LEX MACHINA

U.S. PRIOR USER RIGHTS / INVENTORSHIP STUDY

EXECUTIVE SUMMARY **07 NOV 11**

Congress has essentially asked the U.S. Patent and Trademark Office an impossible question: ***What would happen if prior user rights were implemented in the United States?*** More concretely, it has asked as to the impact of this defense on innovation, and as to non-U.S. implementations of prior user rights. But problems exist with both approaches. Future innovation rates are hard to predict. Foreign data may be hard to gather comprehensively. Moreover, the application of prior user rights in exogenous procedural environments (*i.e.*, foreign courts) may be misleading. A better approach is to comprehensively gather empirical data on U.S. doctrinal analogues, including ***prior inventorship rights***. See Exhibit A, attached hereto.

This project was conceived by Professor Mark Lemley; and commissioned and financed by the Coalition for Patent Fairness ("CPF"). Lex Machina, Inc. conducted an empirical study investigating the empirical incidence of litigation merits determinations surrounding 35 U.S.C. §102(g)(2), which the Leahy-Smith America Invents Act (the "Act") replaces, in part, with the prior user rights defense. Id. The CPF took no part in data analysis.

IMPORTANCE OF STUDY

In replacing the first-to-invent system with a first-to-file system, the Act exposes inventors and entrepreneurs to the risk that they will be found to infringe their own inventions. Traditionally, 35 U.S.C. 102(g)(2) (the "prior inventor defense") protected against this risk. Because section 102(g)(2) has now been eliminated, prior user rights are an essential mechanism to protect prior inventors. In this study, we evaluate the importance of section 102(g)(2), and hence the need for prior user rights.

OUTCOME OF STUDY

The results were surprising.

Lex Machina completed what is, to our knowledge, the largest empirical study of §102(g)(2) in U.S. history, focusing on merits analyses of this defense occurring on or between January 1, 2005 and October 15, 2011. See id. We expected few such events, especially since three quarters of patent infringement lawsuits settle (see, e.g., https://lexmachina.com/members/cases/outcomes) and other sources of prior art are easier to find and apply. See, e.g., Lex Machina Empirical Study on 35 U.S.C. 102(a) (forthcoming) (www.lexmachina.com).

To ensure comprehensiveness, we identified relevant cases in two independent ways. The first, employing attorneys and artificial intelligence experts on the IPLC database, swept over 31,000 U.S. patent infringement lawsuits and 1.7 million contemporaneous litigation events. See Ex. A. The second legal team searched using exogenous, state of the art methodologies and tools. Then the two preliminary result sets were combined and analyzed.

Lex Machina verified 90 (ninety) federal cases or case clusters (*i.e.,* groups of related lawsuits) with one or more "merits analysis event" on § 102(g)(2). Id. A prototypical merits analysis event (or "MAE") is a summary judgment order, but it may also be a Federal Circuit opinion, a trial outcome, a substantive evidentiary order, or another judicial analysis.

Diversity. It was an extremely diverse set of cases, covering inventions ranging from medical device, to networking technology, to drinking cups. Lex Machina classified the MAE cases into 17 (seventeen) different industries, including:

- Computer Hardware (14 cases)
- Manufacturing (12)
- Medical Devices (10)
- Software (10)
- Pharmaceuticals (8)
- Networking (8)
- Biotechnology (7)
- Home & Consumer (5)
- Transportation (4)
- Telecommunications (2)
- Chemicals (2)
- Office Equipment (2)
- Consumer Electronics (2)
- Gaming (1)
- Security (1)
- Banking & Financial (1), and
- Food & Beverage (1).

See id. The MAE case set was just as diverse in terms of geographic locus: It covers U.S. district courts from all over the country. Id. And both apparatus and process patent claims are heavily represented. See id.

MAE Outcomes. More importantly, the success rate was high. Of nineteen trial outcomes, nine resulted in a successful §102(g)(2) outcome (*i.e.*, a dispositive or semi-dispositive win through the defense). See id. In the summary judgment context, a denial of a summary judgment motion may simply mean that there are genuine issues of material fact still to be resolved. Nevertheless, the MAE case set includes: (i) 13 (thirteen) outright summary judgment wins for the defense; (ii) 21 (twenty-one) denials of defense motions for summary judgment; (iii) two instances where the court analyzed the issue but did not enter judgment; (iv) 9 (nine) instances where the court granted summary judgment for the patent owner (eliminating the §102(g)(2) defense before trial); and (v) 14 (fourteen) instances in which the court denied the patent holders' motion to eliminate the defense. On evidentiary motions (motions to strike the defense or exclude relevant evidence from trial (motions *in limine*)), the courts granted four (4) and denied five (5) motions by patent holders. During post-trial proceedings, the courts denied judgment as a matter of law once to a defense-holder and once to a patent holder. Lastly, the MAE case set includes two case-dispositive wins for the §102(g)(2) defense on appeal. In contrast to the defense of inequitable conduct, the §102(g)(2) defense was used moderately, but successful frequently.

SIGNIFICANCE

The fact that the § 102(g)(2) prior inventorship defense was relied on so heavily (against expectation), and was successful so often, reflects the importance of prior user rights. Based on prior cases, we do not expect a flood of prior user right defenses; but prior user rights are likely to stand as an important bulwark protecting first inventors who might otherwise stand to lose their rights under the new first-to-file system.

BACKGROUND ON LEX MACHINA

Lex Machina is the "spin-off" of the Stanford Intellectual Property Litigation Clearinghouse (the "IPLC") (http://www.law.stanford.edu/program/centers/iplc/). The mission of the IPLC and its commercial successor is to support the United States with accurate empirical data on the patent litigation system. Lex Machina has a positive legal duty, under its charter from Stanford, to support the courts of the United States and help inform the better administration of IP law. Lex Machina's technology and data currently supports (i) patent holding companies, (ii) operating technology companies, (iii) law firms, (iv) universities, and (v) myriad government users.

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