “[w]henver all of the inventors refuse” to do so. 37 C.F.R. § 1.47(b) (2011).

against the inventor's wishes, there is no reason not to allow the same assignee to also seek a broadening reissue within the section 251 time limits.<sup>47</sup>

### H. 35 U.S.C. § 257: Supplemental Examination

Section 12 of the AIA authorizes a new post-grant proceeding called "supplemental examination."<sup>48</sup> This new proceeding allows the patent owner to submit to the USPTO any information that is believed to be "relevant to the patent."<sup>49</sup> Once the information is submitted, the Director must decide whether the information creates a substantial new question of patentability.<sup>50</sup> If he finds that it does, the USPTO must reexamine the patent.<sup>51</sup>

The most important feature of this new proceeding is its effect on the inequitable-conduct doctrine. As the final Committee Report stated:

If the Office determines that the information [that was submitted to the Office by the patent owner] does not present a substantial new question of patentability or that the patent is still valid, that information cannot later be used to hold the patent unenforceable or invalid on the basis [of] an inequitable-conduct attack in civil litigation.<sup>52</sup>

The final Committee Report's section-by-section analysis further elaborated on this point, noting that "[c]hallengers may still argue in court that the Office's conclusion in supplemental examination was erroneous and that the information renders the patent invalid, but the information cannot be used to render the patent invalid or unenforceable on the basis of inequitable conduct."<sup>53</sup>

Supplemental examination was championed by Senator Hatch.<sup>54</sup> The concept grew out of Senator Hatch's advocacy over several Congresses of proposals to restrict the inequitable-conduct doctrine.<sup>55</sup> The first Senate version of the AIA—the Hatch-Leahy bill of 2006<sup>56</sup>—included a provision that would have sharply limited courts' authority to hold a patent unenforceable on the basis

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<sup>47</sup> 157 CONG. REC. S1373 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>48</sup> Leahy-Smith America Invents Act, sec. 12, 125 Stat. at 325; see H.R. REP. NO. 112-98, at 28 (2011).

<sup>49</sup> H.R. REP. NO. 112-98, at 28.

<sup>50</sup> *Id.*

<sup>51</sup> For conventional summaries of the features of this new proceeding, see *id.* at 50, 78; 157 CONG. REC. S1366 (daily ed. Mar. 8, 2011) (Republican Policy Committee Legislative Notice); *id.* at S1097 (statement of Sen. Hatch); *id.* at S1378 (statement of Sen. Kyl).

<sup>52</sup> H.R. REP. NO. 112-98, at 50.

<sup>53</sup> *Id.* pt. 1, at 78.

<sup>54</sup> See 157 CONG. REC. S1097 (daily ed. Mar. 2, 2011) (statement of Sen. Hatch).

<sup>55</sup> See S. 3818, 109th Cong., sec. 4 (2006); see also 153 CONG. REC. S4691 (daily ed. Apr. 18, 2007) (statement of Sen. Hatch).

<sup>56</sup> S. 3818.

of inequitable conduct.<sup>57</sup> This provision was dropped from the Leahy-Hatch bill that was introduced in 2007, but Senator Hatch continued to pursue inequitable-conduct reform, arguing that the defense “has been overpleaded and has become a drag on the litigation process.”<sup>58</sup>

In 2009, Senator Hatch secured a commitment from the House and Senate bill’s lead sponsors—Senator Leahy and Representative Conyers—to include inequitable-conduct reforms in the bill.<sup>59</sup> Supplemental Examination was added to the bill by the Leahy-Sessions managers’ amendment that was announced in March 2010.<sup>60</sup>

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<sup>57</sup> The Hatch-Leahy bill would have barred courts from holding a patent unenforceable because of inequitable conduct if: (1) the patent owner or his agent had an informed good-faith belief that the information in question was not material; (2) the patent owner had no actual or constructive knowledge of the misconduct in question; or (3) the court had not determined that one or more claims in the patent is invalid. *See id.* sec. 5(c).

<sup>58</sup> 153 CONG. REC. S4691 (daily ed. Apr. 18, 2007) (statement of Sen. Hatch); *see also Patent Reform: The Future of American Innovation: Hearing Before the S. Comm. on the Judiciary*, 110th Cong. 10–11 (2007) [hereinafter *2007 Senate hearing*] (statement of Jon Dudas, Director, USPTO) (describing impact of inequitable-conduct litigation on applicant behavior); *Patent Reform Act of 2007: Hearing on H.R. 1908 Before the Subcomm. on Courts, the Internet, and Intellectual Prop.*, 110th Cong. 56 (2007) [hereinafter *2007 House hearing*] (statement of Gary L. Griswold, President and Chief Counsel of Intellectual Property, 3M Innovative Properties) (“Defendants now shamelessly second-guess everything that is said to the PTO in obtaining a patent . . . There is always fodder for the contention that . . . information . . . was somehow wrongfully withheld.”); H.R. REP. NO. 112-98, at 50 (2011); S. REP. NO. 110-259, at 59–62 (2008) (additional views of Sens. Specter and Hatch) (criticizing the inequitable-conduct doctrine’s low standard for showing materiality); 155 CONG. REC. S2715 (daily ed. Mar. 3, 2009) (statement of Sen. Hatch) (“The inequitable conduct defense is frequently pled, rarely proven, and always drives up the cost of litigation tremendously.”).

<sup>59</sup> *See* 155 CONG. REC. S2715–16 (daily ed. Apr. 18, 2007) (statement of Sen. Hatch) (“For years I have been arguing . . . [that] we must take steps to ensure that the inequitable conduct doctrine is [reformed] . . . . Chairman Leahy and Chairman Conyers both know of my strong interest in this area and have agreed to incorporate changes to the law.”); *see also id.* at S2707 (statement of Sen. Leahy) (“I understand that the issue of inequitable conduct is very important to Senator Hatch, and I will work with him to address any statutory changes.”); 155 CONG. REC. E537 (daily ed. Mar. 3, 2009) (statement of Rep. Conyers) (“It is my intention to work closely with [Sen. Hatch] to craft language on inequitable conduct that can be incorporated into the bill at a later time.”).

<sup>60</sup> *See* S. 515, 111th Cong. (2009) (amendment in the nature of a substitute). As noted in Part I of this Article, *see* Matal, *supra* note 1, at 443 n.54, 444 n.58 and accompanying text, there is no official public version of the 2010 managers’ amendment, but that amendment is substantially identical to S. 23, 112th Cong. (2011) (introduced bill).



During the 2011 Senate debates, Senators Hatch and Kyl spoke about the policy goals that are intended to be served by allowing supplemental examination of patents.<sup>61</sup> Senator Hatch stated that:

the supplemental examination provision satisfies a long-felt need in the patent community to be able to identify whether a patent would be deemed flawed if it ever went to litigation and enables patentees to take corrective action. This process enhances the quality of patents, thereby promoting greater certainty for patentees and the public.<sup>62</sup>

Senator Kyl noted that under the law at that time, “even minor and inadvertent errors in the patent application process can lead to expensive and very unpredictable . . . inequitable conduct litigation.”<sup>63</sup> He then went on to describe scenarios in which supplemental examination would be particularly beneficial to small and start-up businesses:

It is often the case that startup companies or university researchers cannot afford to hire the very best patent lawyers. Their patents are prosecuted by an in-house attorney who does a good enough job but who is unfamiliar with all of the sharp corners and pitfalls of the inequitable conduct doctrine, such as the need to present cumulative studies and prior art. Later, when more legally sophisticated investors evaluate the patent for potential investment or purchase, these minor flaws in prosecution can deter the investor from purchasing or funding the development of the invention. An investor would not risk spending hundreds of millions of dollars to develop a product if a potential inequitable conduct attack may wipe out the whole investment.

Parties on both sides of these exchanges report that investors routinely walk away from inventions because of their inability under current law to resolve uncertainties whether a flaw in prosecution was, in fact, inequitable conduct. These decisions not to invest in a new invention represent important new cures never tested and brought to market and other important inventions that are never developed.

. . . .

The authorization of supplemental examination will result in path-breaking inventions being developed and brought to market that otherwise would have lingered on the shelf because of legal uncertainty over the patent. It will ensure that small and startup companies with important and valid patents will not be denied investment capital because of legal technicalities.<sup>64</sup>

The final Committee Report also described the AIA’s exceptions to § 257’s guarantee that a patent that survives supplemental examination will be immune from an inequitable-conduct attack based on the information presented in the supplemental examination.<sup>65</sup> The Report noted that no immunity will attach if there have been “prior allegations involving certain new drug applications

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<sup>61</sup> See 157 CONG. REC. S1097 (daily ed. Mar. 2, 2011) (statement of Sen. Hatch); *id.* at S5319 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl).

<sup>62</sup> *Id.* at S1097 (daily ed. Mar. 2, 2011) (statement of Sen. Hatch).

<sup>63</sup> *Id.* at S5319 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl).

<sup>64</sup> *Id.*

<sup>65</sup> H.R. REP. NO. 112-98, at 78 (2011).

(21 USC § 355(j)),” or if the patent owner has brought “patent enforcement actions before the International Trade Commission or a [U.S.] district court, unless the supplemental examination was concluded before the date on which the action is brought.”<sup>66</sup>

Senator Hatch further elaborated on this second exception, noting that: [t]he request [for supplemental examination] must be made before litigation [by the patent owner] commences. Therefore, supplemental examination cannot be used to remedy flaws first brought to light in the course of litigation, nor does it interfere with the court’s ability to address inequitable conduct.<sup>67</sup>

Both Representative Lamar Smith and Senator Kyl also commented during the 2011 debates on subsection (e) of § 257.<sup>68</sup> Subsection (e) requires that, if the Director discovers during the course of the supplemental examination that a “material fraud on the Office may have been committed in connection with the patent,” the Director “shall . . . refer the matter to the Attorney General for such further action as the Attorney General may deem appropriate.”<sup>69</sup>

In an extension of remarks submitted on the day of the House passage of the AIA, Representative Smith indicated that: (1) subsection (e) is not intended to expand USPTO’s investigatory duties; (2) even if the USPTO makes a referral to the Attorney General, it must conclude the supplemental examination; and (3) the Director cannot delegate to his subordinate employees his duty to refer cases to the Attorney General pursuant to subsection (e).<sup>70</sup> Representative Smith stated:

this provision is not intended to impose any obligation on the PTO beyond those it already undertakes, or require it to investigate or prosecute any such potential fraud. Subparagraph (C)<sup>71</sup> is neither an investigative nor an adjudicative provision, and, as

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<sup>66</sup> *Id.* The Report also stated that no immunity will attach in “instances in which fraud on the USPTO was practiced or attempted.” *Id.* However, this particular exception, which was added to supplemental examination by an amendment offered by Representative Goodlatte in the House Judiciary Committee markup, *see id.* at 60–61, was later stripped from the bill on the House floor by the managers’ amendment. *See* 157 CONG. REC. H4450 (daily ed. June 22, 2011) (text of managers’ amendment). *Compare* H.R. 1249, 112th Cong., sec. 12, § 257(c)(2)(C) (as reported in House, June. 1, 2011), *with* H.R. 1249, 112th Cong., sec. 12, § 257(c)(2) (as passed by House).

<sup>67</sup> 157 CONG. REC. S1097 (daily ed. Mar. 2, 2011) (statement of Sen. Hatch).

<sup>68</sup> *See id.* at E1182 (daily ed. June 23, 2011) (statement of Rep. Smith); *id.* at S5429 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

<sup>69</sup> Leahy-Smith America Invents Act, sec. 12 § 257(e), 125 Stat. at 326–27.

<sup>70</sup> *See* 157 CONG. REC. E1182 (daily ed. June 23, 2011) (statement of Rep. Smith).

<sup>71</sup> Representative Smith mistakenly referred to subparagraph (C) of subsection (c)(2), where an earlier provision relating to fraud on the Office had been located. *See* H.R. 1249, 112th Cong., sec. 12, § 257(c)(2)(C) (as reported in House, June. 1, 2011). His remarks are obviously intended to be directed at subsection (e).

such, is not intended to expand the authority or obligation of the PTO to investigate or adjudicate allegations of fraud lodged by private parties.

Further, any referral under this subsection is not meant to relieve the Director from his obligation to conclude the supplemental examination or reexamination proceeding ordered under this section. It is important for the process to proceed through conclusion of reexamination, so that any claims that are invalid can be properly cancelled.

[Finally,] [t]he decision to make referrals under subsection (c)<sup>72</sup> is not meant to be delegated to examiners or other agents of the PTO, but rather is a determination that should only be made by the Director himself or herself.<sup>73</sup>

When the House-passed AIA was brought to the Senate floor in September of 2011, Senator Kyl noted that Representative Smith's extension of remarks had "clarif[ie]d the purpose and effect of [new subsection (e)]," and stated that "[i]n light of [Representative Smith's] remarks, I find the addition unobjectionable."<sup>74</sup> Senator Kyl also added that, "in evaluating whether a fraud is 'material' for purpose of referral, the Director should look to the Federal Circuit's decision in *Therasense, Inc. v. Becton, Dickinson & Co.*"<sup>75</sup>

During the March 2011 Senate debates on the AIA, Senator Kyl also commented on the fact that the AIA provides only that a patent may not later be held *unenforceable* in civil litigation on the basis of information that was evaluated in a supplemental examination.<sup>76</sup> He noted that:

[n]ew section 257(c)(1) follows the usual practice of referring to inequitable-conduct attacks in terms of unenforceability, rather than invalidity, though courts have in the past used the terms interchangeably when describing the effect of fraud or inequitable conduct on a patent.<sup>77</sup>

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<sup>72</sup> Representative Smith presumably intended to refer to subsection (e). *See id.*

<sup>73</sup> 157 CONG. REC. E1182 (daily ed. June 23, 2011) (statement of Rep. Smith). It should be noted that nothing on the face of § 257(e) precludes the Director from delegating the decision to make such referrals, and elsewhere in the same section, responsibilities assigned to the Director obviously are intended to be delegated. *See, e.g., Leahy-Smith America Invents Act*, sec. 12(a), § 257(a), 125 Stat. at 325 (stating that "the Director shall conduct the supplemental examination").

<sup>74</sup> 157 CONG. REC. S5429 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

<sup>75</sup> *Id.* (citing 649 F.3d 1276, 1291 (Fed. Cir. 2011) ("[T]he materiality required to establish inequitable conduct is but-for materiality.")).

<sup>76</sup> *See id.* at S1378 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>77</sup> *Id.* In support of this proposition, Senator Kyl quoted *J.P. Stevens & Co. v. Lex Tex Ltd., Inc.*, 747 F.2d 1553 (Fed. Cir. 1984). That case held that "[w]hether the holding should be one of invalidity or unenforceability has had no practical significance in cases thus far presented to this court." *Id.* at 1560; *cf.* H.R. REP. NO. 112-98, at 50 (2011) ("Patents are unenforceable and invalid if they are obtained through fraud.").

Senator Kyl went on to state that:

The term [unenforceability] should be considered to be used interchangeably with “invalidity” in this bill as well. Obviously, Congress would not create a procedure for reexamining patents that allowed them to be protected against subsequent inequitable-conduct challenges of unenforceability, only to allow the same patents to be challenged on the same basis and declared invalid on the basis of inequitable conduct.<sup>78</sup>

During his March 8, 2011, remarks, Senator Kyl also responded to critics who alleged that the authorization of supplemental examination would “immunize misconduct.”<sup>79</sup> He argued that “the Patent Office has ample authority to sanction such misconduct.”<sup>80</sup> In particular, Senator Kyl noted that (1) “the Office can bar an attorney from appearing before the Office if he has engaged in misconduct in any proceeding before the Office”<sup>81</sup>—and that the AIA even extended the statute of limitations for initiating such a proceeding;<sup>82</sup> (2) “[u]nder [pre-AIA] regulations, the Office also sanctions misconduct by striking offending filings or reducing the weight that they are given;”<sup>83</sup> and (3) “the Federal Circuit has recognized that the Office also ‘has inherent authority to govern procedure before the [Office],’”<sup>84</sup> and “that inherent authority to sanction attorneys for misconduct is not restricted to Article III courts.”<sup>85</sup> Senator Kyl concluded that, “[g]iven the Office’s existing tools for sanctioning misconduct, there is no need to make the courts into supervisors of attorney conduct in Office proceedings.”<sup>86</sup>

Senator Kyl also could have noted that the AIA’s new post-grant and inter partes review proceedings both expressly charge the USPTO with adopting regulations that “prescrib[e] sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding, such as to harass or to cause unnecessary delay or an unnecessary increase in the cost of the proceeding.”<sup>87</sup> Through all of these provisions (including supplemental examination), the

<sup>78</sup> 157 CONG. REC. S1378 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>79</sup> *Id.*

<sup>80</sup> *Id.*

<sup>81</sup> *Id.*

<sup>82</sup> *See id.*; *see also* Leahy-Smith America Invents Act, sec. 3(k), 125 Stat. at 291.

<sup>83</sup> 157 CONG. REC. S1378 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>84</sup> *Id.* (quoting *In re Bogese II*, 303 F.3d 1362, 1368 (Fed. Cir. 2002)).

<sup>85</sup> *Id.* (citing *In re Bailey*, 182 F.3d 860, 864 n.4 (Fed. Cir. 1999)).

<sup>86</sup> *Id.*

<sup>87</sup> Leahy-Smith America Invents Act, secs. 6(a), § 316(a)(6), 125 Stat. at 302; *id.* sec. 6(d), § 326(a)(6), 125 Stat. at 302, 308–09. The 2007 House Committee Report, commenting on an identical provision in the 2007 House bill, *see* H.R. 1908, 110th Cong., sec. 6(f)(1), § 326(b)(4) (2007), stated that the Director “may impose sanctions in the form of monetary fines (or payments to other parties) or restrictive orders relating to the proceedings, including dismissal of petitions or cancellation of claims.” H.R. REP. NO. 110-314, at 73 (2007).

AIA broadly shifts the responsibility for sanctioning misconduct in USPTO proceedings from the federal courts to the USPTO itself.<sup>88</sup>

The AIA's authorization of supplemental examination was not universally greeted with enthusiasm. After House passage of the bill, Representative Henry Waxman stated in an extension of remarks that he was "deeply disappointed" by the inclusion of this provision, denouncing it as "a 'get out of jail free card' for any company fearful of having their patent invalidated because they deceived the PTO."<sup>89</sup> He complained in particular that "nothing in the bill would stop a patent holder from seeking a supplemental examination with information that wasn't even available at the time the patent was originally filed,"<sup>90</sup> and then suggested, somewhat inconsistently, that the USPTO interpret the new § 257 to "prohibit[] reexamination of information that didn't exist at the time of the original filing."<sup>91</sup>

## I. 35 U.S.C. § 273: Prior User Rights

### 1. *Overview and History*

A late but important addition to the AIA was a prior-user defense that applies to all utility patents. Before the enactment of the AIA, § 273 of title 35 allowed only a very limited prior-user right that could be asserted only for a "method of doing or conducting business."<sup>92</sup> The AIA's new prior-user defense can be asserted for any process, or for any product that is used in a

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<sup>88</sup> Such a shift was expressly advocated by Senator Kyl when he introduced S. 3600, his alternative patent bill, in 2008 during the 110th Congress. *See* 154 CONG. REC. S9991 (daily ed. Sept. 27, 2008) ("Professor John F. Duffy of George Washington University Law School has made a persuasive case that inequitable conduct that occurs during patent prosecution should be addressed in proceedings before the PTO itself.").

<sup>89</sup> 157 CONG. REC. E1208 (daily ed. June 24, 2011) (statement of Rep. Waxman). Of course, the only patent owner who can "get out of jail free" through supplemental examination is one whose patent—even in light of the new information—is a valid patent.

<sup>90</sup> *Id.*

<sup>91</sup> *Id.* It should be noted that Representative Waxman's initial statement is the correct one: Nothing in the statute limits supplemental examination to review of information that existed when the application for the patent was filed. Also, the language of § 257 is mandatory—it provides that the Director "shall" conduct supplemental examination, Leahy-Smith America Invents Act, sec. 12(a) § 257(a), 125 Stat. at 325, and that he "shall" address each substantial new question of patentability that is raised, *id.* § 257(b). Finally, the only regulatory authority that the Director is given by § 257 is limited in nature. *See id.* § 257(d). Given the relatively clear commands of the statute, Representative Waxman's proposal that the Office block the use of supplemental examination in a broad category of cases appears to recommend an action that would be ultra vires.

<sup>92</sup> 35 U.S.C. § 273(a)(3) (2006), *amended by* Leahy-Smith America Invents Act, sec. 5(a), § 273, 125 Stat. at 297.

manufacturing or other commercial process.<sup>93</sup> To prevail, the defendant must show that he commercially used the subject matter at least one year before the earlier of either the effective-filing date of the claimed invention or a public disclosure of the claimed invention that qualifies for the § 102(b) grace period.<sup>94</sup> The defense can only be asserted against patents that are issued on or after September 16, 2011,<sup>95</sup> and the defense cannot be asserted against a patent for an invention that was made by a university.<sup>96</sup>

The 2011 Committee Report said surprisingly little about the new § 273.<sup>97</sup> Also, because the bill's prior-user right was rewritten by the House floor managers' amendment after the Report was issued,<sup>98</sup> much of what the Report did say is no longer accurate.<sup>99</sup>

Representative Lamar Smith presented the main arguments for allowing a prior-user defense during the June 23, 2011, House debates on the AIA.<sup>100</sup> He argued that: (1) patenting is often ineffective for protecting manufacturing processes, because such patents are very difficult if not impossible to police; and (2) the fact that almost all other countries allow prior-user rights and the United States does not create a perverse incentive for manufacturers to locate their factories overseas.<sup>101</sup>

Representative Smith stated:

For many manufacturers, the patent system presents a catch-22. If they patent a process, they disclose it to the world and foreign manufacturers will learn of it and, in many cases, use it in secret without paying licensing fees. The patents issued on manufacturing processes are very difficult to police, and oftentimes patenting the idea

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<sup>93</sup> Leahy-Smith America Invents Act, sec. 5(a), § 273(a), 125 Stat. at 297.

<sup>94</sup> *Id.*

<sup>95</sup> *Id.* sec. 5(c), 125 Stat. at 299.

<sup>96</sup> *Id.* sec. 5(a), § 273(e)(5), 125 Stat. at 298.

<sup>97</sup> See H.R. REP. NO. 112-98, at 44, 74–75 (2011).

<sup>98</sup> See 157 CONG. REC. H4448 (daily ed. June 22, 2011).

<sup>99</sup> Specifically: (1) the final university exception, Leahy-Smith America Invents Act, sec. 5(a), § 273(a)(e)(5), 125 Stat. at 298, does not operate as described in the Report, see H.R. REP. NO. 112-98, at 75; (2) language discussed by the Report that allows the defense to be asserted by the person who “performed or caused the performance” of acts necessary to establish the defense, *id.*, was replaced with language allowing assertion by the person who “performed or directed the performance” of the acts, Leahy-Smith America Invents Act, sec. 5(a), § 273(e)(1)(A), 125 Stat. at 298; and (3) the bill's previous requirement that the person asserting the defense show that he reduced the subject matter to practice (which is noted by the Report) was eliminated, see 157 CONG. REC. S5430 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl) (explaining that the final bill “drop[ped] the requirement of a showing of reduction to practice . . . because the use of a process, or the use of [a] product in a commercial process, will always constitute a reduction to practice”).

<sup>100</sup> See 157 CONG. REC. H4483 (daily ed. June 23, 2011) (statement of Rep. Smith).

<sup>101</sup> *Id.*

simply means giving the invention away to foreign competitors. On the other hand, if the U.S. manufacturer doesn't patent the process, then under the current system a later party can get a patent and force the manufacturer to stop using a process that they independently invented and used.

...

This provision [*i.e.*, new § 273] creates a powerful incentive for manufacturers to build new plants and new facilities in the United States. Right now, all foreign countries recognize prior-user rights, and that has played a large role in attracting American manufacturing jobs and facilities to these countries. H.R. 1249 finally corrects this imbalance and strongly encourages businesses to create manufacturing jobs in this country.<sup>102</sup>

These same arguments were made repeatedly over the course of the nearly two decades of legislative activity that led up to the enactment of the new § 273.<sup>103</sup>

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<sup>102</sup> *Id.*

<sup>103</sup> See, e.g., *America Invents Act: Hearing on H.R. 1249 Before the Subcomm. on Intellectual Prop., Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Cong. 51 (2011) [hereinafter *AIA hearing*] (statement of David J. Kappos, Director, USPTO) (“[P]rior user rights have the advantage of being very pro-American manufacturing. Currently, there is actually an incentive for American businesses to locate their factories overseas . . . because . . . other countries have prior user rights.”); *Prior Domestic Commercial Use Act of 1995: Hearing on H.R. 2235 Before the Subcomm. on Courts and Intellectual Prop. of the H. Comm. on the Judiciary*, 104th Cong. 13–14 (1995) [hereinafter *1995 House hearing*] (statement of Dieter Hoinkes, Senior Counsel, Office of Legislative and International Affairs, USPTO); *id.* at 46–48 (statement of Richard L. Schwaab, Professor of Law, George Mason University School of Law); *id.* at 53, 55 (statement of Gary L. Griswold, President, Intellectual Property Owners, Inc. (“IPO”)); *id.* at 57 (statement of William D. Budinger, Chairman and CEO, Rodel, Inc.); *id.* at 68 (statement of Robert A. Armitage, President, AIPLA); *The Patent Prior User Rights Act and the Patent Reexamination Reform Act: Hearing on S. 2272 and S. 2341 Before the Subcomm. on Patents, Copyrights, and Trademarks of the S. Comm. on the Judiciary*, 103rd Cong. 18–19 (1994) [hereinafter *1994 Senate hearing*] (statement of William D. Budinger, Chairman and CEO, Rodel, Inc.); *id.* at 24, 26 (statement of Roger S. Smith, President, IPO); *id.* at 28–29 (statement of Gary L. Griswold, on behalf of American Intellectual Property Law Association (“AIPLA”)); *Prior User Rights (Relative to Patents): Hearing Before the Subcomm. on Intellectual Prop. and Judicial Admin. of the H. Comm. on the Judiciary*, 103d Cong. 10, 14 (1994) [hereinafter *1994 House hearing*] (statement of Bruce A. Lehman, Comm’r, USPTO); *id.* at 136–139 (Letter of Harold C. Wegner, Prof. of Law and Director of the Intellectual Prop. Law Program, George Washington University); *The Patent System Harmonization Act of 1992: J. Hearing on S. 2605 and H.R. 4978 Before the Subcomm. on Patents, Copyrights, and Trademarks of the S. Comm. on the Judiciary and the Subcomm. on Intellectual Prop. and Judicial Admin. of the H. Comm. on the Judiciary*, 102d Cong. 108 (1992) [hereinafter *1992 joint hearing*] (statement of Robert Benson, Past President, AIPLA); *id.* at 196 (statement of Robert A. Armitage, Vice President, Corporate

Additional arguments that often are made for recognizing prior-user rights are: (1) a prior-user right will reduce the need for businesses to defensively patent simply in order to ensure that they do not lose their ability to practice their own inventions;<sup>104</sup> and (2) protecting all of the minor innovations in a manufacturing process with domestic and foreign patents is both impractical and prohibitively expensive.<sup>105</sup>

Section 273 was the product of a long legislative journey that had many fits and starts. Indeed, most of the relevant legislative consideration of the AIA's prior-user defense took place more than a decade and a half before the AIA was enacted. The policy justifications for § 273 were thoroughly explored in

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Patents and Trademarks, The Upjohn Co., on behalf of National Association of Manufacturers ("NAM")) ("Prior user rights also provide strong incentives to invest in domestic manufacturing. . . . [T]heir absence would be a self-inflicted wound."); *id.* at 384 (NAM position paper); ADVISORY COMM'N. ON PATENT LAW REFORM, A REP. TO THE SECRETARY OF COMMERCE [hereinafter ADVISORY COMM'N. REPORT] 49, 52 (1992); 157 CONG. REC. S5440 (daily ed. Sept. 8, 2011) (statement of Sen. Leahy); *id.* at S5430 (statement of Sen. Kyl); Gary L. Griswold & F. Andrew Ubel, *Prior User Rights—A Necessary Part of a First-to-File System*, 26 J. MARSHALL L. REV. 567, 577–78 (1993) ("[I]n many cases a process patent affords inadequate protection in exchange for the inventor's disclosure, since process claims are often difficult if not impossible to police."); 157 CONG. REC. S5319 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl); *see also* *Prior User Rights: Strengthening U.S. Manufacturing and Innovation: Hearing Before the Subcomm. on Intellectual Prop., Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Cong. 76 (2012) [hereinafter *2012 House hearing*] (statement of Robert A. Armitage, Senior Vice President and General Counsel, Eli Lilly and Company) (noting that "[t]his is the 20th anniversary of my first appearance before this Subcommittee testifying on the issue of prior user rights").

<sup>104</sup> *See* 1995 *House hearing*, *supra* note 103, at 13 (statement of Dieter Hoinkes, Senior Counsel, USPTO, Office of Legislative and International Affairs); *id.* at 47 (statement of Richard L. Schwaab, Professor of Law, George Mason University School of Law); *id.* at 53 (statement of Gary L. Griswold, President, IPO); 1994 *Senate hearing*, *supra* note 103, at 6 (statement of Bruce Lehman, Comm'r, USPTO); 1994 *House hearing*, *supra* note 103, at 137-39 (Letter of Harold C. Wegner, Prof. of Law and Director of the Intellectual Prop. Law Program, George Washington University) ("It is particularly important that today, when the administration of the patent system is hounded by difficulties in the handling of software patent applications, Congress should act to mitigate the problem by finding non-patent opportunities for today's defensive filers."); H.R. REP. NO. 110-315, at 30 (2007); ADVISORY COMM'N. REPORT, *supra* note 103, at 49.

<sup>105</sup> *See* 1995 *House hearing*, *supra* note 103, at 21 (statement of Karl F. Jorda, Professor, Franklin Pierce Law Center); *id.* at 58 (statement of William D. Budinger, Chairman and CEO, Rodel, Inc.); *id.* at 68 (statement of Robert A. Armitage, President, AIPLA); 1994 *House hearing*, *supra* note 103, at 10 (statement of Bruce A. Lehman, Comm'r, USPTO); 1992 *joint hearing*, *supra* note 103, at 209 (statement of Robert A. Armitage, on behalf of NAM); *see also* ADVISORY COMM'N. REPORT, *supra* note 103, at 52.



four hearings that were held in the early 1990s,<sup>106</sup> and the purposes served by its particular provisions were explained in several committee reports that were issued later that decade.<sup>107</sup> Very little material—and no arguments that are new—appear in the legislative record of the subsequent decade leading up to the enactment of the AIA.

A bill that is substantially identical to § 273 was first introduced on August 4, 1995, by Representative Carlos Moorhead.<sup>108</sup> That bill (and the current § 273) reflected the recommendations of an influential 1993 law review article,<sup>109</sup> which commented on recommendations made in the 1992 Report of the Commerce Department's Advisory Commission on Patent Law Reform.<sup>110</sup> Bills to establish prior-user rights had also been introduced as early as 1967 and 1976,<sup>111</sup> and law review articles began advocating for the creation of such a defense in the 1940s and 50s.<sup>112</sup> The history leading to the enactment of the

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<sup>106</sup> See *1995 House hearing*, *supra* note 103, at 13–14 (statement of Dieter Hoinkes, Senior Counsel, USPTO, Office of Legislative and International Affairs); *id.* at 21 (statement of Karl F. Jorda, Professor, Franklin Pierce Law Center); *id.* at 46–48 (statement of Richard L. Schwaab, Professor of Law, George Mason University School of Law); *id.* at 53, 55 (statement of Gary L. Griswold, President, IPO); *id.* at 57–58 (statement of William D. Budinger, Chairman and CEO, Rodel, Inc.); *id.* at 68 (statement of Robert A. Armitage, President, AIPLA); *1994 Senate hearing*, *supra* note 103, at 6 (statement of Bruce A. Lehman, Comm'r, USPTO); *id.* at 18–19 (statement of William D. Budinger, Chairman and CEO, Rodel, Inc.); *id.* at 24, 26 (statement of Roger S. Smith, President, IPO); *id.* at 28–29 (statement of Gary L. Griswold, on behalf of AIPLA); *1994 House hearing*, *supra* note 103, at 10–14 (statement of Bruce A. Lehman, Comm'r, USPTO); *id.* at 135–39 (Letter of Harold C. Wegner, Prof. of Law and Director of the Intellectual Prop. Law Program, George Washington University); *1992 joint hearing*, *supra* note 103, at 108 (statement of Robert Benson, Past President, AIPLA); *id.* at 196, 209 (statement of Robert A. Armitage, on behalf of NAM); *id.* at 384 (NAM position paper).

<sup>107</sup> See H.R. REP. NO. 106-287, at 44–49 (1999); H.R. REP. NO. 104-784, at 69–72 (1996). Two other committee reports—H.R. REP. NO. 105-39, at 68–71 (1997) and S. REP. NO. 105-42, at 104–07 (1997)—also address prior-user rights, but are almost word-for-word reproductions of H.R. REP. NO. 104-784 (1996). See H.R. REP. NO. 105-39, at 68–71; S. REP. NO. 105-42, at 104–07.

<sup>108</sup> See Prior Domestic Commercial Use Act of 1995, H.R. 2235, 104th Cong. (1995).

<sup>109</sup> Griswold & Ubel, *supra* note 103, at 569.

<sup>110</sup> See ADVISORY COMM'N. REPORT, *supra* note 103, at 11–12, 21. The report recommended establishing a right “for a third party who uses or makes substantial preparation for use of an invention in good faith, before the filing date of an application on which a patent is granted to another, to continue that use under certain conditions.” *Id.* at 21.

<sup>111</sup> See S. 1042, 90th Cong. § 119 (1967); H.R. 12873, 94th Cong. § 361 (1976).

<sup>112</sup> See *1995 House hearing*, *supra* note 103, at 24, 42 (citing George Benjamin, *The Right of Prior User*, 26 J. PAT. OFF. SOC'Y 329, 336 (1944); James B. Gambrell, *The Constitution and the In Personam Defense of First Invention*, 39 J. PAT. OFF. SOC'Y 791, 812 (1957); James B.

new § 273 serves as a stark warning to anyone who relies on Congress to act expeditiously to address a problem.<sup>113</sup>

Despite repeated pleas from hearing witnesses in the early 1990s that a prior-user right was “badly needed,”<sup>114</sup> and that domestic manufacturers “cannot afford to wait,”<sup>115</sup> Congress failed to act on Representative Moorhead’s 1995 bill.<sup>116</sup> Substantially identical legislation was introduced in the next Congress, passed the House of Representatives in 1997, and was reported by the Senate Judiciary Committee in 1998, but it was never taken up by the full Senate during the 105th Congress.<sup>117</sup> Finally, late in the next Congress, § 273 of title 35 was enacted into law as part of the American Inventors Protection Act of 1999 (“AIPA”).<sup>118</sup>

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Gambrell & Harold C. Herman, *The Second Inventor’s Patent, The Defense of First Invention, and Public Policy*, 41 J. PAT. OFF. SOC’Y 388, 421 (1959)).

<sup>113</sup> United States patent law did provide for a prior-user right during several decades of the 19th century. The 1839 Patent Act created such a right for persons who “purchased or constructed” the invention before the application for patent was filed. *See* Patent Act, ch. 88, § 7, 5 Stat. 354 (1839). But the 1870 Act then sharply limited this right by requiring that the person asserting the defense either have purchased the invention from the inventor or constructed it with his knowledge or consent. *See* Patent Act, ch. 230, § 37, 16 Stat. 208 (1870) (subsequently codified at REV. STAT. 4899). The defense was repealed entirely by the 1952 Act. *See* H.R. REP. NO. 82-1923, at 45, 72 (noting that R.S. 4899 is repealed as “[r]edundant and unnecessary”).

<sup>114</sup> 1995 House hearing, *supra* note 103, at 23 (statement of Karl F. Jorda, Professor, Franklin Pierce Law Center) (“[I]t is manifest and compelling that a right of prior user or *in personam* right should be enacted into law. It is badly needed.”).

<sup>115</sup> *Id.* at 55 (statement of Gary L. Griswold, President, IPO); *see also id.* at 46 (statement of Richard L. Schwaab, Professor of Law, George Mason University School of Law) (noting that it is “remarkable” that “legislation of this type—that strictly benefits those who *domestically* commercialize an invention—had not been seriously considered for this country”).

<sup>116</sup> H.R. 2235, 104th Cong. (1995). A substantially identical provision appeared as title III of the Moorhead-Schroeder Patent Reform Act, which was reported by the House Judiciary Committee in 1996 but was not considered by the full House. H.R. 3460, 104th Cong. (1996).

<sup>117</sup> *See* 21st Century Patent System Improvement Act, H.R. 400, 105th Cong., tit. III (1998). A substantially identical provision appeared in a Senate bill that was reported by the Senate Judiciary Committee but that also was never considered by the full Senate. *See* S. REP. NO. 105-42, tit. IV (1997).

<sup>118</sup> H.R. 1907, 106th Cong (1999). The AIPA was enacted into law in a somewhat unorthodox way. It was reported by the House Judiciary Committee, passed the full House, and was reported by the Senate Judiciary Committee—but never went to the Senate floor. Instead, it was then added as title IV to the Intellectual Property and Communications Omnibus Reform Act of 1999, which was introduced in the Senate on November 17, 1999. *See* S. 1948, 106th Cong. (1999). The next day, a conference report was filed (and subsequently

A funny thing happened to § 273 on the way to the House floor, however. The legislation that had been reported by the House Judiciary Committee would have created a broad prior-user right for subject matter that would otherwise infringe patent claims for “a process or method.”<sup>119</sup> The reported bill defined “process or method” by reference to 35 U.S.C. § 100(b),<sup>120</sup> and further specified that the term includes inventions that could have been claimed as a process.<sup>121</sup> On the House floor, however, this language was amended to further limit the defense so that it could only be asserted against patent claims for “a method of doing or conducting business.”<sup>122</sup> This change had been secured by members of the House of Representatives who opposed the concept of prior-user rights, and who sought to ensure that any right that was created was *de minimis*.<sup>123</sup>

These opponents achieved their goal. The businesses-method-only version of § 273 that was enacted by the AIPA appears to almost never have been used. The annotations to the section of the U.S. Code list only one case that construes the new defense, and that case found the defense inapplicable to its facts.<sup>124</sup>

New hope arose that American manufacturers would receive a substantial prior-user right when Representative Lamar Smith introduced the Patent Reform Act of 2005 in the 109th Congress.<sup>125</sup> That bill would have eliminated the AIPA’s business-method-only restriction on § 273, expanding the defense

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enacted) for the Consolidated Appropriations Act, 2000, H.R. 3194, 106th Cong. (2000), which included a new section providing that “S. 1948 of the 106th Congress, as introduced on November 17, 1999,” is “hereby enacted into law.” See Pub. L. No. 106-113, Div. B., sec. 1000(a), 113 Stat. 1501 (1999).

<sup>119</sup> H.R. 1907, sec. 202, § 273(b)(1) (as reported by the House Judiciary Committee, May 24, 1999).

<sup>120</sup> That section provides that “[t]he term ‘process’ means process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.” 35 U.S.C. § 100(b) (2006).

<sup>121</sup> H.R. 1907, sec. 202, § 273(a)(3) (as reported by the House Judiciary Committee, May 24, 1999).

<sup>122</sup> *Id.* (engrossed bill, as passed by House).

<sup>123</sup> See 145 CONG. REC. H6943–44 (daily ed. Aug. 3, 1999) (statement of Rep. Rohrabacher) (“[W]e simply cannot champion trade secret protection over patent protection . . . [R]ecently, however, we were able to . . . limit this section to business methods only. This is an important limitation in scope . . . because now Title II will not affect the vast majority of independent inventors and small businesses.”); *id.* at H6947 (statement of Rep. Manzullo).

<sup>124</sup> See 35 U.S.C.A. § 273, Notes of Decisions (West, Westlaw through P.L. 112-89 (excluding Pub. L. Nos. 112-74, 112-78, and 112-81)) (citing *Sabasta v. Buckaroos, Inc.*, 507 F. Supp. 2d 986 (S.D. Iowa 2007)).

<sup>125</sup> H.R. 2795, 109th Cong. (2005).

to all forms of subject matter, and would have allowed the defense to be asserted by anyone who “commercially used, or made substantial preparations for commercial use of, the subject matter before the effective filing date of the claimed invention.”<sup>126</sup>

Hopes for the enactment of a broad new defense continued in early 2007, when the same provision was included in the parallel patent-reform bills that were introduced in the House and Senate,<sup>127</sup> but these hopes were dashed later that year when the provision was stripped from both bills.<sup>128</sup> The prior-user rights expansion was eliminated from the Senate bill during the committee markup in July 2007,<sup>129</sup> and it was dropped from the House bill during floor consideration in September 2007.<sup>130</sup>

In both houses, the record makes clear that these provisions were eliminated from the bills because of opposition from universities.<sup>131</sup> As the 2007 Senate Committee Report noted:

The bill, as introduced, would have extended prior user rights to all kinds of patents—not just business method patents—but the persuasive outcry from university and tech transfer advocates limited the amendment of the prior user right defense to one that simply alters paragraph (b)(6) of section 273 to clarify that “affiliates” of the user may also assert the defense.<sup>132</sup>

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<sup>126</sup> *Id.* sec. 9(b)(2)(a)(ii) (amending 35 U.S.C. § 273(b)(1)). A parallel provision appeared in the Senate companion bill that was introduced later in that Congress. *See* S. 3818, 109th Cong., sec. 5(d) (2006).

<sup>127</sup> *See* S. 1145, 110th Cong., sec. 5(b) (as introduced in Senate, Apr. 18, 2007); H.R. 1908, 110th Cong., sec. 5(b) (as introduced in House, Apr. 18, 2007).

<sup>128</sup> *See* 153 CONG. REC. H10294 (daily ed. Sept. 7, 2007) (statement of Rep. Conyers); *see also* S. REP. NO. 110-259, at 38–39 (2008).

<sup>129</sup> *See* S. REP. NO. 110-259, at 38–39.

<sup>130</sup> *See* 153 CONG. REC. H10,294 (daily ed. Sept. 7, 2007) (statement of Rep. Conyers).

<sup>131</sup> *See id.* (noting that the House floor managers’ amendment eliminated the provision expanding prior-user rights, and complaining about the “unbelievable amounts of time” spent negotiating over the issue with university representatives); *see also* S. REP. NO. 110-259, at 16–17 (2007) (noting the elimination of the provision expanding prior-user rights from Senate bill); 157 CONG. REC. S1367 (daily ed. Mar. 8, 2011) (statement of Sen. Kohl) (expressing appreciation for the bill sponsors’ “willingness to strike a major section of the bill regarding prior user rights—which would have done serious harm to the University of Wisconsin and its patent licensing business”); *id.* at E1198 (daily ed. June 24, 2011) (statement of Rep. Blumenauer) (expressing concern that the House bill’s prior-user rights expansion would negatively impact universities).

<sup>132</sup> S. REP. NO. 110-259, at 16–17.

A footnote to this passage from the 2007 Senate Committee Report cited to testimony from a 2005 Senate Judiciary Committee hearing in which a witness explained universities' opposition to prior-user rights.<sup>133</sup> The witness stated:

Expanded prior user rights will encourage innovations to be kept as trade secrets, a practice which is contrary to the fundamental premise of the U.S. patent system which rewards and encourages disclosure. Prior user rights deprive patentees of the benefits of their bargain. Because patentees disclose, they are entitled to exclusive rights in the invention. By increasing the ambit of trade secrecy, inventors (especially those in the private sector) will be more inclined to opt for trade secret protection over patent protection, thereby diminishing the importance of the patent system.<sup>134</sup>

During the 1992 Joint Committee hearing on patent harmonization, another university representative also had expressed strong opposition to the establishment of a prior-user right.<sup>135</sup> In addition to voicing the same concern about rewarding secrecy that was noted in the 2005 hearing,<sup>136</sup> the 1992 witness also argued that: (1) creating prior-user rights would be inequitable to universities since they do not commercially use their inventions and thus could never benefit from such a right;<sup>137</sup> (2) such rights, by undermining patent exclusivity, would “adversely affect the ability to transfer technology under a licensing arrangement;”<sup>138</sup> and (3) because university researchers frequently

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<sup>133</sup> This 2007 Report cited to: *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the S. Comm. on the Judiciary*, 109th Cong. 89-105 (2005) (statement of Carl E. Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation (“WARF”)).

<sup>134</sup> *Id.* at 101; *see also 1994 House hearing, supra* note 103, at 108-110 (statement of Arnold L. Newman, President, Synexus Corp.) (stating that “[t]he secrecy associated with prior user rights would also inhibit the free and easy access to information so absolutely essential to the process of invention”).

<sup>135</sup> *See 1992 joint hearing, supra* note 103, at 119–20, 129–32 (statement of Howard Bremer, former patent counsel, Wisconsin Alumni Research Foundation, on behalf of the Association of University Technology Managers).

<sup>136</sup> *See Patent Act of 2005: Hearing on H.R. 2795 Before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 109th Cong. 18 (2005) (statement of Carl E. Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation).

<sup>137</sup> *See 1992 joint hearing, supra* note 103, at 129–30 (statement of Howard Bremer, former patent counsel, Wisconsin Alumni Research Foundation, on behalf of the Association of University Technology Managers).

<sup>138</sup> *Id.* at 130; *see also 1994 House hearing, supra* note 103, at 100-101 (statement of Terri F. Willey, Purdue Research Foundation):

In the face of the uncertainty of the right to exclude under a patent, the opportunity to license that patent is severely diminished. Early stage inventions . . . are often risky investments anyway. Potential corporate licensees and venture capitalists are less like[ly] to advance the risk capital needed for the development, production, and marketing of an invention where there is a significant chance that a powerful, unlicensed corpora-

publish articles about their inventions before they file patent applications, they would be at risk of having others assert prior-user rights based on ideas derived from those publications.<sup>139</sup>

As a general matter, when bills are narrowed and provisions are dropped in order to quell opposition, it is rare that those provisions ever are reintroduced into the bill.<sup>140</sup> Thus, consistent with the decision to strike prior-user rights from the House and Senate bills in 2007, when patent-reform bills were introduced again at the outset of the 111th Congress in 2009, they did not include an expansion of prior-user rights.<sup>141</sup> Nor did the bill that was introduced in the Senate in January 2011.<sup>142</sup>

However, when Representative Lamar Smith (now Chairman of the House Judiciary Committee) introduced his version of the AIA<sup>143</sup> in March 2011, the bill included an expansion of prior-user rights to cover all subject matter.<sup>144</sup> During a House Judiciary Committee hearing on the introduced bill, university allies expressed strong opposition to this section of the bill.<sup>145</sup> During subsequent negotiations, however, Representative Smith was able to reach a compromise with university representatives. This compromise on

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tion could emerge as a competitor with no requirement to license and no requirement to pay royalties.

*Id.*

<sup>139</sup> *1992 joint hearing, supra* note 103, at 132 (statement of Howard Bremer, former patent counsel, Wisconsin Alumni Research Foundation, on behalf of the Association of University Technology Managers); *1994 House hearing, supra* note 103, at 100-101 (statement of Terri F. Willey, Purdue Research Foundation) (“With the established university practice of publishing research results it is possible for a third party [who learns of the invention from the publication or a presentation or a graduate student]. . . to use the inventive concept . . . prior to the university filing a patent application.”).

<sup>140</sup> *See* Telephone Interview by Beatrice Gatti with Steven J. Duffield, former Deputy Staff Director, Senate Republican Policy Committee (Apr. 18, 2012) [hereinafter Duffield Interview].

<sup>141</sup> Duffield Interview, *supra* note 140; *see* S. 515, 111th Cong. (2009); H.R. 1260, 111th Cong. (2009). Both bills retained minor provisions that slightly expanded who could assert the defense, *see* S. 515 § 4(c), and H.R. 1260 § 5(c), but both bills maintained the AIPA’s restriction of the defense to business-method patents.

<sup>142</sup> *See* S. 23, 112th Cong. (2011).

<sup>143</sup> H.R. 1249, 112th Cong. (2011).

<sup>144</sup> *Id.* sec. 4. The introduced bill also would have allowed the defense to be established through uses occurring outside the United States, *see id.* sec. 4(1)(A), and it would have preserved pre-AIA § 273’s requirement that commercial use need only have occurred before an application for patent was filed (though reduction to practice was required to have occurred at least one year before the filing date), *see* 35 U.S.C. § 273(b)(1) (2006), *amended by* Leahy-Smith America Invents Act, sec. 5(a), § 273, 125 Stat. at 297.

<sup>145</sup> *AIA hearing, supra* note 103, at 50–51 (statement of Rep. Sensenbrenner).

prior-user rights was added to the bill during the House Judiciary Committee markup in April 2011, underwent stylistic and minor substantive changes in the House floor managers' amendment,<sup>146</sup> prevailed against a House floor amendment to strike the entire provision,<sup>147</sup> and, finally, passed the Senate without change and was enacted into law.<sup>148</sup>

Senator Kyl described the changes made by the Smith compromise during the September 2011 Senate debates on the AIA:

The compromise reached in the House of Representatives addresses university concerns by requiring a defendant to show that he commercially used the subject matter that infringes the patent at least 1 year before the patent owner filed an application or disclosed the invention to the public. The House compromise also precludes assertion of the defense against most university-owned patents.<sup>149</sup>

The remaining parts of this subsection describe legislative materials that are relevant to the various subsections of § 273.

## **2. Subsection (a): Commercial Use**

Section 273(a) provides:

(a) In General—A person shall be entitled to a defense under section 282(b) with respect to subject matter consisting of a process, or consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process, that would otherwise infringe a claimed invention being asserted against the person if—

(1) such person, acting in good faith, commercially used the subject matter in the United States, either in connection with an internal commercial use or an actual arm's length sale or other arm's length commercial transfer of a useful end result of such commercial use; and

(2) such commercial use occurred at least 1 year before the earlier of either—

(A) the effective filing date of the claimed invention; or

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<sup>146</sup> See 157 CONG. REC. H4448 (daily ed. June 22, 2011) (text of floor managers' amendment).

<sup>147</sup> See *id.* at H4482–84 (daily ed. June 23, 2011). Opponents of prior-user rights argued during the House floor debates that the AIA “will transform our patent system from one that values transparency to one that rewards secrecy,” *id.* at 4483 (statement of Rep. Baldwin); that uncertainty over whether prior-user rights could be asserted against a patent will also create uncertainty as to whether the patent was “valuable or relatively worthless,” *id.*; and that “[t]he fundamental principle of patent law is disclosure” and prior-user rights “go[] directly against disclosure” and “will slow down research and expanding the knowledge of humans,” *id.* at H4483–84 (statement of Rep. Sensenbrenner). The amendment to strike was rejected by a vote of 81–342. *Id.* at H4499.

<sup>148</sup> Leahy-Smith America Invents Act, sec. 5(a), § 273.

<sup>149</sup> 157 CONG. REC. S5430 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

(B) the date on which the claimed invention was disclosed to the public in a manner that qualified for the exception from prior art under section 102(b).<sup>150</sup>

Senator Leahy commented on this subsection during the Senate's September 2011 consideration of the House-passed bill:

The phrase "commercially used the subject matter" is intended to apply broadly, and to cover a person's commercial use of any form of subject matter, whether embodied in a process or embodied in a machine, manufacture, or composition of matter that is used in a manufacturing or other commercial process.<sup>151</sup>

Notably, § 273(a) limits the prior-commercial-use defense to either a "process" or to tangible things that are "used in a manufacturing or other commercial process."<sup>152</sup> This restriction is similar to that imposed on the version of § 273 that was proposed by the AIPA as reported by the House Judiciary Committee in August 1999.<sup>153</sup> The committee-reported AIPA's prior-user defense could be asserted only with respect to "a process or method."<sup>154</sup>

As the Committee Report for the 1999 bill noted, this "process or method" limitation effectively precluded assertion of the defense for consumer products.<sup>155</sup> The Report stated that:

a person may not assert the defense unless the invention for which the defense is asserted is for a business<sup>[156]</sup> process or method, the exclusive purpose of which is to

<sup>150</sup> Leahy-Smith America Invents Act sec. 5, § 273(a), 125 Stat. at 297.

<sup>151</sup> 157 CONG. REC. S5440 (daily ed. Sept. 8, 2011) (statement of Sen. Leahy).

<sup>152</sup> Leahy-Smith America Invents Act sec. 5, § 273(a), 125 Stat. at 297.

<sup>153</sup> H.R. REP. NO. 106-287, at 45 (1999).

<sup>154</sup> H.R. 1907, 106th Cong. § 202, § 273(b)(1) (as reported by the House Judiciary Committee, May 24, 1999). The arguments for prior-user rights tend to focus on manufacturing processes. *See, e.g., 1994 Senate hearing, supra* note 103, at 24 (statement of Roger S. Smith, President, IPO) ("Many important technological achievements—notably processes—can only be effectively exploited through secret use. Processes are naturally practiced away from the public's view in most cases. Patents covering them consequently are very difficult to enforce, so process patents often do not provide meaningful protection."); *1992 joint hearing, supra* note 103, at 196 (statement of Robert A. Armitage, on behalf of NAM) ("Prior user rights have effect only for inventions that have been commercialized in secret and almost always arise in connection with trade-secret manufacturing processes."); *id.* at 382 (NAM position paper) ("At least in the context of first-to-file patent systems, prior user rights apply essentially only to patented processes or other processes-type inventions. Product inventions, once placed in use or on sale[,] immediately defeat the right of anyone else to obtain a valid patent on the product."); ADVISORY COMM'N. REPORT, *supra* note 103, at 51.

<sup>155</sup> H.R. REP. NO. 106-287, pt. 1, at 48.

<sup>156</sup> The Report's use of the qualifier "business" is somewhat confusing, since the bill, as it was referred by the committee, did not restrict the prior-user defense to business-method patents—that further restriction was added later, during House floor consideration. Either the Report used the term "business" in a more general or colloquial sense, or the Report's authors already anticipated that § 273 would be further restricted to just business-method patents.



produce a useful end product or service; that is, the defense will not be available if the subject matter itself is a useful end product or service that constitutes one or more claims in the patent.<sup>157</sup>

The process limitation is also implicit in § 273(a)(1)'s requirement that the person asserting the defense "commercially used" the subject matter, and in subsection (d)'s authorization of exhaustion of rights only for "end results."<sup>158</sup> The patent code distinguishes between making, using, selling, or importing a product.<sup>159</sup> Making a product for use by others would not appear to constitute "commercial use" of the product.<sup>160</sup> Similarly, § 273(d)'s use of the words "end result" implies that the "subject matter" protected by § 273 is a process or tool that is used to make another product, but does not include the final consumer product itself (or any other product that is not made for the defendant's own commercial use).<sup>161</sup>

The "commercially used" and "end result" restrictions first appeared in the AIPA, which was the first bill to limit prior-user rights to methods only.<sup>162</sup> Earlier bills had proposed to extend the defense to all subject matter. For example, the bills introduced between 1995 and 1997 lacked the AIPA's "claims for a method" limitation, allowed exhaustion of rights for any "subject matter," and defined "commercially used" to mean "the use in the United States in commerce or the use in the design, testing, or production in the United States of a product or service which is used in commerce."<sup>163</sup> Similarly, the Patent System Harmonization Act of 1992<sup>164</sup> applied the prior-user defense to "any subject matter" that was "commercially used" *or* "commercially sold" in the United States.<sup>165</sup>

The new § 273 applies to more than just processes, however. It also covers "a machine, manufacture, or composition of matter used in a manufacturing or other commercial process."<sup>166</sup> Senator Kyl commented on this proviso during the September 2011 Senate debates on the AIA:

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<sup>157</sup> See *supra* note 155. Of course, the defense *would* extend to a finished consumer product in the case of a product-by-process patent claim, because the actual invention claimed by such patent is a process.

<sup>158</sup> Leahy-Smith America Invents Act, sec. 5(a), § 273(a)(1), (d), 125 Stat. at 297.

<sup>159</sup> See 35 U.S.C. § 271(a) (2006).

<sup>160</sup> Even testing a consumer product would not appear to qualify as a *continuous* commercial use, as required by 35 U.S.C. § 273(e)(4).

<sup>161</sup> Leahy-Smith America Invents Act sec. 5, § 273(d), 125 Stat. at 297.

<sup>162</sup> See Pub. L. No. 106-113, sec. 4302, § 273(a)(1), 113 Stat. 1501A-555 (1999).

<sup>163</sup> See H.R. 400, 105th Cong., sec. 302 (1997); H.R. 3460, 104th Cong., sec. 302 (1996); H.R. 2235, 104th Cong., sec. 2 (1995).

<sup>164</sup> H.R. 4978, 102d Cong. (1992); S. 2605, 102d Cong. (1992).

<sup>165</sup> H.R. 4978 sec. 3(b); S. 2605 sec. 3(b).

<sup>166</sup> Leahy-Smith America Invents Act sec. 5, § 273(a), 125 Stat. at 297.

Subsection (a) expands the defense beyond just processes to also cover products that are used in a manufacturing or other commercial process. Generally, products that are sold to consumers will not need a PCU defense over the long term. As soon as the product is sold to the public, any invention that is embodied or otherwise inherent in that product becomes prior art and cannot be patented by another party, or even by the maker of the product after the grace period has expired.<sup>167</sup> Some products, however, consist of tools or other devices that are used only by the inventor inside his closed factory. Others consist of substances that are exhausted in a manufacturing process and never become accessible to the public. Such products will not become prior art. Revised section 273 therefore allows the defense to be asserted with respect to such products.<sup>168</sup>

Senators Kyl and Blunt also commented on § 273(a)(1)'s extension of prior-user rights to those who make "internal commercial use" of a process. Senator Blunt noted that "there is no readily available judicial precedent" defining the term "internal commercial use."<sup>169</sup> Senator Kyl stated that:

The defense can also be asserted for products that are not used to make a useful end result that is sold to others, but that are used in an internal commercial process. This would include, for example, customized software that is used to run a company's human-resources system. So long as use of the product is integrated into an ongoing commercial process, and not merely fleeting or experimental or incidental to the enterprise's operations, the PCU defense can be asserted with respect to that product.<sup>170</sup>

Senator Blunt also engaged in a colloquy with Senator Leahy about the scope of the prior-user defense during the September 2011 Senate debates on the AIA.<sup>171</sup> Senator Leahy emphasized that the prior-user right "shall vest when innovative technology is first put into continuous internal use in the business of an innovator's enterprise with the objective of making a commercializable

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<sup>167</sup> 157 CONG. REC. S5440 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl); *see also id.* at S5440 (statement of Sen. Leahy) ("[I]f the technology is embedded in a product, as soon as that product is available publicly it will constitute prior art against any other patent or application for patent because the technology is inherently disclosed.").

<sup>168</sup> *Id.* at S5440 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl). This proviso was also discussed after the enactment of the AIA, during a hearing on the prior-user rights report that was submitted to Congress by USPTO pursuant to § 3(m) of the AIA. *See 2012 House hearing, supra* note 103. An industry representative expressed support for "a clarification that the language does indeed include all subject matter." *Id.* at 75 (statement of Dan Lang, Vice President, Intellectual Property, Cisco Systems, Inc.). A university representative, however, indicated that "universities would be comfortable with a narrower definition," and that "our preference would be to have the focus on process." *Id.* (statement of John C. Vaughn, Executive Vice President, Association of American Universities).

<sup>169</sup> *Id.* at S5427 (statement of Sen. Blunt).

<sup>170</sup> *Id.* at S5430 (statement of Sen. Kyl).

<sup>171</sup> *See id.* at S5426–27 (statements of Sens. Blunt and Leahy).

product.”<sup>172</sup> And both senators agreed that prior-user rights could be created by manufacturing a prototype product that is later modified.<sup>173</sup>

### *a. Substantial Preparations*

Proposals made in previous years would have allowed a prior-user defense to vest once the manufacturer had made “substantial preparations” to engage in commercial use of the invention.<sup>174</sup> Universities had long opposed such a “substantial preparations” predicate, however, arguing that this standard was vague and would lead to burdensome litigation over whether it had been met.<sup>175</sup> Thus, the final House agreement with the universities did not include a substantial-preparations predicate for establishing the prior-user defense.<sup>176</sup> During final consideration of the AIA, however, Representative Lamar Smith, Senator Leahy, and others suggested that Congress should revisit this issue in the future.<sup>177</sup>

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<sup>172</sup> *Id.* at S5427 (statement of Sen. Leahy).

<sup>173</sup> *See id.* Senator Leahy agreed with Senator Blunt’s statement that “the initiation of a continuous internal use by an original innovator in a manufacturing of a product should guarantee the defense of prior use regardless of whether the product is a prototype with a need for quality improvements[.]” *Id.* He also agreed with Senator Blunt that “a continuously used process qualifies as internal commercial use despite the fact that many prototypes fail to have commercial merit.” *Id.*

<sup>174</sup> *See, e.g.,* ADVISORY COMM’N. REPORT, *supra* note 103, at 50; *see also* 21st Century Patent System Improvement Act, H.R. 400, 105th Cong., sec. 302(a), § 273(c)(3) (1997); Prior Domestic Commercial Use Act of 1995, H.R. 2235, 104th Cong., sec. 2(a) § 273(c)(2) (1995); Patent System Harmonization Act of 1992, S. 2605, 102d Cong., sec. 3(b), § 273(a) (1992).

<sup>175</sup> *See, e.g.,* 2007 House hearing, *supra* note 58, at 83 (statement of William T. Tucker, Executive Director, Research and Administration and Technology Transfer, University of California–Oakland); *Perspective on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the S. Comm. on the Judiciary*, 109th Cong. 77 (2005) [hereinafter 2005 Senate hearing], (statement of Charles E. Phelps, Provost, University of Rochester, on behalf of Association of American Universities, American Council on Education, Association of American Medical Colleges, and Council of Governmental Relations, Rochester, N.Y.) (opining that a substantial-preparations predicate for prior-user rights “significantly weakens the value of patent” and “introduces an element of subjectivity into the patent system”); 157 CONG. REC. S5430 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl) (describing university concerns).

<sup>176</sup> 157 CONG. REC. S5430 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl) (“In the end, . . . a substantial preparations predicate is not included in this bill simply because that was the agreement that was struck between universities and industry in the House of Representatives last summer, and we are now effectively limited to that agreement.”).

<sup>177</sup> *Id.* at E1219 (daily ed. June 28, 2011) (statement of Rep. Smith); *Id.* at S5440 (daily ed. Sept. 8, 2011) (statement of Sen. Leahy); *id.* at S5430 (statement of Sen. Kyl).

### *b. The One-Year Limit*

Proposals that were made in the early 1990s would have allowed a prior-user right to vest if commercial use (or substantial preparations for such use) occurred immediately before the application for patent was filed.<sup>178</sup> The bill that was introduced in 1995, however, would have required the person asserting the defense to reduce the subject matter of the defense to practice at least one year before the effective-filing date of the patent.<sup>179</sup>

This new one-year restriction was harshly criticized by one of the witnesses at the 1995 House hearing. This witness argued that:

This provision goes too far and guts this prior user defense. It is too radical and stands well-established patent and trade secret law principles on their heads . . . . It also complicates this prior user right, which is already drastically limited and qualified, beyond reason. A first inventor is a first inventor and should be accorded the status of a first inventor especially in the one-year period prior to the entry of a rival inventor because it is in that period that the same invention is likely to be made by more than one inventor due to outside stimuli.<sup>180</sup>

The § 273 that was subsequently enacted by the AIPA nevertheless maintained the 1995 bill's requirement that reduction to practice occur at least one year before the effective-filing date of the patent.<sup>181</sup> And the AIA expanded this requirement, mandating that commercial use occur one year before the earlier of either the effective-filing date of the claimed invention or a public disclosure of the claimed invention that qualifies for the § 102(b) grace period.<sup>182</sup>

This final change made by the AIA was, first and foremost, simply an element of the compromise agreement that was reached with the universities in the House of Representatives.<sup>183</sup> Requiring at least some gap in time between the prior commercial use and the patent's effective-filing date or a public disclosure, however, also serves particular policy goals. Such a time gap helps to ensure that the prior user did not derive the invention from the patentee. It also ensures that the prior user was the earlier party to invent (assuming

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<sup>178</sup> See ADVISORY COMM'N. REPORT, *supra* note 103, at 50 (proposing that predicate acts need only occur "prior to the earliest filing date to which the relevant claim or claims of the patent is or are entitled"); Patent System Harmonization Act of 1992, S. 2605, 102d Cong., sec. 3(b), § 273(a).

<sup>179</sup> Prior Domestic Commercial Use Act of 1995, H.R. 2235, 104th Cong., sec. 2(a), § 273(c)(6) (1995).

<sup>180</sup> 1995 House hearing, *supra* note 103, at 23 (statement of Karl F. Jorda, Professor, Franklin Pierce Law Center).

<sup>181</sup> 35 U.S.C. § 273(b)(1) (2006), *amended by* Leahy-Smith America Invents Act, sec. 5(a), § 273, 125 Stat. at 297.

<sup>182</sup> Leahy-Smith America Invents Act, sec. 5(a), § 273(a)(2), 125 Stat. at 297.

<sup>183</sup> See 157 CONG. REC. S5429–30 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

that the patentee was reasonably diligent in filing).<sup>184</sup> A time-gap requirement thus mitigates, if not eliminates, the potential unfairness of a system in which one party (the patentee) must file in order to establish a priority date, while the other party (the prior user) is permitted to “swear behind” to an earlier secret commercial-use or substantial-preparation date.<sup>185</sup>

These goals, however, also would be served by a time gap shorter than the one-year gap imposed by § 273. Requiring that actual commercial use be established a full year before a patented invention’s effective-filing date or § 102(b) public disclosure inevitably will result in situations in which the right to continued use of an invention is denied to a person who clearly was the first inventor.

### *c. Legal vs. Equitable Defense*

Finally, it bears emphasis that § 273 creates an absolute legal defense to infringement, rather than an equitable defense that would allow the court to assess royalties against a defendant who successfully asserted the defense. The 1992 Report of the Advisory Commission on Patent Law Reform had recommended that “the prior user right should be equitable in nature, giving the courts the power to assess royalties” against the prior user,<sup>186</sup> and one of the early Senate bills adopted this equitable approach.<sup>187</sup> Representative

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<sup>184</sup> Another element of the prior-user defense that makes it very likely that any prior user will also be the first inventor is the requirement that he make commercial use of the invention (or substantial preparations for such use). As an industry witness at a 1994 hearing noted:

[T]o qualify as a prior user, one must do everything the [patent-filing] inventor does *plus* do the planning, engineering, and investing in plant and equipment, all *before* the other inventor files his application. In the real world, it is very unlikely that a prior user could do all that before a legitimate and diligent first inventor had filed for his patent.

1994 House hearing, *supra* note 103, at 62 (statement of William D. Budinger, Chairman and CEO, Rodel, Inc.).

<sup>185</sup> It bears noting that the witness who criticized the one-year gap proposed by the 1995 bill, *see supra* note 180 and accompanying text, was commenting on a bill that would have created a prior-user right without also adopting the first-to-file system of patent priority. *See* H.R. 2235, 104th Cong. (1995). If prior user-user rights were established in a patent system that otherwise retained the first-to-invent system, the argument for requiring any time gap between prior use and filing would be much weaker: Even if commercial use or substantial preparation were only required to occur immediately before the filing of an application for patent, the patentee and prior user would be on the same footing (indeed, the prior user would face a higher hurdle). Each could establish priority by swearing back to earlier secret events: The patentee could swear back to a date of conception, and the prior user could swear back to his commercial use or substantial preparation.

<sup>186</sup> ADVISORY COMM’N. REPORT, *supra* note 103, at 51, 52.

<sup>187</sup> *See* Patent Prior User Rights Act of 1994, S. 2272, 103d Cong. § 3(c) (engrossed Senate-passed bill); *see also* 140 CONG. REC. S14776 (daily ed. Oct. 7, 1994) (statement

Moorhead's 1995 bill,<sup>188</sup> however, made prior-user rights a legal defense, as did all subsequent legislative proposals, including the AIPA and AIA.<sup>189</sup>

A 1993 law review article<sup>190</sup> presented the case for making the prior-user defense legal in nature.<sup>191</sup> It noted that “an ‘equitable’ prior user right will be difficult, if not impossible, to value,” and that as a result, “the alienability of businesses that hold and rely on prior user rights [will be undermined] because the issue of potential future royalty obligations will have to be resolved before the business will be saleable.”<sup>192</sup> The article also argued that an equitable right would “tend to discourage domestic manufacturing,” because the only way that a business would be able to receive an absolute defense against patent infringement would be by building its factories overseas.<sup>193</sup>

### **3. Subsection(c): Additional Commercial Uses**

Section 273(c) provides:

(c) Additional commercial uses.—

(1) Premarketing regulatory review.—Subject matter for which commercial marketing or use is subject to a premarketing regulatory review period during which the safety or efficacy of the subject matter is established, including any period specified in section 156(g), shall be deemed to be commercially used for purposes of subsection (a)(1) during such regulatory review period.

(2) Nonprofit laboratory use.—A use of subject matter by a nonprofit research laboratory or other nonprofit entity, such as a university or hospital, for which the public is the intended beneficiary, shall be deemed to be a commercial use for purposes of subsection (a)(1), except that a defense under this section may be asserted pursuant to this paragraph only for continued and noncommercial use by and in the laboratory or other nonprofit entity.<sup>194</sup>

In pre-AIA § 273, this provision appeared in subsection (a)(2) and in a clause appended to the definition of commercial use in subsection (a)(1).<sup>195</sup> The AIA consolidated these separate provisions in subsection (c).<sup>196</sup> During

of Sen. DeConcini) (describing Senate-passed S. 2272) (“In any action for infringement in which the defense of prior user is found to be valid, the court is provided discretionary authority to award equitable compensation.”).

<sup>188</sup> H.R. 2235 sec. 2, § 273.

<sup>189</sup> See H.R. 1907, 106th Cong., sec. 202, § 273(b)(1) (1999); Leahy-Smith America Invents Act, sec. 5(a), § 273, 125 Stat. at 297.

<sup>190</sup> Griswold & Ubel, *supra* note 103, at 566.

<sup>191</sup> *Id.* at 585.

<sup>192</sup> *Id.*

<sup>193</sup> *Id.*

<sup>194</sup> Leahy-Smith America Invents Act, sec. 5(a), § 273(c).

<sup>195</sup> Compare *id.*, with 35 U.S.C. § 273(a)(1)–(2) (2006), amended by Leahy-Smith America Invents Act sec. 5(a), § 273(c), 125 Stat. at 297.

<sup>196</sup> Leahy-Smith America Invents Act sec. 5(a), § 273(c), 125 Stat. at 297.

the September 2011 debates on the AIA, Senator Kyl described the one change that had been made to this subsection.<sup>197</sup> He noted that “[i]n the course of the recodification of former subsection (a)(2) as new (c)(2), the former’s subparagraph (B) was dropped because it is entirely redundant with subparagraph (A).”<sup>198</sup>

#### 4. *Subsection (d): Exhaustion of Rights*

Section 273(d) provides:

(d) Exhaustion of rights.—Notwithstanding subsection (e)(1), the sale or other disposition of a useful end result by a person entitled to assert a defense under this section in connection with a patent with respect to that useful end result shall exhaust the patent owner’s rights under the patent to the extent that such rights would have been exhausted had such sale or other disposition been made by the patent owner.<sup>199</sup>

In the pre-AIA § 273, this subsection appeared in subsection (b)(2).<sup>200</sup> The AIPA Committee Report illustrated how exhaustion of rights operates: “For example, if a purchaser would have had the right to resell a product if bought from the patent owner,<sup>[201]</sup> the purchaser has the same right if the product is purchased from a person entitled to a [section 273] defense.”<sup>202</sup>

The only change that the AIA made to this provision was to add the words “[n]otwithstanding subsection (e)(1)” to the beginning of the subsection, in order to make clear that the exhaustion of rights that attaches to a prior-use end result supersedes the otherwise personal (and nontransferable) nature of the prior-user defense.<sup>203</sup>

Subsection (d)’s extension of the exhaustion doctrine to the prior-user defense makes explicit what would otherwise almost certainly be deemed implicit in the defense. Section 273 necessarily encompasses such ancillary rights as are requisite to the enjoyment of its core prior-user right.<sup>204</sup> And if a prior-user right in a manufacturing process did not entail a right for the

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<sup>197</sup> See 157 CONG. REC. S5431 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

<sup>198</sup> *Id.* The Committee Report for the AIPA mentions subsection (c)(1) in passing. See H.R. REP. NO. 106-287, at 46 (1999).

<sup>199</sup> Leahy-Smith America Invents Act sec. 5(a), § 273(d), 125 Stat. at 297.

<sup>200</sup> Compare *id.*, with 35 U.S.C. § 273(b)(2) (2006), amended by Leahy-Smith America Invents Act sec. 5(a), § 273(d), 125 Stat. at 297.

<sup>201</sup> See *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008).

<sup>202</sup> H.R. REP. NO. 106-287, at 48.

<sup>203</sup> Leahy-Smith America Invents Act sec. 5(a), § 273(d), 125 Stat. at 297.

<sup>204</sup> Other nations that recognize prior-user rights construe the defense to include such ancillary rights. See 1994 House hearing, *supra* note 103, at 140 (Letter of Harold C. Wegner, Prof. of Law and Director of the Intellectual Prop. Law Program, George Washington University) (“In the century or so of prior user right laws around the world this has been the practice”); *id.* at 161 (World Intellectual Property Organization, Committee of Experts on the Harmonization of Certain Provisions in Laws for the Protection of Inventions, 1988).

manufacturer to sell the resulting end product, and for the purchaser to use that product, “the prior user right system would be entirely meaningless.”<sup>205</sup>

Subsection (d) appears to have been spurred by industry concerns that were expressed at a 1994 hearing:<sup>206</sup> a bill that was introduced the next year included the first version of what is now subsection (d).<sup>207</sup>

### ***5. Subsection(e)(1): Personal Defense***

Section 273(e)(1) provides:

(e) Limitations and exceptions.—

(1) Personal defense.—

(A) In general.—A defense under this section may be asserted only by the person who performed or directed the performance of the commercial use described in subsection (a), or by an entity that controls, is controlled by, or is under common control with such person.

(B) Transfer of right.—Except for any transfer to the patent owner, the right to assert a defense under this section shall not be licensed or assigned or transferred to another person except as an ancillary and subordinate part of a good-faith assignment or transfer for other reasons of the entire enterprise or line of business to which the defense relates.

(C) Restriction on sites.—A defense under this section, when acquired by a person as part of an assignment or transfer described in subparagraph (B), may only be asserted for uses at sites where the subject matter that would otherwise infringe a claimed invention is in use before the later of the effective filing date of the claimed invention or the date of the assignment or transfer of such enterprise or line of business.<sup>208</sup>

Subsection (e)(1) was carried over with only minor modifications from pre-AIA § 273, where it appeared as paragraphs (6) and (7) of subsection (b).<sup>209</sup> Current subsection (e)(1) makes the prior-user defense personal in nature.<sup>210</sup>

<sup>205</sup> *Id.* at 139 (Letter of Harold C. Wegner, Prof. of Law and Director of the Intellectual Prop. Law Program, George Washington University); *see also id.* at 140 (noting that unless the exhaustion doctrine applies, “a patentee who has a prior user right would never be able to use that prior user right because his customers would become patent infringers”). Presumably, such ancillary rights would also include the right to continue to make or import “a machine, manufacture, or composition of matter used in a manufacturing or other commercial process.” 35 U.S.C. § 273(a).

<sup>206</sup> *See id.* at 51-54 (statement of Robert Holleyman, President, Business Software Alliance); *id.* at 53 (“the bill must make clear that the prior user right includes the right to sell products covered by later-issued patents”); *id.* at 134 (statement of Software Industry Coalition).

<sup>207</sup> *See* Prior Domestic Commercial Use Act of 1995, H.R. 2235, sec. 2, § 273(b)(2), 104th Cong. (1995).

<sup>208</sup> *Id.* sec. 5(a), § 273(e)(1), 125 Stat. at 298.

<sup>209</sup> *Compare id.*, with 35 U.S.C. § 273(b)(6)–(7) (2006), *amended by* Leahy-Smith America Invents Act sec. 5(a), § 273(e)(1), 125 Stat. at 298.

<sup>210</sup> Leahy-Smith America Invents Act sec. 5(a), § 273(e)(1), 125 Stat. at 298.



This means that: (1) only the prior user and its affiliates may assert the defense; (2) the defense cannot be transferred to another entity except as part of the sale of an entire enterprise or line of business; and (3) a transferred defense can only be used at sites where it was in use at the later of either the transfer or the effective-filing date of the claimed invention. Similar restrictions were recommended by the 1992 Advisory Commission on Patent Law Reform.<sup>211</sup>

The AIPA Committee Report offered the following example of the effect of subparagraph (B)'s restrictions on transferring the defense:

To illustrate, a person is lawfully entitled to assert the defense as it relates to the operation of a specific piece of machinery. The person owns several other pieces of machinery that perform distinct functions which, taken together, comprise the person's business. That person may not transfer the defense as it relates to the specific piece of machinery to a third party unless the entire commercial establishment is transferred as well.<sup>212</sup>

The AIPA Committee Report also commented on subparagraph (C)'s restrictions on the sites where a transferred defense may be used:

Specifically, when the enterprise or line of business to which the defense relates has been transferred, the defense may be asserted only for uses at those sites where the subject matter was used before the later of the patent filing date or the date of transfer of the enterprise or line of business. A site is a factory site or other major facility in which an enterprise or line of business has made a significant capital investment, and does not include, for example, offsite locations for development of software components or manufacture of parts or ingredients.<sup>213</sup>

The pre-AIA version of what is now subsection (e)(1)(A) only allowed the prior-user defense to be asserted by the person who had established the prior use (absent a transfer of the entire enterprise or line of business).<sup>214</sup> The AIA as introduced in the House proposed to allow the defense to also be asserted by those who "caused the performance" of acts necessary to establish the defense.<sup>215</sup> This addition was then modified by the House floor managers' amendment to instead provide that the defense may be asserted by a person who "directed the performance" of the commercial use establishing the defense.<sup>216</sup>

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<sup>211</sup> See ADVISORY COMM'N. REPORT, *supra* note 103, at 50–51 ("Prior user rights should be personal in nature, and should not be transferrable, except with that part of the business which exploits the right. This is essential . . . to prevent the personal right from being extended to resemble a compulsory license-like authority . . .").

<sup>212</sup> H.R. REP. NO. 106-287, at 48–49 (1999).

<sup>213</sup> *Id.* at 49.

<sup>214</sup> 35 U.S.C. § 273(b)(6) (2006), *amended by* Leahy-Smith America Invents Act sec. 5(a), § 273(e)(1)(A), 125 Stat. at 298.

<sup>215</sup> H.R. 1249, 112th Cong., sec. 4(2)(D) (as introduced in House, Mar. 30, 2011).

<sup>216</sup> 157 CONG. REC. H4448 (daily ed. June 22, 2011) (text of managers' amendment).

Senator Kyl commented on the reason for this final change during the September 2011 debates on the AIA:

One change made by the original House bill that proved contentious is the expansion of the personal nature of the defense, now at subsection (e)(1)(A), to also include uses of the invention made by contractors and vendors of the person asserting the defense. The House bill originally allowed the defendant to assert the defense if he performed the commercial use or “caused” its performance. The word “caused,” however, could be read to include even those uses that a vendor made without instructions or even the contemporaneous knowledge of the person asserting the defense. The final bill uses the word “directed,” which limits the provision only to those third-party commercial uses that the defendant actually instructed the vendor or contactor to use. In analogous contexts, the word “directed” has been understood to require evidence that the defendant affirmatively directed the vendor or contractor in the manner of the work or use of the product.<sup>217</sup>

Finally, the AIA also expanded access to the prior-user defense by allowing the defense to be asserted by “an entity that controls, is controlled by, or is under common control with” the prior user.<sup>218</sup>

### **6. Subsection(e)(2): Derivation**

35 U.S.C. § 273(e)(2) provides:

(2) Derivation.—A person may not assert a defense under this section if the subject matter on which the defense is based was derived from the patentee or persons in privity with the patentee.<sup>219</sup>

Subsection (e)(2) was carried over without change from pre-AIA § 273, where it appeared in subsection (b)(3)(B).<sup>220</sup> It was originally recommended by the 1992 Report of the Advisory Commission on Patent Law Reform.<sup>221</sup> A 1993 law review article, *Prior User Rights—A Necessary Part of a First-to-File System*,<sup>222</sup> suggested that “[t]his requirement is *not* met if, for example, the prior user had misappropriated the invention from the patent owner or had acquired knowledge of the invention through illegitimate means.”<sup>223</sup>

<sup>217</sup> 157 CONG. REC. S5430 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl) (quoting and paraphrasing *Ortega v. Puccia*, 866 N.Y.S.2d 323, 328 (N.Y. App. Div. 2008)).

<sup>218</sup> Leahy-Smith America Invents Act sec. 5(a), § 273(e)(1)(A), 125 Stat. at 298. Senator Kyl noted during the September 2011 debates that this language is employed in several federal statutes and is defined in Black’s Law Dictionary. 157 CONG. REC. S5430–31 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

<sup>219</sup> Leahy-Smith America Invents Act sec. 5(a), § 273(e)(2), 125 Stat. at 298.

<sup>220</sup> Compare *id.*, with 35 U.S.C. § 273(b)(3)(B) (2006), amended by Leahy-Smith America Invents Act sec. 5(a), § 273(e)(2), 125 Stat. at 298.

<sup>221</sup> ADVISORY COMM’N. REPORT, *supra* note 103, at 50 (“The activity must have been done in good faith and without derivation from the patentee . . .”).

<sup>222</sup> Griswold & Ubel, *supra* note 103, at 567.

<sup>223</sup> *Id.* at 582.

The same non-derivation provision appeared in the Prior Domestic Commercial Use Act of 1995.<sup>224</sup> One of the witnesses at the 1995 hearing on that bill suggested how this provision would work in practice:

[I]f a patentee demonstrates that the person asserting a prior use defense had access to information from the patentee or reasonably could have obtained such information that likely accounted for the original acquisition of the invention by that person, then there would be a rebuttable presumption that the person derived the information and is not entitled to the defense. The person asserting the defense would have to establish that the invention was independently obtained from a source other than the patentee to rebut such a presumption.<sup>225</sup>

The 1992 Advisory Commission also recommended that, in addition to the defense's non-derivation requirement, an activity creating an entitlement to prior-user rights "must [be] based upon the independent development of the person claiming the prior use."<sup>226</sup> In addition, a USPTO witness at the 1995 hearing suggested that the non-derivation provision in Representative Moorhead's 1995 bill<sup>227</sup> (which, as stated previously, is identical to the AIA-enacted § 273(e)(2)) *itself* requires that "the prior user must have developed the invention independently of the patentee."<sup>228</sup>

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<sup>224</sup> H.R. 2235, 104th Cong., sec. 2(a), § 273(c)(7) (2005).

<sup>225</sup> 1995 House hearing, *supra* note 103, at 69 (statement of Robert A. Armitage, President, AIPLA). Substantially the same interpretation was proposed by witnesses at the 1994 Senate hearing. See 1994 Senate hearing, *supra* note 103, at 20 (statement of Donald Banner, on behalf of ABA); *id.* at 30 (statement of Gary L. Griswold, Board Member, AIPLA).

<sup>226</sup> ADVISORY COMM'N. REPORT, *supra* note 103, at 50. The Advisory Commission apparently felt that this additional independent-creation requirement was necessary to ensure that derivation had not occurred. The Commission's report stated that "[t]he key to this concept of independent creation is that the prior user should not be able to take advantage of the patentee's pre-filing disclosures to create the right which will subsequently be used to avoid liability under the later-issued patent." *Id.* The AIA's § 273, however, already effectively precludes the possibility of derivation from such disclosures by requiring that prior commercial use be established at least one year before a public disclosure of the invention that qualified for the exception from prior art under § 102(b). Leahy-Smith America Invents Act, sec. 5(a), § 273(a)(2)(B), 125 Stat. at 297.

<sup>227</sup> H.R. 2235 sec. 2, § 273(c)(7).

<sup>228</sup> 1995 House hearing, *supra* note 103, at 13 (statement of Dieter Hoinkes, Senior Counsel, Office of Legislative and International Affairs, USPTO). An industry witness at the 1992 Joint Committee hearing also appeared to assume that the bill under review—which only imposed the same non-derivation requirement that appears at § 273(e)(2), see S. 2272, 103d Cong., sec. 2, § 273(e)(2)(A) (1994)—would require proof that the prior user independently invented the subject matter. See 1994 Senate hearing, *supra* note 103, at 25 (statement of Roger S. Smith, President, IPO) ("Rigidly enforced qualifications for establishing the prior user right, including the requirements of independent innovation and actual reduction to

Obviously, however, non-derivation does not mean the same thing as independent invention. A prior user who legitimately obtained subject matter from a third party did not independently invent that subject matter, but he also did not derive it from the patentee.

The Committee Report for the 1996 Moorhead-Schroeder Patent Reform Act<sup>229</sup> confirmed this point.<sup>230</sup> The Report made clear that non-derivation is a different requirement than is an independent-invention requirement, and that the non-derivation language does not require that the prior user be an independent developer of the invention.<sup>231</sup> The 1996 Report stated:

The prior user does not have to be a prior inventor in order to assert a defense based on prior use. Prior user rights may be claimed whether the party asserting the right conceived the invention or a third party conceived the invention, so long as the technology that is the basis of the prior use defense was not obtained directly or indirectly from the patentee.<sup>232</sup>

### ***7. Subsection(e)(3): Not a General License***

Section 273(e)(3) provides:

(3) Not a general license.—The defense asserted by a person under this section is not a general license under all claims of the patent at issue, but extends only to the specific subject matter for which it has been established that a commercial use that qualifies under this section occurred, except that the defense shall also extend to variations in the quantity or volume of use of the claimed subject matter, and to improvements in the claimed subject matter that do not infringe additional specifically claimed subject matter of the patent.<sup>233</sup>

Nearly identical language appeared in pre-AIA § 273(b)(3)(C).<sup>234</sup> The same language also was proposed in Representative Moorhead's 1995 bill,<sup>235</sup> and similar limitations were recommended in the 1992 Report of the Advisory Commission on Patent Law Reform.<sup>236</sup>

Other than as provided in subsection (e)(3), the prior-user defense is limited by subsection (a) to the "subject matter" that the defendant established that

practice, will ensure that the right will be invoked infrequently, and if invoked, sustained only where truly merited.").

<sup>229</sup> H.R. 3460, 104th Cong. (1996).

<sup>230</sup> See H.R. REP. NO. 104-784, at 70 (1996).

<sup>231</sup> *Id.*

<sup>232</sup> *Id.*

<sup>233</sup> Leahy-Smith America Invents Act, sec. 5(a), § 273(e)(3), 125 Stat. at 297, 298.

<sup>234</sup> Compare *id.*, with 35 U.S.C § 273(b)(3)(C) (2006), amended by Leahy-Smith America Invents Act sec. 5(a), § 273(e)(3), 125 Stat. at 298.

<sup>235</sup> See H.R. 2235, 104th Cong., sec. 2, § 273(c)(1) (1995).

<sup>236</sup> See ADVISORY COMM'N. REPORT, *supra* note 103, at 50. The report states:

[I]mprovements to the prior use should be permitted to the extent they do not fall within the scope of other claims in the patent. . . . The prior user should be able to

he commercially used.<sup>237</sup> The term “subject matter” has a relatively narrow meaning in patent law and does not include, for example, obvious variants of the subject matter.<sup>238</sup> Subsection (e)(3) restates this limit (“[the defense] extends only to the specific subject matter for which it has been established that a commercial use that qualifies under this section occurred”),<sup>239</sup> but then creates two important exceptions to this “subject matter” limit.

First, the third clause of subsection (e)(3) provides that the defense “shall also extend to variations in the quantity or volume of use of the claimed subject matter.”<sup>240</sup> Many other jurisdictions’ prior-user-rights laws limit “any continued activity [by the prior user] to a scope commensurate with the previous activity that triggered the prior user rights.”<sup>241</sup> The third clause ensures that § 273 will not be construed the same way that these jurisdictions’ laws have been construed.<sup>242</sup>

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reasonably expand the prior use to meet reasonable market demands within the United States, rather than being restricted to only the pre-filing volume of use.

*Id.*

<sup>237</sup> Leahy-Smith America Invents Act sec. 5(a), § 273(a), 125 Stat. at 297.

<sup>238</sup> See *Matal*, *supra* note 1, at 484-85. Senator Kyl noted this point in the September 2011 debates, stating that, other than as provided in subsection (e)(3), the § 273 defense is a “relatively narrow one” that “only allows the defendant to keep making the infringing commercial use” that he made before the one-year period, because “[t]he words ‘subject matter,’ as used in subsection (a), refer to the infringing acts of the defendant, not to the entire patented invention.” 157 CONG. REC. S5430 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl). Similarly, an academic witness who testified with respect to the Patent System Harmonization Act of 1992, S. 2605, 102d Cong. (1992), which proposed a prior-user defense that also was limited to the “subject matter” that had been commercially used, but which did *not* include the subsection (e)(3) exceptions, *see id.* sec. 3(b)(1), expressed the view that the prior-user right would limit a defendant to the embodiments for which he established a prior commercial use, and that use obvious variants would be outside the scope of the right. *See 1992 joint hearing*, *supra* note 103, at 90 (Letter of Professor Robert Merges, School of Law, Boston University, responding to written questions from Senator DeConcini); *see also 1994 House hearing*, *supra* note 103, at 41 (statement of Professor Robert Merges, School of Law, Boston University).

<sup>239</sup> Leahy-Smith America Invents Act sec. 5(a), § 273(e)(3), 125 Stat. at 298.

<sup>240</sup> *Id.*

<sup>241</sup> U.S. PATENT & TRADEMARK OFFICE, REPORT ON THE PRIOR USER RIGHTS DEFENSE 23 (2012) [hereinafter “PTO REPORT”], [http://www.uspto.gov/aia\\_implementation/20120113-pur\\_report.pdf](http://www.uspto.gov/aia_implementation/20120113-pur_report.pdf).

<sup>242</sup> Senator Kyl noted this exception during the September 2011 debates on the AIA, stating that the third clause “allows the defendant to increase the quantity or volume of the use that he establishes that he made of the invention.” 157 CONG. REC. S5430 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

The second exception to the “subject matter” limitation is found in the the final clause of subsection (e)(3). This clause allows the prior user to vary the nature of his use, and go beyond the subject matter that he initially used, so long as the new use would only infringe patent claims with respect to which he has established a prior-user defense.<sup>243</sup> A witness at the 1994 Senate hearing on the Patent Prior User Rights Act of 1994,<sup>244</sup> which included a provision substantially similar to § 273(e)(3),<sup>245</sup> gave the following illustration of how the final clause was understood to work:

The limit of permitted activity under the patent right is defined by the wording of the patent claim or claims under which the activity, at the time of the filing or priority date, fell. The right does *not* extend to any other claims. For example, consider a process patent containing a broad claim specifying “applying heat” and a narrow claim specifying a critical heat range between 170 and 180 degrees C. If the prior use had been heating at 160 degrees, then the right would extend to heating in general except that it would *not* extend to the critical range specific in the narrow claim, 170 to 180 degrees. If the prior use was heating to 174 degrees, then the prior use right would include the critical 170 to 180 degree range.<sup>246</sup>

Language nearly identical to subsection (e)(3) appeared in the prior-user right proposed in 1996 by the Moorhead-Schroeder Patent Reform Act.<sup>247</sup> The Committee Report for that bill said the following about this provision:

In other words, if the prior user must infringe additional claims of the patent in order to implement an improvement in the claimed subject matter, the prior user would not be able to rely on the defense provided in this section. To determine whether an alteration in the “commercial use” would infringe additional claims of a patent, one should first determine which claims of the patent would have been infringed by the original prior use but for the operation of section 273(b). If the prior user alters its activities after the filing date of the patent application in a way that would infringe claims other than those identified above, the prior user will be liable for patent infringement with respect to those additional claims.<sup>248</sup>

### ***8. Subsection (e)(4): Abandonment of Use***

Section 273(e)(4) provides:

(4) Abandonment of use.—A person who has abandoned commercial use (that qualifies under this section) of subject matter may not rely on activities performed before the

<sup>243</sup> Leahy-Smith America Invents Act sec. 5(a), § 273(e)(3), 125 Stat. at 298.

<sup>244</sup> S. 2272, 103d Cong. (1994).

<sup>245</sup> Compare *id.* sec. 2, § 273(c)–(d), with Leahy-Smith America Invents Act § 5(a), § 273(e)(3), 125 Stat. at 298.

<sup>246</sup> 1994 Senate hearing, *supra* note 103, at 30 (statement of Gary L. Griswold, Board Member, AIPLA).

<sup>247</sup> Compare Leahy-Smith America Invents Act, sec. 5(a), § 273(e)(3), 125 Stat. at 298, with H.R. 3460, 104th Cong., sec. 302, § 273(c)(2) (1996).

<sup>248</sup> H.R. REP. NO. 104-784, at 70 (1996). The AIPA Committee Report’s discussion of this subsection simply repeats the statutory text. See H.R. REP. NO. 106-287, at 48 (1999).

date of such abandonment in establishing a defense under this section with respect to actions taken on or after the date of such abandonment.<sup>249</sup>

The same provision (minus the clarifying parenthetical) appeared in the pre-AIA § 273 in subsection (b)(5).<sup>250</sup>

Senators Blunt and Kyl both commented on this provision during the September 2011 debates on the AIA. Senator Blunt suggested that a “use may only occur once a year after each growing season” and still qualify for the § 273 defense.<sup>251</sup> And Senator Kyl stated that subsection (e)(4) “should not be construed to necessarily require continuous use of the subject matter. It is in the nature of some subject matter that it will be used only periodically or seasonally. If such is the case, and the subject [matter] has been so used, its use has not been abandoned.”<sup>252</sup>

Finally, during the 1994 Senate hearing on the Patent Prior User Rights Act of 1994,<sup>253</sup> which included a provision substantially similar to § 273(e)(4),<sup>254</sup> a witness commented with respect to that provision that:

[A] defense of prior use may not be employed by someone who had abandoned the use prior to the filing date of the patent. Certain activities, however, are naturally periodic or cyclical. Intervals of non-use between such period activities, such as seasonal factors or reasonable intervals between contracts, would not be considered abandonment so long as there is no positive corroborating evidence of abandonment.<sup>255</sup>

### ***9. Subsection (e)(5): University Exception***

Section 273(e)(5) provides:

(5) University exception.—

(A) In general.—A person commercially using subject matter to which subsection (a) applies may not assert a defense under this section if the claimed invention with respect to which the defense is asserted was, at the time the invention was made, owned or subject to an obligation of assignment to either an institution of higher education (as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)), 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.

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<sup>249</sup> Leahy-Smith America Invents Act sec. 5(a), § 273(e)(4), 125 Stat. at 298.

<sup>250</sup> See 35 U.S.C. § 273(b)(5) (2006), *amended by* Leahy-Smith America Invents Act sec. 5(a), § 273(e)(4), 125 Stat. at 298.

<sup>251</sup> 157 CONG. REC. S5427 (daily ed. Sept. 8, 2011) (statement of Sen. Blunt).

<sup>252</sup> *Id.* at S5431 (statement of Sen. Kyl).

<sup>253</sup> S. 2272, 103d Cong. (1994).

<sup>254</sup> See *id.* sec. 2, § 273(e)(2)(B).

<sup>255</sup> 1994 Senate hearing, *supra* note 103, at 30–31 (statement of Gary L. Griswold, Board Member, AIPLA). This statement appears to be quoted (though without attribution) in the committee report for the Moorhead-Schroeder Patent Reform Act. See H.R. REP. NO. 104-784, at 71 (1996).

(B) Exception.—Subparagraph (A) shall not apply if any of the activities required to reduce to practice the subject matter of the claimed invention could not have been undertaken using funds provided by the Federal Government.<sup>256</sup>

No provision analogous to subsection (e)(5) appeared in pre-AIA § 273.<sup>257</sup> Senator Kyl noted during the September 2011 debates on the AIA that this provision was part of the compromise agreement that was reached with universities in the House of Representatives.<sup>258</sup>

The 1992 Report of the Advisory Commission on Patent Law Reform considered and rejected a proposal to preclude assertion of a prior-user defense against universities and other research facilities.<sup>259</sup> The Report stated:

The proposed exclusion of non-manufacturing entities was viewed as overbroad in its scope and seen as possibly chilling industry/university collaboration. Even though prior user rights could not be transferred once created, Government agencies and universities could exercise prior user rights based upon developmental activities that were undertaken by others through contract.<sup>260</sup>

University representatives, however, advocated for a university exception to any prior-user defense during the 1992 Joint Committee hearings on patent legislation.<sup>261</sup>

During the September 2011 Senate debates on the AIA, Senators Leahy and Kohl engaged in a colloquy about the applicability of subsection (e)(5) to university technology-transfer organizations. Senator Leahy expressed his agreement with Senator Kohl's statement that:

It is my understanding that the term "primary purpose" in this exception is intended to be consistent with and have a similar scope as the "primary functions" language in the Bayh-Dole Act. In particular, if a nonprofit entity is entitled to receive assignment of inventions pursuant to section 207(c)(7) of title 35 because one of its primary functions is the management of inventions, presumably it falls under the primary purpose prong of the prior user rights exception.<sup>262</sup>

<sup>256</sup> Leahy-Smith America Invents Act, sec. 5(a), § 273(e)(5), 125 Stat. at 298–99.

<sup>257</sup> Compare *id.*, with 35 U.S.C § 273 (2006), amended by Leahy-Smith America Invents Act sec. 5(a), § 273(e)(5), 125 Stat. at 298–99.

<sup>258</sup> 157 CONG. REC. S5430 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl) ("The House compromise also precludes assertion of the defense against most university-owned patents.").

<sup>259</sup> See ADVISORY COMM'N. REP., *supra* note 103, at 51.

<sup>260</sup> *Id.*

<sup>261</sup> 1992 joint hearing, *supra* note 103, at 130 (statement of Howard W. Bremer, former patent counsel, Wisconsin Alumni Research Foundation, on behalf of the Association of University Technology Managers) ("It is therefore strongly suggested that universities and federal laboratories should be exempt from the assertion of prior user rights against their first-filed patented inventions."); see also *id.* at 139–40; *supra* notes 135–139 and accompanying text (arguing that allowing prior-user rights would negatively impact universities).

<sup>262</sup> 157 CONG. REC. S5427–28 (daily ed. Sept. 8, 2011) (statements of Senator Kohl and Senator Leahy); see also *id.* at S5431 (statement of Sen. Kyl) ("Subsection (e)(5)(A), the



Senator Kyl also noted in passing during the September 2011 debates that:

Subparagraph (B), the exception to the university exception, is only intended to preclude application of subparagraph (A) when the federal government is affirmatively prohibited, whether by statute, regulation, or executive order, from funding research in the activities in question.<sup>263</sup>

Subsection (e)(5) incorporates by reference a definition of “institution of higher education” that is limited to institutions that are public or nonprofit, have been accredited or “granted preaccreditation status,” and are located “in any State.”<sup>264</sup> Thus for-profit, unaccredited, and foreign universities’ inventions would remain subject to a prior-user defense.

One aspect of subsection (e)(5) that may undermine American manufacturers’ ability to rely on the AIA’s new prior-user right is that the “university exception” is not limited to patents that are owned by universities.<sup>265</sup> Subsection (e)(5) makes a patent immune to a prior-user defense so long as the invention was owned or assigned to a university “at the time the invention was made.”<sup>266</sup> There is no requirement in subsection (e)(5) that the university continue to own the patent in order for the exception to continue to apply, nor is there any limit as to whom the university may transfer an interest in the patent.<sup>267</sup> And unfortunately, it appears that universities sell a substantial number of their patents to patent trolls.<sup>268</sup>

### **10. Subsection (g): Invalidity**

Section 273(g) provides:

(g) Invalidity.—A patent shall not be deemed to be invalid under section 102 or 103 solely because a defense is raised or established under this section.<sup>269</sup>

A nearly identical provision appeared in subsection (b)(9) of pre-AIA § 273.<sup>270</sup> The Committee Report for the AIPA gave the following description of this provision’s purpose:

university exception, was extended to also include university technology-transfer organizations, such as the Wisconsin Alumni Research Foundation.”).

<sup>263</sup> *Id.*

<sup>264</sup> Leahy-Smith America Invents Act, sec. 5(a), § 273(e)(5), 125 Stat. at 298–99 (citing Higher Education Act of 1965, 20 U.S.C. § 1001 (2006)).

<sup>265</sup> Leahy-Smith America Invents Act sec. 5(a), § 273(e)(5), 125 Stat. at 298–99.

<sup>266</sup> *Id.*

<sup>267</sup> *Id.*

<sup>268</sup> See Thomas Ewing & Robin Feldman, *The Giants Among Us*, 2012 STAN. TECH. L. REV. 1, ¶¶ 31, 36–40, available at <http://stlr.stanford.edu/pdf/feldman-giants-among-us.pdf>.

<sup>269</sup> Leahy-Smith America Invents Act sec. 5(a), § 273(g), 125 Stat. at 299.

<sup>270</sup> Compare *id.*, with 35 U.S.C. § 273(b)(9) (2006), amended by Leahy-Smith America Invents Act sec. 5(a), § 273(g), 125 Stat. at 299.

Subsection (b)(9) specifies that the successful assertion of the defense does not mean that the affected patent is invalid. Paragraph (9) eliminates a point of uncertainty under current law concerning the validity of patents, and strikes a balance between the rights of a later inventor who obtains a patent and an earlier inventor who continues to use its method or process in the conduct of its business. Under current law, although the matter has seldom been litigated, a party who commercially used an invention in secrecy before the patent filing date and invented the subject matter before the patent owner's invention may argue that the patent is invalid under [section 102(g)] of the Patent Act. Arguably, commercial use of an invention in secrecy is not suppression or concealment of the invention within the meaning of §102(g), and therefore the party's earlier invention will invalidate the patent.<sup>271</sup> The bill provides that a party who uses a process or business method commercially in secrecy before the patent filing date and establishes a § 273 defense is not an earlier inventor for purposes of invalidating the patent.<sup>272</sup>

A provision identical to § 273(g) also appeared in the Moorhead-Schroeder Patent Reform Act.<sup>273</sup> The Committee Report for that bill said with respect to this provision that “[a]ny determination under section 102 or 103 must be established separately, although evidence used to establish a defense of prior use could be used in connection with establishing invalidity under those sections.”<sup>274</sup>

It is not apparent that subsection (g) serves any purpose. The AIPA Committee Report's concerns about § 102(g) do not appear to be well-founded. An inventor who indefinitely and commercially uses his invention in secrecy will inevitably be found to have “abandoned, suppressed, or concealed” his activities, thereby rendering § 102(g) inapplicable.<sup>275</sup> In any event, even if § 102(g) invalidity could be established based on indefinite secret use, whatever facts are available to assert a prior-user defense could also be used to independently show such invalidity. Nothing in § 273(g) precludes making such an independent § 102(g) showing.<sup>276</sup>

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<sup>271</sup> A footnote that appears in the Report at this point cites to *Dunlop Holdings Ltd. v. Ram Golf Corp.*, 524 F.2d 33 (7th Cir. 1975).

<sup>272</sup> H.R. REP. NO. 106-287, at 49 (1999).

<sup>273</sup> H.R. 3460, 104th Cong., sec. 302, § 273(e) (1996).

<sup>274</sup> H.R. REP. NO. 104-784, at 72 (1996).

<sup>275</sup> See *Dow Chem. Co. v. Astro-Valcour, Inc.*, 267 F.3d 1334, 1342 (Fed. Cir. 2001), *reh'g and reh'g en banc denied*, 2001 U.S. App. LEXIS 27636 (Fed. Cir. Dec. 6, 2001) (“The failure to file a patent application, to describe the invention in a published document, or to use the invention publicly within a reasonable time after first making the invention may constitute abandonment, suppression, or concealment.”) (citations omitted); see also *Checkpoint Sys., Inc. v. U.S. Int'l Trade Comm'n*, 54 F.3d 756, 762 (Fed. Cir. 1995) (discussing the holding of *Palmer v. Dudzik*, 481 F.2d 1377, 1387 (C.C.P.A. 1973) and observing that “to negate a finding of suppression or concealment, the public must have gained knowledge of the invention which will ensure its preservation in the public domain”).

<sup>276</sup> Leahy-Smith America Invents Act, sec. 5(a), § 273(g), 125 Stat. 299 (2011).

Finally, it bears mention that to the extent that § 273(g) was enacted because of concerns about the scope § 102(g), it is only relevant to the limited universe of patents that are issued after the enactment of the AIA (and thus to which the new § 273(g) applies) and which contain, or contained at any time, a claim to subject matter with an effective filing date before March 16, 2013, since § 102(g) is repealed with respect to patents whose only effective-filing dates are after that date.<sup>277</sup>

### J. 35 U.S.C. § 282: Repeal of the Best-Mode Defense

Section 15 of the AIA amends 35 U.S.C. § 282 to provide that “the failure to disclose the best mode shall not be a basis on which any claim of a patent may be cancel[le]d or held invalid or otherwise unenforceable.”<sup>278</sup> Section 15 also amends sections 119 and 120 of title 35 to provide that a patent may not be denied the benefit or right of priority of an earlier application’s filing date because of that earlier application’s failure to disclose the best mode.<sup>279</sup> The AIA does not, however, repeal the best-mode requirement of 35 U.S.C. § 112. The best-mode requirement thus still applies to applications for a patent.<sup>280</sup>

The background section of the final Committee Report described the reason for these changes:

Many have argued in recent years that the best mode requirement, which is unique to American patent law, is counterproductive.<sup>281</sup> They argue that challenges to patents based on best mode are inherently subjective and not relevant by the time the patent

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<sup>277</sup> See *id.* sec. 3(n), 125 Stat. at 293.

<sup>278</sup> *Id.* sec. 15(a), 125 Stat. at 328.

<sup>279</sup> See *id.* sec. 15(b), 125 Stat. at 328; see also 157 CONG. REC. S1378 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) (“In section 15 of the bill, a conforming subsection (b) has been added to ensure that the best-mode requirement cannot be used to challenge a patent’s entitlement to a right of priority or to the benefit of an earlier filing date.”).

<sup>280</sup> See S. REP. NO. 111-18, at 25 (2009) (“[T]he best mode disclosure requirement will remain in [section 112], where it serves as an affirmative requirement for patentability and as a basis for rejection of a claim . . . .”); H.R. REP. NO. 110-314, at 44 (2007) (“Failure to include best mode in the written description is still grounds for rejecting an application.”); 157 CONG. REC. E1175 (daily ed. June 23, 2011) (statement of Rep. Pence) (noting that AIA section 15 “retains best mode as a specifications requirement for obtaining a patent” but that “[o]nce the examiner is satisfied that the best mode has been disclosed, the issue is settled forever”).

<sup>281</sup> A footnote that appears at this point in the Report states: “Among those who have so argued are the National Academy of Sciences, the Biotechnology Industry Organization, the American Intellectual Property Law Association, the Intellectual Property Owners Association, and Pharmaceutical Research and Manufacturers of America.” H.R. REP. NO. 112-98, at 52 n.54 (2011).

is in litigation, because the best mode contemplated at the time of the invention may not be the best mode for practicing or using the invention years later.<sup>282</sup>

Representative Mike Pence elaborated on the reasons for retracting the best-mode requirement during the House floor debates on patent-reform legislation in September 2007, emphasizing the burden that is imposed by litigation over this issue:

[T]he best mode requirement of American law imposes extraordinary and unnecessary costs on the inventor and adds a subjective requirement to the application process, and I believe public interest is already adequately met in ensuring quality technical disclosures for patents.

....

Increasingly in patent litigation defendants have put forth best mode as a defense and a reason to find patents unenforceable. It becomes virtually a satellite piece of litigation in and of itself, detracts from the actual issue of infringement, and literally costs American inventors millions in legal fees.<sup>283</sup>

A witness at a 2007 hearing before the House Intellectual Property Subcommittee explained that litigation over the best-mode requirement is burdensome and costly because of the extensive discovery that it entails:

[T]he “best mode” requirement is the most *subjective* validity assessment in all of patent law. It requires knowing what the inventor *contemplated* on the day the inventor filed his patent application.

....

[It] requires discovery of every mode the inventor knew at the time the patent was sought. This means reviewing every document the inventor wrote—or read—relating to a mode for carrying out the invention. Discovery on “best mode” is then a confluence of “what did the inventor know and when did the inventor know it” with “what might, therefore, have the inventor contemplated and when might those contemplations have taken place.”<sup>284</sup>

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<sup>282</sup> *Id.* at 52; *see also id.* at 80 (“This section amends [section 282(b)] by removing the failure to disclose the best mode under section 112 as a basis for canceling or holding either invalid or unenforceable a patent claim.”); S. REP. NO. 111-18, at 24–25 (2009); H.R. REP. NO. 110-314, at 43–44 (2007); 157 CONG. REC. E1175 (daily ed. June 23, 2011) (statement of Rep. Pence); *id.* at S1366 (daily ed. Mar. 8, 2011) (Republican Policy Committee Legislative Notice).

<sup>283</sup> 153 CONG. REC. H10,303–04 (daily ed. Sept. 7, 2007) (statement of Rep. Pence).

<sup>284</sup> 2007 House hearing, *supra* note 58, at 58–59 (statement of Gary L. Griswold, President and Chief IP Counsel of 3M Innovative Properties Companies). *But see* 2005 Senate hearing, *supra* note 175, at 116 (Steven J. Lee, Kenyon & Kenyon, on behalf of Teva North America) (“It is not an overstatement to say that th[e] [best-mode] requirement is a large part of the reason for the United States’ technological success.”); *id.* at 95–96 (statement of Christine J. Siwik, Partner, Rakoczy Molino Mazzochi Siwik LLP, Outside Counsel for Barr Laboratories, Inc.).

An early version of AIA § 15 first appeared in the patent-reform bill that was ordered reported by the House Judiciary Committee in July 2007.<sup>285</sup> The provision was added to the bill by an amendment that was offered by Representative Pence, who later noted that he “first supported an amendment which would have repealed best mode in full,” but settled for an amendment that only “endeavored to remove best mode from litigation.”<sup>286</sup>

During floor consideration of the House bill in September 2007, the House adopted another Pence amendment that expanded the best-mode repeal by also making the failure to disclose the best mode unavailable as a basis for cancelling claims in post-grant review.<sup>287</sup> Oddly, however, the Pence civil-litigation provision did not appear in the bill that was introduced in the House of Representatives in 2009,<sup>288</sup> though the bills introduced in both the House and Senate kept the Pence post-grant-review amendment,<sup>289</sup> and a section barring best-mode invalidity challenges in civil litigation was added to the Senate bill during committee markup in April 2009.<sup>290</sup>

In March 2010, Senators Leahy and Sessions announced a managers’ substitute amendment that included a new best-mode section that was identical to what appeared in all subsequent bills and in the final public law.<sup>291</sup>

Section 15(c) of the AIA makes the section’s best-mode changes applicable to all “proceedings” commenced after enactment of the Act.<sup>292</sup> During the Senate’s March 2011 floor debates on the AIA, Senator Kyl noted that the word “proceedings” was used “in order to make clear that the section’s changes

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<sup>285</sup> See H.R. 1908, 110th Cong., sec. 13 (as ordered reported by the House Judiciary Committee, July 2007).

<sup>286</sup> See 153 CONG. REC. H10,303–04 (daily ed. Sept. 7, 2007) (statement of Rep. Pence). In June 2011, Representative Pence submitted an extension of remarks for the Record in which he reiterated his support for a full repeal. He noted that “I have maintained since 2007 that best mode should be repealed in full, and I would continue to support a full repeal if possible today.” 157 CONG. REC. E1175 (daily ed. June 23, 2011) (statement of Rep. Pence).

<sup>287</sup> See H.R. 1908, 110th Cong., sec. 6(f), § 324(2) (engrossed bill, as passed by House); see also 153 CONG. REC. H10,304 (daily ed. Sept. 7, 2007) (statement of Rep. Pence) (“[T]he amendment today makes it clear that arguments about best mode cannot serve as the basis for post-grant review proceedings.”).

<sup>288</sup> H.R. 1260, 111th Cong. (2009).

<sup>289</sup> See H.R. 1908, 110th Cong., sec. 6(f), § 324(2) (2007); S. 515, 111th Cong., sec. 5(h), § 324(2) (as introduced in Senate, Mar. 3, 2009).

<sup>290</sup> See S. 515, 111th Cong., sec. 14 (as reported by Senate, Apr. 2, 2009); see also S. REP. NO. 111-18, at 31 (2009).

<sup>291</sup> Compare S. 23, 112th Cong., sec. 15 (2011), and H.R. 1249, 112th Cong., sec. 14 (as introduced in House, Mar. 30, 2011), with Leahy-Smith America Invents Act, sec. 15, 125 Stat. at 328. With respect to the Leahy-Sessions managers’ amendment, see *supra* note 60.

<sup>292</sup> Leahy-Smith America Invents Act sec. 15(c), 125 Stat. at 328.

to the law will be immediately applicable not just in litigation but also in post-grant reviews of patents under chapter 32.<sup>293</sup>

The legislative history provides no explanation for Congress's failure to simply repeal the best-mode requirement entirely. Nor is one apparent.

Finally, it bears noting that, although courts have interpreted 35 U.S.C. § 119(a) to require a foreign application to disclose the best mode in order to be entitled to a right of priority in the United States,<sup>294</sup> AIA section 15 does not repeal the best-mode requirement from § 119(a).<sup>295</sup> This is because there is no best-mode language in § 119(a) to repeal.<sup>296</sup> The courts have sought "to preserve symmetry of treatment between sections 120 and 119,"<sup>297</sup> and since pre-AIA § 120 expressly required best-mode disclosure in a domestic parent application, § 119(a) was read to also require such disclosure in a foreign application.<sup>298</sup> Now that the best-mode requirement has been repealed from § 120, however, the same "symmetry" rationale requires that best mode be read out of § 119(a) as well.

Such a result also is compelled by the text of § 119(a).<sup>299</sup> Subsection (a) provides that a foreign priority application "shall have the same effect as the same application would have if filed in this country."<sup>300</sup> Because of the AIA's amendments to § 120, a domestic parent application that fails to disclose the best mode nevertheless can entitle the applicant to the benefit of its filing date.<sup>301</sup> And § 119(a) expressly requires that an identical foreign-filed application "shall have the same effect" as if it were a U.S.-filed parent application.<sup>302</sup> By the very words of § 119(a), therefore, if a domestic parent application that fails to disclose the best mode would entitle the applicant to its filing date, a foreign-filed application that fails to disclose the best mode also must be entitled to a right of priority.

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<sup>293</sup> 157 CONG. REC. S1378 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>294</sup> See, e.g., *Standard Oil Co. v. Montedison, S.p.A.*, 494 F. Supp. 370, 387–88 (D. Del. 1980).

<sup>295</sup> Leahy-Smith America Invents Act sec. 15, 125 Stat. at 328.

<sup>296</sup> See 35 U.S.C. § 119(a) (2006).

<sup>297</sup> *In re Jacques Gosteli*, 872 F.2d 1008, 1011 (Fed. Cir. 1989), *reh'g denied*, 1989 U.S. App. LEXIS 7522 (Fed. Cir. May 18, 1989).

<sup>298</sup> See *id.*

<sup>299</sup> See 35 U.S.C. § 119(a) (2006).

<sup>300</sup> *Id.*

<sup>301</sup> Leahy-Smith America Invents Act sec. 15(b), 125 Stat. at 328.

<sup>302</sup> 35 U.S.C. § 119(a).

### K. 35 U.S.C. § 287: Virtual Marking

Section 287(a) of title 35 limits the damages that can be recovered by a patent owner (or his licensee) who makes, sells, or imports a product covered by the patent to those damages incurred after the infringer received actual notice of the infringement, *unless* the product was marked as patented.<sup>303</sup> Pre-AIA subsection (a) required that the word “patent” or “pat.” and the patent number itself be affixed to the product or, where this was not practical, to a label attached to the product or its packaging.<sup>304</sup>

Section 16(a) of the AIA amended § 287 by allowing the patent number in such a mark to be replaced with “an address of a posting on the Internet, accessible to the public without charge for accessing the address, that associates the patented article with the number of the patent.”<sup>305</sup> This change allows a manufacturer to add newly issued patents to the list of patents with which a product is “marked” without making physical changes to the product or its labeling.

The virtual-marking provision was added to the bill during the Senate Judiciary Committee markup in March 2009.<sup>306</sup> The final Committee Report said the following about this provision:

The Act permits patent holders to “virtually mark” a product by providing the address of a publicly available website that associates the patented article with the number of the patent. The burden will remain on the patent holder to demonstrate that the marking was effective. This amendment will save costs for producers of products that include technology on which a patent issues after the product is on the market, and will facilitate effective marking on smaller products.<sup>307</sup>

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<sup>303</sup> 35 U.S.C. § 287(a) (2006), *amended by* Leahy-Smith America Invents Act sec. 16(a), 125 Stat. at 328. It is notable that “§ 287 do[es] not apply where the patent is directed to a process or method,” *Crown Packaging Tech., Inc. v. Rexam Beverage Can Co.*, 559 F.3d 1308, 1316 (Fed. Cir. 2009), nor does it apply to “a patent owner who neither sells nor authorizes others to sell articles covered by the patent,” *Loral Fairchild Corp. v. Victor Co. of Japan, Ltd.*, 906 F. Supp. 813, 816 (E.D.N.Y. 1995). The purpose of § 287 is not to require that all infringers receive notice before damages accrue, but simply to “provide[] protection against deception by unmarked patented articles.” *Wine Ry. Appliance Co. v. Enter. Ry. Equip. Co.*, 297 U.S. 387, 398 (1936). Section 287 effectively makes it harder for a patent owner who manufactured a product covered by his patent to recover damages than it is for a non-practicing patentee or the owner of a process patent to do so.

<sup>304</sup> 35 U.S.C. § 287(a).

<sup>305</sup> Leahy-Smith America Invents Act, sec. 16(a), 125 Stat. at 328.

<sup>306</sup> *See* S. 515, 111th Cong., sec. 4(e) (as reported by Senate, Apr. 2, 2009).

<sup>307</sup> H.R. REP. NO. 112-98, at 52–53 (2011); *see also id.* at 80; S. REP. NO. 111-18, at 14 (2009).

### L. 35 U.S.C. § 292: False Marking

The false-marking *qui tam* action, which was enacted in 1842,<sup>308</sup> is repealed entirely by section 16(b) of the AIA.<sup>309</sup> The civil penalty for false marking is maintained, but the AIA adds a conforming limitation that “[o]nly the United States may sue for th[is] penalty.”<sup>310</sup> The AIA also provides that marking a product with a patent that once applied to the product but has expired “is not a violation of this section.”<sup>311</sup> Finally, the AIA makes all of these changes retroactive, applying them to “all cases, without exception, that are pending on, or commenced on or after,” the date of the AIA’s enactment.<sup>312</sup>

These provisions first appeared in the Leahy-Sessions managers’ amendment that was announced in March 2010.<sup>313</sup> The final Committee Report’s background section explained the reason for these changes:

The Federal Circuit’s recent decision in *Forest Group, Inc. v. Bon Tool Co.*,<sup>[314]</sup> which held that section 292’s \$500 fine is assessed for each product that is falsely marked, has created a surge in false-marking *qui tam* litigation.<sup>[315]</sup> Though one might assume that section 292 actions are targeted at parties that assert fictitious patents in order to deter competitors, such a scenario is almost wholly unknown to false-marking litigation. False-marking suits are almost always based on allegations that a valid patent that

<sup>308</sup> Patent Act of 1842, ch. 263, § 5, 5 Stat. 544 (1842). For a thorough account of the origins and history of the false-marking *qui tam* action, see Elizabeth I. Winston, *The Flawed Nature of the False Marking Statute*, 77 TENN. L. REV. 111, 112–32 (2009).

<sup>309</sup> Leahy-Smith America Invents Act sec. 16(b)(2), 125 Stat. at 329.

<sup>310</sup> *Id.* sec. 16(b)(1), 125 Stat. at 329.

<sup>311</sup> *Id.* sec. 16(b)(3), 125 Stat. at 329.

<sup>312</sup> *Id.* sec. 16(b)(4), 125 Stat. at 329. Senator Kyl commented on this effective-date provision during the March 2011 Senate debates, noting that it made the repeal of the *qui tam* action “fully retroactive,” and ensured that it would apply “to cases pending at any level of appeal or review.” 157 CONG. REC. S1372 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl). He also noted that paragraph (4)’s retroactivity language was adopted from the Military Commissions Act of 2006, Pub. L. No. 109-366 (2006), which had been given an “authoritative construction” in *Boumediene v. Bush*, 476 F.3d 981 (D.C. Cir. 2007). *Id.*

<sup>313</sup> The same provisions also appeared in sec. 2(k) of the 2011 Senate bill. See S. 23, 112th Cong., sec. 2(k) (2011). With respect to the Leahy-Sessions managers’ amendment, see *supra* note 60.

<sup>314</sup> 590 F.3d 1295 (Fed. Cir. 2009).

<sup>315</sup> A 2009 law-review article noted that “[i]n 2008, over a dozen actions named the false marking statute as a count . . . .” Winston, *supra* note 302, at 112 n.5. *Forest Grp., Inc. v. Bon Tool Co.* was decided in December 2009. See 590 F.3d at 1295. In March 2011, during a House Intellectual Property Subcommittee hearing on the AIA, a witness noted that “over 800 [false marking] *qui tam* actions have been filed since the *Bon Tool* decision was handed down.” *AIA hearing, supra* note 103, at 76 (statement of Steven W. Miller, Vice President and General Counsel for Intellectual Property, Procter & Gamble Company); see also *Texas Data Co., L.L.C. v. Target Brands, Inc.*, 771 F.Supp.2d 630, 634-35 (E.D. Tex. 2011).



did cover the product has expired, but the manufacturer continued to sell products stamped with the patent; or that an existing patent used to mark products is invalid or unenforceable; or that an existing and valid patent's claims should not be construed to cover the product in question.

Indeed, a recent survey of such suits found that a large majority involved valid patents that covered the products in question but had simply expired. For many products, it is difficult and expensive to change a mold or other means by which a product is marked as patented, and marked products continue to circulate in commerce for some period after the patent expires. It is doubtful that the Congress that originally enacted this section anticipated that it would force manufacturers to immediately remove marked products from commerce once the patent expired, given that the expense to manufacturers of doing so will generally greatly outweigh any conceivable harm of allowing such products to continue to circulate in commerce.<sup>316</sup>

To address the recent surge in litigation, the bill replaces the *qui tam* remedy for false marking with a new action that allows a party that has suffered a competitive injury as a result of such marking to seek compensatory damages. The United States would be allowed to seek the \$500-per-article fine, and competitors may recover in relation to actual injuries that they have suffered as a result of false marking, but the bill would eliminate litigation brought by unrelated, private third parties.<sup>317</sup>

Senator Kyl also commented on and characterized the AIA's false-marking provisions during the September 2011 Senate debates on the bill:

Currently, such suits are often brought by parties asserting no actual competitive injury from the marking—or who do not even patent or manufacture anything in a relevant industry. Many cases have been brought by patent lawyers themselves claiming the right to enforce a fine of \$500 for every marked product. One manufacturer of plastic cups who stamped his patent number on his cups was recently sued by a lawyer for \$500 for each disposable cup that was sold, for a gargantuan total of \$9 trillion.<sup>[318]</sup>

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<sup>316</sup> H.R. REP. NO. 112-98, at 53 (2011) (citations omitted); *see also AIA hearing, supra* note 103, at 75 (statement of Steven W. Miller, Vice President and General Counsel for Intellectual Property, Procter & Gamble Co.) (“The vast majority of these suits are based on situations where products marked with a valid patent number continued to be sold for a time after the patent’s expiration.”).

<sup>317</sup> H.R. REP. NO. 112-98, pt. 1 at 53; *see also id.* at 80; 157 CONG. REC. S1372 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl). The final Committee Report’s section-by-section analysis also described a third provision, concerning a 3-year safe harbor for expired patents, that was subsequently eliminated from the bill by the House floor managers’ amendment. *Compare* H.R. REP. NO. 112-98, at 80, *with* 157 CONG. REC. H4448 (daily ed. June 22, 2011) (text of floor managers’ amendment).

<sup>318</sup> It appears that the total damages sought in the case that Senator Kyl described were actually \$10.8 trillion. *See* *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1359, 1359 n.1 (Fed. Cir. 2010), *reh’g and reh’g en banc denied*, 2010 U.S. App. LEXIS 21187 (Fed. Cir. Sept. 15, 2010). The Federal Circuit noted that the United States’ 50% share of the award being sought “would be sufficient to pay back 42% of the country’s total national debt.” *Id.* at 1359 n.1.

In reality, the bulk of these suits settle for their nuisance value, the costs of continuing to litigate. They represent a tax that patent lawyers are imposing on domestic manufacturing—a shift in wealth to lawyers that comes at the expense of manufacturing jobs. . . . [T]his bill prevents such abuses by repealing the statute’s *qui tam* action while still allowing parties who have [suffered<sup>319</sup>] actual injury from false marking to sue and allowing the United States to enforce a \$500-per-product fine where appropriate.<sup>320</sup>

During the March 2011 Senate debates on the AIA, Senator Kyl also questioned whether any purpose is served by allowing parties other than competitors who have suffered actual injury to bring suits for false marking:

[I]t is not entirely clear how consumers would suffer any tangible harm from false marking that is distinct from that suffered when competitors are deterred from entering a market. Patent marking’s primary purpose is to inform competitors, not consumers, that a product is patented. I doubt that consumers would take any interest, for example, in whether a disposable plastic cup is subject to a patent, to take one case recently decided by the courts. Even less clear is how the consumer would be harmed by such marking, absent a deterrence of competition. Current section 292(b) creates an incentive to litigate over false marking that is far out of proportion to the extent of any harm actually suffered or the culpability of a manufacturer’s conduct.<sup>321</sup>

Little else was said about the AIA’s repeal of the 169-year-old *qui tam* statute during the congressional debates on the bill. Shortly after the Senate’s initial passage of the AIA, in March 2011, Senator Claire McCaskill criticized the false-marking provision on the floor, arguing that its application to the recent surge of lawsuits would penalize “[s]mall businesses and inventors.”<sup>322</sup> Representative John Conyers, the ranking member of the House Judiciary Committee, also expressed objections to this provision.<sup>323</sup> And during the Senate’s March 2011 debates on the AIA, Senator Grassley expressed support for the AIA’s repeal of the false-marking *qui tam* statute, but emphasized that “[i]t would be a serious miscalculation for anyone to imply or attempt to

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<sup>319</sup> Because of a transcription error, the word “separate,” rather than the word “suffered,” appears in the Congressional Record. See 157 CONG. REC. S5321 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl).

<sup>320</sup> *Id.* at S5320–21; see also *id.* at S5321 (“By repealing the false marking *qui tam* statute, the AIA will allow American companies to spend money hiring new workers rather than fighting off frivolous false marking suits.”); *id.* at H4426 (daily ed. June 22, 2011) (statement of Rep. Goodlatte) (describing the AIA’s amendments to section 292 as “ensur[ing] that abusive false marking litigation is put to an end”); *id.* (statement of Rep. Gallegly) (expressing support for AIA section 16(b)’s elimination of “these nuisance lawsuits”).

<sup>321</sup> 157 CONG. REC. S1372 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>322</sup> *Id.* at S1545 (daily ed. Mar. 10, 2011) (statement of Sen. McCaskill).

<sup>323</sup> See H.R. REP. NO. 112-98, at 162–63 (2011) (Dissenting Views).

characterize” his support of the AIA provision “as a starting point for striking or reforming the False Claims Act qui tam provisions.”<sup>324</sup>

If the AIA’s changes to the false-marking statute operate as Congress intended, they probably will become a provision of the AIA that will be almost entirely forgotten a decade after the AIA’s enactment, because false-marking litigation will have virtually ceased to exist.

### M. 35 U.S.C. § 298: Advice of Counsel

Section 17 of the AIA adds a new § 298 to title 35, titled “Advice of Counsel,” which provides that:

The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.<sup>325</sup>

This provision first appeared in the Leahy-Sessions managers’ amendment that was announced in March 2010.<sup>326</sup> The final Committee Report provided the following explanation of this new section:

The Act includes a new provision that bars courts and juries from drawing an adverse inference from an accused infringer’s failure to obtain opinion of counsel as to infringement or his failure to waive privilege and disclose such an opinion. Section 298 of title 35 is designed to protect attorney-client privilege and to reduce pressure on accused infringers to obtain opinions of counsel for litigation purposes. It reflects a policy choice that the probative value of this type of evidence is outweighed by the harm that coercing a waiver of attorney-client privilege inflicts on the attorney-client relationship. Section 298 applies to findings of both willfulness and intent to induce infringement—and thus legislatively abrogates the Federal Circuit’s decision in *Broadcom Corp. v. Qualcomm Inc.*<sup>327</sup>

Senator Kyl also commented on the policies served by section 298 during the Senate’s March 2011 debates on the AIA:

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<sup>324</sup> 157 CONG. REC. S1368 (daily ed. Mar. 8, 2011) (statement of Sen. Grassley). *But see id.* at S5321 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl) (“Qui tam statutes are a relic of the 19th century and generally produce far more litigation than is in the public interest. Almost all of these statutes have been repealed. The America Invents Act continues this trend.”); *see also* Winston, *supra* note 308, at 118 (noting that “[t]he peculiar nature of qui tam actions renders them particularly subject to abuse,” and that the United Kingdom has repealed all, and the United States most, previous statutes authorizing such actions).

<sup>325</sup> Leahy-Smith America Invents Act, sec. 17(a), § 298, 125 Stat. at 329.

<sup>326</sup> The same provision also appeared in sec. 4(d) of the 2011 Senate bill. *See* S. 23, 112th Cong., sec. 4(d) (2011). With respect to the Leahy-Sessions managers’ amendment, *see supra* note 60.

<sup>327</sup> H.R. REP. NO. 112-98, at 53 (citation omitted). The citation for *Broadcom* is 543 F.3d 683, 699 (Fed. Cir. 2008).

Permitting adverse inferences from a failure to procure an opinion or waive privilege undermines frank communication between clients and counsel. It also feeds the cottage industry of providing such opinions—an industry that is founded on an unhealthy relationship between clients and counsel and which amounts to a deadweight loss to the patent system. Some lawyers develop a lucrative business of producing these opinions, and inevitably become aware that continued requests for their services are contingent on their opinions’ always coming out the same way—that the patent is invalid or not infringed. Section 298 reflects legislative skepticism of the probative value of such opinions.<sup>328</sup>

One noteworthy flaw in this provision as enacted by the final public law is that it was not given its own effective date.<sup>329</sup> As a result, this section is governed by the AIA’s default effective date, at section 35 of the Act, which provides that provisions of the bill without their own effective dates “shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and shall apply to any patent issued on or after that effective date.”<sup>330</sup> In other words, unless this matter is remedied in subsequent legislation, the applicability of § 298 of title 35 will depend not on when the lawsuit in which § 298 is sought to be applied was filed, but rather on when the patent in suit was issued.

### **N. 35 U.S.C. § 299: Limits on Joinder of Defendants and Consolidation of Trials**

Section 19(d) of the AIA adds a new § 299 to title 35.<sup>331</sup> This new section provides:

(a) Joinder of Accused Infringers—With respect to any civil action arising under any Act of Congress relating to patents, other than an action or trial in which an act of infringement under section 271(e)(2) has been pled, parties that are accused infringers may be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, or counterclaim defendants<sup>[332]</sup> only if—

(1) any right to relief is asserted against the parties jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences relating to the making, using, importing into the United States, offering for sale, or selling of the same accused product or process; and

<sup>328</sup> 157 CONG. REC. S1374 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>329</sup> See Leahy-Smith America Invents Act, sec 17, 125 Stat. at 329. In the bill that passed the Senate in March 2011, the advice-of-counsel provision was included in section 4 of the bill, and that whole section was made applicable by its subsection (e) to any civil action commenced on or after enactment of the Act. See S. 23, sec. 4(e).

<sup>330</sup> Leahy-Smith America Invents Act, sec. 35, 125 Stat. at 341.

<sup>331</sup> Leahy-Smith America Invents Act, sec. 19(d), 125 Stat. at 332–33.

<sup>332</sup> These three words—“or counterclaim defendants”—are a scrivener’s error that crept into the bill when it was engrossed after House passage. See 157 CONG. REC. H4446 (daily ed. June 22, 2011) (text of managers’ amendment).

(2) questions of fact common to all defendants or counterclaim defendants will arise in the action.

(b) Allegations Insufficient for Joinder—For purposes of this subsection, accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit.

(c) Waiver—A party that is an accused infringer may waive the limitations set forth in this section with respect to that party.<sup>333</sup>

This provision was a relatively late addition to the AIA. It first appeared as part of a managers' amendment that was adopted during the House Judiciary Committee's markup of the bill in April 2011.<sup>334</sup>

The final Committee Report noted that this provision restricts both joinder under Rule 20 and consolidation of trials under Rule 42.<sup>335</sup> The Report stated:

The Act also addresses problems occasioned by the joinder of defendants (sometimes numbering in the dozens) who have tenuous connections to the underlying disputes in patent infringement suits.

The Act amends chapter 29 of the Patent Act by creating a new [§ 299] that addresses joinder under Rule 20 and consolidation of trials under Rule 42. Pursuant to the provision, parties who are accused infringers in most patent suits may be joined as defendants or counterclaim defendants only if: (1) relief is asserted against the parties, jointly, severally, or in the alternative, arising out of the same transaction regarding the manufacture, use, or importation of the accused product or process; and (2) questions of fact common to all of the defendants will arise in the action. New [§ 299] also clarifies that joinder will not be available if it [is] based solely on allegations that a defendant has infringed the patent(s) in question.<sup>336</sup>

A footnote appended to this statement noted that “[s]ection 299 legislatively abrogates the construction of Rule 20(a)” that was adopted in seven cases that are cited by the footnote.<sup>337</sup> The footnote concluded by noting that § 299 “effectively conform[s] these courts’ jurisprudence to that followed by a majority of jurisdictions.”<sup>338</sup> As support for this proposition, the footnote cited to *Rudd v. Lux Products Corp.*,<sup>339</sup> a district court decision that stated in relevant part that:

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<sup>333</sup> Leahy-Smith America Invents Act, sec. 19(d), 125 Stat. at 332–33.

<sup>334</sup> See H.R. 1249, 112th Cong. (as reported by House, June 1, 2011).

<sup>335</sup> H.R. REP. NO. 112-98, at 54 (2011).

<sup>336</sup> *Id.* at pt. 1, 54–55; see also *id.* at pt. 1, 81; 157 CONG. REC. H4426 (daily ed. June 22, 2011) (statement of Mr. Goodlatte).

<sup>337</sup> H.R. REP. NO. 112-98, at 55 n.61.

<sup>338</sup> *Id.*

<sup>339</sup> No. 09-cv-6957, 2011 WL 148052 (N.D. Ill. Jan. 12, 2011).

After researching the issue, the Court determines that [the approach of *MyMail Ltd. v. America Online, Inc.*<sup>340</sup>] . . . is in the minority. This Court follows the prevailing approach of this District and numerous others that have concluded that a party fails to satisfy Rule 20(a)'s requirement of a common transaction or occurrence where unrelated defendants, based on different acts, are alleged to have infringed the same patent. . . . Moreover, allegations that unrelated defendants design, manufacture and sell similar products does not satisfy Rule 20(a)'s requirement.<sup>341</sup>

During the September 2011 Senate debates on the AIA, Senator Kyl commented on the expansion of § 299 in the House floor managers' amendment to limit consolidation of trials as well as joinder. He noted that "[a] review of legal authority . . . reveals that under current law, even if parties cannot be joined as defendants under rule 20, their cases can still be consolidated for trial under rule 42."<sup>342</sup> He expressed support for the final bill's extension of § 299 to also limit consolidations under Rule 42, stating:

If a court that was barred from joining defendants in one action could instead simply consolidate their cases for trial under rule 42, section 299's purpose of allowing unrelated patent defendants to insist on being tried separately would be undermined.<sup>343</sup>

Section 299 should put an end to a practice that had become a favorite tactic of patent trolls: suing a large number of unrelated patent defendants in a single action. Because courts typically do not increase the time for presenting evidence during a trial by a multiple of the number of defendants who are sued, the Eastern District of Texas's interpretation of Rule 20 resulted in a substantial denial of due process to defendants.<sup>344</sup> Each defendant was given a sharply abbreviated amount of time to present its case, despite the fact that most, if not all, of the defendants made different products whose alleged infringement of the patent presented different factual questions.<sup>345</sup>

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<sup>340</sup> 223 F.R.D. 455 (E.D. Tex. 2004). *MyMail* is cited by the 2011 Committee Report as one of the cases that is abrogated by the AIA. See H.R. REP. NO. 112-98, at 55 n.61.

<sup>341</sup> No. 09-cv-6957, 2011 WL 148052, at \*3 (N.D. Ill. Jan. 12, 2011) (citations omitted); see also *id.* ("Plaintiffs cannot satisfy Rule 20(a)'s same transaction or occurrences requirement based on their allegations that Defendants' alleged infringing thermostats operate in a nearly identical manner as it relates to the asserted patents."). The court also rejected the argument "that Rule 20(a)'s same transaction or occurrences requirement is satisfied because Defendants' affirmative defenses and counterclaims are nearly identical." *Id.* at \*4.

<sup>342</sup> 157 CONG. REC. S5429 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

<sup>343</sup> *Id.*

<sup>344</sup> See Beth Shaw, Wash. Legal Found., *Reform Law Aims to Prevent Abuse of Joinder in Patent Suits*, 20 LEGAL OPINION LETTER, Nov. 24, 2011, at 1, available at [http://www.wlf.org/upload/legalstudies/legalopinionletter/11-4-11Shaw\\_LegalOpinionLetter.pdf](http://www.wlf.org/upload/legalstudies/legalopinionletter/11-4-11Shaw_LegalOpinionLetter.pdf).

<sup>345</sup> See *id.*; Charles Gorenstein, *America Invents Act Exercises "Con-Troll" over Patent Litigation*, IPWATCHDOG (Sept. 19, 2011, 3:50 PM EDT), <http://www.ipwatchdog.com/2011/09/19/con-troll-over-patent-litigation/id=19279/>.

Section 299's anticipated effectiveness was demonstrated even before the AIA became law. In an apparent effort to escape the section's application to cases filed on or after the AIA's enactment,<sup>346</sup> patent trolls filed an unusually large number of multi-defendant actions during the week before the AIA was signed into law.<sup>347</sup>

### **O. 35 U.S.C. § 301: Submission of Written Statements Regarding Claim Scope**

Section 6(g) of the AIA recodifies and adds substructure to § 301 of title 35, and also makes a substantive addition to the section: new subsection (a)(2) allows any party to submit to the USPTO "statements of the patent owner filed in a proceeding before a Federal court or the Office in which the patent owner took a position on the scope of any claim of a particular patent."<sup>348</sup> The AIA also adds a subsection (c) to § 301 which provides that "[a] party that submits a written statement pursuant to subsection (a)(2) shall include any other documents, pleadings, or evidence from the proceeding in which the statement was filed that addresses the written statement."<sup>349</sup> Finally, a new subsection (d) provides that these claim-scope statements and related materials "shall not be considered by the Office for any purpose other than to determine the proper meaning of a patent claim" in a reexamination or in an inter partes or post-grant review.<sup>350</sup>

The final Committee Report described the purpose of these new provisions:

The Act expands the category of documents that may be cited in a reexamination proceeding to include written statements of the patent owner that have been filed in a proceeding before a Federal court or the USPTO regarding the scope of claims. This addition will counteract the ability of patent owners to offer differing interpretations of prior art in different proceedings. These written statements, which include documents, pleadings or evidence from proceedings that address the patent owner's statements, shall not be considered for any purpose other than to determine the proper meaning of the claims that are the subject of the request in a proceeding. Specifically, the Committee does not intend these statements to be a basis for the institution of a reexamination

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<sup>346</sup> See Leahy-Smith America Invents Act, sec. 19(e), 125 Stat. at 333.

<sup>347</sup> See Shaw, *supra* note 344, at 2; *Rush to Judgment: New Dis-Joinder Rules and Non-Practicing Entities*, PATENTLYO (Sept. 20, 2011, 3:10 PM EDT), <http://www.patentlyo.com/patent/2011/09/rush-to-judgment-new-dis-joinder-rules-and-non-practicing-entities.html>. One plaintiff filed complaints asserting three patents against 175 different defendants during the last *hour* before the AIA took effect. See *CyberFone Sys., LLC v. Cellco Partnership*, 2012 WL 1509504, \*1 (D. Del.) (Apr. 30, 2012).

<sup>348</sup> Leahy-Smith America Invents Act sec. 6(g)(1), § 301(a)(2), 125 Stat. at 311–12.

<sup>349</sup> *Id.* sec. 6(g)(1), § 301(c), 125 Stat. at 312.

<sup>350</sup> *Id.* sec. 6(g)(1), § 301(d), 125 Stat. at 312.

proceeding. Reexaminations will continue to be available only on the basis of “patents or printed publications.”<sup>351</sup>

A footnote appended to the end of this paragraph stated:

The scope of “patent and printed publication” prior art in the amended section 301 is intended to be coextensive with these terms in current section 102 of the title 35. Further, amendments made by Section 2<sup>[352]</sup> of the Act, which expand and contract the definition of certain other forms of prior art, are not intended to change the particular “patent or printed publication” prior art, which will continue to be the sole basis for initiating reexamination proceedings.<sup>353</sup>

During the Senate’s March 2011 debates on the AIA, Senator Kyl also commented on the purposes of the new § 301(a)(2)’s authorization for parties to file with the USPTO written statements of the patentee regarding claim scope:

This information should help the Office understand and construe the key claims of a patent. It should also allow the Office to identify inconsistent statements made about claim scope—for example, cases where a patent owner successfully advocated a claim scope in district court that is broader than the “broadest reasonable construction” that he now urges in an inter partes review.<sup>354</sup>

### **P. 35 U.S.C. § 303: Director-Initiated Reexamination**

Section 6(h)(1) of the AIA amends § 303 of title 35 to expand the sources of the patents-and-printed-publications prior art that the Director may use to identify a substantial new question of patentability with respect to a patent and to order a reexamination on his own initiative.<sup>355</sup> The pre-AIA § 303 limited the Director to using patents and printed publications that he discovered on his own or that were cited under the provisions of § 301.<sup>356</sup> The AIA adds a citation to § 302,<sup>357</sup> which authorizes requests for ex parte reexamination.<sup>358</sup>

The final Committee Report explained that this provision “amends the ex parte reexamination procedure to allow the Director to institute a reexamination

<sup>351</sup> H.R. REP. NO. 112-98, at 46 (2011).

<sup>352</sup> The Report presumably means sec. 3 of the Act. The provisions of sec. 3 previously were located in sec. 2 of the Act. *Compare* H.R. 1249, 112th Cong., sec. 2 (as introduced in House, Mar. 30, 2011), *with* H.R. 1249, 112th Cong., sec. 3 (as reported by House, June 1, 2011).

<sup>353</sup> H.R. REP. NO. 112-98, at 46 n.42.

<sup>354</sup> 157 CONG. REC. S1375 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>355</sup> Leahy-Smith America Invents Act, sec. 6(h)(1), § 303(a) 125 Stat. at 312.

<sup>356</sup> 35 U.S.C. § 303 (2006), *amended by* Leahy-Smith America Invents Act sec. 6(h)(1), § 303(a), 125 Stat. at 312.

<sup>357</sup> Leahy-Smith America Invents Act sec. 6(h)(1), § 303(a), 125 Stat. at 312.

<sup>358</sup> 35 U.S.C. § 302 (2006).



on the Director's own initiative if a substantial new question of patentability is raised by patents or publications."<sup>359</sup>

It is not apparent that this change has any substantive effect. Section 302, the source of prior art that the AIA added to § 303, itself only allows reexamination "on the basis of . . . prior art cited under the provisions of section 301."<sup>360</sup> Moreover, if prior art is cited in a request for reexamination under § 302, the Director is required to determine if a substantial new question of patentability was raised, and to order an *ex parte* reexamination if he finds that such a question was raised.<sup>361</sup> The legislative record does not indicate that different procedures or consequences are expected to attach to an *ex parte* reexamination that is ordered pursuant to a request under § 302, as opposed to one that is ordered on the Director's own initiative pursuant to information cited under § 302.<sup>362</sup>

Earlier bills' versions of this provision amended § 303 by allowing the Director to also initiate an *ex parte* reexamination on his own initiative on the basis of information cited pursuant to § 311, which authorizes a request for *inter partes* reexamination.<sup>363</sup> The 2007 House Committee Report noted that this change would have "permit[ted] the Director to order an *ex parte* reexamination based on art submitted in a request by a third party for an *inter partes* reexamination."<sup>364</sup> The citation to § 311 was eliminated from this provision when it appeared in sec. 6(h)(1) of the AIA,<sup>365</sup> probably at the behest of parties who objected to its purpose of allowing requests for *inter partes* reexamination to be involuntarily converted into *ex parte* reexaminations. It

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<sup>359</sup> H.R. REP. NO. 112-98, at 46 (2011); *see also id.* pt. 1, at 77 (supporting the same proposition with reference to the specific code sections).

<sup>360</sup> 35 U.S.C. § 302.

<sup>361</sup> *Id.* §§ 303–304.

<sup>362</sup> One possibility is that a Director-initiated § 302-based reexamination will not be deemed a reexamination ordered pursuant to the request of a third party, and the third party that cited the information therefore will not be entitled to reply to an initial statement submitted by the patent owner, as is otherwise provided in § 304, fourth sentence. *Id.* § 304. However, § 304 does not distinguish between Director-initiated and third-party initiated reexamination. *Id.* It simply requires that notice and an opportunity to reply to the patent owner's initial statement be provided to "the person who has requested reexamination under the provisions of section 302." *Id.* Nor is there any indication in the record that Congress intended such an unfair result.

<sup>363</sup> *E.g.*, S. 515, 111th Cong., sec. 5(b) (as reported by Senate, Apr. 2, 2009). *See also* S. REP. NO. 111-18, at 35 (2009) (stating that section 303 "is amended to clarify that the Director may determine whether to initiate reexamination on the Director's own initiative based on citations by any person other than the owner of the patent under section 302 or 311").

<sup>364</sup> H.R. REP. NO. 110-314, at 34 (2007).

<sup>365</sup> Leahy-Smith America Invents Act, sec. 6(h)(1), § 303(a), 125 Stat. at 312.

is possible that allowing such conversions was the only original purpose of this provision, and that the additional citation to § 302 had simply been an afterthought—one that has no substantive effect.

### **Q. 35 U.S.C. § 306: Relief by Civil Action of BPAI Review of an Ex Parte Reexamination**

Section 6(h)(2) of the AIA amended § 306 of title 35 by striking § 306's reference to § 145 as one of the provisions under which a patentee "may seek court review" of an adverse PTAB (formerly BPAI) decision on review of an ex parte reexamination.<sup>366</sup> Section 145 authorizes de novo review of PTAB decisions in district court.<sup>367</sup>

The final Committee Report simply noted that "§ 306 is amended to conform to the changes made by § 4605 of the American Inventors Protection Act of 1999<sup>368</sup> . . . to §§ 134 and 141 of title 35."<sup>369</sup>

This change first appeared in the Leahy-Sessions managers' amendment that was announced in March 2010.<sup>370</sup> Senator Kyl gave a more detailed explanation of this provision during the Senate's March 2011 debates on the AIA. He stated that section (6)(h)(2):

addresses an issue raised by a recent publication<sup>[371]</sup> . . . [that] criticizes the [2010 Leahy-Sessions managers' amendment] . . . on the ground that it eliminates authority for a patent owner to have relief by civil action under section 145 from an adverse decision in the BPAI on review of an ex parte reexamination. It is fairly apparent, however, that this authority was intended to be eliminated by the amendments made by section 4605 of the American Inventors Protection Act of 1999 . . . to sections 134 and 141 of title 35.<sup>372</sup>

Prior to the enactment of the AIPA, § 141 provided in relevant part:

An applicant dissatisfied with the decision in an appeal to the Board of Patent Appeals and Interferences under section 134 of this title may appeal the decision to the United

<sup>366</sup> Leahy-Smith America Invents Act sec. 6(h)(2), § 306, 125 Stat. at 312.

<sup>367</sup> See 35 U.S.C. § 145; *Kappos v. Hyatt*, 132 S.Ct. 1690 (2012).

<sup>368</sup> Pub. L. No. 106-113, § 4605, 113 Stat. 1501A-570-71 (1999).

<sup>369</sup> H.R. REP. NO. 112-98, at 77 (2011) (citation omitted).

<sup>370</sup> With respect to the Leahy-Sessions managers' amendment, see *supra* note 60.

<sup>371</sup> Charles E. Miller & Daniel P. Archibald, *How the Senate Patent Reform Bill Would Abridge the Right of Judicial Review in Patent Reexaminations—and Why It Matters*, LANDSLIDE, Nov./Dec. 2010, at 21, 22; see also Charles E. Miller & Daniel P. Archibald, *Attenuated Judicial Review of Patent and Trademark Office Decisions: "Technical Amendment," or Stacking the Deck Against Inventors?*, MED. INNOVATION & BUS. J., Summer 2010, at 89, 91, available at [http://www.ipadvocate.org/mibj/pdfs/Miller\\_PTO%20Review.pdf](http://www.ipadvocate.org/mibj/pdfs/Miller_PTO%20Review.pdf).

<sup>372</sup> 157 Cong. Rec. S1368, S1377 (daily ed. Mar. 8, 2011).

States Court of Appeals for the Federal Circuit. *By filing such an appeal the applicant waives his or her right to proceed under section 145 of this title.*<sup>373</sup>

In other words, under pre-AIPA § 141, all decisions rendered by the BPAI under section 134, whether reviews of initial examinations or reviews of reexaminations, could be further reviewed in a civil action in district court under § 145 (so long as the applicant or patentee did not file a Federal Circuit appeal).

In 1999, however, the AIPA amended § 141 so that it read in relevant part as follows:

An applicant dissatisfied with the decision in an appeal to the Board of Patent Appeals and Interferences under section 134 of this title may appeal the decision to the United States Court of Appeals for the Federal Circuit. By filing such an appeal the applicant waives his or her right to proceed under section 145 of this title. A patent owner *in any reexamination proceeding* dissatisfied with the final decision in an appeal to the Board of Patent Appeals and Interferences under section 134 *may appeal the decision only to the United States Court of Appeals for the Federal Circuit.*<sup>374</sup>

The AIPA's changes to § 141 clearly were intended to treat reviews of reexaminations differently than reviews of original examinations of a patent, and to allow the BPAI decision in a reexamination to be appealed "only to the United States Court of Appeals for the Federal Circuit."<sup>375</sup>

Senator Kyl concluded his March 2011 commentary on section 6(h)(2) by noting that:

The AIPA neglected, however, to eliminate a cross reference to section 145 in section 306 of title 35, which delineates the appeals available from ex parte reexaminations. The maintenance of this cross reference in section 306 created an ambiguity as to whether the AIPA did, in fact, eliminate a patent owner's right to seek remedy in the district court under section 145 from an adverse BPAI decision on review of an ex parte reexamination . . . Section 5(h)(2) of the present bill eliminates this ambiguity by striking the citation to section 145 from section 306 of title 35.<sup>376</sup>

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<sup>373</sup> 35 U.S.C. § 141 (1994), *amended by* American Inventors Protection Act of 1999, Pub. L. No. 106-113 sec. 4605(b), 113 Stat. 1501, 1501A-570-71 (1999) (emphasis added).

<sup>374</sup> 35 U.S.C. § 141 (2000), *amended by* Leahy-Smith America Invents Act, sec. 7(c), 125 Stat. at 314 (emphasis added).

<sup>375</sup> *Id.*

<sup>376</sup> 157 CONG. REC. S1377 (daily ed. Mar. 8, 2011). Senator Kyl cited *Sigram Schindler Beteiligungsgesellschaft mbH v. Kappos*, 93 U.S.P.Q.2d 1752 (E.D. Va. 2009) (Ellis, J.), which stated that that "the fact that [section 306] continues to cross-reference [sections] 141 to 145 following the AIPA's enactment appears to be in tension with the AIPA amendment to [section 141]." *Id.*

## R. 35 U.S.C. chapters 31 and 32: Inter Partes and Post-Grant Review

### 1. Overview

Section 6 of the AIA rewrites chapter 31's authorization of inter partes proceedings and creates an entirely new administrative proceeding titled "post-grant review."<sup>377</sup> The 2011 Committee Report's background section provides the following general summary of these new review proceedings:

The Act converts inter partes reexamination from an examinational to an adjudicative proceeding, and renames the proceeding "inter partes review." The Act also makes the following improvements to this proceeding:

**"Reasonable likelihood of success" for instituting inter partes review.** The threshold for initiating an inter partes review is elevated from "significant new question of patentability"—a standard that currently allows 95% of all requests to be granted—to a standard requiring petitioners to present information showing that their challenge has a reasonable likelihood of success. Satisfaction of the new threshold will be assessed based on the information presented both in the petition for the proceeding and in the patent owner's response to the petition.

**"Reasonably could have raised" estoppel applied to subsequent administrative proceedings.** A party that uses inter partes review is estopped from raising in a subsequent PTO proceeding (such as an ex parte reexam or inter partes review) any issue that it raised or reasonably could have raised in the inter partes review.

**Repeal of the 1999 limit.** The limit on challenging patents issued before 1999 in inter partes reexamination is eliminated; all patents can be challenged in inter partes review.

**Preponderance burden.** Petitioners bear the burden of proving that a patent is invalid by a preponderance of the evidence in inter partes review.

**Time limits during litigation.** Parties who want to use inter partes review during litigation are required to seek a proceeding within 12 months of being served with a complaint alleging infringement of the patent, and are barred from seeking or maintaining an inter partes review if they file an action for a declaratory judgment that the patent is invalid.

**Discovery.** Parties may depose witnesses submitting affidavits or declarations and seek such discovery as the Patent Office determines is otherwise necessary in the interest of justice.

**12- to 18-month deadline.** Inter partes review must be completed within 1 year of when the proceeding is instituted, except that the Office can extend this deadline by 6 months for good cause.

**Oral hearing.** Each party has the right to request an oral hearing as part of an inter partes review.

**Three-judge panels.** Inter partes reviews will be conducted before a panel of three APJs. Decisions will be appealed directly to the Federal Circuit.

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<sup>377</sup> Leahy-Smith America Invents Act sec. 6(d), §§ 321–329, 125 Stat. at 305–06.

**New challenge proceeding.** The Act also creates a new post-grant opposition procedure that can be utilized during the first 12 months after the grant of a patent or issue of a reissue patent. Unlike reexamination proceedings, which provide only a limited basis on which to consider whether a patent should have issued, the post-grant review proceeding permits a challenge on any ground related to invalidity under section 282. The intent of the post-grant review process is to enable early challenges to patents, while still protecting the rights of inventors and patent owners against new patent challenges unbounded in time and scope.<sup>378</sup>

A few passages of the final Committee Report's background section on "post-grant review proceedings" are somewhat incongruous with the final public law. For example, the Report highlighted the fact that the USPTO had received "only 53 requests for *inter partes* reexamination" during the first five years of the proceeding's existence, and stated that the bill's changes are "intended to remove current disincentives to current administrative processes."<sup>379</sup> The final law, however, not only maintains the could-have-raised estoppel "disincentive" to use of *inter partes* proceedings, it also imposes an elevated threshold for instituting those proceedings.<sup>380</sup> These incongruities between the final public law and the 2011 Report probably stem from the fact that these passages of the Report, which principally addressed the history

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<sup>378</sup> H.R. REP. NO. 112-98, at 46–48 (2011). The final Committee Report also briefly summarized each section of new chapters 31 and 32 in its section-by-section analysis. *See id.* pt. 1, at 75–77. Three aspects of the Report's summary were rendered inaccurate by subsequent changes to the bill: (1) post-grant review is required to be instituted nine months after the grant of the patent, not the twelve months that the Report noted, *see* Leahy-Smith America Invents Act sec. 6(d), § 321(c), 125 Stat. at 306; (2) a person who files a petition for *inter partes* or post-grant review is barred from seeking, but not from maintaining, a (previously or simultaneously filed) action for a declaratory judgment that the patent is invalid, but any such action will be stayed until the patent owner countersues for infringement, *see id.* sec. 6(a), (d), §§ 315(a), 325(a), 125 Stat. at 300–01, 307; and (3) a petitioner who completes a post-grant review of a patent will subsequently be estopped in a civil action from raising not only those issues that were raised and decided in the post-grant review, but also those issues that he could have raised in the post-grant review, *see id.* sec. 6(d), § 325(e)(2), 125 Stat. at 308. This last "discrepancy" is discussed *infra* at nn.499–504 and accompanying text.

<sup>379</sup> H.R. REP. NO. 112-98, at 46, 48 (2011).

<sup>380</sup> *See* Leahy-Smith America Invents Act sec. 6(a), §§ 314(a), 315(e), 125 Stat. at 300–02; *see also* 157 CONG. REC. at S1367 (daily ed. Mar. 8, 2011) (statement of Sen. Kohl); *id.* at S1352 (daily ed. Mar. 8, 2011) (statement of Sen. Udall) ("Rather than expanding the opportunities to use the *inter partes* reexamination process, the America Invents Act before us today imposes standards that are more restrictive than current law."); 157 CONG. REC. S952 (daily ed. February 28, 2011) (statement of Sen. Grassley) (noting the AIA's "higher threshold for initiating a proceeding" and "strengthened estoppel standard").

of post-issuance review proceedings and their general objectives, largely were carried over from previous committee reports for earlier bills.<sup>381</sup>

## 2. History

The case for creating a post-grant review proceeding in which a patent can be challenged early in its life on all validity grounds was explored in a series of congressional hearings that were held between 2001 and 2006.<sup>382</sup> During that period, the main patent-law professional organizations, as well as various reports and studies, called for establishing such a proceeding.<sup>383</sup>

At a 2004 House Intellectual Property Subcommittee hearing, AIPLA's Executive Director presented the main argument for authorizing post-grant review: that it is often prohibitively expensive or even impossible to test the validity of a newly-issued patent that is of dubious validity, and the continued existence of such a patent can disrupt product development in a field of technology for years.<sup>384</sup> The witness stated:

Any time patents are issued which, on their face, appear to be of questionable validity, it reflects negatively on the patent system and undermines the confidence of business and consumers. While the validity of such patents may be tested through litigation or ex parte or inter partes reexamination, these proceedings all suffer substantial disadvantages.

<sup>381</sup> Compare H.R. REP. NO. 112-98, pt. 1, at 45–46, 48 (2011), with S. REP. NO. 111-18, at 14–15, 17–18 (2009), and S. REP. NO. 110-259, at 18–19 (2007).

<sup>382</sup> See generally *Perspectives on Patents: Post-Grant Review Procedures and other Litigation Reforms: Hearing before the Subcomm. on Intellectual Prop. of the S. Comm. on the Judiciary*, 109th Cong. (2006) [hereinafter *2006 Senate hearing*]; *2005 Senate hearing supra* note 175; *Patent Quality Improvement: Post-Grant Opposition: Hearing before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 108th Cong. (2004) [hereinafter *2004 House hearing*]; *Patent Reexamination and Small Business Innovation: Hearing before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 107th Cong. (2002); *Patents: Improving Quality and Curing Defects: Hearing before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 107th Cong. (2001) [hereinafter *2001 House hearing*].

<sup>383</sup> See *2004 House hearing, supra* note 383382, at 29–30 (statement of Michael Kirk, Executive Director, AIPLA) (“The call for an effective, efficient post-grant system to review patents has reached a crescendo. It is time to act.”); *id.* at 10–11 (statement of James Toupin, General Counsel, USPTO); *id.* at 52 (Letter of Biotechnology Industry Organization (“BIO”)) (listing reports and groups). For a history of the events leading to the enactment of inter partes reexamination in 1999, see *2001 House hearing, supra* note 383382, at 13 (statement of Michael Kirk, Executive Director, AIPLA); *id.* at 23–24 (statement of Jeffrey Kushan, Powell, Goldstein, Frazer, and Murphy).

<sup>384</sup> *2004 House hearing, supra* note 383382, at 29 (statement of Michael Kirk, Executive Director, AIPLA).

Litigation is very expensive . . . According to the most recent [AIPLA] Economic Survey, the average cost of patent litigation, including the costs of discovery, ranges between \$500,000 and \$3,995,000 per party, depending on the amount at risk.

In addition, it is only possible to test a patent's validity through litigation if the patentee brings an infringement action against a competitor or provides the competitor with standing to bring a declaratory judgment action based on threats by the patentee. Thus, a competitor cannot challenge a patent in litigation before the competitor incurs the costs and risks of developing and marketing a product.

Even where litigation is available to test the validity of a patent, the recent National Academy of Sciences report<sup>385</sup> . . . [noted] that such litigation typically does not occur until 7 to 10 years after the patent is issued and final decision is not reached for another 2 to 3 years. Until the litigation has been concluded, there is uncertainty in the marketplace and uncertainty in the technology as to the scope of the patent right.<sup>386</sup>

Another reason for authorizing post-grant review of patents before the USPTO is simply that the "USPTO is a particularly appropriate venue for making validity determinations in a cost-effective and technically sophisticated environment."<sup>387</sup>

At the 2004 House Intellectual Property Subcommittee hearing, AIPLA submitted a draft bill that is substantially identical in almost all respects to the post-grant review that was enacted seven years later by the AIA.<sup>388</sup> The path from the AIPLA proposal to the AIA, however, did not follow a straight line.

AIPLA's draft bill would have limited the period for seeking post-grant review to the nine months after a patent is granted.<sup>389</sup> The early House and Senate bills, however, proposed an all-issues post-grant review that could be invoked throughout the life of a patent by any party that had been accused

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<sup>385</sup> See NAT'L RESEARCH COUNCIL, A PATENT SYSTEM FOR THE 21ST CENTURY 95–96 (2004).

<sup>386</sup> 2004 House hearing, *supra* note 383382, at 29 (statement of Michael Kirk, Executive Director, AIPLA); see also *id.* at 15 (statement of Jeffrey Kushan, Sidley Austin Brown & Wood, on behalf of Genentech, Inc.); 157 CONG. REC. S1326 (daily ed. Mar. 7, 2011) (statement of Sen. Sessions) (opining that post-grant review "will allow invalid patents that were mistakenly issued by the PTO to be fixed early in their life, before they disrupt an entire industry or result in expensive litigation"); *id.* at S952 (daily ed. February 28, 2011) (statement of Sen. Grassley); *id.* at S1097 (daily ed. Mar. 2, 2011) (statement of Sen. Hatch).

<sup>387</sup> 2005 Senate hearing, *supra* note 383175, at 51 (statement of Q. Todd Dickinson, Vice President and Chief Intellectual Property Counsel, General Electric Co., and former USPTO Director).

<sup>388</sup> See 2004 House hearing, *supra* note 383382, at 34–37 (appendix to statement of Michael Kirk, Executive Director, AIPLA); see also *id.* at 30–31 (bullet-point summary of AIPLA proposal).

<sup>389</sup> *Id.* at 30.



by the patent owner of infringement<sup>390</sup> or who presented a “substantial reason to believe” that the patent caused him “significant economic harm.”<sup>391</sup>

These early proposals responded to concerns expressed by some businesses, particularly in the high-technology sector, that a proceeding that could only be invoked early in the life of a patent would not be useful to them.<sup>392</sup> Witnesses at House and Senate hearings argued that, because of the large number of patents that could apply to the many components in high-technology products, and because of the protean character of many patent claims in this field, companies in this sector cannot reasonably identify the patents that may be relevant to the companies’ products during the first year after the patents are issued.<sup>393</sup>

It was also important that the USPTO was favorably disposed toward a broad post-grant review in the early 2000s. Noting the extremely limited use of inter partes reexamination up to that time, the USPTO lamented that “none of [the existing] procedures have fully utilized the Office’s ability to review issued patents.”<sup>394</sup> In 2003 and 2004, the USPTO endorsed proposals to establish a post-grant review that could be invoked by accused infringers throughout the life of the patent.<sup>395</sup>

The early legislative proposals for a life-of-the-patent post-grant review, however, drew a sharply negative reaction from many businesses, universities, and patent-law professional organizations.<sup>396</sup> A witness at the 2007 House

<sup>390</sup> See H.R. 2795, 109th Cong., sec. 9(f), § 323 (2005).

<sup>391</sup> See S. 1145, 110th Cong. sec. 6(e), § 322(2)(A) (2007); H.R. 1908, 110th Cong. sec. 6(e), § 322(2)(A) (2007) (as introduced); S. 3818, 109th Cong., sec. 6(a)(1), § 312(2) (2006).

<sup>392</sup> See 2006 Senate hearing, *supra* note 383382, at 40, 44–45.

<sup>393</sup> See *id.* at 44–45 (statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems) (suggesting that “limiting post-grant review to the period immediately after the grant of the patent will doom the post-grant review process to irrelevancy”); see also 2007 Senate hearing, *supra* note 58, at 258 (statement of Mary Doyle, Senior Vice President and General Counsel, Palm, Inc.).

<sup>394</sup> 2004 House hearing, *supra* note 3832, at 5 (statement of James Toupin, General Counsel, USPTO); see also U.S. PATENT & TRADEMARK OFFICE, REPORT TO CONGRESS ON INTER PARTES REEXAMINATION 3–5 (2004), available at [http://www.uspto.gov/web/offices/dcom/olia/reports/reexam\\_report.htm](http://www.uspto.gov/web/offices/dcom/olia/reports/reexam_report.htm).

<sup>395</sup> See 2004 House hearing, *supra* note 383382, at 10 (statement of James Toupin, General Counsel, USPTO); U.S. PATENT AND TRADEMARK OFFICE, POST-GRANT REVIEW OF PATENT CLAIMS, <http://www.uspto.gov/web/offices/com/strat21/action/sr2.htm> (last visited Mar. 25, 2012).

<sup>396</sup> See 2007 Senate hearing, *supra* note 58, at 223–24, 227 (statement of Kathryn Biberstein, Senior Vice President and General Counsel, Alkermes, Inc., on behalf of BIO) (listing opponents); *id.* at 230–34 (Letter signed by opponents); *id.* at 209–22 (statement of Bruce Bernstein, Chief Intellectual Property and Licensing Officer, InterDigital Com-



Intellectual Property Subcommittee hearing presented the main objections to such a proceeding. Condemning the 2007 House bill's open-ended review as "most unwise,"<sup>397</sup> he argued that: (1) such a proposal would subject patent owners to "serial post-grant challenges" and would deny patent owners the "right to expect quiet title at some point without facing an endless series of challenges;"<sup>398</sup> (2) if review could be sought later when a defendant is sued, big businesses would lose the incentive to challenge bad patents early in their life, and, as a result, "the public will face the consequences of living with an invalid patent for years and years;"<sup>399</sup> and (3) it is unfair to patent owners to allow patents to be challenged many years after the fact under only a preponderance burden of proof on the basis of uncertain events such as "public use and oral disclosures."<sup>400</sup>

Also, as the number of requests for inter partes reexamination grew sharply over the course of the 2000s,<sup>401</sup> the USPTO's enthusiasm for undertaking additional post-issuance responsibilities waned, and the USPTO began to

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munications Corp.); *2007 House hearing, supra* note 58, at 139 (statement of California Healthcare Institute); *2006 Senate hearing, supra* note 383382, at 62–63 (statement of Philip Johnson, Chief Patent Counsel, Johnson & Johnson). For additional testimony in opposition to a life-of-the-patent post-grant review, *see 2007 House hearing, supra* note 58, at 38–40 (statement of Kevin Sharer, CEO and Chairman of the Board, Amgen, Inc.); *id.* at 83–84 (statement of William Tucker, Executive Director, Research and Administration and Technology Transfer, University of California); *2005 Senate hearing, supra* note 383175, at 28 (statement for Amgen, Inc.); *Patent Act of 2005: Hearing before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 109th Cong., at 25–26 (2005) [hereinafter *2005 House hearing*] (statement of Carl Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation).

<sup>397</sup> *2007 House hearing, supra* note 58, at 55 (statement of Gary Griswold, President and Chief IP Counsel, 3M Innovative Properties Co., on behalf of the Coalition for 21st Century Patent Reform).

<sup>398</sup> *Id.*; *see also id.* at 39 (statement of Kevin Sharer, CEO and Chairman of the Board, Amgen, Inc.); *id.* at 83–84 (statement of William Tucker, Executive Director, Research and Administration and Technology Transfer, University of California).

<sup>399</sup> *Id.* at 55 (statement of Gary Griswold, President and Chief IP Counsel, 3M Innovative Properties Co., on behalf of the Coalition for 21st Century Patent Reform); *see also 2007 Senate hearing, supra* note 58, at 211 (statement of Bruce Bernstein, Chief Intellectual Property and Licensing Officer, InterDigital Communications Corp.).

<sup>400</sup> *2007 House hearing, supra* note 58, at 55 (statement of Gary Griswold, President and Chief IP Counsel, 3M Innovative Properties Co., on behalf of the Coalition for 21st Century Patent Reform); *see also 2007 Senate hearing, supra* note 58, at 223 (statement of Kathryn Biberstein, Senior Vice President and General Counsel, Alkermes, Inc., on behalf of BIO).

<sup>401</sup> *See* U.S. PATENT AND TRADEMARK OFFICE, INTER PARTES REEXAMINATION HISTORICAL STATISTICS (2011), [http://www.uspto.gov/patents/IP\\_quarterly\\_report\\_September\\_2011.pdf](http://www.uspto.gov/patents/IP_quarterly_report_September_2011.pdf).

express concern about its ability to manage the review proceedings proposed by the early bills.<sup>402</sup>

In July 2007, the House bill was amended in committee to limit the availability of post-grant review to the one-year period after a patent is issued.<sup>403</sup> The Senate sponsors successfully resisted such restrictions during that year,<sup>404</sup> but in early 2009 they, too, acceded to opposition demands to impose a one-year limit on post-grant review, and to limit the issues that can be raised in inter partes reexamination to patents and printed publications.<sup>405</sup> In early 2010, the Leahy-Sessions managers' amendment converted inter partes reexamination into an adjudicative proceeding that is similar to post-grant review (though still limited in scope to patents and printed publications), and it imposed elevated thresholds for instituting both post-grant and inter partes review<sup>406</sup>—changes that had been sought by the USPTO.<sup>407</sup> In addition, the managers' amendment added procedural limits to both proceedings in order to address patent owners' complaints about serial challenges to patents.<sup>408</sup>

The remaining parts of this section discuss legislative materials that are relevant to particular provisions of inter partes and post-grant review. It should be emphasized at the outset, however, that not only is the USPTO not bound by any statement made in the legislative record; but because most of the elements of these new proceedings are required to be implemented

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<sup>402</sup> See 2007 Senate hearing, *supra* note 58, at 11–12 (statement of Jon Dudas, Director, USPTO); *id.* at 243 (Department of Commerce Views Letter) (expressing “concerns about the USPTO’s ability to effectively handle the potential workload” of the post-grant review proposed in S. 1145, 110th Cong (2007)); see also S. REP. NO. 111-18, at 56 (2009) (Minority Views of Sens. Kyl, Feingold, and Coburn) (“Shortly after [H.R. 1908, 110th Cong.] passed the House, senior career staff at the [USPTO] made clear to some of us that the post-grant review system proposed by that bill was unadministrable, would strain the [USPTO]’s resources, and would create an enormous backlog at the Office.”); 157 CONG. REC. S1040 (daily ed. Mar. 1, 2011) (statement of Sen. Kyl).

<sup>403</sup> See H.R. 1908, 110th Cong., sec. 6 (2007) (as reported).

<sup>404</sup> See S. 1145, 110th Cong., sec. 6 (2008) (as reported).

<sup>405</sup> See S. 515, 111th Cong., sec. 5(a), (f) (2009) (as reported).

<sup>406</sup> With respect to the Leahy-Sessions managers' amendment, see *supra* note 60. For the parallel provision in the 2011 Senate bill, see S. 23, 112th Cong., sec. 5(a), (d) (2011).

<sup>407</sup> See 157 CONG. REC. S1326 (daily ed. Mar. 7, 2011) (statement of Sen. Sessions); *id.* at S1041 (daily ed. Mar. 1, 2011) (statement of Sen. Kyl).

<sup>408</sup> See S. 23, 112th Cong., sec. 5(a), (d) (2011); 157 CONG. REC. S1326 (daily ed. Mar. 7, 2011) (statement of Sen. Sessions); *id.* at S1367 (daily ed. Mar. 8, 2011) (statement of Sen. Kohl); see also 2007 Senate hearing, *supra* note 58, at 223–24 (statement of Kathryn Biberstein, Senior Vice President and General Counsel, Alkermes, Inc., on behalf of BIO); 2005 House hearing, *supra* note 397396, at 26 (statement of Carl Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation); *supra* note 399.

through regulations, the USPTO also has substantial discretion in construing and applying the statutory text of chapters 31 and 32.<sup>409</sup>

### ***3. Effective Date and Repeal of the November 29, 1999 Limit***

Pre-AIA inter partes reexamination could only be requested for patents with an effective-filing date on or after November 29, 1999—the date of the enactment of the AIPA.<sup>410</sup> All patents will be subject to challenge in the AIA’s new inter partes review, which comes into effect on September 16, 2012.<sup>411</sup> Pre-AIA chapter 31 will continue to govern requests for inter partes reexamination that are filed before that date,<sup>412</sup> as will the pre-AIA law governing appeals.<sup>413</sup>

Two of the AIA’s changes apply to requests for inter partes reexamination that are filed before September 16, 2012: (1) the Director is authorized to intervene in an appeal from the decision entered in an inter partes reexamination by the BPAI;<sup>414</sup> and (2) the AIA’s elevated threshold for instituting an inter partes review—“reasonable likelihood” of invalidity—is applied to requests for inter partes reexamination that are filed between the date of the AIA’s enactment and the date that the new inter partes review takes effect.<sup>415</sup>

Sections 6(c)(2)(B) and 6(f)(2)(B) of the AIA allow the USPTO to set a limit on the number of inter partes and post-grant reviews that are instituted during the first four years that the new proceedings are in effect.<sup>416</sup> In the case of inter partes review, that limit cannot be lower than the number of

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<sup>409</sup> See Leahy-Smith America Invents Act, sec. 6(a), (d), §§ 316(a), 326(a), 125 Stat. at 302, 308 (2011). Considerations that the Office is required to weigh when promulgating regulations are listed in sections 6(a) and 6(d), 125 Stat. at 303, 309 (to be codified at 35 U.S.C. §§ 316(b), 326(b)).

<sup>410</sup> American Inventors Protection Act of 1999, Pub. L. No. 106-113 § 4608, 113 Stat. 1501A-572.

<sup>411</sup> See Leahy-Smith America Invents Act sec. 6(c)(2)(A), 125 Stat. at 304; see also 157 CONG. REC. S1374 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>412</sup> See Leahy-Smith America Invents Act sec. 6(c)(3)(C), 125 Stat. at 305.

<sup>413</sup> See *id.* sec. 7(e)(2), 125 Stat. at 315. The PTAB will be deemed to be the BPAI for the purpose of entertaining appeals of inter partes reexaminations under pre-AIA 35 U.S.C. § 134. See *id.*, sec. 7(e)(3), 125 Stat. at 315.

<sup>414</sup> See *id.* sec. 7(e)(4), 125 Stat. at 315.

<sup>415</sup> See *id.* sec. 6(c)(3)(A)–(B), 125 Stat. at 304–05; see also 157 CONG. REC. S1375, S1377 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) (noting that the “reasonable likelihood” threshold is made effective immediately in order “to ensure that requesters seeking to take advantage of the lax standards of the old system do not overwhelm the Office with requests for inter partes reexamination during the year following enactment of the bill”).

<sup>416</sup> See Leahy-Smith America Invents Act sec. 6(c)(2)(B), (f)(2)(B), 125 Stat. at 304, 311.

inter partes reexaminations that were ordered in the last fiscal year that ended before the new proceeding takes effect.<sup>417</sup>

Commenting on the USPTO's authority to set numerical limits on the new proceedings, Senator Kyl suggested that the USPTO should make clear when petitions are rejected because of these limits, in order to avoid prejudice to the petitioners:

It is understood that if the Office rejects a petition during this period because of this numerical limit, it will make clear that the rejection was made because of this limit and not on the merits of the validity challenges presented in the petition. Otherwise, even a challenger with strong invalidity arguments might be deterred from using inter partes or post-grant review by fear that his petition might be rejected because of the numerical limit, and the fact of the rejection would then be employed by the patent owner in civil litigation to suggest that the experts at the Patent Office found no merit in the challenger's arguments.<sup>418</sup>

Finally, § 6(f)(2)(A) of the AIA provides that only patents that are subject to the first-to-file rule and the new definition of prior art may be challenged in post-grant review.<sup>419</sup> This additional limitation was added to the bill in March 2011 by the Senate floor managers' amendment.<sup>420</sup> The Republican Policy Committee's summary of the floor managers' amendment explained that this limit was adopted because "[first-to-invent] patents raise discovery-intensive invention-date and secret-prior-art issues that would be difficult to address in an administrative proceeding. This also effectively gives PTO a much easier ramp up for [post-grant review]."<sup>421</sup>

#### ***4. 35 U.S.C. §§ 312, 322: Petitions for Review***

Sections 312 and 322 list information that must be included in or accompany a petition for review.<sup>422</sup> Both sections, at subsection (a)(2), require that the petitioner identify his real parties in interest.<sup>423</sup> During the March 2011 Senate debates on the AIA, Senator Kyl stated with respect to this provision that "[t]he Office anticipates that patent owners will take the initiative in determining

<sup>417</sup> *Id.* sec. 6(c)(2)(B), 125 Stat. at 304. Because the new proceeding takes effect on September 16, 2012, the relevant fiscal year is that which ended on September 30, 2011. *See id.*

<sup>418</sup> 157 CONG. REC. S1377 (daily ed. Mar. 8, 2011).

<sup>419</sup> Leahy-Smith America Invents Act sec. 6(f)(2)(A), 125 Stat. at 311.

<sup>420</sup> The text of the amendment is printed in the Congressional Record at 157 CONG. REC. S1037–39 (daily ed. March 1, 2011).

<sup>421</sup> 157 CONG. REC. S1366 (daily ed. Mar. 8, 2011).

<sup>422</sup> Leahy-Smith America Invents Act sec. 6(a), (d), §§ 312(a)(2)–(4), 322(a)(2)–(4), 125 Stat. at 300, 306.

<sup>423</sup> *Id.*

whether a petitioner is the real party in interest or privy of a party that is barred from instituting a proceeding with respect to the patent.<sup>424</sup>

### 5. 35 U.S.C. §§ 314, 324: *Threshold for Instituting Review*

Section 314 allows the Director to institute an inter partes review only if he finds that the information presented in the petition and any response “[show] that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.”<sup>425</sup> Section 324 allows the Director to institute a post-grant review if he finds either that: (1) the information presented in the petition, “if such information is not rebutted, would demonstrate that it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable;”<sup>426</sup> or (2) “the petition raises a novel or unsettled legal question that is important to other patents or patent applications.”<sup>427</sup>

Senator Sessions commented on these elevated thresholds during the March 2011 debates on the AIA. He noted that:

The bill also makes structural reforms to post-grant review that were sought by the PTO. It . . . elevates the threshold for starting post-grant proceedings. The PTO has insisted that a higher threshold is critical to its ability to administer these proceedings. By raising the threshold for starting an inter partes review to a showing of a “reasonable likelihood” that a patent is invalid, the bill will allow the PTO to avoid accepting challenges that were unlikely to win in any event.<sup>428</sup>

Also during the March 2011 debates, Senator Kyl characterized § 314(a) as imposing a “reasonable-likelihood-of-success threshold” that will “require petitioners to present information that creates serious doubts about the patent’s validity.”<sup>429</sup> He stated that this test “is currently used in evaluating whether a party is entitled to a preliminary injunction, and effectively requires the petitioner to present a prima facie case justifying a rejection of the claims in the patent.”<sup>430</sup> Commenting on the policies served by this new standard, he noted that:

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<sup>424</sup> 157 CONG. REC. S1375 (daily ed. Mar. 8, 2011). Both Senator Kyl, *see id.*, and the 2011 Committee Report, *see* H.R. REP. NO. 112-98, at 75 (2011), described §§ 312 and 322 as also requiring the petitioner to disclose “privies.” The final public law, however, only requires identification of “all real parties in interest.” Leahy-Smith America Invents Act, sec. 6(a), (d), §§ 312(a)(2), 322(a)(2), 125 Stat. at 300, 306.

<sup>425</sup> *Id.* sec. 6(a), § 314(a), 125 Stat. at 300.

<sup>426</sup> *Id.* sec. 6(d), § 324(a), 125 Stat. at 306.

<sup>427</sup> *Id.* sec. 6(d), § 324(b), 125 Stat. at 307.

<sup>428</sup> 157 CONG. REC. S1326 (daily ed. Mar. 7, 2011).

<sup>429</sup> *Id.* at S1375 (daily ed. Mar. 8, 2011).

<sup>430</sup> *Id.*

The elevated threshold will require challengers to front load their case. Also, by requiring petitioners to tie their challenges to particular validity arguments against particular claims, the new threshold will prevent challenges from “mushrooming” after the review is instituted into additional arguments employing other prior art or attacking other claims.<sup>431</sup>

During House consideration of the AIA in June 2011, Representative Lamar Smith submitted an extension of remarks in which he commented on the section 18 business-methods review program and its incorporation of § 324(a)’s preponderance threshold for instituting review.<sup>432</sup> He stated that:

[I]t bears repeating that defendants cannot even start this program unless they can persuade a panel of [administrative patent] judges at the outset of the proceeding that it is more likely than not that the patent is invalid. This is a high threshold, which requires the challenger to present his best evidence and arguments at the outset. Very few patents that [meet this threshold and] undergo this review are likely to be valid patents.<sup>433</sup>

Senator Kyl also commented on the § 324(a) threshold during the Senate’s March 2011 debates. He characterized it as a “slightly higher threshold” than § 314(a)’s “reasonable likelihood” test,<sup>434</sup> and stated that chapter 32 uses the higher standard because:

some of the issues that can be raised in post-grant review, such as enablement and section 101 invention issues, may require development through discovery. The Office wants to ensure that petitioners raising such issues present a complete case at the outset, and are not relying on obtaining information in discovery in the post-grant review in order to satisfy their ultimate burden of showing invalidity by a preponderance of the evidence.<sup>435</sup>

Although sections 314(a) and 324(a) require a stronger showing of invalidity than does the “substantial new question of patentability” standard, in one way the new tests are more permissive: neither § 314(a) nor § 324(a) requires the petitioner to present a “new” question that was not previously considered by the USPTO.<sup>436</sup> Even after pre-AIA 35 U.S.C. § 312(a)’s “substantial new question” test was liberalized by a 2002 amendment,<sup>437</sup> it still required a

<sup>431</sup> *Id.* at S1376; *see also id.* at S1041–42 (daily ed. Mar. 1, 2011) (statement of Sen. Kyl).

<sup>432</sup> *Id.* at E1183–84 (daily ed. June 23, 2011) (statement of Rep. Smith).

<sup>433</sup> *Id.* at E1184.

<sup>434</sup> *Id.* at S1375 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>435</sup> *Id.*

<sup>436</sup> Leahy-Smith America Invents Act, sec. 6(a), (d), §§ 314(a), 324(a)–(b), 125 Stat. at 300, 306.

<sup>437</sup> Patent and Trademark Office Authorization Act of 2002, Pub. L. No. 107-273 § 13105(a), 116 Stat. 1758, 1900 (2002) (amending 35 U.S.C. § 312(a) by adding the following sentence immediately after the “substantial new question” test: “The existence of a substantial new question of patentability is not precluded by the fact that a patent or printed publication was previously cited by or to the Office or considered by the Office.”).

reexamination request to present a *new* question—and the Federal Circuit has made clear that “an argument already decided by the Office, whether during the original examination or an earlier reexamination, cannot raise a new question of patentability.”<sup>438</sup> Under the second sentence of the newly enacted § 325(d) of title 35, the USPTO has *discretion* to reject a request for a reexamination or a petition for inter partes or post-grant review on the basis that “the same or substantially the same prior art or arguments previously were presented to the Office.”<sup>439</sup> But the USPTO is not *required* to reject such petitions, and thus the question of “newness” will no longer be fodder for litigation on appeal to the Federal Circuit.<sup>440</sup>

During the 112th Congress, no one commented directly on § 324(b)’s alternative threshold, which allows a post-grant review to be instituted upon a showing of a “novel or unsettled legal question” that is important to other patents or applications. Senator Kyl, however, noted that this additional threshold was adopted from an earlier bill that he had introduced in 2008.<sup>441</sup> His remarks at the time included the following explanation of the § 324(b) threshold for instituting review:

Subsection (b) . . . is designed to allow parties to use first-window proceedings to resolve important legal questions early in the life of such controversies. Currently, for example, if there is debate over whether a particular subject matter or thing is really patentable, parties who disagree with PTO’s conclusion that it is patentable must wait until a patent is granted and an infringement dispute arises before the question can be tested in court. In such a situation, subsection (b) would allow parties with an economic interest in the matter<sup>[442]</sup> to raise the question early in its life. If PTO is wrong and such a thing cannot be patented, subsection (b) creates an avenue by which the question can be conclusively resolved by the Federal [C]ircuit before a large number of improper patents are granted and allowed to unjustifiably disrupt an industry. Obviously, subsection (a) alone would not be enough to test the view that PTO has

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<sup>438</sup> *In re Swanson*, 540 F.3d 1368, 1380 (Fed. Cir. 2008) (internal quotation marks omitted).

<sup>439</sup> Leahy-Smith America Invents Act sec. 6(d), § 325(d), 125 Stat. at 307–08. This provision is discussed *infra* at subsection 8 of this section.

<sup>440</sup> *Id.* A showing of “newness” also is not required for requests for inter partes reexamination that are filed during the year after the AIA’s enactment (and that otherwise remain subject to pre-AIA chapter 31). Item (aa) of section 6(c)(3)(A)(i)(I) of the AIA replaced the “substantial new question of patentability” standard with the “reasonable likelihood” of invalidity threshold for requests for inter partes reexamination that are filed during this period. *Id.* sec. 6(c), § 312(a), 125 Stat. at 304–05.

<sup>441</sup> See 157 CONG. REC. S1375 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl). The 2008 bill is S. 3600, 110th Cong., which included an alternative chapter 32 threshold identical to that of § 324(b). See S. 3600, 110th Cong. sec. 5(c), § 327(b) (2008).

<sup>442</sup> The bill that Senator Kyl was discussing also would have required a post-grant review petitioner to show that he “has a substantial economic interest adverse to the patent.” S. 3600 sec. 5(c), § 321(a). The AIA’s post-grant review does not impose such a requirement.

reached an incorrect conclusion on an important legal question, because subsection (a) requires the petitioner to persuade PTO that a claim appears to be unpatentable, and PTO is unlikely to be so persuaded if it has already decided the underlying legal question in favor of patentability. Subsection (a) is directed only at individual instances of error that PTO itself appreciates, while subsection (b) allows PTO to reconsider an important legal question and to effectively certify it for Federal [C]ircuit resolution when it appears that the question is worthy of early conclusive resolution.<sup>443</sup>

During the March 2011 Senate debates on the AIA, Senator Kyl also noted that the USPTO will implement the section 314 and 324 thresholds via regulations,<sup>444</sup> and that when issuing regulations, the USPTO is required to consider its “ability . . . to timely complete [inter partes and post-grant review] proceedings.”<sup>445</sup> Senator Kyl argued that these provisions create a “safety valve” that will allow the USPTO “to decline to institute further proceedings if a high volume of pending proceedings threatens the USPTO’s ability to timely complete all proceedings.”<sup>446</sup> He stated that the inclusion of the “timely complete” factor reflected “a legislative judgment that it is better that the Office turn away some petitions that otherwise satisfy the threshold for instituting an inter partes or post-grant review than it is to allow the USPTO to develop a backlog of instituted reviews” that prevents it from meeting the one-year deadline for completing proceedings.<sup>447</sup> Finally, Senator Kyl suggested that if the USPTO turns away a petition for these reasons, “rather than on the basis of a failure to satisfy the substantive standards of the thresholds in section 314 or 324,” then it should “make this fact clear when rejecting the petition,” so that the rejection does not prejudice the petitioner in civil litigation.<sup>448</sup>

Finally, when introducing his 2008 bill, Senator Kyl suggested that when the USPTO institutes a petition for review, it should identify the issues that were found to justify review.<sup>449</sup> He stated that “[s]uch a practice would help to expedite proceedings in many cases, as it would limit the issues, and it would also give the patent owner a sense of what issues are important to the board and where he ought to focus his amendments.”<sup>450</sup>

<sup>443</sup> 154 CONG. REC. S9988 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

<sup>444</sup> 157 CONG. REC. S1377 (daily ed. Mar. 8, 2011).

<sup>445</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 6(a), (d), §§ 316(b), 326(b), 125 Stat. 303, 309 (2011). The requirement to implement the review thresholds through regulations is found in sections 6(a) (§ 314(a)) and 6(d) (§ 324(a)). 125 Stat. at 300, 306.

<sup>446</sup> 157 CONG. REC. S1377 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>447</sup> *Id.* The one-year deadline is imposed by 35 U.S.C. §§ 316(a)(11) and 326(a)(11). *See* Leahy-Smith America Invents Act sec. 6(a), (d), 125 Stat. at 302, 309 (amending §§ 316(a)(11) and 326(a)(11)).

<sup>448</sup> 157 CONG. REC. S1377 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>449</sup> 154 CONG. REC. S9988 (daily ed. Sept. 27, 2008).

<sup>450</sup> *Id.*



### **6. 35 U.S.C. §§ 315(a) and (b), 325(a) and (b): Litigation-Related Time Limits**

The final Committee Report's section-by-section analysis described the operation of sections 315(a) and 325(a):

Review may not be instituted if the petitioner has previously filed a civil action challenging the validity of the patent. The petitioner may, however, file a declaratory-judgment action challenging the validity of one or more claims in the patent on or after the day that he files the review petition, but such action is automatically stayed until the patent owner countersues for infringement.<sup>451</sup>

Subsection (a)'s bar is triggered only by the filing of a declaratory judgment action by the petitioner or his real parties in interest.<sup>452</sup> It is not triggered by an action filed by a privy of the petitioner.<sup>453</sup> As a result, the manufacturer of an allegedly infringing product would not be precluded from seeking post-grant or inter partes review if one of his customers or retailers received a demand letter from the patent owner and brought a declaratory-judgment action challenging the validity of the patent.

During the September 2011 Senate debates on the final bill, Senator Kyl noted that the Senate version of the AIA would have barred a petitioner from maintaining a review proceeding if he subsequently filed a declaratory judgment action challenging the validity of the patent.<sup>454</sup> Such a rule effectively would have precluded a party seeking USPTO review of a patent from also pursuing a declaratory judgment action. Senator Kyl explained that the purpose of the final bill's provision allowing a declaratory-judgment action to be filed (but stayed pending countersuit) on or after the day that the review petition is filed "is to allow the accused infringer to file the first [civil] action and thus be presumptively entitled to his choice of venue" if the patent owner later countersues in another district.<sup>455</sup>

With respect to § 315(b), the 2011 Committee Report noted that it requires that "[i]nter partes review must be sought by a party within 12 months of the date when the party is served with a complaint for infringement."<sup>456</sup> The bill passed by the Senate in March 2011 had imposed a 6-month deadline.<sup>457</sup> During the September 2011 debates, Senator Kyl discussed why the House and Senate bill managers had agreed to a longer deadline:

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<sup>451</sup> H.R. REP. NO. 112-98, at 75 (2011).

<sup>452</sup> *Id.*; see also Leahy-Smith America Invents Act sec. 6(a), (d), §§ 315(a)(1), 325(a)(1), 125 Stat. 300–01, 307.

<sup>453</sup> See Leahy-Smith America Invents Act sec. 6(a), (d), §§ 315(a)(1), 325(a)(1), 125 Stat. 300–01, 307.

<sup>454</sup> 157 CONG. REC. S5429 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

<sup>455</sup> *Id.*

<sup>456</sup> H.R. REP. NO. 112-98, 112th Cong., at 76 (2011).

<sup>457</sup> See S. 23, 112th Cong. sec. 5(a), § 315(b) (2011) (engrossed bill as passed by the Senate).

High-technology companies, in particular, have noted that they are often sued by defendants asserting multiple patents with large numbers of vague claims, making it difficult to determine in the first few months of the litigation which claims will be relevant and how those claims are alleged to read on the defendant's products. Current [i.e., pre-AIA,] law imposes no deadline on seeking inter partes reexamination. And in light of the present bill's enhanced estoppels, it is important that the section 315(b) deadline afford defendants a reasonable opportunity to identify and understand the patent claims that are relevant to the litigation. It is thus appropriate to extend the section 315(b) deadline to one year.<sup>458</sup>

The final Committee Report also noted that under § 325(b) of title 35, “[i]f a patent owner sues for infringement within 3 months of the patent’s issue, a pending petition for post-grant review or the institution of such a proceeding may not serve as a basis for staying the court’s consideration of the patent owner’s motion for a preliminary injunction.”<sup>459</sup> Senator Kyl described the reasoning behind this provision during the March 2011 debates, noting that “[a] patent owner who sues during this period is likely to be a market participant who already has an infringer intruding on his market, and who needs an injunction in order to avoid irreparable harm.”<sup>460</sup> He also noted that § 325(b) “strengthens and carries over to post-grant review the rule of”<sup>461</sup> *Procter & Gamble Co. v. Kraft Foods Global, Inc.*,<sup>462</sup> a case that applied the same rule to consideration of a request for an injunction during the pendency of a BPAI appeal of an inter partes reexamination.<sup>463</sup>

Finally, it should be noted that pre-AIA § 317(b) of title 35, which required that an inter partes reexamination be terminated if a civil action involving the inter partes requester resulted in a final judgment that the patent is not invalid,<sup>464</sup> was not maintained by the AIA in inter partes or post-grant review.<sup>465</sup>

### **7. 35 U.S.C. §§ 315(c) and 325(c): Joinder**

As the final Committee Report noted, under §§ 315(c) and 325(c), “[t]he Director may allow other petitioners to join an inter partes or post-grant review.”<sup>466</sup> During the Senate’s March 2011 debates on the AIA, Senator Kyl stated that the USPTO expected to allow liberal joinder of reviews:

The Office anticipates that joinder will be allowed as of right—if an inter partes review is instituted on the basis of a petition, for example, a party that files an identical

<sup>458</sup> 157 CONG. REC. S5429 (daily ed. Sept. 8, 2011).

<sup>459</sup> H.R. REP. NO. 112-98, 112th Cong., at 76 (2011).

<sup>460</sup> 157 CONG. REC. S1375 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>461</sup> *Id.* at S1376.

<sup>462</sup> 549 F.3d 842 (Fed. Cir. 2008).

<sup>463</sup> *Id.* at 847.

<sup>464</sup> See 35 U.S.C. § 317(b) (2006).

<sup>465</sup> See H.R. REP. NO. 112-98, pt. 1, at 145 (2011).

<sup>466</sup> *Id.* at 76.

petition will be joined to that proceeding, and thus allowed to file its own briefs and make its own arguments. If a party seeking joinder also presents additional challenges to validity that satisfy the threshold for instituting a proceeding, the Office will either join that party and its new arguments to the existing proceeding, or institute a second proceeding for the patent.<sup>467</sup>

Senator Kyl also emphasized, however, that §§ 315(c) and 325(c) give the USPTO discretion over whether to allow joinder.<sup>468</sup> He noted that “[t]his safety valve will allow the Office to avoid being overwhelmed if there happens to be a deluge of joinder petitions in a particular case.”<sup>469</sup>

Senator Kyl also commented on the time limit for allowing joinder.<sup>470</sup> He noted that “[t]he Office has made clear that it intends to use this authority to encourage early requests for joinder and to discourage late requests.”<sup>471</sup> He also noted the following litany of factors that the USPTO had informally indicated that it would consider when deciding whether and when to allow joinder:

differences in the products or processes alleged to infringe; the breadth or unusualness of the claim scope that is alleged, particularly if alleged later in litigation; claim-construction rulings that adopt claim interpretations that are substantially different from the claim interpretation used in the first petition when that petition’s interpretation was not manifestly in error; whether large numbers of patents or claims are alleged to be infringed by one or more of the defendants; consent of the patent owner; a request of the court; a request by the first petitioner for termination of the first review in view of strength of the second petition; and whether the petitioner has offered to pay the patent owner’s costs.<sup>472</sup>

Finally, in his 2008 remarks on a substantially identical joinder provision in the bill that he introduced that year, Senator Kyl commented on the requirement that a joinder petition be “properly file[d].”<sup>473</sup> He noted that these words were a term of art that had been given meaning in three recent cases,<sup>474</sup> and that

[t]he gist of these decisions is that a petition is properly filed when it is delivered and accepted in compliance with applicable rules governing filings, though particular

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<sup>467</sup> 157 CONG. REC. S1376 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>468</sup> *See id.*

<sup>469</sup> *Id.*

<sup>470</sup> *Id.* (noting that this time limit is set pursuant to 35 U.S.C. § 316(a)(5)).

<sup>471</sup> *Id.*

<sup>472</sup> *Id.*

<sup>473</sup> 154 CONG. REC. S9988 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl). The substantially identical provision is in S. 3600, 110th Cong. sec. 5(c), § 325(b) (2008).

<sup>474</sup> 154 CONG. REC. S9988 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl). The three cases that Senator Kyl cited are *Artuz v. Bennett*, 531 U.S. 4 (2000); *Allen v. Siebert*, 552 U.S. 3 (2007); and *Pace v. DiGuglielmo*, 544 U.S. 408 (2005).

claims within filings be barred on other procedural grounds, and that time deadlines for filing petitions must be complied with in all cases.<sup>475</sup>

### **8. 35 U.S.C. §§ 315(d) and 325(d): Multiple Proceedings and Repetitive Challenges**

As noted in the final Committee Report, §§ 315(d) and 325(d) allow the USPTO to “consolidate multiple proceedings or matters concerning the same patent and decline requests for repeated proceedings on the same question.”<sup>476</sup> Of particular note is the second sentence of § 325(d), which provides:

In determining whether to institute or order a proceeding under this chapter, chapter 30, or chapter 31, the Director may take into account whether, and reject the petition or request because, the same or substantially the same prior art or arguments previously were presented to the Office.<sup>477</sup>

During the March 2011 debates, Senator Kyl stated that this provision “allows the Patent Office to reject any request for a proceeding, including a request for *ex parte* reexamination, if the same or substantially the same prior art or arguments previously were presented to the Office with respect to that patent.”<sup>478</sup> Senator Kyl also commented on the interplay between this provision and the administrative estoppel created by subsection (e)(1) of §§ 315 and 325:

The second sentence of section 325(d) complements the protections against abuse of *ex parte* reexamination that are created by sections 315(e) and 325(e). The estoppels in subsection (e) will prevent *inter partes* and post-grant review petitioners from seeking *ex parte* reexamination of issues that were raised or could have been raised in the *inter partes* or post-grant review. The Office has generally declined to apply estoppel, however, to an issue that is raised in a request for *inter partes* reexamination if the request was not granted with respect to that issue. Under section 325(d), second sentence, however, the Office could nevertheless refuse a subsequent request for *ex parte* reexamination with respect to such an issue, even if it raises a substantial new question of patentability, because the issue previously was presented to the Office in the petition for *inter partes* or post-grant review.<sup>479</sup>

As noted previously,<sup>480</sup> the second sentence of § 325(d) effectively replaces, for *inter partes* and post-grant review, the “newness” test that was imposed

<sup>475</sup> 154 CONG. REC. S9988 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

<sup>476</sup> H.R. REP. NO. 112-98, at 76 (2011); *see also* 154 CONG. REC. S9988 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl) (commenting on a parallel provision in S. 3600, 110th Cong. (2008): “Section [325(d)] gives the PTO broad discretion to consolidate, stay, or terminate any PTO proceeding involving a patent if that patent is the subject of a postgrant review proceeding.”).

<sup>477</sup> Leahy-Smith America Invents Act, sec. 6(d), § 325(d), 125 Stat. at 308.

<sup>478</sup> 157 CONG. REC. S1042 (daily ed. Mar. 1, 2011) (statement of Sen. Kyl).

<sup>479</sup> 157 CONG. REC. S1376 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>480</sup> *See supra* notes 438–441 and accompanying text.

by pre-AIA § 312(a)'s "substantial new question of patentability" standard.<sup>481</sup> The "newness" test required hair-splitting inquiries into whether previously considered prior art "is now being considered for a substantially different purpose."<sup>482</sup> The Federal Circuit looked to legislative history for guidance as to whether a question of patentability was sufficiently "new," but one could be forgiven for failing to appreciate the difference between the prohibition on requests that "just question[] the judgment of the examiner,"<sup>483</sup> and the authorization to entertain requests "based on prior art . . . that the examiner failed to adequately consider."<sup>484</sup>

The "newness" test also required a "context-specific approach" that "require[d] an analysis of the record of prior [USPTO] proceedings to determine if and how the examiner used the reference in making his initial decisions."<sup>485</sup> Because this fact-intensive inquiry was jurisdictional, substantial analysis often was needed on appeal simply in order to determine whether the examiner had possessed the authority to reach the merits of the reexamination.<sup>486</sup> Presumably, after a reexamination and BPAI appeal had resulted in cancellation of all claims in a patent, the Federal Circuit could find that the prior art in question was not being considered in the reexamination for a "substantially different purpose,"<sup>487</sup> and the court would be forced to vacate the entire proceeding and reinstate the patent.

The substantive standard of § 325(d), second sentence, is very similar to the "newness" element of the "substantial new question of patentability" test.<sup>488</sup> However, because application of the § 325(d), second sentence, standard is discretionary with the USPTO, a PTAB panel could institute an inter partes review based on the same prior art and the same argument that previously had

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<sup>481</sup> *Id.* The "newness" test presumably is still required to be applied to requests for ex parte reexamination. See 35 U.S.C. § 303(a).

<sup>482</sup> See *In re Swanson*, 540 F.3d 1368, 1380 (Fed. Cir. 2008).

<sup>483</sup> *Id.* (quoting H.R. REP. NO. 107-120, at 3 (2001)).

<sup>484</sup> *Id.* (quoting 147 CONG. REC. H5359 (daily ed. Sept. 5, 2001) (statement of Rep. Berman)).

<sup>485</sup> *Id.* at 1380–81.

<sup>486</sup> See, e.g., *id.* at 1381; *In re NTP, Inc.*, 654 F.3d 1268, 1278 (Fed. Cir. 2011), *reh'g and reh'g en banc denied*, 2011 U.S. App. LEXIS 24881 (Fed. Cir. Nov. 17, 2011).

<sup>487</sup> *In re Swanson*, 540 F.3d at 1380.

<sup>488</sup> The scope of section 325(d), second sentence, is somewhat broader than pre-AIA § 312(a)'s "substantial new question" test, because the former allows a request or petition to be rejected solely because the "same or substantially the same prior art" previously had been presented to the Office, whereas under the latter test, as modified by the 2002 amendment, see *supra* note 438, "a reference may present a substantial new question of patentability"—and thereby require the USPTO to order a reexamination—"even if the examiner considered or cited [the] reference for one purpose in earlier proceedings." *In re Swanson*, 540 F.3d at 1380.

been considered by the examiner during the original examination—so long as the panel was persuaded that the information showed that there was a reasonable likelihood that the patent is invalid (and other applicable requirements were met).<sup>489</sup> Because the use of § 325(d), second sentence, is discretionary, and the Director’s decision to institute a review is “final and nonappealable,”<sup>490</sup> the AIA should eliminate Federal Circuit appeals over whether a petition for review met the substantive standards for starting a proceeding.

### 9. 35 U.S.C. §§ 315(e) and 325(e): Estoppel

Sections 315(e) and 325(e) provide that if a petitioner completes a post-grant or inter partes review, that petitioner, as well as his real parties in interest and privies, will thereafter be estopped from raising in civil litigation, ITC proceedings, or any subsequent USPTO proceeding any issue that the petitioner actually raised and that was decided in the review, or any issue that the petitioner “reasonably could have raised” in the review.<sup>491</sup> These estoppels apply as soon as the PTAB enters a final written decision pursuant to § 318(a) or § 328(a); their effect is not delayed pending completion of an appeal to the Federal Circuit.<sup>492</sup>

Earlier patent-reform bills limited the estoppel effect of an inter partes reexamination or post-grant review to only those issues that were actually raised and decided in the reexamination or review.<sup>493</sup> In the final public law, however, the estoppels were extended—for both proceedings—to issues that the petitioner “reasonably could have raised.”<sup>494</sup> This was done for very different reasons for each proceeding.

In the case of inter partes review, many patent owners objected to repealing could-have-raised estoppel, arguing that such a change would result in “duplicative administrative and judicial challenges.”<sup>495</sup> The inter partes review

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<sup>489</sup> See Leahy-Smith America Invents Act, sec. 6(d), § 325(d), 125 Stat. at 308 (2011); see also 154 CONG. REC. S9988 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

<sup>490</sup> Leahy-Smith America Invents Act sec. 6(a), § 325(d), 125 Stat. at 300.

<sup>491</sup> Leahy-Smith America Invents Act sec. 6(a), (d), §§ 315(e), 325(e), 125 Stat. at 301–02, 308.

<sup>492</sup> *Id.*

<sup>493</sup> See S. 515, 111th Cong. sec. 5(d), (f), § 335 (2009) (as reported); H.R. 1260, 111th Cong. sec. 6(f), (h), § 335 (2009); S. 1145, 110th Cong. sec. 5(c), § 338 (2008) (as reported); H.R. 1908, 110th Cong. sec. 6(d), (f), § 335 (2007) (engrossed bill as passed by the House).

<sup>494</sup> Leahy-Smith America Invents Act sec. 6(a), (d), §§ 315(e), 325(e), 125 Stat. at 301, 308.

<sup>495</sup> 2007 Senate hearing, *supra* note 58, at 210 (statement of Bruce Bernstein, Chief Intellectual Property and Licensing Officer, InterDigital Communications Corp.); see also 2005 House hearing, *supra* note 397396, at 26 (statement of Carl Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation); *Patent Quality Improvement: Hearing before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the House Comm. on the*

proposed by the 2010 Leahy-Sessions managers' amendment thus maintained could-have-raised estoppel,<sup>496</sup> as did all subsequent bills.<sup>497</sup>

Businesses and patent-law professional associations, however, almost all advocated limiting the estoppel that results from a post-grant review only to those issues that were actually raised and decided in the proceeding.<sup>498</sup> As AIPLA's Executive Director explained during a House Intellectual Property Subcommittee hearing in 2004:

A very important aspect of any post-grant-opposition proceeding is the effect the decision will have on the parties. If the estoppel provision is too harsh, no one will use the procedure . . . . If it is too lenient, patentees may be subject to needless repetitive challenges by the same party. Therefore, we believe that a determination with respect to any issue of validity actually raised by an opposer should be preclusive against that opposer in any subsequent proceeding . . . . Given the relatively short, nine-month period for initiating an opposition and the limited discovery available to the parties, we believe this would strike the right balance.<sup>499</sup>

The final AIA, however, was changed to apply could-have-raised estoppel even to civil litigation following the completion of a post-grant review.<sup>500</sup>

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*Judiciary*, 108th Cong., at 9 (2003) (statement of Charles Van Horn, Partner, Finnegan, Henderson, Farabow, Garret & Dunner, on behalf of AIPLA); 157 CONG. REC. S1326 (daily ed. Mar. 7, 2011) (statement of Sen. Sessions) ("The bill also includes many protections that were long sought by inventors and patent owners. It preserves estoppel against relitigating in court those issues that an inter partes challenger reasonably could have raised in his administrative challenge."); *id.* at S1367 (daily ed. Mar. 8, 2011) (statement of Sen. Kohl) ("Patent protection will be stronger with the inclusion of 'could have raised' estoppel [and] strong administrative estoppel.").

<sup>496</sup> With respect to the Leahy-Sessions managers' amendment, *see supra* note 60.

<sup>497</sup> *See* S. 23 sec. 5(a), § 315(e) (2011); H.R. 1249, 112th Cong. sec. 5(a), § 315(e) (2011).

<sup>498</sup> *See 2007 House hearing, supra* note 58, at 98 (statement of Anthony Peterman, Director, Patent Counsel, Dell Inc.); *2006 Senate hearing, supra* note 383382, at 45–46 (statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems); *2004 House hearing, supra* note 383382, at 32 (statement of Michael Kirk, Executive Director, AIPLA); *id.* at 17 (statement of Jeffrey Kushan, Sidley Austin Brown & Wood, on behalf of Genentech, Inc.). *But see 2006 Senate hearing, supra* note 383382, at 40 (statement of Kevin Sharer, CEO and Chairman of the Board, Amgen, Inc.) ("challengers who pursue [a post-grant] opposition should be prohibited from later disputing the patent's validity in court").

<sup>499</sup> *2004 House hearing, supra* note 383382, at 32 (statement of Michael Kirk, Executive Director, AIPLA).

<sup>500</sup> *See* Leahy-Smith America Invents Act, sec. 6(d), § 325(e)(2), 125 Stat. at 308. All versions of the bill in the 112th Congress did, however, apply could-have-raised estoppel to *administrative* proceedings that followed the completion of a post-grant review. *See* S. 23, 112th Cong. sec. 5(d), § 325(e)(1) (2011); H.R. 1249, 112th Cong. sec. 5(d), § 325(e)(1) (as introduced).

Nothing in the record explains or even mentions this marked shift.<sup>501</sup> This is because the change appears to have been made in error by staff charged with making technical corrections to the bill when it was reported by the House Judiciary Committee.<sup>502</sup> Unfortunately, no one caught the error during the three and a half months between the time when the bill was reported by the committee and when it was signed by the President. It remains to be seen whether Congress will be able to correct this error in future legislation.<sup>503</sup>

Pre-AIA inter partes reexamination applied estoppel in subsequent civil litigation to issues that the requester “could have raised” in the reexamination.<sup>504</sup> The AIA changed this standard to “reasonably could have raised.”<sup>505</sup> During the March 2011 debates, Senator Kyl commented on this change:

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<sup>501</sup> Indeed, the 2011 Committee Report, which was written to accompany and explain the committee-reported bill, continued to describe the bill as limiting estoppel only to those issues actually raised in the post-grant review. *See* H.R. REP. NO. 112-98, at 48 (2011) (“[A] final decision in a post-grant review process will prevent the petitioner, a real party in interest, or its privy from challenging any patent claim on a ground that was raised in the post-grant review process.”); *id.* pt. 1, at 76 (“Post-grant petitioners are only estopped from raising in civil litigation of ITC proceedings those issues that they actually raised in the post-grant review.”).

<sup>502</sup> *See* H.R. 1249, 112th Cong. sec. 6(d), § 325(e)(2) (2011) (as reported). The bill that was introduced in the House, as well as the earlier Senate-passed bill, limited civil-litigation estoppel following a post-grant review only to those issues that were actually raised. *See* S. 23, 112th Cong. sec. 5(d), § 325(e)(2) (2011); H.R. 1249, 112th Cong. sec. 5(d), § 325(e)(2) (2011) (as introduced).

<sup>503</sup> Inevitably, perhaps, revisionists have begun to argue that “Congress well knew what they were doing when they included ‘reasonably could have raised’” estoppel in post grant review; that such an estoppel was “central to the debate” on the bill; and that “there would have been absolutely no chance that the America Invents Act would have passed if the estoppel provisions for post-grant review only applied to issues actually raised.” Gene Quinn, *Beware the NOT So Technical AIA Technical Amendments!*, IPWATCHDOG (Feb. 20, 2012, 3:45 PM EST), <http://www.ipwatchdog.com/2012/02/20/beware-the-not-so-technical-aia-technical-amendments/>. The last assertion—that the AIA would not have passed Congress without a could-have-raised estoppel for post-grant review—is in tension with the fact that on March 8, 2011, such a bill passed the Senate by a vote on 95-5. 157 CONG. REC. S1381 (daily ed. Mar. 8, 2011). During that bill’s consideration, no Senator offered or even filed an amendment that proposed to apply could-have-raised estoppel to post-grant review. The first two assertions are belied by the complete absence in the record of the debates in either the House or Senate of a single statement even indicating an awareness that the bill applied could-have-raised estoppel to post-grant review—much less a statement expressing reliance on or support for such a change. *See supra* notes 501–503 and accompanying text.

<sup>504</sup> 35 U.S.C. § 315(c) (2006).

<sup>505</sup> *See* Leahy-Smith America Invents Act sec. 6(a), § 315(e)(2), 125 Stat. at 301–02.



The present bill also softens the could-have-raised estoppel that is applied by inter partes review against subsequent civil litigation by adding the modifier “reasonably.” It is possible that courts would have read this limitation into current law’s estoppel. Current law, however, is also amenable to the interpretation that litigants are estopped from raising any issue that it would have been physically possible to raise in the inter partes reexamination, even if only a scorched-earth search around the world would have uncovered the prior art in question. Adding the modifier “reasonably” ensures that could-have-raised estoppel extends only to that prior art which a skilled searcher conducting a diligent search reasonably could have been expected to discover.<sup>506</sup>

During the March 2011 debates, Senator Kyl also commented on the AIA’s administrative estoppel, noting that it would effectively preclude petitioners from bringing subsequent challenges to the patent in USPTO proceedings—and that the USPTO would need to require that ex parte reexamination requesters identify themselves to the USPTO in order for this new estoppel to be enforced:

Under paragraph (1) of sections 315(e) and 325(e), a party that uses inter partes or post-grant review is estopped from raising in a subsequent PTO proceeding any issue that he raised or reasonably could have raised in the post-grant or inter partes review. This effectively bars such a party or his real parties in interest or privies from later using inter partes review or ex parte reexamination against the same patent, since the only issues that can be raised in an inter partes review or ex parte reexamination are those that could have been raised in the earlier post-grant or inter partes review. The Office recognizes that it will need to change its regulations and require that ex parte reexamination requesters identify themselves to the Office in order for the Office to be able to enforce this new restriction.<sup>507</sup>

Finally, §§ 315(e) and 325(e) apply the new estoppels to the review petitioner and to the “real party in interest or privy” of the petitioner.<sup>508</sup> During the March 2011 Senate debates, Senator Kyl commented on the meaning of the word “privy”:

The present bill also incorporates S. 3600’s extension of the estoppels and other procedural limits in sections 315 and 325 to real parties in interest and privies of the petitioner. As discussed [earlier,]<sup>[509]</sup> privity is an equitable rule that takes into account the “practical situation,” and should extend to parties to transactions and other activities relating to the property in question. Ideally, extending could-have-raised estoppel to privies will help ensure that if an inter partes review is instituted while litigation is pending, that review will completely substitute for at least the patents-and-printed-publications portion of the civil litigation. Whether equity allows extending privity

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<sup>506</sup> 157 CONG. REC. S1375 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>507</sup> *Id.* at S1376; *see also id.* at S1041 (daily ed. Mar. 1, 2011) (statement of Sen. Kyl) (“The bill’s enhanced administrative estoppel will effectively bar a third party or related parties from invoking ex parte reexamination against a patent if that third party has already employed post-grant or inter partes review against that patent.”).

<sup>508</sup> Leahy-Smith America Invents Act sec. 6(a), (d), §§ 315(e), 325(e), 125 Stat. at 301, 306.

<sup>509</sup> *See* 154 CONG. REC. S9987 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

estoppel to codefendants in litigation, however, will depend in large measure upon the actions of the patent owner, and whether he has made it reasonably and reliably clear which patent claims he is asserting and what they mean. If one defendant has instituted an inter partes review, but other defendants do not have an opportunity to join that review before it becomes reasonably clear which claims will be litigated and how they will be construed, it would be manifestly unfair to extend privity estoppel to the codefendants.<sup>510</sup>

***10. 35 U.S.C. §§ 316(a)(4) and (e) and 326(a)(4) and (e):  
Adjudicative Proceedings and Burden of Proof***

Sections 316(a)(4) and 326(a)(4) provide that the Director shall promulgate regulations “establishing and governing [inter partes and post-grant] review under this chapter and the relationship of such review to other proceedings under this title.”<sup>511</sup> Sections 316(e) and 326(e) provide that “the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.”<sup>512</sup>

During the March 2011 debates, Senator Kyl commented on these provisions and the fact that the first would allow—and the second effectively requires—that inter partes and post-grant review be conducted as adjudicative proceedings:

One important structural change made by the present bill is that inter partes reexamination is converted into an adjudicative proceeding in which the petitioner, rather than the Office, bears the burden of showing unpatentability. . . . In the present bill, section 316(a)(4) gives the Office discretion in prescribing regulations governing the new proceeding. The Office has made clear that it will use this discretion to convert inter partes into an adjudicative proceeding. This change also is effectively compelled by new section 316(e), which assigns to the petitioner the burden of proving a proposition of unpatentability by a preponderance of the evidence. Because of these changes, the name of the proceeding is changed from “inter partes reexamination” to “inter partes review.”<sup>513</sup>

<sup>510</sup> 157 CONG. REC. S1376 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl); *see also id.* at S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer) (“A ‘privy’ is a party that has a direct relationship to the petitioner with respect to the allegedly infringing product or service.”).

<sup>511</sup> Leahy-Smith America Invents Act sec. 6(a), (d), §§ 316(a)(4), 326(a)(4), 125 Stat. at 302, 308.

<sup>512</sup> *Id.* sec. 6(a), (d), §§ 316(e), 326(e), 125 Stat. at 303, 309.

<sup>513</sup> 157 CONG. REC. S1375 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl); *see also id.* at S1366 (Republican Policy Committee Legislative Notice); *id.* at S1042 (daily ed. Mar. 1, 2011) (statement of Sen. Kyl). During his introduction of S. 3600 in the 110th Congress, Senator Kyl also discussed why the examinational system used by inter partes reexamination had proven unworkable in an adversarial proceeding. *See* 154 CONG. REC. S9987 (daily ed. Sept. 7, 2008) (statement of Sen. Kyl).

### **11. 35 U.S.C. §§ 316(a)(5) and 326(a)(5): Discovery**

During the March 2011 debates on the AIA, Senator Kyl noted that the bill's standards for discovery in inter partes and post-grant review are identical to those in the patent-reform bill that he introduced in 2008.<sup>514</sup> During his introduction of the 2008 bill, Senator Kyl stated that the discovery allowed in inter partes review is more limited, "out of recognition of the fact that the issues that can be raised in that proceeding are few and thus the need for discovery is less."<sup>515</sup> Also, because inter partes review can be instituted many years after the patent is issued, the proceeding "is more burdensome for the patent owner. Limiting second-window discovery limits that burden."<sup>516</sup> Senator Kyl also commented on inter partes review's "in the interest of justice" discovery standard, noting that it "restricts additional discovery to particular limited situations, such as minor discovery that PTO finds to be routinely useful, or to discovery that is justified by the special circumstances of the case."<sup>517</sup> He also noted that, "[g]iven the time deadlines imposed on these proceedings, it is anticipated that, regardless of the standards imposed in [sections 316 and 326], PTO will be conservative in its grants of discovery."<sup>518</sup>

### **12. 35 U.S.C. §§ 316(a)(6) and 326(a)(6): Sanctions**

Sections 316(a)(6) and 326(a)(6) require the USPTO to promulgate regulations "prescribing sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding, such as to harass or to cause unnecessary delay or an unnecessary increase in the cost of the proceeding."<sup>519</sup>

The 2007 House Committee Report, commenting on an identical provision in the 2007 House bill,<sup>520</sup> stated that the Director "may impose sanctions in the form of monetary fines (or payments to other parties) or restrictive orders relating to the proceedings, including dismissal of petitions or cancellation of claims."<sup>521</sup>

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<sup>514</sup> 157 CONG. REC. S1375–76 (daily ed. Mar. 8, 2011); *see also* S. 3600, 110th Cong., sec. 5(c), § 329(a)(5), (b)(3) (2008) (bill's proposed discovery provisions).

<sup>515</sup> 154 CONG. REC. S9988 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

<sup>516</sup> *Id.*

<sup>517</sup> *Id.*

<sup>518</sup> *Id.* at 9988–89.

<sup>519</sup> Leahy-Smith America Invents Act, sec. 6(a), (d), §§ 516(a)(6), 526(a)(6), 125 Stat. at 302, 308–09.

<sup>520</sup> *See* H.R. 1908, 110th Cong., sec. 6(f), § 326(b)(4) (2007) (as reported).

<sup>521</sup> H.R. REP. NO. 110-314, at 73 (2007).

### **13. 35 U.S.C. §§ 316(a)(11) and 326(a)(11): Time Limit for Review**

Sections 316(a)(11) and 326(a)(11) require the USPTO to complete an inter partes or post-grant review within one year after the proceeding is instituted, except that this deadline may be extended by six months for good cause.<sup>522</sup> Senator Kyl noted during the March 2011 debates that pre-AIA inter partes reexaminations usually lasted for 3 to 5 years.<sup>523</sup> Senator Kyl also stated the USPTO is “confident” that it will be able to meet the new deadlines because of procedural reforms to inter partes proceedings that were made by the AIA.<sup>524</sup> These expediting reforms included:

the shift from an examinational to an adjudicative model, and the elevated threshold for instituting proceedings. The elevated threshold will require challengers to front load their case. Also, by requiring petitioners to tie their challenges to particular validity arguments against particular claims, the new threshold will prevent challenges from “mushrooming” after the review is instituted into additional arguments employing other prior art or attacking other claims.<sup>525</sup>

### **14. 35 U.S.C. §§ 318(c) and 328(c): Intervening Rights**

The AIA was amended in the House Judiciary Committee in April 2011 to apply intervening rights to new or amended claims that are incorporated into a patent in inter partes or post-grant review.<sup>526</sup> The provision appears as subsection (c) of §§ 318 and 328.<sup>527</sup>

Senator Kyl commented on this addition during the Senate’s September 2011 debates on the bill:

The final bill also extends intervening rights to inter partes and post-grant review. The bill does not allow new matter to be introduced to support claims in IPR and PGR and does not allow broadening of claims in those proceedings. The aspect of intervening rights that is relevant to IPR and PGR is section 252, first paragraph, which provides that damages accrue only from the date of the conclusion of review if claim scope has been substantively altered in the proceeding. This restriction applies even if the amendment only narrowed the scope of the claims. [For example,] *Engineered Data Products, Inc. v. GBS Corp.*<sup>[528]</sup> . . . notes that “the Federal Circuit has routinely applied the intervening rights defense to narrowing amendments.” When patent-defeating prior art is discovered, it is often impossible to predict whether that prior art will be found to render the entire invention obvious, or will only require a narrowing amendment.

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<sup>522</sup> Leahy-Smith America Invents Act, sec. 6(a), (d), §§ 316(a)(11), 326(a)(11), 125 Stat. at 302, 309.

<sup>523</sup> See 157 CONG. REC. S1376 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>524</sup> *Id.*

<sup>525</sup> *Id.*

<sup>526</sup> H.R. REP. NO. 112-98, at 58, 150, 155–56 (2011).

<sup>527</sup> Leahy-Smith America Invents Act, sec. 6(a), (d), §§ 318(c), 328(c), 125 Stat. at 304, 310.

<sup>528</sup> 506 F. Supp. 2d 461, 467–68 (D. Colo. 2007).

When a challenger has discovered such prior art, and wants to practice the invention, intervening rights protect him against the risk of going forward—provided, of course, that he is correct in his judgment that the prior art at least requires a substantive narrowing of claims.<sup>529</sup>

## II. Uncodified Sections of the AIA

### A. AIA § 3(m): Report on Prior-User Rights

Section 3(m) of the AIA required the USPTO Director to submit to Congress a report on his “findings and recommendations . . . on the operation of prior user rights in selected countries in the industrialized world.”<sup>530</sup> During consideration of the AIA, Representative Lamar Smith, Senator Leahy, and others commented on the proposed report, and noted that Congress may consider further legislation to expand prior-user rights in light of the report’s recommendations.<sup>531</sup> The USPTO released the report in January 2012,<sup>532</sup> and the House Judiciary Committee’s Subcommittee on Intellectual Property, Competition and the Internet held a hearing on the Report on February 1 of that year.<sup>533</sup>

In his testimony presenting the Report, the USPTO Director noted his finding that the AIA’s § 273 generally “strikes the right balance,”<sup>534</sup> but he also recommended that Congress consider the following changes to the section: (1) repealing the one-year requirement, which provides that a commercial use be established a full year before the patent’s effective filing date or a public disclosure of the invention; (2) allowing a prior user to establish the defense by making substantial preparations for commercial use of the invention, rather than requiring that full commercial use itself occur; and (3) expanding the defense to apply to all subject matter, rather than just processes and products used in commercial processes.<sup>535</sup>

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<sup>529</sup> 157 CONG. REC. S5429 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

<sup>530</sup> Leahy-Smith America Invents Act, sec. 3(m), 125 Stat. at 292.

<sup>531</sup> See 157 CONG. REC. E1219 (daily ed. June 28, 2011) (statement of Rep. Smith) (“Upon release of the forthcoming PTO report, we may introduce legislation that implements its conclusions and refines the nature and scope of the prior-user rights defense.”); *id.* at S5440 (daily ed. Sept. 8, 2011) (statement of Sen. Leahy) (“It is my hope and expectation that Congress will act quickly on any recommendations made by the PTO.”); *id.* at S5430 (statement of Sen. Kyl).

<sup>532</sup> See PTO REPORT, *supra* note 241.

<sup>533</sup> *Prior User Rights: Strengthening U.S. Manufacturing and Innovation: Hearing before Subcomm. on Intellectual Prop., Competition, and the Internet of the H. Comm. on the Judiciary, 112th Cong. 2* (2012).

<sup>534</sup> *Id.* at 7 (statement of David Kappos, Director, USPTO).

<sup>535</sup> See *id.* at 12.

With respect to the first recommendation, the Director noted in his testimony that “the [AIA’s] one year limitation is significantly more restrictive than the approach used in any other country,” and warned that “this one year limitation [may] unnecessarily prevent[] use of the defense by U.S. manufacturers.”<sup>536</sup> He also stated that allowing the defense to be established by a showing of “substantial preparations” for commercial use “would be more harmonized with the approach taken successfully by other countries and more in keeping with modern commercial reality.”<sup>537</sup>

### **B. AIA § 9: Venue**

Section 9 of the AIA amends several statutes to make the Eastern District of Virginia, rather than the District of Columbia, the venue in which various USPTO decisions may be challenged.<sup>538</sup> The final Committee Report offered the following explanation of this change:

In 1999, as part of the American Inventors Protection Act (AIPA), Congress established that as a general matter the venue of the USPTO is the district where it resides. The USPTO currently resides in the Eastern District of Virginia. However, Congress inadvertently failed to make this change uniformly throughout the entire patent statute. As a result, certain sections of the patent statute (and one section of the trademark statute) continue to allow challenges to USPTO decisions to be brought in the District of Columbia, a place where the USPTO has not resided in decades.

Because the USPTO no longer resides in the District of Columbia, the sections that authorize venue for litigation against the USPTO are consistently changed to reflect the venue where the USPTO currently resides.<sup>539</sup>

### **C. AIA § 10: Fee-Setting Authority**

Section 10 of the AIA allows the USPTO to adjust all of its fees by regulation.<sup>540</sup> The fees must be set only to recover the aggregate cost of carrying out the USPTO’s functions.<sup>541</sup> Also, the USPTO is required to provide advanced notice to the public of any proposed fee adjustment, seek comment from the Patent (or Trademark) Public Advisory Committee and the general public, and provide fee reductions to small entities and to micro entities.<sup>542</sup> Finally, the fee-setting authority established by § 10, which takes

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<sup>536</sup> *Id.*

<sup>537</sup> *Id.*

<sup>538</sup> Leahy-Smith America Invents Act, sec. 9(a), 125 Stat. at 316.

<sup>539</sup> H.R. REP. NO. 112-98, at 49 (2011); *see also id.* at 77.

<sup>540</sup> *See* Leahy-Smith America Invents Act, sec. 10, 125 Stat. at 316–18.

<sup>541</sup> *Id.* sec. 10(a)(2), 125 Stat. at 316.

<sup>542</sup> *See id.* sec. 10(b), (d), 125 Stat. at 316, 317.

effect upon enactment of the AIA, will terminate after seven years (absent further legislation extending the authority).<sup>543</sup>

The final Committee Report's background section explained the reason for giving the USPTO the authority to set its own fees:

Although the USPTO has had the ability to set certain fees by regulation, most fees (*e.g.*, filing fee, issuance fee, maintenance fees) are set by Congress. History has shown that such a scheme does not allow the USPTO to respond promptly to the challenges that confront it. The USPTO has argued for years that it must have fee-setting authority to administer properly the agency and its growing workload.<sup>544</sup>

Section 10's fee-setting authority is the remnant of an earlier proposal that first appeared in the 2006 Hatch-Leahy bill and that would have given the USPTO broad authority to promulgate regulations to "carry out the provisions of [title 35] or any other law applicable to the [USPTO]."<sup>545</sup> A similar broad authorization of regulatory authority appeared in the bills that were introduced in 2007,<sup>546</sup> but it quickly proved controversial, and was limited in that year's Senate Judiciary Committee markup to only allowing the USPTO to adjust its fees by regulation.<sup>547</sup> All subsequent bills included this fee-setting provision.<sup>548</sup>

The House considered an amendment to strike § 10 of the AIA during the June 2011 floor debates.<sup>549</sup> Representative Manzullo, the sponsor of the amendment, argued that Congress should not "give up more power and authority to the executive branch," and that members should oppose fee-setting authority because the USPTO would use it to increase its fees.<sup>550</sup> The amendment was defeated by a vote of 329-92.<sup>551</sup>

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<sup>543</sup> *Id.* sec. 10(i)(2), 125 Stat. at 319. The seven-year sunset was added to the bill during the House Judiciary Committee markup in April 2011. Representative Goodlatte then commented on the sunset during the House floor debates in June of that year, noting that he had secured the provision's inclusion in the bill. *See* 157 CONG. REC. H4494 (daily ed. June 23, 2011) (statement of Rep. Goodlatte). He argued that the sunset "will allow the PTO sufficient to structure its fees but will ensure that Congress continues to have strong influence over that process." *Id.*

<sup>544</sup> H.R. REP. NO. 112-98, at 49; *see also id.* at 78.

<sup>545</sup> S. 3818, 109th Cong., sec. 9(e) (2006).

<sup>546</sup> *See* S. 1145, 110th Cong., sec. 11 (2007) (as introduced); H.R. 1908, 110th Cong., sec. 11 (2007) (as introduced).

<sup>547</sup> *See* S. 1145, 110th Cong., sec. 9 (2008) (reported bill); S. REP. NO. 110-259, 110th Cong., at 39 (2008).

<sup>548</sup> *See* S. 23, 112th Cong., sec. 9 (2011); S. 515, 111th Cong., sec. 9 (2009); H.R. 1260, 111th Cong., sec. 11 (2009).

<sup>549</sup> 157 CONG. REC. H4493-94 (daily ed. June 23, 2011).

<sup>550</sup> *Id.* at H4493 (statement of Rep. Manzullo).

<sup>551</sup> *Id.* at H4501-02.

## D. AIA § 11: Fees for Patent Services

Section 11 codifies the patent fee schedule that was in effect at the time of the enactment of the AIA.<sup>552</sup> The final Committee Report noted that “[t]his schedule represents a reference point for any future adjustments to the fee schedule by the Director.”<sup>553</sup>

## E. AIA § 18: Review of Business-Method Patents

### 1. Overview

Section 18 of the AIA creates a new USPTO administrative proceeding in which a person accused of infringing a business-method patent can challenge the patent on almost all validity grounds throughout the life of the patent.<sup>554</sup>

The new proceeding “employ[s] the standards and procedures [of] a post-grant review under chapter 32,”<sup>555</sup> except that:

- (1) the proceeding is limited to “covered business method patent[s],” applies to patents issued before, on, or after the enactment of the AIA, and can be invoked throughout the effective life of the patent;<sup>556</sup>
- (2) a party may petition for a proceeding only if that party or its real parties in interest or privies have been “sued for infringement of the patent or . . . charged with infringement under that patent;”<sup>557</sup>
- (3) if a section 18 proceeding is completed, the petitioner and his real parties in interest are estopped from raising in civil litigation and ITC proceedings only those issues that were actually raised and decided in the section 18 review;<sup>558</sup>

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<sup>552</sup> See Leahy-Smith America Invents Act, sec. 11, 125 Stat. at 320–25.

<sup>553</sup> H.R. REP. NO. 112-98, at 78 (2011).

<sup>554</sup> See Leahy-Smith America Invents Act, sec. 18, 125 Stat. at 329–31.

<sup>555</sup> *Id.* sec. 18(a)(1), 125 Stat. at 329.

<sup>556</sup> *Id.* sec. 18(a)(1)(A), (E), (a)(2), 125 Stat. at 329–30.

<sup>557</sup> *Id.* sec. 18(a)(1)(B), 125 Stat. at 330. The final Committee Report indicated that “charged with” infringement means “accused of” infringement. See H.R. REP. NO. 112-98, at 54 (2011) (“A petition to initiate a review will not be granted unless the petitioner is first sued for infringement or is accused of infringement.”). During the September 2011 Senate debates on the AIA, Senator Schumer indicated that the word “privy” “effectively means customers of the petitioner.” 157 CONG. REC. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer). “With the addition of the word ‘privy,’ a company could seek a section 18 proceeding on the basis that customers of the petitioner had been sued for [or accused of] infringement” of the patent. *Id.*

<sup>558</sup> See Leahy-Smith America Invents Act, sec. 18(a)(1)(A), (D), 125 Stat. at 329–30. Because section 18 does not preclude the application of 35 U.S.C. § 325(e)(1) to its proceedings, post-grant review’s could-have-raised estoppel applies to subsequent administrative proceedings following the completion of a section 18 proceeding. See *id.*



(4) the prior art that can be raised in a section 18 proceeding is limited to that which is publicly accessible (and thus pre-AIA 35 U.S.C. § 102(b)'s loss-of-right provisions cannot be asserted against a first-to-invent patent);<sup>559</sup> and

(5) a motion for a stay of a copending civil action for infringement is required to be considered under a special four-factor test, and the parties may seek review of the district court's stay decision on interlocutory appeal.<sup>560</sup>

The new proceeding becomes effective on September 16, 2012 and, absent subsequent legislative extension, the authority to file petitions for review will terminate on September 16, 2020.<sup>561</sup>

The final Committee Report provided the following explanation of the need for section 18:

A number of patent observers believe the issuance of poor [quality] business-method patents during the late 1990's through the early 2000's led to the patent "troll" lawsuits that compelled the Committee to launch the patent reform project 6 years ago. At the time, the USPTO lacked a sufficient number of examiners with expertise in the relevant art area. Compounding this problem, there was a dearth of available prior art to assist examiners as they reviewed business method applications. Critics also note that most countries do not grant patents for business methods.<sup>562</sup>

The Senate Republican Policy Committee's<sup>563</sup> summary of the March 2011 Senate floor managers' amendment, which added section 18 to the AIA, provided the following description of this provision:

[The managers' amendment also includes] [t]he Schumer-Kyl business-methods proceeding, as modified to accommodate industry concerns and PTO needs. In its 1998 [*State Street Bank & Trust Co. v. Signature Financial Group, Inc.*]<sup>564</sup> decision, the Federal Circuit greatly broadened the patenting of business methods. Recent court decisions, culminating in last year's Supreme Court decision in *Bilski v. Kappos*,<sup>565</sup> have sharply pulled back on the patenting of business methods, emphasizing that these "inventions" are too abstract to be patentable. In the intervening years, however, PTO was forced to issue a large number of business-method patents, many or possibly all of which are no longer valid. The Schumer proceeding offers a relatively cheap alternative to civil litigation for challenging these patents, and will reduce the burden on the courts of dealing with the backwash of invalid business-method patents.<sup>566</sup>

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<sup>559</sup> See *id.* sec. 18(a)(1)(C); see also 157 CONG. REC. S1366–67 (daily ed. Mar. 8, 2011) (Republican Policy Committee summary of Senate floor managers' amendment) (noting that the pre-AIA § 102(b) prior art that can be raised in a section 18 proceeding is limited to that which falls within "[pre-AIA] 102(a)'s publicly-available prior-art scope").

<sup>560</sup> See Leahy-Smith America Invents Act, sec. 18(b), 125 Stat. at 331.

<sup>561</sup> See *id.* sec. 18(a)(2), (3), 125 Stat. at 330–331.

<sup>562</sup> H.R. REP. NO. 112-98, at 54 (2011); see also *id.* at 80–81.

<sup>563</sup> Part I of this Article describes the nature of this committee. See Matal, *supra* note 1, at 472 n.248.

<sup>564</sup> 149 F.3d 1368 (Fed. Cir. 1998).

<sup>565</sup> 130 S. Ct. 3218 (June 28, 2010) (italics added).

<sup>566</sup> 157 CONG. REC. S1367 (Mar. 8, 2011) (statement of Sen. Kyl).

Section 18 includes a “rule of construction” that the section should not be interpreted “as amending or interpreting categories of patent-eligible subject matter set forth under section 101 of title 35.”<sup>567</sup> As the above-quoted explanations and other commentary<sup>568</sup> confirm, however, section 18 obviously reflects a congressional disapprobation of the patenting of business methods.<sup>569</sup>

## 2. History

A version of section 18 was circulated as an amendment and discussed by Senators Schumer and Kyl at the Senate Judiciary Committee’s February 3, 2011, markup of the bill.<sup>570</sup> Circulated amendments, however, are not made available on the committee’s website or placed in the public record. Thus when the floor managers’ amendment that included section 18 was filed on March 1, 2011, and adopted later that day,<sup>571</sup> business-method patentees had been given little advance warning of section 18 or time to mobilize against

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<sup>567</sup> Leahy-Smith America Invents Act, sec. 18(e), 125 Stat. 284, 331 (2011).

<sup>568</sup> See 157 CONG. REC. S1053 (daily ed. Mar. 1, 2011) (statement of Sen. Schumer) (denouncing “the scourge of business method patents currently plaguing the financial sector,” and stating that “[b]usiness method patents are anathema to the protection the patent system provides”); *id.* at S5408–10 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

<sup>569</sup> See Leahy-Smith America Invents Act, sec. 14(d), 125 Stat. at 328 (providing that the AIA’s ban on tax-strategy patents shall not “be construed to imply that other business methods are patentable or that other business method patents are valid”); S. REP. NO. 110-259, at 63 (2008) (Additional Views of Sen. Kyl) (noting that “there had long been an understanding that methods of doing business are not patentable,” and suggesting that “Congress should act to restore” the bar on business methods’ patentability).

<sup>570</sup> Unlike committee hearings, committee markups are not published, and there generally is no publicly accessible official transcript of markups. In recent years, however, the Senate Judiciary Committee has made webcasts of its markups available on its website. A webcast of the committee’s February 3, 2011 markup of the AIA is available at: *Executive Business Meeting: Before the S. Comm. on the Judiciary*, 112th Cong. (2011) (statements of Sens. Kyl and Schumer), <http://www.judiciary.senate.gov/hearings/hearing.cfm?id=e655f9e2809e5476862f735da166247a>. Senators Schumer and Kyl discussed their proposed business-methods amendment (the precursor to section 18) at approximately the 45:47 and 49:00 marks. Although such a webcast would be sufficient to render the markup a “printed publication” for purposes of § 102, see *In re Klopfenstein*, 380 F.3d 1345 (Fed. Cir. 2004), *reh’g and reh’g en banc denied*, 2004 U.S. App. LEXIS 27563 (Fed. Cir. Dec. 8, 2004), this article otherwise ignores markups because they are not published, members’ remarks at such meetings generally are not as considered as their floor speeches (which the members know will be printed in the Record), and very little of substance is said at markups that is not repeated in a committee report or floor statement.

<sup>571</sup> The text of the managers’ amendment is printed in the Record at 157 CONG. REC. S1037–39 (daily ed. Mar. 1, 2011). The managers’ amendment was adopted by a vote of 97-2. See *id.* at S1050.

it,<sup>572</sup> and commentary on the provision from the March 2011 debates largely consisted only of statements by Senators Schumer and Kyl.<sup>573</sup>

During the spring, however, as the House began its deliberations on the AIA, section 18 became a major point of contention in that body. Business-method trolls fought a scorched-earth, office-by-office lobbying war with banks and retailers over the provision.<sup>574</sup> Opponents of section 18 also launched a sophisticated public-relations campaign that included the use of proxies and efforts to create the appearance of “grass roots” opposition to the provision.<sup>575</sup>

The House managers of the AIA nevertheless chose to preserve and even strengthen section 18: they extended the time period of the program’s operation, allowed additional parties to file a petition for review, and expanded the definition of the types of business-method patents that are eligible for review.<sup>576</sup>

During House floor consideration of the AIA in June 2011, more members participated in the debate on section 18 than in the debate on any other provision of the bill.<sup>577</sup> Representative Shock offered an amendment to strike section 18 from the bill, denouncing it as an “earmark” that “allows for retroactive reviews of already-proven patents that have undergone initial

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<sup>572</sup> See 157 CONG. REC. S1181 (daily ed. Mar. 3, 2011) (statement of Sen. Cantwell).

<sup>573</sup> See generally 157 CONG. REC. S1053 (daily ed. Mar. 1, 2011) (statement of Sen. Schumer); 157 CONG. REC. S1363–65 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer); *id.* at S1368, S1379–80 (statement of Sen. Kyl); see also *id.* at S1365–67 (daily ed. Mar. 8, 2011) (Republican Policy Committee summary of managers’ amendment).

<sup>574</sup> See Zach Carter, *The Spoilsmen: How Congress Corrupted Patent Reform*, HUFFINGTON POST, (Aug. 4, 2011), [http://www.huffingtonpost.com/2011/08/04/patent-reform-congress\\_n\\_906278.html](http://www.huffingtonpost.com/2011/08/04/patent-reform-congress_n_906278.html).

<sup>575</sup> See 157 CONG. REC. H4496 (June 23, 2011) (statement of Rep. Grimm) (“Infamous patent trolls . . . have funded an elaborate propaganda campaign targeting the reforms in section 18.”); Carter, *supra* note 575574; see, e.g., *AmericaInventsAct, Did You Know 2011—America Invents Act 2011 Unconstitutional*, YOUTUBE, (May 3, 2011), <http://www.youtube.com/watch?v=U2v5J6fNh2A>. Print and radio ads that were run against section 18 are available at Intellectual Ventures, <http://www.intellectualventures.com/Home/Advertisements.aspx> (last visited Mar. 19, 2012).

<sup>576</sup> Compare S. 23, 112th Cong., sec. 18(b)(1)(B), (3)(A), (d) (engrossed Senate-passed bill), with H.R. 1249, 112th Cong., sec. 18(a)(1)(B), (3)(A), (d) (engrossed House-passed bill). See H.R. REP. NO. 112-98, at 54 (2011) (noting that a longer period of operation “ensures that patent holders cannot delay filing a lawsuit over a shorter time period to avoid reevaluation under the transitional program”); 157 CONG. REC. S5410, S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer) (commenting on House changes).

<sup>577</sup> See 157 CONG. REC. H4387–88, H4420–21, H4425, H4428–29, H4432 (daily ed. June 22, 2011) (statements of Reps. Lee, Smith, Kaptur, Manzullo, Quayle, and Lofgren); *id.* at H4482, H4491, H4495–97 (daily ed. June 23, 2011) (statements of Reps. Baldwin, Sensenbrenner, Schock, Grimm, Waters, Crowley, Boren, Goodlatte, Lungren, and Shuster); *id.* at E1190–91 (daily ed. June 23, 2011) (statements of Reps. Hirono and West).

scrutiny, review, and have even been upheld in court.”<sup>578</sup> Representative Waters argued that section 18 would allow banks “to steal legally issued and valid patents,” and asserted that “[f]inancial services-related business method patents have saved financial services companies billions of dollars.”<sup>579</sup> Representative Boren stated that “section 18 will pose a devastating threat to America’s small business community.”<sup>580</sup> And Representative Lungren contended that, by allowing administrative review of patents that had previously survived validity challenges in court, section 18 would violate the separation-of-powers limit articulated in *Plaut v. Spendthrift Farm, Inc.*<sup>581</sup>

Supporters of section 18 countered that the program simply creates an “inexpensive and faster alternative to litigation,” and that it would “prevent[] nuisance or extortion lawsuits.”<sup>582</sup> Representative Grimm described section 18 as “one of the legislation’s most important reforms,” characterizing it as “a crackdown on low-quality business method patents.”<sup>583</sup> He also responded to critics’ assertions that a section 18 proceeding could only be invoked by a bank:

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<sup>578</sup> *Id.* at H4496 (daily ed. June 23, 2011) (statement of Rep. Shock); *see also id.* at E1190 (daily ed. June 23, 2011) (statement of Rep. Hirono) (objecting to section 18 because the “review process is retroactive, and even previously awarded patents whose validity has been upheld by federal courts would be subject to challenge”).

<sup>579</sup> *Id.* at H4496 (daily ed. June 23, 2011) (statement of Rep. Waters); *see also id.* at E1191 (daily ed. June 23, 2011) (statement of Rep. West) (arguing that section 18 review “would be available only to banks”).

<sup>580</sup> *Id.* at H4497 (daily ed. June 23, 2011) (statement of Rep. Boren).

<sup>581</sup> *Id.* (statement of Rep. Lungren); *see also id.* at E1191 (daily ed. June 23, 2011) (statement of Rep. West) (expressing “constitutional concerns with section 18” because it allows review “even if the patent has already been upheld as valid by the PTO in a reexamination, or upheld by a federal court jury and/or judge in a trial”); *id.* at H4428–29 (daily ed. June 22, 2011) (statement of Rep. Manzullo) (suggesting that section 18 constitutes an uncompensated taking of property). The citation for the *Plaut* case is 514 U.S. 211 (1995). During the September 2011 Senate debates, Senator Kyl submitted for the Record two letters from former U.S. Court of Appeals Judge Michael McConnell that Senator Kyl characterized as “thoroughly refut[ing]” arguments that section 18 “constitutes a taking or runs afoul of the rule of *Plaut*.” 157 CONG. REC. S5374–77 (daily ed. Sept. 7, 2011); *see also id.* at H4421 (daily ed. June 22, 2011) (statement of Rep. Smith) (quoting McConnell letter); *id.* at H4496 (daily ed. June 23, 2011) (statement of Rep. Grimm) (same).

<sup>582</sup> 157 CONG. REC. H4496 (daily ed. June 23, 2011) (statement of Rep. Smith); *see also id.* at H4429 (daily ed. June 22, 2011) (statement of Rep. Quayle) (“The tort abuse created by these [business-method] patents has become legendary. Section 18 . . . will save 90 percent of the costs incurred in civil litigation.”); *id.* at H4497 (daily ed. June 23, 2011) (statement of Rep. Goodlatte) (observing that “many of these patents are being used by aggressive trial lawyers to extort money from deep pockets”); *id.* at H4425–26 (daily ed. June 22, 2011) (statement of Rep. Goodlatte).

<sup>583</sup> *Id.* at H4496 (daily ed. June 23, 2011) (statement of Rep. Grimm).

This isn't true. The National Retail Federation and the U.S. Chamber of Commerce have endorsed this provision. Companies impacted include McDonald's, Walmart, Costco, Home Depot, Best Buy, and Lowe's. These don't sound like banks to me.<sup>584</sup>

Representative Crowley described a business-method patent that claimed the process of “soliciting charitable contributions on the Internet,” and noted that it had been asserted in a civil action for infringement against the Red Cross.<sup>585</sup> He concluded:

These patents, and many others in this space, are not legitimate patents that help advance America. They are nuisance patents used to sue legitimate businesses and nonprofit business organizations like the Red Cross or any other merchants who engage in normal activity that should never be patented.<sup>586</sup>

The Shock amendment to strike section 18 was defeated by a vote of 262-158.<sup>587</sup>

When the AIA returned to the Senate in September 2011, debate on section 18 focused on the changes that had been made to the provision by the House. Senator Cantwell offered an amendment to restore the original Senate language—in effect, to terminate the program after four years, to limit the definition of “covered business-method patent” to language that tracks the USPTO’s patent class 705, and to bar a party from seeking review based on suits against its customers and other privies.<sup>588</sup> Senator Cantwell argued that the new definition “is so broad that it will encompass other technologies,” condemned section 18 as an “earmark riflshot” for banks, and criticized the process by which the provision was originally added to the bill in the Senate.<sup>589</sup>

Senator Schumer spoke in opposition to the Cantwell amendment and in favor of the House changes to section 18.<sup>590</sup> He argued that the previous four-year sunset was too short because “bad actors would just wait out the program before bringing their business method suits.”<sup>591</sup> He also defended the House’s expansion of the scope of the program beyond business-method patents assigned to class 705, noting that “after the bill passed the Senate, it

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<sup>584</sup> *Id.*

<sup>585</sup> *Id.* (statement of Rep. Crowley).

<sup>586</sup> *Id.*

<sup>587</sup> *See id.* at H4503.

<sup>588</sup> *See id.* at S5407–08 (daily ed. Sept. 8, 2011) (statement of Sen. Cantwell).

<sup>589</sup> *Id.* at S5408; *see also id.* at S5436.

<sup>590</sup> *See id.* at S5408–10 (“I have to acknowledge that the House made some significant improvements to section 18.”). Senator Schumer also submitted for the Record letters in support of section 18 from the Independent Community Bankers of America, the Chamber of Commerce of the United States, and the National Retail Federation. *See id.* at S5409–10.

<sup>591</sup> *Id.* at S5410.

became clear that some offending business method patents are issued in other sections.”<sup>592</sup> The Cantwell amendment was defeated by a vote of 85-13.<sup>593</sup>

During the final day of Senate debate on the AIA, several Senators also engaged in colloquies or made individual statements about section 18, almost all of which focused on the section’s definition of “covered business-method patent.”<sup>594</sup>

### 3. The “clause (ii)” Definition of Prior Art

Subsection (a)(1)(C) creates a restricted definition of the types of prior art that can be asserted against a first-to-invent patent in a section 18 review.<sup>595</sup> Subparagraph (C) provides that an anticipation or obviousness challenge against such a patent may only be supported with:

(i) prior art that is described by section 102(a) of such title of such title (as in effect on the day before . . . [the] effective date [set forth in section 3(n)(1)]); or

(ii) prior art that—

(I) discloses the invention more than 1 year before the date of the application for patent in the United States; and

(II) would be described by section 102(a) of such title (as in effect on the day before the effective date set forth in section 3(n)(1)) if the disclosure had been made by another before the invention thereof by the applicant for patent.<sup>596</sup>

The “effective date set forth in section 3(n)(1)” is the effective date of the first-to-file system.<sup>597</sup> The reference to § 102(a) and (b) “as in effect on the day before” that date thus means pre-AIA § 102(a) and (b).<sup>598</sup>

Clause (i) is simple—it refers to pre-AIA § 102(a) prior art.<sup>599</sup> But clause (ii) is somewhat complicated. It combines subclause (I),<sup>600</sup> which refers to

<sup>592</sup> *Id.*

<sup>593</sup> *Id.* at S5437.

<sup>594</sup> *See id.* at S5428 (daily ed. Sept. 8, 2011) (statements of Sens. Pryor, Leahy, Durbin, and Schumer); *id.* at S5428–29 (statement of Sen. Coburn); *id.* at S5431 (statement of Sen. Kyl); *id.* at S5432 (statement of Sen. Schumer); *id.* at S5433 (statement of Sen. Kirk); *id.* at S5433 (statement of Sen. Durbin); *id.* at S5441 (statement of Sen. Leahy). These statements are discussed in the subsequent subsections of this section.

<sup>595</sup> Leahy-Smith America Invents Act, sec. 18(a)(1)(C), 125 Stat. at 330.

<sup>596</sup> *Id.*

<sup>597</sup> *Id.* sec. 3(n)(1), 125 Stat. at 293.

<sup>598</sup> *Id.* sec. 18(a)(1)(C), 125 Stat. at 330.

<sup>599</sup> *Id.*

<sup>600</sup> In the U.S. Code and federal statutes, the order and names of the levels of substructure below the section level are: (a)—subsection (lower-case letter); (1)—paragraph (arabic numeral); (A)—subparagraph (upper case letter); (i)—clause (lower-case roman numeral); (I)—subclause (upper-case roman number); and (aa)—item (lower-case double letter). (Corporate lawyers also tend to refer to clauses as “romanettes.”) Going up from the section

pre-AIA § 102(b)'s grace period, with subclause (II), which refers to prior art that has pre-AIA § 102(a)'s substantive scope and is *presumed* to fall outside of pre-AIA § 102(a)'s invention-date-based grace period.<sup>601</sup> In other words, subclause (II) creates a hybrid form of prior art that consists of things that are or *would be* pre-AIA § 102(a) prior art (we are required to assume that they are outside of the invention-date grace period) and that *do* fall outside the pre-AIA § 102(b) grace period.

The purpose of combining pre-AIA § 102(a)'s substantive scope with § 102(b)'s grace period is to capture that universe of pre-AIA § 102(b) prior art that is publicly accessible.<sup>602</sup> This more limited definition of the prior art that can be asserted against a first-to-invent business-method patent in a section 18 proceeding was adopted in the same Senate floor managers' amendment that limited the types of patents that can be challenged in a post-grant review to only first-to-file patents.<sup>603</sup> As the Republican Policy Committee's summary of the managers' amendment noted, the latter change was made to post-grant review in part to avoid "secret-prior-art issues that would be difficult to address in an administrative proceeding."<sup>604</sup> The same purpose of avoiding discovery-intensive litigation over pre-AIA § 102(b)'s loss-of-right provisions in an administrative proceeding animates clause (ii)'s definition of prior art.

#### ***4. The Definition of "Covered Business Method Patent": Exclusion of "Technological Inventions"***

Section 18(d)(1) of the AIA provides that "the term 'covered business method patent' means a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions."<sup>605</sup>

Several features of this definition were discussed extensively during the House and Senate floor debates in 2011. The most important feature of the definition is its exclusion of "technological inventions."

During the March 2011 debates in the Senate, Senator Schumer stated that:

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level, title 35, like most of the Code, uses chapters, parts, and finally, titles. Some titles of the Code, however place "parts" below "chapters." *See, e.g.*, 26 U.S.C. § 1 (2006).

<sup>601</sup> 157 CONG. REC. S1367 (daily ed. Mar. 8, 2011).

<sup>602</sup> As the Republican Policy Committee summary of the Senate floor managers' amendment noted, subclause (II) is "effectively, old 102(b) prior art but limited to old 102(a)'s publicly-available prior-art scope." *Id.* Pre-AIA § 102(a) prior art is limited to what is publicly accessible. *See Woodland Trust v. Flowertree Nursery, Inc.*, 148 F.3d 1368, 1370 (Fed. Cir. 1998), *reh'g denied*, 1998 U.S. App. LEXIS 24585 (Fed. Cir. Sept. 1, 1998).

<sup>603</sup> 157 CONG. REC. S1038 (daily ed. Mar. 1, 2001).

<sup>604</sup> *Id.* at S1366 (daily ed. Mar. 8, 2011).

<sup>605</sup> Leahy-Smith America Invents Act, sec. 8(d)(1), 125 Stat. at 331.

The “patents for technological inventions” exception only excludes those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution and which requires the claims to state the technical features which the inventor desires to protect. It is not meant to exclude patents that use known technology to accomplish a business process or method of conducting business—whether or not that process or method appears to be novel.<sup>606</sup>

This construction was propounded repeatedly by members of the House and Senate during the 2011 debates on section 18 of the AIA.<sup>607</sup>

Senators Kirk and Kyl also addressed section 18’s potential application to software patents. Senator Kirk stated that section 18 should not be “too broadly interpreted to cover patents on tangible products that claim novel and non-obvious software tools used to execute business methods.”<sup>608</sup> During the March 2011 debates, Senator Kyl stated that:

As the proviso at the end of the definition makes clear, business methods do not include “technological inventions.” In other words, the definition applies only to abstract business concepts and their implementation, whether in computers or otherwise, but does not apply to inventions relating to computer operations for other uses or the application of the natural sciences or engineering.<sup>609</sup>

During the September 2011 debates on the AIA, Senator Kyl “reiterate[d]” his March 2011 statement about the technological-inventions exception, and he noted that “inventions in computer operations obviously include software inventions.”<sup>610</sup> He then added that:

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<sup>606</sup> 157 CONG. REC. S1364 (daily ed. Mar. 8, 2011).

<sup>607</sup> See *id.* at H4497 (daily ed. June 23, 2011) (statement of Rep. Smith); *id.* at S5428 (daily ed. Sept. 8, 2011) (statement of Sen. Coburn); *id.* at S5433 (statement of Sen. Durbin) (quoting Rep. Smith). All three of these members also expressed the view that a “covered business method patent” would not include a patent for machinery that counts, sorts, or authenticates currency.

<sup>608</sup> *Id.* at S5433 (daily ed. Sept. 8, 2011) (statement of Sen. Kirk); see also *id.* (statement of Sen. Durbin).

<sup>609</sup> *Id.* at S1379 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl). Senator Kyl’s reference to “abstract” business concepts has been construed by some to suggest that section 18 review may be instituted only if a preliminary showing of § 101 abstractness-invalidity has been made. His use of that qualifier is better understood, however, as a reflection of his view that because *only* technological inventions—those which operate through natural or mathematical principles (rather than human cognition)—will create reproducible results, *all* nontechnological inventions are *inherently* abstract. See *id.* (noting “the expectation that most if not all true business-method patents are abstract and therefore invalid in light of the *Bilski* decision”). Moreover, the text and structure of section 18 clearly allow a business-method patent to be challenged on any validity ground other than pre-AIA § 102(b)’s loss-of-right provisions.

<sup>610</sup> *Id.* at S5431 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).



This does not mean that a patent is ineligible for [section 18] review simply because it recites software elements or has been reduced to a software program. If that were the case, then very few of even the most notorious business-method patents could be reviewed under section 18. Rather, in order to fall within the technological-invention exclusion, the invention must be novel as software. If an invention recites software elements, but does not assert that it is novel as software, or does not colorably appear to be so, then it is not ineligible for review simply because of that software element. But an actual software invention is a technological invention, and is not subject to review under section 18.<sup>611</sup>

Senator Schumer made a similar point during the March 2011 debates, emphasizing that simply reciting technological elements in a patent is not enough to qualify the claimed invention as a “technological invention.”<sup>612</sup> He also gave a litany of examples of things whose mere recitation in a patent would not be enough to qualify the patent as disclosing a technological invention:

The technological invention exception is also not intended to exclude a patent simply because it recites technology. For example, the recitation of computer hardware, communication or computer networks, software, memory, computer-readable storage medium, scanners, display devices or databases, specialized machines, such as an ATM or point of sale device, or other known technologies, does not make a patent a technological invention. In other words, a patent is not a technological invention because it combines known technology in a new way to perform data processing operations.<sup>613</sup>

### ***5. The Definition of “Covered Business Method Patent”: “Financial Product or Service”***

Section 18(d)(1)’s definition of “covered business method patent” is limited to processes or things for performing operations “used in the practice, administration, or management of a financial product or service.”<sup>614</sup>

This part of the business-method definition also was the subject of extensive commentary during the House and Senate debates in 2011. It has two distinct elements: (1) “practice, administration, or management”; and (2) “financial product or service.”<sup>615</sup>

During the September 2011 Senate debates on the AIA, Senator Schumer addressed the second element—“financial product or service.”<sup>616</sup> He stated: “At its most basic, a financial product is an agreement between two parties

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<sup>611</sup> *Id.*

<sup>612</sup> 157 CONG. REC. S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer).

<sup>613</sup> *Id.*; see also *id.* at S1379 (statement of Sen. Kyl) (“But if a technological element in a patent is not even assertedly or plausibly outside of the prior art, the Office should not rely on that element to classify the patent as not being a business-method patent.”).

<sup>614</sup> Leahy-Smith America Invents Act, sec. 8(d)(1), 125 Stat. at 331.

<sup>615</sup> See *id.*

<sup>616</sup> See 157 CONG. REC. S4532 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

stipulating movements of money or other consideration now or in the future.”<sup>617</sup> He went on to list a long series of examples of such things, and concluded by stating that “[t]o be eligible for section 18 review, the patent claims must only be broad enough to cover a financial product or service.”<sup>618</sup>

During the March 2011 debates, Senator Schumer also addressed the first element of the “financial services” part of the “covered business-method patent” definition—“practice, administration, or management.”<sup>619</sup> He noted that:

The amendment covers not only financial products and services, but also the “practice, administration and management” of a financial product or service. This language is intended to make clear that the scope of patents eligible for review under this program is not limited to patents covering a specific financial product or service. In addition to patents covering a financial product or service, the “practice, administration and management” language is intended to cover any ancillary activities related to a financial product or service, including . . . marketing, customer interfaces, Web site management and functionality, transmission or management of data, servicing, underwriting, customer communications, and back office operations—e.g., payment processing, stock clearing.<sup>620</sup>

Senator Schumer expanded on this statement, and on the meaning of the “practice, administration, or management” element of the “covered business-method patent” definition, during the September 2011 debates on the AIA:

[S]ection 18 is intended to cover not only patents claiming the financial product or service itself, but also patents claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity. Any business that sells or purchases goods or services “practices” or “administers” a financial service by conducting such transactions. Even the notorious “Ballard patents”<sup>621</sup> do not refer specifically to banks or even to financial transactions. Rather, because the patents apply to administration of business transactions, such as financial transactions, they are eligible for review under section 18. To meet this requirement, the patent need not recite a specific financial product or service.<sup>622</sup>

During the September 2011 debates, Senator Schumer also responded to a statement about this part of the “covered business-method patent” definition that had been made by a member of the House during the June 2011 debates in that body. That Representative had stated that section 18’s definition of “covered business method patent”:

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<sup>617</sup> *Id.*

<sup>618</sup> *Id.*; see also *id.* at S1365 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer).

<sup>619</sup> See 157 CONG. REC. S1364–65 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer).

<sup>620</sup> *Id.*

<sup>621</sup> Senator Kyl also commented on the Ballard patents, describing their role in the genesis of section 18, during the March 2011 debates. See *id.* at S1379 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>622</sup> *Id.* at S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

is intended to be narrowly construed to target only those business method patents that are unique to the financial services industry in the sense that they are patents which only a financial services provider would use to furnish a financial product or service. . . . Section 18 would not encompass a patent that can be used in other industries, but which a financial services provider might also use.<sup>623</sup>

Senator Schumer responded that this interpretation of section 18 “is incorrect.”<sup>624</sup> He stated that:

Nothing in the America Invents Act limits use of section 18 to banks, insurance companies or other members of the financial services industry. Section 18 does not restrict itself to being used by petitioners whose primary business is financial products or services. Rather, it applies to patents that can apply to financial products or services.<sup>625</sup>

Other supporters of section 18 expressed views similar to those of Senator Schumer. During the House debates on the AIA in June 2011, Representative Lamar Smith submitted an extension of remarks in which he emphasized that “[t]his provision is not tied to one industry or sector—it affects everyone.”<sup>626</sup> He stated that section 18 could be used to review “patents that describe a series of steps used to conduct everyday business applications in the financial products and retail service space.”<sup>627</sup> During the September 2011 Senate debates on the AIA, Senator Leahy also commented on this part of the definition of “covered business method patent.” He stated that “[a] financial product or service is not, however, intended to be limited solely to the operation of banks. Rather, it is intended to have a broader industry definition that includes insurance, brokerages, mutual funds, annuities, and an array of financial companies outside of traditional banking.”<sup>628</sup>

Finally, during the March 2011 debates, Senator Kyl suggested that the USPTO could also look to claim-construction statements—which can now be filed with the USPTO pursuant to AIA § 6(g)’s amendments to 35 U.S.C. § 301—to determine whether a patent relates to a financial product or service.<sup>629</sup>

### ***6. The Definition of “Covered Business Method Patent”: “Or Other” and “Corresponding Apparatus”***

As noted earlier, the House expanded the definition of “covered business method patent” that had appeared in the bill that had passed the Senate in March 2011. The earlier Senate definition had been limited, in part, to “data

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<sup>623</sup> *Id.* at H4497 (daily ed. June 23, 2011) (statement of Rep. Shuster).

<sup>624</sup> *Id.* at S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

<sup>625</sup> *Id.*

<sup>626</sup> *Id.* at E1184 (daily ed. June 23, 2011) (statement of Rep. Smith).

<sup>627</sup> *Id.*

<sup>628</sup> *Id.* at S5441 (daily ed. Sept. 8, 2011) (statement of Sen. Leahy).

<sup>629</sup> *Id.* at S1379 (statement of Sen. Kyl).

processing operations.”<sup>630</sup> The House replaced this language with the words “data processing or other operations.”<sup>631</sup>

The earlier Senate language “track[ed] the language of Class 705.”<sup>632</sup> As Senator Cantwell noted during the final Senate debates, “[t]he House language, by adding the word ‘other,’ broadens the definition of [covered business-method patent in] section 18.”<sup>633</sup> Senator Schumer agreed, stating that “the House clarifi[ed] that section 18 goes beyond mere class 705 patents.”<sup>634</sup> He argued that the House change was beneficial because “some offending business method patents are issued in other sections.”<sup>635</sup>

Section 18’s definition of “covered business method patent” also includes patents that claim “a method or corresponding apparatus.”<sup>636</sup> Senator Schumer commented on this language during the March 2011 debates:

The definition of a “covered business method patent” includes “a method or corresponding apparatus.” The phrase “method or corresponding apparatus” is intended to encompass, but not be limited to, any type of claim contained in a patent, including, method claims, system claims, apparatus claims, graphical user interface claims, data structure claims—Lowry claims—and set of instructions on storage media claims—Beauregard claims. A patent qualifies as a covered business method patent regardless of the type or structure of claims contained in the patent. Clever drafting of patent applications should not allow a patent holder to avoid PTO review under this amendment. Any other result would elevate form over substance.<sup>637</sup>

### *7. Offensive Collateral Estoppel*

During the September 2011 debates on the AIA, Senator Leahy engaged in a colloquy with Senator Pryor about section 18. Senator Leahy stated at one point that:

the rule that bars the PTO from reconsidering issues previously considered during examination or in an earlier reexamination still applies. While a prior district court decision upholding the validity of a patent may not preclude the PTO from considering the same issues resolved in that proceeding, PTO officials must still consider the court’s decision and deviate from its findings only to the extent reasonable. As a result, I expect the USPTO would not initiate proceedings where the petition does not raise a

<sup>630</sup> See S. 23, 112th Cong., sec. 18(d) (2011) (engrossed Senate-passed bill).

<sup>631</sup> H.R. 1249, 112th Cong., sec. 18(g)(1) (as introduced); H.R. 1249, 112th Cong., sec. 18(d)(1) (engrossed House-passed bill).

<sup>632</sup> 157 CONG. REC. S1367 (daily ed. Mar. 8, 2011) (Republican Policy Committee summary of Senate floor managers’ amendment).

<sup>633</sup> *Id.* at S5436 (daily ed. Sept. 8, 2011); see also *id.* at S5408 (daily ed. Sept. 8, 2011) (statement of Sen. Cantwell) (“What does ‘or other operations’ mean?”).

<sup>634</sup> *Id.* at S5410 (statement of Sen. Schumer); see also *id.* (“[T]he House bill changes the definition only slightly so that it does not directly track the class 705 language.”).

<sup>635</sup> *Id.*

<sup>636</sup> Leahy-Smith America Invents Act, sec. 18(d)(1), 125 Stat. at 331.

<sup>637</sup> 157 CONG. REC. S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer).

substantial new question of patentability than those that had already been considered by the USPTO in earlier proceedings.<sup>638</sup>

It must be noted that Senator Leahy is mistaken. Section 18 does not use the “substantial new question of patentability” test that was employed by pre-AIA inter partes reexamination. Instead, section 18 incorporates the threshold for review that is used by post-grant review.<sup>639</sup> That threshold requires the petitioner to present information which, if “not rebutted, would demonstrate that it is more likely than not that” a claim in the patent is unpatentable.<sup>640</sup> As noted earlier, this threshold requires a strong evidentiary showing, but it does not require the petitioner to raise a *new* question of validity.<sup>641</sup> The section 18 threshold allows the Director to institute a proceeding on the basis of a question that was previously considered by an examiner, so long as the Director is sufficiently persuaded that the examiner erred.<sup>642</sup>

Further, there simply is no requirement in the law that the USPTO give any deference or weight to a district court’s decision with respect to a patent, much less a requirement that a PTAB panel “deviate from [a district court’s] findings only to the extent reasonable.”

The Federal Circuit addressed this issue in *In re Swanson*.<sup>643</sup> It concluded, with respect to pre-AIA inter partes reexamination, that “Congress did not intend a prior court judgment upholding the validity of a claim to prevent the PTO from finding a substantial new question of validity.”<sup>644</sup> In other words, even under a test that required presentation of a “new” question in order for an administrative proceeding to be ordered, a previous court judgment upholding a patent’s validity did not preclude the USPTO from entertaining a challenge to the patent’s validity. *In re Swanson* explained:

PTO examination procedures have distinctly different standards, parties, purposes, and outcomes compared to civil litigation. In particular, the two forums take different approaches in determining validity and on the same evidence could quite correctly come to different conclusions.

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<sup>638</sup> *Id.* at S5428 (daily ed. Sept. 8, 2011) (statement of Sen. Leahy).

<sup>639</sup> See Leahy-Smith America Invents Act, sec. 18(a)(1), 125 Stat. at 329 (“[t]he transitional proceeding implemented pursuant to this subsection shall be regarded as, and shall employ the standards and procedures of, a post-grant review under chapter 32” except as otherwise provided).

<sup>640</sup> *Id.* sec. 6(d), § 324(a), 125 Stat. at 306.

<sup>641</sup> See *supra* notes 438–441 and accompanying text.

<sup>642</sup> See Leahy-Smith America Invents Act, sec. 6(d), § 324(a), 125 Stat. at 306. Chapter 32 post-grant review—and thus a section 18 proceeding—also allows a review to be instituted upon a showing that “the petition raises a novel or unsettled legal question that is important to other patents or patent applications.” *Id.* sec. 6(d), § 324(b), 125 Stat. at 307.

<sup>643</sup> 540 F.3d 1368 (Fed. Cir. 2008).

<sup>644</sup> *Id.* at 1378.

In civil litigation, a challenger who attacks the validity of patent claims must overcome the presumption of validity with clear and convincing evidence that the patent is invalid. If this statutory burden is not met, courts do not find patents valid, only that the patent challenger did not carry the burden of establishing invalidity in the particular case before the court. Therefore, a prior holding of validity is not necessarily inconsistent with a subsequent holding of invalidity, and is not binding on subsequent litigation or PTO reexaminations.

In PTO examinations and reexaminations, the standard of proof—a preponderance of evidence—is substantially lower than in a civil case; there is no presumption of validity; and the examiner is not attacking the validity of the patent but is conducting a subjective examination of the claims in light of prior art. And unlike in district courts, in reexamination proceedings claims are given their broadest reasonable interpretation, consistent with the specification. Thus, considering an issue at the district court is not equivalent to the PTO having had the opportunity to consider it.<sup>645</sup>

### **8. Stays of Litigation**

Paragraph (1) of § 18(b) of the AIA codifies a four-factor test that federal courts must use when a request for a stay of a civil action for infringement of patent is made on the basis that a section 18 proceeding has been instituted for that patent.<sup>646</sup> Paragraph (2) authorizes a party to take an immediate interlocutory appeal from the district court's decision on the motion for a stay, and provides that "the Federal Circuit shall review the district court's decision to ensure consistent application of established precedent."<sup>647</sup>

Senator Schumer commented on the four-factor test during the March 2011 debates. He noted that it was a codification of the test announced in *Broadcast Innovation, L.L.C. v. Charter Communications*.<sup>648</sup> He explained that:

The amendment employs the Broadcast Innovation test, rather than other multifactor tests employed by other district courts, because this test properly emphasizes a fourth factor that is often ignored by the courts: "whether a stay will reduce the burden of litigation on the parties and on the court." Too many district courts have been content to allow litigation to grind on while a reexamination is being conducted, forcing the parties to fight in two fora at the same time. This is unacceptable, and would be contrary to the fundamental purpose of the Schumer-Kyl amendment to provide a cost-efficient alternative to litigation.

Absent some exceptional circumstance, the institution of a business-methods proceeding—which requires a high up-front showing and will be completed in a relatively short period of time—should serve as a substitute for litigation, and result in a stay of co-pending district court litigation.

By adopting this four-factor test, . . . the amendment also precludes the use of additional factors that are not codified here and that have occasionally been used by some district

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<sup>645</sup> *Id.* at 1377–78 (internal citations and quotation marks omitted).

<sup>646</sup> Leahy-Smith America Invents Act, sec. 18(b)(1), 125 Stat. at 331.

<sup>647</sup> *Id.* sec. 18(b)(2), 125 Stat. at 331.

<sup>648</sup> No. 03-CV-2223-ABJ-BNB, 2006 WL 1897165 (D. Colo. Jul. 11, 2006).

courts. For example, a few courts have occasionally employed a different de facto fourth factor: whether the challenger offers “to forgo invalidity arguments based on prior art patents and/or printed publications considered during an ex parte reexamination process.” The proceeding authorized by this amendment . . . sets its own standard for determining what issues may still be raised in civil litigation if a patent survives PTO review. By codifying the exclusive set of factors that courts are to consider when granting stays, the amendment precludes courts from inventing new factors such as extra-statutory estoppel tests.<sup>649</sup>

Senator Schumer characterized section 18(b)(1) as “plac[ing] a very heavy thumb on the scale in favor of the stay,”<sup>650</sup> stated that “it is nearly impossible to imagine a scenario in which a district court would not issue a stay,”<sup>651</sup> and suggested that denial of stay would require “an extraordinary and extremely rare set of circumstances not contemplated in any of the existing case law related to stays pending reexamination.”<sup>652</sup>

With respect to section 18(b)(2)’s authorization of interlocutory appeals, Senator Schumer suggested that “the filing of an interlocutory appeal should result in the stay of proceedings in the district court pending the appeal.”<sup>653</sup> He argued that “[s]taying the lower court proceedings while the Federal Circuit reviews the question of whether the case should be stayed pending the post-grant review will help ensure that requests to stay are consistently applied across cases and across the various district courts.”<sup>654</sup>

Senator Schumer also stated that “[o]n appeal the Federal Circuit can and should review the district court’s decision de novo.”<sup>655</sup> He explained that:

It is expected that the Federal Circuit will review the district court’s decision regarding a stay de novo, unless there are unique circumstances militating against a de novo review, such as subsequent requests for an interlocutory appeal in the same case. A de novo review is central to the purpose of the interlocutory appeal provision in the Schumer-Kyl amendment, which is to ensure consistent application of standards and precedents across the country and to avoid one particular court with a favorable bench becoming the preferred venue of business method patent plaintiffs.<sup>656</sup>

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<sup>649</sup> 157 CONG. REC. S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer). Senator Kyl also noted that section 18(b)(1) codified the *Broadcast Innovation* test. *See id.* at S1380 (statement of Sen. Kyl).

<sup>650</sup> *Id.* at S1053 (daily ed. Mar. 1, 2011) (statement of Sen. Schumer).

<sup>651</sup> *Id.*

<sup>652</sup> *Id.* at S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer); *see also id.* at S1379 (statement of Sen. Kyl) (noting the “congressional policy strongly favoring stays when proceedings are instituted under . . . section [18]”).

<sup>653</sup> *Id.* at S1364 (March 8, 2011) (statement of Sen. Schumer).

<sup>654</sup> *Id.*

<sup>655</sup> *Id.*

<sup>656</sup> *Id.*

Senator Kyl noted that paragraph (2)'s requirement that the court of appeals apply "established precedent" was "based on section [2254(d)(1)] of title 28, which has been construed to require lower courts to look only to a fixed body of caselaw when making decisions under section 2254."<sup>657</sup> Senator Kyl explained that:

[a]lthough the cases applying *Broadcast Innovation* cite other opinions applying other tests as sources for some of its factors, by requiring application of "established precedent," subsection (c) limits the relevant precedent to that applying the four factors of *Broadcast Innovation* in combination. By requiring courts to apply this limited and relatively consistent body of caselaw when determining whether to grant a stay, subsection (c) should ensure predictability and stability in stay decisions across different district courts, and limit the incentive to forum shop.<sup>658</sup>

### F. AIA § 20: Technical Amendments and Repeal of Deceptive-Intent Restrictions

Section 20 makes a number of technical corrections to title 35, and also repeals all of the provisions in title 35 that barred a patent owner from using various authorities or raising certain defenses if the patent applicant's previous actions were deemed to have been tainted with "deceptive intent."<sup>659</sup>

Senator Kyl commented on § 20 during the March 2011 debates on the AIA, describing the history and purpose of the provision's repeal of the deceptive-intent restrictions:

[T]he bill has been modified by reinserting language that eliminates various deceptive-intent requirements that relate to correcting the naming of the inventor or a joint inventor, obtaining a retroactive foreign filing license, seeking section 251 reissue, or enforcing remaining valid claims if a claim is invalidated. See generally *Kearney & Trecker Corp. v. Giddings & Lewis, Inc.*<sup>[660]</sup> These changes were first proposed in section 5 of the original Patent Reform Act of 2005,<sup>[661]</sup> and have been advocated by universities and their technology-transfer offices. For reasons that are not entirely clear, subsequent bills maintained this section and its addition of substructure and titles to the affected code sections, but struck the substantive part of the section—i.e., its elimination of the deceptive-intent requirements.

Eliminating the various deceptive-intent requirements moves the U.S. patent system away from the 19th century model that focused on the patent owner's subjective intent, and towards a more objective-evidence-based system that will be much cheaper to litigate and more efficient to administer.<sup>662</sup>

<sup>657</sup> *Id.* at S1380 (statement of Sen. Kyl). With respect to 28 U.S.C. § 2254, see, for example, *Lockyer v. Andrade*, 538 U.S. 63, 71–72 (2003).

<sup>658</sup> 157 CONG. REC. S1380 (Mar. 8, 2011) (statement of Sen. Kyl).

<sup>659</sup> Leahy-Smith America Invents Act, sec. 20, 125 Stat. at 333–35.

<sup>660</sup> 452 F.2d 579, 596 (7th Cir. 1971).

<sup>661</sup> H.R. 2795, 109th Cong., sec. 5(c) (2005).

<sup>662</sup> 157 CONG. REC. S1378 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).



A deceptive-intent restriction was first added to the patent laws by the 1836 Act, in what is now the § 251 reissue provision.<sup>663</sup> A second deceptive-intent restriction was added by the 1870 Act to what is now the § 253 disclaimer authorization.<sup>664</sup> The remaining deceptive-intent provisions that appeared in the code prior to the AIA were added by the 1952 Act.<sup>665</sup> The AIA has repealed them all.<sup>666</sup>

Two of the repeals are particularly significant. First, the repeal of the deceptive-intent bars on use of the authority to correct the naming of inventors in applications and patents, at 35 U.S.C. §§ 116 and 256, will make it easier to name the correct inventor on what may be the only application or patent with an effective filing date that is early enough to support a patent.<sup>667</sup>

And second, the repeal of the deceptive-intent bar in § 288, which allows enforcement of other claims if one is found to be invalid, should limit the infectious invalidity that otherwise results from a finding of inequitable conduct.<sup>668</sup> Section 288 will now provide that “[w]henever a claim of a patent is invalid, an action may be maintained for the infringement of a claim of the patent which may be valid.”<sup>669</sup>

The effect of this change is not free from doubt, since § 288 refers only to a claim that is “invalid,” and the modern inequitable-conduct doctrine characterizes its patent-voiding sanction as “unenforceability.”<sup>670</sup> However, the strict categorization of inequitable conduct as resulting only in unenforceability is of relatively recent vintage,<sup>671</sup> and did not exist at the time that the deceptive-intent restriction in § 288 was enacted.

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<sup>663</sup> See Patent Act of 1836, ch. 357, § 13, 5 Stat. 117, 122 (1846).

<sup>664</sup> See Patent Act of 1870, ch. 230, § 54, 16 Stat. 198, 206 (1871).

<sup>665</sup> H.R. REP. NO. 82-1923, at 49–50 (1952).

<sup>666</sup> Leahy-Smith America Invents Act, sec. 20, 125 Stat. at 333–35.

<sup>667</sup> See Leahy-Smith America Invents Act, sec. 20(a), (f), 125 Stat. at 333, 334. Under the pre-AIA law, if a true inventor proved in court that the applicant for a patent had misappropriated the invention from him and that he was, in fact, the true and original inventor of the claimed invention, the true inventor could not have the patent corrected to name him as the inventor and the owner of the patent; rather, his proving that he was the true inventor resulted in invalidation of the patent. See, e.g., *Bemis v. Chevron Research Co.*, 599 F.2d 910, 912–13 (9th Cir. 1979).

<sup>668</sup> See Leahy-Smith America Invents Act, sec. 20(h), 125 Stat. at 334; see also *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1288 (Fed. Cir. 2011) (“[T]he remedy for inequitable conduct is the ‘atomic bomb’ of patent law.”).

<sup>669</sup> See 35 U.S.C. § 288 (2006), amended by Leahy-Smith America Invents Act, sec. 20(h), 125 Stat. at 334.

<sup>670</sup> See *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1560 (Fed. Cir. 1984).

<sup>671</sup> See *id.* (“Whether the [inequitable conduct] holding should be one of invalidity or unenforceability has had no practical significance in cases thus far presented to this court.”).

More importantly, courts construing § 288 as the inequitable-conduct doctrine developed in the 1970s clearly relied on the section's deceptive-intention exception—rather than the notion that the doctrine escapes the reach of § 288 because it is expressed as unenforceability—when concluding that § 288 does not shield otherwise untainted and valid patent claims from the reach of inequitable conduct's infectious invalidity. For example, in *Kearney & Trecker Corp. v. Giddings & Lewis, Inc.*,<sup>672</sup> a patentee who was found to have engaged in inequitable conduct with respect to some claims in his patent attempted to shield the remaining claims with § 288.<sup>673</sup> The Seventh Circuit held, however, that § 288's "statutory requirement [that a patent applicant act] 'without deceptive intention'" referred to "actual fraud or other inequitable conduct."<sup>674</sup> The court concluded that, "[f]airly read, § 288 prohibits the maintenance of any action on a patent which includes claims that are invalid by reason of deceptive intention."<sup>675</sup>

A patentee charged with inequitable conduct also attempted to use § 288 to salvage other patent claims in *Chromalloy American Corp. v. Alloy Surfaces Co.*<sup>676</sup> That court quoted the text of § 288, emphasizing its deceptive-intention restriction, and stated: "[t]hus, § 288 by its express terms rules out infringement actions to enforce a patent in which any one of its claims is invalid by reason of fraud or deception."<sup>677</sup>

The clear import of these early judicial constructions of § 288 and its interaction with the inequitable-conduct doctrine is that, but for that section's deceptive-intent restriction, § 288 would protect the remaining patent claims in the event that some are found to be void on account of inequitable conduct.

### G. AIA § 22: USPTO Funding

This provision has no substantive effect—it simply restates pre-AIA law regarding the deposit of USPTO user fees in a U.S. Treasury account. It is the vestige that remained after a revolving fund for patent fees, which would have given the USPTO direct access to its user fees and ended fee diversion, was

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<sup>672</sup> *Kearney & Trecker Corp. v. Giddings & Lewis, Inc.*, 452 F.2d 579 (7th Cir. 1971).

<sup>673</sup> *See id.*

<sup>674</sup> *Id.* at 596.

<sup>675</sup> *Id.*

<sup>676</sup> 339 F. Supp. 859, 875 (D. Del. 1972).

<sup>677</sup> *Id.* at 875; *see also* *Strong v. Gen. Elec. Co.*, 434 F.2d 1042, 1046 (5th Cir. 1970); *Chisholm-Ryder Co. v. Lewis Mfg. Co.*, 398 F. Supp. 1287, 1301 (W.D. Pa. 1975) ("35 U.S.C. § 253 and § 288 preserve valid claims, despite the invalidity of other claims, if the invalid claims were made without 'deceptive intention'. 'Deceptive intention' . . . requires actual fraud or other inequitable conduct.").

added to the Senate bill in March 2011 via the floor managers' amendment,<sup>678</sup> preserved in the House bill as introduced and through markup in April 2011,<sup>679</sup> but then stripped from the final bill in June 2011 as the result of a battle with the Appropriations Committee.<sup>680</sup>

Creation of a revolving fund giving the USPTO direct access to its user fees was first recommended by President Johnson's patent-reform commission in 1966.<sup>681</sup> Senator Coburn was the principal champion of a USPTO revolving fund in recent Congresses. During the Judiciary Committee's markup of the patent-reform act in 2007, he succeeded in adding a revolving fund to the bill.<sup>682</sup> In the next Congress, however, Senator Coburn's amendment to add the same provision to the bill was defeated by a vote of 10-9.<sup>683</sup>

After the revolving fund passed the Senate as part of the AIA in March 2011, and began to move in the House, the Chairmen of the House Appropriations and Budget Committees sent a letter to Representative Lamar Smith "strongly oppos[ing]" the revolving fund and demanding that the provision be "deleted or otherwise be modified prior to floor consideration" of the AIA.<sup>684</sup>

When the House bill returned to the Senate later in 2011 without the revolving fund, Senator Coburn sought to reinsert the revolving fund into the bill. He noted that "[s]ince 1992, almost \$1 billion has been taken out of the Patent Office,"<sup>685</sup> and that past commitments to avoid diversion of USPTO user fees had been breached.<sup>686</sup> In response to arguments that the appropriations process allows legislative oversight over the executive branch, Senator Coburn noted that "there has not been one oversight hearing of the Patent Office by the Appropriations Committee in either the House or the Senate for 10 years."<sup>687</sup>

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<sup>678</sup> 157 CONG. REC. S1037-39 (daily ed. March 1, 2011) (text of managers' amendment).

<sup>679</sup> See H.R. 1249, 112th Cong., sec. 22(c) (2011) (introduced and reported bill).

<sup>680</sup> See 157 CONG. REC. H4450 (daily ed. June 22, 2011) (text of floor managers' amendment); *id.* at S5372-73 (daily ed. Sept. 7, 2011).

<sup>681</sup> See S. REP. NO. 90-5, at 45 (1967).

<sup>682</sup> See S. 1145, 110th Cong., sec. 15(c) (2008); S. REP. NO. 110-259, at 40 (2008).

<sup>683</sup> See S. REP. 111-18, at 32 (2009); see also *id.* at 49-52 (Supplemental Views of Sens. Coburn, Hatch, Grassley, and Kyl). During the March 2011 debates on the AIA, Senator Coburn gave an extended speech on the subject of fee diversion that detailed the history of the problem and its negative impact on the USPTO's ability to make long term plans. See 157 CONG. REC. S1209-12 (daily ed. Mar. 3, 2011).

<sup>684</sup> 157 CONG. REC. S5373 (daily ed. Sept. 7, 2011).

<sup>685</sup> *Id.* at S5417 (daily ed. Sept. 8, 2011).

<sup>686</sup> See *id.* at S5418.

<sup>687</sup> *Id.* at S5416.

Senator Coburn also quoted from and submitted for the Record a recent letter to him from the USPTO Director that described the negative impact that fee diversion has had on the patent system. The letter stated in part:

This year alone, we anticipate that the agency will collect approximately \$80 million in fees paid for USPTO services that will not be available for expenditure in performing those services. Quite clearly, since the work for which these fees were paid remains pending at USPTO, at some point in the future we will have to collect more money in order to actually perform the already-paid-for services.

Further, the unpredictability of the annual appropriations cycle severely hinders USPTO's ability to engage in the kind of multi-year, business-like planning that is needed to effectively manage a demand-driven, production-based organization.<sup>688</sup>

During the September 2011 floor debates on the AIA, Senator Leahy did not oppose the Coburn amendment on its merits. He simply noted that "acceptance of [the Coburn] amendment will effectively kill the bill. Even today the leadership in the House told me they would not accept that bill with it."<sup>689</sup>

The Senate tabled Senator Coburn's amendment to add the revolving fund back into the bill by a vote of 50-48.<sup>690</sup>

The one positive result in the otherwise bitter ending to the 2011 effort to enact a USPTO revolving fund is that, as part of the agreement to accommodate the House appropriators' demands that the revolving fund be removed from the AIA, the House leadership secured a commitment from the appropriators to give the USPTO full access to its user fees. Specifically, the House Appropriations Committee pledged that future bills will appropriate all estimated fee income to the USPTO, and will include critical language providing that any funds collected in excess of appropriated amounts shall be "available until expended," and thus will be made available to the USPTO through the reprogramming process, without the need to enact additional legislation.<sup>691</sup> The first full-year USPTO appropriations bill that was enacted

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<sup>688</sup> *Id.* at S5417 (August 1, 2011 Letter from the USPTO Director to Sen. Coburn).

<sup>689</sup> *Id.* at S5418; *see also id.* at S5421 ("There is no reason to believe the House position will change. I checked with both the Republican and Democratic leaders over there.").

<sup>690</sup> *See id.* at S5439 (daily ed. Sept. 8, 2011).

<sup>691</sup> *See id.* at S5421-22 (June 22, 2011 Letter to the House Speaker and Majority Leader from the Chairman of the Appropriations Committee). The ability of the USPTO to spend funds above its appropriated limit without the enactment of subsequent appropriations legislation is important because, under section 302(b) of the Congressional Budget Act, appropriations subcommittees cannot appropriate money beyond what is allowed in their annual 302(b) allocations. *See* MEGAN SUZANNE LYNCH, CONGRESSIONAL RESEARCH SERVICE, THE BUDGET RESOLUTION AND SPENDING LEGISLATION 5 (2009). Because a subcommittee typically initially spends to the limit of that allocation, in order for a subsequent appropriations bill to give the USPTO access to any user fees beyond the initially appropriated amount,

after the AIA maintained this commitment.<sup>692</sup>

### H. AIA § 35: Default Effective Date

Section 35 creates a default effective date that applies to any provision of the AIA that is not subject to any other effective-date provision.<sup>693</sup> It provides that the AIA's provisions shall take effect one year after the AIA's enactment and "shall apply to any patent issued on or after that effective date."<sup>694</sup> As noted in the discussion of 35 U.S.C. § 298,<sup>695</sup> the final version of the new advice-of-counsel rule was not given its own effective date.<sup>696</sup> As a result, that rule is subject to the AIA § 35 default effective date.

### I. AIA § 37: Calculation of the Patent-Term-Extension Deadline

Enacted in 1984, section 156 of title 35 allows a patent owner to have his patent term extended by the amount of time that his patent term was running while his patented product was subject to a federal regulatory review period during which the product could not be marketed or sold.<sup>697</sup> The USPTO's grant of this extension is ministerial—the patentee is entitled to the extension if his term ran during the review period.<sup>698</sup> The only additional requirement, per subsection (d)(1), is that the patentee must seek the extension "within the sixty-day period beginning on the date the product received permission . . . for commercial marketing or use."<sup>699</sup>

In March of 2001, the USPTO denied a patent-term extension for Angiomax,<sup>700</sup> an anticoagulant, on the basis that the extension application was filed outside of the sixty-day statutory deadline.<sup>701</sup> A missed deadline is

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another program within appropriations subcommittee's jurisdiction (that is, within the Commerce Department) would need to be cut by an equivalent amount in order to keep the subcommittee's annual spending within its 302(b) allocation. *Id.*

<sup>692</sup> See Consolidated and Further Continuing Appropriations Act, Pub. L. No. 112-55, 125 Stat. 552, 594 (2011).

<sup>693</sup> See Leahy-Smith America Invents Act, sec. 35, 125 Stat. at 341.

<sup>694</sup> *Id.*

<sup>695</sup> See *supra* Part I.M.

<sup>696</sup> See *supra* note 329 and accompanying text.

<sup>697</sup> See 35 U.S.C. § 156 (2006), amended by Leahy-Smith America Invents Act, sec. 37, 125 Stat. at 341.

<sup>698</sup> See *id.*

<sup>699</sup> *Id.* § 156(d)(1).

<sup>700</sup> U.S. Patent No. 5,196,404 (filed July 6, 1990).

<sup>701</sup> See Andrew Pollack, *Patent Bill Viewed as Bailout for a Law Firm*, N.Y. TIMES, Sept. 7, 2011, available at <http://www.nytimes.com/2011/09/08/business/patent-bill-could-save-a-law-firm-millions.html>.

a textbook case of legal malpractice,<sup>702</sup> and Medicines Company had hired established law firms to handle its patent filings for Angiomax.<sup>703</sup> In almost any other case, Medicines Company would have simply recovered its damages from the law firms' legal malpractice insurers.

Angiomax, however, was Medicines Company's flagship drug, and had been entitled to approximately four and a half years of patent term extension.<sup>704</sup> It appears that the value of this patent-term extension was approximately one and a half billion dollars.<sup>705</sup> No law firm carries that much legal malpractice insurance, nor do even the biggest law firms have assets from which such sums can be extracted.<sup>706</sup>

Section 37 of the AIA adds a flush sentence at the end of subsection (d) that specifies that if permission for commercial marketing or use of a product is received by the patentee on a weekend, a holiday, or after 4:30 P.M., Eastern Time, on a business day, such permission will be deemed to have been received the next business day.<sup>707</sup>

Moreover, § 37 applies to any application for a patent-term extension that is pending on or after the AIA's enactment—*or* “as to which a decision regarding the application is subject to judicial review” upon the enactment of the AIA.<sup>708</sup> That is, § 37 also applies to any extension application whose grant or denial is being challenged in court at the time of the AIA's enactment, regardless of when the original application was filed or denied. Because the denial of the Angiomax PTE was “subject to judicial review” when the AIA was enacted, § 37 reaches back over ten years to apply its new language to the Angiomax PTE application. Commercial marketing or use had been granted

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<sup>702</sup> See *Mazuca & Assocs. v. Schumann*, 82 S.W.3d 90, 97 (Tex. App. 2002).

<sup>703</sup> See Pollack, *supra* note 702701.

<sup>704</sup> *Id.*

<sup>705</sup> See *id.* (noting that “[s]ales of Angiomax accounted for virtually all of The Medicines Company's \$437.5 million in revenue [in 2010]”).

<sup>706</sup> According to The Medicines Company's filings with the Securities and Exchange Commission, the company tentatively settled a potential legal malpractice case against one of the two law firms that potentially bore liability for the Angiomax PTE filing for \$232 million, of which \$117 million was to be paid from the proceeds of legal malpractice insurance and \$115 million was to be paid, over a ten year period, by the law firm itself. See Medicines Co., Quarterly Report (Form 10-Q), at 11–12, Ex. 10.1 (March 31, 2011) [hereinafter SEC filing]. If one assumes that the insurer paid up to the policy limits, plus additional legal and lobbying expenses, the policy limit must have been about \$100 million. And \$115 million over ten years apparently reflects the amount that can be extracted from a law firm of this size before the individual partners, who bear no personal liability, leave for other firms and the law firm disintegrates.

<sup>707</sup> Leahy-Smith America Invents Act, sec. 37, 125 Stat. at 341.

<sup>708</sup> *Id.*

to Angiomax after 4:30 P.M. on a Friday, and the application had only been filed a day or two late.<sup>709</sup> As a result, § 37 rendered the February 14, 2001, Angiomax PTE application timely filed.<sup>710</sup>

Section 37 is substantively uninteresting—had the change been applied only prospectively, it would be entirely unremarkable. The special-interest nature of the provision, however, caused great controversy, particularly when the AIA returned to the Senate in September 2011. Its enactment offers a classic example of the use of a large legislative vehicle and a comprehensive lobbying campaign to enact a provision that otherwise would be unlikely to have become law.

Section 37 was adopted on the House floor in June 2011 as an amendment offered by Representative Conyers, the ranking member of the House Judiciary Committee.<sup>711</sup> Representative Conyers characterized the amendment as a “technical revision” that would eliminate “confusion regarding the deadline for patent term extension applications.”<sup>712</sup> Representative Lamar Smith spoke against the amendment, noting that it would interfere with pending litigation and arguing that, “as a practical matter, this is a special fix for one company.”<sup>713</sup>

The Congressional Record does not adequately convey the high drama that accompanied the subsequent vote on the Conyers amendment. These unusual events are best appreciated as preserved in C-SPAN’s video library.<sup>714</sup> As that record shows, the amendment was at first rejected by a hair’s breadth vote of 209-208.<sup>715</sup> Several members protested, however, that another member had been in the well and about to vote as the vote on the Conyers amendment was gaveled closed.<sup>716</sup> A member eventually obtained unanimous consent to vitiate the initial vote (virtually unheard of on the House floor) and to have

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<sup>709</sup> See *Medicines Co. v. Kappos*, 731 F. Supp. 2d 470, 471, 473 (E.D. Va. 2010). In 2007, the USPTO determined that because the patent code requires that a PTE application be filed “within the sixty-day period beginning on the date” of FDA approval, 35 U.S.C. § 156(d) (1) (emphasis added), the day on which the FDA grants approval of a new drug consumes the first day of the 60-day filing period. See *Medicines Co.*, 731 F. Supp. 2d at 475. In other words, the PTE application is required to be filed on the day that is only 59 days after the day of FDA approval. This USPTO decision, though quite a trap for unwary lawyers, did not affect the timeliness of the Angiomax filing, but rather only resulted in a USPTO determination that the application was two days late rather than just one day late. *Id.* at 473.

<sup>710</sup> Leahy-Smith America Invents Act, sec. 37, 125 Stat. at 341.

<sup>711</sup> 157 CONG. REC. H4489 (daily ed. June 23, 2011).

<sup>712</sup> *Id.*

<sup>713</sup> *Id.*

<sup>714</sup> *House Session June 23, 2011*, C-SPANVIDEO, <http://www.c-spanvideo.org/program/300142-2>. The relevant events begin at about the 4:50:00 mark.

<sup>715</sup> *Id.*

<sup>716</sup> *Id.*

the House vote for a second time on the amendment.<sup>717</sup> On the second vote, the amendment passed by a vote of 223-198.<sup>718</sup>

Immediately after the Conyers amendment was added to the AIA, it drew sharply negative press coverage. One news story was titled, “A Late Addition Worth \$214 Million: Amendment to the Patent Reform Bill Last Week Would Benefit Powerful Law Firm, Drug Company.”<sup>719</sup> Another article, “Taking Long View on Patent Fight Pays Off,” described the omnibus lobbying strategy that led to the Conyers amendment’s improbable victory.<sup>720</sup>

When the House-passed AIA came before the Senate in September, Senator Sessions, long an opponent of various iterations of § 37,<sup>721</sup> offered an amendment to strike it from the bill. The day before the Senate vote on the Sessions amendment, the *New York Times* published an article titled, “Patent Bill Viewed as Bailout for a Law Firm.”<sup>722</sup> And on the morning of the vote, the *Wall Street Journal* published a sharply critical editorial, titled “Of Patents and Earmarks: The Dog Ate My Homework Act.”<sup>723</sup>

Section 37 and the Sessions amendment were heavily debated in the Senate on September 8, 2011, the day of the final votes on the AIA.<sup>724</sup> Senator Sessions described the provision as the product of “one of the most ferocious lobbying efforts the Congress” has ever seen,<sup>725</sup> and denounced § 37 as “a special act to give a wealthy law firm, an insurance company, and a health care company special relief.”<sup>726</sup> Senator McCain described § 37 as “an egregious example of corporate welfare and blatant earmarking,” a “shameless special interest provision,” and noted that “there are 14 million Americans out of work and a

<sup>717</sup> *Id.*

<sup>718</sup> *Id.*

<sup>719</sup> John Stanton, *A Late Addition Worth \$214 Million*, ROLL CALL, June 28, 2011, available at [http://www.rollcall.com/issues/56\\_146/a\\_late\\_addition\\_patent\\_bill\\_worth\\_214\\_million\\_MDCO\\_WilmerHale-206838-1.html](http://www.rollcall.com/issues/56_146/a_late_addition_patent_bill_worth_214_million_MDCO_WilmerHale-206838-1.html).

<sup>720</sup> John Stanton, *Taking Long View on Patent Fight Pays Off*, ROLL CALL, June 29, 2011, available at [http://www.rollcall.com/issues/56\\_147/taking\\_long\\_view\\_on\\_patent\\_fight\\_pays\\_off-206877-1.html?pos=hlh](http://www.rollcall.com/issues/56_147/taking_long_view_on_patent_fight_pays_off-206877-1.html?pos=hlh).

<sup>721</sup> See S. REP. 110-259, at 40 (2007) (noting Sen. Sessions’s voting against a similar proposal during the 2007 Senate Judiciary Committee markup); see also 157 CONG. REC. H4489 (daily ed. June 23, 2011) (proposing the amendment).

<sup>722</sup> See Pollack, *supra* note 702701.

<sup>723</sup> See 157 CONG. REC. S5442 (daily ed. Sept. 8, 2011). The Wall Street Journal does not make the editorial freely available on its website. Senator McCain, however, read almost the entire op-ed into the Record.

<sup>724</sup> See 157 *id.* at S5402–07, S5420–21, S5425–26, S5434–36 (daily ed. Sept. 8, 2011).

<sup>725</sup> *Id.* at S5402 (statement of Sen. Sessions). It is estimated that nearly \$20 million was spent on the lobbying campaign to enact § 37. See Stanton, *supra* note 721720.

<sup>726</sup> 157 CONG. REC. S5403 (daily ed. Sept. 8, 2011) (statement of Sen. Sessions).



full day of the Senate's time is being spent debating a bailout of a prominent law firm and a drug manufacturer.<sup>727</sup>

After six years of efforts on patent reform, the sponsors and supporters of the AIA understandably were eager to send it directly to the President for his signature.<sup>728</sup> During the bill's last few days in the Senate, however, the debate on § 37, influenced especially by the negative press coverage, swung sharply against the provision.<sup>729</sup> Had the Sessions amendment been the only amendment offered on the bill, it probably would have passed<sup>730</sup>—it seemed inevitable that the House would simply re-pass the same bill that it had passed in June, minus a provision that was now viewed much more negatively than it had been when it was first adopted.<sup>731</sup>

The Sessions amendment was not the only amendment that was scheduled to receive a vote before final passage of the AIA, however.<sup>732</sup> The Senate had entered into a unanimous-consent agreement that provided for a vote on the Coburn amendment after the Sessions amendment.<sup>733</sup> And that amendment, which would have restored to the bill a USPTO revolving fund that powerful House appropriators had objected to,<sup>734</sup> was viewed as an addition to the AIA that the House would not accept.<sup>735</sup>

Moreover, when a major, long-sought bill is finally on the verge of going to the President, members often can be persuaded to oppose all amendments simply in order to conclude the legislative process and avoid jeopardizing the bill by sending it back to the other body.<sup>736</sup> Once one amendment passes, however, amendment discipline tends to break down, and other amendments pass as well, because the argument that the bill can be sent straight to the

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<sup>727</sup> *Id.* at S5420 (statement of Sen. McCain). *See also id.* (“Why is this provision in the patent reform bill? One reason: special interest lobbying to convince Congress to relieve the company and its law firm from their mistakes.”). Senator McCain later submitted a statement for the Record in which he indicated that he voted against the AIA on final passage because of its inclusion of § 37. *See id.* at S5442. Informal interviews with staff later indicated that at least half of the Senators who voted against the AIA on final passage did so solely or primarily because of § 37.

<sup>728</sup> Duffield Interview, *supra* note 140.

<sup>729</sup> *Id.*

<sup>730</sup> *Id.*

<sup>731</sup> *Id.*

<sup>732</sup> *See* 157 CONG. REC. S5377 (Sept. 8, 2011).

<sup>733</sup> *Id.*

<sup>734</sup> 157 CONG. REC. S5419 (Sept. 8, 2011) (text of amendment); 157 CONG. REC. S5373 (Sept. 7, 2011).

<sup>735</sup> 157 CONG. REC. S5438 (Sept. 8, 2011).

<sup>736</sup> Duffield Interview, *supra* note 140.

President no longer applies.<sup>737</sup> Thus the AIA bill managers feared that if the Sessions amendment were adopted, although that amendment itself was unlikely prevent quick House passage of a final bill, it would lead to passage of the Coburn amendment, whose adoption would eliminate any clear path to the enactment of the bill.<sup>738</sup>

In the end, the Sessions amendment was only defeated by a vote of 47-51.<sup>739</sup> It is likely that the added pressure to defeat the amendment that was created by its potential impact on the subsequent vote on the Coburn amendment was decisive in preserving § 37.<sup>740</sup>

The Senate Printing and Graphics office prints formal display versions of final public laws, which are known as redlines.<sup>741</sup> These documents are printed on ten-inch by fifteen-inch parchment, have a red border, and consist of the first and last page of the public law.<sup>742</sup> The AIA redline has been a popular item among the many members, congressional staff, USPTO employees, patent lawyers, and many others who devoted countless hours to the deliberations, negotiations, and drafting that produced the AIA. The final item that is visible on the AIA redline, however, is § 37.<sup>743</sup> Its presence there is a reminder that nothing about the AIA was inevitable or entirely predictable, and that even

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<sup>737</sup> *Id.*

<sup>738</sup> *Id.*

<sup>739</sup> 157 CONG. REC. S5436 (daily ed. Sept. 8, 2011).

<sup>740</sup> Duffield Interview, *supra* note 140. If § 37 had been stripped from the AIA, The Medicines Company might still have preserved its patent term extension through litigation. Indeed, a federal district court earlier had ruled that the Angiomax PTE had, in fact, been filed within 60 days of the FDA's approval of Angiomax. *See Medicines Co. v. Kappos*, 731 F. Supp. 2d 470, 483 (E.D. Va. 2010). That district court decision, however, was on appeal at the time that § 37 was enacted, *see* SEC filing, *supra* note 707706, at 29, and it principally depended on the district court's conclusion that the day that Angiomax had "received permission for commercial marketing or use" from the FDA (and the 60-day clock had begun to run) must be a different (and later) day than the day that "commercial use or marketing of [Angiomax] was permitted" by the FDA (and thus the company could begin marketing and selling the drug). *See Medicines Co.*, 731 F. Supp. 2d at 479. Because it is far from certain that the Federal Circuit would have attributed the same significance (or any significance whatsoever) to the distinction between "receiving permission" from the FDA and "being permitted" by the FDA—particularly if that court were inclined to give any deference to an administrative agency in its interpretation of the time limits governing the agency's proceedings—it is unsurprising that the affected parties, despite their victory in the district court, did not abandon their efforts to secure enactment of § 37.

<sup>741</sup> Telephone Interview by Beatrice Gatti with Dana Colarulli, Director of Governmental Affairs, USPTO (Apr. 12, 2012).

<sup>742</sup> *Id.*

<sup>743</sup> *Id.*

the best laid plans and most thorough preparations cannot eliminate the role of chance in life.

## **Conclusion**

There likely will be an effort in Congress to amend those parts of the AIA that do not read as Congress had intended—an effort to repeal, for example, the could-have-raised estoppel that was applied to post-grant review for civil litigation, and to give the new § 298 advice-of-counsel rule a proper effective date. And there is already talk of addressing other unfinished business—extending the prior-user defense to protect substantial investments in the manufacture of consumer products, limiting the availability of injunctions in ITC proceedings, and whether something can be done about the fact that such a grossly disproportionate share of patent cases is filed in the Eastern District of Texas.

After the enactment of the AIA, however, the important developments in the patent system will occur primarily in the Federal Circuit and the USPTO. It is there that it will be determined whether the AIA's provision of additional resources to the USPTO and its reform of patent rules and procedures will result in a reduction in the application backlog and an increase in patent quality; whether the signals sent by the Supreme Court and by parts of the AIA will result in a more conservative tailoring of the definition of patentable subject matter; whether the new post-grant review and the reformed inter partes review—and section 18 proceedings—will function as an efficient alternative to litigation, and could be extended beyond their AIA limits; and whether the AIA and recent judicial decisions will achieve the goal of eliminating subjective elements from patent law and creating an objective, transparent, and less expensive patent system. The interpretation, implementation, and absorption of these and other elements of the AIA is a task that will occupy the USPTO and the courts for many years to come.