

Intellectual Property Brief

Volume 4 | Issue 3

Article 5

7-10-2013

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Recommended Citation

Mikhalev, Mikhael. "The Prior User Rights Defense: Working Silently in the Background to Change the Way Businesses Protect Their Inventions." *Intellectual Property Brief* 4, no. 3 (2013): 72-84.

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The Prior User Rights Defense: Working Silently in the Background to
Change the Way Businesses Protect Their Inventions

THE PRIOR USER RIGHTS DEFENSE: WORKING SILENTLY IN THE BACKGROUND TO CHANGE THE WAY BUSINESSES PROTECT THEIR INVENTIONS

by Mikhael Mikhalev¹

I. THE AMERICA INVENTS ACT

The Leahy-Smith America Invents Act (AIA) was signed into law on September 16, 2011,² and includes the most substantial changes to the patent laws since they were codified in 1952.³ The purpose of the changes include minimizing unnecessary litigation costs, improving patent quality, harmonizing the U.S. system with the best parts of other major patent systems, encouraging U.S. manufacturing, and ensuring that the U.S. patent system fulfills the Constitutional imperative⁴ to “promote the Progress of Science and useful Arts.”⁵

Among the many changes to the laws, the most important changes help transition the U.S. patent system from a first-to-invent to a first-to-file system of awarding patents.⁶ Under the new laws, an inventor obtains priority for a patent right based on his or her date of filing their patent application, not the date they conceived the invention.⁷ Through these changes, the patent laws will now better promote progress by granting an exclusive patent right to the first person to file a patent application, thus encouraging early disclosure. Disclosure will allow others to build upon the advances described in the patent application. This will increase the public storehouse of knowledge and rapidly increase the progress of science.⁸

However, the AIA does carve out a defense to

infringement that may avail a first inventor that is not the first-to-file a patent application. The AIA expands an already existing defense to infringement based on prior commercial use, commonly referred to as the “prior user rights defense.”⁹ This defense may protect a party that was first to invent the patented invention,¹⁰ but did not file for a patent and instead, commercially used the invention for one year.

The prior user rights defense is necessary in balancing the equitable interests of an earlier user with the goals of promoting disclosure and accelerating innovation that are central to our patent system.¹¹ This balance is met by allowing the earlier inventor/user to continue uninterrupted commercial use of the invention, while also allowing the later inventor (who filed for a patent and disclosed the invention) to obtain a patent enforceable against all others.¹²

However, critics of the expanded prior user rights defense claim that it will negatively impact innovation, start-up enterprises, small businesses, or individual inventors.¹³ These critics argue that this defense makes patents less valuable, and that small businesses and individual inventors will not be able to take advantage of the defense because they often do not have the manufacturing capabilities to obtain prior user rights.¹⁴ Others argue that the defense will encourage companies to keep their inventions as trade secrets, thereby stifling innovation by not allowing other parties to build upon a patent disclosure.¹⁵

1. Mikhael obtained his J.D. at the S.J. Quinney College of Law at the University of Utah and is currently employed at Maschoff Brennan, scheduled to sit for the Utah bar in July 2013. The views expressed in this article by the author are those of the author and are not to be attributed to employers or clients.

2. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified as amended in scattered sections of 35 U.S.C.).

3. Patent Act of 1952, Pub. L. No. 82-593, 66 Stat. 792 (1952); H.R. REP. NO. 112-98, at 38 n.4 (“Congress has not enacted comprehensive patent law reform in nearly 60 years.”).

4. H.R. REP. NO. 112-98, at 38-40.

5. U.S. CONST. art. I, § 8, cl. 8.

6. H.R. REP. NO. 112-98, at 42.

7. *Id.*

8. See generally William Fisher, *Theories of Intellectual Property*, in *NEW ESSAYS IN THE LEGAL AND POLITICAL THEORY OF PROPERTY* (Cambridge University Press, 2001), available at <http://www.law.harvard.edu/faculty/tfisher/iptheory.html> (discussing the moral and philosophical justifications for intellectual property rights).

9. H.R. REP. NO. 112-98, at 44.

10. *But see* 35 U.S.C. § 273 (2011) (illustrating that the requirements of the prior user rights defense do not include that the prior user be the first inventor).

11. Gary L. Griswold & F. Andrew Ubel, *Prior User Right—A Necessary Part of a First-to-File System*, 26 J. MARSHALL L. REV. 567, 572 (1993).

12. *Id.*

13. See Charles R.B. Macedo, *First-to-File: Is American Adoption of the International Standard in Patent Law Worth the Price?*, 18 AIPLA Q.J. 193, 228 (1990) (arguing that big companies will still be able to outspend small companies in obtaining prior user rights, giving them an unfair advantage).

14. Chris P Konkol, *Prior-Invention Rights: The Excluded Middle*, 77 J. PAT. & TRADEMARK OFF. SOC’Y 666, 670 (1995); Edward L. MacCordy, *The Threat of Proposed Patent Law Changes to the Research University*, 20 J.C. & U.L. 295, 303 (1994).

15. See Nicholas Mattingly, *Prior User Rights: Rewarding Those Who Don’t Contribute*, IPWATCHDOG (Mar. 11, 2012, 1:56 pm), <http://www.ipwatchdog.com/2012/03/11/prior-user-rights->

This Article will examine the structure of the prior user rights defense, as well as its potential impact on litigation and the United States patent system as a whole. It will discuss the entities that will benefit from this new system and how these policy changes will affect the way businesses operate.

II. THE STRUCTURE OF THE PRIOR USER RIGHTS DEFENSE

The old version of the prior user rights defense was codified in 35 U.S.C. § 273 in 1999, and was limited only to business method patents. It was enacted in response to *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*,¹⁶ in which the Court of Appeals for the Federal Circuit affirmed that business methods are eligible subject matter for patenting.¹⁷ The decision created uncertainty because United States businesses could be liable for patent infringement for continued use of internal business processes that were thought to be unpatentable.¹⁸ Although this early version of Section 273 was very narrow, the *State Street Bank* decision also sparked congressional debate for broader prior user rights.¹⁹

The 2011 AIA significantly expanded Section 273 prior user rights by extending the defense to all technologies, not just business method patents.²⁰ The defense is now available to parties who 1) commercially employed the invention, 2) in the United States, 3) in connection with an internal commercial use, an arm's length sale, or an arm's length transfer of a useful end result of the commercial use, 4) more than one year before the earlier of either the filing date of the patent application or the date of public disclosure by the patentee during the patentee's grace period.²¹

Senator Leahy expressed his intent that this section be applied broadly during the Senate's September 2011 consideration of the House-passed bill:

rewarding-those-who-dont-contribute/id=22742/ (arguing that prior user rights weaken patents and protect companies that choose to prevent others from building upon their inventions by keeping them secret).

16. 149 F.3d 1368 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999).

17. *Id.*; Intellectual Property And Communications Omnibus Reform Act, H.R. REP. NO. 106-464, at 122 (1999).

18. H.R. REP. NO. 106-464, at 122 (1999).

19. *See, e.g.*, ADVISORY COMM.'N ON PATENT LAW REFORM, 102ND CONG., REPORT TO THE SEC. OF COM. (Comm. Print 1992); Patent Harmonization Act, H.R. 4978, 102d Cong. § 3 (1992).

20. *Compare* 35 U.S.C. § 273 (2006), *with amended* 35 U.S.C. § 273 (2011).

21. 35 U.S.C. § 273(a) (2012).

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.²²

The AIA includes several limitations to the prior user rights defense. The defense is personal and may not be licensed, assigned, or transferred unless there is an assignment or transfer of the entire business to which the defense relates.²³ The defense is geographically limited to prior uses that occur in the United States.²⁴ If a person acquires the defense through an assignment or transfer, then the defense is limited to the sites where the invention was used prior to the critical date.²⁵ Furthermore, the defense may not be raised against patents owned by or assigned to universities or affiliated technology transfer organizations.²⁶ A party may lose the ability to assert the defense if they have abandoned commercial use of the subject matter at issue.²⁷

The prior user rights defense is also limited to parties acting “in good faith.”²⁸ In addition, the party asserting the defense must be a true inventor: a person may not assert the prior user rights defense if the subject matter was *derived* from the patentee or persons in privity with the patentee.²⁹

Two provisions of the new Section 273 are aimed at discouraging frivolous litigation. First, a defendant asserting the prior user rights defense must prove the requisite elements by clear and convincing evidence.³⁰ Second, if a party asserts the prior user rights defense without a reasonable basis, the court “shall” find the case exceptional for the purpose of awarding attorney fees.³¹

22. 157 CONG. REC. S5440 (daily ed. Sept. 8, 2011) (statement of Sen. Leahy).

23. 35 U.S.C. § 273(a)(1) (2012).

24. *Id.* § 273(e)(1).

25. *Id.* § 273(e)(1)(C).

26. *Id.* § 273(e)(5).

27. *Id.* § 273(e)(4).

28. *Id.* § 273(a)(1).

29. *Id.* § 273(e)(2).

30. *Id.* § 273(b).

31. *Id.* § 273(f).

III. THE PRIOR USER RIGHTS DEFENSE WILL LIKELY NEVER BE SUCCESSFULLY ASSERTED IN LITIGATION

Although the AIA constitutes a major policy change that will shift the balance of patent rights, the prior user rights defense will rarely be asserted in litigation. Instead, the prior user rights defense will lurk in the background and substantially change the way our patent system operates. Companies may choose to protect their inventions with trade secrets instead of patents. University patents will become stronger because they are not subject to the defense, and companies will be encouraged to license and acquire university patents. Non-practicing entities will have a more difficult time asserting their patent rights, and instead will be encouraged to quickly license or assign their patents to manufacturers. Although these changes will be substantial, they will not significantly impact patent litigation.

A. Many Alleged Infringers Will Not Qualify for the Prior User Rights Defense

The statute sets out many conditions that must be met before the defense applies. Dennis Crouch, a notable patent commentator, described the requirements as being “like the eye of the needle” and “difficult to pass through.”³² Many prior users will not qualify for the defense,³³ and few companies will be willing to “bet their factory” on successfully asserting this defense.

The first major hurdle is the timing requirement. An accused infringer must be able to show that they began to commercially use the invention at least one year before the patentee’s filing date.³⁴ Alternatively, if the patentee publicly disclosed the invention before filing then the accused infringer must show commercial use even further in advance of the filing date, all the way back to one year before the date of public disclosure.³⁵

Inventors who choose not to file a patent application and instead decide to keep their invention secret are subject to a long period of uncertainty. Assuming the inventor has access to all pertinent

public disclosures, the inventor must still “sweat it out” for one year in the hopes that no other true inventor files for a patent application during that time period. Furthermore, if someone else did in fact file a patent application within the one-year time period, inventors that decided to keep their invention secret would not find out about the application until it is published by the USPTO eighteen months later.³⁶ Thus, inventors that choose to keep their inventions secret have up to two and a half years of uncertainty before they will know whether they satisfy the timing requirement of Section 273.

With such a long period of uncertainty, many qualifying prior uses may be irrelevant and no longer in use by the time that the USPTO issues the relevant patent. Financial constraints on the USPTO have caused a severe backlog, leading to a delay of several years for an average patent application to be issued as a patent.³⁷ Many recently issued U.S. patents have an effective filing date of more than four years earlier.³⁸ This means prior users may have a window of at least five years to legally practice the invention without needing the prior user defense.³⁹ In some practice areas, five years is enough to make a technology obsolete because a user can move to a different, improved technology.⁴⁰

The statute also requires good faith and prohibits derivation.⁴¹ The party asserting the defense must have independently invented the claimed invention. Reverse engineering, observation, or any other methods of obtaining the invention from the patent owner are prohibited.⁴² Independent invention by two separate parties is not common in most technological fields, so the circumstances under which the prior user rights defense may be raised are unusual. Furthermore, independent invention by more than one party may support a finding of patent invalidity for obviousness, which is discussed below.⁴³

The defense may not be asserted against institutions of higher education and associated

32. Dennis Crouch, *Prior User Rights Defense*, PATENTLYO (Feb. 1, 2011), <http://www.patentlyo.com/patent/2012/02/prior-user-rights-defense.html>.

33. Prior User Rights: Strengthening U.S. Manufacturing and Innovation, Hearing Before the Subcomm. on Intellectual Prop., Competition & the Internet of the H. Comm. on the Judiciary, 112th Cong. 78, at 67 (2012) (prepared statement of Dennis Crouch).

34. 35 U.S.C. § 273(a)(2)(A) (2012).

35. *Id.* § 273(a)(2)(B).

36. See 37 C.F.R. § 1.211 (2005) (requiring the USPTO to publish patent applications promptly after the expiration of a period of eighteen months from the earliest filing date).

37. Crouch, *supra* note 32.

38. *Id.*

39. *Id.*

40. *Id.*

41. 35 U.S.C. § 273(a)(1), (e)(2) (2012).

42. See *id.* § 273 (e)(2) (“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.”).

43. See *infra* part 2.D.

technology transfer offices.⁴⁴ From 1969 to 2008, 58,701 patents have been granted to universities.⁴⁵ Although university-owned patents represented only 1.46% of all granted utility patents,⁴⁶ this number is still significant and will prevent some defendants from asserting the prior user rights defense because the patent is owned by a university.

Furthermore, the university exception will result in universities playing an increasing role in the patent landscape because their patents will be invulnerable to the prior user rights defense. Companies will prefer to license university patents because they will provide a more predictable and stronger exclusive right. The university exception may also encourage companies to fund university research, because the patent rights a university can acquire are stronger than that of a private research firm. The percentage of total patents filed by universities will likely increase with the passage of the AIA, and thus so will the amount of patents invulnerable to the prior user rights defense.

Finally, Section 273 only applies to patents issued on or after the effective date of the AIA on September 16, 2011.⁴⁷ As of May 1, 2012, there were approximately 2.1 million U.S. patents in force.⁴⁸ Less than 150,000 of those were issued after the effective date of the AIA.⁴⁹ Thus, the prior user defense will not be applicable to most patents in force, but this will change over time as more patents are issued.

Even if a defendant is able to meet all of the requirements for asserting the prior user rights defense, strategic concerns will often encourage a party to take an alternative course of action.

B. Many Defendants will Prefer an Invalidity Defense Instead of the Prior User Rights Defense

If both invalidity and prior user rights are available as a defense, then a defendant is better off asserting invalidity. Invalidity does not come with as many restrictions and limitations as the prior user

rights defense. Furthermore, asserting prior user rights in litigation may be risky because an alleged infringer must admit that their actions would otherwise constitute infringement and the scope of the prior user rights defense is uncertain because there is no case law on the topic.

Invalidating a patent is more attractive to an alleged infringer because there is no one-year commercial use requirement.⁵⁰ Also, invalidity does not include a site restriction, and prior art is not limited to activity in the United States.⁵¹ Further, the invalidity defense may be asserted against university patents.⁵² Finally, invalidating a patent may protect assignees, licensees, and other affiliates from charges of infringement.⁵³

In the prior user rights defense, the burden of proof is on the defendant to establish a prior commercial use by clear and convincing evidence, which is the same burden as invalidity.⁵⁴ However, in most cases it will be clear to a defendant whether they have enough evidence to establish a prior commercial use. Companies cannot do business without records, and the records of commercial use are normally voluminous and easy to access and to prove.⁵⁵

50. 35 U.S.C. § 282 (2012) (defining the defenses to infringement as not providing for a site restriction or requiring a commercial use).

51. *Compare* 35 U.S.C. § 273 (requiring prior user rights activity to occur in the United States), *with* 35 U.S.C. § 102 (2012) (describing prior art for novelty and loss of right to a patent).

52. 35 U.S.C. § 273(5).

53. *Compare* 35 U.S.C. § 273(e)(1)(A) (providing that the prior user rights defense is a personal defense, which may only be asserted by the party that commercially used the invention), *with* 35 U.S.C. § 282 (2012) (not restricting the invalidity defense). Therefore, in many situations, contracting parties may be subject to an indemnity clause that will encourage the indemnifying party to assert invalidity because the defense will be effective for both parties.

54. 35 U.S.C. § 273(b) (“A person asserting [the prior user rights defense] shall have the burden of establishing the defense by clear and convincing evidence.”); *see also* 35 U.S.C. § 282 (stating that a granted “[p]atent shall be presumed valid” and that the party asserting invalidity has the burden to overcome this presumption, but without specifying an evidentiary standard). However, the Federal Circuit requires parties to prove invalidity by clear and convincing evidence. *Pfizer, Inc. v. Apotex, Inc.*, 480 F.3d 1348, 1359 (Fed. Cir. 2007) (“[T]he patent challenger bears the burden of proving the factual elements of invalidity by clear and convincing evidence.”). Some scholars have argued in favor of reducing this standard. *See* Etan S. Chatlyne, *The Burden of Establishing Patent Validity: Maintaining a Heightened Evidentiary Standard Despite Increasing “Verbal Variances,”* 31 *CARDOZO L. REV.* 297, 319-20 (2009) (discussing the arguments for reducing the standard but ultimately arguing in favor of retaining the clear and convincing standard).

55. Charles L. Gholz, *Prior User Rights*, *THE NEW PATENT LAW AND WHAT IT MEANS TO YOU*, OBLON SPIVAK (2011), *available at* <http://www.ieeeusa.org/calendar/seminars/AIA-seminar/documents/>

44. *Id.* § 273(e)(5).

45. USPTO PATENT TECHNOLOGY MONITORING TEAM, *U.S. Colleges and Universities Utility Patent Grants 1969-2008*, PTMT LIST OF VIEWABLE REPORTS (Dec. 20, 2010), http://www.uspto.gov/web/offices/ac/ido/oeip/taf/univ/asgn/table_1_2008.htm.

46. *Id.*

47. 35 U.S.C. § 273 (2012).

48. Dennis Crouch, *How Many US Patents are In-Force?*, *PATENTLYO* (May 4, 2012), <http://www.patentlyo.com/patent/2012/05/how-many-us-patents-are-in-force.html>.

49. *Id.*

From the very nature of business, if there is truly a commercial use, there will be evidence documenting the use such as equipment invoices, receipts, employee testimony, and internal memorandums.

In addition to the high burden of proof, defendants will be cautious in asserting the prior user rights defense because the defense is subject to an attorney's fee shifting provision. Under 35 U.S.C. § 273, if the prior user rights defense is pleaded without a reasonable basis, the case *shall* be declared an exceptional one for the purpose of awarding attorney's fees.⁵⁶ This provision takes away the broad discretion that courts usually have to award attorney's fees.⁵⁷ Defendants may be accused of not having a reasonable basis to assert this defense unless they produce a separate opinion of counsel, which would put a substantial burden on the defendant. The risk this attorney's fee shifting provision places on the defendant is a deterrent to the assertion of a prior user rights defense.

The invalidity defense applies to a broader range of infringement actions than the prior user rights defense. Invalidity renders the entire patent ineffective against a defendant.⁵⁸ On the other hand, the prior user rights defense is *not* a general license.⁵⁹ It is limited only to the specific subject matter of the established commercial use.⁶⁰ There are two exceptions to this limitation: 1) the prior user may increase the quantity or volume of the prior use and 2) the prior user may make improvements to the prior use, but only as long as the improvements do not infringe the asserted patent.⁶¹

1. The First Exception: Increasing the Quantity or Volume of the Prior Use

The first exception allows a prior user to expand quantity or volume of a prior use, but to what

extent? Without any judicial interpretation the lines are unclear. For example, hypothetical Chair Company manufactures chairs that are subject to Patent X, and they have a prior user rights defense for this use, but Chair Company wants to expand its production. If Chair Company has room in their factory, they can probably safely buy more of the same equipment they use to produce the patented chairs. But, can Chair Company open a new factory in Omaha, and buy more equipment for that factory?

The USPTO has interpreted the prior user rights defense to be geographically limited to cover only those sites where the invention was used before the critical date.⁶² To support this interpretation the USPTO cites what is now codified as 35 U.S.C. § 273 (e)(1)(C),⁶³ but this section appears to limit the site restriction only to circumstances where the prior user rights defense was acquired by a party as part of an assignment or transfer.⁶⁴

If the USPTO's interpretation of site restriction is correct, to what extent does it apply? Can Chair Company purchase the vacant lot next to their chair factory and expand its production facility, or is that considered a new site? If Chair Factory already owns the vacant lot and it simply wants to make its existing factory bigger, then that would probably be considered part of the same site, and simply a permissible increase in the "quantity or volume of use of the claimed subject matter."⁶⁵ However, it would be difficult to apply a site restriction without rendering ineffective the provision of the Act that allows a party to increase the quantity or volume of production.

Furthermore, the site exception draws an arbitrary and unfair distinction between companies that are easily able to expand into surrounding areas and companies that are not. To build on the above hypothetical, both Chair Company and Stool Builder have prior user rights for patented chairs. Chair Company owns a factory on a hundred-acre site in the Utah desert. Stool Builder's factory is located in downtown New York City where expansion is impractical. Both Stool Builder and Chair Company

GholzPRIORUSERRIGHTS22Oct11.pdf.

56. 35 U.S.C. § 273(f) (2012) (referring to 35 U.S.C. § 285 that applies generally to patent infringement cases and provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party").

57. In determining whether or not a case is "exceptional" under Section 285, courts look at "the totality of the circumstances." *Yamanouchi Pharm. Co., Ltd. v. Danbury Pharmacal, Inc.*, 231 F.3d 1339, 1347 (Fed. Cir. 2000).

58. 35 U.S.C. § 102 (2012) (describing prior art that may anticipate a patent).

59. 35 U.S.C. § 273(e)(3) (2012).

60. *Id.*

61. *Id.* ("[T]he 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.").

62. U.S. PATENT AND TRADEMARK OFFICE, REPORT ON THE PRIOR USER RIGHTS DEFENSE 1, 7 (2012), available at http://www.uspto.gov/aia_implementation/20120113-pur_report.pdf.

63. *Id.*

64. See 35 U.S.C. § 273(e)(1)(C) (2012) ("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.").

65. *Id.* § 273(e)(3).

want to expand their prior use under the “quantity or volume of use” exception. There is no reason why Stool Builder should not be able to open a new separate site in Utah simply because it doesn’t have a large location like Chair Company, who can expand on the land where its factory is located. In this sense the USPTO’s site exception may unfairly restrict parties with a proper prior user rights defense.

However, a site exception may make sense in some circumstances. Say Bobby Builder has a prior commercial use because he built ten of the Patent X patented chairs in his garage and sold them in arm’s length transactions on the Internet over one year ago. Bobby obtained a ten-million dollar loan from the bank and now wants to expand his chair making enterprise by building factories in all fifty states. If the site restriction in Section 273 did not apply to Bobby because he is the original prior user, then Bobby would have an unlimited right to expand his minor prior use. This would be an unreasonable extension of Bobby’s prior user rights defense and an unfair abrogation of the Patent X right to exclude because Bobby’s minor prior use does not justify an expansion of Bobby’s enterprise to create an enormous national corporation.

An analysis of the legislative history of the AIA indicates that Congress intended the site exception to apply only in cases of a transfer of prior user rights. Section 273 (e)(1)(C) was copied identically from the pre-AIA Section 273 (b)(7), with little discussion regarding the site exception.⁶⁶ However, a 1999 AIPA Committee Report did comment on the site exception’s application, stating:

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

66. See Joe Matal, *A Guide to the Legislative History of the America Invents Act: Part II of II*, 21 FED. CIR. B.J. 540 (2012), 570-71, available at http://www.uspto.gov/aia_implementation/guide_to_aia_part_2.pdf (exhaustively describing the legislative history of Section 273(e)(1)). Compare 35 U.S.C. § 273(e)(1)(C) (2012), with 35 U.S.C. § 273(b)(7) (2006).

ingredients.⁶⁷

Thus, Congress intended the site restriction to only apply in cases where a business was transferred along with the prior user right. A site restriction is not mentioned anywhere else in either parts of the report on the legislative history of the AIA.⁶⁸

Ultimately, courts may have to decide to what extent a prior user may expand the quantity or volume of their prior use, and whether a site restriction applies to limit this expansion. However, it may be unlikely that this issue will ever be litigated because the risks of litigating prior user rights will be outweighed by other options that the accused infringer has to defend the suit. Furthermore, courts have not interpreted these prior use exceptions, and a party would be subject to significant uncertainty in asserting a prior use defense. This uncertainty is significantly lower for invalidity because of well-established case law.⁶⁹

2. The Second Exception: Improvements not Covered by the Patent

The second exception has the potential to create a huge barrier for a prior user’s ability to assert the defense. Although the second exception permits the prior user to make improvements,⁷⁰ the prior user is prohibited from improving its production process when its prior use does not cover *all* of the subject matter asserted in the patent.⁷¹ This exception may also work to reign in increases in quantity or volume that are permitted in the first exception because increases in production capacity will often be accompanied by improvements to the production process. If such improvements are covered by the patent, then the prior user will not be able to expand his production process through the improvements.

This can be best illustrated by building on our Bobby Builder example. Bobby has a prior use from building patented chairs in his garage, but he wants to expand his prior use nationally. Although Bobby built the chairs by hand, if his process is going to be commercially viable on a national scale, he must automate the production process so the chairs

67. H.R. REP. NO. 106-287, at 49 (1999).

68. Matal, *supra* note 66; Joe Matal, *A Guide to the Legislative History of the America Invents Act: Part I of II*, 21 FED. CIR. B.J. 436 (2012), available at http://www.uspto.gov/aia_implementation/guide-to-aia-p1.pdf.

69. However, the AIA does modify 35 U.S.C. § 102, so there is still the possibility for uncertainty.

70. 35 U.S.C. § 273(e)(2) (2012).

71. *Id.* § 273(e)(3).

can be produced on an assembly line. Unfortunately for Bobby, various aspects of assembly-line chair manufacturing and automation are covered by Patent X. Thus, Bobby is foreclosed from expanding his production process on a national level regardless of whether there is a site limitation in Section 273.⁷²

The second limitation on improvements also limits a prior user's options in litigation. Bringing up the prior user rights defense may be a bad strategic move for an accused infringer because it may act as an admission of infringing activity. In effect, accused infringers may have to choose between asserting the defense and arguing that their activities are non-infringing.

C. Prior User Rights and the Markman Hearing

To successfully assert the prior user rights defense, the prior user must argue that his actions are within the scope of the asserted patent.⁷³ The claims relating to the scope of the patent are decided as a matter of law by the court during a Markman hearing, often early in litigation.⁷⁴ At that time, the accused infringer must decide whether to argue that the patent is broad or narrow in scope. If the accused infringer argues that the patent is narrow in scope, he may establish that his actions are non-infringing because they are not covered by the claims. However, if an accused infringer argues that the patent is broad in scope, he may establish that his prior use is covered by the scope of the patent. A conflict arises because an accused infringer will not be able to effectively argue both non-infringement and prior user rights, and he must decide on a particular strategy before the case is fully developed.

This conflict does not exist for invalidity defenses because invalidity renders the entire patent invalid, regardless of potential infringing activity and claim interpretation.⁷⁵ An accused infringer can argue that the patent is narrow in scope during the Markman hearing and then later assert that the patent is invalid. The litigation risk of asserting the prior user rights defense depends on the timing of the Markman hearing, which may vary significantly depending on jurisdiction and judicial discretion.⁷⁶

D. The Invalidity Defense Will Be Available in Most Circumstances Where Prior User Rights Are Asserted

If a defendant is able to assert a prior user rights defense, in most circumstances he will also have good arguments for invalidity. The two ways a patent may be invalidated in the context of prior user rights is through anticipation⁷⁷ and obviousness.⁷⁸

After the AIA comes into full force, obviousness will become a defendant's best argument for invalidity in prior user rights scenarios. Under 35 U.S.C. § 103, patentees are prohibited from obtaining patents for obvious inventions.⁷⁹ Courts will look at a variety of factors to determine whether a patent was granted for an obvious invention.⁸⁰

Prior user rights scenarios will usually invoke many factors that favor obviousness. Prior user rights require multiple instances of independent creation of the same invention, which strongly indicates that an invention was obvious.⁸¹ The existence of prior user rights will often be accompanied with market forces or design incentives that prompted a patentee to create a predictable variation.⁸²

A defendant's case for invalidity will be further bolstered by the fact that the later filed patent must have a priority date that is at least one year later than the user's date of commercial use.⁸³ Courts will have little qualms with finding a patent obvious in cases where the inventor was not the first to invent, by a whole year, and then later asserted the patent against

with *Markman Hearings*, 7 U. FLA. J. TECH. L. & POL'Y 196, 198 (2002), available at http://ipmall.info/hosted_resources/Markman/malek.pdf ("Most U.S. District Courts do not have a prescription for the timing of Markman hearings. Therefore, in most jurisdictions, a Markman hearing can be held at any time during the patent litigation (e.g., anytime between the beginning of discovery to just before jury instructions are given by the judge).")

77. 35 U.S.C. § 102(a) (2012).

78. *Id.* § 103(a).

79. *Id.* ("A patent may not be obtained . . . if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.")

80. *See* *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007) (providing a thorough analysis of obviousness factors).

81. *Id.*; *Crouch*, *supra* note 32 ("[T]he existence of multiple independent creators of the same invention tends to suggest that the invention itself was obvious and therefore unpatentable.")

82. *KSR Int'l Co.*, 550 U.S. at 417 (reasoning that Section 103 likely bars patentability if market forces or design incentives prompted predictable variations of a technology).

83. *Crouch*, *supra* note 32.

72. 35 U.S.C. § 273(e)(3) (2012).

73. *Id.*

74. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 388–91 (1996).

75. *See generally* 35 U.S.C. § 282 (2012) (presenting defenses to patent infringement).

76. Mark R. Malek, *Markman Exposed: Continuing Problems*

an earlier inventor. This is especially true for courts that are transitioning from a first-to-invent system that traditionally rewards a first inventor with patent rights.

Claiming invalidity for anticipation under 35 U.S.C. § 102(a) will be more difficult for a defendant to argue but may be appropriate in some circumstances. As amended by the AIA, 35 U.S.C. § 102(a) states that a person shall not be entitled to a patent if the invention was “patented, described in a printed publication, or in public use, on sale, or otherwise available to the public” before the effective filing date.⁸⁴ Thus, Section 102(a) sets out categories of prior art that will anticipate and invalidate a patent if it was available to the public before the filing date.

A prior commercial use may indicate that invalidating prior art may be available. The categories of prior art that would be most useful to a prior commercial use defendant are “public use, on sale, or otherwise available to the public.”⁸⁵ In litigation, a defendant may have to decide whether to argue that their prior commercial use was public or private. If a defendant’s prior commercial use is public enough to qualify as “available to the public,” then the patent is invalid.⁸⁶

The circumstance where an alleged infringer will have a prior use defense but will not have an invalidity defense will be very rare. The alleged infringer’s use must be a trade secret that does not qualify as prior art under Section 102.⁸⁷ However, if the prior commercial use was truly secret, it is very unlikely that a prior commercial user would be charged with infringement in the first place. Thus in many scenarios where a patentee brings suit against a party that can assert a prior user rights defense, the defendant has a good argument that their actions were public enough to constitute prior art to invalidate the patent.

Where prior user rights can be successfully asserted in litigation, a defense of invalidity for obviousness or anticipation will almost always be available and preferable. Currently, patents are commonly litigated on the basis of invalidity: approximately 2800 patent invalidity suits are filed

annually.⁸⁸ Of those, 97% are settled before trial.⁸⁹ Cases involving prior user rights scenarios will be more likely to be settled than ordinary invalidity cases. Very few patent disputes will qualify for prior user rights, those that do qualify will likely be settled, and those that aren’t settled are more likely to be litigated for invalidity.

E. Both Plaintiffs and Defendants Have Strong Incentives to Settle in Prior User Rights Scenarios

For invalidity and non-infringement defenses, determining likelihood of success is much more difficult because it depends on claim construction, which occurs at the Markman hearing after substantial discovery.⁹⁰ However in cases of prior user rights, a defendant will usually be confident—whether or not they will be able to establish prior user rights—regardless of claim construction. This will simplify the settlement process and make prior user rights cases very unlikely to go to trial because in most circumstances the outcome of litigation will be predictable.

A patent owner who is confronted with a prior user rights defense by an accused infringer has even greater incentives to settle than the defendant. If an alleged patent infringer discloses activity that may qualify for the prior user rights defense, the patentee will be aware that the same activity could potentially invalidate the patent. In this case, the best course of action for a patentee would be to grant a license to the alleged infringer. This license would likely be similar or broader than a prior user right. That way, the patent will be insulated from invalidity, as long as the defendant’s prior commercial use is sufficiently secret. Then the patentee may still enforce the patent against others, and the defendant can get the benefit of using an exclusive right without having to spend money to enforce it.

Of course, the patent owner will never obtain damages for patent infringement damages such as lost profits or reasonable royalties. If a patent owner believes their patent will withstand an invalidity

84. 35 U.S.C. § 102(a) (2012).

85. *Id.*

86. *Id.* See generally *Egbert v. Lippmann*, 104 U.S. 333, 336 (1881) (“[T]o constitute the public use of an invention it is not necessary that more than one of the patented articles should be publicly used [S]econdly, . . . whether the use of an invention is public or private does not necessarily depend upon the number of persons to whom its use is known.”).

87. 35 U.S.C. § 102 (2012).

88. Jason Rantanen, *Patent Suit Filings for 2010 Show a Slight Rise*, PATENTLYO (Jan. 28, 2011), <http://www.patentlyo.com/patent/2011/01/patent-suit-filings-for-2010-show-a-slight-raise.html>.

89. Paul F. Morgan, *Guest Post: Microsoft v. i4i—Is the Sky Really Falling?*, PATENTLYO (Jan. 9, 2011), <http://www.patentlyo.com/patent/2011/01/microsoft-v-i4i-is-the-sky-really-falling.html>.

90. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 984 (Fed. Cir. 1995).

challenge and a prior user rights defense, then they may decide to pursue litigation, but the patent owner runs the risk of losing their entire patent to invalidity.

F. Prior Experience also Indicates that the Prior User Rights Defense will be Rarely Litigated

Previous experience with prior user rights in the United States and the world further indicates that the defense will never be successfully litigated. In the thirteen years since the prior user rights defense was created for business methods, the defense has not been successfully raised once.⁹¹ This evidence is particularly persuasive because business methods are prone to independent, prior invention.⁹² In other practice areas, the occurrence of prior user rights will be rare because independent invention is less common.

The experience of other industrialized countries also indicates that the prior user rights defense will not be litigated. The United States is the only country in the world that still employs the first-to-invent standard; every other patent-granting country awards a patent to the first inventor to file an application.⁹³ Pursuant to a congressional mandate, the USPTO conducted a lengthy study comparing the patent laws of the United States and other industrialized countries.⁹⁴ The study found that all industrialized countries employing a first-to-file system also have some form of prior user rights.⁹⁵ The study also concluded that prior user rights were rarely litigated in other countries, and will not be commonly litigated in the United States.⁹⁶ Although countries varied in the way they defined prior use, countries were similar in the fact that the defense is not commonly asserted.⁹⁷ In some countries, such as Australia, prior user rights have never been litigated.⁹⁸

Although the prior user rights defense will not be commonly litigated, it will still create a substantial change in our patent system because innovators will

have to decide whether to rely on patents, defensive disclosure publications, or trade secrets to protect their inventions.

G. Defensive Disclosures Versus Prior User Rights

In transitioning to the new patent laws, companies will have to choose whether to 1) keep their inventions secret and rely on prior user rights or 2) create “defensive disclosures” and release their inventions to the public. Defensive disclosures include publications and patent applications and operate as prior art that can be used to invalidate a competitor’s patent.⁹⁹

Defensive disclosures provide a number of advantages over prior user rights. A prior use must predate an accuser’s patent or earlier disclosure by one year, but a defensive disclosure only needs to predate an accuser’s patent or disclosure by one day.¹⁰⁰ Furthermore, a defensive disclosure can be combined with other prior art to render a patent invalid.¹⁰¹ Patents not only act as defensive disclosures, but they may also provide a valuable right to exclude competitors.

Defensive disclosures may also be less expensive than prior user rights. Publication is the least expensive disclosure option and may be practically free if published on the Internet. Patenting is considerably more expensive than publication. Prior user rights fit in somewhere in between patenting and publication because prior user rights require internal documentation which is more expensive than publication but still much less expensive than obtaining a patent.

Defensive disclosures also have certain disadvantages over prior user rights. Most obviously, a defensive disclosure requires a company to disclose to the public their hard-earned inventions. A company that discloses their invention using a defensive disclosure can lose trade secret protection for that improvement.¹⁰² Furthermore, a defensive disclosure

91. Comments from Paul Morgan, *PTO Requested Comments on the AIA “Prior Commercial Use” Defense Legislation* (Oct. 13, 2011), available at http://www.uspto.gov/aia_implementation/pur-2011oct13-paul_morgan.pdf.

92. U.S. Patent and Trademark Office, *supra* note 62, at 38.

93. *Id.* at 47.

94. *Id.* at 8.

95. *Id.* at 13.

96. *Id.* at 38.

97. Keith Kupferschmid, *Prior User Rights: The Inventor’s Lottery Ticket*, 21 *AIPLA Q.J.* 213, 223 (1993).

98. Comments from David Tadgell, Institute of Patent and Trademark Attorneys, *PTO Requested Comments on the AIA “Prior Commercial Use” Defense Legislation* (Nov. 10, 2011), available at http://www.uspto.gov/aia_implementation/pur-2011nov10-ipta.pdf.

99. See 35 U.S.C. § 102(a) (2011) (“A person shall be entitled to a patent unless . . . the invention was patented or described in a printed publication . . .”).

100. Compare 35 U.S.C. § 273 (2012) (prior user rights), with *id.* § 102 (2012) (prior art for defensive disclosures).

101. See *KSR Int’l Co. v. Teleflex, Inc.*, 550 U.S. 398, 415-23 (2007) (discussing the requirements to combine prior art references).

102. See Unif. Trade Secrets Act § 1 (1985) (“Trade secrets are defined as, information, including a formula, pattern, compilation, program, device, method, technique, or process, that: . . . is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”) Disclosure would violate these reasonable efforts. *Id.*

teaches competitors about the invention, but nothing prohibits competitors from using that information to make further improvements. This leaves the door open for competitors to develop improvements and obtain patents that exclude the company that created the original invention from using the improvements.

Prior commercial use can be continuously documented; however, a patent disclosure is created once and either published or submitted to the USPTO. Patent applications may be amended and additional publications may be published, but a company is unlikely to revisit a defensive disclosure that it has deemed adequate. A defensive disclosure may not include all the details necessary to completely invalidate a patent.¹⁰³ Prior user rights may play an important role in filling these potential gaps in defensive disclosures.

Additionally, inventors working at companies may fail to appreciate that their inventions are patentable. In such cases, companies may not file for a patent or otherwise create a defensive disclosure. In these cases continuous documentation of commercial use may step in to protect the company from infringement actions.

In cases of computer programs, processes, or manufacturing methods, trade secret protection with the benefit of prior user rights may be more appropriate than a defensive disclosure. With the Supreme Court casting significant uncertainty on patent eligible subject matter,¹⁰⁴ those inventions on the edge of subject matter eligibility may be better off with trade secret protection because there is less risk of disclosing to the public an invention that is later invalidated for a lack of subject matter eligibility.

The most comprehensive policy a company can employ is one that employs both defensive disclosures

and prior user rights.¹⁰⁵ This will require companies to 1) file for patents for major identified inventions, 2) employ a strict policy of confidentiality to protect trade secrets, and 3) document commercial activities to establish prior user rights. This policy would ensure that companies maximize their return on research and development by obtaining a valuable right to exclude; meanwhile, they would obtain prior user rights that will insulate them from patent infringement lawsuits for insignificant inventions. Furthermore, prior user rights could serve as a back-up to defensive disclosures that turn out to be insufficient to protect the company from infringement actions.¹⁰⁶

IV. THE BENEFITS OF THE PRIOR USER RIGHTS DEFENSE

Many critics of the prior user rights defense argue that this defense will weaken patents and create uncertainty. They argue that there is no way to determine whether a granted patent will be subject to prior user rights, and this will make enforcing the patent difficult.¹⁰⁷

Other critics believe that prior user rights will burden small businesses and individual inventors.¹⁰⁸ Smaller entities will have to compress the timeline in which they innovate, identify patentable innovations, and seek a patent. If an entity does not work quickly, it will either lose patent rights forever, or be subject to threats from a competitor's patent. This will create a "race to the patent office."¹⁰⁹ The critics argue that larger, established businesses will probably be able to incorporate the innovation costs, investment costs, and legal costs of a first-to-file system more easily, giving them the advantage.¹¹⁰

However, the first-to-file system along with prior user rights will actually be beneficial to small businesses because it will decrease litigation and eliminate costly priority determinations that existed

103. Peter S. Weissman, *America Invents Act's Prior Use Defense*, LEXOLOGY (Sept. 28, 2012), <http://www.lexology.com/library/detail.aspx?g=2a93e65e-b37c-491e-96da-8d275bfc92a0>.

104. See, e.g., *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1305 (2012) (holding that a process patent for correlations between blood test results and the appropriate dosage of a specific medication is not eligible for a patent because the correlation is a law of nature). The *Prometheus* decision has been heavily criticized for conflating the two separate patent law concepts of patent eligibility under 35 U.S.C. § 101 and obviousness under 35 U.S.C. § 103, as well as potentially invalidating many patents relating to the biotech, medical diagnostics and pharmaceutical industries. See, e.g., Robert R. Sachs, *Punishing Prometheus: The Supreme Court's Blunders in Mayo v. Prometheus*, PATENTLYO (Mar. 26, 2012), <http://www.patentlyo.com/patent/2012/03/punishing-prometheus-the-supreme-courts-blunders-in-mayo-v-prometheus.html>; Gene Quinn, *Killing Industry: The Supreme Court Blows Mayo v. Prometheus*, IPWATCHDOG (Mar. 20, 2012, 1:44 pm), <http://www.ipwatchdog.com/2012/03/20/supreme-court-mayo-v-prometheus/id=22920/>.

105. Weissman, *supra* note 103 (listing issues such as technical gaps that result when technological details are omitted when writing for a more sophisticated audience).

106. *Id.*

107. E.g., Robert L. Rohrback, *Prior User Rights: Roses or Thorns?*, 2 U. BALT. INTELL. PROP. L.J. 1, *16-17 (1993).

108. *Id.* at *19.

109. See Ashby Jones, *Inventors Race to File Patents: U.S. Rule Change Taking Effect Saturday Will Make Process Harder*, *Costlier*, WALL ST. J. (Mar. 14, 2003), available at <http://www.lexology.com/library/detail.aspx?g=2a93e65e-b37c-491e-96da-8d275bfc92a0>.

110. Emmett Collazo, *Patent System Reform in 2011: Costs Expected To Increase on Small Businesses*, IEEE-USA TODAY'S ENGINEER (last visited on Mar. 30, 2013), <http://www.todaysengineer.org/2011/Oct/patent-reform.asp>.

under the first-to-invent system. Under the first-to-invent system, so-called “secret prior art” may exist in the form of prior undisclosed inventions that have not been abandoned, suppressed, or concealed.¹¹¹ Such prior art may first appear during patent prosecution or during litigation.

The AIA eliminated several types of secret prior art, including prior secret invention by another inventor and prior knowledge transferred from another to the patent applicant under.¹¹² The secrecy of these prior art references created problems because patentability could not be fully evaluated by going through the arduous process of obtaining additional information from interested parties.¹¹³ Furthermore, secrecy gave interested parties more of an opportunity to create or destroy documents after the fact.¹¹⁴ Making patentability based upon publicly available information can hypothetically lead to some unfair outcomes, but it has the massive benefit of providing clear notice to anyone who takes the time to look.¹¹⁵ Both small and large businesses will acquire patent rights that are not subject to the uncertainty of this secret prior art.

The AIA retains one form of secret prior art: a prior filing of a patent application by “another inventor” will be deemed prior art as of its filing date.¹¹⁶ This is secret prior art because patent applications are kept secret by the USPTO for eighteen months after they are filed.¹¹⁷ However, this prior art is only temporarily secret because such a reference cannot be used as prior art unless and until it is made public through either publication or patenting. Thus, by the time the reference can be used it is already publically available.

Under the new system, first inventors will normally be the first to file and will obtain priority for a patent. But if they are not the first to file they will either 1) be in possession of invalidating prior art, 2) be secretly using the invention without ever being discovered, or 3) have a prior user rights defense. Only

in narrow situations will a first inventor lose the race to the patent office and not have a remedy. This perceived unfairness is necessary to encourage swift disclosure of new inventions in order to accelerate scientific research and boost progress. In all of the aforementioned scenarios, deep-pocketed litigation is not required. Small businesses and startups without lots of money will benefit from the increased security in their patents, and will be more resistant to bullying from larger litigious corporations.

Prior user rights will also encourage foreign companies to manufacture in the United States. Foreign entities’ USPTO-issued patents will be subject to prior user rights.¹¹⁸ However, the foreign entities cannot assert prior user rights based upon activities in their home countries.¹¹⁹ Thus, foreign entities can only benefit from the existence of prior user rights if their prior commercial use is in the United States.

Without prior user rights, United States businesses would be at a disadvantage to foreign companies. All major United States trading partners operate on a first-to-file system with prior user rights.¹²⁰ If the United States did not have prior user rights, domestic businesses could be liable for domestic infringement against a foreign-based company that holds a USPTO-issued patent, but the domestic business would not be able to assert a foreign patent against a foreign entity in a jurisdiction that provides prior user rights.¹²¹ This imbalance could lead to strategic decisions to locate manufacturing outside of the United States to prevent disruptions to operations or interference with the use of assets.¹²² United States interests are particularly at risk because of the high percentage of USPTO-issued patents awarded to foreign inventors.¹²³

Non-practicing entities (NPE), more commonly known as “patent trolls,” will also be disadvantaged by

111. Robert A. Armitage & Richard C. Wilder, *Harmonization: Will It Resuscitate a Patent System Suffocating Its Small Entity Users with Cost and Complexity?*, 1 U. BALT. INTELL. PROP. L.J. 116, 117-18 (1993).

112. *Compare* 35 U.S.C. § 102 (2012), with 35 U.S.C. § 102(g)–(f) (2006).

113. Dennis Crouch & Jason Rantanen, *Did the AIA Eliminate Secret Prior Art?*, PATENTLYO (Oct. 10, 2012), <http://www.patentlyo.com/patent/2012/10/did-the-aia-eliminate-secret-prior-art.html>.

114. *Id.*

115. *Id.*

116. 35 U.S.C. § 102(a)(2) (2012), formerly defined by 35 U.S.C. § 102(e) in the pre-AIA act.

117. 37 C.F.R. § 1.211 (2005) (requiring the USPTO to publish patent applications promptly after the expiration of a period of eighteen months from the earliest filing date).

118. 35 U.S.C. § 273 (2012) (covering domestic and foreign entities without distinction).

119. *Id.* (specifying that the prior commercial use must be in the United States).

120. U.S. PATENT AND TRADEMARK OFFICE, *supra* note 62, at 52.

121. Kupferschmid, *supra* note 97, at 221; Griswold, *supra* note 11, at 577.

122. Gary Griswold, Consultant and Chair Emeritus of the Coalition for 21st Century Patent Reform, Comments at the Public Hearing on the Study of Prior User Rights 12–13 (Oct. 25, 2011), available at http://www.uspto.gov/aia_implementation/20111025-prior-user-rights-transcript.pdf.

123. *See* PERFORMANCE AND ACCOUNTABILITY REPORT FISCAL YEAR 2011, 163, 165, 168 (2011), available at <http://www.uspto.gov/about/stratplan/ar/2011/USPTOFY2011PAR.pdf>. (issuing 124,252 patents to residents of foreign countries out of a total of 244,430 patents issued, amounting to over fifty percent of the total patents issued).

the existence of the prior user rights defense.¹²⁴ NPE's will not be able to assert the prior user rights defense because they do not practice their invention. However, every patent that every NPE, except for universities, owns will be subject to the prior user rights defense.¹²⁵ Thus, NPE's and other companies will have a greater incentive to quickly license or commercialize their inventions. If companies commercialize their inventions faster, consumers obtain the benefits of those inventions faster, and innovation progresses at a faster rate.

Prior user rights enhance protection available for non-patented innovations and trade secrets,¹²⁶ and may discourage patent filing in some technology sectors. At first glance this may seem to undermine the policy of disclosure to encourage innovation. However, the opposite is true. This policy will increase innovation because companies will have more freedom to operate without being worried about infringing minor patents.

As a result, small advances will be protected by trade secrets because they will not be worth expending resources on prosecuting a patent or litigating. On the other hand, major advances will still be patented because they will come with a broad right to exclude others. Both small business and large businesses will have to spend less money on litigation because they will not have to worry about infringing a patent for every small, insignificant innovation. Patents will be obtained only for those technologies that are really worth patenting.

The university exception to prior user rights was added in response to concerns expressed by the higher education community that prior user rights may impair the ability of universities to license patents on upstream research results.¹²⁷ University-derived inventions will become more valuable because their patents are excluded from the prior user rights defense.¹²⁸ In order to add security to their patents, companies may choose to forego in-house research and development and instead fund research at universities. Companies may choose to structure their university funding transactions so that when universities obtain

patents on the funded research, the companies simply obtain a royalty-free, potentially exclusive license. Universities will benefit from this extra funding, and by combining them with government grants, the universities potentially may become major players in certain patent-related industries.

V. CONCLUSION

The American Invents Act will produce some major changes to our patent system. The change from a first-to-invent to a first-to-file system and the accompanying prior user rights will have the greatest impact on the way companies do business. However, the impact will not be felt by significantly increasing litigation. The prior user rights defense will rarely be asserted, and most litigation will continue to focus on patent validity.

Instead, the changes will occur in the way businesses operate. Some will choose to protect their inventions with trade secrets instead of patents because the prior user rights defense bolsters existing protections for trade secrets. Most will continue to obtain patents on more important inventions because patents grant a powerful right to exclude that which trade secrets do not. Furthermore, universities will become increasingly bigger players in the patent community, and private funding of universities will increase.

Both small businesses and larger corporations will see a decrease in litigation as there will no longer be complex priority battles with changing dates of conception and reduction to practice. Instead, prior user rights will be proven by evidence of commercial use, which will be relatively easy to establish for both big and small companies. Parties will not be willing to expend significant resources litigating matters with highly predictable outcomes.

Those that will be disadvantaged because of prior user rights will be non-practicing entities and foreign companies that do not manufacture in the United States. Both types of entities will see their patents devalued by prior user rights; but these parties will not be able to assert the prior user rights defense against others as their activities will not qualify as a prior use. However, both types of entities have a solution to this problem. Foreign companies can choose to relocate manufacturing to the United States, and non-practicing entities may quickly assign or license their patents to manufacturers. Bringing infringement lawsuits will become a less attractive option for both types of entities. This will increase

124. Holly Forsberg, *The Attractiveness of Trolling: The Impact of Recent Judicial Activity on Non-Practicing Entities*, 12 U. PITT. J. TECH. L. & POL'Y 1, 2 (2011).

125. 35 U.S.C. § 273(e)(5) (2012).

126. U.S. PATENT AND TRADEMARK OFFICE, *supra* note 62, at 5.

127. America Invents Act: Hearing on H.R. 1249 Before the Subcomm. on Intellectual Property, Competition, and the Internet of the House Comm. on the Judiciary, 112th Cong. 97-98 (2011), (Statement of John C. Vaughn, Exec. Vice President, Ass'n of Am. Univs.).

128. 35 U.S.C. § 273(e)(5) (2011).

manufacturing in the United States and encourage innovation.

Overall, the American Invents Act will minimize unnecessary litigation costs, improve the quality of granted patents, harmonize the United States patent system with the best parts of other major patent systems, encourage domestic manufacturing, and “promote the Progress of Science and useful Arts.”¹²⁹

129. U.S. CONST. art. I, § 8, cl. 8.