

TEXAS INTELLECTUAL PROPERTY LAW JOURNAL

INTELLECTUAL PROPERTY LAW SECTION OF THE STATE BAR OF TEXAS
THE UNIVERSITY OF TEXAS SCHOOL OF LAW

MODE, METHOD, MADNESS, AND MAYHEM: SECTION 15 OF THE
LEAHY-SMITH AMERICA INVENTS ACT

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The University of Texas School of Law

Volume 21

2013

Number 3

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Prepared at the University of Texas School of Law (U.S. ISSN #1068-1000)

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TEXAS INTELLECTUAL PROPERTY LAW JOURNAL

The University of Texas School of Law

Volume 21

2013

Number 3

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The *Journal* would also like to thank several of its editors for their outstanding contributions to this issue: Yongjin Zhou, Qiong Wang, Callan Edquist, and all the Staff Editors that stuck it out when times got tough.

Finally, the *Journal* would like to thank The State Bar of Texas for its invaluable and continuing support, without which the *Journal*, the Symposium, and everything else we've accomplished this past year would not have been possible.

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Mode, Method, Madness, and Mayhem: Section 15 of the Leahy-Smith America Invents Act

Wayne A. Kalkwarf*

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I. Introduction

The biggest revision in American patent law in nearly six decades, the Leahy-Smith America Invents Act (AIA), Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified as amended in scattered sections of 35 U.S.C.), was signed into law by President Obama on September 16, 2011.¹ Despite six years and numerous unsuccessful bills attempting to reform this country's patent system,² Congress finally passed what has been called a compromised bill.³ The word "compromise" could not be more descriptive for section 15 of the statute. Congress allowed to continue the requirement that inventors must specify in a patent application the best mode or method for their inventions⁴ as inventors have been required to do for over 150 years. However, Congress also provided that the failure to reveal a patent's best mode does not render the patent invalid, or subject to challenge during litigation.⁵ This unnecessary conflict can be resolved with only one solution which certain interests, including Congress, will find extremely distasteful.

II. The Genealogical Tree of Best Mode

To understand the meaning and significance that the best mode doctrine has to patents, an examination of the doctrine's roots is warranted. Patent law owes its origin to Article I, Section 8, Clause 8 of the United States Constitution, which provides Congress with the power "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their Writings and Discoveries." From this constitutional authority, Congress enacted the first patent statute in 1790.⁶ Under section 2 of the Patent Act of 1790,⁷ the patentee was required to disclose with sufficient description:

[N]ot only to distinguish the invention or discovery from other things before known and used, but also to enable a workman or other person skilled in the art or manufacture . . . to make, construct, or use the same, to the end that the public may have the full benefit thereof, after the expiration of the patent term.⁸

Section 6 of the Act provided what has been termed the "whole of the truth" defense.⁹ This provision allowed an alleged patent infringer to prevail if the specifications did not reveal all the information concerning the invention, or contained more information than was "necessary to produce the effect described."¹⁰ The defense required that the concealment or the surplus information mislead so the

¹ Ryan Vacca, *Patent Reform and Best Mode: A Signal to the Patent Office or a Step Toward Elimination?*, 75 ALB. L. REV. 279, 279 (2012).

² *Id.* at 290–91.

³ *Id.* at 291.

⁴ 35 U.S.C. § 112 (2012).

⁵ Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 15, 125 Stat. 284, 328 (2011).

⁶ Patent Act of 1790, ch. 7, 1 Stat. 109.

⁷ *Id.* § 2, 1 Stat. at 110.

⁸ *Id.*

⁹ § 6, 1 Stat. at 111–12; *see also* Vacca, *supra* note 1, at 281.

¹⁰ § 6, 1 Stat. at 111–12; *see also* Vacca, *supra* note 1, at 281.

described process could not be reproduced by the methods set forth in the patent.¹¹ Thus, sections 2 and 6 required that a patentee reveal all details concerning an invention, concealing nothing from the public that would allow for the full enjoyment of the invention after the expiration of the patent.

The 1790 Act was quickly replaced by the Patent Act of 1793.¹² This statute provided that a written description of the invention “in such full, clear and exact terms, as to distinguish the same from all other things before known, and to enable any person skilled in the art . . . to make, compound, and use the same.”¹³ The Act also provided that “in the case of any machine, [the patentee] shall fully explain the principle, and the several modes in which he has contemplated the application of that principle or character, by which it may be distinguished from other inventions.”¹⁴

The “whole of the truth” defense was modified in Section 6 of the statute, allowing an alleged infringer to now plead the “whole of the truth” defense.¹⁵ If the defense was successful, the patent would be found to be void.¹⁶ The defense required proof that the specification did “not contain the whole truth relative to [the patentee’s] discovery, or that it contain[ed] more than [was] necessary to produce the described effect, which concealment or addition shall fully appear to have been made, for the purpose of deceiving the public.”¹⁷ The infringer was no longer required to prove that the described process would not be obtained through the method specified in the patent.¹⁸ The Act shifted the “whole of the truth” defense to the question of whether the patentee intended to mislead the public.¹⁹

Forty-three years later, the Patent Act of 1836²⁰ modified the “whole of the truth” defense by removing the penalty that the patent be declared void upon successfully proving the defense.²¹ Twenty-one years later, in *Page v. Ferry*,²² the court noted that “[t]he patentee is bound to disclose in his specifications the best method of working his machine known to him at the time of his application. An infringement will not have taken place, unless the invention can be practiced completely by following the specifications.”²³ The court stated that the “specification is intended to teach the public the improvement patented; it must fully

¹¹ § 6, 1 Stat. at 111–12; *see also* Vacca, *supra* note 1, at 282.

¹² Patent Act of 1793, ch. 11, 1 Stat. 318; *see also* Vacca, *supra* note 1, at 282.

¹³ § 3, 1 Stat. at 321; *see also* Vacca, *supra* note 1, at 282.

¹⁴ § 3, 1 Stat. at 321–22; *see also* Vacca, *supra* note 1, at 282.

¹⁵ § 6, 1 Stat. at 322; *see also* Vacca, *supra* note 1, at 282.

¹⁶ § 6, 1 Stat. at 322; *see also* Vacca, *supra* note 1, at 282.

¹⁷ § 6, 1 Stat. at 322; *see also* Vacca, *supra* note 1, at 282.

¹⁸ Vacca, *supra* note 1, at 282.

¹⁹ *Id.*

²⁰ Patent Act of 1836, ch. 357, 5 Stat. 117; *see also* Vacca, *supra* note 1, at 283.

²¹ Vacca, *supra* note 1, at 283.

²² *Page v. Ferry*, 18 F. Cas. 979 (C.C.E.D. Mich. 1857) (No. 10,662). *Page* is discussed in further detail later in this article. *See infra* note 187 and accompanying text. However, due to the historic significance of *Page*, the case is mentioned in this section of the article.

²³ *Page*, 18 F. Cas. at 984.

disclose the secret; must give the best mode known to the inventor, and contain nothing defective, or that would mislead artists of competent skill in the particular manufacture.²⁴ In *Page*, the best mode doctrine sprouted, but was not yet codified by statute.²⁵

Although *Page* recognized the doctrine, it was not until the Patent Act of 1870 that the term “best mode” was first codified.²⁶ Section 26 of the statute required that a patent applicant for a machine explain not only the principle of the invention, but also the best mode that the patentee felt applied to the invention. The applicant was required to explain how the invention could be differentiated from other inventions.²⁷ Under the Act, best mode was restricted only to machines.²⁸ The statute kept the “whole of the truth” defense that was the basis for the separate best mode requirement until 1870.²⁹

Congress again amended this country’s patent laws with the Patent Act of 1952.³⁰ Under section 112 of the statute, Congress again codified best mode, providing that:

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.³¹

Under the statute, best mode was no longer restricted to machines.³² The doctrine now applied to all inventions. The failure to satisfy section 112, which included the disclosure of best mode, would invalidate the patent.³³ The 1952 Act also eliminated the “whole of the truth” defense.³⁴ Although enablement and best mode were initially analyzed in tandem, the Court of Customs and Patent Appeals clarified that the doctrines were separate and distinct requirements. The court stated:

The essence of [the enablement requirement] is that a specification shall disclose an invention in such a manner as will enable one skilled in the art to make and utilize it. Separate and distinct from [enablement] is [the best mode requirement], the essence of which requires an inventor to disclose the best mode contemplated by him, as of the time he executes the application, of carrying out his invention. Manifestly, the sole purpose of this latter

²⁴ *Id.*

²⁵ Vacca, *supra* note 1, at 283.

²⁶ Patent Act of 1870, ch. 230, 16 Stat. 198; *see also id.*

²⁷ § 26, 16 Stat. at 201; *see also* Vacca, *supra* note 1, at 283.

²⁸ § 26, 16 Stat. at 201; *see also* Vacca, *supra* note 1, at 283–84.

²⁹ § 61, 16 Stat. at 201; *see also* Vacca, *supra* note 1, at 284.

³⁰ Patent Act of 1952, Pub. L. No. 82-593, 66 Stat. 792.

³¹ 35 U.S.C. § 112 (2006).

³² *See In re Honn*, 364 F.2d 454, 461 n.7 (C.C.P.A. 1966) (“[T]he requirement for disclosing the best mode of carrying out the invention is stated as generally applicable to all types of invention.”); Vacca, *supra* note 1, at 284.

³³ 35 U.S.C. § 282 (2006).

³⁴ Vacca, *supra* note 1, at 284.

requirement is to restrain inventors from applying for patents while at the same time concealing from the public preferred embodiments of their inventions which they have in fact conceived.

... The question of whether an inventor has or has not disclosed what he feels is his best mode is, however, a question separate and distinct from the question of the sufficiency of his disclosure to satisfy the requirements of [enablement].³⁵

The United States Court of Appeals for the Federal Circuit clarified this explanation, stating that:

Enablement looks to placing the subject matter of the claims generally in the possession of the public. If, however, the applicant develops specific instrumentalities or techniques which are recognized at the time of filing as the best way of carrying out the invention, then the best mode requirement imposes an obligation to disclose that information to the public as well.³⁶

The purpose of the best mode is for the “patent applicant [to] play[] ‘fair and square’ with the patent system.”³⁷ Logically, patentees should not receive the constitutionally protectable right to exclude, for a limited time,³⁸ the public “while at the same time *concealing* from the public [the] preferred embodiments of their inventions.”³⁹ As one scholar has explained, “the patentee should not be able to obtain the benefits of a patent while maintaining part of the invention as a trade secret—the antithesis of a patent.”⁴⁰ The best mode doctrine is entirely sensible as it helps “create a level playing field” allowing the public and competitors to fairly compete after the patent’s expiration.⁴¹ The failure to make such a revelation violates the “limited Times” requirement of Article I, Section 8, Clause 8 of the Constitution. The 1952 Patent Act provided under section 282 that a patent would be invalid for failure to comply with any requirement of section 112.⁴² Not only would the failure to disclose invalidate the patent, the intentional failure to satisfy the best mode requirement also served as inequitable conduct rendering the patent unenforceable.⁴³

Compliance with the best mode doctrine involves a two-step analysis.⁴⁴ The first inquiry is subjective.⁴⁵ One looks to see whether the inventor, at the time the patent application is filed, “knew of a mode of practicing his claimed invention that

³⁵ *In re Gay*, 309 F.2d 769, 772 (C.C.P.A. 1962).

³⁶ *Spectra-Physics, Inc. v. Coherent, Inc.*, 827 F.2d 1524, 1532 (Fed. Cir. 1987).

³⁷ *Amgen, Inc. v. Chugai Pharm. Co.*, 927 F.2d 1200, 1209–10 (Fed. Cir. 1991).

³⁸ U.S. CONST. art. I, § 8, cl. 8.

³⁹ *Wahl Instruments, Inc. v. Acvious, Inc.*, 950 F.2d 1575, 1579 (Fed. Cir. 1991).

⁴⁰ *Vacca*, *supra* note 1, at 285; *see also Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480–81, 484 (1974) (noting that patents and trade secrets are never in conflict as patents require disclosure while trade secrets by definition are not in the public domain).

⁴¹ *Vacca*, *supra* note 1, at 285.

⁴² 35 U.S.C. § 282 (2006).

⁴³ *Old Town Canoe Co. v. Confluence Holdings Corp.*, 448 F.3d 1309, 1321–22 (Fed. Cir. 2006); *Vacca*, *supra* note 1, at 286.

⁴⁴ *Vacca*, *supra* note 1, at 286.

⁴⁵ *Chemcast Corp. v. Arco Indus. Corp.*, 913 F.2d 923, 927–28 (Fed. Cir. 1990).

he considered to be better than any other.”⁴⁶ If the first prong of the analysis is satisfied, the second prong, which is objective, is then examined.⁴⁷ This prong determines whether the inventor knew that there was adequate disclosure so as “to enable one skilled in the art to practice the best mode.”⁴⁸

One question that arose surrounding the best mode doctrine “was whether an employer, who was the assignee of the patent, would have its knowledge of a preferred embodiment imputed to the employee/inventor and therefore violate the best mode if this preferred embodiment was not adequately disclosed.”⁴⁹ In rejecting the imputing theory, the Federal Circuit held that “[t]he statutory language [of section 112] could not be clearer,”⁵⁰ the inventor must disclose the best mode contemplated.⁵¹

A second issue concerning best mode was whether the patentee had to signify the best mode of several possible methods.⁵² In *Randomex, Inc. v. Scopus Corp.*,⁵³ the Federal Circuit held that disclosure of the best mode among other possible modes satisfies section 112.⁵⁴

A third issue concerned the scope of the doctrine: “[I]s best mode limited to the elements listed in the claims or does it require the inventor to disclose the best mode relating to unclaimed elements of the invention?”⁵⁵ This question remains unanswered.⁵⁶

Thus, the historical jurisprudence of the best mode doctrine demonstrates that the doctrine requires both a subjective and objective inquiry. The best mode must be disclosed at the time the patent application is filed and is to be examined from the perspective of the inventor. Furthermore, best mode does not have to be specifically labeled in the patent’s application.⁵⁷

III. AIA’s Best Mode Boondoggle

In 2005, a bill was introduced in the House of Representatives that sought to reform the patent laws in this country by, among other things, eliminating best mode.⁵⁸ The bill died, however, in the Judiciary Committee.⁵⁹ In 2006, the Senate

⁴⁶ *Id.* at 928; see also *AllVoice Computing PLC v. Nuance Commc’ns, Inc.*, 504 F.3d 1236, 1246 (Fed. Cir. 2007) (defining the best mode doctrine).

⁴⁷ *Chemcast*, 913 F.2d at 928.

⁴⁸ *Id.*

⁴⁹ *Vacca*, *supra* note 1, at 286 (citing *Glaxo Inc. v. Novopharm Ltd.*, 52 F.3d 1043, 1049 (Fed. Cir. 1995)).

⁵⁰ *Glaxo*, 52 F.3d at 1049.

⁵¹ *Id.* at 1049–50.

⁵² *Randomex, Inc. v. Scopus Corp.*, 849 F.2d 585, 589 (Fed. Cir. 1988).

⁵³ *Id.*

⁵⁴ *Id.*

⁵⁵ *Vacca*, *supra* note 1, at 287.

⁵⁶ *Id.*

⁵⁷ See, e.g., 35 U.S.C. § 112 (2006) (omitting a requirement to specifically label the best mode).

⁵⁸ Patent Reform Act of 2005, H.R. 2795, 109th Cong. § 4(d) (2005); *Vacca*, *supra* note 1, at 290.

offered its own reforms, but did not modify the best mode doctrine.⁶⁰ This bill too died in committee.⁶¹ A 2007 House bill kept the best mode requirement for patentability, but removed the best mode as a defense in litigation and cancellation of claims.⁶² The House Judiciary Committee Report noted concerns that best mode was uniquely American, inherently subjective, and technologically irrelevant.⁶³ The bill passed the House, but died in the Senate.⁶⁴ The Senate introduced its own patent reform bill in 2007.⁶⁵ However, the bill was silent regarding best mode.⁶⁶ While the Senate bill was being debated, Judiciary Committee members noted that the Committee was working with interested parties to develop a solution to the best mode doctrine.⁶⁷ Best mode became a consideration of Congress due to the lobbying efforts of interested parties.⁶⁸ However, the bill died without a vote.⁶⁹

In 2009, the Senate introduced yet another patent reform bill with a modified best mode requirement.⁷⁰ Under the bill, best mode was no longer a defense in litigation or a basis for cancellation of the patent.⁷¹ The Senate Judiciary Committee Report cited the problems with best mode, yet recognized the importance of full disclosure to the patent system.⁷² Despite the Senate adopting the 2007 position of the House, the House's 2009 patent reform bill did not eliminate best mode as a defense in litigation.⁷³ The Senate bill was not voted upon, and the House bill died in committee.⁷⁴

After years of attempted compromises, patent reform was finally enacted in 2011 with the passage of the AIA. The change to the best mode doctrine is found in section 15 of the AIA. The statute provides:

(a) In General.—Section 282 of title 35, United States Code, is amended in the second undesignated paragraph by striking paragraph (3) and inserting the following:

“(3) Invalidity of the patent or any claim in suit for failure to comply with—

⁵⁹ Vacca, *supra* note 1, at 290.

⁶⁰ See Patent Reform Act of 2006, S. 3818, 109th Cong. § 4(h) (2006) (refraining from any changes to the best mode doctrine); Vacca, *supra* note 1, at 290.

⁶¹ Vacca, *supra* note 1, at 290.

⁶² See Patent Reform Act of 2007, H.R. 1908, 110th Cong. §§ 6(f)(1), 13 (2007) (changing the best mode requirement in two sections); Vacca, *supra* note 1, at 290.

⁶³ See H.R. Rep. No. 110-314, at 43–44 (2007) (including those characteristics among a list of descriptors of the best mode doctrine); Vacca, *supra* note 1, at 290.

⁶⁴ Vacca, *supra* note 1, at 290.

⁶⁵ See Patent Reform Act of 2007, S. 1145, 110th Cong. (2007); Vacca, *supra* note 1, at 291.

⁶⁶ Vacca, *supra* note 1, at 291.

⁶⁷ *Id.*

⁶⁸ *Id.*

⁶⁹ *Id.*

⁷⁰ Patent Reform Act of 2009, S. 515, 111th Cong. §§ 5(f), 14 (2009); Vacca, *supra* note 1, at 291.

⁷¹ Vacca, *supra* note 1, at 291.

⁷² S. Rep. No. 111-18, at 24–25 (2009); Vacca, *supra* note 1, at 291.

⁷³ Patent Reform Act of 2009, H.R. 1260, 111th Cong. § 6(h) (2009); Vacca, *supra* note 1, at 291.

⁷⁴ Vacca, *supra* note 1, at 291.

“(A) any requirement of section 112, except that the failure to disclose the best mode shall not be a basis on which any claim of a patent may be canceled or held invalid or otherwise unenforceable; or

“(B) any requirement of section 251.”

(b) Conforming Amendment.—Sections 119(e)(1) and 120 of title 35, United States Code, are each amended by striking “the first paragraph of section 112 of this title” and inserting “section 112(a) (other than the requirement to disclose the best mode)”.

(c) Effective Date.—The amendments made by this section shall take effect upon the date of the enactment of this Act and shall apply to proceedings commenced on or after that date.⁷⁵

Thus, as of September 16, 2011, section 15 eliminated best mode as a basis of asserting invalidity, inequitable conduct, or cancelling any, or all claims, of a patent while, at the same time, still requiring in 35 U.S.C. § 112 that best mode be disclosed.⁷⁶ The result is that patent applications must disclose the best mode to a patent. However, the failure to reveal best mode, even if intentional, does not invalidate the patent.

The report from the House Judiciary Committee on the AIA notes that the elimination of best mode as a defense to patent infringement was based on the fact that best mode was unique to the United States, inherently subjective, and often irrelevant.⁷⁷ Congress therefore agreed with best mode critics, yet compromised by still requiring the revelation of the best mode without the consequences of failure to do so.⁷⁸ Congress recognized, however, that disclosure is an “important tradeoff that underlies the patent laws: the grant of a limited-term monopoly in exchange for disclosure of the invention.”⁷⁹ Thus, prior to the AIA, a patent applicant could file a patent application, conceal the best mode, and the United States Patent and Trademark Office (PTO) could reject the application upon catching the error.⁸⁰ If the PTO failed to discover the concealment, then the option to declare the patent invalid or unenforceable still remained available via litigation.⁸¹ Section 15 now provides that a patent applicant, who conceals the patent’s best mode, need only worry that the PTO does not discover the concealment. If the PTO fails to discover the fraud, the patent applicant is home free as the patent cannot be declared invalid or unenforceable in a litigation proceeding based upon the failure to disclose the best mode. The AIA has now created an incentive for patentees to conceal the best

⁷⁵ Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 15, 125 Stat. 284, 328 (2011).

⁷⁶ Compare *id.*, with 35 U.S.C. § 112 (2006).

⁷⁷ H.R. REP. NO. 112-98, pt. 1, at 52 (2011).

⁷⁸ Vacca, *supra* note 1, at 292–93.

⁷⁹ H.R. REP. NO. 112-98, pt. 1, at 52.

⁸⁰ See *id.* (“An applicant for a patent must disclose . . . the best mode contemplated by the inventor of carrying out the invention.”).

⁸¹ See *id.* (“[A] defendant in patent litigation may also allege an intentional nondisclosure of the best mode, with intent to deceive the Office, as a basis for an unenforceability defense.”).

mode, given the unlikelihood that the PTO will ever discover the deception.⁸²

IV. The PTO Enforcing Best Mode Under the AIA: A Childhood Fantasy

Although the threat of rejection by the PTO would seem to encourage a patent applicant from attempting to conceal the best mode, rejections of patent applications by the PTO for failure to disclose an invention's best mode are almost nonexistent.⁸³ This result is logical. At the time of the filing of the application, evidence before the patent examiner, *by the government's own admission*, rarely permits the examiner to determine that the inventor knew of a better mode for practicing the claimed invention.⁸⁴ The Manual of Patent Examining Procedure (MPEP) actually instructs examiners that they "should assume that the best mode is disclosed in the application, unless evidence is presented that is inconsistent with that assumption."⁸⁵ The MPEP further states that "[i]t is extremely rare that a best mode rejection properly would be made in *ex parte* prosecution."⁸⁶ Although rejection of a patent application based on the failure to reveal the best mode is not impossible,⁸⁷ the Board of Patent Appeals and Interferences from 1981 through 2012⁸⁸ published only nine decisions involving an examiner rejecting patent claims based on a failure to satisfy the best mode requirement. Of these nine cases, the Board reversed the examiner's best mode rejection in seven of them. The Board did not address the issue in the eighth, and the examiner withdrew the rejection in the ninth. Given the presumption of best mode compliance,⁸⁹ the infrequent number of appeals relating to best mode, and the Board's history regarding those appeals, AIA's section 15 requirement removing judicial enforcement of best mode sounds the doctrine's death knell.

V. Has the AIA Turned Best Mode into Ashes?

In examining the impact of AIA's section 15 on the doctrine of best mode, Professor Ryan Vacca, Assistant Professor of Law at the University of Akron School of Law, has written an article titled *Patent Reform and Best Mode: A Signal to the Patent Office or a Step Toward Elimination?*⁹⁰ Professor Vacca believes that best mode is now at a crossroad.⁹¹ One option eliminates the doctrine while the second

⁸² Vacca, *supra* note 1, at 293.

⁸³ *Id.* at 294.

⁸⁴ See UNITED STATES PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE § 2165.03 (8th ed. rev. 9, Aug. 2012) ("The information that is necessary to form the basis for a rejection based on the failure to set forth the best mode is rarely accessible . . .").

⁸⁵ *Id.*

⁸⁶ *Id.*

⁸⁷ *Id.* ("The information that is necessary to form the basis for a rejection . . . is generally uncovered during discovery procedures in . . . *inter partes* proceedings.")

⁸⁸ Vacca, *supra* note 1, at 294. Professor Vacca's statistics date from 1981 to 2009. Those statistics have been updated through December 31, 2012.

⁸⁹ See *supra* notes 84–87 and accompanying text.

⁹⁰ Vacca, *supra* note 1.

⁹¹ *Id.* at 295.

option requires “innovative means of enforcement.”⁹² Professor Vacca’s analysis of the topography of the doctrine within the landscape of the AIA is fascinating.

Professor Vacca asserts that Congress had to have realized that AIA’s amendment to best mode would leave the doctrine toothless.⁹³ He argues that section 15 is just the first step in a two-step process. The second step, according to Professor Vacca, is to completely eliminate the doctrine.⁹⁴ Professor Vacca advocates that Congress designed the current structure of the AIA regarding best mode to give all interested parties “an opportunity to digest the changes made by the AIA” in order to make the “eventual elimination [of best mode] easier to accept down the road.”⁹⁵

He finds it odd that the AIA compromise pleased supporters of the best mode doctrine,⁹⁶ noting that “best mode reform could have: (1) eliminated it for invalidity, but not inequitable conduct; (2) allowed best mode to be used in cancellations; (3) required applicants to update the best mode before the patent issued; or (4) required patentees to update the best mode upon renewal.”⁹⁷ The result, according to Professor Vacca, is that the “advocates of eliminating best mode have achieved—as a practical matter—what they set out to accomplish, while letting best mode supporters preserve best mode as a mere keepsake.”⁹⁸

Noting that “Congress’s piecemeal elimination of best mode is an unsatisfying explanation,” Professor Vacca observes that “[i]f Congress really intended to abolish best mode, then it easily could have done so, especially given how close the AIA comes to this.”⁹⁹ He proposes the theory that Congress was actually signaling the PTO to use diligence in examining the best mode in patent applications.¹⁰⁰ But to do this, Professor Vacca states that the PTO needs new methods of enforcement or the use of underutilized powers.¹⁰¹

A. Rule 1.105

One tool Professor Vacca found that the PTO could use to enforce the best mode requirement is a Requirement for Information (RFI) under 37 C.F.R. § 1.105 (Rule 1.105).¹⁰² The rule provides that an examiner may require the production of “such information as may be reasonably necessary to properly examine or treat the matter.”¹⁰³ The Federal Circuit liberally construed the statute to mean that an RFI

⁹² *Id.*

⁹³ *Id.*

⁹⁴ *Id.*

⁹⁵ *Id.*

⁹⁶ Vacca, *supra* note 1, at 295.

⁹⁷ *Id.* at 296 n.122.

⁹⁸ *Id.* at 296.

⁹⁹ *Id.*

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

¹⁰² 37 C.F.R. § 1.105 (2012); Vacca, *supra* note 1, at 296.

¹⁰³ 37 C.F.R. § 1.105.

sent to a patent applicant could properly seek “any information available regarding the sale or other public distribution of the claimed plant variety anywhere in the world.”¹⁰⁴ The patent applicant refused to provide the information, taking the position that the requested information “was ‘not material to the patentability of the new [plant] variety.’”¹⁰⁵ The application was then deemed abandoned and the patent applicant sued alleging that the Director of the PTO abused his discretion in denying the applicant’s challenge to the requested information.¹⁰⁶

The Federal Circuit rejected the argument, holding that the PTO can request information under Rule 1.105 “that does not directly support a rejection.”¹⁰⁷ The court noted:

that “such information as may be reasonably necessary to properly examine or treat the matter” contemplates information relevant to examination either procedurally or substantively. It includes a zone of information beyond that defined by section 1.56 as material to patentability, and beyond that which is directly useful to support a rejection or conclusively decide the issue of patentability.¹⁰⁸

Thus, the court gave the PTO extensive powers to inquire into areas that would otherwise seem tangential to the patent.¹⁰⁹

Professor Vacca states that this broad authority would allow the PTO to, as standard practice, request a patent applicant, patent attorney, or patent agent, to indicate whether the inventor had a best mode for the invention.¹¹⁰ He notes that although the process contradicts case law which holds that the applicant need not specifically identify the best mode,¹¹¹ the process would not violate the PTO’s power under Rule 1.105 because the information would be useful regarding the objective prong of the best mode doctrine.¹¹²

Professor Vacca prophesizes that if applicants know that the PTO will specifically inquire into best mode, any problem of applicants failing to disclose best mode will be eliminated.¹¹³ Applicants, as Professor Vacca asserts, will initially disclose the best mode rather than have the patent application rejected.¹¹⁴

Professor Vacca asserts that in theory, the additional information will allow the patent examiner to engage in a more thorough best mode analysis.¹¹⁵ He also notes

¹⁰⁴ *Star Fruits S.N.C. v. United States*, 393 F.3d 1277, 1280, 1285 (Fed. Cir. 2005).

¹⁰⁵ *Id.* at 1280.

¹⁰⁶ *Id.*

¹⁰⁷ *Id.* at 1281–82.

¹⁰⁸ *Id.* at 1282 (citation omitted).

¹⁰⁹ Vacca, *supra* note 1, at 297.

¹¹⁰ *Id.*

¹¹¹ *Id.* (citing *Randomex, Inc. v. Scopus Corp.*, 849 F.2d 585, 589 (Fed. Cir. 1988)).

¹¹² *Id.*

¹¹³ *Id.*

¹¹⁴ *Id.*

¹¹⁵ Vacca, *supra* note 1, at 297.

that for the dishonest applicant or representative, additional means of enforcement must be employed.¹¹⁶

B. Criminal Prosecution

Professor Vacca proposes that another method of enforcing best mode is via criminal prosecution for filing false statements with the United States.¹¹⁷ Specifically, under 18 U.S.C. § 1001(a)(2) (2006), which provides that: “whoever, in any matter within the jurisdiction of the executive, legislative, or judicial branch of the Government of the United States, knowingly and willfully . . . makes any materially false, fictitious, or fraudulent statement or representation . . . shall be fined under this title, imprisoned not more than 5 years . . . or both.” If the patent examiner requests a patent applicant to reveal a best mode, and in doing so, falsely states that no best mode exists or that referenced language in the specification contains the best mode, then the patent applicant violates the statute.¹¹⁸

One element of the statute is materiality, which is defined as a statement that can influence or affect a federal agency.¹¹⁹ A false statement concerning best mode, or lack thereof, according to Professor Vacca, would be material in that the disclosure of the best mode is still required under section 112.¹²⁰ A false statement of the required disclosure would be capable of influencing the grant or denial of a patent application.¹²¹

A second element of section 1001(a)(2), knowledge, “relates only to the defendant’s knowledge and intent that the statements he made to a government entity were false or were made with the conscious purpose of evading the truth.”¹²² Professor Vacca notes that an applicant who falsely responded to a section 1.05 inquiry regarding the best mode, indicating that the patent applicant did not know of the best mode while in fact having one, or by disclosing inferior modes in the application, would establish knowledge that the statement was false.¹²³ This stands in contrast, as Professor Vacca points out, to the situation where the patent applicant files the application and simply fails to disclose the best mode or fails to specifically disclose where in the specification the best mode exists.¹²⁴ In this scenario, the applicant would not have violated section 1001(a)(2) as no false statement had been

¹¹⁶ *Id.*

¹¹⁷ *Id.* at 298.

¹¹⁸ *Id.*

¹¹⁹ *Id.* (citing *United States v. Serv. Deli Inc.*, 151 F.3d 938, 941 (9th Cir. 1998); *United States v. Puente*, 982 F.2d 156, 159 (5th Cir. 1993); *United States v. Brittain*, 931 F.2d 1413, 1415 (10th Cir. 1991)).

¹²⁰ Vacca, *supra* note 1, at 298.

¹²¹ *Id.*

¹²² *United States v. Lupton*, 620 F.3d 790, 806 (7th Cir. 2010).

¹²³ Vacca, *supra* note 1, at 298.

¹²⁴ *Id.*

made. Further, the failure to specifically identify which mode of many disclosed modes is the best mode is not a violation of section 112.¹²⁵

The final requirement of section 1001(a)(2) is that the false statement be made in any matter within the jurisdiction of the executive, legislative, or judicial branch of the federal government. This requirement is met when the federal agency “‘has the power to exercise authority in a particular situation,’ as distinguished from ‘matters peripheral to the business of that body.’”¹²⁶ The PTO is an agency of the executive branch of the government and has the statutory power to grant or deny patents.¹²⁷ Professor Vacca concludes that if the PTO were to use RFIs to investigate best modes, a foundation for referring criminal prosecutions to the Department of Justice would exist. He further notes that the threat of criminal prosecution may assist in preventing fraud in disclosing the best mode.¹²⁸

C. Ethical Violations

Professor Vacca also discusses the ethical repercussion of failure to reveal best mode. Best mode enforcement may occur not only by criminal prosecution, but also through disciplinary actions against an applicant’s attorney or agent.¹²⁹ This enforcement weapon shifts the risk from the patent applicant to the patent attorney or agent, not only placing the individual’s USPTO license at risk, but in the case of attorneys, the state bar license as well.¹³⁰ He notes that most patent attorneys or agents would not take this risk just to keep the best mode a secret.¹³¹

Patent Office Rule 1.56 provides that “[e]ach individual associated with the filing and prosecution of a patent application has a duty of candor and good faith.”¹³² This requires an individual to disclose all information known to that individual to be material to patentability.¹³³ Failure to do so violates the individual’s ethical obligation not to “engage in disreputable or gross misconduct,” “conduct involving dishonesty, fraud, deceit, or misrepresentation,” or “conduct that is prejudicial to the administration of justice.”¹³⁴

A violation of Rule 1.56 results if a patent attorney or agent has knowledge that the applicant has a best mode but fails to disclose it or specifically designate it in

¹²⁵ *Randomex, Inc. v. Scopus Corp.*, 849 F.2d 585, 589 (Fed. Cir. 1988).

¹²⁶ *United States v. Davis*, 8 F.3d 923, 929 (2d Cir. 1993) (quoting *United States v. Rodgers*, 466 U.S. 475, 479 (1984)).

¹²⁷ 35 U.S.C. §§ 1–2 (2012).

¹²⁸ Vacca, *supra* note 1, at 299.

¹²⁹ *Id.*

¹³⁰ *Id.*

¹³¹ *Id.*

¹³² 37 C.F.R. § 1.56(a) (2012).

¹³³ *Id.*

¹³⁴ *Id.* § 10.23(a), (b)(4)–(5).

response to an RFI.¹³⁵ A Rule 1.56 violation may subject the attorney or agent to disciplinary proceedings before the Office of Enrollment and Discipline.¹³⁶

In addition to Rule 1.56, Rule 10.85 prohibits attorneys and agents from “[k]nowingly mak[ing] a false statement of law or fact,”¹³⁷ or from counseling or assisting a client in conduct known to be fraudulent.¹³⁸ Attorneys and agents have a duty to promptly call upon the client to rectify a fraud perpetrated upon the PTO. Should the client fail to do so, then the attorney or agent must reveal the fraud to the PTO when the attorney or agent receives information clearly establishing the fraud.¹³⁹ Violations of the PTO’s ethic rules would, of course, subject the attorney to the disciplinary proceedings of other applicable licensing boards.¹⁴⁰

This combination of the RFIs and ethical rules, as Professor Vacca notes, forces patent attorneys and agents to have their clients address the best mode doctrine or make it more difficult for them to ignore the disclosure.¹⁴¹ Thus, the threat of disciplinary actions against attorneys or agents may help reduce, in theory, concealment of an invention’s best mode.¹⁴²

D. Professor Vacca’s Limitations

Despite his proposals to enforce the best mode requirement in light of AIA’s section 15, Professor Vacca found several limitations to his own ideas that render them either ineffective or otherwise unenforceable.¹⁴³

The first limitation he notes is that criminal and ethical violations are difficult to prove.¹⁴⁴ Section 1001(a)(2) requires knowledge of a false statement.¹⁴⁵ The disciplinary rules require the attorney’s or agent’s knowledge regarding the applicant’s knowledge.¹⁴⁶ Before AIA’s section 15, discoveries of best mode violations were made during pretrial discovery in the litigation process where a defendant would try to invalidate a patent for failure to reveal best mode.¹⁴⁷

With the AIA, failure to disclose the best mode is no longer available to assert invalidity or unenforceability.¹⁴⁸ Thus, a defendant’s ability to seek information related to the best mode is severely restricted, if available at all.¹⁴⁹ Given that one of

¹³⁵ Vacca, *supra* note 1, at 300.

¹³⁶ 37 C.F.R. §§ 10.20(b), 10.23(a), 10.23(c)(10).

¹³⁷ *Id.* § 10.85(a)(5).

¹³⁸ *Id.* § 10.85(a)(7).

¹³⁹ *Id.* § 10.85(b)(1).

¹⁴⁰ Vacca, *supra* note 1, at 300.

¹⁴¹ *Id.*

¹⁴² *Id.*

¹⁴³ *Id.* at 301.

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*; 18 U.S.C. § 1001(a)(2) (2006).

¹⁴⁶ Vacca, *supra* note 1, at 301; 37 C.F.R. § 1.56(a) (2012).

¹⁴⁷ Vacca, *supra* note 1, at 301.

¹⁴⁸ *Id.*

¹⁴⁹ *Id.*

the objectives of the AIA is to reduce the expense of litigation, Professor Vacca concludes that a patentee could successfully object to discovery requests relating to best mode and obtain a protective order limiting discovery.¹⁵⁰ The limitation on discovery would therefore render as extremely low the likelihood of the appropriate enforcement body being notified of a violation.¹⁵¹ However, Professor Vacca states that:

It would not be impossible to discover this information. Discovery of best mode violations could be found in connection with a claim for a Walker Process violation of the antitrust laws or through inadvertent disclosure in connection with legitimate discovery on another issue of patentability or claim interpretation.¹⁵²

The second limitation Professor Vacca foresees is that the criminal and ethical methods of enforcement have statutes of limitations. Prosecution for a violation of section 1001(a)(2) must commence within five years after the offense has been committed.¹⁵³ Therefore, even if the evidence of a fraud was discovered, the discovery may be too late. Further, any tolling argument of the statute of limitations has already been rejected. The Tenth Circuit, in *United States v. Dunne*,¹⁵⁴ held that “[t]he ability of the government, however, to learn of a particular offense is not a relevant factor.”¹⁵⁵

Although the statute of limitations for the ethical method of enforcement may be less problematic, Professor Vacca still notes a challenge. The AIA provides that the limitations period for any disciplinary actions must be brought before the earlier of ten years from the date of the misconduct or one year after the date the misconduct is made known to the PTO.¹⁵⁶ Professor Vacca explains that, although the limitations period is longer for disciplinary actions and allows for discovery, the discovery rule is capped at ten years after the misconduct. Thus, unless discovery of evidence of a best mode concealment takes place fairly quickly, the applicable statute of limitations will severely impair criminal and ethical enforcement.¹⁵⁷

In his third limitation, Professor Vacca notes that the threat of disciplinary sanctions is limited to those lawyers and patent agents who know the client has made false statements in response to RFIs.¹⁵⁸ For those attorneys who honestly have no knowledge of the applicant’s belief concerning the best mode, or those who

¹⁵⁰ *Id.* (citing H.R. REP. NO. 112-98, pt. 1, at 40 (2011)).

¹⁵¹ *Id.*

¹⁵² *Id.* at 301 n.158 (citing generally *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965)).

¹⁵³ 18 U.S.C. § 3282(a) (2012); *United States v. Smith*, 740 F.2d 734, 736 (9th Cir. 1984).

¹⁵⁴ 324 F.3d 1158 (10th Cir. 2003).

¹⁵⁵ *Id.* at 1165.

¹⁵⁶ Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 3(k)(1), 125 Stat. 284, 291 (2011) (codified at 35 U.S.C. § 32). Ethical violations before the PTO were previously subject to a five-year statute of limitations found in 28 U.S.C. § 2462. *Scheinbein v. Dudas*, 465 F.3d 493, 496 (Fed. Cir. 2006).

¹⁵⁷ Vacca, *supra* note 1, at 302.

¹⁵⁸ *Id.*

strategically position themselves to avoid such knowledge, the threat of disciplinary action is useless.¹⁵⁹

Professor Vacca's fourth problem with his alternative enforcement methods is the chilling effect that the threat of enforcement could pose on legitimate conduct.¹⁶⁰ Enforcement by criminal prosecution or ethical disciplinary action relies on the power that these mechanisms have on the targeted individuals.¹⁶¹ They also assume that the targeted individuals, when faced with these enforcement options, will err on the side of caution and voluntarily reveal an invention's best mode.¹⁶² Professor Vacca feels, however, that these threats could also tend to chill legitimate conduct.¹⁶³ Over-enforcement, criminal prosecutions, or disciplinary actions, he argues, could result in fewer patent applications, thus undermining the very purpose of the patent system's design of disclosure to promote the progress of the useful arts.¹⁶⁴

Finally, Professor Vacca states that even in the absence of an enforcement mechanism, many patent applicants may still disclose the best mode.¹⁶⁵ He notes, by example, that an applicant may still want to disclose best mode so as to "prevent a subsequent applicant from being able to obtain a patent claiming that mode."¹⁶⁶ Further, applicants may voluntarily disclose the best mode in an attempt to narrow their claims in the event that their broader claims are subsequently invalidated.¹⁶⁷ He finds, however, that the limitations on the criminal and ethical methods of enforcement, the costs of implementing the methods, and the already existing incentives for disclosure render both methods ineffective.¹⁶⁸

Professor Vacca concludes his analysis as follows:

The erosion of best mode has been in the works for a number of years. The AIA has resulted in best mode remaining as a requirement for patentability, but has eliminated the commonly used means of enforcement—litigation to show invalidity or unenforceability. Up until now, and for good reason, the PTO has failed to take on the responsibility of policing best mode disclosures.

But by removing the invalidity, unenforceability, and cancellation arrows from the quiver of best mode enforcement while still keeping best mode as a requirement for patentability, Congress may have been attempting to shift the responsibility of enforcement to the PTO. And although tools exist for the PTO to enforce best mode—criminal and ethical means of enforcement—these are ineffective methods and will likely not result in additional best mode disclosures. In fact, if these measures were adopted, a potential may exist for less disclosure than what would otherwise result.

In the end, if Congress believes it made the right decision in the AIA concerning best mode, then Congress should simply bite the bullet and formally

¹⁵⁹ *Id.* at 302–03.

¹⁶⁰ *Id.* at 303.

¹⁶¹ *Id.*

¹⁶² *Id.*

¹⁶³ Vacca, *supra* note 1, at 303.

¹⁶⁴ *Id.* (citing U.S. CONST., art I, § 8, cl. 8).

¹⁶⁵ *Id.*

¹⁶⁶ *Id.*

¹⁶⁷ *Id.*

¹⁶⁸ *Id.*

eliminate best mode as a requirement for patentability. Of course it is difficult to jettison such a long-held requirement, but in the end, keeping the requirement without effective enforcement mechanisms does not make much sense.¹⁶⁹

VI. The Unspoken Solution

As previously noted, Professor Vacca finds that “[w]e are at a fork in the road of best mode’s journey. One path leads to the complete elimination of best mode; the other leads to innovative means of enforcement.”¹⁷⁰ Robert Frost’s immortal words could not be more appropriate in this context when he wrote: “Two roads diverged in a wood, and I, I took the one less traveled by, And that has made all the difference.”¹⁷¹ Professor Vacca gallantly attempts to reconcile the chaos Congress created between sections 15 and 112. His Herculean efforts ultimately led him down the path that best mode should be eliminated as a requirement to obtain a patent given that the failure to disclose has no repercussions.

There is another path that is available. Professor Vacca identified two paths—elimination or innovative enforcement. His analysis of both options is noteworthy and defensible given the language of the statute. However, Professor Vacca’s paths are not actually two. They are one in the same because they do not question the statute as it currently exists. He fails to recognize the true alternative path, “the one less traveled,” that actually resolves the conflict. It is the only solution that is consistent with Article I, Section 8, Clause 8 of the United States Constitution. It is also the only solution that is consistent with Supreme Court precedent. The answer? Section 15 of the AIA is unconstitutional.

VII. The Unbalanced Act

The Supreme Court explained in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*,¹⁷² that Article I, Section 8, Clause 8 of the Constitution:

reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the “Progress of Science and useful Arts.” . . . [T]he Clause contains both a grant of power and certain limitations upon the exercise of that power. Congress may not create patent monopolies of unlimited duration, nor may it “authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available.”¹⁷³

The Court noted that “[f]rom their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.”¹⁷⁴ The Court went on to explain that:

¹⁶⁹ Vacca, *supra* note 1, at 303–04.

¹⁷⁰ *Id.* at 295.

¹⁷¹ ROBERT FROST, *THE ROAD NOT TAKEN* (1916), available at <http://www.poemhunter.com/poem/the-road-not-taken/>.

¹⁷² 489 U.S. 141 (1989).

¹⁷³ *Id.* at 146 (citation omitted).

¹⁷⁴ *Id.*

Once an inventor has decided to lift the veil of secrecy from his work, he must choose the protection of a federal patent or the dedication of his idea to the public at large. As Judge Learned Hand once put it: "[I]t is a condition upon the inventor's right to a patent that he shall not exploit his discovery competitively after it is ready for patenting; he must content himself with either secrecy or legal monopoly."¹⁷⁵

"The federal patent system thus embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years."¹⁷⁶

The very soul of the doctrine is to prevent inventors from concealing the best mode or method of their inventions while rewarding the inventors the constitutional right to exclude others from making or using their inventions.¹⁷⁷ The best mode doctrine is based on this quid pro quo structure of patent law.¹⁷⁸ The removal of the enforcement of best mode by the public, via AIA's section 15, destroys this careful balance that was created in the past.¹⁷⁹ The lack of enforcement therefore allows an inventor to withhold parts of the invention. Such action, according to the Supreme Court, is deemed a fraud upon the public, rendering the patent void.¹⁸⁰ Any patent that does not fully describe the invention, does not protect the invention, rendering the invention "public property."¹⁸¹

The interplay between sections 15 and 112 is the equivalent to the passage of a statute stating that operators of motor vehicles are prohibited from driving through stop lights when the light is red (section 112), yet preventing any punishment for the violation (section 15). The result would render any violation a nullity. After subsequent wrecks resulting in injuries and deaths for ignoring a law for which there are no consequences, the public would become outraged that those who ignored red stop lights would go unpunished. The legislature, in response to the public outcry, would enact punishments for such violations as necessary for the health and safety of the public. AIA's section 15 now makes a basic prohibited act of patent law, non-disclosure, *de facto* legal.¹⁸² This congressional approval, rendering best mode meaningless and allowing monopolies, will not be tolerated by the judicial branch, which should subsequently invalidate, by necessity, section 15 as unconstitutional.

¹⁷⁵ *Id.* at 149 (quoting *Metallizing Eng'g Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516, 520 (2d Cir. 1946)).

¹⁷⁶ *Id.* at 150-51.

¹⁷⁷ *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480-81 (1974); *Glaxo Inc. v. Novopharm Ltd.*, 52 F.3d 1043, 1050 (Fed. Cir. 1995). *See also* *Teleflex, Inc. v. Ficosa N. Am. Corp.*, 299 F.3d 1313, 1330 (Fed. Cir. 2002).

¹⁷⁸ *Eli Lilly & Co. v. Barr Labs., Inc.*, 251 F.3d 955, 967 (Fed. Cir. 2001). *See also* *Kewanee Oil*, 416 U.S. at 484.

¹⁷⁹ *Bonito Boats*, 489 U.S. at 146.

¹⁸⁰ *Grant v. Raymond*, 31 U.S. 218, 233 (1832).

¹⁸¹ *Id.* at 231.

¹⁸² *See, e.g., Kewanee Oil*, 416 U.S. at 480 (stating that patent law requires an inventor to disclose).

VIII. What the Courts Giveth, Only the Courts Shall Taketh Away!

An argument that Professor Vacca¹⁸³ and other critics of the best mode doctrine¹⁸⁴ cannot ignore regarding section 15's constitutionality is that the doctrine is a creation of the courts, not Congress.¹⁸⁵ First described in *Page v. Ferry*,¹⁸⁶ Judge Wilkins, in instructing a jury during a patent infringement proceeding, stated:

Another objection has been urged, that the patentee has withheld in his description the best mode of effecting the object designed by his specifications, and for which the patent was granted. The patentee is bound to disclose in his specifications the best method of working his machine known to him at the time of his application. An infringement will not have taken place, unless the invention can be practiced completely by following the specifications. An infringement is a copy made after, and agreeing with the principle laid down in, the patent; and if the patent does not fully describe everything essential to the making of the thing patented, there will be no infringement by the fresh invention of processes which the patentee has withheld from the public. The specification is intended to teach the public the improvement patented; it must fully disclose the secret; must give the best mode known to the inventor, and contain nothing defective, or that would mislead artists of competent skill in the particular manufacture.

In consideration of the exclusive privilege conferred, and that the public may fully enjoy the benefit of his invention, all his knowledge in respect to the perfect practice of his invention, must be embraced in his specification. Whether it is so or not, is for you to determine from the evidence submitted.¹⁸⁷

Page discusses best mode as an entirely separate requirement from enablement.¹⁸⁸ As previously noted, it was not until the Patent Act of 1870 that Congress first codified the doctrine.¹⁸⁹ What is significant, and why it is important to carefully read the applicable portion of the instruction, is that Judge Wilkins does not refer to any statutory authority for his best mode instruction. This is critical given his prior references to the applicable statutory requirements for patentability at the time of the litigation.¹⁹⁰

History establishes that best mode, as are many other requirements to establish patentability, is a creature of the judiciary, not of Congress.¹⁹¹ Because best mode

¹⁸³ See, e.g., Vacca, *supra* note 1, at 283.

¹⁸⁴ See Andrew R. Shores, *Changes to the Best Mode Requirement in the Leahy-Smith America Invents Act: Why Congress Got it Right*, 34 CAMPBELL L. REV. 733, 740–41 (2012); Steven B. Walmsley, *Best Mode: A Plea to Repair or Sacrifice this Broken Requirement of United States Patent Law*, 9 MICH. TELECOMM. TECH. & L. REV. 125, 126, 162–63 (2002).

¹⁸⁵ Shores, *supra* note 184, at 736; Vacca, *supra* note 1, at 283.

¹⁸⁶ 18 F. Cas. 979, 984 (C.C.E.D. Mich. 1857) (No. 10,662). See also Shores, *supra* note 184, at 736; Vacca, *supra* note 1, at 283.

¹⁸⁷ *Page*, 18 F. Cas. at 984.

¹⁸⁸ See *supra* notes 20–29 and accompanying text.

¹⁸⁹ Patent Act of 1870, ch. 230, § 26, 16 Stat. 198, 201; Shores, *supra* note 184, at 736; Vacca, *supra* note 1, at 283.

¹⁹⁰ *Page*, 18 F. Cas. at 981–82.

¹⁹¹ See *Graham v. John Deere Co.*, 383 U.S. 1, 10–11 (1966) (noting that Congress has historically left it to the courts to develop conditions of patentability beyond the minimal tests of novelty and

was created by the judiciary in 1857,¹⁹² it must be deduced that the doctrine's origin lies in the Constitution as no statutory authorization for the doctrine existed until 1870.¹⁹³ This conclusion is firmly rooted in the language of Article I, Section 8, Clause 8 of the Constitution. The objective of patent law is to reveal everything regarding the invention. The inventor bares his soul to the public regarding the invention. As a reward for confessing the patent's secrets and sins, the inventor is bestowed with a constitutionally protected, government enforced, monopoly of a limited duration.¹⁹⁴ However, failure to be totally honest with the government and the public, even if unintentional,¹⁹⁵ by withholding the inventor's full confession regarding the invention's secrets, is a fraud upon the public that the Supreme Court has explicitly held voids the patent and renders the invention the property of the public domain.¹⁹⁶

Best mode is an element of this full confession. The doctrine focuses on how the invention is made and why this method is the best way the inventor knows at the time of his patent application to make the invention. The doctrine is not useless. To the contrary, it is vital. Best mode serves the purpose of disclosing the best method of production known to the inventor at the time of the patent application so the invention may be recreated by one who is reasonably skilled in the art.¹⁹⁷ Without the full disclosure of the invention's operation, the patent becomes a de facto monopoly, prohibited by the Constitution.

Despite Congress's attempt to compromise on the best mode debate by continuing the doctrine in section 112, yet eliminating its enforcement in AIA's section 15, Congress unwittingly overstepped its constitutional authority. What the courts created on constitutional grounds, Congress will not be able to void. Best mode belongs to the judiciary and the judiciary will protect the doctrine's existence as a constitutional requirement.

A prime example of Congress's prior attempt to impinge on a court-created constitutional doctrine was the enactment of 18 U.S.C. § 3501,¹⁹⁸ which was designed to overrule *Miranda v. Arizona*.¹⁹⁹ In an opinion written by Chief Justice Rehnquist, the Supreme Court made it explicit to Congress that a decision based on a constitutional doctrine by the Supreme Court "may not be in effect overruled by an

utility).

¹⁹² See *supra* notes 185–87, 189, 191, and accompanying text.

¹⁹³ See *supra* note 26 and accompanying text.

¹⁹⁴ U.S. CONST. art. I, § 8, cl. 8; *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150–51 (1989).

¹⁹⁵ See, e.g., *In re Cyclobenzaprine Hydrochloride Extended-Release Capsule Patent Litig.*, 676 F.3d 1063, 1085–86 (Fed. Cir. 2012).

¹⁹⁶ *Grant v. Raymond*, 31 U.S. 218, 231 (1832).

¹⁹⁷ *Extended-Release Capsule Patent Litig.*, 676 F.3d at 1085 (citing *Eli Lilly & Co. v. Barr Labs., Inc.*, 251 F.3d 955, 963 (Fed. Cir. 2001)).

¹⁹⁸ *Dickerson v. United States*, 530 U.S. 428, 431–32 (2000).

¹⁹⁹ 384 U.S. 436 (1966).

Act of Congress.”²⁰⁰ So, too, should be the fate of section 15. Congress’s attempt to make best mode an unenforceable doctrine is identical to Congress’s attempt to overturn *Miranda*.

IX. Violating the Constitution

Ignoring the valid debate as to which branch of government can claim paternity of best mode, section 15 cannot survive because the provision explicitly violates two requirements of Article I, Section 8, Clause 8. Section 15 fails “[t]o promote the Progress of . . . useful Arts” and allows for a patent that is not “for limited Times.”

Inventions are essential to a competitive economy.²⁰¹ To continue a healthy and vibrant economy, competitiveness must not be stifled by monopolies.²⁰² Therein lies the two problems with section 15. The inability to challenge a patent based upon failure to reveal the best mode stifles the progress of the useful arts and it keeps as a secret the best mode of the invention. The antithesis of patent law.²⁰³

If the inventor’s best mode is allowed to remain a secret, with no enforceability provision available once the patent has been issued, society has been deprived of its bargain with the inventor²⁰⁴ with no contractual ability to enforce the terms of the bargain. Without the knowledge of the invention’s best mode, the invention most likely cannot be duplicated without additional experimentation. Further, and more importantly, the art cannot be promoted forward without this knowledge.²⁰⁵

Without the best mode, those skilled in the art will be left to wonder how to perfect the best mode for the invention. Further, the best mode may or may not be discovered by independent engineering. In either situation, the progress of the art is not promoted as required by the Constitution.²⁰⁶ Rather, it is stifled. Assuming that the best mode is never discovered, society is deprived of the ability to benefit from the invention after the patent’s expiration because no one will be able to precisely duplicate the invention, or build upon the foundation of the best mode described in the patent.²⁰⁷ That would also allow the inventor to continue to have a de facto monopoly over the invention after the expiration of the patent period. Assuming that the best mode is subsequently discovered by independent means, the progress of the art still has not been promoted. This scenario results in an individual or individuals attempting to rediscover how the invention was exactly created.

²⁰⁰ *Dickerson*, 530 U.S. at 432.

²⁰¹ *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

²⁰² *Id.*

²⁰³ *Vacca*, *supra* note 1, at 285; Dale L. Calson et. al., *Patent Linchpin for the 21st Century?—Best Mode Revisited*, 45 *IDEA* 267, 270–72 (2005).

²⁰⁴ *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480–81 (1974); Calson et al., *supra* note 203, at 270–72.

²⁰⁵ *See Kewanee Oil*, 416 U.S. at 481 (explaining the importance of disclosure to the progress of the art).

²⁰⁶ *See id.* at 480–81 (explaining how the patent laws promote the progress of science and the useful arts by providing exclusivity in exchange for disclosure); Calson, *supra* note 203, at 270–72.

²⁰⁷ Calson, *supra* note 203, at 270–72

Time and assets that are wasted on a prior invention detract from the creation of new inventions.²⁰⁸

To satisfy the constitutional requirement of promoting the progress of the art, the mode must be fully disclosed. With the full disclosure, those skilled in the art can use the invention, with its best mode, as a foundation to build the art, to allow it to grow and branch into uncharted territory.²⁰⁹ This is the very meaning envisioned by the Constitution.

Section 15 destroys this progress because the evidence, as previously discussed, establishes that patent examiners very rarely deny a patent on best mode grounds,²¹⁰ nor do the examiners necessarily have the information available to make such a challenge.²¹¹ Society has made a contractual agreement with the inventor to grant the limited monopoly. Society has the constitutional right to enforce the terms of that contract. Those terms require full and complete disclosure of the invention. Section 15 deprives society of its ability to enforce the benefit of its bargain once the patent has been issued.

The greatest sin that section 15 commits is that the provision allows a patent to be unlimited, creating the very monopoly that Article I, Section 8, Clause 8 was designed to prohibit. By protecting an invention from full public scrutiny following the issuance of the patent, the inventor, who fraudulently deceived the PTO in the patent application, is allowed to keep the best mode as a trade secret once the patent has expired.²¹² This result would cause the invention to violate the Constitution's "limited Times" provision because the best mode of the invention could remain as a trade secret in perpetuity.

Nor is there any incentive for a third party to discover a best mode during or after the expiration of the patent. Society must now presume that the inventor disclosed the best mode as required by section 112 and any attempt to prove the contrary would result in the unnecessary waste of resources. This presumption is now required in light of section 15 because any challenge to best mode has been prohibited by Congress. Now assume for argument's sake that the inventor did reveal the best mode of the invention as required by section 112. Any attempt to verify this fact would also result in the waste of the investigator's resources. This time would have been better spent expanding the art, rather than attempting to reinvent the art.

²⁰⁸ *Kewanee Oil*, 416 U.S. at 481 (noting that the disclosure of a patent stimulates "ideas and the eventual development of further significant advances in the art").

²⁰⁹ *Id.*

²¹⁰ See *supra* notes 83–89 and accompanying text.

²¹¹ Vacca, *supra* note 1, at 294.

²¹² *Kewanee Oil*, 416 U.S. at 481, 484 (noting that by definition a trade secret is not in the public domain whereas patent law requires public disclosure of the information); Carlson, *supra* note 203, at 270–72; Brian J. Love & Christopher Seaman, *Best Mode Trade Secrets*, 15 YALE J.L. & TECH. 1, 12, 14–15 (2012).

Assuming again that the best mode was not revealed and that independent testing showed that the best mode was not disclosed, no action can be taken against the inventor due to section 15. The inventor is allowed to maintain his fraud through his valid patent without punishment from society.

Once the patent period has expired, the invention belongs to the public. By this time, society and technology has hopefully advanced in new directions. Because of this hopeful advancement, there is no incentive for an inventor to reinvestigate the past. The best mode of decades before could be outdated and, if properly disclosed initially, would belong to the public. If not disclosed, the best mode would remain a secret. The undisclosed best mode would not assist in the future expansion of the art, rendering the art poorer for it.²¹³ Thus, the practical result of these scenarios is that section 15 allows for not only a monopoly to continue regarding the best mode of the invention, as there is no incentive to discover it, but also blocks the advancement of the art, two of the basic requirements of Article I, Section 8, Clause 8.

X. The Tea Party Revisited

Supporters of section 15 could argue that it is the responsibility of Congress, and not the courts, to establish the rules necessary to obtain a patent. This position is a legitimate argument. Congress, under Article I, may establish such “conditions and tests for patentability.”²¹⁴ “It is the duty of the Commissioner of Patents and of the courts in the administration of the patent system to give effect to the constitutional standard by appropriate application . . . of the statutory scheme of the Congress.”²¹⁵

Although the courts are responsible for applying the patent laws designed by Congress, Congress “may not overreach the restraints imposed by the stated constitutional purpose. Nor may it enlarge the patent monopoly without regard to the innovation, advancement or social benefit gained thereby.”²¹⁶ Section 15 exceeds the restraints of Article I, Section 8, Clause 8, for it has no reference to this provision of the Constitution. It fails to allow for the advancement of technology. It fails to provide a benefit to society.

The argument for or against section 15 may seem to be a matter of pure academics given the rapid growth of technology. However, history proves the contrary. In the sixteenth and seventeenth centuries, the English Crown granted monopolies to the favorites of the court. These monopolies removed goods and business that once belonged to the public.²¹⁷ It is this very monopoly on a product called tea that resulted in a rather small, exclusive costume party in Boston harbor,

²¹³ See *Kewanee Oil*, 416 U.S. at 481; Carlson, *supra* note 203, at 270–72.

²¹⁴ *Graham v. John Deere Co.*, 383 U.S. 1, 6 (1966) (citation omitted).

²¹⁵ *Id.*

²¹⁶ *Id.*

²¹⁷ *Id.* at 5.

that eventually led to the American Revolution and the founding of this country.²¹⁸ It is this aversion to monopolies, so fresh in the mind of our founding fathers, that led to Article I, Section 8, Clause 8 of the Constitution.²¹⁹

Critics of best mode must remember that Thomas Jefferson, one of the first administrators of this country's patent system, in his duty as Secretary of State,²²⁰ called patents an "embarrassment."²²¹ Patents are given a government monopoly for a limited time as "a reward, an inducement" for "bring[ing] forth new knowledge" to society.²²² Patents are "not designed to secure to the inventor his natural right in his discoveries."²²³ Patents for inventors are like cell phones for teenagers. They are not a right, they are an earned privilege.

Section 15 creates the proverbial slippery slope, allowing for less than honest disclosure in patent applications and preventing any public challenge to the patent's best mode disclosure once the patent is issued. The specific deprivation of any enforcement of section 112's best mode requirement is the congressional equivalent of the English Crown's grant of monopolies to its favorites.

XI. To the Best Mode's Critics—That Dog Don't Hunt²²⁴

Commentators²²⁵ and Congress²²⁶ have stated four main reasons as to why best mode should be eliminated: 1) it is uniquely American and is inconsistent with other patent laws around the world; 2) the best mode may be technologically irrelevant; 3) the disclosure of best mode is redundant because of the enablement requirement; and 4) best mode unnecessarily increases litigation expenses. These excuses are as sturdy as a house of cards.

A. Uniquely American

Best mode critics argue that the doctrine is uniquely American and is an impediment to foreign patentees.²²⁷ So what? Of course it is uniquely American because it is based on the Constitution of the United States. Whether the basic constitutional requirements for patents in the United States correspond with the patent laws of other countries of the world is a non-issue. If the supreme law of the land prohibits certain decisions by Congress, Congress cannot cower to the pressures of other countries and ignore the Constitution.

²¹⁸ *Id.* at 7.

²¹⁹ *Id.* at 7–8.

²²⁰ *Graham*, 383 U.S. at 7.

²²¹ *Id.* at 9.

²²² *Id.*

²²³ *Id.*

²²⁴ One of my former employers, a retired federal judge in Kentucky, relished using the phrase, "Counselor, that dog don't hunt!" when he was presented with a frivolous or ridiculous legal argument.

²²⁵ *Shores*, *supra* note 184, at 740–41; *Vacca*, *supra* note 1, at 287–89; *Walmsley*, *supra* note 184, at 162–63.

²²⁶ H.R. REP. NO. 112-98, pt. 1, at 52 (2011).

²²⁷ *Shores*, *supra* note 184, at 744; *Walmsley*, *supra* note 184, at 162–63.

The reverse is applicable to Americans who are seeking foreign patents. Why should American inventors who are seeking foreign patents comply with the patent laws of other countries? Why should the best mode disclosure requirements of this country, that have existed for more than 150 years, be modified for the convenience of foreign inventors? There is no logical reason why best mode should be eliminated for the ease of foreign patentees. Would other countries relax their patent laws for the convenience of American inventors? The answer would be of course not.

Despite this position by best mode critics, the facts establish that at least twenty-four other countries require inventors to disclose best mode.²²⁸ Although some countries have dropped the requirement, commentators have shown that the trend among the countries is to adopt the doctrine.²²⁹ This trend makes sense. Without full and complete disclosure of all aspects of a patent, the art and society cannot advance.

B. Technologically Irrelevant

The report from the House Judiciary Committee regarding the AIA states that best mode is technologically irrelevant because “the best mode contemplated at the time of invention may not be the best mode of practicing or using the invention years later.”²³⁰ The Judiciary Committee of the House forgot about section 112 because section 112 *does not* provide that best mode is relevant at the time of the invention. Rather, best mode is relevant at the time the patent *application is filed*.²³¹ The response to this criticism is the same as to the uniquely American argument—so what? If technology advances during the duration of the patent, rejoice! That is what society craves. Society wants technology and science to advance to make our lives better.²³² If technology does not advance, society and the economy stagnates. The technology that was applicable to the best mode at the time of the patent application will hopefully become outdated during the patent’s term. If such advancements are not made, the art has not progressed, and society is the poorer for it. However, the disclosure of best mode is required because it serves as the foundation for the future of the art. It allows the art to be built upon it.²³³

C. The Lack of Redundance

The next argument asserts that best mode is useless because of the enablement requirement.²³⁴ “Specifically, because there is no obligation for an inventor to

²²⁸ Shores, *supra* note 184, at 745.

²²⁹ *Id.*

²³⁰ H.R. REP. NO. 112-98, pt. 1, at 52 (2011).

²³¹ *Id.* See also 35 U.S.C. § 112 (2006) (providing that specification shall set forth the best mode contemplated by the inventor).

²³² *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974).

²³³ *Id.*

²³⁴ Shores, *supra* note 184, at 743.

update the best mode after filing”²³⁵ The argument goes that the additional disclosure required by best mode relative to the enablement requirement is “not worth the costs.”²³⁶

The argument fails because:

This requirement acts as a safeguard against the “natural human tendency” to disclose “only what they know to be inferior modes” of the invention so as to keep the best for themselves. Without the additional requirement to disclose the best mode, the “primary purpose of the patent system would be frustrated because the inventor would be permitted to retain the details of his or her invention as trade secrets while gaining the benefit of the patent monopoly.”²³⁷

Enablement and best mode are independent species based on different policies. “Enablement focuses only on ensuring that a ‘person of ordinary skill in the art,’ without ‘undue experimentation,’ can make and use the invention.”²³⁸ But, “by not requiring the best mode disclosure, the ‘evolutionary development of innovation’ would certainly be slowed because inventors would be able to withhold their best mode and maintain a competitive advantage after the patent expires; a result that is contrary to the very foundations of the patent system.”²³⁹ This concession by best mode reformists establishes that section 15 violates both the “for limited Times” and the promotion of the arts requirements of the Constitution. “Therefore, it would be improper to rely on the enablement requirement alone because inevitably inventors would withhold their best mode, depriving the public of the patent system’s *quid pro quo* and inhibiting disclosure that could otherwise lead to technological growth.”²⁴⁰ Disclosure of best mode is necessary so as not to deprive society of its bargain with the inventor for the exclusive monopoly and to require the disclosure of methods that could advance technology²⁴¹ and promote the progress of the art.²⁴²

D. Litigation Costs

The cost of litigation is the final reason asserted for the death of best mode. This position is the weakest and most illogical of the four. The argument goes that patent suits costs, on average, between two and four million dollars.²⁴³ Of course, part of this cost includes pretrial discovery.²⁴⁴ Supposedly, when best mode claims are involved, costs associated with discovery can significantly increase.²⁴⁵ The reason for the increase apparently relates to the requirements of the claim itself.²⁴⁶ Because the courts have logically imposed a heavy burden of proof on those

²³⁵ *Id.*

²³⁶ *Id.*

²³⁷ *Id.* (citations omitted).

²³⁸ *Id.* at 743–44 (citation omitted).

²³⁹ *Id.* at 744 (citation omitted).

²⁴⁰ Shores, *supra* note 184, at 744.

²⁴¹ *Id.*

²⁴² U.S. CONST. art. I, § 8, cl. 8.

²⁴³ Shores, *supra* note 184, at 741.

²⁴⁴ *Id.*

²⁴⁵ *Id.*

²⁴⁶ *Id.*

asserting a best mode defense, evidence of the inventor's state of mind at the time the patent application was filed—a state of mind that existed years before the discovery process began—must be obtained.²⁴⁷ The argument goes that because of the extensive time difference between the filing of the patent and the discovery process, proof of the inventor's state of mind is only circumstantial, thus requiring time-consuming and expensive depositions and investigations.²⁴⁸

It has been noted that in patent litigation proceedings, “best mode claims are frequently ‘last resort’ defenses, alleged by infringers with weak technical cases.”²⁴⁹ A review of district court and Federal Circuit case law has shown that best mode challenges have an extremely rare success rate.²⁵⁰ But, despite this heavy burden of

²⁴⁷ *Id.*

²⁴⁸ *Id.*

²⁴⁹ Shores, *supra* note 184, at 741.

²⁵⁰ Wesley D. Markham conducted an empirical analysis regarding best mode cases and made the following observations:

In the author's study of reported U.S. district court patent cases from 2005 through 2009, the courts discussed a best mode challenge in only fifty out of 7891 cases, or 0.6% of the cases. In other words, the outcome of a patent lawsuit only depends on best mode issues in a small fraction of cases. This suggests that accused infringers either do not often raise a best mode defense, or raise a best mode defense but do not press it very hard.

Even when litigants do press a best mode defense, it is usually unsuccessful. Of the fifty reported U.S. district court patent cases from 2005 through 2009 in which the court ruled on best mode, the best mode challenge failed thirty-seven times, or 74.0% of the time, and prevailed only nine times, for a success rate of 18.0%. According to a prior study of all written, final validity decisions by either district courts or the Federal Circuit reported in the *United States Patent Quarterly* from 1989 through 1996, the best mode defense succeeded in sixteen out of forty-five cases, or 35.6% of the time. Both studies show that best mode is not typically a winning defense, particularly when compared to the success rates of other common defenses in patent litigation. For example, the success rates for the invalidity defenses of double patenting, anticipation under 35 U.S.C. § 102, lack of enablement, and obviousness, have been measured at 71.4%, 49.4%, 36.1%, and 36.3%, respectively.

No common thread among the successful best mode challenges at the district court level is readily apparent. In some instances, courts stressed the patentees' bad faith when holding patents invalid for failing to comply with the best mode requirement. In another instance, the court found a best mode violation without any evidence of bad faith at all.

The Federal Circuit is even more hostile to best mode challenges than the district courts are. In 2002, the Federal Circuit noted, “[i]n the history of this court and our predecessor courts, we have held claims invalid for failure to satisfy the best mode requirement on *only seven occasions*.” According to

proof, and rare success rate, the defense is very easy to plead.²⁵¹ As a result, alleging a best mode violation will allow a weak case to continue when the case should have been dismissed.²⁵² This, of course, leads to additional discovery that would not have been previously available.²⁵³ This also allows the infringer to “try the person rather than the patent,” a trial strategy which focuses on the inventor’s actions rather than the technical merits of the patent case.²⁵⁴ The equivalent of a criminal defense attorney attempting to try the victim for the crime.

Commentators have noted that the “best-mode-is-expensive” argument is not supported by the facts.²⁵⁵ The evidence measuring the costs and benefits of best mode enforcement is difficult to determine because of the numerous variables affecting litigation costs.²⁵⁶ “Furthermore, some scholars argue that because the inventor’s state of mind will be relevant during discovery regardless of whether best mode compliance is challenged, eliminating the best mode defense would have little effect on pre-trial discovery costs.”²⁵⁷ However, according to the supporters of this argument, because “a best mode defense is often plead when it will not succeed, it is frequently used only to advance weak technical cases, and a congressional advisory committee determined that best mode defenses do increase litigation costs, the best mode defense has a negative effect on patent litigation.”²⁵⁸

The simple response to this argument is Federal Rule of Civil Procedure 11—sanctions. The litigation-cost argument, as just described, complains that best

this author’s research on more recent reported decisions, the Federal Circuit has addressed the best mode requirement thirteen times from 2002 to 2009. Of those thirteen cases, the court affirmed a district court’s holding that there was a best mode violation *only once*. Of the remaining twelve cases, the Federal Circuit affirmed a district court’s finding that there was no best mode violation five times; reversed a district court’s finding that there was a best mode violation five times; and *never* reversed a district court’s holding that no best mode violation had occurred.

Based on these statistics, even if an accused infringer puts on a substantial best mode defense, which is rare, and wins on best mode at trial, which is unlikely, the probability that the Federal Circuit will affirm a finding of invalidity based on best mode is low. Therefore, the best mode requirement does not play a significant role in the outcome of patent cases as a whole.

Wesley D. Markham, *Is Best Mode the Worst? Dueling Arguments, Empirical Analysis, and Recommendations for Reform*, 51 IDEA 129, 150–51 (2011) (citations omitted).

²⁵¹ Shores, *supra* note 184, at 741.

²⁵² *Id.* at 742.

²⁵³ *Id.*

²⁵⁴ *Id.*

²⁵⁵ *Id.* (citing Markham, *supra* note 250, at 142–43).

²⁵⁶ *Id.*

²⁵⁷ Shores, *supra* note 184, at 742.

²⁵⁸ *Id.*

mode should be eliminated because it can increase litigation costs and its use as a defense is usually unsuccessful. The defense is only used in the weakest of cases and does nothing but needlessly continues the litigation. In circumstances such as this, the courts have the ability to impose sanctions. If an attorney presents an argument that is frivolous and is simply raised to needlessly continue the litigation, it is the responsibility of the court, upon motion of the opposing party, or *sua sponte*, to punish the offending party. Destroying a centuries-old doctrine, whose purpose is to comply with the requirements of constitutional disclosure, simply because litigants are abusing the doctrine is ludicrous. It renders a patent requirement of the Constitution meaningless. This same logic could be applied to any legal doctrine in any field of law. If the rule or doctrine is too costly, no matter whether the cost is due to its intrinsic value or abuse by the parties, the rule or doctrine is eliminated, no matter if it is constitutionally mandated.

In the area of patent law, such analysis could arguably eliminate nearly all challenges to a patent. The result, following the logic of the “cost conscious” supporters, would be to allow the inventors to file a patent application with the PTO. After the PTO grants the patent, any legal challenges to the patent would be barred once the patent is granted. The patent becomes an undisputable *per se* monopoly because any legal challenge to the patent would be “too expensive.”

The farce of this position is that the cost of litigation has nothing to do with eliminating best mode from the arsenal of litigation. It is simply a group of lawyers, inventors, and large companies who are tired of defending frivolous arguments and lawsuits. Admittedly, wasting time, money, and resources in defending frivolous claims and arguments makes the elimination of best mode, and many other legal doctrines, appealing. But that is not how our litigation system is designed and such a solution provides a dangerous precedent. For years, the courts, through the use of sanctions, have combated frivolous arguments and vindictive litigation through monetary and equitable measures. The courts can do the same with best mode claims.

The response to this position is then why have the courts not stopped the abuse of best mode in patent litigation cases? The answer is that most district judges have little or no experience in the area of patent law.²⁵⁹ Many district judges may never try a patent case in their entire career. If they should draw one, there is always the excellent chance that the case could settle and never be tried. Should this occur, the best mode issue would have already been explored during discovery. Further, even if a district judge tries a patent case, the unfamiliarity with the many complicated aspects of patent law makes it difficult for a district judge to recognize the frivolity of a best mode claim.²⁶⁰ In such a situation, it then becomes the responsibility of the opposing party to educate the district court and move the court for the appropriate

²⁵⁹ *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 492 (1974).

²⁶⁰ *Id.*

sanction. The fact that the best mode doctrine is subjected to unfettered abuse by litigators should not render its ability to be enforced null and void.

XII. Conclusion—The Phoenix Rises

Despite AIA's de facto elimination of best mode as a requirement of patentability under section 15, the federal courts should not, and cannot, allow the doctrine to die. Best mode is rooted in the Constitution. It inhibits nondisclosure and assists in satisfying the quid pro quo requirements of the patent system.²⁶¹ For these reasons alone, the courts should prevent the strangulation of best mode by section 15.

Congress's attempt to revise best mode in light of its critics is nothing more than attempting to appease a spoiled child who is having a tantrum. Like a spoiled child, once appeased, that child will demand even more to remain quiet. What has occurred to best mode is a dangerous precedent. Although section 15 has destroyed the life of best mode in all practical applications, the courts should raise the doctrine like a phoenix from the ashes. Such a resurrection will be based on constitutional grounds, nullifying section 15. With the dragon of section 15 slayed, the delicate balance of the patent system will once again be restored, society will benefit, and the "useful Arts" shall once again "Progress."

²⁶¹ *Id.*

Daubert for “Dummkopfs” - Judge Posner Hypothetically Disparages Patent Damages Experts in *Apple* and *Brandeis*

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I. Introduction

Sitting by designation in two patent infringement cases in the Northern District of Illinois, Judge Posner presented a stricter approach to dealing with the adequacy of expert damages testimony than had previously been applied. In *Apple, Inc. v. Motorola, Inc.*¹ he controversially dismissed a high profile case between electronics giants after striking all the testimony of both sides' patent damages experts. He similarly struck most of the damages experts' theories in *Brandeis University v. Keebler Co.*² In deciding these two cases, Judge Posner fashioned new rules for determining reliability of expert damages analysis. In several hypotheticals, he also colorfully speculated on what a real-world corporation might say to an outside expert it had employed in a non-litigation context when presented with such unreliable analysis: "*Dummkopf!* You're fired."³

In this article, we analyze Judge Posner's rationale and holdings based on the controlling law and possible outside norms that may have influenced Judge Posner. In Part II, we discuss the legal background upon which these decisions rest, including recent judicial trends in patent remedies and the standards for scrutiny of expert reports. In Part III, we review Judge Posner's *Daubert* analysis in *Apple* and *Brandeis* and the subsequent dismissal of *Apple*. In Part IV, we analyze Judge Posner's approach under the principles of legal pragmatism, including both economic and non-economic norms. Finally, in Part V, we consider whether Judge Posner's approach could be adopted by district courts nationwide.

II. The Supreme Court and the Federal Circuit have Gradually Tightened the Approach to Patent Remedies

In a series of recent cases from *eBay* to *LaserDynamics*, courts have heeded a number of academic voices calling for reduced patentee compensation by limiting and requiring narrower tailoring of the remedies available for patent infringement.⁴

¹ No. 1:11-cv-08540, 2012 WL 1959560, at *1 (N.D. Ill. May 22, 2012).

² Order of Jan. 18, 2013, *Brandeis Univ. v. Keebler Co.*, No. 1:12-cv-01508 (N.D. Ill. dismissed Apr. 23, 2013) [hereinafter *Brandeis*].

³ *Apple*, 2012 WL 1959560, at *9.

⁴ See Einer Elhauge, *Do Patent Holdup and Royalty Stacking Lead to Systematically Excessive Royalties?*, 4 J. COMPETITION L. & ECON. 535, 536-37 (2008) ("[A]rguments by Lemley and Shapiro, joined by fifty other intellectual property professors, in Supreme Court briefing appear to have helped influence the four justice concurrence in the *eBay* case to conclude: 'When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public

The Supreme Court started this trend in *eBay Inc. v. MercExchange, L.L.C.*, holding that injunctions are not an automatic remedy for patent infringement.⁵ The Federal Circuit has furthered this trend in a number of decisions requiring that patent damages calculations in expert reports be narrowly tailored to the invention at issue.

In these decisions, the Federal Circuit applied the general requirements for expert reports from *Daubert v. Merrell Dow Pharmaceuticals, Inc.*⁶ and the Federal Rules of Evidence⁷ to the specialized field of patent damages. *Daubert* and subsequent cases provide standards for excluding expert testimony that is not within the scope of the witness’s expertise,⁸ is irrelevant,⁹ or “does not result from the application of reliable methodologies or theories to the facts of the case.”¹⁰ In excluding expert testimony as irrelevant or unreliable, courts may consider whether the expert incorrectly applied any general theories to the particular matters at issue,¹¹ whether there is “simply too great an analytical gap between the data and the opinion proffered,”¹² or whether the expert fails to “employ[] in the courtroom the same level of intellectual rigor that characterizes the practice of an expert in the relevant field.”¹³

In a series of cases including *Lucent*,¹⁴ *Uniloc*,¹⁵ and *LaserDynamics*,¹⁶ the Federal Circuit applied these standards for *Daubert* scrutiny to exclude expert testimony, overturn jury awards, and remand for new trials on damages. The holdings in these cases excluded calculations of a reasonable royalty that were not narrowly tailored but instead were based on: a rate applied to the entire market value of an accused product;¹⁷ a “25 percent rule of thumb”;¹⁸ a rate applied to a

interest.” (quoting *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396–97 (2006) (Kennedy, J., joined by Stevens, J., Souter J. & Breyer, J., concurring))).

⁵ 547 U.S. at 391–92.

⁶ 509 U.S. 579 (1993).

⁷ The Federal Rules of Civil Procedure support cross-examination and rebuttal of an expert witness at trial by requiring advance disclosure of an expert report containing “a complete statement of all opinions the witness will express.” FED. R. CIV. P. 26(a)(2)(B)(i).

⁸ See *United States v. Bourgeois*, 950 F.2d 980, 987 (5th Cir. 1992); FED. R. EVID. 702(a) (requiring the witness have knowledge or experience in the relevant field so as to make it appear that the expert’s opinion will probably aid the jury).

⁹ *Daubert*, 509 U.S. at 587.

¹⁰ *Micro Chem., Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1391 (Fed. Cir. 2003) (citing *Daubert*, 509 U.S. at 589–92). This requirement has now been codified in the Federal Rules of Evidence. FED. R. EVID. 702(c)–(d).

¹¹ *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 153–54 (1999).

¹² *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997).

¹³ *Kumho Tire*, 526 U.S. at 152.

¹⁴ *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009).

¹⁵ *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011).

¹⁶ *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51 (Fed. Cir. 2012).

¹⁷ *Lucent Techs.*, 580 F.3d at 1336, 1340 (overturning a jury damages award where the jury applied a rate to the entire value of the defendant’s software and evidence did not show that the patent-related feature was the basis for customer demand).

portion of the accused product greater than the “smallest salable patent-practicing unit”;¹⁹ or licenses of other patents that were not economically or technologically comparable to the patent-in-suit.²⁰ These cases gave teeth to a rule crafted a century ago and restated in *Uniloc*—in calculating a reasonable royalty, a patentee must provide evidence to apportion damages “between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative.”²¹ This evidence must consider the likely outcome of factors that would have affected a hypothetical licensing negotiation between the patentee and the alleged infringer at the time of infringement,²² paying particular attention to the fifteen factors mentioned in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*²³ The expert’s analysis should indicate “the importance of the patent to the profits of the product sold, the potential availability of close substitutes or equally noninfringing alternatives, or any of the other idiosyncrasies of the patent at issue that would have affected a real-world negotiation.”²⁴

Although the Federal Circuit has thus attempted to increase the strictness of *Daubert* scrutiny of reasonable royalty calculations, district courts are allowed a large amount of discretion in their application of *Daubert*,²⁵ and they may more often follow that case’s warning against zealotry in excluding expert testimony: “Vigorous cross-examination, presentation of contrary evidence, and careful instruction on the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence.”²⁶ Furthermore, district court judges who do initially exclude expert testimony on damages typically allow them to amend their expert reports.²⁷ Judge Posner, however, took a stricter approach in the two Northern District of Illinois cases that are the subject of this article.

¹⁸ *Uniloc USA*, 632 F.3d at 1315 (“This court now holds as a matter of Federal Circuit law that the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation. . . . The patentee bears the burden of proving damages. To properly carry this burden, the patentee must ‘sufficiently [tie the expert testimony on damages] to the facts of the case.’ If the patentee fails to tie the theory to the facts of the case, the testimony must be excluded.” (quoting *Daubert*, 509 U.S. at 591) (citing *Lucent Techs., Inc.*, 580 F.3d at 1324)).

¹⁹ *LaserDynamics*, 694 F.3d at 67–68.

²⁰ *Id.* at 78–79 (stating that the district court erred in allowing expert testimony that relied on licenses that did not involve the patent-in-suit and contained no evidence showing that the licenses even involved the same technology as the patent-in-suit).

²¹ *Uniloc USA*, 632 F.3d at 1318 (quoting *Garretson v. Clark*, 111 U.S. 120, 121 (1884)).

²² *Id.* at 1317 (“This court has sanctioned the use of the *Georgia-Pacific* factors to frame the reasonable royalty inquiry. Those factors properly tie the reasonable royalty calculation to the facts of the hypothetical negotiation at issue.”).

²³ 318 F. Supp. 1116 (S.D.N.Y. 1970).

²⁴ *Uniloc USA*, 632 F.3d at 1313 (citations omitted).

²⁵ See *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831, 856 (Fed. Cir. 2010); *Micro Chem., Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1391–92 (Fed. Cir. 2003).

²⁶ *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 596 (1993).

²⁷ See, e.g., *VirnetX Inc. v. Cisco Sys., Inc.*, No. 6:10-CV-417, 2013 WL 789288, at *2 (E.D. Tex. Mar. 1, 2013); *IP Innovation L.L.C. v. Red Hat, Inc.*, 705 F. Supp. 2d 687, 691 (E.D. Tex. 2010); *Bowersfield v. Suzuki Motor Corp.*, 151 F. Supp. 2d 625, 633 (E.D. Pa. 2001).

III. Judge Posner Strictly Applies Both Existing and New Principles on Patent Damages Expert Testimony

In *Apple* and *Brandeis*, Judge Posner followed the Federal Circuit in striking the testimony of damages experts on the grounds that the experts’ methodologies were not narrowly tailored to the invention-at-issue, but, unlike similar cases,²⁸ did not allow the experts to amend their expert reports.²⁹ In disposing of the damages expert reports, Posner fashioned several new rules that raise the bar for reliability of patent damages methodologies. Adding to controversy, Posner then dismissed the *Apple* case between electronics giants for lack of redressability.³⁰

A. *Apple v. Motorola*

In *Apple*, the patentee sued Motorola for infringement of four Apple patents in October 2010, and Motorola countersued Apple for infringement of two Motorola patents.³¹ In preparation for trial, both Apple and Motorola hired several economic experts to opine on the parties’ claims for damages for infringement of the asserted patents. These experts also offered opinions on the parties’ obligations for patents encumbered by agreements with standard-setting organizations (SSOs) to license these patents on fair, reasonable, and non-discriminatory (FRAND) terms.³² The parties later filed several *Daubert* motions, requesting the court to exclude damages expert testimony, and the court conducted a *Daubert* hearing at which the three experts testified.³³ Judge Posner subsequently excluded the testimony of all three experts, such that no experts remained to testify as to the damage liability for infringement of any of the patents-in-suit.³⁴

In excluding the testimony of the three damages experts on several patents, Judge Posner delivered several recurring, and at times harsh, criticisms.³⁵ Three

²⁸ See, e.g., *VirnetX*, 2013 WL 789288, at *2; *IP Innovation*, 705 F. Supp. 2d at 691; *Bowersfield*, 151 F. Supp. 2d at 633.

²⁹ *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 1959560, at *9 (N.D. Ill. May 22, 2012); *Brandeis*, *supra* note 2.

³⁰ *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 924 (N.D. Ill. 2012).

³¹ *Apple*, 2012 WL 1959560, at *2, *6, *9–11.

³² *Id.* at *11. Standard-setting organizations (SSOs), such as the European Telecommunications Standards Institute (ETSI), generally request that their members identify and disclose any intellectual property that is relevant for a standard being considered and developed. Anne Layne-Farrar et al., *Pricing Patents for Licensing in Standard-Setting Organizations: Making Sense of FRAND Commitments*, 74 ANTITRUST L.J. 671, 672 (2007). In exchange for having such intellectual property considered for inclusion in the standard, the members generally are requested to license their intellectual property under “fair, reasonable, and non-discriminatory” (FRAND) terms. *Id.* at 671–72. See also *Apple*, 869 F. Supp. 2d at 911–12.

³³ *Apple*, 2012 WL 1959560, at *1.

³⁴ *Apple*, 869 F. Supp. 2d at 904. Judge Posner also considered, but ultimately denied, a fourth *Daubert* challenge of another Motorola expert, Charles Donohoe, which was based on a possible conflict of interest. *Apple*, 2012 WL 1959560, at *1.

³⁵ Note that Judge Posner found the damages experts presented by Apple and Motorola to be generally qualified to give expert testimony. See *Apple*, 2012 WL 1959560, at *3 (“The inadequacy of Wagner’s proposed testimony (surprising in light of his careful expert testimony upheld against *Daubert* challenge in *i4i Ltd. Partnership v. Microsoft Corp.*, 598 F.3d 831, 853–

criticisms applied the previous law in asserting that: (i) expert testimony and assumptions must be within the expert's scope of expertise; (ii) calculated damages must be narrowly tailored to the invention-at-issue; and (iii) damages models must be mathematically rigorous.³⁶ Notably, in two other criticisms, Judge Posner fashioned new rules for applying *Daubert*: (iv) data underlying damages calculations must be obtained from reliable, *disinterested* sources; and (v) reasonable royalty calculations must consider the *least-cost*, commercially reasonable, noninfringing alternative.³⁷

1. Expert Testimony and Assumptions Must Be Within the Expert's Scope of Expertise

Judge Posner strictly applied a general *Daubert* rule that an expert's testimony and the assumptions the expert makes underlying the expert's analysis must be within the expert's scope of expertise. When testifying as to the reasonable royalty for the use of the invention of the '949 patent-in-suit, which disclosed a "tap for next item" feature on a smartphone, Motorola's expert, Michael Wagner, asserted that such a reasonable royalty is capped at the cost of designing and implementing a noninfringing alternative.³⁸ Here, Mr. Wagner obtained the cost of the design-around noninfringing alternative from a disinterested party, a Google employee responsible for adding the functionality to the Android operating system running on Motorola's accused product.³⁹ However, while the source of the information underlying Mr. Wagner's analysis passed the *Daubert* test, the Google employee had provided information as to a "swipe" functionality as opposed to a "tap" functionality, as required by the '949 patent-in-suit.⁴⁰ Mr. Wagner made the critical assumption that the costs associated with the design-around for these two functionalities were equivalent; that is to say, it would cost the same to design around a "swipe" functionality as it would a "tap" functionality.⁴¹ As Mr. Wagner is merely a damages expert and not a technical expert, such an assumption was

55 (Fed. Cir. 2010)) compels me to exclude it." In a separate case, he found the expert whose testimony he excluded to be "a highly qualified consulting economist [such that t]here is no doubt about her general competence to estimate damages." Brandeis, *supra* note 2, at *8. In *Apple*, Judge Posner even commended the parties' legal teams for their excellent service. *Apple*, 869 F. Supp. 2d at 923 ("They are proud, as they should be, of their ability to provide superb service to their clients under time pressure that would crush less skilled and resourced firms and clients."). Instead, he claimed to take issue only with expert methodology that resulted in "a demonstrably inadequate report" and "wild conjecture." *Apple*, 869 F. Supp. 2d at 919–20. See also *Apple*, 2012 WL 1959560, at *1 ("The expert must use a 'proper methodology,' an 'acceptable methodology.'" (quoting *Walker v. Soo Line R.R.*, 208 F.3d 581, 587 (7th Cir. 2000))).

³⁶ See *Apple*, 2012 WL 1959560, at *4–6, *10.

³⁷ See *id.* at *3, *7, *9, *11.

³⁸ *Id.* at *6. Judge Posner did not opine on whether Mr. Wagner's assertion is correct.

³⁹ *Id.* The Android operating system was created by Google. *Id.*

⁴⁰ *Id.*

⁴¹ *Id.*

outside the scope of Mr. Wagner’s expertise.⁴² Accordingly, Judge Posner excluded his testimony as to the ’949 patent.⁴³

2. Damages Must Be Narrowly Tailored to the Invention-at-Issue

Following strong Federal Circuit precedent, another key theme in Judge Posner’s analysis of the parties’ damages experts’ reports was that the damages must be narrowly tailored to the invention-at-issue.⁴⁴ For the ’002 patent-in-suit, which disclosed an unobstructed toolbar notification window of a smartphone, Apple’s damages expert, Brian Napper, attempted to calculate a reasonable royalty based on the results of a Motorola-conducted consumer survey that was intended to determine the value added by certain features of a smartphone.⁴⁵ From this data, Mr. Napper extrapolated a value of the unobstructed notification window to consumers based on the answers to questions about “appealing features & functions” and frequency of “review[ing] notifications.”⁴⁶ Judge Posner criticized Mr. Napper’s approach for making “an unreasonable assumption” and mischaracterizing the results of the survey: Mr. Napper relied on his “unverified, indeed arbitrary, assumption” that Motorola would be forced to reduce the price of its accused product by the amount of the reasonable royalty, if the accused product did not contain the patented invention.⁴⁷ That is, “Napper failed to compare a cell phone that has [the patented invention] with one that [does not].”⁴⁸

Judge Posner thus found a fundamental mistake in Mr. Napper’s reliance on a consumer survey that was too broad and not narrowly tailored to the invention-at-issue.⁴⁹ He illustrated Mr. Napper’s mistake with a hypothetical: suppose Motorola, and not Apple, had approached Mr. Napper prior to a hypothetical licensing negotiation to calculate the value of the patented invention—an unobstructed, as opposed to a partially obstructed, toolbar notification window of a smartphone.⁵⁰ Suppose that Mr. Napper used the same survey results as before to

⁴² *Apple*, 2012 WL 1959560, at *6.

⁴³ *Id.*

⁴⁴ See *supra* notes 17–20 and accompanying text.

⁴⁵ *Apple*, 2012 WL 1959560, at *4.

⁴⁶ *Id.*

⁴⁷ *Id.* Mr. Napper had assumed that, because fifteen percent of survey respondents had indicated that they bought their phones because of “appealing features & functions” that fifteen percent of the value of the phone was attributable to those features and functions. *Id.* He further assumed that those features and functions are those used by consumers every day. *Id.* He also mischaracterized the survey results, which had indicated that four percent of respondents “reviewed notifications” every day, as suggesting that the respondents in fact used the patented notification feature every day. *Id.*

⁴⁸ *Id.*

⁴⁹ *Id.* at *5. Judge Posner proceeded to suggest a possible survey that would presumably satisfy his requirements for rigor. *Id.* He does not indicate a general dislike for survey data. Indeed, he acknowledges that “consumer surveys designed to determine the value of a particular feature or property of a consumer product are a common and acceptable form of evidence in patent cases.”

Id.

⁵⁰ *Id.*

calculate the value of the toolbar notification window itself, as opposed to the value added by such a toolbar notification window being unobstructed and not partially obstructed.⁵¹ If Judge Posner were Motorola in the hypothetical, he would have admonished: “Dummy! You haven’t estimated the value of the non-obstruction feature. You’ve just estimated the value of the notification window.”⁵² Thus, despite acknowledging that damage calculations may be subject to a degree of speculation, Judge Posner reasoned that an expert witness must nevertheless “conduct a responsible inquiry that would have been feasible to conduct,” and found that Mr. Napper did not do so.⁵³

Similarly, Mr. Napper’s analysis of the ’949 patent-in-suit, which disclosed a smartphone’s “tap for next item” feature, was also excluded because it was not narrowly tailored to the invention-at-issue.⁵⁴ Mr. Napper based his analysis on the retail price of a comparable device with similar functionality, that is, the price of a non-smartphone device embodying the invention disclosed in the ’949 patent-in-suit compared to the price of a similar device not embodying the invention.⁵⁵ However, Judge Posner found the functional difference between the two devices was not limited to the invention disclosed in the ’949 patent: the comparable device contained other functionality that may have accounted for the price differential between a Trackpad and a mouse, which Mr. Napper did not account for.⁵⁶ Judge Posner thus excluded Mr. Napper’s testimony of the ’949 patent, finding that Mr. Napper could have “elicited [the value of the accused functionality] within a permissible (because unavoidable) range of uncertainty, by a properly designed and executed consumer survey,” but opted not to do so.⁵⁷

Judge Posner also excluded the entirety of Mr. Napper’s testimony with regard to the ’647 patent-in-suit, which discloses a data structure detection and

⁵¹ *Apple*, 2012 WL 1959560, at *5.

⁵² *Id.* See also *id.* at *6 (“[I]t doesn’t defend the bizarre way in which he threw those numbers together to come up with his unsupportably high damages figure.”).

⁵³ *Id.* at *5.

⁵⁴ *Id.* at *7. Judge Posner acknowledges that some of the issues related to Mr. Napper’s report were related to uncertainty relating to the scope of the invention. *Id.* at *8. Specifically, Mr. Napper had interpreted the invention-at-issue broadly and had structured his damages expert report accordingly. *Id.* Only subsequently to Mr. Napper’s report did Judge Posner issue an order regarding the scope of the invention. *Id.* However, even under Mr. Napper’s broad interpretation of the invention-at-issue, Mr. Napper’s report did not satisfy Judge Posner’s *Daubert* scrutiny. *Id.*

⁵⁵ *Id.* at *7. The device used in the analysis was Apple’s Magic Trackpad, a substitute for a computer mouse, which a user can operate by moving her fingers on the pad as opposed to moving the device itself, as with a conventional computer mouse. *Id.* The only function of the Magic Trackpad is to act as a substitute for a computer mouse, as it otherwise does not have the same features as a smartphone. Judge Posner did not object to the use of the Magic Trackpad as a device too dissimilar to the accused smartphones.

⁵⁶ *Id.* (“That a consumer will pay something for gestural control does not enable an estimation of how much he will pay for a particular improvement in a system of such control, such as the addition of a new gesture to perform a function that can already be performed with another gesture.”).

⁵⁷ *Apple*, 2012 WL 1959560, at *7.

linking system, on the grounds that Mr. Napper’s damages calculations were not narrowly tailored to the invention disclosed in the patent.⁵⁸ Mr. Napper based his calculations on the price of an Apple iPhone application, Clipboard Manager, which provided the functionality claimed in the patent.⁵⁹ However, Mr. Napper admitted, “the ’647 technology comes preloaded on the iPhone and . . . is superior to Clipboard Manager’s version of that functionality.”⁶⁰ Judge Posner therefore found that the Clipboard Manager application at best replicated the functionality that consumers already had, and a knowledgeable consumer would not purchase the Clipboard Manager application for its structure detection and linking.⁶¹ Thus, Mr. Napper’s testimony on “the purchase of Clipboard Manager provide[d] zero information on the value to consumers of structure detection and linking,” and any value of Clipboard Manager attributable to the invention was derived only from “ignorant consumers” who purchase the application without knowing that they already have the detection and linking features.⁶² Because “it seem[ed] odd to base damages on sales revenues obtained as a result of mistakes by consumers for which the seller seems largely responsible,” Judge Posner excluded Mr. Napper’s testimony as to the ’647 patent.⁶³

3. Damages Models Must Be Mathematically Rigorous

Similarly, Judge Posner ruled that an expert’s damages calculations must be mathematically rigorous.⁶⁴ For example, a damages expert cannot conclude that the value of a feature of an accused product to consumers exceeds the total cost of the accused product. That is to say, a reasonable royalty may not exceed 100 percent of the purchase price;⁶⁵ no licensee in a hypothetical negotiation would agree to a royalty greater than 100 percent of the price of the licensed product for the simple reason that the licensee would lose money simply by selling the licensed product.⁶⁶

This rationale supported Judge Posner excluding Mr. Napper’s testimony related to the reasonable royalty of the ’002 patent.⁶⁷ Mr. Napper had based his calculations of a reasonable royalty on the results of a Motorola-conducted consumer survey intended to determine the value added by certain features of a smartphone.⁶⁸ Survey respondents were allowed to pick up to five “main reasons”

⁵⁸ *Id.* at *10.

⁵⁹ *Id.*

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² *Id.*

⁶³ *Apple*, 2012 WL 1959560, at *10.

⁶⁴ *Id.* at *2.

⁶⁵ *See, e.g., Nordock Inc. v. Systems Inc.*, No. 11-C-118, 2013 WL 989864, at *8 (E.D. Wis. Mar. 13, 2013) (“Systems states that Smith’s assertion that ‘my opinion of a reasonable royalty on sales of dock levelers would be 100 percent of Nordock’s lost sales as calculated above,’ is incredible and should be sufficient to disqualify Smith as an expert.” (citation omitted)).

⁶⁶ *See id.* (“Smith’s reliance on the 100% royalty figure does not reflect Nordock being a willing party or that he engaged in any balancing of the parties’ interests.”).

⁶⁷ *Apple*, 2012 WL 1959560, at *4.

⁶⁸ *Id.*

for buying the accused phone.⁶⁹ Finding that fifteen percent of respondents had selected “appealing features & functions” as one of their five main reasons, Mr. Napper reasoned that fifteen percent of the \$270 retail price of the phone was attributable to “appealing features & functions.”⁷⁰ Judge Posner criticized Mr. Napper’s approach for its obvious mathematical fallacy: if Mr. Napper’s approach would be applied to all attributes of the phone, “the total value of all the attributes on each respondent’s list would come to 500 percent of the value of the phone. That’s impossible.”⁷¹ Mr. Napper simply failed to normalize the survey data or his calculations to account for the fact that respondent were allowed to select their five main reasons for buying the phone.

4. Data Underlying Damage Calculations Must Be Obtained from Reliable, Disinterested Sources

In addition to strictly applying existing standards on the scope of expertise, narrow tailoring of patent damages theories, and the mathematical rigor required of such theories, Judge Posner crafted new and challenging requirements for passing *Daubert* scrutiny. These requirements support the Supreme Court’s principle in *Kumho Tire* that an expert must “‘employ[] in the courtroom the same level of intellectual rigor that characterizes the practice of an expert in the relevant field.’”⁷²

The first new requirement of the Posner *Daubert* regime demands that the data underlying an expert’s damages calculations be not just from reliable, but also disinterested sources. On these grounds, Judge Posner excluded the testimony of Michael Wagner, Motorola’s damages expert, with respect to the ’002 patent-in-suit.⁷³ Mr. Wagner asserted that a reasonable royalty for use of the invention of the ’002 patent, which disclosed an unobstructed toolbar notification window of a smartphone, is capped at the lowest cost of designing and implementing a noninfringing alternative, if the noninfringing alternative has no effect on revenue or consumer perception.⁷⁴ However, Mr. Wagner had obtained the cost of the design-around noninfringing alternative from one of Motorola’s own technical experts.⁷⁵ Judge Posner ruled that Mr. Wagner’s testimony as to the cost of the infringing notification window “is not expert testimony but fact testimony . . . and while an expert witness is permitted to base an opinion on hearsay evidence, he isn’t permitted to use that privilege merely to shield the source of the evidence from cross-examination.”⁷⁶ Further, Mr. Wagner obtained the information from a source that Judge Posner deemed inappropriate and thereby “violate[d] the principle that a testifying expert must use the same approach (if it is feasible for him to do so) that

⁶⁹ *Id.*

⁷⁰ *Id.*

⁷¹ *Id.*

⁷² *Id.* at *2 (quoting *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 152 (1999)).

⁷³ *Apple*, 2012 WL 1959560, at *3.

⁷⁴ *Id.* Judge Posner did not opine on whether Mr. Wagner’s assertion is correct.

⁷⁵ *Id.*

⁷⁶ *Id.*

he would use outside the litigation context”; Mr. Wagner should have asked outside consultants and software firms for an estimate of the design-around cost, because in a non-litigation context Motorola would not hire an expert to tell them what they already know.⁷⁷ Thus, Judge Posner excluded Mr. Wagner’s analysis of the ’002 patent because in performing the same analysis outside a litigation context, “Wagner would not ask an engineer at Motorola; Motorola would ask an engineer at Motorola.”⁷⁸

Similarly, Judge Posner excluded Mr. Napper’s testimony as to the ’263 patent, which discloses a system to display video on a smartphone in real time, on similar grounds; instead of obtaining the cost information of a design-around from a disinterested party, Mr. Napper had obtained the information from an interested party.⁷⁹ Here, the interested party was Apple’s own principal technical expert, Nathaniel Polish.⁸⁰ Since Mr. Napper’s testimony would effectively have shielded Mr. Polish’s testimony from Motorola’s cross-examination, and Mr. Polish clearly had a conflict of interest regarding the cost of the design-around, Judge Posner excluded Mr. Napper’s testimony as to the ’263 patent.⁸¹ Here, Judge Posner demonstrated the issue with a hypothetical which supposes that Motorola hires Mr. Napper in a non-litigation setting to determine the cost of the design-around noninfringing alternative:

Motorola: “What will it cost us to invent around, for that will place a ceiling on the royalty we’ll pay Apple?”

Napper: “Brace yourself: \$35 million greenbacks.”

Motorola: “That sounds high; where did you get the figure?”

Napper: “I asked an engineer who works for Apple.”

Motorola: “*Dummkopf!* You’re fired.”⁸²

5. Reasonable Royalty Calculations Must Consider the “Least-Cost,” Commercially Reasonable Noninfringing Alternative

A second new rule of the Posner *Daubert* regime requires an expert calculating a reasonable royalty to consider the least-cost noninfringing alternatives among those that are “commercially reasonable.”⁸³ Such commercially reasonable alternatives are those that would have likely been considered by an expert in a non-litigation context.⁸⁴

The cost of designing and implementing a noninfringing alternative is one factor that should be considered for its effect on a hypothetical negotiation.⁸⁵ In

⁷⁷ *Id.*

⁷⁸ *Id.*

⁷⁹ *Apple*, 2012 WL 1959560, at *9–10.

⁸⁰ *Id.* at *9.

⁸¹ *Id.* at *9–10. Judge Posner would have allowed Mr. Polish’s testimony “if he were the only person competent to opine on substitutes for the ’263.” *Id.* at *9.

⁸² *Id.* at *9.

⁸³ *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 907 (N.D. Ill. 2012).

⁸⁴ *Apple*, 2012 WL 1959560, at *11.

⁸⁵ *Id.* at *7. Note that Judge Posner suggests the cost of the noninfringing alternative is a limit to the reasonable royalty that a patentee is entitled to. *Id.* (“[W]e need to know that lowest cost because

calculating the reasonable royalty for the '949 patent, however, Mr. Napper merely considered a single plausible alternative to infringement, that is, licensing the patent.⁸⁶ The '949 patent disclosed a smartphone's "tap for next item" feature, and the accused functionality was limited to an Amazon Kindle application that was pre-installed on Motorola's accused devices.⁸⁷ Mr. Napper's reasonable royalty calculation of \$2 per accused Motorola smartphone considered the cost of a non-smartphone device with similar "tap for next item" functionality.⁸⁸ Because the cost of designing and implementing a noninfringing alternative is one factor that should be considered for its effect on a hypothetical negotiation, Mr. Napper's calculation considered licensing the patent as such an alternative.⁸⁹

However, Judge Posner determined that simpler noninfringing alternatives included: dropping the "tap for next item" functionality from the Kindle application altogether; or not pre-installing the Kindle application on the accused devices and instead requiring consumers to download the accused product themselves.⁹⁰ Judge Posner found that in a non-litigation context an expert would have considered both of these presumptively cheaper alternatives.⁹¹ Because Mr. Napper had not considered either of these alternatives, Judge Posner struck Mr. Napper's testimony as to the '949 patent.⁹²

Similarly, Judge Posner excluded the testimony of Motorola's damages expert, Carla Mulhern, with regards to Motorola's '559 and '898 patents, both of which were FRAND-encumbered.⁹³ Ms. Mulhern "estimate[d] that a proper FRAND royalty would have cost Apple \$347 million."⁹⁴ However, this estimate was again based on the single noninfringing alternative of licensing the patents-at-issue.⁹⁵

it will be the ceiling on our willingness to pay for a patent license."). However, such a reading, if taken literally, would seem to contradict Federal Circuit precedent. *Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359, 1372 (Fed. Cir. 2008) (rejecting an argument that "an infringer should not be required to pay more in reasonable royalty damages than it would have paid to avoid infringement in the first place by switching to an available noninfringing alternative").

⁸⁶ *Apple*, 2012 WL 1959560, at *7. Judge Posner again illustrates his issues with Mr. Napper's analysis with a simple hypothetical: Motorola approaching Mr. Napper in a non-litigation context and asking what the lowest cost noninfringing alternative is. *Id.*

⁸⁷ *Id.* at *6.

⁸⁸ *Id.* at *8. Judge Posner criticized Mr. Napper's damages calculations for including functionality outside the scope of the '949 patent. *Id.* See also *supra* note 54 and accompanying text.

⁸⁹ *Apple*, 2012 WL 1959560, at *7.

⁹⁰ *Id.* at *8.

⁹¹ *Id.*

⁹² *Id.* at *9.

⁹³ *Id.* at *12.

⁹⁴ *Id.* at *11. Ms. Mulhern also inadvisably testified at the *Daubert* hearing that \$347 million, "while a seemingly large number, is nothing to Apple." *Id.* Judge Posner summarily rejected any notion that this should have a bearing on the damage calculations of the patents-at-issue. *Id.* ("Obviously a damages estimate cannot be based on such reasoning.")

⁹⁵ *Apple*, 2012 WL 1959560, at *11.

Here, Apple’s products only infringed Motorola’s patents when communicating over the AT&T cellular network.⁹⁶ Thus, Judge Posner determined a noninfringing alternative would have been for Apple to switch wireless cellular networks to another carrier, such as Verizon.⁹⁷ While such a switch would have required a breach of contract and would have likely “been inferior to the deal with AT&T if there were no issue of infringement,” Ms. Mulhern “offer[ed] no evidence that it would have been \$347 million more costly to Apple.”⁹⁸ In excluding Ms. Mulhern’s testimony as to Motorola’s ’559 and ’898 patents, Judge Posner again disparages her analysis via a hypothetical:

The implication is that even if Apple could have saved, say, \$100 million by launching on Verizon, what’s the difference to Apple of having to pay \$347 million versus \$247 million? . . . For imagine [Ms. Mulhern] being hired by Apple for advice on how to minimize its [infringement] liability to Motorola, and her advising Apple that . . . she hasn’t bothered to consider avoidance measures that would cost less than \$347 million because one hundred million dollars or so is chicken feed to Apple and so it wouldn’t want to pay an additional fee to her to search the alternatives. That is nonsense.⁹⁹

As a corollary to the rule that reasonable royalty calculations must consider commercially reasonable noninfringing alternatives, Judge Posner also held that a patentee’s lost profits calculations should take account of such noninfringing alternatives.¹⁰⁰ On these grounds he similarly excluded Ms. Mulhern’s testimony on lost profits damages.¹⁰¹ She calculated these lost profits from the profits Motorola would have gained in “a counterfactual world in which there is no Apple product on the market because Apple doesn’t have a license to use Motorola’s cellular patents.”¹⁰² However, Judge Posner found that she failed to consider two reasonable actions that Apple could have taken instead of simply not selling any iPhones: (1) the above alternative that Apple would have deployed its iPhones on the Verizon cellular network instead of the AT&T network to avoid infringement, or (2) that Apple would have paid the 2.25 percent royalty that Motorola demanded.¹⁰³ According to Judge Posner, such a lost profits calculation based on a counterfactual world that does not consider these two simple alternatives “is science fiction.”¹⁰⁴

B. Judge Posner Again Applied *Apple Daubert* Principles in *Brandeis v. Keebler*

Sitting again by designation in the Northern District of Illinois soon thereafter, Judge Posner was again faced with *Daubert* challenges in a patent

⁹⁶ *Id.* at *12.

⁹⁷ *Id.* at *11.

⁹⁸ *Id.*

⁹⁹ *Id.*

¹⁰⁰ *Id.* at *12 (citing *Grain Processing Corp. v. Am. Maize-Prods. Co.*, 185 F.3d 1341, 1350–51 (Fed. Cir. 1999)).

¹⁰¹ *Apple*, 2012 WL 1959560, at *12.

¹⁰² *Id.*

¹⁰³ *Id.*

¹⁰⁴ *Id.*

infringement context.¹⁰⁵ In *Brandeis*, plaintiffs GFA Brands and Brandeis University claimed cookie manufacturer Keebler had infringed a patent claiming a cholesterol-free oil blend.¹⁰⁶ Judge Posner appears to have applied the same principles he stated in *Apple* to the challenges of the parties' damages experts.

Judge Posner first struck several portions of the plaintiff's damages expert, Dr. Layne-Farrar.¹⁰⁷ Judge Posner first applied the rule that expert assumptions must be within the scope of expertise. In determining the effect of the oil blend used in the cookie on consumer demand, Dr. Layne-Farrar extrapolated from conversations she had with a biochemist specializing in the biochemistry of food that "increased sogginess would be a real problem for Keebler if it switched to any non-infringing oil blend" and would reduce consumer demand.¹⁰⁸ But Judge Posner struck this testimony, noting that unlike a food scientist or one experienced in food marketing, neither Dr. Layne-Farrar nor the biochemist were qualified experts as to the effect of the oil blend on consumer demand.¹⁰⁹

Additionally, Judge Posner applied the rule requiring narrow tailoring against Dr. Layne-Farrar's testimony. Judge Posner found that one license considered by Dr. Layne-Farrar involved a licensee "wholly dissimilar to Keebler[, which] make[s] just two cookies alleged to infringe" a different patent than that asserted against Keebler.¹¹⁰ He deemed use of this license improper, as there was "no basis for Dr. Layne-Farrar to apply the percentage that the fee represented of [Company B's] sales [of just two cookies] to Keebler's vast sales."¹¹¹ He also found another license resulting from a settlement agreement was not narrowly tailored, because Dr. Layne-Farrar "made no attempt to value any individual component of this complex settlement agreement, and so she cannot responsibly value the patent license itself."¹¹²

Judge Posner also applied against Dr. Layne-Farrar's testimony both the general requirement for reliable sources of data and his specific rule that these sources be disinterested. Judge Posner criticized Dr. Layne-Farrar's reliance on an industry analyst who opined that the loss of Keebler's market share was related to failure to eliminate trans-fats, stating that "she didn't determine the reliability of that sole analyst's opinion."¹¹³ He also found her inflation of a previous license involving plaintiff GFA was not based on reliable sources of data, but instead on an unsupported, conjectural "theory that GFA did not pursue an economically optimal

¹⁰⁵ *Brandeis*, *supra* note 2, at *1.

¹⁰⁶ *Id.* at *4.

¹⁰⁷ *Id.* at *11–12.

¹⁰⁸ *Id.* at *9.

¹⁰⁹ *Id.* at *9–10.

¹¹⁰ *Id.* at *10 (internal redactions omitted).

¹¹¹ *Brandeis*, *supra* note 2, at *10–11.

¹¹² *Id.* at *11–12.

¹¹³ *Id.* at *10.

deal” because its negotiating position had not yet been strengthened by a subsequent merger.¹¹⁴

Relatedly, Judge Posner also found that Dr. Layne-Farrar had relied on statements in a GFA settlement agreement that were not disinterested. To Judge Posner, settlement language “that the settlement’s value ‘equals or exceeds [a certain redacted dollar amount]’ and a claim by the CEO of GFA that it may be as much as [another dollar amount]” were “self-serving statements, apparently made for litigation purposes.”¹¹⁵ He held that neither statement “can be the basis of a reliable calculation by an economist.”¹¹⁶ As a result of these shortcomings, Judge Posner struck several portions of Dr. Layne-Farrar’s expert report.¹¹⁷

Judge Posner also addressed the report of Keebler’s damages expert, Dr. Keeley, which considered the availability of a least-cost, commercially reasonable substitute.¹¹⁸ Judge Posner found that Dr. Keeley appropriately relied on the information of Keebler’s infringement expert that an acceptable noninfringing substitute existed for the patented oil blend in opining that the reasonable royalty should also be negligible.¹¹⁹ Having found no errors in Dr. Keeley’s methodology, Judge Posner denied the *Daubert* motion to exclude Dr. Keeley’s opinions.¹²⁰

C. After Excluding Expert Testimony, Judge Posner Dismisses *Apple* for the Parties’ Failure to Establish Damages

In *Apple*, after Judge Posner excluded the testimony of all the damages experts, he cut against the common practice¹²¹ of allowing damages experts to amend or supplement their expert reports so as to pass *Daubert* scrutiny.¹²² He then rejected the parties’ further arguments in determining that he should dismiss the case.

Judge Posner first rejected the parties’ arguments that a patentee whose valid patent is found to be infringed is, at the very least, entitled to a reasonable royalty under 35 U.S.C. § 284, such that the damage award entered against the infringer can never be zero or even nominal.¹²³ 35 U.S.C. § 284 sets forth the statutory damage requirements:

¹¹⁴ *Id.* at *11.

¹¹⁵ *Id.*

¹¹⁶ *Id.*

¹¹⁷ Brandeis, *supra* note 2, at *12.

¹¹⁸ *Id.*

¹¹⁹ *Id.*

¹²⁰ *Id.*

¹²¹ See *supra* note 28 and accompanying text.

¹²² *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 1959560, at *9 (N.D. Ill. May 22, 2012) (“Against this background, the question whether he should be allowed to supplement his expert report to provide an estimate of a reasonable royalty for the Kindle Reader application fingertap page-turning feature is easily answered: no.”).

¹²³ *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 909 (N.D. Ill. 2012).

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, *but in no event less than a reasonable royalty* for the use made of the invention by the infringer, together with interest and costs as fixed by the court.¹²⁴

While acknowledging that the statutory language could be interpreted “to entitle a patentee to a royalty if it proves infringement even if it presents no evidence at all of harm,”¹²⁵ Judge Posner “dispel[led] any impression that such relief—substantial ‘compensatory’ damages for no tangible injury—would be proper.”¹²⁶ Instead, while there is a

presumption of damages when infringement is proven, . . . the district court’s obligation to award some amount of damages “does not mean that a patentee who puts on little or no satisfactory evidence of a reasonable royalty can successfully appeal on the ground that the amount awarded by the court is not ‘reasonable’ and therefore contravenes section 284.”¹²⁷

That is to say, while a patentee is entitled to at least a reasonable royalty, the patentee effectively carries the burden of proof of establishing what the reasonable royalty is.¹²⁸ Judge Posner stated that the Supreme Court had rejected the proposition that there is an “‘obligation to award some amount of damages’ if infringement is proved.”¹²⁹

Judge Posner subsequently addressed the parties’ only remaining remedies: nominal damages and injunctive relief.¹³⁰ First addressing the availability of nominal damages, Judge Posner vehemently rejected Apple’s argument that “*any* act of infringement, even if it gives rise to no measurable damages, is an injury entitling it to a judgment.”¹³¹ Judge Posner rejected Apple’s argument on the grounds that merely requesting nominal damages would rob a federal court of its subject-matter jurisdiction, holding that he “strongly doubt[s] . . . that a patentee can *sue* for nominal damages, at least not in a federal court given the meaning that the Supreme Court has given to the terms ‘Cases’ and ‘Controversies’ in Article III of the Constitution.”¹³² Thus, Apple could not “be permitted to force a trial in federal court the sole outcome of which would be an award of \$1.”¹³³

¹²⁴ 35 U.S.C. § 284 (2006) (emphasis added).

¹²⁵ *Apple*, 869 F. Supp. 2d at 909.

¹²⁶ *Id.*

¹²⁷ *Id.* at 910 (quoting *Dow Chem. Co. v. Mee Indus., Inc.*, 341 F.3d 1370, 1382 (Fed. Cir. 2003)).

¹²⁸ *Id.* See also *Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co.*, 895 F.2d 1403, 1407 (Fed. Cir. 1990); *R.R. Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1519 (Fed. Cir. 1984); *Devex Corp. v. Gen. Motors Corp.*, 667 F.2d 347, 363 (3d Cir. 1981), *aff’d on other grounds*, 461 U.S. 648 (1983).

¹²⁹ *Apple*, 869 F. Supp. 2d at 910 (citing *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391–92 (2006)).

¹³⁰ *Id.* at 909, 913.

¹³¹ *Id.* at 908 (emphasis in original).

¹³² *Id.* at 909 (emphasis in original). Interestingly, he notes that the Federal Circuit intimated a contrary conclusion in *Morrow v. Microsoft Corp.*, 499 F.3d 1332 (Fed. Cir. 2007). *Id.*

¹³³ *Id.*

Having found that “damages are out for both parties,” Judge Posner addressed the parties’ last remaining possible remedy: injunctive relief.¹³⁴ He first addressed Motorola’s injunctive claims for its patents which were encumbered by Motorola’s FRAND agreements.¹³⁵ Judge Posner dismissed these claims, holding that FRAND-encumbered patents are categorically excluded from being the subject of injunctive relief.¹³⁶ He then dismissed both parties’ remaining injunctive claims because they had failed to show a “prerequisite to injunctive relief”—the “inadequacy of one’s damages remedy.”¹³⁷ A damages remedy can be inadequate if it cannot be accurately calculated, but in this case “each [party] insists not only that damages are calculable but that it has calculated them.”¹³⁸ Further, while the parties would have otherwise been entitled to a running royalty or a lump-sum royalty in lieu of injunctive relief,¹³⁹ Judge Posner rejected claims for such a royalty on the grounds that all of the damages expert testimony had been struck, holding that “nothing in the record of this case—a record now closed—enables me to calculate the adjustment necessary to determine either a running royalty or a lump-sum royalty.”¹⁴⁰ Having excluded the possibility of monetary damages and injunctive relief, Judge Posner subsequently dismissed the case with prejudice, bluntly stating that “[i]t would be ridiculous to dismiss a suit for failure to prove damages and allow the plaintiff to refile the suit so that he could have a second chance to prove damages.”¹⁴¹

¹³⁴ *Id.* at 913.

¹³⁵ *Apple*, 869 F. Supp. 2d at 911–12 (explaining that Motorola had declared to ETSI that its ’559 and ’898 patents are standards-essential).

¹³⁶ *Id.* at 913–14 (holding that “[b]y committing to license its patents on FRAND terms, Motorola committed to license the ’898 [patent] to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent”).

¹³⁷ *Id.* at 915 (quoting *Hoard v. Reddy*, 175 F.3d 531, 533 (7th Cir. 1999)).

¹³⁸ *Id.* at 916. What is uncertain is how Judge Posner would have ruled had a party claimed to be able to calculate past damages, but not future damages. He at least suggests that he would be amenable to such an argument. *Id.* at 919–20 (“[T]he fact that a patentee seeks and even obtains damages for past harm from infringement does not disable it from obtaining injunctive relief.”).

¹³⁹ *Id.* at 922. Indeed, Judge Posner prefers a running royalty in lieu of injunctive relief, calling it likely to be “a superior remedy in a case like this because of the frequent disproportion between harm to the patentee from infringement and harm to the infringer and to the public from an injunction.” *Id.* at 918.

¹⁴⁰ *Id.* at 919.

¹⁴¹ *Apple*, 869 F. Supp. 2d at 924. Judge Posner also rejected Apple’s request for declaratory relief because it would have no effect since Posner had already rejected all monetary and injunctive relief claims. *Id.* Unlike in *Apple*, Judge Posner did not strike the patentee’s damages expert report in its entirety, or even the defendant’s damages expert report even partially in *Brandeis*. *Brandeis*, *supra* note 2, at *12. Accordingly, Judge Posner was not left with the possibility of dismissing the case on the grounds that the patentee could not establish damages related to the infringement of the patent-in-suit. The *Brandeis* docket does not indicate that either party ever moved for such a dismissal or that Judge Posner considered such a dismissal *sua sponte* or otherwise. The plaintiffs and Keebler entered into a settlement soon thereafter. Stipulation of Dismissal of Defendants Keebler Co., Famous Amos Chocolate Chip Cookie Company LLC and Murray Biscuit Co. LLC, Dkt. 484 (Mar. 1, 2013).

IV. Analysis of Judge Posner's Approach Under Legal Pragmatism.

By excluding expert testimony in *Apple* and *Brandeis*, as well as dismissing the former case completely, Judge Posner enforced harsh consequences for patent damages experts' failure to meet more exacting standards for reliability and relevance. Was Judge Posner correct in so raising the *Daubert* bar, and if so, under what view of proper legal decision-making?

In Judge Posner's academic writings and previous decisions he has embraced the "legal pragmatist's view" of proper decision-making for American judges, which acknowledges a large role for policy influences in shaping our country's legal tradition.¹⁴² He contrasts the discretion afforded American judges with "English judges [who] have to make policy choices . . . so rarely that when they do so they have the feeling that they're 'step[ping] outside the law.'"¹⁴³ But in Judge Posner's view, in the United States "the standard sources of positive law . . . do not resolve most of the novel issues that judges must decide."¹⁴⁴ Instead, Judge Posner feels that much of American law "is the product of judicial decisions that cannot be justified by reference to the standard sources, yet are not usurpative or even unsound. From time to time judges have to go outside those sources, and the question is where they should go"¹⁴⁵

Accordingly, under the assumption that Judge Posner's decisions apply *Daubert* in a novel way that cannot simply "be justified by reference to the standard sources," we turn to the questions of whether his decisions are: (1) usurpative, or (2) pragmatically unsound. In assessing whether his decisions were usurpative, we will analyze whether he has "step[ped] outside the law" in conflict with the controlling statutory and precedential framework. In evaluating whether his decisions were pragmatically sound, we will identify which possible outside norms he has drawn from, and whether he has correctly applied these norms.

A. Judge Posner's Previously Stated Willingness to "Enrich" the Law

Judge Posner often provides candid critiques of the legal system generally, and patent law jurisprudence in particular.¹⁴⁶ Are Judge Posner's decisions in *Apple* and *Brandeis* at odds with the controlling cases and statutes? This question

¹⁴² See *United States v. Marshall*, 908 F.2d 1312, 1335 (7th Cir. 1990) (Posner, J., dissenting). See also Richard Posner, *The Problematics of Moral and Legal Theory*, 111 HARV. L. REV. 1637, 1645 (1998) ("[M]y general stance . . . might be called 'pragmatic moral skepticism.'").

¹⁴³ Posner, *supra* note 142, at 1693 (citations omitted).

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

¹⁴⁶ See, e.g., Richard A. Posner, *Why There Are Too Many Patents in America*, THE ATLANTIC, July 12, 2012 [hereinafter Posner, *Why Too Many Patents*]; Joe Nocera, *Innovation Nation at War*, N.Y. TIMES, Feb. 8, 2013; Richard A. Posner, *Patent Trolls Be Gone: How to Fix Our Broken System for Stimulating Invention*, SLATE, Oct. 15, 2012 [hereinafter Posner, *Patent Trolls Be Gone*]; Jason Rantanen, *PatCon 3: Posner/Epstein Debate on the Patent System*, PATENLYO (Apr. 12, 2013), <http://www.patentlyo.com/patent/2013/04/patcon-3-posner-epstein-debate-on-the-patent-system.html>.

is fair considering Judge Posner’s previously stated willingness to “enrich” the law.¹⁴⁷ For example, in Judge Posner’s dissent in *United States v. Marshall*, he argued for a controversial interpretation of a drug statute that conflicted with its literal meaning in order to avoid what he called an “embarrassment to the members of Congress and to us.”¹⁴⁸

In *Marshall*, a federal drug statute fixed the minimum and maximum punishments with respect to possession of each illegal drug, including LSD, on the basis of the weight of the “mixture or substance containing a detectable amount of” the drug.¹⁴⁹ A literal reading of the statute would have required the punishment to not be based on the actual dosage of LSD, but instead on the weight of the “blotter paper, sugar cubes, etc. [that] are the vehicles for conveying LSD to the consumer.”¹⁵⁰ The majority found that this literal reading was correct based on “unambiguous language”¹⁵¹ as well as other provisions in the statute persuasively showing that Congress knew the distinction between the weight of the pure form of a drug and that of a mixture containing both the drug and a carrier medium.¹⁵²

Nevertheless, Judge Posner rejected this reading that he acknowledged was a “literal interpretation,” and instead read out this “irrationality” in the statute by excluding the weight of the carrier in determining the minimum penalty.¹⁵³ In doing so, Judge Posner explicitly and controversially embraced “the natural lawyer’s or legal pragmatist’s view that the practice of interpretation and the general terms of the Constitution . . . authorize judges to enrich positive law with the moral values and practical concerns of civilized society.”¹⁵⁴ By contrast, the majority stated that the importation of constitutional concerns in interpreting a statute “is a reason to construe, not to rewrite or ‘improve.’”¹⁵⁵

¹⁴⁷ *Marshall*, 908 F.2d at 1335. See also Ward Farnsworth, “To Do a Great Right, Do a Little Wrong”: A User’s Guide to Judicial Lawlessness, 86 MINN. L. REV. 227, 234 (2001) (Judge Posner’s former clerk Ward Farnsworth commenting that “Judge Posner . . . is perhaps more ready than most to defend a decision that lacks firm support in traditional legal materials but that creates more beneficial consequences than costs.”).

¹⁴⁸ *Marshall*, 908 F.2d at 1337–38.

¹⁴⁹ *Id.* at 1331.

¹⁵⁰ *Id.* at 1332.

¹⁵¹ *Id.* at 1318 (majority opinion).

¹⁵² The majority in *Marshall* noted:

The 10-year minimum applies to any person who possesses, with intent to distribute, “100 grams or more of phencyclidine (PCP) or 1 kilogram or more of a mixture or substance containing a detectable amount of phencyclidine (PCP)”, § 841(b)(1)(A)(iv). Congress distinguished the pure drug from a “mixture or substance containing a detectable amount of” it. All drugs other than PCP are governed exclusively by the “mixture or substance” language.

Id. at 1317.

¹⁵³ *Id.* at 1337–38 (Posner, J., dissenting).

¹⁵⁴ *Marshall*, 908 F.2d at 1335.

¹⁵⁵ *Id.* at 1318 (majority opinion).

B. Is *Apple* Consistent with Controlling Law?

Given Judge Posner's *Marshall* opinion, along with his often critical commentary on patent law jurisprudence and the legal system generally,¹⁵⁶ we now consider whether in *Apple* and *Brandeis* he attempted to rewrite or improve the patent statute and controlling precedents to enrich the law with practical concerns. Novel to Judge Posner's approach were: (1) his requirement that in calculating a reasonable royalty, experts rely only on disinterested sources of information and (2) that they use the least-cost noninfringing alternative among those that are commercially reasonable; (3) his requirement that a patentee's lost profits analysis consider noninfringing alternatives; (4) his categorical denial of injunctions for FRAND-encumbered patents; and (5) his dismissal of the case with prejudice after excluding all damages expert reports and denying injunctive relief.

In excluding Mr. Wagner's expert report as to the '002 patent and Mr. Napper's expert report as to the '263 patent, Judge Posner found that the reports must be excluded because they were based on information provided by sources who were not disinterested.¹⁵⁷ Judge Posner's position is similar to an unsuccessful argument previously before the Federal Circuit that an expert "based his opinion on inaccurate facts because he relied on the statements of others and did not undertake an independent investigation of [the facts]."¹⁵⁸ In *Micro Chem.*, the Federal Circuit looked to Federal Rule of Evidence 702, which provides that an expert witness may testify in the form of an opinion if, inter alia, "the testimony is based upon sufficient facts or data."¹⁵⁹ The Court reasoned that the defendants' argument appeared to "confuse the requirement for sufficient facts and data with the necessity for a reliable foundation in principles and method."¹⁶⁰ The Federal Circuit held that although a district court judge may exclude expert testimony based on unreliable methodology, which Judge Posner claims to have done,¹⁶¹ he may not exclude this testimony based on the expert's reliance on unreliable facts; "it is not the role of the trial court to evaluate the correctness of facts underlying one expert's testimony."¹⁶²

However, because *Daubert* challenges are a procedural issue, rather than a substantive patent law issue, the trial court's decision whether to admit expert testimony is reviewed under the law of the regional circuit, not the Federal

¹⁵⁶ See, e.g., Posner, *Why Too Many Patents*, *supra* note 146 (explaining why, except for pharmaceuticals, most industries do not need such broad patent protection); Nocera, *supra* note 146 (observing that Posner uses patent cases as part of his "effort to change a legal system that now gives companies rich incentives to bring costly, time-consuming and often prideful patents lawsuits"); Posner, *Patent Trolls Be Gone*, *supra* note 146 (observing that patents are "part of the problem" of encouraging "defensive patenting").

¹⁵⁷ See discussion *supra* section III(A)(4) (elaborating on Judge Posner's analysis of this issue).

¹⁵⁸ *Micro Chem., Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1392 (Fed. Cir. 2003).

¹⁵⁹ *Id.* at 1391-92 (quoting FED. R. EVID. 702).

¹⁶⁰ *Id.* at 1392.

¹⁶¹ See discussion *supra* section III(A)(4) (elaborating on Judge Posner's analysis of this issue).

¹⁶² *Micro Chem.*, 317 F.3d at 1392.

Circuit.¹⁶³ Judge Posner’s potential conflict with *Micro Chemical* may thus simply reflect a difference between circuits, which must apply *Daubert*’s requirement that an expert who relies on otherwise inadmissible evidence for which the expert does not have first-hand knowledge¹⁶⁴ must be prepared to show that “experts in the particular field would reasonably rely on those kinds of facts or data.”¹⁶⁵ Notably, the Seventh Circuit has held that an expert witness who uses the disputed opinion of a second expert in a different specialty may only “offer an opinion within the [expert witness’s] domain of expertise, but [cannot] testify for the purpose of vouching for the truth of what the [second expert] had told him—of becoming in short the [second expert’s] spokesman.”¹⁶⁶ Thus, Judge Posner’s requirement of disinterested sources of evidence, although seemingly novel, may be consistent with the controlling precedent from the Seventh Circuit.

Another novelty of *Apple* is Judge Posner’s requirement that in calculating a reasonable royalty, experts use the least-cost noninfringing alternative among those that are commercially reasonable, i.e., those that would likely be presented by an outside expert consulted by a potential licensee in a hypothetical negotiation.¹⁶⁷ The Federal Circuit has held that a reasonable royalty calculation should consider the *Georgia-Pacific* factors, including “the potential availability of close substitutes or equally noninfringing alternatives.”¹⁶⁸ However, Judge Posner heightened the standard for the completeness of which alternatives must be considered, and in so doing, appears to have been overzealous with the clause in the Federal Rule 26 that states: “An expert’s report must contain ‘a *complete* statement of all opinions the witness will express *and the basis and reasons for them.*”¹⁶⁹ This extreme interpretation of the Federal Rules butts up against *Daubert*’s warning that exclusion is not the “appropriate means of attacking shaky but admissible evidence.”¹⁷⁰

Judge Posner also cites the Federal Circuit’s *Grain Processing* decision to require that a lost profits analysis “take account of alternatives the alleged infringer would have embraced.”¹⁷¹ However, Judge Posner arguably uses this citation incorrectly in excluding the patentee’s expert testimony. *Grain Processing* held that once a patentee shows a reasonable probability that it lost sales because of infringement, the burden shifts to the alleged infringer to show that these lost sales

¹⁶³ *Id.* at 1390–91 (applying Fifth Circuit standard of review to review a *Daubert* challenge).

¹⁶⁴ *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 592 (1993) (citing FED. R. EVID. 702).

¹⁶⁵ FED. R. EVID. 703.

¹⁶⁶ *Dura Auto. Sys. of Ind. v. CTS Corp.*, 285 F.3d 609, 613 (7th Cir. 2002).

¹⁶⁷ See discussion *supra* section III(A)(5) (elaborating on Posner’s analysis of this issue).

¹⁶⁸ *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1313 (Fed. Cir. 2011) (citations omitted).

¹⁶⁹ *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 905 (N.D. Ill. 2012) (quoting FED. R. CIV. P. 26(a)(2)(B)(i)).

¹⁷⁰ *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 596 (1993).

¹⁷¹ *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 1959560, at *12 (N.D. Ill. May 22, 2012) (citing *Grain Processing Corp. v. Am. Maize-Prods. Co.*, 185 F.3d 1341, 1350–51 (Fed. Cir. 1999)).

are unreasonable, and in that case the alleged infringer did so by showing the availability of noninfringing alternatives.¹⁷² Thus, in finding the patentee's expert testimony incomplete for failure to consider these noninfringing alternatives, Judge Posner may again have required an extreme level of completeness that conflicts with the lost profits burden shifting previously approved by the Federal Circuit.

Additionally, Judge Posner denied Motorola's claims for injunctive relief because its patents were encumbered by FRAND agreements with an SSO.¹⁷³ Judge Posner takes Motorola's agreements to license on FRAND terms as implicit admissions that royalties are adequate compensation.¹⁷⁴ In so doing, Posner seems to be ignoring the limitations of the *quid pro quo* contemplated in a FRAND agreement. To explain these limitations, we first note that courts applying *eBay* have found that monetary damages are more often inadequate when the infringer is a direct competitor of the patentee, due to the intangible loss of the patentee's business goodwill that it would have received from increased market share if infringement had not occurred.¹⁷⁵ We also note that a patentee who agrees with an SSO to license on fair, reasonable, and non-discriminatory terms is not precisely making an admission, but instead a trade to benefit third parties.¹⁷⁶ In exchange for sacrificing potential injunctive claims against these third parties for intangible loss of business goodwill, the patentee receives the possibility that its inventions will become an essential part of a standard, resulting in increased goodwill.¹⁷⁷ However, a patentee could argue that such an exchange is not intended to benefit those third parties who would not seek reasonable terms but would instead seek to challenge the patentee to bear litigation costs, to test the validity of the patent in court, or to conceal development activities in a competitive market.¹⁷⁸ Because

¹⁷² *Grain Processing*, 185 F.3d at 1349.

¹⁷³ *Apple*, 869 F. Supp. 2d at 913–14.

¹⁷⁴ *Id.*

¹⁷⁵ Bernard H. Chao, *After eBay, Inc. v. MercExchange: The Changing Landscape for Patent Remedies*, 9 MINN. J. L. SCI. & TECH. 543, 550–53 (2008). See also, e.g., *TiVo Inc. v. EchoStar Commc'ns Corp.*, 446 F. Supp. 2d 664 (E.D. Tex. 2006) (finding that monetary damages were not adequate where the infringer was a direct competitor in a market with “sticky customers” who tend to be loyal to the company from which they made an initial purchase).

¹⁷⁶ See *Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993 (W.D. Wash. 2012) (finding that the alleged infringer, as a member of two SSOs, was a third-party beneficiary of patentee's FRAND commitments to those SSOs).

¹⁷⁷ See *Apple*, 869 F. Supp. 2d at 913 (“[O]nce a patent becomes essential to a standard, the patentee's bargaining power surges . . .”). Judge Posner criticizes the patentee's benefit from a patent being designated as standard-essential as “hold-up value” conferred “not because its invention is valuable, but because implementers are locked in to practicing the standard.” *Id.* at 914 (quoting Third Party U.S. F.T.C.'s Statement on the Pub. Interest at 2, *Certain Wireless Commc'n Devices*, Inv. No. 337-TA-745 (June 6, 2012)). But see *Microsoft*, 854 F. Supp. 2d at 1001 (finding not contrary to law a royalty calculation that captures the hold-up value created after patents have been declared standard-essential).

¹⁷⁸ Motorola made such an argument before the ITC. *Certain Gaming and Entertainment Consoles, Related Software, and Components Thereof*, Inv. No. 337-TA-752, 2012 WL 1704137, at *160 (Apr. 23, 2012) (Motorola argued that the defendant “chose to do battle in the courtroom rather than negotiate in the boardroom,” resulting in “forfeiture of any right to a RAND license.”).

“fair, reasonable and non-discriminatory” are ambiguous words, under traditional rules of contract interpretation, the success of this argument should depend on specific factual determinations of the parties’ intent.¹⁷⁹

Instead, Judge Posner applied a categorical rule that would inappropriately result in denial of an injunction for infringement of all FRAND-encumbered patents, regardless of the facts. In equity, Judge Posner could have more appropriately disposed of Motorola’s injunctive claims in other ways that did not create a problematic per se rule. Judge Posner could have labeled as unpersuasive Motorola’s showing that Apple could have sought reasonable terms but chose not to do so, perhaps by determining that Motorola demanded unreasonable terms for licensing to Apple.¹⁸⁰

Finally, Judge Posner was novel in his approach of dismissing *Apple* with prejudice after holding that neither Apple nor Motorola could establish the amount of monetary recompense that they were entitled to for the infringement of their respective patents, nor otherwise establish that they were entitled to an injunction.¹⁸¹ In doing so, Judge Posner deviated from the usual approach in patent cases of separately determining whether infringement has occurred, without regard to the damage caused, and then determining the appropriate damages.¹⁸² The statutory basis for this approach is found in 35 U.S.C. § 271, which provides that “whoever without authority makes, uses, offers to sell, or sells . . . or imports . . . any patented invention . . . infringes the patent.”¹⁸³ That is, damages are not statutorily required to establish infringement. Patent damages are addressed separately in 35 U.S.C § 284, which provides that “[u]pon finding for the claimant the court shall award the claimant damages adequate to compensate for infringement.”¹⁸⁴

By dismissing the case for the patentees’ failure to establish damages, Judge Posner effectively required damages to be established in the cause of action for patent infringement, either as reparable harm entitling the patentee to a monetary recompense or irreparable harm entitling the patentee to injunctive relief. In so

¹⁷⁹ See *Pullman-Standard v. Swint*, 456 U.S. 273, 288 (1982) (discussing general treatment of intent as question of fact).

¹⁸⁰ Motorola had demanded a 2.25 percent royalty from Apple. *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 1959560, at *12 (N.D. Ill. May 22, 2012). In another context involving different technology, the ITC found that a 2.25 percent demand from Motorola was unreasonable and did not adhere to its FRAND agreements. *Gaming and Entertainment Consoles*, 2012 WL 1704137, at *169 (finding that Motorola’s demand for a license with a 2.25% royalty showed “that Motorola was not interested in good faith negotiations and in extending a [reasonable and non-discriminatory] license”).

¹⁸¹ *Apple*, 869 F. Supp. 2d at 924.

¹⁸² See, e.g., Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 FED. CIR. B.J. 227, 235 (2004) (“In nearly half of all patent trials, the factfinder . . . concluded that there was no liability either because the patent was not infringed or was invalid or unenforceable. Hence, nearly half of the time there was no need to present any damages or willfulness evidence.”).

¹⁸³ 35 U.S.C. § 271(a) (2006).

¹⁸⁴ *Id.* § 284.

doing, Judge Posner followed well-established Federal Circuit precedent that the “patentee bears the burden of proving damages.”¹⁸⁵ However, the cases establishing such a burden of proof deal with the standard case in which the patentee’s damages expert has presented admissible evidence.¹⁸⁶

By dismissing *Apple* based on his own exclusion of all damages expert testimony without providing an opportunity to amend, Judge Posner appears to conflict with the statutory requirement that patent damages be “in no event less than a reasonable royalty.”¹⁸⁷ Section 284 can be reasonably read to establish that such a reasonable royalty is a statutory minimum for infringement, and that every act of infringement, nominal or otherwise, should cause the court to take those actions necessary to perform a non-zero calculation of damages.¹⁸⁸ Furthermore, the patentee’s burden of proof of damages is not definitively established by Title 35 of the U.S. Code. Rather, Section 284 provides that “[t]he court *may* receive expert testimony *as an aid* to the determination of damages or of what royalty would be reasonable under the circumstances.”¹⁸⁹ Contrast this optional language with the statute’s mandate that “the court *shall* award the claimant damages adequate to compensate for the infringement.”¹⁹⁰ Section 284 thus implies that it is the court’s option to receive patent damages expert testimony, but that such patent damages calculations *must* be performed by the court.¹⁹¹

One way to have resolved this conflict between Section 284 and Federal Circuit precedent regarding the patentee’s burden on damages would have been for Judge Posner to have adopted a rule that, if all monetary theories have been thrown out, a court should provide the patentee with injunctive relief “to prevent the

¹⁸⁵ *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1315 (Fed. Cir. 2011).

¹⁸⁶ *Id.*

¹⁸⁷ 35 U.S.C. § 284.

¹⁸⁸ *See, e.g., Deere & Co. v. Int’l Harvester Co.*, 710 F.2d 1551, 1558 n.9 (Fed. Cir. 1983) (holding that the patent damage statute “expressly mandates . . . that . . . ‘a reasonable royalty’ is the minimum permissible measure of damages”); Paul M. Janicke, *Contemporary Issues in Patent Damages*, 42 AM. U. L. REV. 691, 696 n.24 (1993) (noting that although the “reasonable royalty is not necessarily measure of damages, . . . [it] serves nonetheless as floor beneath which damages may not fall” (citing *Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1568 (Fed. Cir. 1984))); Christopher B. Seaman, *Reconsidering the Georgia-Pacific Standard for Reasonable Royalty Patent Damages*, 2010 BYU L. REV. 1661, 1671 (2010) (stating that “a reasonable royalty became the minimum measure of damages for infringement”).

¹⁸⁹ 35 U.S.C. § 284 (emphasis added).

¹⁹⁰ *Id.* (emphasis added).

¹⁹¹ *Id.* But as a procedural reality, the patentee must establish what the damages are. A patentee cannot simply rely on the court to speculate as to the proper reward in the absence of any damages evidence. *See, e.g., Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co.*, 895 F.2d 1403, 1407 (Fed. Cir. 1990) (“[A]ffirming award of zero damages for lack of evidence and saying: ‘The statute [35 U.S.C. § 284] requires the award of a reasonable royalty; but to argue that this requirement exists even in the absence of any evidence from which a court may derive a reasonable royalty goes beyond the possible meaning of the statute.’” (quoting *Devex Corp. v. Gen. Motors Corp.*, 667 F.2d 347, 363 (3d Cir. 1981), *aff’d on other grounds*, 461 U.S. 648 (1983))).

violation of any right secured by patent.”¹⁹² The Supreme Court’s *eBay* decision provides that injunctive relief may be granted only if, inter alia, “remedies available at law, such as monetary damages, are inadequate to compensate for [the patentee’s] injury.”¹⁹³ Judge Posner would likely argue that the patentees did not avail themselves of remedies available at law by not presenting reliable expert evidence. A patentee would argue, however, that if the patentee cannot establish damages because all of its damages testimony is excluded, then damages are not available as a remedy at law, and injunctive relief may be appropriate.¹⁹⁴

Furthermore, there are two other alternative solutions that Judge Posner could have taken in lieu of dismissing the case with prejudice. After excluding the parties’ damages expert reports, Judge Posner was left with no basis upon which to base his finding of damages.¹⁹⁵ However, he could have allowed the parties to supplement their reports. In addition to such leeway being in line with the procedure implemented in other district courts,¹⁹⁶ such an approach would have avoided conflict with Section 284’s requirement to “award the claimant damages adequate to compensate for the infringement.”¹⁹⁷

Finally, Judge Posner could have allowed the case to continue on the basis that the patentees are entitled to nominal damages for infringement. Judge Posner ruled out this possibility on the grounds that mere nominal damages do not satisfy the “Cases and Controversies” requirement of the Constitution.¹⁹⁸ Yet Judge Posner did not cite to any binding precedent that supports his proposition that mere nominal damages do not present a case or controversy.¹⁹⁹ Whether nominal damages satisfy the redressability requirement for the patentee’s constitutional standing under the Supreme Court’s *Lujan* decision is still an open question.²⁰⁰ *Lujan* itself dealt with the issue of compelling government action for an alleged injury, rather than whether nominal monetary damages were sufficient to redress a patentee’s injury.²⁰¹ Furthermore, allowing the parties in *Apple* to pursue nominal damages would have supported their claims for declaratory judgment on the

¹⁹² 35 U.S.C. § 283 (enabling courts to grant injunctions).

¹⁹³ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

¹⁹⁴ *But see infra* note 255 and accompanying text for administrability reasons counseling against such a rule.

¹⁹⁵ *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 904 (N.D. Ill. 2012).

¹⁹⁶ *See supra* note 27 and accompanying text (citing cases in which judges excluding expert testimony allow amendment of expert reports).

¹⁹⁷ 35 U.S.C. § 284.

¹⁹⁸ *Apple*, 869 F. Supp. 2d at 909. *See also supra* note 132 and accompanying text (elaborating on Judge Posner’s interpretation of the meaning of this phrase).

¹⁹⁹ *Apple*, 869 F. Supp. 2d at 910.

²⁰⁰ *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560–61 (1992). *See also* *Morrow v. Microsoft Corp.*, 499 F.3d 1332, 1338–41 (Fed. Cir. 2007) (re-examining the issue of the requirements for satisfying redressability).

²⁰¹ *Lujan*, 504 U.S. at 558–59.

invalidity and noninfringement of each other's patents, and thus prevented probable future litigation.²⁰²

C. Pragmatic Soundness of Judge Posner's Decisions

If Judge Posner's decisions in *Apple* and *Brandeis* push the controlling legal framework to its limits or perhaps beyond them, were these decisions at least pragmatically sound? To answer this question, we must identify which outside norms Judge Posner has drawn from in his presumed legal pragmatist approach, and evaluate whether he has correctly applied these norms.

Based on Judge Posner's previous academic work, as well as his discussion of a patent's "hold-up value" in *Apple*,²⁰³ one would pick economic norms as the most likely candidate for the set of outside norms he has drawn from in his novel application of *Uniloc* and *Daubert*. Judge Posner has previously stated that "analysis and evaluation of intellectual property law are appropriately conducted within an economic framework that seeks to align that law with the dictates of economic efficiency."²⁰⁴ He has expressed skepticism "that the noneconomic theories of intellectual property have much explanatory power or normative significance."²⁰⁵

1. Economic-Efficiency Analysis

Assuming economic norms are the set which Judge Posner drew upon in his decision, we now ask whether universal adoption of this decision would grade well against these norms. In particular, if the courts were to universally apply a more exacting *Daubert* reliability standard to exclude the opinions of patent damages experts, and also prevent amending those opinions after they have been excluded, would doing so increase economic efficiency?

If Judge Posner's judicial regime were universally adopted, one likely economic-efficiency impact would be to reduce the depth of patent protection by reducing both patent litigation damage awards and the value of negotiated patent licenses. A regime of strict *Daubert* enforcement against damages expert reports, without allowing an opportunity to amend these reports, would tend to discourage plaintiff patent owners from submitting their highest, most aggressive damages theories to the judge, and would directly prevent them from submitting these theories to the jury. These reduced litigation awards would likely reduce the negotiated value of patent licenses because rational parties would factor the

²⁰² *Apple*, 869 F. Supp. 2d at 923.

²⁰³ *Id.* at 914 (citing Third Party U.S.F.T.C.'s Statement on the Pub. Interest at 2, Certain Wireless Comm'n Devices, Inv. No. 337-TA-745 (June 6, 2012)).

²⁰⁴ WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 4 (2003).

²⁰⁵ *Id.* at 5.

expected value of litigation awards and costs into their negotiating positions.²⁰⁶ And because patent litigation awards are based on a hypothetical negotiation between the plaintiff and defendant,²⁰⁷ “[d]ownwardly biased negotiated rates will result in downwardly biased court awards, which in turn will lead to even more downwardly biased negotiated rates, and so on.”²⁰⁸

An exacting reliability standard for damages experts would also tend to have an economic impact by increasing the litigation expenses in any given patent lawsuit. More intensive discovery would be required to meet Judge Posner’s high reliability standards, for example by requiring parties to search for, retain, and prepare disinterested experts on noninfringing alternatives instead of just using in-house engineers.²⁰⁹ These increased discovery costs could make it more difficult for non-practicing entities and contingency-fee plaintiffs to bring suit. Furthermore, because patent owners have the burden of production on damages,²¹⁰ the litigation expenses of alleged infringers would not be symmetrically increased. This asymmetry would tend to further reduce the negotiated value of patent licenses because a rational party in a licensing negotiation alters his minimally acceptable offer by factoring in “the present value of his litigation expenses.”²¹¹ Thus, a judicial regime following Judge Posner’s decision would tend to decrease patent protection as measured by patent value.

Some economists would support such a reduction in patent protection as economically efficient. Wearing his economist hat, Posner himself has argued that from the standpoint of economic efficiency, rights in IP should “be less extensive than in the case of physical property” due to the “public good character of intellectual property and the higher transaction costs of exploiting such property.”²¹² In discussing IP as a public good, Posner has implied that the misappropriation of IP should not be “imprecisely referred to as a form of ‘theft’” because, unlike with physical property, misappropriation of IP does not necessarily deprive the owner of its use.²¹³ Posner has even given an example of how pirating a high-priced operating system could be economically-efficient, if the pirate would not have been able or willing to pay the high price for the patented or copyrighted software; “[i]ndeed, piracy may increase the income of the original owner if some

²⁰⁶ Richard A. Posner, *An Economic Approach to Legal Procedure and Judicial Administration*, 2 J. Legal Stud. 399, 418 (1973) (discussing the relationship between litigation awards and negotiating positions).

²⁰⁷ *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (“[E]vidence purporting to apply to these [*Georgia-Pacific* factors], and any other factors, must be tied to the relevant facts and circumstances of the particular case at issue and the hypothetical negotiations that would have taken place in light of those facts and circumstances at the relevant time.”).

²⁰⁸ John M. Golden, *Principles for Patent Remedies*, 88 TEX. L. REV. 505, 569 (2010).

²⁰⁹ See *supra* section III(A)(4) (elaborating on Judge Posner’s analysis of this issue).

²¹⁰ See *supra* note 128 and accompanying text.

²¹¹ Posner, *supra* note 206, at 418.

²¹² Richard A. Posner, *Intellectual Property: The Law and Economics Approach*, 19 J. ECON. PERSP. 57, 64 (2005).

²¹³ *Id.*

of the pirate's customers purchase application programs from the owner or if expansion of the owner's user base confers network advantages over competing software producers."²¹⁴

Moreover, Judge Posner has recently provided an economic-efficiency argument that "patent protection is on the whole excessive and that major reforms are necessary."²¹⁵ In Judge Posner's view, many economically inefficient consequences result from "provid[ing] an inventor with more insulation from competition than he needed to have an adequate incentive to make the invention," including:

- (1) "increas[ing] market prices above efficient levels, causing distortions in the allocation of resources;"
- (2) "engender[ing] wasteful patent races—wasteful because of duplication of effort and because unnecessary to induce invention (though the races do increase the pace of invention);"
- (3) "increas[ing] the cost of searching the records of the Patent and Trademark Office in order to make sure one isn't going to be infringing someone's patent with your invention;"
- (4) "encourag[ing] the filing of defensive patents (because of anticipation that someone else will patent a similar product and accuse you of infringement);"
- (5) "encourag[ing] patent 'trolls,' who buy up large numbers of patents for the sole purpose of extracting licensee fees by threat of suit, and if necessary sue, for infringement"; and
- (6) creating thickets of "piecemeal" patents in component industries, particularly the software industry.²¹⁶

Judge Posner is not alone in arguing that patent protection is excessive from the standpoint of economic efficiency. For example, Lemley and Shapiro have complained of "royalty stacking—the systematic overcompensation of patent owners in component industries through reasonable-royalty damage awards," and have argued that such overcompensation of patent owners in comparison to the value of the ideas they contribute may inefficiently "distort or even dampen innovation incentives."²¹⁷ In their view, "royalty overcharges" may inefficiently "hinder the market penetration of products" because downstream firms "may not find it worth incurring the costs necessary to develop, manufacture, and sell the product," and will also "lead to higher prices and reduced output, with associated deadweight loss."²¹⁸ Lemley and Shapiro have been especially critical of NPEs for holding up innovation by downstream firms since these NPEs are in "the business, not of innovating, but of buying patents and suing to enforce them," and because

²¹⁴ *Id.*

²¹⁵ Richard Posner, *Do Patent and Copyright Law Restrict Competition and Creativity Excessively?*, THE BECKER-POSNER BLOG (Sep. 30, 2012, 10:30 PM), <http://www.becker-posner-blog.com/2012/09/do-patent-and-copyright-law-restrict-competition-and-creativity-excessively-posner.html>.

²¹⁶ *Id.*

²¹⁷ Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1994 (2007).

²¹⁸ *Id.* at 2012 & n.43.

“holdup is of particular concern when the patent itself covers only a small piece of the product, as is common in the industries in which so-called patent trolls predominate.”²¹⁹

However, some patent law economics experts feel that Lemley and Shapiro “overreach when they assert that they have proven . . . ‘systematic[] overcompensat[ion]’” of component patent owners²²⁰ or that economic-efficiency justifies discrimination against NPEs. Elhauge points out that hold-up can occur in the reverse direction in an industry dominated by a downstream monopoly.²²¹ For example, in an industry where multiple patented components make up a single product, the downstream firm may actually be using its monopsonistic purchasing power “to ‘hold up’ the patent holder for much of the value of its patent.”²²² Elhauge further takes a contrarian position that NPEs may be particularly undercompensated with respect to practicing entities because they may charge lower licensing rates than firms in competition with the licensee firm, and because NPEs are legally foreclosed from lost profits damage awards.²²³

Moreover, others in the field argue that “even as a theoretical matter, there seems to be no generally agreed value, or even a generally agreed way for determining a value, for what patent holders should receive,” because empirical data that is highly particularized to an industry might be needed to make defensible statements on the strength of patent rights.²²⁴ Golden shows that whether these patent rights are a “drag” or a “push” to innovation is contingent on multiple economic and technological variables, many of which could change over time even within the same industry.²²⁵ Golden further argues that information is scarce on this “economic and technological contingency,”²²⁶ and that “no [single] regime of remedies is likely to create optimal incentives.”²²⁷ Markovits has argued it is difficult to even propose as a general matter that innovation should be strengthened at all, because “we currently allocate . . . too large a proportion [of our economic resources] to product R&D.”²²⁸ Thus, from the standpoint of economic-efficiency,

²¹⁹ *Id.* at 2009.

²²⁰ John M. Golden, “Patent Trolls” and Patent Remedies, 85 TEX. L. REV. 2111, 2161 (2007).

²²¹ Elhauge, *supra* note 4, at 541–42.

²²² *Id.*

²²³ *Id.* at 560–61.

²²⁴ Golden, *supra* note 208, at 527.

²²⁵ John M. Golden, *Innovation Dynamics, Patents, and Dynamic-Elasticity Tests for the Promotion of Progress*, 24 HARV. J.L. & TECH. 47, 50–52 (2010).

²²⁶ Golden, *supra* note 208, at 553.

²²⁷ *Id.* at 527.

²²⁸ Richard S. Markovits, *On the Economic Efficiency of Using Law to Increase Research and Development: A Critique of Various Tax, Antitrust, Intellectual Property, and Tort Law Rules and Policy Proposals*, 39 HARV. J. ON LEGIS. 63, 68 (2002). Judge Posner appears to share in this view. See Posner, *Why Too Many Patents*, *supra* note 146 (“But, ‘patent races’ (races, induced by hope of obtaining a patent, to be the first with a product improvement) can result in excessive resources being devoted to inventive activity.”).

there seems to be no academic consensus as to whether patent owner compensation should be reduced.

However, a separate potential economic benefit of Judge Posner's legal regime would be a reduction in overall legal costs. Judge Posner complains that excessive and easily obtained protection for patents in certain industries, for example those patents related to "a software device (a cellphone, a tablet, a laptop, etc.)," results in particularly high legal costs in comparison to economic benefits:

Nowadays most software innovation is incremental, created by teams of software engineers at modest cost, and also ephemeral—most software inventions are quickly superseded. Software innovation tends to be piecemeal—not entire devices, but . . . tens of thousands, even hundreds of thousands, of separate components (bits of software code or bits of hardware), each one arguably patentable. The result is huge patent thickets, creating rich opportunities for trying to hamstring competitors by suing for infringement—and also for infringing, and then challenging the validity of the patent when the patentee sues you.

Further impediments . . . include a shortage of patent examiners with the requisite technical skills, the limited technical competence of judges and jurors, the difficulty of assessing damages for infringement of a component rather than a complete product, and the instability of the software industry because of its technological dynamism, which creates incentives both to patent and to infringe patents and thus increases legal costs.²²⁹

In harmony with these statements, Judge Posner's regime of aggressive *Daubert* enforcement would likely decrease some of these legal costs by discouraging or allowing dismissal of those patent lawsuits covering the most ephemeral of inventions that are least likely to have reliably demonstrated damages sufficient to justify pursuing the suit. Those innovations for which reliable damages awards are low may also be those least likely to provide economic benefits in proportion to their legal costs. Furthermore, although Judge Posner's categorical denial of injunctions for FRAND-encumbered patents may be disagreeable as a per se rule, we agree that patentee overcompensation and restraints on innovation may be more likely than usual for standard-essential

²²⁹ Posner, *supra* note 215. See also Posner, *Why Too Many Patents*, *supra* note 146 (Judge Posner arguing that that "[m]ost industries could get along fine without patent protection," due in part to the low cost of invention in those industries, and discussing poor patent quality as a result of understaffing of the Patent and Trademark Office); Nocera, *supra* note 146 ("In Posner's view, many patents are unnecessary. . . . 'When you are dealing with products that have very short lives, you often don't need patents because by the time competitors wise up, you've moved on,' Posner says. Indeed, in such industries, patents—which are primarily intended to encourage innovation—have the exact opposite effect: they discourage innovation. The smartphone industry, meanwhile, led by the ever-litigious Apple, is spending more time and effort filing lawsuits over patents infringement than it is coming up with innovative new products."). There is some suggestion in Judge Posner's opinions in *Apple* that he believes the smartphone industry is one where the level of patent protection does not lead to sufficient economic benefits. See *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 921–22 (N.D. Ill. 2012) ("There is no evidence, and it seems more than unlikely, that occasional partial obstruction would appreciably reduce the value of Motorola's smartphones to consumers—Apple didn't even bother to install a notification window on its devices until last year.").

patents because “implementers are locked in to practicing the standard.”²³⁰ Nevertheless, because of the downward pressure that Judge Posner’s regime would exert on patent owner compensation in general,²³¹ and because of the lack of consensus as to whether and to what extent such downward pressure is justified, we cannot justify Judge Posner’s regime overall as increasing economic efficiency.

2. Non-Economic Norms

But economic-efficiency might not be the right or only norm by which to grade Judge Posner’s decisions. In Judge Posner’s dissent in *Marshall*, he suggested that judges might “enrich positive law with . . . moral values” to achieve “justice in the individual case.”²³² Perhaps this moral concern of ensuring individual justice, as opposed to any utilitarian or efficiency concerns, has driven Judge Posner’s decisions in *Apple* and *Brandeis*.²³³ One could argue that justice is best served by aggressively enforcing an exacting *Daubert* reliability standard, because doing so forces the eliciting of specific facts of each case to compensate for each plaintiff’s specific harm.²³⁴

Furthermore, Golden and Cotter have also argued that a relentless pursuit of only the utilitarian norm of economic-efficiency may not be the best approach to address even the practical concerns in patent law decision-making, given “the limitations of our knowledge” and “the contingency and contestability of our goals.”²³⁵ Instead, perhaps in patent law a pragmatist should apply a different method, one “that emphasizes the need for choice, deliberation, and communication in the face of radical uncertainty . . . a way of simultaneously affirming and mediating among our conflicting norms.”²³⁶ Cotter refers to this

²³⁰ *Apple*, 869 F. Supp. 2d at 914 (quoting Third Party U.S.F.T.C.’s Statement on the Pub. Interest at 2, Certain Wireless Comm’n Devices, Inv. No. 337-TA-745 (June 6, 2012)).

²³¹ See *supra* note 206 and accompanying text (elaborating on the effect of reduced litigation awards on patent licenses and court awards).

²³² *United States v. Marshall*, 908 F.2d 1312, 1335 (7th Cir. 1990) (Posner, J., dissenting).

²³³ Cf. RICHARD S. MARKOVITS, TRUTH OR ECONOMICS: ON THE DEFINITION, PREDICTION, AND RELEVANCE OF ECONOMIC EFFICIENCY 378 (2008) (arguing that “the allocative efficiency of a choice is neither a necessary nor a sufficient condition for its justness”). Even if one argues that patent law is especially utilitarian, justice concerns may still play a role in many policies in the field, just as fairness has been advocated as a rationale in the similarly utilitarian field of antitrust for assessing policies against predatory pricing. See Oliver E. Williamson, *Williamson on Predatory Pricing II*, 88 YALE L.J. 1183, 1197 (1979) (discussing issues of fairness in predatory pricing).

²³⁴ See Golden, *supra* note 208 at 535 n.170 (arguing that “under traditional principles of equity,” damages in patent cases “are inadequate unless they can be used to replace the specific thing that plaintiff lost” (quoting DOUGLAS LAYCOCK, THE DEATH OF THE IRREPARABLE INJURY RULE 4 (1991))).

²³⁵ Thomas F. Cotter, Response, *Patent Remedies and Practical Reason*, 88 TEX. L. REV. 125, 128 (2009).

²³⁶ *Id.* at 127–28 (quoting Thomas F. Cotter, *Pragmatism, Economics, and the Droit Moral*, 76 N.C. L. REV. 1, 30 (1997)).

method as “practical reason,”²³⁷ and he recommends Golden’s five principles for patent remedies as embodying practical reason.²³⁸ These five principles are: (1) nonabsolutism—courts should be cautious about adopting per se rules to “permit[] fact-specific determinations of which concerns should dominate in an individual case”;²³⁹ (2) antidiscrimination—courts should not favor one business model, for example that of manufacturing patentees, over another;²⁴⁰ (3) learning—where possible, rules should induce the production of useful information;²⁴¹ (4) administrability—courts should promote “an interest in restraining costs and promoting predictability by restricting the burdens that the law places on limited and fallible government and private actors”;²⁴² and (5) devolution—where possible, the law should leave decisions to the decision makers who are closest to the relevant facts.²⁴³

A regime following Judge Posner’s decisions in *Apple* and *Brandeis* would seem to grade well in a pragmatic evaluation against many of Golden’s five principles, particularly the “learning” and “administrability” principles. According to Golden, the learning principle “suggests that, when discretion operates or when an exception is allowed, the burdens of production and proof assigned and the form of relief ultimately provided should, all else being equal, be arranged so as to encourage optimal information production and disclosure.”²⁴⁴ Judge Posner’s reliability principles in *Apple* encourage damages experts to sharpen their pencils in providing more accurate information to the court, as opposed to providing unreliable or irrelevant information that may prejudice a jury.²⁴⁵ And eliminating an automatic ability to supplement damages experts reports reduces the incentive for the parties to “go[] for broke” in providing unreliable information in their first version of their submitted reports.²⁴⁶ Furthermore, no reason presents itself to shift the burden of producing this information away from plaintiffs, because discovery rules allow plaintiffs access to much of defendants’ private information, including the terms of settlement licenses.²⁴⁷

²³⁷ *Id.* (citing Thomas F. Cotter, *Legal Pragmatism and the Law and Economics Movement*, 84 GEO. L.J. 2071, 2086–91 (1996) (discussing the “evolution of the concept of practical reason from Aristotle . . . and its application in the writings of . . . Richard Posner”)).

²³⁸ *Id.*

²³⁹ Golden, *supra* note 208, at 553–55.

²⁴⁰ *Id.* at 555–61.

²⁴¹ *Id.* at 561–3.

²⁴² *Id.* at 552, 563–64.

²⁴³ *Id.* at 564–65.

²⁴⁴ *Id.* at 562.

²⁴⁵ *See, e.g.,* *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1320 (Fed. Cir. 2011) (“The disclosure that a company has made \$19 billion dollars in revenue from an infringing product cannot help but skew the damages horizon for the jury, regardless of the contribution of the patented component to this revenue.”).

²⁴⁶ *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 913 (N.D. Ill. 2012).

²⁴⁷ *See In re MSTG, Inc.*, 675 F.3d 1337 (Fed. Cir. 2012) (holding that settlement licenses are discoverable in a patent infringement lawsuit and are not protected by a settlement negotiation privilege); *Apple*, 869 F. Supp. 2d at 906 (“Such an allocation of burdens of production might

However, under Golden’s learning principle, Judge Posner’s holding in *Apple* on a patentee’s burden in presenting noninfringing alternatives, as opposed to merely any plausible noninfringing alternative, may be more susceptible to criticism.²⁴⁸ When asked in a hearing about “requiring a patentee to ‘identify or be able to opine [on] the absolute lowest cost best design-around, so it is the best measure of damages,’” Apple’s counsel stated, “‘I am not aware of any law to that effect.’”²⁴⁹ Placing such a burden on a plaintiff would seem inappropriate. Information on how to most cheaply design around infringement would likely be held privately as part of the technical know-how of the defendant,²⁵⁰ and would not be easily discoverable by the plaintiff who would need to consider each of an infinite number of possible noninfringing alternatives to determine the one with absolute lowest cost. By contrast, shifting the burden of production on noninfringing alternatives to a defendant to limit reasonably royalty damages would seem to be more consistent with a learning principle of eliciting information from the source best able to provide it.²⁵¹ As previously discussed, such burden-shifting already occurs in lost profits analysis: once a patent owner shows a reasonable probability that it lost sales because of infringement, the defendant has the burden of showing these lost sales are unreasonable because of, for example, the availability of noninfringing alternatives.²⁵²

Yet Judge Posner’s response to Apple’s objection leads to a more learning-friendly reading of his *Daubert* principle—that a plaintiff’s expert does not have the burden of presenting the “absolute lowest cost best design-around,” but may merely present a noninfringing alternative that would have been “commercially reasonable,”²⁵³ i.e., a least-cost alternative that would likely have been provided by an outside expert consulted by the defendant in a “parallel non-litigation context” at the time of the alleged infringement.²⁵⁴ Such an outside expert would by definition only have ordinary skill and access to information either publicly available or

make sense if knowledge of those alternatives to Apple’s proposed mode of avoiding infringement were uniquely within Motorola’s knowledge and difficult for Apple to access even with all the tools of modern discovery.”).

²⁴⁸ *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 1959560, at *7 (N.D. Ill. May 22, 2012) (reasoning that in a hypothetical negotiation, Motorola would “need to know that lowest cost because it will be the ceiling on [its] willingness to pay for a patent license”).

²⁴⁹ *Apple*, 869 F. Supp. 2d at 907.

²⁵⁰ See Elhauge, *supra* note 4, at 549–50 (“[Defendant] will likely have lots of private information on . . . the costs and lag time necessary for redesign, which . . . is hard for the patent holder to obtain . . .”).

²⁵¹ See Golden, *supra* note 208, at 562 (“[T]he learning principle seems generally to counsel that default rules or presumptions should place burdens of production or proof on ‘best information providers’—those parties best placed to generate and to provide information that gives insight into relevant aspects of markets in invention and innovation.”).

²⁵² *Grain Processing Corp. v. Am. Maize-Prods. Co.*, 185 F.3d 1341, 1349 (Fed. Cir. 1999). See also *supra* note 171 and accompanying text (discussing burden-shifting in lost profits analysis).

²⁵³ *Apple*, 869 F. Supp. 2d at 907.

²⁵⁴ *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-8540, 2012 WL 1959560, at *13 (N.D. Ill. May 22, 2012).

provided by the defendant, so that the plaintiff's burden would be reduced to providing only noninfringing alternatives that one of ordinary skill would reasonably derive from publicly available or discoverable information. Thus, one criticism of Judge Posner's holding under the learning principle would be eliminated, as both sides would be equally able to provide reliable information to the court, and would be encouraged to do so under Judge Posner's strict reliability standards.

Judge Posner's regime would also seem to grade well under Golden's principle of administrability. "The principle of administrability . . . calls for a regime of patent remedies that government actors can readily apply and that interested private actors can readily heed, use, and understand, where such private understanding includes an ability to predict accurately the remedies that courts will make available under a known set of facts."²⁵⁵ Some practitioners have complained of the unpredictability of jury awards under complex patent jurisprudence as leading to unfair outcomes.²⁵⁶ Increasing the standard for reliability of the damages calculations that parties can present to juries would be likely to decrease the gap between the parties on the amount of these damages, leading to more predictable jury awards and increased frequency of the parties settling.

Furthermore, by using Judge Posner's method of excluding a patentee's unreliable damages experts without a chance to supplement and then dismissing the case completely, judges could more easily discourage and dispose of nuisance cases. Providing for an automatic ability to supplement damages expert reports would also provide an incentive for the parties to "go[] for broke" in their first version of their submitted reports.²⁵⁷

Nevertheless, a criticism of Judge Posner's regime under the administrability principle could focus on the difficulty for the parties to obtain the disinterested outside sources Judge Posner requires, as opposed to the widespread current practice of supporting experts' theories by consulting with in-house engineers. Yet a party could easily overcome this difficulty by presenting its in-house engineer as a testifying witness susceptible to cross-examination, which would allow the

²⁵⁵ Golden, *supra* note 208, at 563.

²⁵⁶ See, e.g., Holly Forsberg, *Diminishing the Attractiveness of Trolling: The Impacts of Recent Judicial Activity on Non-Practicing Entities*, 12 U. PITT. J. TECH. L. & POL'Y 1, 6 (2011) ("As one practitioner explained to Congress, trolls don't even need to litigate to be victorious, '[t]his unpredictable legal environment has encouraged legitimate companies threatened by patent trolls to pay large settlements as trial nears rather than risking . . . their entire business.'" (quoting *Patent Quality Improvement: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 108th Cong. 54 (2003))); Axel Schmitt-Nilson, *The Unpredictability of Patent Litigation Damage Awards: Causes and Comparative Notes*, 3 AM. U. INTELL. PROP. BRIEF 53, 54-55 ("[A]ttempts to make the reasonable royalty analysis as precise and comprehensive as possible have resulted in unpredictable and seemingly arbitrary damage awards . . ."). See also Antonin Scalia, *The Rule of Law as a Law of Rules*, 56 U. CHI. L. REV. 1175, 1179 (1989) ("Rudimentary justice requires that those subject to the law must have the means of knowing what is prescribed.").

²⁵⁷ *Apple*, 869 F. Supp. 2d at 913.

party’s experts to offer their opinion based on that engineer’s anticipated testimony.²⁵⁸ Such cross-examination in front of jurors could greatly increase the reliability of the information provided by such insider sources, as compared to allowing this information to enter the record as hearsay provided by an expert. This small price in administrability borne by the parties would thus be offset by a larger benefit in learning and increased administrability from the perspective of the court.

Judge Posner’s regime does not seem to grade well against Golden’s principle of nonabsolutism, however. His reasoning in *Apple* and *Brandeis* appear to rely on a newly crafted per se rule against relying on in-house engineers as sources for expert testimony on damages.²⁵⁹ We have already discussed his per se rule against injunctions for FRAND-encumbered patents.²⁶⁰ If universally adopted, such rules could prevent consideration of the merits of a particular damages theory based on the facts of the case.

Nevertheless, the potential negative impact of such per se rules is mitigated by the fact that they will not likely be universally adopted, as discussed in the next section. District courts have substantial discretion in applying *Daubert* scrutiny,²⁶¹ and thus Judge Posner’s exacting standards for reliability of damages theories will likely only be used by judges who find them to be useful, and perhaps only in cases where Judge Posner’s standards best fit the facts. Thus, Judge Posner’s novel approach in *Apple* and *Brandeis* appears to support the principle of devolution by giving a new set of tools that judges closest to the relevant facts may use in applying their already broad discretion.

V. The Widespread Adoption of Judge Posner’s Approach to Patent Damages Is Uncertain, Pending an Affirmance of *Apple* by the Federal Circuit

For all of its possible benefits, one practical implication of Judge Posner’s approach in *Apple* and *Brandeis* remains to be considered: whether there will be a widescale adoption of his reasoning among district courts. Unless these Northern District of Illinois decisions are explicitly affirmed by the Federal Circuit, they are not binding precedent on any other district court.²⁶² However, such obstacles do not disqualify *Apple* and *Brandeis* from becoming very persuasive precedent.

²⁵⁸ TK-7 Corp. v. Estate of Barbouti, 993 F.2d 722, 731–32 (10th Cir. 1993) (holding that a party whose expert relies on disputed facts must present evidence at trial tending to establish the validity of those facts).

²⁵⁹ See discussion *supra* section III(A)(4) (elaborating on Judge Posner’s analysis of this issue).

²⁶⁰ See *supra* notes 173–80 and accompanying text.

²⁶¹ i4i Ltd. P’ship v. Microsoft Corp., 598 F.3d 831, 854 (Fed. Cir. 2010); Micro Chem., Inc. v. Lextron, Inc., 317 F.3d 1387, 1391 (Fed. Cir. 2003). Because *Daubert* challenges are a procedural issue, rather than a substantive patent law issue, the trial court’s decision whether to admit expert testimony is reviewed under the law of the regional circuit, not the Federal Circuit. *Micro Chem.*, 317 F.3d at 1391 (applying Fifth Circuit standard of review to review a *Daubert* challenge).

²⁶² See, e.g., Planned Parenthood of Se. Pa. v. Casey, 505 U.S. 833, 854–55 (1992) (discussing the court’s discretion in deciding whether to follow nonbinding precedent); Mendenhall v.

Indeed, as a preeminent jurist, especially in the field of law and economics,²⁶³ Judge Posner carries significant jurisprudential weight. So far, a few district court judges have cited to either *Apple* or *Brandeis* in their opinions,²⁶⁴ and the widescale adoption of *Apple* and *Brandeis* by district courts, leading to later implicit endorsement by the Federal Circuit, would not be altogether surprising. Rather, it would be in line with the widescale adoption of similarly non-binding precedent in patent law jurisprudence, such as adoption of Judge Rader's "smallest salable unit rule" in *Cornell University v. Hewlett-Packard Company*.²⁶⁵ Sitting by designation in that Northern District of New York case, Judge Rader granted judgment as a matter of law for the defendant and drastically reduced a jury award from \$184 million to \$54 million, holding that the plaintiff had inappropriately used the entire market value rule to calculate patent damages "based on technology beyond the scope of the claimed invention."²⁶⁶ Judge Rader held that the entire market value rule permits damages for technology beyond the scope of the claimed invention

Cedarapids, Inc., 5 F.3d 1557, 1569–70 (Fed. Cir. 1993) (same). Even though Judge Posner normally sits on the Seventh Circuit Court of Appeals, the decisions in *Apple* and *Brandeis* are merely persuasive authority even for other Seventh Circuit districts because he was sitting by designation in the Northern District of Illinois. *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 1959560, at *1 (N.D. Ill. May 22, 2012); *Brandeis Univ. v. Keebler Co.*, No. 1:12-cv-01508 (N.D. Ill. Jan. 18, 2013) at *1.

²⁶³ See, e.g., WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 4 (2003) (pointing out that "[t]oday it is acknowledged that analysis and evaluation of intellectual property law are appropriately conducted within an economic framework that seeks to align that law with the dictates of economic efficiency"); Owen M. Fiss, *The Death of the Law?*, 72 CORNELL L. REV. 1, 2 (1986) (citing Richard Posner as one of the "leading practitioners of law and economics"); Richard A. Posner, *Wealth Maximization and Judicial Decision-Making*, 4 INT'L REV. L. & ECON. 131 (1984) (Posner responding to academic interpretations of his using economics to frame his judicial opinions).

²⁶⁴ See, e.g., *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 885 (9th Cir. 2012) (citing *Apple* in discussions as to whether to allow injunctive relief for FRAND-encumbered patents); *In re Innovatio IP Ventures, LLC Patent Litig.*, MDL No. 2303, 2013 WL 427167, at *10–11 (N.D. Ill. Feb. 4, 2013) (citing *Apple* in discussions as to whether to allow injunctive relief for FRAND-encumbered patents); *Realtek Semiconductor Corp. v. LSI Corp.*, No. C-12-03451-RMW, 2012 WL 4845628, at *3–4 (N.D. Cal. Oct. 10, 2012) (citing *Apple* in discussions as to whether to allow injunctive relief for FRAND-encumbered patents); *Apple, Inc. v. Samsung Elecs. Co.*, No. 11-cv-01846-LHK, 2012 WL 6569786, at *13 (N.D. Cal. Dec. 17, 2012) (quoting *Apple* for the proposition that, when considering the public interest factor in determining whether to grant an injunction, courts consider "the harm that an injunction might cause to consumers who can no longer buy preferred products because their sales have been enjoined, and the cost to the judiciary as well as to the parties of administering an injunction"). A few courts have cited to Judge Posner's *Daubert* methodology. *Carnegie Mellon Univ. v. Marvell Tech. Grp.*, No. 09-290, 2012 WL 5409793, at *2 (W.D. Pa. Nov. 6, 2012); *TQP Dev., LLC v. Merrill Lynch & Co.*, No. 2:08-cv-471-WCB, 2012 WL 3283354, at *2 (E.D. Tex. Aug. 10, 2012); *Honeywell Int'l Inc. v. United States*, 107 Fed. Cl. 659, 692 (Fed. Cl. 2012). The authors are unaware, however, of any cases which cite to *Apple* or *Brandeis* for Judge Posner's controversial methodology of disposing of cases after striking damages expert testimony. There may of course be district court judges who would like to cite to *Apple* or *Brandeis*, but are waiting at least until *Apple* has been ruled on by the Federal Circuit.

²⁶⁵ 609 F. Supp. 2d 279, 288 (N.D.N.Y. 2009).

²⁶⁶ *Id.* at 285–86.

only “upon proof that damages on the unpatented components or technology is necessary to fully compensate for infringement of the patented invention.”²⁶⁷ Thus, the basis for damages should be set as “the smallest salable infringing unit.”²⁶⁸ This non-binding precedent from *Cornell* was highly persuasive and was cited in dozens of district court cases.²⁶⁹ Even though Judge Rader’s holding was explicitly endorsed by the Federal Circuit in *LaserDynamics* in August 2012,²⁷⁰ several district courts have continued to cite to *Cornell* as the law on the entire market value.²⁷¹

Another similar example occurred with dicta in Justice Kennedy’s concurrence in *eBay*, in which he strongly expressed his general disapproval of injunctions as a remedy for patent infringement.²⁷² Justice Kennedy’s disapproval of broad damages for a “patented invention [that] is but a small component of the product the companies seek to produce” became highly persuasive precedent.²⁷³ This concurrence was soon adopted by several district courts, and many of its principles were ultimately adopted by the Federal Circuit.²⁷⁴ Just as Justice Kennedy’s non-binding concurrence in *eBay* supported later wholesale changes in patent damages law jurisprudence,²⁷⁵ there is no reason to think that Judge Posner’s approach in *Apple* and *Brandeis* cannot have a pronounced influence on district courts or even the Federal Circuit.

²⁶⁷ *Id.* at 285.

²⁶⁸ *Id.* at 288.

²⁶⁹ *See, e.g.*, *Ultimax Cement Mfg. Corp. v. CTS Cement Mfg. Corp.*, 856 F. Supp. 2d 1136 (C.D. Cal. 2012) (citing the *Cornell* precedent); *Fractus, S.A. v. Samsung Elecs. Co.*, 876 F. Supp. 2d 802 (E.D. Tex. 2012) (same); *CardSoft, Inc. v. Verifone Sys., Inc.*, No. 2:08-cv-98-RSP, 2012 WL 1995325 (E.D. Tex. June 4, 2012) (same); *Lucent Techs., Inc. v. Microsoft Corp.*, 837 F. Supp. 2d 1107 (S.D. Cal. 2011) (same); *DataQuill Ltd. v. High Tech Computer Corp.*, 887 F. Supp. 2d 999 (S.D. Cal. 2011) (same); *VS Techs., LLC v. Twitter, Inc.*, No. 2:11-cv-43, 2011 WL 4744572 (E.D. Va. Oct. 5, 2011) (same); *Phillip M. Adams & Assocs., LLC v. Wibond Elecs. Corp.*, No. 1:05-cv-64-TS, 2010 WL 3655783 (D. Utah Sept. 8, 2010) (same).

²⁷⁰ *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012).

²⁷¹ *Energy Transp. Grp., Inc. v. William Demant Holding A/S*, 697 F.3d 1342, 1358 (Fed. Cir. 2012); *VirmetX Inc. v. Cisco Sys., Inc.*, No. 6:10-cv-417 (E.D. Tex. Mar. 1, 2013); *Positive Techs., Inc. v. Sony Elecs., Inc.*, No. 11-cv-2226-SI, 2013 WL 707914 (N.D. Cal. Feb. 26, 2013); *AVM Techs., LLC v. Intel Corp.*, No. 10-610-RGA, 2013 WL 126233 (D. Del. Jan. 4, 2013); *Multimedia Patent Trust v. Apple Inc.*, No. 10-cv-2618-H, 2013 WL 173966 (S.D. Cal. Jan. 16, 2013).

²⁷² *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396–97 (2005) (Kennedy, J., concurring).

²⁷³ *Id.*

²⁷⁴ *See, e.g.*, *Ricoh Co. v. Quanta Computer, Inc.*, No. 06-cv-462-BBC, 2010 WL 1607908 (W.D. Wisc. Apr. 19, 2010); *Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 605 (E.D. Tex. 2007); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 441 (E.D. Tex. 2006); *See also supra* Part II (discussing the Supreme Court and Federal Circuit’s treatment of patent remedies).

²⁷⁵ *See supra* Part II (elaborating on Justice Kennedy’s concurrence).

A. A Patentee's Ability of Forum Shopping May Vitate Any Effects of *Apple* or *Brandeis*

Note, however, that even if the Federal Circuit were to adopt Judge Posner's approach, either in the current appeal of *Apple* or in subsequent district court cases relying on it,²⁷⁶ uniform application in district courts would remain uncertain.²⁷⁷ Judge Posner does not change the burden of proof and standard of review associated with *Daubert* challenges. These *Daubert* challenges will remain in the realm of the trial court's ultimate discretion, to be reviewed by an appellate court only for an abuse of discretion.²⁷⁸ Furthermore, the effect of any widescale adoption of Judge Posner's decisions in *Apple* and *Brandeis* would likely be mitigated by a patentee's ability to engage in forum shopping.²⁷⁹ While the Federal Circuit has increasingly attempted to discourage forum shopping,²⁸⁰ the ability of

²⁷⁶ If the current Federal Circuit opts to make wholesale changes by adopting Judge Posner's approach or otherwise, it may behoove them to do so in a timely fashion. With the confirmation of Judge Taranto to the Federal Circuit in March 2013, the Federal Circuit currently consists of ten active judges, with two outstanding vacancies. Todd Ruger, *After 17 Months, Senate Confirms New Federal Circuit Judge*, THE BLOG OF LEGAL TIMES (Mar. 11, 2013, 6:13 PM), <http://legaltimes.typepad.com/blt/2013/03/after-17-months-senate-confirms-new-federal-circuit-judge.html>. If six active judges want to review and adopt *Apple*, they will currently be able to do so en banc by a 6:4 majority. However, once the two vacancies are filled, any possible current majority may no longer be in the majority, pending the vote of the two new judges. See also Dennis Crouch, *Deleting Cybor: En Banc Opportunity*, PATENTLYO (Jan. 17, 2013, 2:03 PM), <http://www.patentlyo.com/patent/2013/01/deleting-cybor.html> (discussing similar strategic considerations in the context of overturning *Cybor* and the amount of deference provided to district courts on the issue of claim construction).

²⁷⁷ Indeed, the only method to implement Judge Posner's approach nationwide is for the Federal Circuit to grant interlocutory appeal of a denial of summary judgment of no damages or perhaps a review by the Federal Circuit of the trial court's denial of judgment as a matter of law of the jury's finding of patent damages. A district court's denial of summary judgment is reviewed de novo, viewing the record and all inferences from it in the light most favorable to the nonmoving party. *Chamberlain Grp. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1191 (Fed. Cir. 2004). A district court's denial of judgment as a matter of law is reviewed without deference. *Teleflex, Inc. v. Ficoso N. Am. Corp.*, 299 F.3d 1313, 1322–23 (Fed. Cir. 2002).

²⁷⁸ *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 854 (Fed. Cir. 2010); *Micro Chem., Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1391 (Fed. Cir. 2003). Because *Daubert* challenges are a procedural issue, rather than a substantive patent law issue, the trial court's decision whether to admit expert testimony is reviewed under the law of the regional circuit, not the Federal Circuit. *Micro Chem.*, 317 F.3d at 1391 (applying Fifth Circuit standard of review to review a *Daubert* challenge).

²⁷⁹ See generally Mark Liang, *The Aftermath of TS Tech: The End of Forum Shopping in Patent Litigation and Implications for Non-Practicing Entities*, 19 TEX. INTELL. PROP. L.J. 29 (2011) (detailing the Federal Circuit's attempts to discourage forum shopping); Elizabeth P. Offen-Brown, *Forum Shopping and Venue Transfer in Patent Cases: Marshall's Response to TS Tech and Genentech*, 25 BERKELEY TECH. L.J. 61 (2010) (same).

²⁸⁰ See *In re Genentech Inc.*, 566 F.3d 1338 (Fed. Cir. 2009) (rejecting that there are sufficient reasons for the forum to be in the Eastern District of Texas); *In re Hoffman-La Roche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009) (same); *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008) (reversing the district court and transferring the case from the Eastern District of Texas to the Southern District of Ohio on the grounds that the transferee venue was more convenient under 28 U.S.C. § 1404(a)). See also Mark A. Lemley, *Where to File Your Patent Case*, 38 AIPLA Q.J.

patentees to file patent infringement suits in district courts of their choosing and to block transfer seems empirically to have only slightly diminished.²⁸¹ Moreover, these district courts are the gatekeepers on whether expert testimony is reliable and thus have discretion to decide *Daubert* challenges on a very fact-specific basis.²⁸² A Federal Circuit adoption of Posner’s strict approach would therefore likely be ineffective at preventing some courts from being much more lenient in allowing damages expert testimony. Even if most district courts were to follow the spirit of Judge Posner’s stance, patentees would eschew filing infringement suits in those districts, opting instead for more lenient districts.

Such a strategic decision would be consistent with other factors that patentees consider when deciding on a venue.²⁸³ Patentees currently consider factors such as

401 (2010) (explaining how recent district court decisions have affected forum shopping); Liang, *supra* note 279 (explaining restrictions on forum shopping after *TS Tech*).

²⁸¹ See, e.g., Wellogix Tech. Licensing LLC v. Automatic Data Processing, Inc., No. 6:11-cv-401-LED-JDL (E.D. Tex. Mar. 19, 2013) (denying motion to transfer); One StockDuq Holdings, LLC v. Becton, Dickinson & Co., No. 2:12-cv-3037-JPM-TMP (W.D. Tenn. Mar. 18, 2013) (same); Va. Innovation Scis., Inc. v. Samsung Elecs. Co., No. 2:12-cv-548-MSD-DEM (E.D. Va. Mar. 6, 2013) (same); Essociate Inc. v. Adscend Media LLC, No. 8:12-cv-02153-JVS-MLG (C.D. Cal. Feb. 25, 2013) (same); Rmail Ltd. v. Right Signature, LLC, No. 2:11-cv-00300-JRG (E.D. Tex. Feb. 25, 2013) (same); Conscore, Inc. v. Integral Ad Sci., Inc., No. 2:12-cv-351-HCM-DEM (E.D. Va. Feb. 15, 2013) (same). *But see*, e.g., DietGoal Innovations LLC v. Taco Mayo Franchise Sys., Inc., No. 2:12-cv-336-JRG-RSP (E.D. Tex. Mar. 25, 2013) (granting defendant’s motion to transfer to a more convenient forum); PersonalWeb Techs., LLC v. NEC Corp. of Am., No. 6:11-cv-655-LED (E.D. Tex. Mar. 21, 2013) (granting some, but not all, defendants’ motions to transfer to a more convenient forum, but only after the *Markman* order has issued, to promote judicial efficiency and uniformity); Beacon Navigation GmbH v. Chrysler Grp., No. 1:11-cv-921-GMS (D. Del. Mar. 20, 2013) (granting defendant’s motion to transfer to a more convenient forum); Lone Star Document Mgmt., LLC v. Catalyst Repository Sys., Inc., No. 6:12-cv-164-LED (E.D. Tex. Mar. 15, 2013) (same); GeoTag Inc. v. Aromatique, Inc., No. 2:10-cv-570-JRG (E.D. Tex. Jan. 14, 2013) (same).

²⁸² FED. R. EVID. 702; *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 592, 596–97 (1993) (discussing the trial court’s “screening role” and “gatekeeping role”); *Sundance, Inc. v. DeMonte Fabricating Ltd.*, 550 F.3d 1356, 1360 (Fed. Cir. 2008). Interestingly, a similar “gatekeeping” role was contemplated by Congress during deliberations of the America Invents Act. S. 515, 111th Cong. (2009) (proposed amendment to 35 U.S.C. § 284(b)). Such an amendment would have required the court to “consider whether one or more of a party’s damages contentions lacks a legally sufficient evidentiary basis.” *Id.* However, such an amendment was ultimately dropped. 35 U.S.C. § 284(b); H.R. 1249, 112th Cong. (2011). *Daubert* challenges are at the trial court’s ultimate discretion, to be reviewed by an appellate court for an abuse of discretion. See *supra* note 261 and accompanying text (explaining district courts’ discretion in applying *Daubert*). The trial court’s gatekeeping role is taken very seriously. See, e.g., *Barabin v. AstenJohnson, Inc.*, 700 F.3d 428 (9th Cir. 2012); *Mukhtar v. Cal. State Univ.*, 319 F.3d 1073 (9th Cir. 2002) (requiring that trial courts hold new trials when they fail to hold a *Daubert* hearing to make relevance and reliability determinations regarding expert testimony). The Ninth Circuit is currently reviewing this requirement en banc. See Erin Coe, *9th Circ. Daubert Ruling Could Weaken Court’s Gatekeeper Role*, LAW360 (Mar. 27, 2013, 10:56 PM), <http://www.law360.com/articles/427900/9th-circ-daubert-ruling-could-weaken-court-s-gatekeeper-role> (discussing potential changes in gatekeeper role).

²⁸³ Liang, *supra* note 279, at 39–46. See also Greg Ryan, *5 Definite No-Nos For Daubert Motions*, LAW360 (Apr. 9, 2013, 9:14 PM), <http://www.law360.com/articles/431334> (“Don’t Neglect the Judge’s History”). See also generally Andrei Iancu & Jay Chung, *Real Reasons the Eastern*

the proliferation of patent-specific procedural rules,²⁸⁴ the judges' experience with patent cases,²⁸⁵ the district's filing-to-trial time,²⁸⁶ the rate at which courts grant summary judgment motions,²⁸⁷ and the likelihood of juries to award large damage amounts for infringement.²⁸⁸ Such patentees might also consider the districts' record with respect to *Daubert* challenges of damages experts and whether patentees may amend their damages expert reports after a successful challenge.

Furthermore, patentees may also circumvent any attempt to implement a stricter standard of proof for damages implemented by the Federal Circuit or individual district courts by seeking equitable relief at the U.S. International Trade Commission (ITC), which more freely grants injunctions.²⁸⁹ As an administrative agency, rather than an Article III court, the ITC is exempt from following the precedent set forth in *eBay*,²⁹⁰ and has expressly decided not to do so.²⁹¹ While *eBay* prescribes injunctive relief only when the irreparable injury cannot be adequately fixed by money and the hardships and public interest weigh in favor of granting it,²⁹² that is to say, injunctive relief is an "extraordinary remedy,"²⁹³

District of Texas Draws Patent Case—Beyond Lore and Anecdote, 14 SMU SCI. & TECH. L. REV. 299 (2010) (discussing key considerations when choosing venue).

²⁸⁴ Alisha Kay Taylor, *What Does Forum Shopping in the Eastern District of Texas Mean for Patent Reform?*, 6 J. MARSHALL REV. INTELL. PROP. L. 570, 572 (2007) (discussing the uniform adoption of patent-specific rules in the Eastern District of Texas in 2005). See also Iancu & Chung, *supra* note 283, at 308–09 (discussing the effect of newly-adopted rules in boosting the Eastern District's appeal for trial); Liang, *supra* note 279, at 43–44 (same).

²⁸⁵ Iancu & Chung, *supra* note 283, at 310–11.

²⁸⁶ *Id.* at 313–14; Lemley, *supra* note 280, at 413–16 (noting that a faster time-to-trial benefits the patentee); Liang, *supra* note 279, at 44.

²⁸⁷ Lemley, *supra* note 280, at 403 (noting that patentees dislike districts which more often grant summary judgment motions, as these tend to favor defendants in patent cases). See also Iancu & Chung, *supra* note 283, at 316–19; Liang, *supra* note 279, at 45.

²⁸⁸ Liang, *supra* note 279, at 46.

²⁸⁹ See generally Colleen V. Chien & Mark A. Lemley, *Patents and the Public Interest*, N.Y. TIMES, Dec. 13, 2011 (discussing the ITC's important role in the patent system).

²⁹⁰ The ITC has the ability to ban the importation of goods found to "infringe a valid and enforceable United States patent or a valid and enforceable United States copyright registered under Title 17." 19 U.S.C. § 1337(a)(1)(B)(i) (2006). While this naturally requires an application of patent law, the procedures and remedies employed at the ITC are different than those employed in Article III courts. *Spansion, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010), *cert. denied*, 132 S. Ct. 758 (2011) (discussing the differences between the "remedial scheme[s]," "statutory underpinnings for relief," and "exclusion orders granted under Section 337 and injunctions granted under the Patent Act"). For example, the ITC cannot award damages, but can merely issue exclusion orders. *Id.* The ITC does not hear counterclaims nor recognize certain defenses to infringement available in Article III courts. *Kinik Co. v. Int'l Trade Comm'n*, 362 F.3d 1359, 1362 (Fed. Cir. 2004) (holding that 102(g)(2) does not apply in the ITC). Thus, instead of requiring the *eBay* four-factor test, the Federal Circuit has parsed the ITC's public interest factor to include "(1) the public health and welfare; (2) competitive conditions in the United States economy; (3) the production of like or directly competitive articles in the United States; and (4) United States consumers." *Spansion*, 629 F.3d at 1358.

²⁹¹ *Spansion*, 629 F.3d at 1331.

²⁹² *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

²⁹³ *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982) (citing *R.R. Comm'n v. Pullman Co.*, 312 U.S. 496, 500 (1941)). See also *Rizzo v. Goode*, 423 U.S. 362, 379 (1976) ("[T]he principles

injunctive relief is the de facto default remedy at the ITC.²⁹⁴ Since the Federal Circuit has drastically reduced the difficulty of the ITC’s jurisdictional requirement of domestic industry,²⁹⁵ widescale adoption of a Posner regime that increases the difficulty and risk of proving money damages in Article III courts would also likely increase the likelihood of patentees forum shopping at the ITC.

Nevertheless, while the effects of any widescale adoption of Judge Posner’s approach in *Apple* and *Brandeis* may be reduced by forum shopping, these decisions still equip trial judges with citable authority and instructive reasoning to use at their discretion. Indeed, Judge Posner may have specifically intended that his opinions in *Apple* and *Brandeis* find their greatest use in instructing other district court judges;²⁹⁶ he has at times specifically advocated for “provid[ing] special training for federal judges who volunteer to preside over patent

of equity nonetheless militate heavily against the grant of an injunction except in the most extraordinary circumstances.”)

²⁹⁴ *Spanston*, 629 F.3d at 1358 (“Congress intended injunctive relief to be the normal remedy for a Section 337 violation . . .”). See also Benjamin Petersen, *Injunctive Relief in the Post-eBay World*, 23 BERKELEY TECH. L.J. 193, 214 (2008) (providing an overview of the ITC and in particular its use of injunctive relief).

²⁹⁵ *InterDigital Commc’ns, LLC v. Int’l Trade Comm’n*, 690 F.3d 1318, 1329–30 (Fed. Cir. 2012) (holding that the domestic industry requirement of Section 337 can be satisfied by domestic licensing activities standing alone, even if no product covered by the patents-in-suit is manufactured domestically or by a domestic entity). See also Dennis Crouch, *Federal Circuit Again Supports USITC Jurisdiction for Pure-Enforcement NPEs; Court Again Splits on Claim Construction*, PATENTLYO (Aug. 1, 2012, 3:35 PM), <http://www.patentlyo.com/patent/2012/08/federal-circuit-again-supports-usitc-jurisdiction-for-pure-enforcement-npes-court-again-splits-on-claim-construction.html> (further discussing *Interdigital*’s interpretation of “domestic industry”). But see *John Mezzalingua Assocs., Inc. v. Int’l Trade Comm’n*, 660 F.3d 1322 (Fed. Cir. 2011) (strictly interpreting the domestic industry requirement to require the complainant to meet the requirement for every patent-at-issue, even though the patents-at-issue are in the same priority family).

²⁹⁶ See Judge Posner’s “general remarks about *Daubert* hearings” in *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 1959560, at *1–2 (N.D. Ill. May 22, 2012) (Judge Posner specifically cautioning judges “to distinguish between disabling problems with the proposed testimony, which are a ground for excluding it, and weaknesses in the testimony, which are properly resolved at the trial itself on the basis of evidence and cross-examination”). Interestingly, Judge Posner also goes through the exercise of analyzing the expert testimony of Mr. Wagner, even though his testimony should have been moot. *Id.* at *3, *6. Mr. Wagner testified for Motorola as to the damages that Apple is entitled to for Motorola’s infringement of the ’002 and ’949 patents-in-suit. *Id.* at *3, *6. However, the testimony of Apple’s damages expert as to the ’002 and ’949 patents-in-suit was also excluded. *Id.* at *4–6, *9–10. Accordingly, Apple could not establish any damages relating to ’002 and ’949 patents-in-suit. *Id.* at *4–6, *9–10. Thus, Mr. Wagner’s testimony was not required. Judge Posner even acknowledged “that its exclusion is academic.” *Id.* at *2. See also *id.* at *6 (“His proposed testimony must therefore be excluded, but again the exclusion has only academic significance . . .”). One possible explanation for going through the exercise of analyzing Mr. Wagner’s testimony is that Judge Posner wanted to provide further guidance as to the application of the two-prong *Daubert* test. Judge Posner also points out warning signs during his analysis. See, e.g., *id.* at *4 (noting that the damage calculations by the patentee’s expert and the accused infringer’s expert were off by a factor of 140, which is a “warning sign”).

litigation.”²⁹⁷ Thus, rather than imposing an additional burden on the district courts, Judge Posner’s approach may simply provide district courts with an extra set of tools to use when most appropriate to strike a patentee’s damages expert’s testimony and dispose of the case in an efficient manner.²⁹⁸

VI. Conclusion

In recent years, the Federal Circuit has applied stricter *Daubert* scrutiny to reign in patent damages expert testimony in cases such as *Lucent*, *Uniloc*, and *LaserDynamics*. Sitting by designation as the trial judge in *Apple* and *Brandeis*, Judge Posner further increased this scrutiny by fashioning new rules for determining the reliability of expert patent damages analysis. Not only did Judge Posner exclude all of the damages expert testimony in *Apple*, he refused to allow the parties to supplement their expert testimony, denied all equitable relief, and then controversially dismissed the case altogether for the parties’ failure to establish damages that were not merely nominal.

We analyzed Judge Posner’s unconventional approach under the principles of legal pragmatism, grading his decisions against economic and other pragmatic norms after first assessing his consistency with the controlling law. In an effort to possibly “enrich” the law of patent damages, Judge Posner required an extreme level of completeness in damages theories that may be inconsistent with *Daubert*’s warning that exclusion is not preferred; he did not make the traditional fact-intensive investigation of the parties’ intent in interpreting an ambiguous FRAND contractual agreement; and he refused to allow supplementation of expert reports or nominal damages even though 35 U.S.C. § 284 requires no less than a reasonable royalty be awarded for patent infringement.

Under an economic efficiency analysis, universal adoption of Judge Posner’s approach would increase the costs of any given lawsuit in the form of increased discovery and expert costs. However, legal costs could overall be decreased due to discouraging those patent infringement lawsuits with weaker evidence of damages, or allowing dismissal of those lawsuits altogether. More significantly, Judge Posner’s strict enforcement of exacting standards for reliability of damages theories would tend to reduce patent damage awards and the value of negotiated patent

²⁹⁷ Posner, *Why Too Many Patents*, *supra* note 146. See also Nocera, *supra* note 146 (“To put it more bluntly than he ever would, he is adjudicating patent cases in an effort to change a legal system that now gives companies rich incentives to bring costly, time-consuming and often prideful patents lawsuits. It desperately needs to be done.”).

²⁹⁸ Indeed, the only method to implement Judge Posner’s approach nationwide is for the Federal Circuit to grant interlocutory appeal of a denial of summary judgment of no damages or perhaps a review by the Federal Circuit of the trial court’s denial of judgment as a matter of law of the jury’s finding of patent damages. A district court’s denial of summary judgment is reviewed *de novo*, viewing the record and all inferences from it in the light most favorable to the nonmoving party. *Chamberlain Grp. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1191 (Fed. Cir. 2004). A district court’s denial of JMOL is reviewed without deference. *Teleflex, Inc. v. Ficosa N. Am. Corp.*, 299 F.3d 1313, 1322–23 (Fed. Cir. 2002).

licenses. Whether such a reduction in patent value would be economically efficient is an active area of scholarly debate.

Yet Judge Posner’s approach would seem to grade fairly well against another set of pragmatic norms, Golden’s five principles for patent remedies. Following Judge Posner’s decisions in *Apple* and *Brandeis* would seem to promote Golden’s principle of learning by establishing rules that induce the production of useful, reliable information. Although Judge Posner’s increased *Daubert* standards would place an extra administrative burden on patentees, his approach generally supports administrability by allowing the dismissal of nuisance cases and by promoting predictability of damages outcomes.

We also explained that Judge Posner’s non-binding precedent may be used as persuasive authority by many courts, yet we noted that trial court discretion on *Daubert* issues and the ability of patentee’s to seek equitable remedies at the ITC would lead to patentee forum shopping. Nevertheless, Judge Posner’s decisions in *Apple* and *Brandeis* will still equip trial judges with an extra set of tools to use when most appropriate to strike a patentee’s damages expert’s testimony and dispose of the case in an efficient manner.

A “Likelihood of Confusion”: Circuit Courts Attempt to Reconcile Sixty Years of SCOTUS Silence Since *Bulova*

John Sokatch

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Almost every child of the 1990's either possessed personally, or knew someone who possessed, the popular electronic gaming system—the Nintendo Entertainment System® (U.S. Reg. No. 1440706). According to one study, by the year 2010, Nintendo Company, Ltd., a Japanese-based corporation, had sold an estimated 61.9 million units of their 8-bit system world-wide.¹ The 8-bit, grey and black gaming console, uniquely identified by its distinct curvy-blocked “NINTENDO” logotype embedded in a capsule-like shape, became a staple of American households and laid the foundation for the impending multi-billion dollar electronic gaming industry of today. Needless to say, Nintendo’s success in the electronic gaming industry was contagious, prompting developers all over the world to rush similar consoles into the stores in an attempt to potentially capture any part of the rapidly-growing electronic gaming market.

Despite its worldwide successes in the electronic gaming industry, Nintendo of America, Ltd. (a United States subsidiary of its Japanese parent-corporation) filed suit in 1994 against an unlicensed imitator, Aeropower Co. (a Taiwanese corporation) claiming, among other causes of action, violations of its federal copyright and trademark rights.² Evidence at trial showed the defendants had been manufacturing and distributing video game cartridges all over the world that contained software that infringed several of Nintendo’s domestically recognized rights, with many of the infringing products finding their way back into the hands of U.S. consumers.³ Accordingly, the district court found federal trademark and copyright violations and awarded monetary and injunctive relief to Nintendo for both the domestic and extraterritorial conduct of Aeropower. This prohibited Aeropower from further infringing Nintendo’s trademark and copyrights “in the United States, Mexico and Canada.”⁴

On appeal to the Fourth Circuit Court of Appeals, however, the Circuit Court vacated the district court’s granting of relief with respect to the extraterritorial conduct of Aerospace. The appeals court held that the district court did not consider certain limiting factors under the U.S. trademark law—the Lanham Act—in so awarding Nintendo injunctive relief for Aeropower’s extraterritorial conduct.⁵ The Fourth Circuit’s confused interpretation of exactly when the Lanham Act applied to extraterritorial conduct stemmed from an antiquated Supreme Court decision forty years earlier, in *Steele v. Bulova Watch Co.*, 344 U.S. 280, 283 (1952), and the subsequent silence of the Supreme Court since that decision.⁶

Like many other circuits befuddled by the Supreme Court’s analysis in *Bulova*, the Fourth Circuit adopted its own interpretation and application of the

¹ NINTENDO CO., CONSOLIDATED SALES TRANSITION BY REGION (2010), available at http://www.nintendo.co.jp/ir/library/historical_data/pdf/consolidated_sales_e1012.pdf.

² *Nintendo of Am., Inc. v. Aeropower Co.*, 34 F.3d 246, 248 (4th Cir. 1994).

³ *Id.*

⁴ *Id.* at 249.

⁵ *Id.* at 248.

⁶ *Id.* at 250 (citing *Bulova*, 344 U.S. at 285–89).

Supreme Court’s forty-year-old factors. In doing so, the Fourth Circuit created the following test:

While a court may issue an injunction having extraterritorial effect in order to prevent trademark violations under the Lanham Act, it should do so only where the extraterritorial conduct would, if not enjoined, have a significant effect on United States commerce, and then only after consideration of the extent to which the citizenship of the defendant, and the possibility of conflict with trademark rights under the relevant foreign law might make issuance of the injunction inappropriate in light of international comity concerns.⁷

This rendition, fully adopted only in the Fourth Circuit, represents one of several ways in which the various circuits have tried to interpret the Supreme Court’s intent in *Bulova* and ensuing silence since 1952. Moreover, the varying circuit court interpretations of the Supreme Court’s actual intent in *Bulova* subsequently left many trademark holders, like Nintendo, without judicial recourse for international infringements of their intellectual property rights. As a result, many federal trademark owners and courts, alike, seeking guidance are consequently left with, as the title of this Article suggests, a “likelihood of confusion” regarding the Lanham Act’s applicability to extraterritorial conduct.⁸

Part I of this Article introduces the issue by briefly explaining the federal trademark registration process and the global costs associated with trademark infringement. Part II introduces the judicial framework under which the Supreme Court analyzed the extraterritoriality issue of the Lanham Act and the major circuit cases since the Supreme Court’s decision. Part III offers a possible solution to the resulting judicial confusion by adapting an approach from the First Circuit. Finally, Part IV explains why the First Circuit’s approach serves as an ideal model for the Supreme Court to consider adopting if and when it re-addresses the extraterritorial jurisdiction issue under the Lanham Act.

I. Introduction to Federal Trademarks

A. United States Intellectual Property Rights in the Context of International Commerce

According to urban myth, in 1898, then Commissioner of the United States Patent and Trademark Office (USPTO) and subsequent federal judge for the D.C. Circuit, Charles Holland Duell, purportedly claimed that “[at this time] everything that can be invented has been invented.”⁹ Since then, the USPTO has approved millions of applications for intellectual property ownership rights in the United States in the form of patents and trademarks, which, in turn, has generated trillions of dollars, annually, for the United States economy.¹⁰

⁷ *Id.*

⁸ See 15 U.S.C. § 1114(1)(a) (2012) (referring to “likely to cause confusion” as the judicial standard for imposing liability under the Lanham Act).

⁹ *Research and Disillusionment*, THE ECONOMIST, Apr. 13, 1991, at 83.

¹⁰ *Table of Issue Years and Patent Numbers*, USPTO.GOV, <http://www.uspto.gov/patents/process/search/issuyear.jsp> (last visited March 1, 2013). According to the United States Chamber

The USPTO is the exclusive federal agency that grants ownership of U.S. patents and trademarks.¹¹ The USPTO, created under the U.S. Constitution, assists the Executive Branch in fulfilling its Constitutional mandate to “promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their respective . . . Discoveries.”¹² Specifically in the realm of trademarks, the USPTO provides these protections by examining trademark applications and issuing trademark registration certificates to applicants that satisfy the filing requirements through its delegated authority under the Commerce Clause of the Constitution.¹³

A trademark is “a word, phrase, symbol or design, or a combination of words, phrases, symbols or designs, that identifies and distinguishes the source of the goods of one party from those of others.”¹⁴ Trademarks serve as a two-fold form of domestic consumer protection, as they: (1) “protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get,” and (2) “where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats.”¹⁵

A validly registered federal trademark, indicated by the “®” symbol,¹⁶ will protect the registrant’s mark whenever those goods enter the stream of commerce.¹⁷ In order to secure federal protections to a mark, an individual must file an application with the USPTO.¹⁸ The application then serves as constructive notice of the mark’s use as of the filing date, which, in turn, confers a nation-wide right of priority “on or in connection with the goods or services specified,” subject to

of Commerce in 2008, U.S. intellectual property companies in the manufacturing and nonmanufacturing sectors generated nearly \$7.7 trillion in gross output, accounting for 33.1% of total U.S. GDP. *U.S. Chamber Commends House Passage of Patent Bill*, U.S. CHAMBER OF COMMERCE (June 24, 2011), <http://uschamber.com/press/release/2011/june/us-chamber-commends-house-passage-patent-bill>.

¹¹ *The USPTO: Who We Are*, USPTO.GOV, <http://www.uspto.gov/about/index.jsp> (last modified June 10, 2012).

¹² U.S. CONST. art. I, § 8, cl. 8.

¹³ See *The USPTO: Who We Are*, *supra* note 11. Note that state trademark laws also provide various mechanisms for registration of state trademarks.

¹⁴ *Trademark, Copyright or Patent?*, USPTO.GOV, http://www.uspto.gov/trademarks/basics/trade_defin.jsp (last modified Jan. 11, 2010).

¹⁵ *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 782 n.15 (1992) (quoting S. REP. NO. 1333, at 3 (1946)).

¹⁶ The often-seen “™” symbol can be used by anyone claiming the rights to use a mark, regardless of whether or not they have filed an application with the USPTO. However, an owner may only use the “®” symbol after the USPTO actually issues a certificate of registration for the mark and not while an application is pending. *Frequently Asked Questions About Trademarks*, USPTO.GOV, <http://www.uspto.gov/faq/trademarks.jsp> (last modified Mar. 23, 2013).

¹⁷ *Id.*

¹⁸ See 15 U.S.C. § 1051(a) (2012) (outlining application requirements).

certain exceptions.¹⁹

Once the USPTO approves an application and issues the applicant a certificate of registration, that approval provides the registrant with several benefits: 1) notice to the public of the registrant’s claim of ownership of the mark; 2) a legal presumption of ownership nationwide, and the exclusive right to use the mark on or in connection with the goods or services set forth in the registration; 3) the ability to bring an action concerning the mark in federal court; 4) the use of the U.S. registration as a basis to obtain registration in foreign countries; 5) the ability to record the U.S. registration with the U.S. Customs and Border Protection (CBP) Service to prevent importation of infringing foreign goods; 6) the right to use the federal registration symbol (®); and 6) a listing in the USPTO’s online databases.²⁰ While the USPTO does not enforce the registrant’s rights to use that specific mark, the agency will generally attempt to ensure that no other party receives a federal registration for a similar mark used on related goods or services.²¹

Generally speaking, however, the Lanham Act only affords its owner protections within United States territories.²² Consequently, should a federal trademark holder wish to maintain these domestic protections abroad, that person must apply for trademark protections in each individual country or region, or hopelessly rely upon foreign enforcement of treaties between the United States and the country of origin for the infringing goods.²³ But U.S. courts have often held that international treaties, like the Paris Convention, are generally not self-executing, do not serve as valid U.S. law, and cannot be invoked by a plaintiff seeking redress in a U.S. court of law.²⁴

Notably, the USPTO kindly offers suggestions for individuals wishing to protect their intellectual property rights (IPR) abroad, including but not limited to:

- Working with legal counsel to develop an overall IPR protection strategy;
- Developing detailed IPR language for licensing and subcontracting contracts;
- Conducting due diligence of potential foreign partners (The U.S. Commercial Service can help, see Export.gov);
- Recording their U.S.-registered trademarks and copyrights with Customs

¹⁹ *Id.* § 1057(c).

²⁰ *Frequently Asked Questions About Trademarks*, *supra* note 16.

²¹ *Trademark Basics*, USPTO.GOV, <http://www.uspto.gov/trademarks/basics/index.jsp> (last modified Aug. 7, 2013).

²² *Office of Policy and External Affairs - Protecting Intellectual Property Rights (IPR) Overseas*, USPTO.GOV, <http://www.uspto.gov/ip/iprtoolkits.jsp> (last modified July 26, 2013). *See also* *Person’s Co. v. Christman*, 900 F.2d 1565, 1568–69 (Fed. Cir. 1990) (“The concept of territoriality is basic to trademark law; trademark rights exist in each country solely according to that country’s statutory scheme.”).

²³ *Protecting IPR Overseas*, *supra* note 22. Notably, the USPTO website provides several country-specific “toolkits” to aid the individual in beginning the foreign application process.

²⁴ *See* 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 29.25 (4th ed. 2012).

and Border Protection; and

- Securing and registering patents, trademarks, and copyrights in key foreign markets, including defensively in countries where IPR violations are common.²⁵

But while these suggestions may satisfy the USPTO's sense of altruism and philanthropy, they offer little in the way of protection for individual domestic rights abroad.²⁶ In fact, as of 2009, the United States only maintained bilateral, reciprocity agreements with eight other countries: China, Ethiopia, Germany, Greece, Ireland, Israel, Italy, and Japan.²⁷ As the legislative branch has no official power to regulate affairs abroad, this complicated task has, therefore, been left up to the judicial branch of the United States to protect intellectual property rights while contemporaneously balancing its power against infringements of foreign sovereignty.

B. Global Costs of Infringements upon Intellectual Property Rights

In 1998, the Organisation for Economic Co-Operation and Development (OECD) performed a study on the economic impact of counterfeiting by examining the costs to the property owner, the costs to the countries where the counterfeiting takes place, the costs where the counterfeits are sold, and the social costs.²⁸ The OECD attributed worldwide losses in the billions of U.S. dollars every year to counterfeiters and their production of counterfeit goods.²⁹ According to the estimates of a First Circuit judge, global piracy of American goods amounts to annual losses from unauthorized use of registered U.S. trademarks of roughly \$200 billion.³⁰

²⁵ *Protecting IPR Overseas*, *supra* note 22. See also *Frequently Asked Questions About Trademarks*, *supra* note 16.

²⁶ See JOHN C. YOO, DEPUTY ASSISTANT ATT'Y GEN., DEP'T OF JUSTICE, THE PRESIDENT'S CONSTITUTIONAL AUTHORITY TO CONDUCT MILITARY OPERATIONS AGAINST TERRORISTS AND NATIONS SUPPORTING THEM (2001), available at <http://www.justice.gov/olc/warpowers925.htm> (quoting Acting Attorney General John K. Richards: "The preservation of our territorial integrity and the protection of our foreign interests is intrusted [sic], in the first instance, to the President. . . . In the protection of these fundamental rights, which are based upon the Constitution and grow out of the jurisdiction of this nation over its own territory and its international rights and obligations as a distinct sovereignty, the President is not limited to the enforcement of specific acts of Congress. [The President] must preserve, protect, and defend those fundamental rights which flow from the Constitution itself and belong to the sovereignty it created.").

²⁷ Treaty of Friendship, Commerce and Navigation, U.S.-China, Nov. 4, 1946, 63 Stat 1299; Treaty of Amity and Economic Relations, U.S.-Eth., Sept. 7, 1951, 4 U.S.T. 2134; Treaty of Friendship, Commerce and Navigation, U.S.-Ger., Oct. 29, 1954, 7 U.S.T. 1839; Treaty of Friendship, Commerce and Navigation, U.S.-Greece, Aug. 3, 1951, 5 U.S.T. 1829; Treaty of Friendship, Commerce, and Navigation, U.S.-Ir., Jan. 21, 1950, 1 U.S.T. 785; Treaty of Friendship, Commerce and Navigation, U.S.-Isr., Aug. 23, 1951, 5 U.S.T. 550; Treaty of Friendship, Commerce and Navigation, U.S.-It., Feb. 2, 1948, 63 Stat. 2255; Treaty of Friendship, Commerce and Navigation, U.S.-Japan, Apr. 2, 1953, 4 U.S.T. 2063.

²⁸ ORG. FOR ECON. CO-OPERATION AND DEV., THE ECONOMIC IMPACT OF COUNTERFEITING 22-23 (1998), available at <http://www.oecd.org/industry/ind/2090589.pdf>.

²⁹ *Id.* at 22.

³⁰ *McBee v. Delica Co.*, 417 F.3d 107, 119 (1st Cir. 2005).

The obvious and most expensive costs to the property owner stem from the direct loss in sales.³¹ Unsuspecting consumers who purchase these counterfeit goods believing them to be the genuine product are left unsatisfied by the knock-off and the property owner is likewise left without the corresponding fruits of his labor. Additionally, the OECD calculates even further losses when accounting for the goodwill associated with the mark and enforcement of one’s intellectual property rights, should that option even be available.³²

The victimized country simultaneously suffers losses in the areas of direct foreign investment, or net inflows of investments by foreign investors into economies other than their own,³³ loss of foreign know-how, job loss, loss of foreign exchange, and tax revenues. Society, as a whole, also suffers losses due to the inferior quality of counterfeits, particularly those relating to health and safety, along with social costs of proceeds of counterfeits becoming invested in organized crime.³⁴ But arguably the most important loss to the producing country, one that cannot be really valued in any tangible sense, is the discouragement and disincentive of inventiveness in that particular country “since it deters honest producers from investing resources in new products and market development.”³⁵ This incalculable loss not only hinders present economic growth, but stymies future economic growth. The act of counterfeiting products in a foreign country and subsequently introducing those products into the country of the property owner forces those property owners to seek other avenues, including protections outside their home country, or simply discourages ingenuity and innovation altogether.³⁶

Granted, the United States can and does enjoin the sale of infringing goods within its borders,³⁷ but the injunction is only valid in the United States.³⁸ But with

³¹ ORG. FOR ECON. CO-OPERATION AND DEV., *supra* note 28, at 22.

³² *Id.*

³³ *Foreign Direct Investment, Net Inflows*, THE WORLD BANK, <http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD> (last visited Feb. 22, 2013).

³⁴ ORG. FOR ECON. CO-OPERATION AND DEV., *supra* note 28, at 23.

³⁵ *Id.* at 22–23.

³⁶ While the Lanham Act’s jurisdictional reach may not encompass all activities occurring outside U.S. borders, the Supreme Court in *Bulova* suggests that some purely foreign-based activities may, in fact, be covered. *See Steele v. Bulova Watch Co.*, 344 U.S. 280, 285–86 (1952). For example, assuming the elements of personal jurisdiction over the defendant are satisfied, a merchant in a foreign nation that labels its own goods with an infringing mark and imports those goods into the United States will, in all likelihood, trigger federal jurisdiction over such activities. *See, e.g., Norman M. Morris Corp. v. Weinstein*, 466 F.2d 137, 142 (5th Cir. 1972).

³⁷ *See* 15 U.S.C. § 1116(a) (“The several courts vested with jurisdiction of civil actions arising under this chapter shall have power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violation of any right of the registrant of a mark registered in the Patent and Trademark Office or to prevent a violation under subsection (a), (c), or (d) of section 1125 of this title.”).

³⁸ *See, e.g., Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 645 (2d Cir.1956) (denying injunctive relief for an American manufacturer alleging infringement of an American trademark by a Canadian mark and unfair competition from sales of infringing goods stating that “[a]n American citizen does not have an absolute right under all circumstances to sue in an American court”).

the inevitability of international infringements, the increases in globalization of consumer markets, and the now seamless free-flow of information, future silence by the Supreme Court on the issue of extraterritorial application may ultimately render any protections under the Lanham Act obsolete. For now, a trademark holder remains left with the variations of the holding from *Bulova* and its confusing progeny.

II. The Judicial Framework for Extraterritorial Application of the Lanham Act

A. The Current State of the Law

Given the sixty years since the *Bulova* decision and the drastic advances in complexity of technology and transmission of information, it comes as no surprise that several people take issue with the Supreme Court's silence. While the First, Second, Fifth, Ninth, and Eleventh Circuits have all adopted their own variations of the *Bulova* factors, the remaining circuits have simply piggy-backed onto one of these circuits' tests, or have decided individual cases on an ad hoc basis without putting forth any cohesive tests of their own.³⁹

As one commentator states:

The current law is diverse, confused, and rife with potential for forum shopping. Given the huge differences between these tests, including those used in the same circuit, plaintiffs can select the law under which their claims are most likely to succeed and to get the most extensive injunction. The only significant check on the ability to forum shop is obtaining jurisdiction over the defendant, but jurisdiction can probably be obtained in a variety of locations, given that the majority of international trademark disputes are likely between multinational corporations. A Supreme Court decision or an act of Congress is the only way to resolve this problem.⁴⁰

But the short-comings of the various tests mentioned, coupled with the silence on the issue by both Congress and the Supreme Court, leaves gaping holes in uniformity and predictability of an area of the law begging for modernization.

The following matrix attempts to provide the current state of affairs for the law:⁴¹

³⁹ See Gary D. Feldon, Comment, *The Antitrust Model of Extraterritorial Trademark Jurisdiction: Analysis and Predictions After F. Hoffmann-La Roche*, 20 EMORY INT'L L. REV. 651, 671 (2006) (explaining the differences in tests adopted by various circuit courts).

⁴⁰ *Id.* at 673 (citation omitted).

⁴¹ See *id.* at 672-73. Special thanks to Mr. Gary D. Feldon for creating this table. This author has added the nationality of the parties to the table, as he believes it further provides a context for the bifurcated analyses from the court in *McBee* and the author's suggestion in Section III.B, *infra*.

Circuit	Case Name	Nationality of Parties		Degree of Effect on US Commerce	Structure of Test	Separate Comity Inquiry
		Π	Δ			
1st	<i>McBee</i> ⁴²	U.S.	Jap.	U.S. defendant = some or none; Foreign defendant = substantial	3-part conjunctive	Yes
2nd	<i>Vanity Fair</i> ⁴³	U.S.	Can.	Substantial	3-element balancing	No
5th	<i>American Rice</i> ⁴⁴	U.S.	U.S.	Some	3-element balancing	No
9th	<i>Wells Fargo</i> ⁴⁵	U.S.	U.S.	Some	7-element balancing	No
11th	<i>Levi Strauss</i> ⁴⁶	U.S.	U.S.	Substantial	3-element balancing	Maybe

As one can see, these many interpretations of the Supreme Court’s intent in *Bulova* regarding when the Lanham Act applies extraterritorially have been anything but uniform in their approach. This diversity of judicial opinion on the issue provides very little in the way of predictability and certainty as to when the Lanham Act applies extraterritorially, and frustrates federal trademark holders seeking recourse for alleged infringing activities. The following case analyses explain the various shortcomings of the approaches mentioned, *supra*, and why this issue should be revisited by the Supreme Court.

B. The Supreme Court’s Approach: *Steele v. Bulova Watch Co.*

While Congress did not expressly prescribe federal jurisdiction to extraterritorial claims of infringement, the Supreme Court, for the first time in *Steele v. Bulova Watch Co.*, resolved the jurisdictional short-coming by providing the proper framework for reviewing courts to analyze the extent of the Lanham Act’s reach.⁴⁷

Despite facing significantly less-globalized market conditions in 1952 as

⁴² *McBee v. Delica Co.*, 417 F.3d 107, 110-11 (1st Cir. 2005).

⁴³ *Vanity Fair*, 234 F.2d at 642.

⁴⁴ *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass’n*, 701 F.2d 408, 417 (5th Cir. 1983).

⁴⁵ *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406, 425–26, 428 (9th Cir. 1977).

⁴⁶ *Levi Strauss & Co. v. Sunrise Int’l Trading Inc.*, 51 F.3d 982, 985 (11th Cir. 1995).

⁴⁷ 344 U.S. 280, 283 (1952) (“The Lanham Act . . . confers broad jurisdictional powers upon the courts of the United States.”).

compared with today, the Supreme Court has failed to readdress the issue of extraterritoriality since *Bulova* in a manner that takes into account the technological advances in communications and free-flow of information. Instead, what the courts are left with are individual and distinct circuit court variations of the factor test from *Bulova*, which, in turn, leaves behind a muddled area of the law facing increasingly-complex fact scenarios.

Writing for a 6-2 majority, Justice Thomas C. Clark began his opinion in *Bulova* with a review of the expressed intent of the Lanham Act, specifically noting the broad delegation of jurisdictional powers upon the United States courts:

The intent of this Act is to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce; to protect registered marks used in such commerce from interference by State, or territorial legislation; to protect persons engaged in such commerce against unfair competition; to prevent fraud and deception in such commerce by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks; and to provide rights and remedies stipulated by treaties and conventions respecting trademarks, trade names, and unfair competition entered into between the United States and foreign nations.⁴⁸

As Justice Clark poignantly notes, the Lanham Act further defines “commerce” as “all commerce which may lawfully be regulated by Congress.”⁴⁹ Accordingly and ignoring any possibility of a presumption against extraterritoriality,⁵⁰ Justice Clark instead relied on seemingly limitless statutory language to provide a cause of action against trademark infringement activities merely occurring in or affecting *all* “commerce within the control of Congress.”⁵¹ Notably, and to the detriment of lower courts, the *Bulova* Court, like Congress, failed to specifically define what acts of “commerce” would trigger extraterritorial jurisdiction under the Lanham Act.

In *Bulova*, the defendant, Steele, conducted a counterfeit watch business in Mexico City.⁵² Without *Bulova*’s permission, Steele assembled and sold watches in Mexico containing the U.S.-registered trademark name “BULOVA,” which subsequently prompted *Bulova* to file suit in the Western District of Texas. As part of its claims for trademark infringement, *Bulova* sought injunctive and monetary relief under the Lanham Act against Steele and his corporation.⁵³ Steele countered with a challenge to a lack of subject-matter jurisdiction by the federal courts, claiming that not only did he have valid pending legal proceedings regarding a valid registration of the mark in Mexico, but moreover that the complained of

⁴⁸ 15 U.S.C. § 1127 (2012), quoted in *Bulova*, 344 U.S. at 283–84.

⁴⁹ 15 U.S.C. § 1127, quoted in *Bulova*, 344 U.S. at 284.

⁵⁰ *Contra* Morrison v. Nat’l Austl. Bank Ltd., 130 S. Ct. 2869, 2877–78 (2010) (“‘[U]nless there is the affirmative intention of the Congress clearly expressed’ to give a statute extraterritorial effect, ‘we must presume it is primarily concerned with domestic conditions.’ . . . When a statute gives no clear indication of an extraterritorial application, it has none.” (quoting *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991))).

⁵¹ *Bulova*, 344 U.S. at 283–84, 286.

⁵² *Id.* at 281.

⁵³ *Id.* at 281–82.

conduct “substantially related solely to acts done and trade carried on under full authority of Mexican law, and were confined to and affected only that nation’s internal commerce, [and therefore] (the District Court) was without jurisdiction to enjoin such conduct.”⁵⁴

Despite the fact that most of the infringing activities may have occurred outside the U.S. borders, the Court broadly interpreted the Congressional language of the Lanham Act to confer jurisdiction to federal courts in two ways: 1) prescriptive jurisdiction under Congress’s explicit powers to regulate “the conduct of its own citizens,” including extraterritorial conduct;⁵⁵ and 2) Congress’s implicit powers to regulate foreign commerce (although the Foreign Clause is not cited), when the defendant’s conduct has an impact on commerce within the United States.⁵⁶ As such, the Court submitted a list of three factors it would use to determine extraterritorial application of the Lanham Act: (1) whether the defendant’s conduct outside of the United States had a potentially adverse effect on commerce in the United States; (2) the U.S. citizenship of the defendant; and (3) whether issuing an injunction would infringe on the sovereignty of the nation within which the alleged infringing conduct occurred.⁵⁷

Applying this test to the facts, the Court permitted application of the Lanham Act because *Bulova*—one of the largest watch manufacturers in the world at that time—advertised and distributed its marked “BULOVA” watches throughout the United States and other foreign countries, including Mexico; Steele, a resident of San Antonio, Texas, had worked in the watch-making business in the United States since 1922; upon knowledge that the name “Bulova” had not been registered in Mexico, Steele moved his business to Mexico and applied to register the mark in Mexico; and, finally, Mexican courts had nullified the registration of that mark under Steele’s name, thereby negating any infringement upon Mexican sovereignty, with the issuance of an injunction.⁵⁸

Justices Reed and Douglas provided a sharp dissenting opinion by arguing against the broad authority of the Act to regulate “all commerce which may

⁵⁴ *Id.* at 282 (quoting the dissenting judge on Court of Appeals).

⁵⁵ *Id.* at 285–86; *McBee v. Delica Co.*, 417 F.3d 107, 118 (2d Cir. 2005) (“This doctrine is based on an idea that Congressional power over American citizens is a matter of domestic law that raises no serious international concerns, even when the citizen is located abroad.”). *See also* RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW § 402(2) (1987) (“[A] state has jurisdiction to prescribe law with respect to . . . the activities . . . of its nationals outside as well as within its territory.”).

⁵⁶ *See Bulova*, 344 U.S. at 287 (“[W]e do not think that petitioner by so simple a device can evade the thrust of the laws of the United States in a privileged sanctuary beyond our borders.”).

⁵⁷ *Nintendo of Am., Inc. v. Aeropower Co.*, 34 F.3d 246, 250 (4th Cir. 1994) (citing *Bulova*, 344 U.S. at 285–86, 89).

⁵⁸ *Bulova*, 344 U.S. at 284–86, 89. Notably, the Court held the facts satisfied the third factor because the Mexican courts nullified the registration of that mark to Mr. Steele. While this is not a major factor in *Bulova*, various Circuits have addressed that scenario and denied extraterritorial application of the Act on this factor, alone.

lawfully be regulated by Congress.”⁵⁹ Their dissent claimed that because Steele did not actually commit his illegal acts inside U.S. territory, but instead simply purchased unfinished watch materials in the United States and stamped the “BULOVA” mark on the counterfeit watches while on Mexico soil, that Steele’s actions were not within the Congressional authority to regulate such activities.⁶⁰ This narrow reading of the Act,⁶¹ however, simply failed due to the dissent’s own admission that Steele purchased many of the assembly materials in the United States (albeit a legal act in and of itself), which then triggered Congress’s Foreign Commerce Clause powers.⁶² As a result, the district court had jurisdiction to hear Bulova’s claims against Steele.

While *Bulova* remains the benchmark case for extraterritorial application of the Lanham Act, its simplistic and antiquated holding provides little in the way of modern application with respect to vastly more complex and modernized infringement schemes. But, in *Bulova*, jurisdiction over Steele’s activities applied because of a relatively straight-forward set of facts: (1) Mr. Steele was a United States citizen; (2) he was served with process in San Antonio, Texas; and (3) he purchased manufacturing materials in the United States.

As shown by cases like *McBee v. Delica Co.*,⁶³ these infringement schemes since *Bulova* have indeed become vastly more complex and difficult to police. Conversely, the relatively straightforward set of facts seen in *Bulova* provides little in the way of guidance regarding when the Lanham Act applies extraterritorially, and further fails to account for the complex nature of counterfeiting schemes found in today’s significantly more globalized marketplace. Nevertheless, the fact clearly remains that the Supreme Court’s silence since 1952 has left interpretations of applicability to the circuits and federal trademark owners vastly confused.⁶⁴

⁵⁹ *Id.* at 289–90 (Reed, J. & Douglas, J. dissenting) (“The canon of construction which teaches that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States is a valid approach whereby unexpressed congressional intent may be ascertained.” (citations omitted)).

⁶⁰ *Id.* at 291–92.

⁶¹ *Id.* at 290.

⁶² See U.S. CONST. art. I, § 8, cl. 3. See also *Veazie v. Moor*, 55 U.S. 568, 573 (1852) (“Commerce with foreign nations, must signify commerce which in some sense is necessarily connected with these nations, transactions which either immediately, or at some stage of their progress, must be extraterritorial.”).

⁶³ *McBee v. Delica Co.*, 417 F.3d 107 (2d Cir. 2005).

⁶⁴ As the Fourth Circuit suggested in *Nintendo*, the *Bulova* case may have actually overstepped Congressional regulatory authority and limitations by regulating extraterritorial conduct “[b]ecause [Congressional] power is more extensive under the Lanham Act than under the Copyright Act”—another preliminary question that may also need answering by a modern-day Supreme Court. See *Nintendo of Am., Inc. v. Aeropower Co.*, 34 F.3d 246, 249 (4th Cir. 1994). But some critics, like Professor Roger Schechter of George Washington University, suggest that this expansive view may actually be a good thing considering that, unlike patent and copyright laws, the harm from trademark infringement outside the United States has the potential to impact the value and domestic reputation of the mark in the United States. See generally Roger E. Schechter, Comment, *The Case for Limited Extraterritorial Reach of the Lanham Act*, 37 VA. J.

C. The Second Circuit: *Vanity Fair Mills v. Eaton Co.*

In *Vanity Fair Mills*, the Second Circuit applied *Bulova* in the context of an infringement scheme involving a corporation.⁶⁵ The plaintiff, Vanity Fair Mills, Inc. (Vanity Fair), held its validly registered U.S. trademark, “VANITY FAIR,” since 1914, and had conducted business in Canada since 1917.⁶⁶ Conversely, the defendant was a Canadian corporation, which claimed priority rights to a valid, yet identical, Canadian trademark.⁶⁷ Suit was initiated by Vanity Fair when, after ceasing use of its own Canadian trademark for nearly ten years, the defendant resumed use of its mark and simultaneously sold Vanity Fair’s branded merchandise in Canadian markets.⁶⁸

In expanding upon the analysis from *Bulova*, specifically, with regard to congressional powers to regulate “commerce,” the Second Circuit stated that “[w]hile Congress has no power to regulate commerce in the Dominion of Canada, it does have power to regulate commerce ‘with foreign Nations, and among the several States.’”⁶⁹ As such, the Second Circuit explained that Congress did not have the power to regulate actions taking place solely within Canada’s borders; but, should those actions have a “substantial effect on commerce between . . . the United States and foreign countries,” then such actions did fall within Congress’ regulatory powers.⁷⁰ Consequently and unlike *Bulova*, the Second Circuit denied extraterritorial application of the Lanham Act under this specific set of facts because it did not believe “that Congress intended that the infringement remedies provided in [the Lanham Act] should be applied to acts committed by a foreign national in his home country under a presumably valid trademark registration in that country.”⁷¹

While *Vanity Fair* may have narrowly construed the Supreme Court’s holding in *Bulova*, the Second Circuit’s most notable contribution came in the form of an official, yet slightly modified, adoption of the *Bulova* factors.⁷² Rather than just simply state the factors as the *Bulova* opinion had done, the Second Circuit chose to utilize a three-factor balancing test to determine extraterritorial application of the Lanham Act by reviewing whether: “(1) the defendant’s conduct had a substantial effect on United States commerce; (2) the defendant was a United States citizen and the United States has a broad power to regulate the conduct of its citizens in foreign

INT’L L. 619 (1997).

⁶⁵ *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633 (2d Cir. 1956).

⁶⁶ *Id.* at 637.

⁶⁷ *Id.* Notably, in 1919, Vanity Fair sought to register its trademark in Canada, but the application was denied due to the prior registration of the defendant. *Id.* at 638.

⁶⁸ *Id.*

⁶⁹ *Id.* at 641 (quoting U.S. CONST. art. 1, § 8, cl. 3) (“This power is now generally interpreted to extend to all commerce, even intrastate and entirely foreign commerce, which has a substantial effect on commerce between the states or between the United States and foreign countries.”).

⁷⁰ *Id.* at 641–42.

⁷¹ *Vanity Fair*, 234 F.2d at 642.

⁷² *Id.* at 642–43.

countries; and (3) there was no conflict with trademark rights established under the foreign law.”⁷³ In its analysis, however, the Second Circuit held that only one of the *Bulova* factors was present⁷⁴—the defendant’s conduct had a “substantial effect” on United States commerce.⁷⁵ As a result, the court dismissed the plaintiff’s request for injunctive relief by denying extraterritorial application of the Lanham Act.⁷⁶

But the Second Circuit’s analysis contained a major flaw, as the court provided no formal explanation or definition of what exactly constituted a “substantial effect” on U.S. commerce.⁷⁷ Perhaps this omission was simply due to the court’s indifference on the issue because the other elements were unsatisfied by the facts. Notwithstanding that possibility, this blatant omission has become a major source of contention amongst the several circuits regarding exactly how much of an “effect” on U.S. commerce is actually needed, and has left the decision up to them when deciding extraterritorial application of the Lanham Act.⁷⁸

In addition to the Second Circuit’s obvious shortcomings in the “substantial effect” analysis, its formal endorsement of the *Bulova* factors likewise fails to

⁷³ *Id.*

⁷⁴ *Id.* The court entertained the notion that the citizenship factor could have been satisfied because the defendant had a corporate office in New York City that employed U.S. citizens. However, because the officers and directors who directed corporate affairs were Canadian citizens and the plaintiff brought the lawsuit against those individuals, the second factor was not satisfied on these facts. *Id.*

⁷⁵ *Id.* Interestingly enough, the court provides no formal analysis or guidance for reviewing courts to assess this factor. This point of contention, regarding how much of an “effect” is actually needed, has been left to subsequent circuit opinions utilizing the Second Circuit test. Consequently, it appears that the Second Circuit is at the very least requiring calculable economic losses to occur inside the United States itself, in order to apply the Lanham Act extraterritorially. See also *Totalplan Corp. of Am. v. Colborne*, 14 F.3d 824, 830–31 (2d Cir. 1994) (holding that there is no substantial effect when plaintiff fails to show that any of the cameras sold by defendant in Japan made their way back to the United States, that the cameras caused confusion among American, or that any of plaintiff’s foreign sales were diverted by defendant’s Japanese sales). See also *Calvin Klein Indus. v. BFK Hong Kong, Ltd.*, 714 F. Supp. 78, 80 (S.D.N.Y. 1989) (holding that a mere diversion of sales from an American company constituted a substantial effect).

⁷⁶ *Vanity Fair*, 234 F.2d at 647–48 (“[W]e do not think it the province of United States district courts to determine the validity of trademarks which officials of foreign countries have seen fit to grant. To do so would be to welcome conflicts with the administrative and judicial officers of the Dominion of Canada. We realize that a court of equity having personal jurisdiction over a party has power to enjoin him from committing acts elsewhere. But this power should be exercised with great reluctance when it will be difficult to secure compliance with any resulting decree or when the exercise of such power is fraught with possibilities of discord and conflict with the authorities of another country.” (citations omitted)).

⁷⁷ *Id.* at 642–43.

⁷⁸ It appears that the Second Circuit is at the very least requiring calculable economic losses to occur inside the United States, itself, in order to apply the Lanham Act extraterritorially. See *Totalplan*, 14 F.3d at 830–31 (holding no substantial effect when plaintiff fails to show that any of the cameras sold by defendant in Japan made their way back to the United States, that the cameras caused confusion among Americans, or that any of plaintiff’s foreign sales were diverted by defendant’s Japanese sales). See also *Calvin Klein*, 714 F. Supp. at 80 (holding that a mere diversion of sales from an American company constituted a substantial effect).

provide the full protections necessary under the Lanham Act—mainly because the Second Circuit test appears to completely dismiss the notion that non-U.S. citizens are subject the Lanham Act’s provisions.⁷⁹ This limitation is a substantial blow to the protections sought by federal trademark holders today as it hinders their ability to prosecute foreign offenders. Arguably United States citizens wishing to manufacture counterfeit goods can simply hide behind the veil of foreign sovereignty by renouncing their U.S. citizenship—a consequence the Supreme Court surely did not wish to occur after *Bulova*. As a result, harmed plaintiffs must either forum-shop for more favorable tests regarding extraterritorial applications of the Lanham Act, simply allow the international infringement activity to continue, or attempt to take costly action in a foreign jurisdiction.⁸⁰

D. The Fifth Circuit: *American Rice v. Arkansas Rice Growers Cooperative Association*

The Fifth Circuit, in *American Rice, Inc. v. Arkansas Rice Growers Coop. Ass’n*, placed its own spin on the Second Circuit’s test by utilizing the three factors as individually-analyzed elements of a balancing test.⁸¹

In *American Rice*, both the plaintiff, American Rice (ARI), and the defendant, Arkansas Rice (Riceland), were United States corporations that processed, milled, packaged, and marketed rice in Saudi Arabia; however, neither owned a valid trademark in Saudi Arabia.⁸² At the time of the request for injunctive relief, ARI owned two federal registrations for a trademark with the distinctive design of a girl, and Texas state trademark registrations in both English and Arabic of the word mark “Abu Bint” (translated to English as “of the girl,” or “girl brand”)—a mark it had used since 1975.⁸³ In 1974, Riceland entered into an agreement with a Saudi merchant to began marketing for a similar product containing the marks “Abu

⁷⁹ See *Vanity Fair*, 234 F.3d at 641–42. In fact, the Second Circuit rejected the plaintiff’s assertion that the *Bulova* analysis was even applicable to this case because, under its interpretation, the Supreme Court’s holding rested squarely on the fact that Congress had the power to regulate the conduct of its own citizens—and the defendant, in this case, was not an American citizen. *Id.* at 642–43 (“We do not think that the *Bulova* case lends support to plaintiff; to the contrary, we think that the rationale of the Court was so thoroughly based on the power of the United States to govern ‘the conduct of its own citizens upon the high seas or even in foreign countries when the rights of other nations or their nationals are not infringed,’ that the absence of one of the above factors might well be determinative and that the absence of both is certainly fatal.” (citation omitted)).

⁸⁰ Only one other circuit, the Fifth Circuit, appears to adopt the basic structure of the *Vanity Fair* test. See *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass’n*, 701 F.2d 408, 414 (5th Cir. 1983). But as Subsection B, *infra*, will address, the Fifth Circuit’s test is still not a full adoption of *Vanity Fair*. The Fourth Circuit, in *Nintendo*, has a slightly varied rendition of Second Circuit’s three-factor test that raises the bar on the first factor to require what it has defined as a “significant effect” on United States commerce. See *Nintendo of Am., Inc. v. Aeropower Co.*, 34 F.3d 246, 250 (4th Cir. 1994). Additionally, the Fourth Circuit decided that the absence of two of the tripartite factors is fatal to a finding of the Lanham Act’s foreign applicability. *Id.* at 251.

⁸¹ 701 F.2d at 414.

⁸² *Id.* at 410.

⁸³ *Id.* at 411.

Binten” (or “twin girl”), and “Bint-al-Arab” (or “daughter of the Arabs”)—both of which employed a red, yellow, and black color scheme similar to ARI’s color scheme.⁸⁴ ARI subsequently filed suit in 1981 alleging violations of common law trademark infringement, violations of the Lanham Act, false designations of origin in violation of 15 U.S.C. § 1125(a), and deceptive trade practices in violation of the Texas Deceptive Trade Practice Act.⁸⁵

In adopting the Second Circuit’s three-part factor test, the Fifth Circuit further explained that “[t]he absence of any one of these [factors] is not dispositive. Nor should a court limit its inquiry exclusively to these considerations. Rather, these factors will necessarily be the primary elements in any balancing analysis.”⁸⁶ Due to the substantial likelihood of confusion of Riceland’s mark with that of ARI’s, the presence of two U.S. corporations, and Riceland’s inability to establish a valid Saudi Arabian mark, the court held the Lanham Act applicable under the three-part test.⁸⁷ Moreover, the Fifth Circuit proclaimed that Congress has the power to prevent unfair trade practices in foreign commerce by citizens of the United States, even if those practices were limited to sales outside of the United States.⁸⁸

However, of significant importance to this case, the Fifth Circuit rejected the “substantial effect” test from the first factor analyzed in *Vanity Fair*, instead employing its own “some effect” test.⁸⁹ This subtle difference from *Vanity Fair* appears to directly contradict what the Second Circuit was trying to prevent in denying application to attenuated effects from the infringing activity.⁹⁰ Likewise, the Fifth Circuit may be trying to suggest that extraterritorial application of the Lanham Act only applies to situations where *both* the plaintiff and defendant are U.S.-based companies—but the Fifth Circuit never expressly limits its analysis as such.⁹¹

⁸⁴ *Id.* at 411–12 (“Even before the [infringing] mark was introduced, evidence admitted at the hearing showed that Saudi Arabian merchants, longshoremen, and consumers occasionally confused the defendant’s Bint al-Arab brand with the plaintiff’s Abu Bint rice. Riceland bags were shipped to and accidentally mixed with ARI bags at a merchant’s warehouse. And one witness testified that he heard the owner of the Bint al-Arab mark, Alamoudi, attempt to tell a customer looking for Abu Bint that Bint al-Arab was the same rice.”).

⁸⁵ *Id.* at 412.

⁸⁶ *Id.* at 414 (citations omitted).

⁸⁷ *Am. Rice*, 701 F.2d at 417–18.

⁸⁸ *Id.* at 416.

⁸⁹ *Id.* at 414 n.8 (“We agree with the Ninth Circuit that *Bulova* contains no such requirement, and that *some* effect may be sufficient. As the Court noted in *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d at 428, ‘since the origins of the “substantiality” test apparently lie in the effort to distinguish between intrastate commerce, which Congress may not regulate as such, and interstate commerce, which it can control, it may be unwise blindly to apply the factor in the area of foreign commerce over which Congress has exclusive authority.’”).

⁹⁰ *Vanity Fair Mills, Inc., v. T. Eaton Co.*, 234 F.2d 633, 642 (2d Cir. 1956) (“[W]e do not think that Congress intended that the infringement remedies . . . should be applied to acts committed by a foreign national in his home country under a presumably valid trademark registration in that country.”).

⁹¹ In fact, the Fifth Circuit questioned the *American Rice* holding several years later on this very

As a result, should reviewing courts elect to adopt the Fifth Circuit’s “some effect” analysis and ignore the “substantial effect” requirement from *Vanity Fair*, it has the potential to open the proverbial flood gates for truly litigious plaintiffs to bring claims in which no calculable economic effect in the United States is necessary.⁹²

E. The Ninth Circuit: *Wells Fargo & Co. v. Wells Fargo Express Co.*

Much like the Fifth Circuit, the Ninth Circuit created yet another rendition of the “some effect” test, in *Wells Fargo & Co. v. Wells Fargo Express Co.*, when it adopted a test utilized in the antitrust context to analyze extraterritorial application of the Lanham Act.⁹³ In order for the Act to apply, the Ninth Circuit weighs seven elements—i.e., four more than either the Second or Fifth Circuits: 1) the degree of conflict with foreign law or policy, 2) the nationality or allegiance of the parties and the locations or principal places of business of corporations, 3) the extent to which enforcement by either state can be expected to achieve compliance, 4) the relative significance of effects on the United States as compared with those elsewhere, 5) the extent to which there is explicit purpose to harm or affect American commerce, 6) the foreseeability of such effect, and 7) the relative importance to the violations charged of conduct the United States as compared with conduct abroad.⁹⁴

But much like the Fifth Circuit, this holistic approach also appears to contain the same shortcomings in its analysis mainly due to the relatively low “some effect” threshold necessary to trigger subject-matter jurisdiction under the Act.⁹⁵ Moreover,

basis when it suggested the *American Rice* holding may even extend the jurisdictional reach of the Lanham Act to situations where no effect on United States commerce would be necessary. See *Paulsson Geophysical Servs., Inc. v. Sigmar*, 529 F.3d 303, 307 (5th Cir. 2008) (“The language of *Bulova* and *American Rice* suggests that a district court may have jurisdiction over Lanham Act claims against United States citizens properly before it where there is no interference with a foreign nation’s sovereignty, regardless of the effect on United States commerce.”). Notably, the Fifth Circuit permitted extraterritorial application in *American Rice* despite the fact that none of the examined sales occurred inside the United States. *Am. Rice*, 701 F.2d at 414–16.

⁹² This point is further analyzed in the analysis of *McBee* in Section III, *infra*.

⁹³ 556 F.2d 406, 427–28 (9th Cir. 1977). *But see* 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARK § 1.24 (4th ed. 2012) (asserting that acts of unfair competition are not necessarily antitrust violations).

⁹⁴ *Wells Fargo*, 556 F.2d at 428–29 (applying the jurisdictional “rule of reason” from *Timberlane Lumber Co. v. Bank of Am.*, 549 F.2d 597, 614–15 (9th Cir. 1976)). As one commentator points out, “[A] majority of the factors in the Wells Fargo test have analogues in section 403 of the Restatement.” *Feldon*, *supra* note 39, at 690–91 (alluding to RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW § 403 (1987)).

⁹⁵ In *Reebok Int’l, Ltd. v. Marnatech Enters, Inc.*, 970 F.2d 552, 555 (9th Cir. 1992), the Ninth Circuit later elaborated on what type of effect would satisfy the “some effect” test—activities that “affect American foreign commerce in a manner which causes an injury to [the plaintiff] cognizable under the Lanham Act.” *Id.* This incredibly low threshold seems to imply that, as was the case in *Reebok*, extraterritorial application of the Lanham Act would be permitted simply where the sale price of the good decreased in a foreign market or the stock prices of the plaintiff decreased. *Id.* Such a low threshold seems too speculative, as many other factors could cause such events to happen. Consequently, this author joins the stance of the First Circuit in maintaining that a “substantial effect” on United States Commerce is necessary to trigger Lanham

the Ninth Circuit's test retains the ad hoc nature of the Second Circuit's test, which can leave too much room for judicial activism, and does very little in terms of providing guidance or uniformity for reviewing courts to decide extraterritorial application of the Act, or even discouraging forum-shopping.⁹⁶

III. A Model Approach: The First Circuit in *McBee v. Delica Co.*

In what may be the most cogent analysis of the extraterritorial application of the Lanham Act, the First Circuit in *McBee v. Delica Co.*, provides an ideal model upon which the Supreme Court should base its own analysis in the event it decides to ever revisit *Bulova*. The analysis that follows explains the complexities the First Circuit dealt with, and then examines why this approach could be ideal for today's modern trademark infringement schemes.

A. The Case—*McBee v. Delica Co.*

In *McBee*, Cecil McBee, a well-known jazz musician and American citizen, sought to hold the defendant, Delica Co., Ltd., a Japanese corporation, responsible for activities in Japan that allegedly harmed McBee's reputation in both Japan and the United States.⁹⁷ Delica had adopted the name "Cecil McBee" for an adolescent female clothing line, which Delica marketed both in Japan and on its website.⁹⁸ McBee had never licensed or authorized the use of his name to anyone, except, as he claimed, "in direct connection with his musical performances,"—such as an album.⁹⁹ After several failed requests to cease the sales and production of goods containing the "Cecil McBee" moniker, McBee filed suit under the Lanham Act requesting injunctive relief, damages, and attorney's fees.¹⁰⁰

The series of events leading up to this lawsuit demonstrate the exact complexity faced by Lanham Act plaintiffs and the great lengths to which infringers will go to avoid suit in the United States:

In 1995, plaintiff McBee became aware that Delica was using his name, without his authorization, for a line of clothing in Japan. He contacted an American lawyer, who advised him that Delica was unlikely to be subject to personal jurisdiction in the United States. McBee retained a Japanese attorney, who sent a letter to Delica asking it to cease using the "Cecil McBee" name. When Delica declined, McBee petitioned the Japanese Patent Office to invalidate Delica's English-language trademark on "Cecil McBee."

On February 28, 2002, the Japanese Patent Office ruled Delica's trademark in Japan invalid. However, Delica appealed to the Tokyo High Court, which on December 26, 2002, vacated the decision of the Japanese Patent Office. . . .

Act protections. See *McBee v. Delica Co.*, 417 F.3d 107, 111 (1st Cir. 2005).

⁹⁶ See Feldon, *supra* note 39, at 668 ("This manner of interrelating the factors considered for extraterritorial jurisdiction under the Lanham Act has proven popular among a number of circuits, although the actual elements of the *Wells Fargo* test have not.").

⁹⁷ 417 F.3d at 111.

⁹⁸ *Id.*

⁹⁹ *Id.* at 112. In McBee's own words, he sought to "have [his] name associated only with musical excellence." *Id.*

¹⁰⁰ *Id.* at 115.

In early 2002, Delica formulated a policy not to sell or ship “Cecil McBee” brand products to the United States and informed its managers throughout the company. Delica’s admitted reason for this policy was to prevent McBee from being able to sue Delica in the United States.

. . . From December 2001 through early 2003, McBee retained three Japanese-speaking investigators to attempt to purchase “Cecil McBee” products from Delica and have them shipped to Maine. . . . One initially, in December 2001, contacted the webmaster of <http://www.cecilmcbee.net> by email, asking about certain jewelry displayed on the website; that webmaster referred the investigator to the “Cecil McBee” retail shops in Japan for further information, but noted that at that time only domestic shipping was available.

The investigators then used the telephone numbers on the <http://www.cecilmcbee.net> website to contact various “Cecil McBee” retail stores in Japan directly. The investigators made it clear that they were residents of the United States inquiring about purchasing “Cecil McBee” goods. When the investigators requested an opportunity to buy merchandise and have it shipped to them in Maine, some stores stated that this could not be done, some of the stores worked out an arrangement whereby they would ship to an address in Japan but the investigator would then arrange to have the products forwarded to Maine, and some of the stores, at various times, shipped directly to the investigators in Maine. The total value of “Cecil McBee” merchandise purchased by these three investigators—including both goods shipped directly to Maine by Delica and goods shipped via the indirect method—was approximately \$2,500.¹⁰¹

In its review of this complex and befuddling fact-pattern, the First Circuit created its own test for extraterritorial application of the Lanham Act by expressly deviating from the *Vanity Fair* court in two major ways: 1) instead of including the “substantial effects” inquiry as part of a three-part balancing test, the First Circuit disaggregated the elements into conjunctive independent analyses;¹⁰² and 2) instead of including comity considerations as part of its analysis, the First Circuit precluded extraterritorial application of the Lanham Act only when statute or ratified treaty expressly provided.¹⁰³

Drawing upon the antitrust context from *Hartford Fire Insurance Co. v. California*,¹⁰⁴ the First Circuit provided the following test to determine extraterritorial application of the Act:

Our framework asks first whether the defendant is an American citizen; that inquiry is different because a separate constitutional basis for jurisdiction exists for control of activities, even foreign activities, of an American citizen. Further, when the Lanham Act plaintiff seeks to enjoin sales in the United States, there is no question of extraterritorial application; the court has subject matter jurisdiction.

In order for a plaintiff to reach foreign activities of foreign defendants in American courts, however, we adopt a separate test. We hold that subject matter jurisdiction under the Lanham Act is proper only if the complained-of activities have a substantial effect on United States commerce, viewed in light of the purposes of the Lanham Act. If this “substantial effects” question is answered in the negative, then the court lacks jurisdiction over the defendant’s extraterritorial acts; if it is answered in the affirmative, then the court

¹⁰¹ *Id.* at 113.

¹⁰² *Id.* at 121.

¹⁰³ *McBee*, 417 F.2d at 121 (“We disagree and do not see why the scope of Congressional intent and power to create jurisdiction under the Lanham Act should turn on the existence and meaning of foreign law.”).

¹⁰⁴ 509 U.S. 764 (1993).

possesses subject matter jurisdiction.

We reject the notion that a comity analysis is part of subject matter jurisdiction. Comity considerations, including potential conflicts with foreign trademark law, are properly treated as questions of whether a court should, in its discretion, decline to exercise subject matter jurisdiction that it already possesses.¹⁰⁵

Using this test, the First Circuit granted jurisdiction over McBee's request for injunctive relief against any future importation by the United States of goods carrying his name.¹⁰⁶ But notably, the only factual predicate for granting this relief rested upon the \$2,500 of "Cecil McBee" goods that McBee's investigators were able to import into the state of Maine. McBee did not present any other evidence of sales containing the infringing mark—an apparent endorsement of the Fifth and Ninth Circuit's "some effects" tests.¹⁰⁷ As for McBee's request for injunctive relief barring access to Delica's website in the United States, the court denied such request based upon the grounds that the court lacked subject-matter jurisdiction, declaring it only to have been appropriate if McBee could have shown a "substantial effect" on United States commerce.¹⁰⁸ Likewise, despite having only mere access to the Japanese-hosted website, McBee failed to provide the court with any substantial effect to United States commerce beyond mere visibility of the website to a United States citizen.¹⁰⁹ Accordingly, any injunctive relief beyond domestic sales was denied, as McBee's request for damages stemming from Delica's sales in Japan failed for lack of "substantial effects" on commerce in the United States.¹¹⁰

¹⁰⁵ *McBee*, 417 F.3d at 111.

¹⁰⁶ *Id.* at 123.

¹⁰⁷ *Id.* at 122. This relatively low threshold of \$2,500 seems puzzling, at best, especially considering the court's continued insistence that the effect be "substantial" in nature to warrant extraterritorial application. Judge Lynch addresses any critics of the \$2,500 figure when he states: "Since sales in the United States are domestic acts, McBee need not satisfy the 'substantial effect on United States commerce' test for this claim; jurisdiction exists because, under the ordinary domestic test, the \$2,500 worth of goods sold by Delica to McBee's investigators in the United States were in United States commerce, at least insofar as some of those goods were shipped directly by Delica to the buyers in the United States." *Id.* Granted the United States does have the power to enjoin such sales, regardless of the "substantial effects" test, but the analytical preface Judge Lynch provides leading up to this part in the opinion possibly renders his words superfluous, at least in the context of domestic injunctive relief. In fact, Judge Lynch justifies his circumvention of the "substantial effects" test by analogizing to the Sherman Act, which, according to Judge Lynch, exempts "import trade or commerce" from the extraterritoriality effects test. *Id.* See also *Carpet Grp. Int'l v. Oriental Rug Imps. Ass'n*, 227 F.3d 62, 71–75 (3d Cir. 2000); 1 WILBUR L. FUGATE, FOREIGN COMMERCE AND THE ANTITRUST LAWS § 2.14 (5th ed. 2004).

¹⁰⁸ *McBee*, 417 F.3d at 123.

¹⁰⁹ *Id.* ("That is the nature of the Internet. . . . To hold that any website in a foreign language, wherever hosted, is automatically reachable under the Lanham Act so long as it is visible in the United States would be senseless. The United States often will have no real interest in hearing trademark lawsuits about websites that are written in a foreign language and hosted in other countries.")

¹¹⁰ *Id.* at 124–26. Interestingly, Judge Lynch hangs his judicial hat on the fact that the website was written almost entirely in Japanese characters, thereby "mak[ing] it very unlikely that any real confusion of American consumers, or diminishing of McBee's reputation, would result from the

B. Analysis of the First Circuit’s Approach in *McBee*

While the First Circuit’s approach in *McBee* at first glance may appear starkly unique when compared with *Bulova* and its progeny, the *McBee* test captures the very essence of what the Lanham Act seeks to provide in the way of protections for federal trademark holders.¹¹¹ Moreover, the *McBee* test maintains the judicial framework established in *Bulova* and *Vanity Fair*, yet builds upon to the analyses by: (1) actually defining exactly how much of an “effect” is required and, (2) disposing of any inquiries regarding comity concerns.¹¹²

On the other hand, as much as the First Circuit adds to the analysis, the Circuit hesitated to precisely define what exactly constitutes a “substantial effect” on United States commerce. Arguably, under the facts in *McBee*, the only reason the court was able to exercise jurisdiction was because the plaintiff tricked Delica into selling infringing products to his own private investigators.¹¹³ And even then, the minimal effect of \$2,500 of product is not a “substantial effect” on United States commerce.¹¹⁴

As such, a Supreme Court re-visitation of the *Bulova* holding should necessarily be two-fold: (1) adopt the analysis from *McBee*, or at the very least provide a modernized and singular test to be employed by courts throughout the United States, and (2) clarify what exactly constitutes a “substantial effect” on U.S. commerce necessary to trigger subject-matter jurisdiction.

IV. A SCOTUS Adoption of *McBee* Would Provide the Best National Framework for Extraterritorial Application of the Lanham Act

One of the consequences associated with owning a federal trademark owner is that the owner must then serve as his own private attorney general by monitoring the market for similar or counterfeit marks and bringing suit for any alleged infringements.¹¹⁵ However, a U.S. trademark registration only affords its owner protections within United States territories.¹¹⁶ Therefore, should a federal trademark owner wish to maintain these domestically protected rights, that individual must bear the burden—including costs, time, and expenses—associated

website’s existence.” *Id.* at 124. In light of the admission by Delica that it purposefully took steps to avoid the jurisdictional reach of a district court, it seems slightly short-sighted to limit extraterritorial application of the Act simply due to the defendant’s exploitation of the American ethnocentric view about learning languages other than English.

¹¹¹ See generally 15 U.S.C. § 1127. See also *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 34 (2003) (explaining that the core purposes of the Lanham Act include: 1) protecting the ability of American consumers to avoid confusion, and 2) helping assure a trademark’s owner that it will reap the financial and reputational rewards associated with having a desirable name or product).

¹¹² *McBee*, 417 F.3d at 120–21.

¹¹³ *Id.* at 113, 122.

¹¹⁴ *Id.*

¹¹⁵ *Protecting IPR Overseas*, *supra* note 22.

¹¹⁶ See 15 U.S.C. § 1057(b) (2012).

with securing trademark protections, policing for infringements, and enforcing internationally-recognized rights in each individual country.¹¹⁷

Consequently, changes to the current structure, as with most issues in our governmental system of checks and balances, would require Congressional or judicial review by our nation's highest court—with the latter likely being the optimal measure for doing so.

A. A Congressional Remedy?

One commentator previously suggested that a Congressional update to the Lanham Act's language that would expressly limit the Act's extraterritorial reach.¹¹⁸ But, like most new bills introduced through either chamber, additional Congressional language to the Lanham Act has the potential to create several logistical nightmares, as it would require years of floor debate and partisan politics to generate a legislatively-created solution for a problem immediately plaguing trademark owners today. Further Congressional delays have the potential to possess outdated or ambiguous language, which, in turn, further handcuffs a federal court's ability to hear a case and interpret new laws.¹¹⁹ Even if a Congressional solution were found in the immediate future, it still leaves the door open to further judicial interpretation regarding Congressional intent and meaning, while continuing this vicious cycle of leaving valid federal trademark holders without any effective U.S.-based recourse for international infringement.

Instead, Congress should leave the language of the Lanham Act as is and simply allow the Supreme Court to define the scope of the Lanham Act's extraterritorial application. A Supreme Court revisitation further allows reviewing courts to account for new and unimaginable facts under a uniform framework, while simultaneously providing an efficient, yet comprehensive, form of relief to valid federal trademark holders seeking recourse for international infringements of their respective marks.

B. A Supreme Court Adoption of *McBee*

Ultimately, *McBee*'s benefit is three-fold: (1) the test accounts for citizenship of the defendant; (2) it provides solidarity, yet discourages frivolity, with its implementation of the "substantial effect" test; and (3) the test only allows for limited analyses regarding comity concerns—three benefits which no other circuit test to date can fully claim. Likewise, a formalized and modified adoption by the Supreme Court of the *McBee* test provides a seemingly simple solution to an

¹¹⁷ *Id.* Notably, the USPTO website provides several country-specific "toolkits" to aid the individual in beginning the foreign application process. *Protecting IPR Overseas*, *supra* note 22.

¹¹⁸ Susan S. Murphy, Note, *Copyright Protection, "The New Economy" and the Presumption Against the Extraterritorial Application of United States Copyright Law: What Should Congress Do?*, 33 CONN. L. REV. 1401, 1439 (2001) ("Congress should act rather than wait for the economic effects of piracy to reach the level where American courts take it upon themselves to overcome the presumption against the extraterritorial application of the Copyright Act.").

¹¹⁹ *See McBee*, 417 F.3d at 119.

otherwise complex issue, while still providing federal trademark owners with a conclusive test that accounts for modern-day complexities and maintains the spirit of the Lanham Act. Such a solution contemporaneously discourages forum-shopping, and ensures uniformity throughout the United States district courts.¹²⁰

For example, one of the biggest issues faced by those seeking to prosecute transnational infringement schemes stems from the fact that counterfeiters can seek asylum in countries with relaxed laws of commerce. Judge Lynch explains this issue when he analogizes the difficulties with prosecuting trademark infringement cases to those of antitrust:

One can easily imagine a variety of harms to American commerce arising from wholly foreign activities by foreign defendants. There could be harm caused by false endorsements, passing off, or product disparagement, or confusion over sponsorship affecting American commerce and causing loss of American sales. . . . In both the antitrust and the Lanham Act areas, there is a risk that absent a certain degree of extraterritorial enforcement, violators will either take advantage of international coordination problems or hide in countries without efficacious antitrust or trademark laws, thereby avoiding legal authority.¹²¹

Therefore, drawing from the antitrust context may actually provide a benefit in the context of trademarks, in large part due to the speculative nature of harms associated with trademark violations and the lengths to which counterfeiters will go to avoid jurisdiction in U.S. courts.

Taking into account these concerns, the Supreme Court should adopt the following test:¹²²

- 1) Is the defendant a United States’ citizen?
 - a. Yes—Lanham Act applies because that citizenship provides an independent constitutional basis for exercising jurisdiction.¹²³
 - b. No—Proceed to Step 2.
- 2) In light of the core purposes of the Lanham Act,¹²⁴ are there “substantial effects” on the United States economy?¹²⁵

¹²⁰ Compare to “twin aims of Erie,” as explained by *Hanna v. Plumer*, 380 U.S. 460, 468 (1965) (“discouragement of forum-shopping and avoidance of inequitable administration of laws”).

¹²¹ *McBee*, 417 F.3d at 119.

¹²² Admittedly, this proposed test adopts heavily from the test employed by the First Circuit, but this author believes it is necessary for the Supreme Court to expressly adopt a specific test by using specific language, instead of scattering the test throughout the opinion and leaving it up to the Circuits to decipher its intent.

¹²³ *McBee*, 417 F.3d at 111. Judge Lynch does not elaborate on this proposition; instead, he unequivocally proclaims that “a separate constitutional basis for jurisdiction exists for control of activities, even foreign activities, of an American citizen.” *Id.* While this author agrees with most of Judge Lynch’s analysis, he would still proceed to the “substantial effects” analysis under *Vanity Fair* before applying the Lanham Act extraterritorially.

¹²⁴ *Id.* at 121 (listing “the core purposes of the Lanham Act” as avoiding consumer confusion and ensuring owners receive their earned financial and reputational rewards).

¹²⁵ *Id.* at 120–21. Because the *Vanity Fair* opinion failed to provide any guidance for what exactly constitutes a “substantial effect,” Judge Lynch defined a “substantial effect” in the following way:

- a. Yes—Proceed, in appropriate cases, to Step 3.
 - b. No—Lanham Act does not apply.
- 3) Are there treaties or federal statutes that expressly preclude extraterritorial application of the Lanham Act?
- a. Yes—Lanham Act may not apply.
 - b. No—Lanham Act applies.

C. An Analysis of the Proposed Test

Many of the short-comings from the various interpretations of *Bulova* consistently involve incomplete or partially developed definitions in the tests, over-complication of the issues, or a general lack of adaptability to today's market conditions. Some tests leave too much room for judicial activism,¹²⁶ while other tests severely limit the Lanham Act's powers.¹²⁷ Some tests are simplistic, yet fail to fully capture the spirit of the Lanham Act,¹²⁸ with others achieving just the opposite.¹²⁹ Nevertheless, any formal re-visiting by the Supreme Court would require particular attention to the complexities presented in the trademark context, be simple enough not to frustrate the purposes of the Lanham Act, and simultaneously give predictability to those seeking remedial measures. Therefore, the following analysis provides reasoning for why a *McBee*-like restructuring would best serve the overall purposes of the Lanham Act.

1. Citizenship of the Defendant

As the First Circuit states in *McBee*, the initial inquiry should ask whether or not the defendant is a United States citizen. This initial inquiry is crucial to the overall analysis because, if the defendant is, in fact, a United States citizen, then "a separate constitutional basis for jurisdiction exists for control of activities, even foreign activities, of an American citizen."¹³⁰ The term "United States citizen" should be distinctively defined in accordance with its constitutional definition and

1) evidence of impacts within the United States, and 2) these impacts must be of a sufficient character and magnitude to give the United States a reasonably strong interest in the litigation. *Id.* Again, this provides little in the way of guidance, but in light of the holdings of *American Rice* and *McBee*, this author still interprets this phrase to mean that calculable economic damages must be present within the United States in order to satisfy the "substantial effects" test.

¹²⁶ See *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406 (9th Cir. 1977).

¹²⁷ See *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 640 (2d Cir. 1956).

¹²⁸ See *Am. Rice v. Ark. Rice Growers Coop. Ass'n*, 701 F.2d 408 (5th Cir. 1983).

¹²⁹ See *McBee*, 417 F.3d at 120.

¹³⁰ See *id.* at 111. Although the Lanham Act may not expressly define the word "United States citizen," this issue may require further congressional language or simply an adaptation of the definition from other areas of the law. See, e.g., 33 C.F.R. § 141.10 ("Citizens of the United States means: (1) In the case of an individual, one who is a native born, derivative, or fully naturalized citizen of the United States; (2) In the case of a partnership, unincorporated company, or association, one in which 50% or more of the controlling interest is vested in citizens of the United States; or (3) In the case of a corporation, one which is incorporated under the laws of the United States or of any State thereof.").

in light of the core purposes of the Lanham Act so as to minimize jurisdictional avoidance measures, like those taken by the defendant in *McBee*.¹³¹

Moreover, this initial inquiry would bifurcate the analysis as between a U.S. defendant and a foreign defendant by remaining sensitive to many of the issues regarding foreign enforcement of domestically-recognized rights and conflicts with foreign sovereignty when a non-U.S. citizen is involved in the litigation. But the analysis should not simply end when the defendant is not a United States citizen, as the *Vanity Fair* holding would suggest. Rather, an additional inquiry into the full effect on U.S. commerce is necessary.

2. “Substantial Effect” on United States Commerce

When interpreting the Supreme Court’s intentions in *Bulova* what exactly constitutes a potentially adverse effect on United States commerce—the degree of effect necessary to trigger subject-matter jurisdiction of the Lanham Act—appears to remain the biggest source of disagreement amongst the various circuits. While the First Circuit proclaims the “substantial effects” test to be the “sole touchstone to determine jurisdiction,” some circuits seem to overlook or even minimize the importance of this inquiry.¹³² Instead, a bright-line definition which adopts the “substantial effect” framework is necessary, therefore, not only for purposes of uniformity in application of the Lanham Act extraterritorially, but also to prevent attenuated or speculative harms from triggering jurisdiction.¹³³

The First Circuit’s definition in *McBee*, while possibly lacking full development of the issue, appears to achieve both of these purposes. As the *McBee* opinion explains, the “substantial effects” test must be applied in light of the core purposes of the Lanham Act, which are to protect the ability of American consumers to avoid confusion and to help assure a trademark’s owner that it will reap the financial and reputational rewards associated with having a desirable name or product.¹³⁴ The court then defines a “substantial effect” in the following way: 1) evidence of impacts within the United States, and 2) these impacts must be of a sufficient character and magnitude to give the United States a reasonably strong interest in the litigation.¹³⁵ Examples of impacts within the United States could include: risk of confusion by consumers,¹³⁶ risks of unfair or competitive

¹³¹ See *McBee*, 417 F.3d at 113.

¹³² *Id.* at 121.

¹³³ See *id.* at 120 (“We hold that the Lanham Act grants subject matter jurisdiction over extraterritorial conduct by foreign defendants only where the conduct has a substantial effect on United States commerce. Absent a showing of such a substantial effect, at least as to foreign defendants, the court lacks jurisdiction over the Lanham Act claim. Congress has little reason to assert jurisdiction over foreign defendants who are engaging in activities that have no substantial effect on the United States, and courts, absent an express statement from Congress, have no good reason to go further in such situations.” (citations omitted)).

¹³⁴ *Id.* at 121.

¹³⁵ *Id.* at 120–21.

¹³⁶ The Fifth Circuit in *American Rice* seems to bifurcate the analysis for “risk of confusion” into whether or not the defendant is a United States citizen. If the defendant is a U.S. citizen, then the

advantages gained by the defendant, actual and calculable economic losses, etc.

Thereafter, upon a finding of one of the aforementioned examples and in the event the court determines that the United States would have a reasonably strong interest in remedying the effects of these impacts, the Act could then be applied to a foreign defendant's extraterritorial conduct. These two requirements would theoretically eliminate the use of speculative or nominal damages to trigger jurisdiction, while simultaneously providing trademark plaintiffs with sufficient justification for initiating the litigation process.

3. *Limited Comity Concerns Precluding Extraterritorial Application of the Act*

Finally, the court should consider a limited set of comity concerns that may preclude extraterritorial application of the Act. In *McBee*, the First Circuit failed to fully develop the notion that comity concerns could limit the jurisdictional reach of the Lanham Act, mainly due to the fact that there was no risk of confusion to American consumers, the company's website was written in Japanese, and the infringing goods were only sold to McBee's investigators and not the general U.S. public.¹³⁷

Moreover, the First Circuit only addressed potential comity concerns in the antitrust context provided by *Hartford Fire Ins. Co. v. California*.¹³⁸ In justifying this position, the First Circuit disagreed with holdings, like *Vanity Fair*, that examined whether the defendant acted under color of foreign trademarking laws because it did not understand "why the scope of Congressional intent and power to create jurisdiction under the Lanham Act should turn on the existence and meaning of foreign law."¹³⁹

Therefore, in accordance with the First Circuit's reasoning and contrary to the holdings in *Bulova* and *Vanity Fair*, Congressional intent and power to create jurisdiction, as the *McBee* opinion explains, should not turn on the existence and meaning of foreign law—mainly because under the principle of territoriality of federally-registered trademarks,¹⁴⁰ such ownership rights, subject to a few exceptions involving bilateral treaties, are only validly recognized and enforced

confusion can come from any consumer. See *Am. Rice Inc. v. Ark. Rice Growers Coop. Ass'n*, 701 F.2d 408, 414–16 (5th Cir. 1983). However, *McBee* stands for the proposition that if the defendant is a foreign national, then the confusion can only be viewed from the point of a consumer in the United States. See *McBee*, 417 F.3d at 124.

¹³⁷ See *McBee*, 417 F.3d at 124, 128.

¹³⁸ See *id.* at 121 ("[C]omity considerations are properly analyzed not as questions of whether there is subject matter jurisdiction, but as prudential questions of whether that jurisdiction should be exercised.").

¹³⁹ See *id.*

¹⁴⁰ See *Person's Co. v. Christman*, 900 F.2d 1565, 1568–69 (Fed. Cir. 1990) ("The concept of territoriality is basic to trademark law; trademark rights exist in each country solely according to that country's statutory scheme.").

within U.S. borders.¹⁴¹

Moreover, evidence that a foreign defendant acted under color of foreign trademark law serves more as an element of an intentional violation of the Lanham Act—not intent of the defendant to avoid extraterritorial application of the Lanham Act. Therefore, it is generally immaterial to the present jurisdictional analysis of a federal court whether or not the defendant holds a valid foreign trademark because: 1) the plaintiff is not seeking any relief in foreign courts, and 2) actions of a defendant are generally reserved for analyses pertaining to personal jurisdiction—not subject-matter jurisdiction.

Instead, as the First Circuit suggests, comity inquiries should be limited in scope only with respect as to possible treaties or federal statutes that may expressly preclude extraterritorial application of the Lanham Act.¹⁴² This limited inquiry would avoid a conflict of law analysis or necessity of interpretation regarding applicability of foreign law by U.S. judges. Only in the event of any express provisions of ratified United States treaties or federal statutes denying extraterritorial application of the Lanham Act would those provisions serve as a possible bar to an exercise of jurisdiction—a notion that a U.S. court arguably may already possess.¹⁴³

V. Conclusion

Nearly twenty years have passed since the Fourth Circuit’s opinion in *Nintendo*. While the 8-bit system has generally become a relic of the electronic gaming past, two years after the Fourth Circuit issued the opinion, Nintendo released its state-of-the-art 64-bit system—the Nintendo 64® (U.S. Reg. No. 2372472).¹⁴⁴ On March 27, 2011, Nintendo released its Nintendo 3DS® gaming console (U.S. Reg. No. 4191194)—a portable, handheld device that permits its users to view 3D content without the use of 3D glasses.¹⁴⁵ Conversely, around the same time the Supreme Court issued its opinion in *Bulova*, Robert Adler invented the first “wireless” remote control for house-hold televisions.¹⁴⁶ Needless to say, the world has seen significant advances in technology and communications since *Bulova*.

Taking these global advances into consideration, the infringement schemes

¹⁴¹ See *Protecting IPR Overseas*, *supra* note 22.

¹⁴² See *McBee*, 417 F.3d at 121.

¹⁴³ See *id.* at 121 (“[C]omity considerations are properly analyzed not as questions of whether there is subject matter jurisdiction, but as prudential questions of whether that jurisdiction should be exercised.”) (analogizing to the antitrust context from *Hartford Fire Ins. Co. v. California*, 509 U.S. 764, 798 n.24 (1993)).

¹⁴⁴ *Company History*, NINTENDO, <http://www.nintendo.com/corp/history.jsp> (last visited Feb. 7, 2013).

¹⁴⁵ *Id.*

¹⁴⁶ Paul Farhi, *The Inventor Who Deserves a Sitting Ovation*, WASHINGTON POST, Feb. 17, 2007, available at <http://www.washingtonpost.com/wp-dyn/content/article/2007/02/16/AR2007021602102.html>.

plaguing federal trademark owners have become increasingly complex and, in turn, more difficult to prosecute. Therefore, it has become absolutely necessary for the Supreme Court to revisit the *Bulova* holding and provide federal trademark holders with a uniform and modernized statement on the law. Neglecting to do so could, otherwise, spell “Game Over” for those seeking complete protections for their federally registered marks.

Is the Prototypical Small Inventor at Risk of Inadvertently Eliminating Their Traditional One-Year Grace Period Under the America Invents Act?—Interpreting “Or Otherwise Available to the Public” per New § 102(a) and “Disclosure” per New § 102(b)

Eric A. Kelly*

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I. Introduction

Imagine a patent system that would have allowed monolith IBM to crush a fledgling Apple from its humble beginnings back in Steve Jobs's family garage,¹ a patent system that would have prevented the iPod, iPhone, and iPad from ever seeing the light of day. Imagine a patent system that significantly disadvantages the small inventor. This is the scenario small inventors fear has resulted with the passage of the America Invents Act (AIA).² This Comment suggests interpretations for new language appearing in the AIA that, if adopted, will tend to mitigate such a doomsday scenario for the United States small inventor.

The analysis offered in this Comment is biased towards protecting the small inventor. Why should small inventors enjoy any unique protection with regard to patents? In terms of lobbying power, small and independent inventors by their very nature have fewer resources than large companies and large research oriented universities. Thus, without some mitigating mechanism the small inventor may be at a disadvantage in presenting their needs to their elected legislative representatives. Yet many of society's most cherished inventions have originated from small entrepreneurs,³ suggesting that small inventors should enjoy at least the same level of protection as their larger counterparts with regard to patent law. More importantly, there are strong positive correlations between small inventors, startups, and significant job growth.⁴ This implies that strong protections for the small inventor are vitally necessary for overall net job growth and the overall health

¹ See generally WALTER ISAACSON, STEVE JOBS (2011).

² Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified in scattered sections of 35 U.S.C.) [hereinafter AIA]. See *infra* notes 4, 6 and accompanying text (regarding concerns for small inventors in relation to the AIA).

³ For example, consider Steve Jobs and Apple, which, despite being a monolith today, had very humble beginnings, and their initial personal computers revolutionized the computing industry in the 1970's. Or consider Bill Gates and startup Microsoft, with the initial development of Windows operating software that revitalized the IBM clone sector to effectively compete against the Apple II line of computers. Other examples include Michael Dell and Dell, Jeff Bezos and Amazon, Dyson vacuums, Yahoo!, and Google. Small inventors are particularly potent in the area of software development because conversion of a brilliant idea into practical application is not impeded by requirements of large capital expenditures for such things as machinery. In contrast, one may counter that some critically important industries do not lend themselves to the inventive ingenuity of small inventors, such as pharmaceuticals and biotechnology. But such a contention would be wrong as even a single Ph.D. candidate may find venture capital financing to bring a new gene therapy far enough along to secure a patent.

⁴ See Action (Position Statement) from Bruce Hayden, Chair, IEEE-USA Intellectual Prop. Comm., to IEEE-USA Gov't Relations Council 4 (Apr. 29, 2011) [hereinafter Lobbyist Materials Supporting Small Inventors], available at <http://www.ieeeusa.org/volunteers/committees/grc/EAGenda/2011May/tab2b.pdf> (Hayden refers to two studies by the Kauffman Foundation and citing economists at the U.S. Census Bureau which state: "'Startups aren't everything when it comes to job growth. They're the only thing.' Startups are responsible for *all* net job creation since 1977, and the U.S. patent system is key to startup formation." (emphasis added)). Note that IEEE-USA is a lobbyist arm of the Institute of Electrical and Electronics Engineers (IEEE), which is a professional association of over 210,000 engineers and scientists, and that "the positions taken by IEEE-USA do not necessarily reflect the views of IEEE or its other organizational units." *Id.*

of the U.S. economy.⁵ That which tends to benefit the small inventors tends to benefit us all.

Fortunately, several mitigating mechanisms do exist which push back towards parity between the small inventors and big business or the large research universities. These mitigating mechanisms include the venture capital community who fund small inventors; small inventors themselves who in aggregate may form powerful lobbies; and the patent attorneys who do work for small inventors. Despite these factors, small inventors fear passage of the AIA favors big business over the interests of the small inventor.⁶

On September 16, 2011, President Obama signed the largest overhaul of the U.S. patent system in nearly 60 years,⁷ commonly known as the Leahy-Smith America Invents Act. The United States Patent and Trademark Office (USPTO) asserts that this legislation is the greatest overhaul since the 1836 Patent Act.⁸ While the changes are many, this Comment provides much-needed guidance in interpreting new statutory language undefined in the AIA itself, as we await the development of case law in the years to come.⁹

The AIA amends Title 35 of the United States Code (35 U.S.C.).¹⁰ In this Comment, the 1952 Patent Act (as amended) will hereinafter be referred to as the “Old” Act and the AIA § 102(a) and (b) will hereinafter be referred to as “New” § 102(a) and (b). New § 102(a) and (b) contain some new terminology absent from the Old § 102(b), although much other terminology remains identical in both versions. This Comment focuses on the new statutory language in AIA’s New § 102(a) and (b) which will be replacing Old § 102(b) of the 1952 Patent Act.¹¹ The new language is: “or otherwise available to the public” from New § 102(a) and

⁵ *Id.*

⁶ See 157 CONG. REC. S1182 (daily ed. Mar. 3, 2011) (statement of Sen. Dianne Feinstein). See generally Lobbyist Materials Supporting Small Inventors, *supra* note 4. But see Gene Quinn, *Senate to Vote on Patent Reform, First to File Fight Looms*, IP WATCHDOG (Fed. 27, 2011, 12:24 PM), <http://ipwatchdog.com/2011/02/27/senate-vote-patent-reform-first-to-file-fight-looms/id=15566/> (suggesting that the now old first-to-invent system in implementation really functions as a first-to-file system benefiting big business over small inventors because the interference proceedings are really only accessible to big business, as the proceedings take too long and are expensive). In addition, Mr. Quinn acknowledges that small inventors and start-ups are justifiably concerned about the new AIA legislation. *Id.* See also 157 CONG. REC. H4387–88 (daily ed. Jun. 22, 2011) (statements of Rep. Jackson Lee) (arguing for an 18-month grace period for small inventors).

⁷ Compare 35 U.S.C. §§ 1–376 (2010) [hereinafter Old Law], with AIA, *supra* note 2.

⁸ *Leahy-Smith America Invents Act Implementation*, USPTO.GOV, http://www.uspto.gov/aia_implementation/index.jsp (last modified July 31, 2013).

⁹ AIA, *supra* note 2, sec. 3(n)(1). The specific AIA provisions this Comment is concerned with, §§ 102(a), (b), will not become effective until eighteen months after passage of the Act’s enactment date of September 16, 2011, which computes to an effective date of March 16, 2013. *Id.*

¹⁰ See generally *id.* Title 35 of the United States Code is where the patent acts have been codified since the 1952 Act.

¹¹ *Id.* sec. 3(b)(1), § 102(a)–(b).

“disclosure” from New § 102(b).¹² As noted above, the motivation driving this statutory interpretation is to ensure small inventors have at least the same protections as under the Old Act.

Part II sets out why interpreting the new statutory language is important to the practice of patent law; Part III presents the statutory changes; Part IV provides an analysis of the legislative history ending with the author’s suggested interpretations; and Part V applies the suggested interpretations to existing patent case law. The Comment concludes with a suggested practice point for small inventors on how to best protect themselves under the AIA in the interim period until new case law emerges.

II. The Importance of Interpreting AIA’s New Statutory Language in New § 102(a) and (b)

Why focus on the new language in New § 102(a) and (b)? The answer is because of how patent applications are prosecuted, and because even a granted patent’s validity may be challenged in subsequent litigation.¹³ In order for an invention to warrant the grant of a patent, that invention must satisfy four global requirements: usefulness, novelty, non-obviousness, and an enabling disclosure requirement.¹⁴ Procedurally, the grant of a patent involves a comparison process in which a USPTO examiner compares claims in the application to various categories of prior art,¹⁵ looking for a reference that may suggest the inventor’s claim already

¹² *Id.*

¹³ In patent litigation, the alleged infringer typically attacks the validity of the patent at issue, which effectively is a re-prosecution of the patent application, because if a patent is declared invalid, there can be no infringement. This technique is used both defensively in patent infringement suits and offensively in declaratory judgment suits. See 28 U.S.C. § 2201(a) (2006) (containing the Declaratory Judgment Act).

¹⁴ Patentability is generally understood to encompass four fundamental requirements: utility, novelty, non-obviousness, and an enabling disclosure in the patent application. See AIA, *supra* note 2, secs. 3(b)(1), 3(c), 4(c), §§ 102, 103, 112 (amending §§ 102 (for novelty), 103 (for non-obviousness), and 112 (for the enabling disclosure requirements), respectively; note that the language of § 101 (for utility) is not amended by the AIA); See also *Bilski v. Kappos*, 130 S. Ct. 3218, 3225 (2010); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 149–50 (1989); *Classen Immunotherapies, Inc. v. Biogen IDEC*, 659 F.3d 1057, 1064 (Fed. Cir. 2011); UNITED STATES PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE § 706 (8th ed., rev. 9, Aug. 2012) [hereinafter MPEP].

¹⁵ The term “prior art” is a patent law term of art. “‘Prior art’ is any relevant knowledge, acts, descriptions, or patents which pertain to, but pre-date the invention in question.” *Vardon Golf Co. v. BBMG Golf Ltd.*, 156 F.R.D. 641, 648 (N.D.Ill. 1994) (citing *Mooney v. Brunswick Corp.*, 663 F.2d 724, 733 (7th Cir. 1981)). See generally, MPEP, *supra* note 14, §§ 706.02, 2121–2137 (regarding prior art). “Prior art . . . , in most systems of patent law, constitutes all information that has been made available to the public in any form before a given date that might be relevant to a patent’s claims of originality.” *Prior Art*, WIKIPEDIA, http://en.wikipedia.org/wiki/Prior_art (emphasis added) (last visited Nov. 15, 2011). Interestingly, “prior art” has never been expressly defined in any of the patent acts (new or old), yet the express term is often used in various sections of the code, for example, §§ 102 and 103. See Kirk M. Hartung, ‘Prior Art’: The Undefined Key to Section 103 of the 1952 Patent Act, 32 *DRAKE L. REV.* 703, 706 (1983); Louis J. Beltrami, Case Note, *Kimberly-Clark Corp. v. Johnson & Johnson: Prior Work and Prior Art in Obviousness*

exists in the public domain, rendering the claim non-novel (anticipated) or obvious.¹⁶ Prior art has traditionally been categorized into (prior) patents, printed publications, public use, and on sale.¹⁷ For example, an examiner might reject a claim under § 102 (old or new), because the examiner found an older patent claiming the same subject matter in the application.¹⁸ Each of these traditional categories of prior art has existed statutorily at least since the 1952 Patent Act and extensive case law for each category provides applicants, practitioners, and examiners with much certainty in what is patentable and what is not.¹⁹ However, the AIA's new prior art provision includes the new phrase "or otherwise available to the public" without defining it.²⁰ As noted above, defining the categories of prior art is critical to both whether a patent will be granted and whether a challenged patent will remain valid.

How "or otherwise available to the public" will be interpreted matters because inventors need to know what actions will or will not constitute prior art, which is the most common basis for substantive application rejections.²¹ Is the phrase a new category of prior art or merely a modifier placing a limitation upon the existing categories of prior art? If the phrase is a limiting modifier, does it apply to all the categories of prior art, just on sale, or both public use and on sale? If the new phrase represents a modifier this would be a significant change with respect to public use and on sale prior art categories as formerly a determination as to what constitutes prior art generally did not involve an inquiry into whether it was available to the public.²² Lastly, if the phrase is a modifier, does "available to the public" represent an accessibility standard or an informing (enabling) use

Determinations, 34 AM. U. L. REV. 779, 779 (1985). Within the patent industry, it is commonly understood that § 102 (old or new) lays out the prior art categories, which other sections may then reference, such as § 103 in an obviousness rejection.

¹⁶ *Pfaff v. Wells Elecs.*, 525 U.S. 55, 63 (1998). See also *Bonito Boats*, 489 U.S. at 141 (touching on many aspects of what it means to be in the public domain, and the fundamental bargain that is the patent system, i.e., inventors are granted a limited monopoly in exchange for disclosing their inventions to the public, which then essentially remain irrevocably within the public domain).

¹⁷ See Old Law, *supra* note 7, § 102(b) (listing these traditional categories of prior art explicitly in the statutory provision); AIA, *supra* note 2, sec. 3(b)(1), § 102(a) (same). See also *Pfaff*, 525 U.S. at 55 (for an example of "on sale" as prior art); *In re Carlson*, 983 F.2d 1032 (Fed. Cir. 1992) (for an example of a patent as prior art); *In re Hall*, 781 F.2d 897 (Fed. Cir. 1986) (for an example of printed publication as prior art); *Pennock v. Dialogue*, 27 U.S. 1 (1829) (for an example of public use as prior art).

¹⁸ Old Law, *supra* note 7, § 102; AIA, *supra* note 2, sec. 3(b)(1), § 102(a); MPEP, *supra* note 14, §§ 706, 2100.

¹⁹ See, e.g., *Carlson*, 983 F.2d. 1032.

²⁰ AIA, *supra* note 2, sec. 3(b)(1), § 102(a)(1).

²¹ Old Law, *supra* note 7, §§ 102, 103; *Id.* sec. 3(b), (c), §§ 102, 103. A prior art reference under § 102 may give rise to an anticipation rejection because the prior art reference anticipates the invention. Section 102 may also give rise to a statutory bar because an inventor waited too long to seek a patent after creating some type of prior art. And prior art references under § 103 may give rise to an obviousness rejection because the invention was obvious over the prior art references.

²² See generally *Pfaff*, 525 U.S. at 64; *Egbert v. Lippman*, 104 U.S. 333 (1881); *Metallizing Eng'g Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (2d Cir. 1946).

standard?²³ Inventors, particularly small inventors, have a legitimate concern over what this phrase will mean.²⁴

In addition to this prior art ambiguity, there is further ambiguity regarding when the “grace period”²⁵ of New § 102(b) will or will not be triggered. Prior to the AIA, the grace period and prior art categories were contained within one provision, Old § 102(b). An application would be rejected if there was a single patent, single printed publication, single public use, or even a single commercial offer for sale occurring more than one year before the application was filed.²⁶ Put another way, after the one-year grace period expired, the applicant would be statutorily barred from receiving a patent under Old § 102(b), even if the prior art was created by the inventor. The expiration of the one-year grace period leading to a statutory bar is also known as the “forfeiture doctrine” under Old § 102(b).²⁷

Under the AIA, the linkage between the prior art categories of New § 102(a) and the grace period in New § 102(b) is through the term “disclosure.” For certain categories of prior art, such as “patent” and “printed publication,” the term “disclosure” works fine because presumably a patent or printed publication would be a disclosure under New § 102(b), at least from a plain textual standpoint. However, for the remaining prior art categories of public use and on sale, do these categories always constitute a “disclosure?” This is the uncertainty New § 102(b)

²³ For example, the *Egbert* line of cases did distinguish between informing and non-informing uses, although either use was sufficient to constitute public use prior art. *Egbert*, 104 U.S. at 336. *Egbert* itself does not use “informing use” versus “non-informing use” language, but the concept nevertheless originates in *Egbert*. *Id.*

²⁴ See Lobbyist Materials Supporting Small Inventors, *supra* note 4, at 3; Quinn, *supra* note 6 (describing concerns about how the AIA will affect small inventors).

²⁵ “Grace period” is a term of art within patent law. See Old Law, *supra* note 7, § 102(b); AIA, *supra* note 2, sec. 3(b)(1), § 102(b). “The term ‘grace period’ means the 1-year period ending on the effective filing date of a claimed invention, during which disclosures of the subject matter by the inventor or a joint inventor, or by others who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor, do not qualify as prior art to the claimed invention.” 157 CONG REC. H4481 (daily ed. Jun. 23, 2011) (proposed Amendment No. 2 of Rep. John Conyers). Despite this proposed amendment being rejected, *id.* at H4498, this definition for the grace period is still illustrative of how the grace period operates. Cf. *id.* at S1041 (daily ed. Mar. 1, 2011) (statement of Sen. Jon Kyl) (explaining that “the grace period is the one-year period prior to filing when the inventor may disclose his invention without giving up his right to patent”). See also *id.* at S1034 (daily ed. Mar. 1, 2011) (statement of Sen. Jon Kyl); MPEP, *supra* note 14, §§ 2133, 706.02, 2132(III).

²⁶ See generally Old Law, *supra* note 7, § 102(b); MPEP, *supra* note 14, §§ 706, 2100. This is assuming that the filed application was not claiming benefit or priority of an earlier filed application under § 119(e) or § 120 of the Old Act.

²⁷ Under Old § 102(b), the “forfeiture doctrine” was a mechanism for effectuating the Congressional goal of encouraging inventors to promptly file for a patent or be forever statutorily barred from obtaining a patent by waiting past the one-year grace period. See *Woodland Trust v. Flowertree Nursery, Inc.*, 148 F.3d 1368, 1370 (Fed. Cir. 1998) (regarding an articulation of this policy statement). The doctrine was called forfeiture because if the inventor did not file within the one-year grace period, triggered by some action specified in Old § 102(b) (e.g., a sale), then the inventor forfeited his right to a patent. *Id.* See also MPEP, *supra* note 14, § 2133.03 (providing the policy rationale).

creates. Both public use and on sale events were protected categories of prior art under Old § 102(b), in that both enjoyed a one-year grace period. Has the AIA narrowed the grace period to exclude these traditional categories?²⁸

For example, consider the following two statements, from Representatives (Rep.) Smith of Texas and Lofgren of California in House debate regarding the AIA. According to Rep. Smith:

[O]ne key issue for clarification is the interplay between actions under [New] section 102(a) and actions under [New] section 102(b). We intend for there to be an *identity* between 102(a) and 102(b). If an inventor's action is such that it triggers one of the bars under [New] 102(a), then it inherently triggers the grace period subsection [New] 102(b).²⁹

But according to Rep. Lofgren:

[I]t is absolutely essential that the revised grace period extend to everything that is prior art under today's rules. Unfortunately, that is not the case in the manager's amendment [which passed]. *The grace period would protect, and this is a direct quote, "only disclosures."* Well, what would that not protect? Trade secrets. *Offers for sale that are not public.* . . . This needs to be addressed, not in a colloquy but in language, and we agreed in the committee when we stripped out language that didn't fix this that we would fix the [New] 102(a) and (b) problem in legislation. . . . [W]e know that the language of the bill needs to reflect the intent. Judges look to the statute first and foremost to determine its meaning, and the legislative history is not always included.

So the *ambiguity* that's in the measure is troublesome. And although we prepared an amendment to delineate it, it has not been put in order, and, therefore, this remedy cannot be brought forth, and *small inventors* and even big ones *may* have a problem.³⁰

The ambiguity raised by Rep. Lofgren is: will public use and on sale prior art under New § 102(a) constitute "disclosures" under New § 102(b) so as to trigger the grace period?³¹ If yes, then there is no problem; but if no, then inventors, particularly small inventors, would largely lose the needed grace period because if there is New § 102(a) prior art but no grace period, then the prior art immediately bars issuance of a patent.³² Or would some public use and on sale prior art be considered "disclosures" under New § 102(b) while others would be excluded? Note, the legislative history surrounding the AIA will be looked at more closely below.³³ In any event, it should be clear that understanding all the prior art

²⁸ 157 CONG. REC. S1113 (daily ed. Mar. 2, 2011) (statement of Sen. Harry Reid).

²⁹ *Id.* at H4429 (daily ed. Jun. 22, 2011) (statement of Rep. Lamar Smith) (emphasis added).

³⁰ *Id.* at H4430 (statement of Rep. Zoe Lofgren) (emphasis added). *See also id.* at H4424 (regarding "disclosure").

³¹ *Id.* at H4424.

³² *W. Marine Elecs., Inc. v. Furuno Elec. Co.*, 764 F.2d 840, 845 (Fed. Cir. 1985) ("Public policy favors prompt and widespread disclosure of inventions to the public, while giving the inventor a reasonable amount of time . . . to determine whether a patent is worthwhile, but precluding attempts by the inventor or his assignee from commercially exploiting the invention more than a year before application for patent is filed."). *See also* Quinn, *supra* note 6 ("There is absolutely no argument with the fact that a grace period does factor into the equation for small businesses and start-up companies that are strapped for cash and already need to make choices about how much, and which, innovations to protect.").

³³ *See infra* Part IV.

categories of New § 102(a) and how “disclosure” works with the new grace period under New § 102(b) are paramount to the practice of patent law under the AIA.

In response to this uncertainty, the USPTO has two options: (1) ignore the new language until it is inevitably clarified by judicial review, or (2) issue their own regulations interpreting the new language.³⁴ The first outcome is more likely for three reasons. First, even apart from the AIA, the USPTO was and continues to be incredibly overworked.³⁵ For example, in 2010 the USPTO received over 500,000 patent applications, had a backlog of 700,000 pending patent applications, and an application remained pending on average for nearly three years.³⁶ Secondly, before an examiner can begin to use the new language, the USPTO will need to issue a revised Manual of Patent Examining Procedure (MPEP) because the MPEP serves as the standard operating procedure for USPTO examiners.³⁷ Further, before a revised MPEP is issued, the USPTO will need to draft new regulations,³⁸ which will then be incorporated into a revised MPEP. Thus, out of this resource constrained reality,³⁹ it is simply prudent for the USPTO to wait until a patentee brings an infringement suit⁴⁰ against an alleged infringer who defends by arguing the patent is invalid upon a preferred interpretation of this new statutory language. Because the new language in New § 102(a) and (b) is not defined, it will draw patent litigators like moths to a flame, eager to advocate for interpretations which best serve their warring clients.⁴¹ It is precisely because of this uncertainty in an area critically important to the practice of patent law that this Comment has been written, to suggest guidance in interpreting the language of New § 102(a) and (b).

III. The Statutory Provisions: 35 U.S.C. § 102 Old and New

Section 102 of the patent code (old and new) serves three main functions.⁴² First, broadly speaking, § 102 establishes the novelty requirement, that an invention

³⁴ USPTO regulations are codified in Title 37 of the Code of Federal Regulations, which are then further explained in the MPEP. See generally 37 C.F.R.; MPEP, *supra* note 14.

³⁵ Dana M. Herberholz, *America Invents Act: How Landmark Patent Reform Legislation Will Impact Idaho Inventors and Companies*, ADVOCATE, June/July 2011, at 28, 28. See also Data Visualization Center, USPTO.GOV, <http://www.uspto.gov/dashboards/patents/main.dashxml> (last visited Nov. 15, 2011).

³⁶ See Herberholz, *supra* note 35, at 28.

³⁷ See MPEP, *supra* note 14 (containing both 35 U.S.C. statutory provisions and 37 C.F.R. regulatory provisions, in addition to examples, tables, charts, policy statements, and operational rules). Although in theory the USPTO could operate directly from the statutes or even regulations, the Office practice is to use the MPEP for application prosecution.

³⁸ See *id.*

³⁹ Herberholz, *supra* note 35, at 28.

⁴⁰ Alternatively, the USPTO can wait for an alleged infringer to bring a declaratory suit. 28 U.S.C. § 2201(a) (2006) (Declaratory Judgment Act).

⁴¹ See 157 CONG. REC. S1182 (daily ed. Mar. 3, 2011) (statement of Sen. Dianne Feinstein) (suggesting “litigation is sure to ensure as courts interpret disclosure”). Recall as well that litigation will not begin for years, until patents begin to issue under the AIA. See AIA, *supra* note 2, sec. 3(n)(1).

⁴² Old § 102, aside from these three purposes, also had § 102(g), which created a special proceeding known as an “interference” that has been eliminated under the AIA and replaced with another

is not patentable unless it is “novel.”⁴³ Second, § 102 provides for various types or categories of “prior art.”⁴⁴ Third, § 102 establishes the “grace period.” The relationship between prior art and the grace period are at the heart of this Comment.

Old § 102(b) read as follows:

A person shall be entitled to a patent unless—

(b) the invention was *patented or described in a printed publication* in this or a foreign country or in *public use or on sale* in this country, *more than one year* prior to the date of the application for patent in the United States⁴⁵

Note that Old § 102(b) identifies four classes of prior art: patents, printed publications, public use, and on sale. Also note Old § 102(b) refers to a one-year period, which is the grace period.⁴⁶ Old § 102(b) contained both the prior art categories and the grace period within one provision,⁴⁷ while the AIA separates prior art from the grace period.⁴⁸ New § 102(a) contains only prior art classifications and New § 102(b) contains the grace period provision.

New § 102(a)(1) reads as follows:

(a) NOVELTY; PRIOR ART.—A person shall be entitled to a patent unless—

(1) the claimed *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 of the claimed invention⁴⁹

New § 102(a)(1) contains all the prior art categories that were present in Old § 102(b) with the addition of the new phrase, “or otherwise available to the

special proceeding called the “derivation.” *Compare* Old Law, *supra* note 7, § 135, with AIA, *supra* note 2, sec. 3(i)–(j), § 135.

⁴³ Patentability is generally understood to encompass four fundamental requirements: utility, novelty, non-obviousness, and an enabling disclosure in the patent application. MPEP, *supra* note 14, § 706. *See also* *Bilski v. Kappos*, 130 S. Ct. 3218, 3225 (2010); *Classen Immunotherapies, Inc. v. Biogen IDEC*, 659 F.3d 1057, 1064 (Fed. Cir. 2011). Because the novelty requirement is not directly germane to this discussion, it will be discussed no further.

⁴⁴ Within the patent industry, it is commonly understood that § 102 (old or new) defines what constitutes prior art and how it is categorized. *See generally*, MPEP, *supra* note 14, §§ 706.02, 2121–2137.

⁴⁵ Old Law, *supra* note 7, § 102(b) (emphasis added). Note that the phrase “a person shall be entitled to a patent unless” in the above quoted excerpt from Old § 102(b) is actually the preamble that applies to the entire Old § 102, not just Old § 102(b).

⁴⁶ 157 CONG REC. H4481 (daily ed. Jun 23, 2011) (Rep. John Conyers’s proposed amendment).

⁴⁷ Confusion could arise as to the specific reason why a USPTO examiner was citing to Old § 102(b) because of the intermingling of the prior art categories with the grace period. For example, an examiner might cite to Old § 102(b) for a rejection under Old § 102(b), which meant using both Old § 102(b)’s prior art meaning and violation of the grace period, or the examiner might cite to Old § 102(b) for the prior art definitional aspect in conjunction when making an obviousness rejection under Old § 103.

⁴⁸ *See* AIA, *supra* note 2, sec. 3(b)(1), § 102(a)–(b) (enumerating prior art categories in New § 102(a) and defining grace period in New § 102(b)).

⁴⁹ *Id.* § 102(a) (emphasis added).

public.”⁵⁰ Because all the other prior art categories have been listed in Old § 102(b) since 1952,⁵¹ extensive case law is at hand providing much guidance for what these traditional categories of prior art mean.⁵² Applying these established categories of prior art is, for the most part, merely an exercise in applying settled law.⁵³ This Comment assumes that passage of the AIA has not changed the established meanings of those categories of prior art, unless an interpretation of this new phrase requires such a change. “[O]r otherwise available to the public” as an addition to the prior art provision requires explanation and clarification.

The second new term of interest appears in New § 102(b)(1), which reads as follows:

(b) EXCEPTIONS.—

(1) DISCLOSURES MADE 1 YEAR OR LESS BEFORE THE EFFECTIVE FILING DATE OF THE CLAIMED INVENTION.—A *disclosure* made 1 year or less before the effective filing date of a claimed invention shall not be prior art to the claimed invention under subsection (a)(1) if—

(A) the *disclosure* was made by the inventor or joint inventor or by another who obtained the subject matter *disclosed* directly or *indirectly* from the inventor or a joint inventor; or

(B) the subject matter *disclosed* had, before such *disclosure*, been *publicly disclosed* by the inventor or a joint inventor or another who obtained the subject matter *disclosed* directly or *indirectly* from the inventor or a joint inventor.⁵⁴

New § 102(b)(1) contains a similar one-year grace period provision to Old § 102(b).⁵⁵ However, unlike Old § 102(b), New § 102(b) contains no prior art categories and is couched as an exception that provides applicants a one-year grace period if certain conditions are met. If the conditions are not satisfied then a finding of prior art under New § 102(a) constitutes an immediate bar to securing a patent. The key term in New § 102(b) is “disclosure” because it is this term which provides the link to prior art under New § 102(a).⁵⁶ For example, if an applicant were to publish details of the invention in an academic journal, such publication would constitute prior art under New § 102(a) but would also likely constitute a disclosure under New § 102(b), giving the applicant the one-year grace period to

⁵⁰ Compare *id.* (containing the new phrase), with Old Law, *supra* note 7, § 102(b) (omitting the new phrase).

⁵¹ Old Law, *supra* note 7, § 102(b).

⁵² See generally, e.g., *In re Carlson*, 983 F.2d 1032 (Fed. Cir. 1992) (exemplifying the use of patent as prior art).

⁵³ Under these traditional categories of prior art, questions of how prior art may apply to an invention generally only arise when confronting emerging technologies. See, e.g., *Bilski v. Kappos*, 130 S. Ct. 3218, 3227 (2010) (regarding patentable subject matter).

⁵⁴ AIA, *supra* note 2, sec. 3(b)(1), § 102(b) (emphasis added).

⁵⁵ See 157 CONG. REC. S1041 (daily ed. Mar. 1, 2011) (statements of Sen. Jon Kyl) (“[D]isclosures made by the inventor . . . less than 1 year before the application is filed do not count as prior art.”).

⁵⁶ See *id.* at H4388 (daily ed. Jun. 22, 2011) (statement of Rep. Jackson Lee) (“Prior art is created when a *disclosure* is made available to the public.” (emphasis added)); see also *id.* (providing other helpful statements made by Rep. Lee regarding the interplay of prior art, disclosures, and the one-year grace period).

file a patent application from the date the publication reaches its first subscriber or purchaser.⁵⁷ By and large this is how Old § 102(b) worked.⁵⁸ The problem is with uncertainty as to what will and will not constitute a New 102(b) “disclosure.”⁵⁹ This Comment now turns to a review of the legislative history for guidance in suggesting appropriate interpretations for this new statutory language.

IV. Legislative History and Interpretations for New § 102(a)(1) “Or Otherwise Available to the Public” and § 102(b)(1) “Disclosure”

A. Legislative History

Courts pursue two approaches in construing a statute: analysis of the legislative purposes behind the enacted statute and analysis of the effects of an enacted statute. As already noted, the New § 102 will not become effective until March 16, 2013.⁶⁰ Hence at this stage, we are limited to a statutory construction analysis based on legislative purpose, rather than legislative effect. Further, because the new language of interest is not explicitly defined in the AIA, the legislative purpose analysis will be grounded in a review of the legislative history.

Before diving into the legislative history to search for guidance, a few words of caution are appropriate. Enacted legislation is typically the product of much compromise, both between legislators and between constituents and lobbyists.⁶¹ The public is not privy to some of these compromises, which often occur in private and off the record.⁶² Additionally, the legislative history that is available to the public, including the judiciary, is subject to legislative manipulation; legislators are aware that the judiciary reviews legislative histories for guidance, possibly seeking to have specific records entered into the legislative history (e.g., committee reports or lobbyist endorsements) for the express purpose of influencing the judiciary (and to document good faith efforts to show their various constituents).⁶³ For example, debates and colloquies can be staged and scripted for the express purpose of

⁵⁷ See generally MPEP, *supra* note 14, § 2128 (describing how to date a publication, i.e., the publication date or date a publication is received).

⁵⁸ *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 866 (Fed. Cir. 2010) (“An offer for sale, sale, or public use, if more than one year before the patent application was filed, will bar patenting of the product, even if the sale was not authorized by the patentee.”).

⁵⁹ See AIA, *supra* note 2, sec. 3(b)(1), § 102(b). See also 157 CONG. REC. H4429 (daily ed. Jun. 22, 2011) (statement of Rep. Lamar Smith) (discussing the intended “identity” between the new grace period of New § 102(b) and prior art of New § 102(a)).

⁶⁰ See AIA, *supra* note 2, sec. 3(n)(1).

⁶¹ See *United States v. Hernandez*, 655 F.3d 1193, 1197 (10th Cir. 2011) (“The legislative art is, after all, one of compromise . . .”). Cf. *N.L.R.B. v. Allis-Chalmers Mfg. Co.*, 388 U.S. 175, 179 (1967) (referring to labor legislation particularly being a product of “legislative compromise”).

⁶² See, e.g., *Norwegian Nitrogen Prods. Co. v. United States*, 288 U.S. 294, 304–05 (1933) (proposing that legislative committees may be held behind closed doors).

⁶³ See *Exxon Mobil Corp. v. Allapattah Servs., Inc.*, 545 U.S. 546, 568–69 (2005) (disagreeing about the extent and prevalence of manipulation of legislative history, but implying the possibility exists).

generating legislative history.⁶⁴ Of course, both the legislature and judiciary are aware of this gamesmanship. This reality often prompts judges to comment about the futility of engaging in attempts to unravel a legislature's true intent for passing a law.⁶⁵ With these words of caution in place, this Comment now turns to a review of the legislative history.

1. Legislative History of New § 102(a) "Or Otherwise Available to the Public"

With regard to the New § 102(a)'s "or otherwise available to the public" language, the legislative history is very sparse, with only three meaningful references to the expression.⁶⁶ The vast majority of references to this phrase are merely in sections citing the entire proposed statute, rather than explanatory language. However, one of these three references is actually very extensive and will be described shortly.⁶⁷ The Congressional Record surrounding the AIA bills (S. 23 in the Senate, which preceded H.R. 1249 in the House) does not express any opposing views, which suggests there is in fact a harmonious legislative purpose to the meaning of "or otherwise available to the public."⁶⁸ Additionally, the three meaningful references are also all found in Senate Congressional Records, with no meaningful references in the House Congressional Records, suggesting that by the time the bill S. 23 made it to the House as H.R. 1249, Congress in its entirety was in agreement as to the meaning of "or otherwise available to the public."

The three Senate Congressional Record discussions are found at 157 Cong. Rec. S1370–71, S1326, and S1208.⁶⁹ S1370–71 is by far the most comprehensive, with S1326 and S1208 merely supporting the main ideas put forth in S1370–71. S1370–71 originated with Senator Jon Kyl of Arizona and was a portion of the entire bill's summary, including the bill's purpose, which immediately preceded the passing vote of the bill in the Senate on March 8, 2011. Senator Kyl makes it clear

⁶⁴ ANTONIN SCALIA, *A MATTER OF INTERPRETATION: FEDERAL COURTS AND THE LAW* 34 (Amy Gutmann at al. eds., 1997).

⁶⁵ See *Kassel v. Consol. Freightways Corp. of Del.*, 450 U.S. 662, 702–03 (1981) (Rehnquist, J., dissenting) (stating that the problem with assuming that a true legislative purpose can be ascertained "assumes that individual legislators are motivated by one discernible 'actual' [true] purpose, and ignores the fact that different legislators may vote for a single piece of legislation for widely different reasons"). See also *Pac. Gas & Elec. Co. v. State Energy Res. Conservation & Dev. Comm'n.*, 461 U.S. 190, 216 (1983) ("[W]e should not become embroiled in attempting to ascertain California's true motive [with regards to ascertaining the legislature's purpose for enacting a statute as] . . . inquiry into legislative motive is often an unsatisfactory venture.").

⁶⁶ See *infra* note 69 and accompanying text.

⁶⁷ See 157 CONG. REC. S1370–71 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl) (summarizing the bill immediately prior to the passing vote in the Senate).

⁶⁸ S. 23, 112th Cong. (2011); H.R. 1249, 112th Cong. (2011) (enacted).

⁶⁹ See 157 CONG. REC. S1370–71 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl) (summarizing the bill immediately prior to the passing vote in the Senate); *id.* at S1325–26 (daily ed. Mar. 7, 2011) (statement of Sen. Jeff Sessions); *id.* at S1208–09 (daily ed. Mar. 3, 2011) (lobbyist materials from the Coalition for 21st Century Patent Reform that Sen. Jon Kyl had, with unanimous consent, attached to the record).

that “or otherwise available to the public” is not intended as a new category of prior art, but merely a modifier for the existing categories of prior art, that suggests for a category of prior art to be recognized it must be made available to the public. That is, New § 102(a)(1) creates a “public availability standard” for prior art.⁷⁰ In support of this conclusion, Senator Kyl refers to an earlier Senate Report 110-259⁷¹ (from 2008) and then proceeds with how he believes the judiciary would and should construe “or otherwise available to the public.”

Before looking at Senator Kyl’s statutory construction analysis, what does it mean for prior art to have a “public accessibility standard” requirement? In Senator Kyl’s view this simply means if the information is not publicly available, it is not prior art.⁷² Interestingly, such a rule mimics the rule already existing under MPEP § 2128 for when a document can be deemed publicly available, that is the document must be publicly accessible to an interested party, such as one ordinarily skilled in the subject matter.⁷³ But a restriction to qualify as prior art, as a condition precedent, actually vastly departs from patent common law, at least with respect to public use and on sale.⁷⁴ Furthermore, such a requirement effectively eliminates the forfeiture doctrines under the Old Act.⁷⁵ Several examples should make this clear, all from Senator Kyl.

Senator Kyl claims this modifier to prior art abrogates the rule announced in *Egbert v. Lippman*, the seminal case on public use prior art for over a hundred years.⁷⁶ In *Egbert*, the U.S. Supreme Court had held that an invisible, non-informing use by one person was nevertheless a public use that constituted prior art resulting in patent invalidity of some corset springs.⁷⁷ However, under New § 102(a) such a use of the corset spring by one person would not constitute public accessibility; and hence, this invisible and non-informing use by one person would

⁷⁰ *Id.* at S1370–71 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl).

⁷¹ *See* S. REP. NO. 110-259 (2008) (which was a report for the Patent Reform Act of 2007, S. 1145, 110th Cong., the un-enacted predecessor bill to the AIA). The words “otherwise available to the public” were added to S. 1145 as a result of Congress’s Judiciary Committee mark-up of the bill. 157 CONG. REC. S1370 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl).

⁷² *Id.* at S1370–71.

⁷³ MPEP, *supra* note 14, § 2128; *id.*

⁷⁴ One can easily argue that the existing prior art categories of “patents” and “printed publications” even under the Old Act were subject to a public accessibility standard because patents are public record documents per Old §§ 152, 154 and per MPEP § 2128 a printed publication cannot be prior art unless it is accessible by the public. *See generally In re Carlson*, 983 F.2d 1032 (Fed. Cir. 1992) (regarding patents as prior art); *In re Hall*, 781 F.2d 897 (Fed. Cir. 1986) (regarding printed publications as prior art). Whereas, existing public use cases like *Egbert v. Lippman* did not adhere to a public accessibility standard. 104 U.S. 333, 336–38 (1881); *see also infra* note 144 and accompanying text where *Egbert* is discussed in detail.

⁷⁵ *See* 157 CONG. REC. S1370–71 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl) (arguing that New § 102(a)(1) creation of a “public availability standard” replaces the older forfeiture doctrines as the new strategy for encouraging inventors to promptly seek a patent).

⁷⁶ *See Egbert*, 104 U.S. at 336–38 (noting that at this time in history the U.S. had a two-year grace period as opposed to the current one-year grace period).

⁷⁷ *Id.*

not constitute prior art. After 130 years, Justice Miller's dissent, noting the logical absurdity that such a limited use could be deemed "public use," finally received vindication.⁷⁸

Senator Kyl pointed out two other cases that likely would have come out differently under New § 102(a)'s public accessibility requirement. In *Beachcombers International, Inc. v. Wildewood Creative Products, Inc.*, a kaleidoscope was held to be public use prior art merely because the inventor had demonstrated the device to guests at a dinner party in her own home.⁷⁹ In *JumpSport, Inc. v. Jumpking, Inc.*, a trampoline enclosure patent was held invalid because of public use prior art stemming from neighbors who had used the device in the inventor's backyard.⁸⁰ According to Senator Kyl, in both of these cases there would be no "public use" prior art, because in both situations the inventions were not made available to the public.⁸¹

However, Senator Kyl suggests that the "doctrine of inherency"⁸² is still alive and well under the AIA because "or otherwise available to the public" under Senator Kyl's interpretation imposes a public accessibility requirement as opposed to a public knowledge requirement (i.e., a public enabling requirement).⁸³ Whether a product sold on the open market is informing or not,⁸⁴ the public sale would constitute prior art under the New § 102(a) categories of "on sale" and "public use," because under the doctrine of inherency, even the non-informing hidden components of the product were sold and are available to the public. For example, consider the public sale of laptop computers. The vast majority of the public purchasing laptops have no idea how the laptop with all its many internal components actually works. Yet under a public accessibility requirement, such

⁷⁸ See *id.* at 338–39 (Miller, J., dissenting) (expressing bafflement that the majority could find the corset spring use here constituted public use when the public never benefited from the corset spring).

⁷⁹ 31 F.3d 1154, 1159–60 (Fed. Cir. 1994).

⁸⁰ 191 F. App'x 926, 935 (Fed. Cir. 2006).

⁸¹ 157 CONG. REC. S1370 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl).

⁸² *Id.* See also *Rosco, Inc. v. Mirror Lite Co.*, 304 F.3d 1373, 1380 (Fed. Cir. 2002) ("Under the doctrine of inherency, if an element is not expressly disclosed in a prior art reference, the reference will still be deemed to anticipate a subsequent claim if the missing element 'is necessarily present in the thing described in the reference, and that it would be so recognized by persons of ordinary skill.'" (citation omitted)).

⁸³ "Public knowledge" is synonymous with "enabling" and "informing." These expressions refer to the concept that the use of some inventions enables or informs the user of how the invention works. For example, consider the use of a coffee mug, i.e., its use informs the user of how the device functions. Whereas, more complex devices will often inherently contain hidden components, which do not inform the user of how the inherent components function. For example, consider a laptop computer. The use of the laptop does not inform a user of how the internal motherboard functions. Early on, there was debate about whether an informing versus non-informing use distinction had a bearing upon public use as prior art. Public use doctrine has consistently held that the distinction is irrelevant as to a finding of public use prior art. See *Egbert v. Lippman*, 104 U.S. 333, 336 (1881) (discussing circumstances in which a public use may be non-informing).

⁸⁴ *Id.*

sales and public use of the laptops constitute prior art under New § 102(a), and under the doctrine of inherency this finding of prior art would apply to the hidden internal components as well.⁸⁵ By contrast, secret sales and secret offers of sale would not be deemed prior art under New § 102(a) because they would not be publicly accessible.⁸⁶ Senator Kyl states: “There is no reason to fear ‘commercialization’ that merely consists of a secret sale or offer for sale but that does not operate to disclose the invention to the public.”⁸⁷

Thus Senator Kyl’s interpretation of New § 102(a)(1) “or otherwise available to the public” as a “public accessibility standard” condition precedent vastly departs from patent common law with respect to public use and on sale. At the same time, if adopted, this interpretation will protect the small inventor from his or her own ignorance of the forfeiture doctrines.⁸⁸

However, the Supreme Court has stated that “[i]n order to abrogate a common-law principle, the statute must ‘speak directly’ to the question addressed by the common law.”⁸⁹ Does Senator Kyl’s interpretation of “or otherwise available to the public” speak directly to the case law holdings he is arguing are now abrogated? Although the AIA does not explicitly define “or otherwise available to the public,”⁹⁰ the legislative history also does not deviate from Senator Kyl’s interpretation (i.e., no opposing Senators or Representatives). His analysis appears in the record immediately preceding the Senate vote passing S. 23, and the House never raises the issue. This at least permits imputing Senator Kyl’s intent and analysis to Congress as a whole, allowing it to be taken as the legislative intent behind “or otherwise available to the public.”

Additionally, two other comments in the legislative history support this overall conclusion. First, Senator Jeff Sessions of Alabama states: “This provision [referring to ability of third parties to submit relevant prior art] will allow the public to help the PTO correct its mistakes, and ensure that no patent rights are granted for inventions already *available to the public*,” suggesting that prior art must be available to the public.⁹¹ Secondly, there is this statement: “Limit ‘prior art’ used to bar a patent from issuing to only those disclosures made *available to the public* before the patent was sought and disclosures in earlier-filed patent applications,” from lobbyist materials entered into the Congressional Record with unanimous

⁸⁵ *Id.*

⁸⁶ 157 CONG. REC. S1371 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl).

⁸⁷ *Id.* See also S. Rep. No. 110-259, at 39 (2008) (stating that “secret collaborative agreements, which are not available to the public, are not prior art”).

⁸⁸ See, e.g., *Egbert*, 104 U.S. at 336–38 (holding that very minimal and limited non-inventor use constituted public use prior art under Old § 102(b), which had occurred long enough before the patent application was filed to create a statutory bar, rendering the small inventor’s patent invalid); *JumpSport, Inc. v. Jumpking, Inc.*, 191 F. App’x 926, 935 (Fed. Cir. 2006) (same); *Beachcombers Int’l, Inc. v. WildeWood Creative Prods., Inc.*, 31 F.3d 1154, 1159–60 (Fed. Cir. 1994) (same).

⁸⁹ *United States v. Texas*, 507 U.S. 529, 534 (1993) (citation omitted).

⁹⁰ 157 CONG. REC. S1370 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl).

⁹¹ *Id.* at S1326 (daily ed. Mar. 7, 2011) (comments from Senator Jeff Sessions) (emphasis added).

consent.⁹² Both of these sources appeared in the Senate's Record before Senator Kyl's detailed analysis, yet both are in harmony with that analysis, further supporting the contention that Senator Kyl's analysis should be taken as the Congressional intent behind "or otherwise available to the public."

Senator Kyl's actual statutory construction analysis focused on two key aspects: (1) the phrase "or otherwise" and (2) how the phrase of interest is set off from the traditional categories of prior art by a comma. First, Senator Kyl states that judicial construction of phrases "or otherwise" or "or other" when used at the end of a string of clauses is always construed in the same manner, that the modifier following "or otherwise" or "or other" restricts the meaning of the preceding clauses.⁹³ Secondly, when a comma sets off a modifier like "or otherwise available to the public" from the preceding clauses, the modifier should be construed to apply to all the preceding clauses in that sentence.⁹⁴ Both of these points lead to the same conclusion that "or otherwise available to the public" is a modifier that must restrict all the preceding classes of prior art, i.e., the modifier applies to patents, published documents, public use, and on sale.

2. Legislative History of New § 102(b)(1) "Disclosure"

Unlike "or otherwise available to the public," discussions pertaining to "disclosure" and the new grace period are plentiful in the legislative history, falling into two camps: (1) the Leahy-Smith camp and (2) the Feinstein-Lofgren camp.⁹⁵ The Leahy-Smith camp construes "disclosures" broadly,⁹⁶ while the Feinstein-Lofgren camp is concerned that "disclosures" may be construed narrowly, harming small inventors.⁹⁷ Even before delving into the legislative history on this point, it should be obvious that the Leahy-Smith camp viewpoint on the debate surrounding the meaning of "disclosure" carries considerable weight because the AIA is after all named from these two Congressmen.⁹⁸

The inventor has one year from the first public disclosure to file a patent application on the disclosed subject matter or be forever barred.⁹⁹ As noted

⁹² *Id.* at S1208 (daily ed. Mar. 3, 2011) (lobbyist materials from the Coalition for 21st Century Patent Reform that Sen. Kyl had, with unanimous consent, attached to the record) (emphasis added).

⁹³ *Id.* at S1370 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl) (citing *Strom v. Goldman, Sachs & Co.*, 202 F.3d 138, 146-47 (2d Cir. 1999)).

⁹⁴ *Id.* (citing *Finistar Corp. v. DirecTV Grp., Inc.*, 523 F.3d 1323, 1336 (Fed. Cir. 2008)).

⁹⁵ In addition to Sen. Leahy and Rep. Smith, this group also includes Sen. Kyl. The Feinstein-Lofgren group also includes Senator Reid (Senate Majority Leader). See Quinn, *supra* note 6 (stating that Sen. Reid may support Sen. Feinstein's proposition).

⁹⁶ See, e.g., 157 CONG. REC. H4429 (daily ed. June 22, 2011) (statement of Rep. Lamar Smith) (stating that to constitute a disclosure the inventor must make the subject matter available to the public).

⁹⁷ See, e.g., *id.* at H4430 (statement of Rep. Zoe Lofgren) (voicing concerns that the grace period will not cover trade secrets or private offers of sale).

⁹⁸ AIA, *supra* note 2.

⁹⁹ *Id.* sec. 3(b)(1), § 102(b).

above,¹⁰⁰ an understanding of “disclosure” is paramount because if something is prior art and also constitutes a disclosure by the inventor, that disclosure triggers the one-year countdown to when the grace period expires. The question is whether public use and on sale activity always constitutes a “disclosure,” or whether some public use and some on sale activities constitute disclosures while others do not.

The concern with interpreting “disclosure” only concerns the latter two categories of prior art (public use and on sale), not patents and published documents, because both of these by their very nature are published in written form and accessible to the public.¹⁰¹ This Comment then logically infers that patents and printed publications that are accessible to the public, meets the New § 102(b) “disclosure” function (which is to activate the one-year grace period). This inference flows from the basic statutory construction principle: terms should be given their “ordinary or natural meaning.”¹⁰² Webster’s defines “disclosure” as “the act or an instance of opening up to view, knowledge, or comprehension” which focuses on the “exposure” aspect of disclosure.¹⁰³ Such a common definition certainly supports the interpretation that patents and printed publications satisfy New § 102(b) “disclosure” as both are written documents accessible to the public. The more challenging question is whether “disclosure” encompasses non-written actions such as public use and on sale.

In pursuing an answer to this question, one does gain insight from analyzing how these two groups of legislators view New § 102(b)’s “disclosure.” Comments from the Leahy-Smith camp tend to suggest that “disclosure” would encompass both public use and on sale, regardless of written documents.¹⁰⁴ For example, there is a Legislative Notice included in the Senate’s Congressional Record that summarizes the intent and purpose of the AIA that was included in the Record immediately prior to the Senate vote that passed the bill, and this Notice states that

¹⁰⁰ See *supra* Part II, at 8–10 (discussing what could trigger the one-year grace period).

¹⁰¹ Old Law, *supra* note 7, §§ 152, 154; MPEP, *supra* note 14, § 2128.

¹⁰² *Bailey v. United States*, 516 U.S. 137, 145 (1995).

¹⁰³ WEBSTER’S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE 645 (Philip Babcock Gove et al. eds., 2002). Webster’s third definition for “disclosure” states “a statement or description of an invention and its method of operation in a patent application.” *Id.* This definition is interesting because even a common usage dictionary notes that within patent law the term “disclosure” is a traditional term of art, which implies that the Congressional decision to use “disclosure” in New § 102(b) without definition was ill advised. In Old or New § 112 “disclosure” is generally referring to a patent application’s written description. Old Law, *supra* note 7, § 112; AIA, *supra* note 2, sec. 4(c), § 112. Of course, the flip-side to that observation is that Congress was aware of § 112’s traditional use of “disclosure” relating to the written patent application, and thus when they choose to use “disclosure” in New § 102(b) the intention was to limit “disclosure” to only written documents. However, the legislative history nowhere even hints at this limited interpretation of “disclosure.”

¹⁰⁴ See, e.g., 157 CONG. REC. H4429 (daily ed. June 22, 2011) (statement of Rep. Lamar Smith) (stating that to constitute a disclosure the inventor must make the subject matter available to the public, for broad interpretation of disclosure).

the AIA actually preserves and strengthens the current grace period.¹⁰⁵ This is rather strong language, particularly in light of the Feinstein-Lofgren camp characterizing the new grace period as being narrowly drawn. Similarly, from the supportive group there is a statement from Senator Kyl that the new grace period is an “enhanced grace period.”¹⁰⁶ Statements about the old grace period being at least preserved, if not strengthened, imply that New 102(b)’s “disclosure” must include public use and on sale because the Old § 102(b) grace period did cover these categories of prior art. In this same session, Senator Kyl also provided two examples of what would constitute a “disclosure”: trade shows and academic conferences.¹⁰⁷ Further, along these lines there is this statement from Senator Leahy that “[t]he bill protects against the concerns of many small inventors and universities by including a 1-year grace period to ensure the inventor’s own *publication* or *disclosure* cannot be used against him as prior art but will act as prior art against another patent application.”¹⁰⁸ Thus this group makes it clear that published documents covering an inventor’s subject matter are disclosures that will trigger the one-year grace period under New § 102(b). From this principle comes the proposition that the AIA is not a first-to-file system,¹⁰⁹ but a “first to publish” system, i.e., the applicant who publishes first will have absolute priority against all others (at least for one year).¹¹⁰

However, what if “public use” and “on sale” occur without a publication? Are they still “disclosures”? The answer is: it depends. If the “public use” or “on sale” occurred in a way which was accessible to the public, then the likely answer is yes, these would constitute a disclosure. This conclusion is drawn from

¹⁰⁵ *Id.* at S1366 (daily ed. Mar. 8, 2011) (statements from a Legislative Notice amended to the Record by Sen. Jon Kyl via unanimous consent).

¹⁰⁶ *Id.* at S1041 (daily ed. Mar. 1, 2011) (statement of Sen. Jon Kyl) (arguing that the bill does protect the interests of small inventors).

¹⁰⁷ *Id.*

¹⁰⁸ *Id.* at S1176 (daily ed. Mar. 3, 2011) (statement of Sen. Patrick Leahy) (emphasis added) (addressing concerns that the bill protects both small inventors and universities).

¹⁰⁹ A first-to-file patent system is best understood by example. Consider two inventors, A & B, who have independently invented the same invention. Who should get the patent? Under a first-to-file system, the first to file the patent application earns priority and will be rewarded with the patent. With some nuances, this is essentially what the AIA has introduced. The U.S. was the last industrialized nation to adopt a first-to-file system. *See id.* at S1371–73 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl) (describing the new system as a first-to-file system). The pre-AIA system was a first-to-invent system. In the above scenario, whether A or B receives the patent may not be determined by their respective filing dates, but instead by what was called an “interference proceeding.” Old Law, *supra* note 7, §§ 102(g), 135.

¹¹⁰ 157 CONG. REC. S1041 (daily ed. Mar. 1 2011) (statement of Sen. Jon Kyl). One could argue that AIA’s first-to-file creates a first-to-publish rule under New § 102(b) where such a rule could be construed that New § 102(b)’s “disclosure” is limited to only publications and thus public use and on sale events do not find grace period protection. However, such an inferred argument is nowhere supported in the legislative history, that is the first-to-publish notion should not be viewed to constrain the interpretation of New § 102(b)’s “disclosure.”

statements made from the supportive camp.¹¹¹ For example, when Senator Kyl was discussing trade shows and academic conferences, he also said this: “An inventor who publishes his invention, or discloses it . . . or otherwise makes it publicly available, has an absolute right to priority if he files an application within one year of his disclosure.”¹¹² Further, there is the statement from Rep. Smith that the legislative authors intended there to be identity between the prior art categories of New § 102(a) and the grace period of New § 102(b) linked by “disclosures.”¹¹³ It then appears that “public use” and “on sale” prior art under New § 102(a) certainly may rise to the level of a New § 102(b) “disclosure” sufficient to activate the one-year grace period if the “public use” or “on sale” events were available to the public. Conversely, under this interpretation, secret sales (and secret offers for sale) would not be New § 102(b) “disclosures” and thus would not trigger the grace period because by definition secret actions are not accessible to the public.

Further, if one looks closely at the above quotes from Sen. Leahy and Sen. Kyl, in both situations their choice of words strongly implies that New § 102(b)’s “disclosure” includes non-written disclosures, which further implies that public use and on sale can rise to the level of a “disclosure.”¹¹⁴ For example, Senator Leahy had said: “[The] inventor’s own *publication* or *disclosure* cannot be used against him as prior art,” and Senator Kyl had said: “An inventor who *publishes* his invention, or *discloses* it.”¹¹⁵ Here in both quotes the Senators are distinguishing publications from disclosures with the disjunctive “or” suggesting both publications and non-publication disclosures can be sufficient to trigger the grace period if such a disclosure was available to the public. This also comports with Webster’s definition of disclosure, which refers to “an act” as being sufficient to constitute a disclosure.¹¹⁶ Hence, it appears that New § 102(b)’s “disclosure” can include non-written acts such as public use and on sale.

In sharp contrast, there are strong concerns voiced by the Feinstein-Lofgren camp regarding the mechanics of the new grace period in relation to “disclosures.”¹¹⁷ For example, Senate Majority Leader Reid of Nevada referred to

¹¹¹ See generally *id.* at S1033 (statement of Sen. Chris Coons); *id.* at S1041 (statement of Sen. Jon Kyl) (stating that a trade show or academic conference constitutes public use); *id.* at S1090 (daily ed. Mar. 2, 2011) (statement of Sen. Patrick Leahy) (discussing the benefits of the one-year grace period); *id.* at S1176 (daily ed. Mar. 3, 2011) (statement of Sen. Patrick Leahy) (concerning public seminars); *id.* at S1179 (statement of Sen. Chris Coons); *id.* at H1366 (daily ed. Jun. 22, 2011) (statement of Rep. Lamar Smith).

¹¹² *Id.* at S1041 (daily ed. Mar. 1, 2011) (statement of Sen. Jon Kyl) (emphasis added) (arguing that the bill is generally highly protective of inventors).

¹¹³ *Id.* at H4429 (daily ed. June 22, 2011) (statement of Rep. Lamar Smith).

¹¹⁴ *Id.* at S1090 (daily ed. Mar. 2, 2011) (statement of Sen. Patrick Leahy); *id.* at S1041 (daily ed. Mar. 1, 2011) (statement of Sen. Jon Kyl).

¹¹⁵ *Id.* at S1090 (daily ed. Mar. 2, 2011) (statement of Sen. Patrick Leahy); *id.* at S1041 (daily ed. Mar. 1, 2011) (statement of Sen. Jon Kyl).

¹¹⁶ See WEBSTER’S, *supra* note 103 and accompanying text.

¹¹⁷ See, e.g., 157 CONG. REC. S1113 (daily ed. Mar. 2, 2011) (statement of Sen. Harry Reid) (voicing doubts about whether the grace period will work); *id.* at S1182 (daily ed. Mar. 3, 2011) (statement

the new grace period as “significantly more scaled back” and questioned whether or not it will work, particularly for small and independent inventors.¹¹⁸ Likewise, Sen. Feinstein of California called the new grace period limited and murky and was concerned that “disclosure” was left undefined.¹¹⁹ She argued that leaving “disclosure” undefined would inevitably lead to unnecessary litigation and that the AIA had gutted the previously existing grace period.¹²⁰ Such a concern is echoed again in the House by Rep. Lofgren of California when she asks whether this new grace period will protect trade secrets and offers for sale that are not public.¹²¹

The answer is, interestingly, that the new grace period will not protect trade secrets and offers for sale that are not public, but nevertheless trade secrets and non-public offers for sale are protected under the AIA. This conclusion arises from the legislative history regarding New § 102(a)’s public accessibility requirement for prior art and the legislative history surrounding New § 102(b)’s “disclosure,” both examined above.¹²² Taken together, Congress intended that only public disclosures would constitute “disclosures” under New § 102(b) that would trigger the protections of the grace period. Thus trade secrets and non-public offers for sale do not constitute “disclosures” because they are not public and therefore do not trigger the protections of the grace period. However, because such secret actions are non-public, they also do not constitute prior art under New § 102(a) and thus could not be used to reject a patent application. Hence, the AIA does protect non-public communications such as trade secrets and non-public offers for sale in the sense that such non-public communications will not be used against the inventor as prior

of Sen. Dianne Feinstein) (describing the term disclosure as “murky”); *id.* at H4424 (daily ed. June. 22, 2011) (statement of Rep. Zoe Lofgren) (concerning what the term “disclosure” will not cover).

¹¹⁸ *Id.* at S1113 (daily ed. Mar. 2, 2011) (statement of Sen. Harry Reid) (supporting an amendment authored by Sen. Feinstein that would have eliminated the first-to-file and kept the first-to-invent system, an amendment which did not pass).

¹¹⁹ *Id.* at S1182 (daily ed. Mar. 3, 2011) (statement of Sen. Dianne Feinstein).

¹²⁰ *Id.*

¹²¹ *Id.* at H4424, H4430 (daily ed. June 22, 2011) (statement of Rep. Zoe Lofgren).

¹²² *See id.* at S1370–71 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl) (analyzing New § 102(a)’s “or otherwise available to the public” phrasing); *id.* at H4429 (daily ed. June 22, 2011) (statement of Rep. Lamar Smith) (discussing the interplay between New § 102(a) and New § 102(b)); *id.* at H4424, H4430 (statement of Rep. Zoe Lofgren) (discussing how the grace period under the AIA will not cover trade secrets or private offerings of sale); *id.* at S1182 (daily ed. Mar. 3, 2011) (statement of Sen. Dianne Feinstein) (suggesting “[l]itigation is sure to ensue as courts interpret [disclosure]”); *id.* at S1090 (daily ed. Mar. 2, 2011) (statement of Sen. Patrick Leahy) (addressing concerns that the bill protects both small inventors and universities); *id.* at S1041 (daily ed. Mar. 1, 2011) (statement of Sen. Jon Kyl) (arguing that the bill is generally highly protective of inventors); *id.* at S1113 (daily ed. Mar. 2, 2011) (statement of Sen. Harry Reid) (expressing doubts about whether the grace period will work); *id.* at S1182 (daily ed. Mar. 3, 2011) (statement of Sen. Dianne Feinstein) (describing the term disclosure as “murky”); *id.* at H4424 (daily ed. June 22, 2011) (statement of Rep. Zoe Lofgren) (concerning what the term “disclosure” will not cover); *id.* at S1113 (daily ed. Mar. 2, 2011) (statement of Sen. Harry Reid) (supporting an amendment authored by Sen. Feinstein that would have eliminated the first-to-file and kept the first-to-invent system); *see also supra* text accompanying notes 29–30, 41, 67, 108, 112, 117–18.

art. But an inventor operating in secret would not be protected against another inventor who chooses to publicly disclose the same invention (who invented the same invention independently). While the AIA will protect the inventor who operates in secret, that protection is limited, and reflects the reality that no inventor operates in a vacuum. In reality, an inventor may choose to maintain an invention in secret, but will always run the risk that another inventor will develop the same invention and file before the first inventor and thus be rewarded with the patent under a first-to-file system. The AIA simultaneously encourages early public disclosure so as to create prior art against other inventors.¹²³

B. Interpretations of New § 102(a) “Or Otherwise Available to the Public” and New § 102(b) “Disclosure”

In light of the above analysis, New § 102(a)’s “or otherwise available to the public” is a condition precedent on what constitutes prior art. If an item or action is not accessible to the public it cannot be prior art. Further, “disclosure” under New § 102(b) must be a *public* disclosure (accessible by the public) that does include non-written public disclosures. Conversely, non-public communications are not “disclosures” under New § 102(b). The ramifications of these suggested interpretations are explored below in the next major Part of this Comment.¹²⁴

Before turning to the ramifications of these suggested interpretations, at least two other approaches could provide some insight into how “or otherwise available to the public” and “disclosure” might be interpreted. One is existing patent case law and the other is a review of international patent law.

1. Existing Case Law

A traditional appeal to case law to aid in interpreting the new statutory language is not directly possible because these AIA provisions will not become effective until March 16, 2013.¹²⁵ Additionally, because of the current lag in prosecuting patent applications,¹²⁶ the first *ex parte* judicial proceedings challenging USPTO rejections under the AIA will likely not occur for at least a couple of years after the AIA’s effective date.¹²⁷ Further, claims of patent invalidity from infringement and declaratory judgment suits cannot arise until well after the first patents are issued under the AIA.¹²⁸

However, this does not mean existing case law is of no use. One approach would be to survey existing patent cases searching for the New § 102 language and to then analyze if those cases suggest any shared meanings for how the new language has been historically used. Such a strategy would likely work better for

¹²³ See 157 CONG. REC. S1176 (daily ed. Mar. 3, 2011) (statement of Sen. Patrick Leahy) (regarding the encouragement of early disclosure).

¹²⁴ *Infra* Part V.

¹²⁵ AIA, *supra* note 2, sec. 3(n)(1).

¹²⁶ Herberholz, *supra* note 35, at 28.

¹²⁷ Inferred from the current USPTO patent application prosecution backlog. *Id.*

¹²⁸ *Id.*

New § 102(a)'s "or otherwise available to the public" compared to New § 102(b)'s "disclosure" because the New § 102(a) phrase is longer and more specific, whereas "disclosure" is a legal term common to many disciplines. Further, "disclosure" has traditional significance in patent law with regards to § 112, i.e., the patent application itself is generally referred to as a "disclosure" that historically must satisfy at least three § 112 disclosure requirements, including: (1) a written description of the invention disclosure, (2) an enabling disclosure, and (3) a best mode disclosure.¹²⁹ Thus, unless the AIA intended New § 102(b)'s "disclosure" to parallel the traditional use in § 112 (as case law has interpreted § 112), then the AIA's choice of "disclosure" in New § 102(b), a term with a preexisting meaning in patent law, is inevitably ambiguous and prone to confusion. As noted above, a review of the AIA legislative history strongly suggests New § 102(b)'s "disclosure" is not limited to the traditional use of the word as applied in the § 112 context (i.e., only referring to the patent application's written description).¹³⁰

Regardless, such a survey of patent common law is beyond the scope of this Comment and, in light of the extensive and largely uncontested information present in the AIA's legislative history, likely to be only marginally persuasive. Regardless of what such case law might hold, it cannot trump clear Congressional intent.¹³¹

For example, consider the following statement: "[I]t is part of the consideration for a patent that the public shall as soon as possible begin to enjoy the *disclosure*."¹³² How is the Second Circuit using disclosure? The court is obviously referring to the invention, but are they referring to the invention as disclosed in the patent application and/or as disclosed by the physical invention itself? Either perspective, broad or narrow, could be reasonably argued.¹³³ But, given the AIA's relatively clear and uncontested legislative purpose regarding New 102(b)'s "disclosure," the Congressional intent should control.¹³⁴

¹²⁹ *Bos. Scientific Corp. v. Johnson & Johnson*, 647 F.3d 1353, 1361–62 (Fed. Cir. 2011) (referring to Old § 112's written description requirement, stating "the hallmark of written description is disclosure" (citation omitted)). See also Old Law, *supra* note 7, § 112 para. 1. Also note that the AIA's § 112 is largely functionally equivalent to Old § 112, where the main changes are merely in how the section is referred to, i.e., "first paragraph" in Old § 112 versus "paragraph (a)" in the AIA's § 112.

¹³⁰ *Supra* Part IV.A.2 and Part IV.B.

¹³¹ *Supra* Part IV.A.

¹³² *Metallizing Eng'g Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516, 520 (2d Cir. 1946) (emphasis added).

¹³³ See, e.g., MPEP, *supra* note 14, § 714 (containing an example of the traditional narrow interpretation of "disclosure" from the rule that no amendment may introduce new subject matter into the disclosure, i.e., this example tends to reinforce the notion that pre-AIA "disclosure" was itself a term of art that generally referred to the written description component of a patent application).

¹³⁴ See *In re Enserv Co.*, 64 B.R. 519, 520 (B.A.P. 9th Cir. 1986) ("Legislative intent may be ascertained from the clear language of the statute itself or from available legislative materials which clearly reveals this intent."). See also *Moore v. Am. Fed'n of Television & Radio Artists*, 216 F.3d 1236, 1244 (11th Cir. 2000) ("We may look to evidence of Congressional intent outside the four corners of the statute if (1) the statute's language is ambiguous; (2) applying it according

2. Review of International Patent Law

Another approach to interpreting New § 102's language would be to survey the major Patent Cooperation Treaty (PCT) nations and ask whether they use the New § 102 language in their national patent systems.¹³⁵ An international survey is only suggested because one of the foremost reasons for the AIA was to partially harmonize the U.S. patent system with the rest of the world in switching from a first-to-invent system to a first-to-file-system.¹³⁶ If partial harmonization was a major motivating factor for the AIA legislation, then presumably Congress may have borrowed terms of art from those other nations, since the AIA has adopted a first-to-file system.¹³⁷ However, as with the patent common law survey mentioned above,¹³⁸ such an international patent law survey is beyond the scope of this Comment and raises prudential concerns that even if such a survey is conducted the results may not advance this discussion.¹³⁹ For example, globally, a significant majority of nations do not even recognize a grace period, so a survey may not be very fruitful.¹⁴⁰

V. Application and Ramifications of Suggested Interpretations

In light of the legislative history and the need to protect the small inventor, this Comment argues that New § 102(a)'s phrase "or otherwise available to the

to its plain meaning would lead to an absurd result; or (3) there is clear evidence of contrary legislative intent." (quoting *United States v. DBB, Inc.*, 180 F.3d 1277, 1281 (11th Cir. 1999)).

¹³⁵ Regarding the PCT, the U.S. was the last PCT nation to adopt a first-to-file system (ushered in under the AIA). See MPEP, *supra* note 14, § 1800 (regarding the PCT). Cf. *id.* § 201.13 (table listing nations in which the U.S. would recognize a "right of priority" for a foreign filed patent application).

¹³⁶ See 157 CONG. REC. S1361 (daily ed. Mar. 8, 2011) (statement of Sen. Patrick Leahy) (regarding the harmonization goal of the AIA, stating that a "modernized patent system—one that puts American entrepreneurs on the same playing field as those throughout the world—is a key to that success"); *id.* at S1090 (daily ed. Mar. 2, 2011) (statement of Sen. Patrick Leahy) (regarding the harmonization purpose); Herberholz, *supra* note 35, at 29. Cf. 157 CONG. REC. S1094 (daily ed. Mar. 2, 2011) (statement of Sen. Dianne Feinstein) (acknowledging that harmonization is supported by big business, but questioning if harmonization will harm small investors). See also Quinn, *supra* note 6 (echoing Sen. Feinstein's views that we should be lobbying the world to harmonize with the superior aspects of the pre-existing U.S. intellectual property systems).

¹³⁷ See *supra* note 109; 157 CONG. REC. S1182 (Mar. 3, 2011) (statement of Sen. Dianne Feinstein).

¹³⁸ See *supra* Part IV.B.1.

¹³⁹ The legislative history in general does not explicitly mention using any nations as models for developing the AIA, but there are specific references to differences between the American, Canadian, Japanese, and European patent systems. See, e.g., 157 CONG. REC. S1369 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl); *id.* at S1179 (daily ed. Mar. 3, 2011) (statement of Sen. Chris Coons).

¹⁴⁰ Compare MPEP. *Supra* note 14, § 201.13 ((providing a table listing nations in which the U.S. would recognize a "right of priority" for a foreign filed patent application), with GAIL EDMONDSON ET AL., SCI. | BUS. INNOVATION BD. AISBL, A GRACE PERIOD FOR PATENTS: COULD IT HELP EUROPEAN UNIVERSITIES INNOVATE? 30–38 (2013), available at <http://www.insme.org/files/grace-period-report> (providing a table listing the international nations that do use some form of grace period).

public” is a public accessibility condition precedent on what constitutes prior art.¹⁴¹ The phrase is a condition which if not satisfied removes the item/event from qualifying as prior art. Additionally, this Comment concludes “disclosure” under New § 102(b) must be a *public* disclosure that does include non-written public disclosures, which conversely means non-public communications are not “disclosures” under New § 102(b).¹⁴² With these suggested interpretations in mind, how does this affect the traditional prior art categories of public use and on sale as taught by our seminal cases?¹⁴³

A. Public Use as Prior Art

What is public use? Traditionally, there is a line of public use cases that held that even a *single* sharing with one person of the use of an invention constituted public use, thus qualifying as prior art.¹⁴⁴ As introduced earlier,¹⁴⁵ the seminal case in this area is *Egbert*, where the invention was a corset spring, which was sewn into the corset’s lining and then made available to the inventor’s fiancé and only the fiancé for close to a decade.¹⁴⁶ The Court held that such a use constituted a public use and was therefore prior art.¹⁴⁷ Thus, historically, public use was whenever someone other than the inventor (or inventor’s immediate family) benefited from the invention.¹⁴⁸ Further, because this use had extended beyond the then two-year grace period the inventor was statutorily barred from obtaining a patent.¹⁴⁹ Under New § 102(a), this public use aspect of *Egbert* likely would have come out

¹⁴¹ See *supra* Part IV.B.

¹⁴² *Id.*

¹⁴³ The suggested interpretations for “or otherwise available to the public” and “disclosure” have no impact upon how the AIA will treat the prior art categories of patents and printed publications compared to how they were treated pre-AIA because these two categories already require public accessibility and by their nature constitute written disclosures. See Old Law, *supra* note 7, §§ 152, 154 (providing for a patent to be immediately made available to the public when it issues; substantially unaltered by the AIA); MPEP, *supra* note 14, § 901.04 (U.S. patents may be used for prior art references). For example, U.S. patents may be viewed online by anyone from anywhere in the world. See *Patent Full-Text Databases*, USPTO.GOV, <http://patft.uspto.gov/> (last modified Aug. 26, 2012). Further, patent applications, which may or may not issue, are published (unless an applicant elects to maintain the application as secret) and available to the public by default within eighteen months of the filing date. Old Law, *supra* note 7, § 122 (relevant sections unaltered by the AIA); MPEP, *supra* note 14, § 101. See also *In re Carlson*, 983 F.2d 1032 (Fed. Cir. 1992) (discussing when foreign patents may be treated as prior art); *In re Hall*, 781 F.2d 897 (Fed. Cir. 1986) (discussing how printed publications qualify as prior art if publicly accessible, generally regardless of publication language); MPEP, *supra* note 14, §§ 2126, 2128.

¹⁴⁴ See *Egbert v. Lippman*, 104 U.S. 333, 336–38 (1881) (containing the following three propositions: (1) a single use by someone other than the inventor (or inventor’s immediate family) constitutes public use prior art; (2) a single person who is not the inventor (or inventor’s immediate family) who sees and is taught about the invention constitutes public use prior art; and (3) invisible uses may also qualify as public use prior art, i.e., presently what the patent industry commonly refers to as non-informing uses).

¹⁴⁵ *Supra* Part IV.A.

¹⁴⁶ See *Egbert*, 104 U.S. at 335 (discussing the fiancée’s involvement).

¹⁴⁷ *Id.*

¹⁴⁸ *Id.* at 336–38.

¹⁴⁹ See *id.* (finding the previously granted patent subsequently invalid in this infringement suit).

differently because the corset spring use was not accessible to the public. Only one person had use of the spring and not the public at large. Public use under New § 102(a) represents a significant departure from the rule established by *Egbert* in that single uses by one person other than the inventor (or the inventor's immediate family) no longer constitute public use prior art. If this interpretation is adopted, then in future litigation, such an interpretation represents a significant triumph for the small inventor because historically it was the small inventor's ignorance of the strict pre-AIA public use doctrines that rendered many otherwise viable patents as invalid.¹⁵⁰

1. Non-Informing Uses

Egbert raises a further issue. The corset spring was sewn into the corset so that anyone wearing the corset would benefit from the device, but would not necessarily be aware of the device and certainly would not know how the device works. This type of invention, a component in a larger product that is not obviously present, is known as non-informing.¹⁵¹ Pre-AIA case law has followed dicta in *Egbert* that a distinction between informing and non-informing use is irrelevant as to whether use of the invention constitutes public use.¹⁵² Does this change under New 102(a)'s public accessibility standard? No, because under New § 102(a) the question is whether the public in general has access to the invention, and not whether the public has access that is conditioned upon an informing (or enabling) requirement.¹⁵³ For example, in *Egbert*, had the inventor made the corset spring invention available to a corset manufacturer who then mass-produced corsets using the sewn-in springs, then even though the use of the corset would constitute non-informing use of the springs, such public accessibility of the springs via the sold corsets would meet New § 102(a)'s public accessibility standard which would then constitute public use prior art under New § 102(a) as applied to both the corsets and the springs.¹⁵⁴ Thus, public accessibility refers to accessing the invention as it is to be used, including non-informing uses and not to accessing a product coupled with informing knowledge of the invention as a component in the larger sold product.

¹⁵⁰ *Id.*

¹⁵¹ *Id.* at 336 (Note that although *Egbert* itself does not use the language of "non-informing use," the concept as applied to public use did originate in *Egbert*). *Cf.* *Rosco, Inc. v. Mirror Lite Co.*, 304 F.3d 1373, 1380 (Fed. Cir. 2002) (discussing the doctrine of inherency). *See also* 157 CONG. REC. S1370 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl) (discussing how the doctrine of inherency still applies post-AIA). The concept that non-informing uses have no bearing on a public use determination is not the same concept as the doctrine of inherency, as the doctrine is generally applied in different factual situations, i.e., not public use. For example, the doctrine of inherency would be used as a premise for a USPTO examiner to make a § 102 anticipation rejection because under the doctrine an inherent component in a preexisting device would read a prior art against an invention seeking a patent. *Rosco*, 304 F.3d at 1380.

¹⁵² *Egbert*, 104 U.S. at 336.

¹⁵³ *See supra* Part IV.B.

¹⁵⁴ This is an example of the doctrine of inherency. *See also*, 157 CONG. REC. S1370 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl).

Similarly, consider a very small invention embedded deep within the engine of a vehicle sold on the mass market. Such an invention would constitute prior art as public use (and on sale) prior art under New § 102(a) even though its use is non-informing.¹⁵⁵ The use of the invention would occur whenever such vehicles are driven and would constitute non-informing use because the driving of the vehicle would not convey knowledge of how the invention functions, particularly since the invention is located deep within the engine. The more interesting question is whether such non-informing uses of inventions would constitute a “disclosure” under New § 102(b). If “disclosure” means a public disclosure in the most general and broad manner, encompassing non-written disclosures,¹⁵⁶ would the small invention embedded deep in the engine of a vehicle sold on the mass market constitute a “disclosure” under New § 102(b) so as to invoke the protections of the new one-year grace period? This would certainly be public use prior art (and on sale), but would it be a “disclosure”?

Such a public use (and on sale event) must be interpreted as a “disclosure” under New § 102(b) for three reasons. First, such a conclusion comports with the Rep. Smith’s view that Congress intended there to be “an identity between [New §] 102(a) and [New §] 102(b). If an inventor’s action is such that it triggers one of the bars under [New §] 102(a), then it inherently triggers the grace period subsection [under New §] 102(b).”¹⁵⁷ This assertion of identity between New § 102(a) and (b) for inventor-created prior art also comports with the statements of Senators Leahy and Kyl when they referred to the new grace period as preserving and strengthening the old grace period,¹⁵⁸ which implies a finding of “disclosure” under New § 102(b) because such a public use under Old § 102(b) was entitled to the grace period.¹⁵⁹ Secondly, under the doctrine of inherency, the sale and use of the vehicles means that all of the vehicle’s component parts would also be treated as public use and on sale prior art.¹⁶⁰ Thirdly, to hold that the small invention embedded deep within the engine is a not “disclosure” would be a vast departure from the common law of patents, harming all inventors, not only the small ones, as illustrated by the below example.¹⁶¹

¹⁵⁵ *Id.*

¹⁵⁶ *Id.*

¹⁵⁷ See *id.* at H4429 (daily ed. Jun. 22, 2011) (statement of Rep. Lamar Smith) (explaining the effect of New § 102(a) on New § 102(b)’s applicability).

¹⁵⁸ *Id.* at S1041 (daily ed. Mar. 1, 2011) (statement of Sen. Jon Kyl); *id.* at S1366 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl).

¹⁵⁹ Old Law, *supra* note 7, § 102(b). See, e.g., *Egbert v. Lippman*, 104 U.S. 333, 337 (1881) (suggesting that the corset spring patent would have been valid if the patent application was filed before the grace period expired, which was triggered by the non-informing public use).

¹⁶⁰ See 157 CONG. REC. S1370 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl) (applying the doctrine of inherency to show that elements of a disclosed product become public).

¹⁶¹ See, e.g., *Egbert*, 104 U.S. at 337 (showing that in public use cases in general, a finding of public use was sufficient to trigger the one-year grace period pre-AIA); *JumpSport, Inc. v. Jumpking, Inc.*, 191 F. App’x 926, 935 (Fed. Cir. 2006) (same); *Beachcombers Int’l, Inc. v. WildeWood Creative Prods., Inc.*, 31 F.3d 1154, 1160 (Fed. Cir. 1994) (same).

Imagine Ford Motor Co. begins selling an existing model tomorrow, but with a new invention in the seat cushions. If those sales and public uses constitute prior art but do not trigger the grace period, then Ford would immediately be barred from obtaining a patent on the new invention (assuming they began selling the invention imbedded in the existing model before filing their patent application). Thus, not holding such sales as a “disclosure” under New § 102(b) would tend to keep new inventions off the market until a patent application is filed or some other disclosure is made, which would tend to harm the public by delaying their access to otherwise beneficial inventions. In light of Rep. Smith’s identity assertion,¹⁶² it is hard to imagine that Congress could intend such an outcome. It seems much more likely that “disclosure” under New § 102(b) must include public non-informing uses to avoid such a detrimental outcome to inventors, large or small.

Egbert includes one more fact situation that is relevant to the public use discussion under New § 102(a).¹⁶³ In addition to the inventor putting the corset spring into use in a single corset, the inventor also discussed the invention on a single occasion over dinner with only a couple of people (one being his fiancé who had been using the spring in her corset and the other a business associate of the inventor).¹⁶⁴ This discussion over dinner included demonstrating the corset spring to the guests (which necessitated cutting the spring out of the corset it had been sewn into for years).¹⁶⁵ The Court held such a discussion, although limited to a single occasion and to a limited number of people, was nonetheless a public use constituting prior art.¹⁶⁶ Such a holding changes under New § 102(a)’s public accessibility standard because a single discussion over dinner with a limited number of people does not rise to the level of making the invention available to the public.¹⁶⁷ Because such a discussion over dinner would not be available to the public, this discussion would then not be prior art under New § 102(a); therefore, there is no need for grace period protection under New § 102(b). Thus, there is no need to explore whether this dinner discussion would constitute a “disclosure” under New § 102(b). In addition to *Egbert*, other cases which have held there was public use because of very limited use or non-public discussions come out differently under New § 102(a)’s public accessibility requirement to qualify public use as prior art.¹⁶⁸

¹⁶² See 157 CONG. REC. H4429 (daily ed. June 22, 2011) (statement of Rep. Lamar Smith) (exploring the identity link between New § 102(a) and New § 102(b)).

¹⁶³ *Egbert*, 104 U.S. at 335.

¹⁶⁴ *Id.*

¹⁶⁵ *Id.*

¹⁶⁶ *Id.* at 336–37.

¹⁶⁷ See *supra* Part IV.B.

¹⁶⁸ See, e.g., *JumpSport, Inc. v. Jumpking, Inc.*, 191 F. App’x 926, 935 (Fed. Cir. 2006) (finding that variations on limited, non-public use can constitute public use); *Beachcombers Int’l, Inc. v. WildeWood Creative Prods., Inc.*, 31 F.3d 1154, 1160 (Fed. Cir. 1994) (same).

2. Experimentation Exception

The experimentation exception to public use forms another interesting line of cases in the public use prior art category.¹⁶⁹ The rule from this line of cases is that reasonable experimentation, even if done openly in the public presence, will stay application of the grace period until the invention is ready for patenting, at which point the countdown to the expiration of the one-year grace period begins.¹⁷⁰ The seminal case in this line is *City of Elizabeth v. American Nicholson Pavement Co.*¹⁷¹ In *City of Elizabeth*, the experimentation went on openly for six years before the public and thus under the pre-AIA public use rules would have constituted prior art that would have exceeded the grace period, creating a statutory bar. The invention here was a road surface in the Boston, Massachusetts area which, arguably, required durability testing over several seasons and heavy use to perfect the invention.¹⁷² The Court held such experimentation was reasonable given the nature of this invention, and thus reasonable experimentation designed to ready an invention for patent application is justified and will stay application of the grace period.¹⁷³

Does this experimentation exception to public use continue under New § 102(a) and (b)? The doctrine was judicially created¹⁷⁴ and should be affirmed under the AIA because some inventions require public experimentation that last over a year.¹⁷⁵ Such experimentation when carried out in a manner which makes the invention accessible to the public, as in *City of Elizabeth*, technically constitutes prior art under New § 102(a) because such use of the invention by the public meets the public accessibility standard.¹⁷⁶ However, the passage of the AIA had no bearing on the continued need for this exception because certain inventions will inevitably require extensive, open experimentation before the public to ready the invention for patenting.¹⁷⁷ Thus, this exception should continue under the AIA for policy reasons that transcend the AIA's passage.

¹⁶⁹ See *City of Elizabeth v. Am. Nicholson Pavement Co.*, 97 U.S. 126, 136 (1877) (establishing the experimentation exception to public use).

¹⁷⁰ *Id.* at 134–35. As an alternative view of this exception, instead of stating that experimental use stays the commencement of the grace period, one could say there is no public use because the invention is not yet ready for patenting. But such an alternative is best viewed as the policy supporting the experimental use exception to public use.

¹⁷¹ *Id.*

¹⁷² *Id.* at 133.

¹⁷³ *Id.* at 134–35.

¹⁷⁴ *Id.*

¹⁷⁵ See *infra* note 177.

¹⁷⁶ See *supra* Part IV.B.

¹⁷⁷ Vehicle roadway surfaces were a prime example of this experimental need (e.g., *City of Elizabeth*) because historically such newly invented surfaces could not be effectively tested behind closed doors. However, consider a novel medical device, a new type of albuterol inhaler that was sufficiently similar to predicate devices to be grandfathered in under FDA's 510(k) program (i.e., no issues with safety or efficacy), but that nonetheless was not ready for patenting and required extensive testing (greater than a year) by patients to ready the novel inventive aspect of the

3. Secret Uses

Lastly, under pre-AIA case law the public use doctrine was also applied to certain “secret uses” that technically were not public use of the invention, but were held as such for policy reasons.¹⁷⁸ For example, in *Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co.* the inventor used a novel inventive process that was initially operated as a trade secret within his facility.¹⁷⁹ Customers would submit worn metal parts that would then be “metalized” by the inventive process and subsequently returned to the part’s owner.¹⁸⁰ Hence the public had access to the products (refurbished parts) but not to the inventive process that metalized them, so technically there was no public use of the invention itself. After maintaining the inventive process as a trade secret coupled with commercial sales of the refurbished parts for over a year, a patent application was filed, a patent issued and was subsequently successfully challenged in an infringement suit.¹⁸¹ The Second Circuit reasoned the patent was invalid because although the invented process was not available to the public, the products of the inventive process were available to the public for over a year before the patent application was filed.¹⁸² More importantly, the public accessibility of the products was the necessary link that allowed the court to prevent this inventor from leveraging this secret use beyond the fixed twenty-year statutory term for patents.¹⁸³ Holding otherwise would have allowed the inventor to extend his monopoly beyond the fixed statutory term, not only in violation of the statutory provision but also the Constitution,¹⁸⁴ because he had already benefited commercially from the invention for over a year before filing his patent application.¹⁸⁵ Thus for policy reasons “secret use” coupled with commercialization that extends over a year constituted public use prior art (and on sale) under Old § 102(b).¹⁸⁶

Like the experimental exception to public use, the policy reasons related to patent terms continue to justify holding certain “secret uses” to be either public use

inhaler, which could be anything for the sake of this argument, such as a new shape to better fit in pockets or a new nozzle design to prevent accidental leakage or operation. Such a device would still need the benefit of experimental exception to public use under the AIA.

¹⁷⁸ See *Metallizing Eng'g Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516, 520 (2d Cir. 1946) (injecting policy consideration into public use analysis).

¹⁷⁹ *Id.* at 517 (referring to the patented process that used a new technique for spraying molten metal to recondition worn metal parts).

¹⁸⁰ *Id.*

¹⁸¹ *Id.*

¹⁸² *Id.* at 520.

¹⁸³ *Id.* See also Old Law, *supra* note 7, § 154 (which the AIA did not amend); MPEP, *supra* note 14, § 2701 (specifying a twenty year monopoly for utility patents and fourteen years for design patents).

¹⁸⁴ See U.S. CONST. art. I, § 8, cl. 8 (“To promote the Progress of Science and useful Arts, by securing for *limited Times* to Authors and Inventors the exclusive Right to their respective Writings and Discoveries” (emphasis added)).

¹⁸⁵ *Metallizing*, 153 F.2d at 520.

¹⁸⁶ *Id.*

or on sale prior art post-AIA.¹⁸⁷ If a “secret use” of an inventive process is coupled with public availability of the products produced from an inventive process, such behavior would constitute public use under New § 102(a)’s public accessibility standard of the produced products. Should such use extend past one year, the inventor would be statutorily barred under New § 102(b) from receiving a patent because public availability of the products constitutes a non-written public “disclosure” under New § 102(b) that activates the grace period.¹⁸⁸

However, the *Metallizing* court is concerned with a subtle distinction regarding an inventor profiting from a secret use, between benefits accruing to the inventor for inventions that have entered the public domain and inventors benefiting privately from their inventions that remain out of the public domain.¹⁸⁹ Private benefits exist when an inventor uses the invention internally within the inventor’s household and/or business without commercial benefit.¹⁹⁰ For example, only using the metalizing process to metalize the inventor’s own keepsakes, before filing a patent application, would be an acceptable private use of the invention. Theoretically, such an inventor could maintain such a private secret use of the invention for the inventor’s entire life and still be able to receive a patent on the device.¹⁹¹ It is only with inventions that have entered the public domain where a risk of exceeding the twenty-year statutory term exists, because the statutory term will never even begin to run for inventions that remain out of the public domain.¹⁹² Interestingly, inventions can only enter the public domain through public “disclosures” of the type announced in New § 102(a), i.e., patents, patent application publications, other publications, public use, and on sale transactions.¹⁹³ Thus, what the Second Circuit was concerned with in *Metallizing* was an inventor profiting (in the commercial sense) from his invention beyond the statutory twenty-year term when the invention had irreversibly entered the public domain.¹⁹⁴

However, under New § 102(a), secret use not coupled with public use of the product would not constitute prior art at all, because New § 102(a)’s public accessibility requirement does not concern itself with secret use but only use that

¹⁸⁷ See U.S. CONST. art. I, § 8, cl. 8 (demonstrating that the Constitution’s mandate for limited monopolies obviously continues post-AIA); *Metallizing*, 153 F.2d at 520 (providing the political rationale for determining that “secret use” for commercially profiting purposes constitutes public use).

¹⁸⁸ See *supra* Part IV.B.

¹⁸⁹ *Metallizing*, 153 F.2d at 520.

¹⁹⁰ *Id.*

¹⁹¹ *Id.*

¹⁹² See *id.* (implying that by definition an invention that remains secret and not accessible to the public, with no public disclosures regarding the invention, would then never have entered the public domain or give rise to prior art).

¹⁹³ *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150–51 (1989); *Wilhelm Pudenz, GmbH v. Littlefuse, Inc.*, 177 F.3d 1204, 1207–08 (11th Cir. 1999); *Thomas & Betts Corp. v. Panduit Corp.*, 138 F.3d 277, 284 (7th Cir. 1998).

¹⁹⁴ *Bonito Boats*, 489 U.S. at 150–51.

results in products which are then made available to the public.¹⁹⁵ Thus, under New § 102(a), secret use that conveys only a private benefit to the inventor and is not made available to the public would not rise to the level of prior art and therefore would not constitute a “disclosure” under New § 102(b).¹⁹⁶

Finally, in the secret use subcategory of public use cases there is one last type of fact pattern exemplified in *W.L. Gore & Associates, Inc. v. Garlock, Inc.* requiring analysis under New § 102.¹⁹⁷ In many respects, *Gore* is similar to *Metallizing* as both involve secret uses of inventive processes that produce products, where only the products and not the inventive processes are available to the public. *Gore*'s second holding, relevant here, is best understood in the context of *Metallizing*.¹⁹⁸ Under *Metallizing*, secret use of an inventive process coupled with commercialization for over a year creates a statutory bar to the issuance of a patent under public use and on sale.¹⁹⁹ But under *Gore*, perhaps counter-intuitively, that secret activity it is not a bar or even prior art as to *another* inventor who (even later in time) independently makes the same process invention. The reason for this distinction arises out of fundamental patent law policy, which desires early dissemination of the invention to the public.²⁰⁰ Under *Gore*, third party secret use of a process used to make products sold on the open market will not be prior art against a different independent inventor who, even later in time, invents the same process.²⁰¹ This holding can also be understood in terms of our basic notion of

¹⁹⁵ This conclusion is merely the logical extension of New § 102(a)'s public accessibility requirement to inventive processes used in secret for a private benefit of the inventor. See *supra* Part IV.B.

¹⁹⁶ This conclusion represents applying the suggested interpretations of New § 102(a) & (b) to the *Metallizing* holding that private use that only benefits the inventor does not ever itself create a bar to patentability. *Metallizing*, 153 F.2d at 520. See also *supra* Part IV.B.

¹⁹⁷ 721 F.2d 1540, 1545 (Fed. Cir. 1983). Outside of patent law *Gore* is famous because the company's products, Teflon tape and Gore-Tex fabric, remain ubiquitous.

¹⁹⁸ *Gore*'s first holding reiterated an existing holding that, “[t]he *nonsecret* [sic] use of a claimed process in the usual course of producing articles for commercial purposes is a public use” will bar patent issuance regardless of the grace period if the non-secret use of the claimed process was also in use by someone other than the inventor under Old § 102(a). *Id.* at 1549 (emphasis added) (citing *Elec. Storage Battery Co. v. Shimadzu*, 307 U.S. 5, 20 (1939)). See also Old Law, *supra* note 7, § 102(a) (“A person shall be entitled to a patent unless—(a) the invention was known or used by others in this or a foreign country . . .” (emphasis added)). For example, one of the technologies in *Gore* was a machine that made Teflon tape. Consider two inventors *A* and *B*. If the inventor *A* of such a Teflon tape machine tried to patent the invention, but inventor *B* had independently and previously invented a Teflon tape machine, but had not patented the machine and was using the machine openly, then such an informing use by a third-party (inventor *B*) would constitute prior art under Old § 102(a) that would immediately bar inventor *A* from receiving a patent on his independently invented Teflon tape machine. This is a classic example of the pre-AIA first-to-invent system. This author believes this result would not change post-AIA, but such a belief was not analyzed in this Comment.

¹⁹⁹ *Metallizing*, 153 F.2d at 520.

²⁰⁰ *Gore*, 721 F.2d at 1550 (“Early public disclosure is a linchpin of the patent system.”).

²⁰¹ *Id.* (“As between a prior inventor who benefits from a process by selling its product but suppresses, conceals, or otherwise keeps the process from the public, and a later inventor who promptly files a patent application from which the public will gain a disclosure of the process, the law favors the latter.”).

fairness, i.e., it is plainly not fair to hold that someone else's secret invention constitutes prior art against your invention, if there was no way for you to ever learn of that secret invention; further, doing so would tend to punish you, the inventor who choose to disclose the invention.

Does *Gore* survive the AIA? The pre-AIA patent law policy of encouraging early public disclosure of inventions certainly continues after the AIA's enactment as evidenced by the legislative history and the mechanics of New § 102(b) in how the provision protects those that disclose their inventions.²⁰² Because this policy favoring prompt disclosure of an invention continues post-AIA, there is no reason to believe that *Gore* should change under New § 102(a) and (b).

In summary, under the AIA, the public use prior art category should continue to operate as it has pre-AIA with one exception: that limited discussions and uses of the inventive product will no longer rise to the level of public use prior art because New § 102(a) demands public accessibility.²⁰³ Other pre-AIA public use doctrines, as found in *City of Elizabeth*, *Metallizing*, and *Gore*,²⁰⁴ should remain valid for continuing policy reasons.²⁰⁵

B. On Sale as Prior Art

The final category of prior art to be analyzed under New § 102(a)'s public accessibility standard and New § 102(b)'s "disclosure" is that of "on sale" events. *Pfaff v. Wells Electronics, Inc.* is the seminal case regarding "on sale" prior art under Old § 102(b).²⁰⁶ The case set down two conditions for on sale prior art under Old § 102(b): (1) the invention must have been the subject of a commercial *offer*

²⁰² 157 CONG. REC. S1371 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl) (noting the fundamental patent law policy of encouraging early public disclosure of inventions continues under the AIA). Sen. Kyl suggests a first-to-file system inherently accomplishes this goal by rewarding the first inventor to file the patent. Under the old system this policy was furthered by patent forfeiture doctrines. See *id.* at S1208 (Mar. 3, 2011) (statement of Sen. Jon Kyl) (suggesting that the inventor who promptly discloses first should get the patent, from lobbyist materials under the heading "S. 23 Protects Inventors Once They Publicly Disclose Their Work" that Sen. Kyl had, with unanimous consent, attached to the record). See also *supra* note 27 (regarding forfeiture doctrines).

²⁰³ See *supra* Part IV.A.1.

²⁰⁴ The public use prior art doctrines which should remain under the AIA for policy reasons include: the experimental exception to public use (*City of Elizabeth*); secret use of an inventive process that produces products sold or accessible to the public *does* constitute public use prior art and a triggering of the grace period (*Metallizing*); and third-party secret use of an inventive process that produces products sold or accessible to the public *does not* constitute public use prior art as against another inventor who later in time invents the same process (*Gore*). See generally *supra* Part V.A.

²⁰⁵ 157 CONG. REC. S1371 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl) (stating the patent law's policy to encourage public disclosure).

²⁰⁶ 525 U.S. 55, 57 (1998).

for sale, and (2) the invention must have been ready for patenting.²⁰⁷ Both conditions contain several nuances.

As to commercial offers for sale, actual sales need not even be consummated for the “on sale” event to constitute prior art under Old § 102(b).²⁰⁸ (Some subsequent case law appears to be expanding the Court’s minimum requirement for a commercial offer to also include the remaining elements of a contract: acceptance and consideration.²⁰⁹) “Commercial offers” must also be distinguished from “experimental offers.”²¹⁰ An “experimental offer” refers to the “experimental exception” as discussed above in *City of Elizabeth*.²¹¹ For example, under Old § 102(b), if an offer for sale was primarily made for experimental reasons to further an invention, such a sale would not constitute on sale prior art.²¹² An additional implication of this prong of *Pfaff* is that a single commercial offer for sale meets this requirement, i.e., one commercial offer is sufficient.²¹³ Historically, this requirement is very broad: whether the offer was private (or secret) or public was irrelevant.²¹⁴ A single secret or private commercial offer for sale that never resulted in a sale was sufficient to establish this first requirement for on sale prior art under *Pfaff*.²¹⁵

An invention may be shown to be “ready for patenting,” the second on sale requirement, in one of two ways: an actual reduction to practice or a constructive

²⁰⁷ *Id.* at 67. See also *Lab. Skin Care, Inc. v. Ltd. Brands, Inc.*, 757 F. Supp. 2d 431, 435 (D. Del. 2010).

²⁰⁸ See *Grp. One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1046 (Fed. Cir. 2011); MPEP, *supra* note 14, § 2133.03(b) (regarding “on sale” events, “offer” is defined by the Uniform Commercial Code). See also *Link Treasure Ltd. v. Baby Trend, Inc.*, 809 F. Supp. 2d 1191, 1197–98 (C.D. Cal. 2011), *appeal dismissed*, 438 F. App’x 896 (Fed. Cir. 2011). See generally *Pfaff*, 525 U.S. 55.

²⁰⁹ *Linear Tech. Corp. v. Micrel, Inc.*, 275 F.3d 1040, 1052–53 (Fed. Cir. 2001). The Court may have ratified this Federal Circuit expansion as they did deny certiorari. *Micrel, Inc. v. Linear Tech. Corp.*, 538 U.S. 1052 (2003). However, in their denial opinion there is nothing that indicates if this expansion issue was raised. *Id.* Thus, it is not entirely clear if this expansion trumps the Court’s holding in *Pfaff*. 525 U.S. at 67.

²¹⁰ *Pfaff*, 525 U.S. at 67.

²¹¹ See *supra* note 169 and accompanying text.

²¹² *Pfaff*, 525 U.S. at 64–65. Parties will litigate this issue, i.e., whether a sale was made primarily for experimental reasons, with commercial success only an incidental effect, versus the sale really being made to commercialize the invention.

²¹³ See *Grp. One*, 254 F.3d at 1046; *Link Treasure*, 809 F. Supp. 2d at 1197–98.

²¹⁴ The irrelevance of whether an offer for sale was private, secret, or public is only implied in *Pfaff*. That actual assertion is found in other cases. See *Special Devices, Inc. v. OEA, Inc.*, 270 F.3d 1353, 1357 (Fed. Cir. 2001); *Woodland Trust v. Flowertree Nursery, Inc.*, 148 F.3d 1368, 1370 (Fed. Cir. 1998); *In re Cygnus Telecomms. Tech., LCC*, 481 F. Supp. 2d 1029, 1052 (N.D. Cal. 2007), *aff’d*, 536 F.3d 1343 (Fed. Cir. 2008).

²¹⁵ See generally, e.g., *Special Devices*, 270 F.3d 1353. However, while these cases do imply a secret offer for sale may constitute on sale prior art even without the sale being consummated (e.g., not paying for the produced product), such a finding would require the patentee to receive some sort of commercial benefit from the attempted transaction.

reduction to practice.²¹⁶ Actual reduction to practice results if the inventor makes a working model of the invention that performs all of the invention's attributes (i.e., what the invention is claiming).²¹⁷ An actual reduction to practice typically occurs when an invention has been reduced to a tangible physical form that operates largely as the invention was intended to operate.²¹⁸ Constructive reduction to practice occurs when any combination of documents (including drawings) satisfies the enabling requirement of § 112 (Old or New).²¹⁹ The classic example of a constructive reduction to practice is a filed patent application that is sufficient to satisfy § 112's enabling requirement.²²⁰

Under *Pfaff* and Old § 102(b) how do commercial offers for sale and reduction to practice relate to each other to establish on sale prior art? The facts in *Pfaff* provide a good example of the pre-AIA mechanics.²²¹ Grace period analysis always begins with dates using the base-line date of when the patent application was filed, which often will be the "effective filing date."²²² For example, in *Pfaff* the effective filing date was April 19, 1982.²²³ From this date, one calculates the "critical date" as the date that exactly predates the effective filing date by one year.²²⁴ This one-year period is the grace period and anything constituting prior art before this critical date constitutes a statutory bar to the issuance of a patent.²²⁵ Thus, in *Pfaff* the critical date was April 19, 1981.²²⁶ With the critical date calculated, checking for on sale prior art activity is then a matter of testing the two

²¹⁶ *Pfaff*, 525 U.S. at 67–68. *Pfaff* itself does not use the term of art "constructive reduction to practice," that express phrase is found elsewhere. See MPEP, *supra* note 14, §§ 2138, 715.07(a) (e.g., the filing of a patent application is a constructive reduction to practice); *Netscape Commc'ns Corp. v. ValueClick, Inc.*, 704 F. Supp. 2d 544, 559 (E.D. Va. 2010).

²¹⁷ *Fujikawa v. Wattanasin*, 93 F.3d 1559, 1563 (Fed. Cir. 1996); *Bos. Scientific Corp. v. Cordis Corp.*, 422 F. Supp. 2d 1102, 1112 (N.D. Cal. 2006).

²¹⁸ *Bos. Scientific*, 422 F. Supp. 2d at 1112.

²¹⁹ *Crown Packaging Tech., Inc. v. Ball Metal Beverage Container Corp.*, 635 F.3d 1373, 1380 (Fed. Cir. 2011) (discussing the Old § 112 enabling requirement). See also Old Law, *supra* note 7, § 112; AIA, *supra* note 2, sec. 4(c), § 112(a) (the enabling requirement essentially requires the patent application to sufficiently document the invention to allow (i.e., enable) a person of ordinary skill in the art to reproduce the invention with minimal experimentation); MPEP, *supra* note 14, §§ 2138, 715.07(a) (regarding constructive reduction to practice). Cf. *Burroughs Wellcome Co. v. Barr Labs., Inc.*, 40 F.3d 1223, 1231 (Fed. Cir. 1994) ("[E]nablement and conception are distinct issues, and one need not necessarily meet the enablement standard of 35 U.S.C. § 112 to prove conception.").

²²⁰ *Centocor Ortho Biotech, Inc. v. Abbott Labs.*, 636 F.3d 1341, 1353 (Fed. Cir. 2011). See also MPEP, *supra* note 14, §§ 2138, 715.07(a).

²²¹ *Pfaff*, 525 U.S. at 57–59.

²²² The effective filing date by default is the patent application filing date, but may precede that date as well under § 119 and § 120. See AIA, *supra* note 2, sec. 3(g)(6), § 119 (claiming benefit to earlier filed provisional applications and claiming right of priority to a foreign application); *id.* sec. 3(f), § 120 (claiming effective filing date of a parent application). See also MPEP, *supra* note 14, § 201.11.

²²³ *Pfaff*, 525 U.S. at 57.

²²⁴ *Id.*

²²⁵ *Id.* at 57–58. See also Old Law, *supra* note 7, § 102(b).

²²⁶ *Pfaff*, 525 U.S. at 57.

elements (i.e., presence of a commercial offer for sale and a reduction to practice) against this critical date.²²⁷

Regarding the on sale prior art first requirement under *Pfaff* of a commercial offer for sale, in *Pfaff* the purchaser confirmed a purchase order on April 8, 1981, which implies that the commercial offer for sale occurred on or before April 8, 1981.²²⁸ Thus, so far in this on sale prior art analysis under Old § 102(b), the commercial offer for sale occurred before the critical date, meaning one of the two on sale prior art requirements was met.²²⁹

In order for that commercial offer for sale to constitute prior art, the reduction to practice must have occurred before the critical date of April 19, 1981. In *Pfaff* the actual reduction of practice occurred in July 1981, when the products were produced by a contract manufacturer, which was after the critical date, and thus did not constitute on sale prior art under an actual reduction to practice analysis.²³⁰ However, in *Pfaff* there were two constructive reductions to practice, one when the patent application was filed, which obviously by definition is not an issue because the application filing date must be one year after the critical date. But the other constructive reduction to practice occurred in March 1981 (before the April critical date) when detailed drawings of the invention were provided to a contract manufacturer.²³¹ The Court held that these detailed drawings were a constructive reduction to practice because the drawings were sufficient to allow a contract manufacturer to produce the invention, which satisfies § 112's enabling requirement. Therefore the commercial offer for sale satisfied the two-prong test for on sale prior art, rendering *Pfaff*'s patent invalid.²³²

How do New § 102(a) and (b) change this, if at all? The concern about on sale prior art under the AIA is twofold. First, how does New § 102(a)'s "or otherwise available to the public" affect what constitutes on sale prior art? This involves applying the *Pfaff* two-prong test under New § 102(a). Secondly, would on sale transactions that satisfy New 102(a)'s public accessibility requirement meet New § 102(b)'s "disclosure" requirement to activate the grace period?

Applying New § 102(a)'s public accessibility standard to on sale prior art then suggests that each element of the *Pfaff* test must be available to the public for the offer/sale to constitute on sale prior art. If there has been a reduction to practice, such a reduction will often satisfy public accessibility as either public use or printed publication prior art categories. For example, actual reduction to practice would result from manufacturing operations, which then typically would result in end use of the product, which often will then qualify as public use prior art. Whereas, if

²²⁷ See *id.* at 67–68 (discussing the holding).

²²⁸ *Id.* at 58.

²²⁹ *Id.* at 68–69.

²³⁰ *Id.* at 58.

²³¹ *Id.* at 68.

²³² *Pfaff*, 525 U.S. at 68–69.

there has been a constructive reduction to practice, then by definition documentation exists, and should such documentation be publicly accessible, then such a constructive reduction to practice would qualify as a printed publication prior art. Additionally, the commercial offer element must be available to the public as well to constitute as on sale prior art under New § 102(a). This conclusion, resulting from applying New § 102(a)'s public accessibility standard to the *Pfaff* test, is supported by Senator Kyl in the legislative history where he states under the AIA secret offers for sale would not constitute on sale prior art.²³³ Moreover, the legislative history on this particular point is devoid of any opposing viewpoints, suggesting that Senator Kyl's view should be adopted. This is a departure from Old § 102(b) because a finding of on sale prior art under Old § 102(b) was not conditioned upon if the offer was secret or not,²³⁴ whereas under New § 102(a) this distinction is paramount.²³⁵

Would such an application of New § 102(a) have changed the outcome in *Pfaff*? Yes, if the purchase order between *Pfaff* and Texas Instruments was found not to be publicly accessible, which seems likely because even publicly traded companies do not generally make available to the public, as a general rule, the details of individual purchase orders.²³⁶ Even under New § 102(a) the production of the invented parts (July 1981) would have constituted public use prior art, but that production began after the critical date (April 19, 1981) and thus such a public use would not have been a statutory bar here; hence, *Pfaff*'s patent likely would have been found valid. So while the outcome in *Pfaff* would likely be different under New § 102(a), this departure from Old § 102(b) will rarely be material because by-and-large consummated offers for sale quickly result in the production of products that will quickly be used by the public. If a patent application can be rejected for on sale prior art, when an offer was consummated, there is a high likelihood the application could have been rejected because of public use prior art. For example, in *Pfaff* the difference in time between the commercial offer for sale (April 8, 1981) and the production of parts (July 1981) was about four months, which would have mattered under New § 102(a) because the critical date (April 19, 1981) fell within that four month window.

²³³ See 157 CONG. REC. S1371 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl) (stating that "[t]here is no reason to fear 'commercialization' that merely consists of a secret sale or offer for sale but that does not operate to disclose the invention to the public").

²³⁴ See *Special Devices, Inc. v. OEA, Inc.*, 270 F.3d 1353, 1357 (Fed. Cir. 2001) (discussing the irrelevance of whether an offer for sale was private or public).

²³⁵ If secret offers for sale do not constitute on sale prior art under New § 102(a), then logically this should facilitate inventive activity, particularly for small inventors who often need investment capital just to ready the invention for a patent application. See *supra* note 86 and accompanying text (developing the proposition that secret offers for sale are not prior art under New § 102(a)). See Quinn, *supra* note 6 (proposing that small inventors need financing to ready inventions for filing the patent application).

²³⁶ See, e.g., Sarbanes-Oxley Act of 2002, 15 U.S.C. § 7261 (2012) (providing examples of what publically traded companies must disclose to the Securities and Exchange Commission).

As to whether on sale prior art under New § 102(a) would be considered a “disclosure” under New § 102(b) to activate the grace period, recall that public disclosure (in the broadest sense) is not limited to written disclosures.²³⁷ For commercial offers that are accompanied with documentation, the “disclosure” requirement to trigger the grace period will be met. Because the interpretation suggested is very broad, any sale accompanied by *any* supporting or memorializing documentation would suffice to meet New § 102(b)’s disclosure requirement, including purchase orders, packing slips, sale confirmations (including online communications via email or websites), warranty information, detailed drawings (as in *Pfaff*), etc.²³⁸

The more interesting question stems from offers that are neither consummated nor documented in any written format. First, the offer must have been accessible to the public because New § 102(a) requires prior art to be accessible by the public.²³⁹ That condition must be met first or a discussion of whether or not the grace period has been activated is moot. Assuming the offer constitutes New § 102(a) on sale prior art, is the offer a “disclosure” under New § 102(b)? Consider an inventor who has already actually reduced his invention to practice and then holds a live press conference broadcast to the public at large offering his invention for sale to the public. Assume the live broadcast is not documented in any way and the offer for sale is not consummated. Would this broadcast be considered a public disclosure sufficient to invoke New § 102(b)’s grace period, despite a lack of written documentation?

For three reasons such a broadcast must be considered a “disclosure” under New § 102(b). First, the inventor in the common usage of disclosure did indeed make a public disclosure by his live broadcast.²⁴⁰ Thus, a common sense broad interpretation of disclosure supports the notion that undocumented public offers for sale are sufficient to trigger the grace period. Second, to hold otherwise would create an unintended gap in how the patent law treats prior art created by an inventor. That is, the broadcast meets the requirements for New § 102(a)’s on sale prior art,²⁴¹ but if the grace period is not triggered then the inventor must file his patent application on the day of the broadcast or be barred. Thirdly, Rep. Smith’s comments in the legislative history stating the Congress intended there to be identity between the prior art categories of New § 102(a) and the grace period of New § 102(b) linked by “disclosures,” such that whenever an inventor creates his own prior art under New § 102(a) this automatically triggers the grace period under

²³⁷ See *supra* Part IV.B.

²³⁸ Logical inference based on this Comment’s suggested interpretation for “disclosure” under New § 102(b). See *supra* Part IV.B.

²³⁹ See *supra* Parts V.B, Part IV.B (arriving at this conclusion when applying New § 102(a)’s public accessibility requirement to *Pfaff*’s two prong test for on sale prior art).

²⁴⁰ See WEBSTER’S, *supra* note 103 and accompanying text.

²⁴¹ The live broadcast meets New § 102(a)’s on sale prior art requirement, as interpreted under *Pfaff*, because it was a commercial offer made to the public at large and the inventor had actually reduced the invention to practice. See *supra* Part V.B.

New § 102(b), strongly implies this live broadcast must be considered a “disclosure” under New § 102(b) to activate the grace period.²⁴²

Note, because secret offers for sale, on their own, should not constitute on sale prior art under New § 102(a)’s public accessibility requirement,²⁴³ there is no need to discuss whether secret offers for sale should trigger the grace period because the issue of grace period operation can only arise if there is prior art to trigger it.²⁴⁴

VI. Conclusion

If the USPTO and judges follow the suggested interpretations presented in this Comment, that New § 102(a)’s “or otherwise available to the public” imposes a *public accessibility standard* as a condition precedent required to constitute prior art regardless of type and that New § 102(b)’s “disclosure” broadly covers all *public* disclosures, including non-written disclosures, then small inventors will not only be conditionally protected in their secret endeavors,²⁴⁵ but will be encouraged to publicly disclose their inventions to enjoy the priority protection of the new one-year grace period.²⁴⁶ Further, “public use” and “on sale” events will be “disclosures” if the events are publicly accessible, which will then activate the new one-year grace period. Non-public offers for sale (and even secret sales), are not “disclosures” and will not trigger the protections of the new grace period. But because such secret events are non-public they also will not be prior art under New § 102(a) and thus the inventor need not fear that a non-public offer for sale or secret sale will prevent granting of a patent, regardless of how much time passes, assuming the event remains non-public (secret) and no other independent inventor publicly discloses the invention.

New § 102(a) and (b) will not become effective until March 16, 2013.²⁴⁷ It will be years before the USPTO and courts are forced to grapple with these issues. The most prudent advice to offer small inventors until the USPTO and courts do issue decisions in this area is a hedge to protect against decisions conflicting with this Comment’s interpretation. Inventors can best protect their rights under the AIA by taking a conservative approach, by making obvious published disclosures (e.g., written disclosures accessible by the public) to trigger the protections of the

²⁴² 157 CONG. REC. H4429 (daily ed. Jun. 22, 2011) (statement of Rep. Lamar Smith).

²⁴³ *Id.* at S1371 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl).

²⁴⁴ See AIA, *supra* note 2, sec. 3(b)(1), § 102(b) (making grace period activation a concern only if there is a prior art). See also 157 CONG. REC. H4429 (daily ed. Jun. 22, 2011) (statement of Rep. Lamar Smith).

²⁴⁵ Under this interpretation, inventors are protected under the AIA in their secret endeavors because secret actions will fall short of New § 102(a)’s public accessibility requirement; however, this protection is conditional (i.e., qualified), because such inventors are not protected against other independent inventors who invent the same subject matter and publicly disclose that invention. That is, the qualified protection can be breached by the independent inventive actions of third parties who do publicly disclose.

²⁴⁶ *Supra* Part IV.B.

²⁴⁷ AIA, *supra* note 2, sec. 3(n)(1).

new grace period, as the legislative history shows no conflict in this area.²⁴⁸ Further, the best published disclosure to make would be the filing of provisional patent applications,²⁴⁹ as such a filing would not only activate the one-year grace period protection, but would also *not* constitute a “pre-filing disclosure” which could bar patentability in other countries.²⁵⁰ The filing of a provisional application is both prior art and a disclosure under New § 102, but also preserves the inventor’s ability to pursue foreign patents. If foreign patents are not important or practical, then a frugally published disclosure could easily be accomplished with a bare bones website where the inventor puts the world on notice of their invention a year or less before they file their non-provisional patent application because it is only through public disclosure that the inventor preserves the exclusive rights to seek a patent for one year.

In summary, should the USPTO and courts follow these suggested interpretations, then the doomsday scenario presented in the introduction will be avoided and small inventors will indeed enjoy unprecedented support under the AIA. For example, because prior art must now be publicly accessible, small inventors are encouraged to pursue venture capitalist financing and other collaborative partnerships without fear of creating damaging prior art.²⁵¹ Such an environment should serve to promote and foster the inventive efforts of the small inventor, which as noted earlier forms a basis for significant U.S. job growth.²⁵² Additionally, under these interpretations, the small inventor no longer must fear or suffer from their own ignorance in making inadvertent disclosures, such as discussing their new invention at a dinner party. Yet at the same time, the AIA serves to promote early disclosure, because while secret negotiations will no longer penalize an inventor, the inventor is still risking an independent inventor filing or disclosing the same invention first, which in the end promotes prompt disclosure.

²⁴⁸ *Supra* Part IV.A.2.

²⁴⁹ See 35 U.S.C §§ 119(e), 120 (2011) (defining provisional and non-provisional applications, respectively). Note additionally, that provisional applications are both much less expensive and less rigorous to prepare compared to full-fledged non-provisional applications. Quinn, *supra* note 6.

²⁵⁰ See 157 CONG. REC. S1369 (daily ed. Mar. 8, 2011) (statement of Sen. Jon Kyl) (stating that “pre-filing disclosures,” not including provisional applications, will prevent patentability in Europe and Japan).

²⁵¹ Assuming such discussions are held in private and the details are kept confidential.

²⁵² Lobbyist Materials Supporting Small Inventors, *supra* note 4, at 3–4.

