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Subcommittee on Intellectual Property, Competition and the Internet
Hearing

“Prior User Rights Defense”

Prepared Statement of
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My academic research interests focus on patent law, intellectual property law and internet law. I also teach courses on property and civil procedure and am a member of the University of Missouri’s Center for the Study of Dispute Resolution and the International Institute for Conflict Prevention & Resolution (CPR) Patent Mediation Task Force. In addition to traditional academic publications, I coauthor the *Patently-O Patent Law Blog* that has a daily circulation of over 30,000 and is regularly read by most US patent law practitioners. Prior to joining the University of Missouri faculty, I was a visiting professor at Boston University School of Law and worked as a patent attorney at a major intellectual property law firm in Chicago where I represented inventors pursuing patent protection as well as clients litigating claims of patent infringement. Before entering law school, I served with my wife as a United States Peace Corps Volunteer in rural Ghana, West Africa; worked as a manufacturing engineer in upstate New York; and conducted research on microgravity combustion with NASA in Cleveland. I am not a registered lobbyist, I do not represent any clients, and I do not own stock in any particular company with a vested interest in patent rights (beyond broad-based mutual funds).

Thank you for this opportunity to present my remarks and testimony regarding prior user rights and their potential impact under the Leahy-Smith America Invents Act that was recently enacted into law. Before moving forward, I first would like to commend this Subcommittee and the Congress as a whole for its ongoing focus on intellectual property rights and in taking steps to ensure that we have an intellectual property system that makes sense in society, today and tomorrow. I also want to take a moment to congratulate Undersecretary of Commerce David Kappos and his entire team at the United States Patent & Trademark Office for their continued efforts in managing the administration of US patent rights and in implementing the myriad provisions of the America Invents Act. Director Kappos and his staff continue to be highly responsive to the needs of patent applicants and continue to receive high marks from the patent law community. The most notable change in the past six months is that the USPTO now has increased funding and is using that funding to address the bottlenecks that have led to such a large backlog of pending patent applications. I hope that you will continue to fully fund the USPTO while maintaining the proper level of oversight.¹

I make only a few main points in this testimony. The biggest point is my assessment that prior user rights as formulated in the America Invents Act will have only an insignificant and likely immeasurably small impact on our patent system. For that reason, I cannot call it a robust system of prior user rights. In section III, I introduce a set of potential changes that would lead us to a more robust regime. Section IV considers how prior user rights may have a differential impact on US entities as compared with foreign holders of US patent rights. That discussion is highly relevant in light of the fact that most new US patent applications are filed by foreign entities. Although the USPTO has done an admirable job with its report, I present two major criticisms in Part V. Finally, in part VI, I address some ambiguities of the prior user statute that could be fixed by technical amendment.

I. Introduction to Intellectual Property and Prior User Rights

Balancing Intellectual Property and Market Competition: My own entrée into intellectual property begins with the concept and principle that a market economy demands free and fair competition. Patent and copyright laws are exceptions to this principle. With intellectual property rights, we partially subordinate our freedom to compete in order to provide incentives

¹ Although outside of the scope of today's hearing, three particular points of oversight that the subcommittee may want to address include: (1) The USPTO may need oversight in addressing its enormous and growing backlog of appeals pending before the Board of Patent Appeals. The number of pending appeals before the Board is now over 25,000. That figure has risen every month without fail for the past seven years. (2) The USPTO may need oversight in developing its fee structure for the new post-grant opposition proceedings. In my view, the fees for such a proceeding should be set at a low enough level to encourage third parties to challenge improperly issued patents well before litigation occurs. (3) Finally, as part of the AIA, the USPTO is in the process of implementing a system that allows third-parties to submit prior art and comments to the PTO regarding patent applications under examination. Oversight may be necessary to ensure that the USPTO implements this system in a way that invites participation and collaboration in the system.

for innovators to create and develop new ideas and new products. I strongly support intellectual property rights and firmly believe that the prospect of rights provides a strong incentive to innovate and also a market mechanism for exchange. However, in managing our intellectual property system, we must remain diligent to guarantee that these rights do not inadvertently hamper our competitive drive – especially for small businesses and potential entrepreneurs. In this context, an ideal intellectual property system should promote both innovation and competition.

Federalism, Prior User Rights, and the Need for Simplicity: Today’s discussion is focused on prior user rights. That topic also calls to mind a separate but equally longstanding principle – that of federalism and individual state control over the management and allocation of property rights. Although the Federal Government has taken preemptive control over patent law, individual states continue to maintain systems that protect companies against trade secret violations and unfair competition as well as enforce contractual employee invention agreements and non-compete contracts. As a professor, I know that even my law students have some difficulty fully comprehending this federal system. For entrepreneurs, these rights form an overlapping morass. This is especially true for start-up companies who may have an excellent product and marketing strategy but who will likely lack a director of regulatory affairs – or even a general counsel. It is undoubtedly true that the complexity of regulation, enforcement, and potential liability all tend to chill innovative activity. In this context, an ideal intellectual property system should be as simple and straightforward as possible. Otherwise, the system will merely be the plaything of established entities protecting their market share and lawyer-driven entities gaming the system.

The Oddity of Prior User Rights – Granting Patents for Old Inventions: Under US law, a patent must be directed to a “new” invention.² However, it has always been the case that patents are occasionally rightfully granted even though the claimed invention is not *strictly* new. This disjunction traditionally stemmed from a requirement that a challenger present corroborated evidence of prior invention as well as the notion that a prior inventor who had abandoned his invention deserved no patent rights.³ With the implementation of a first-to-invent system, there will be more potential opportunities for patents to be lawfully granted even when the claimed inventor was not the first inventor. Prior user rights are then intended to cure the potential inequity that could otherwise occur when the patentee sues a prior inventor for infringement.

² 35 U.S.C. § 101. The “new” language from this statute is derived from the original patent act enacted in 1790.

³ See 35 U.S.C. §102(g) (pre-AIA).

II. The Likely Insignificant Impact of Prior User Rights

Although veiled in its statements, the USPTO Report on Prior User Report latches-on to the common sentiment in the patent law community that the prior user rights of the America Invents Act are so narrowly circumscribed that they are unlikely to have any measurable impact on the market for patents or demand for innovation. In my estimation, we will see very few cases emerge where prior user rights make a difference for an accused infringer.

Let me explain:

There are host of conditions that must be met before the prior user defense can be exerted. Most notably, an accused infringer must be able to show that it (or its predecessor in title based upon limited transfer rights) began to commercially use the invention at least one year before the patentee's filing date (and even further in advance if the patentee publicly disclosed the invention before filing). In the new statute, the defense only applies if prior user's version of the invention was created independently and without derivation from the patentee's version and the prior user acted in good faith. When formed together, these requirements look something like the eye of the needle and are difficult to pass through.

Further marginalizing the impact of prior user rights is the reality that the defense is only adds actual value when the patent being asserted is valid. *I.e.*, if the patent is invalid then there is no need for a prior user defense. The setup of a prior user situation suggests two likely scenarios that would lead to a decision of unpatentability. First, the existence of multiple independent creators of the same invention tends to suggest that the invention itself was obvious and therefore unpatentable.⁴ Using the language of the Supreme Court in its KSR decision: "market forces" likely prompted researchers to take the next step.⁵ In addition, the requirement that the prior user commercially used the invention is an indicator, albeit inconclusive, that anticipating prior art may be available to invalidate the patent. Conversely, if the prior user is successful in maintaining the secrecy of its commercial use for that time period, we're left with the suggestion that the prior user may able to continue to operate in secrecy without being uncovered and thus without being charged with infringement.

My conclusion that prior user rights will have very little impact on innovation and access is also supported by comparative analysis of the impact of prior user rights in various trading partner nations and the already existing US prior user right for business method patents. The USPTO report correctly indicates that these defenses have seen little to no successful assertion. In the US, prior user rights have been available since 1999 for the limited class of business method patents. During that time, there have been no reported cases where the defense was successfully asserted. During this time, the Court of Appeals for the Federal Circuit decided

⁴ See Robert P. Merges, *Commercial Success and Patent Standards: Economic Perspectives on Innovation*, 76 Cal. L. Rev. 803 (1988); John F. Duffy, *A Timing Approach to Patentability*, 12 Lewis & Clark L. Rev. 343 (2008).

⁵ *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398 (2007).

thousands of patent appeals on almost every imaginable patent doctrine – however the court did not address prior user rights. There was no need because the impact of that defense is so limited.

Two final concepts – lack of assurances and delay in patenting – push me to the same conclusion of little impact. First, I suggest that prior user rights will be given little *ex ante* consideration by would-be defendants because the right does not offer any real assurances or any vested right until years after the first commercial use. As discussed in the previous paragraphs, prior user rights only come into play under a cone of secrecy. At that time, the prior user has no assurances that it made commercial use of the invention more than a year before someone else filed a patent application on the same subject matter. The expense of searching PTO records makes the task of discovering prior patent applications quite difficult. The delay in publication of applications and later-filing of applications based on foreign priority makes this task literally impossible to complete. And, the ability of patent applicants to radically amend claims during the patent prosecution process means that any assurances identified cannot not be considered vested.

The final point – based on delay in patenting – is that most qualifying prior uses may be irrelevant and out-of-use by the time that the USPTO issues the covering patent. Most recently issued US patents have an effective original filing date of more than four years ago. This provides a window of at least five years for most prior users to legally practice the invention without recourse even in the absence of the prior user defense.⁶ In many areas of technology, the original prior use will have become obsolete by the end of that five-year timeline – allowing the prior user to move to a new technology without ever needing to obtain a license or permission from the patent holder.

III. Developing a Robust Regime of Prior user Rights

As I discuss above, the prior user rights regime of the AIA is not robust in any practical sense of the word. A robust regime would include prior invention, non-commercial use (such as laboratory research), and reduction to practice as triggers for establishing the right. A robust regime would create the opportunity for the establishment of a vested prior user right – perhaps through a registration system. A more robust regime would also eliminate the one-year pre-filing deadline. An even more robust regime would focus on the timing of patent claims. If new patent claims are added during the prosecution process, others may have rights if they were users before that date. A more robust system would follow this same approach for patent claims amended or added in the new array of post grant proceedings.

⁶ Under certain circumstances, a patentee may sue an infringer for back-damages that occurred prior to patent issuance under 35 U.S.C. §154(d). However, that cause of action is quite limited and very few patentees have been successful.

Here, I am not prepared to recommend that these policies be implemented. What I can say, however, is that the current system does not robustly protect prior users.

IV. Relative Benefit of Prior User Rights for US Manufacturers and Universities

On their face, US patent rights do not provide preferential treatment to US innovators or business owners as compared with foreign nationals. In fact, US treaty obligations under the Paris Convention for the Protection of Industrial Property (Paris Convention) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) require that the US offer national treatment to citizens of all our treaty partners. This national neutrality is respected at the USPTO and I have seen no perception of discrimination based upon national origin of inventors or patent owners. The national neutrality is also reflected in the reality that most corporate entities filing for patent protection in the US are foreign corporations and not US corporations.⁷

Unlike the much of the rest of the patent law statute, however, prior user rights do include a US-focused location limitation for establishing a right to assert the defense. In particular the defense is only available if the prior use was commercial use in the US. This limitation on the geographic site of US prior user rights has the potential of differentially impacting US industry, and it makes sense to consider whether US entities may be preferentially treated. The following table highlights the potential relative impact of prior user rights on various stakeholders.

Stakeholder	Helped or Hurt by US Prior User Rights
US Universities	Helped: University derived inventions become relatively more valuable because they are normally not subject to prior user rights.
US Manufacturers and Technology Companies	Helped and Hurt: US patents belonging to US manufacturers become less valuable because they are subject to prior user rights. However, US manufacturers have the potential of avoiding infringement charges based upon their own prior use.
US Non Practicing Entities (NPEs)	Hurt: NPEs US patents become less valuable for NPEs because they are subject to prior user rights. By definition, NPEs do not practice the invention and therefore do not benefit from the prior user right defense.
Foreign Manufacturers and Technology Companies	Hurt: Foreign entities US patents become less valuable because they are subject to prior user rights. Further, the foreign entities cannot assert prior user rights based upon activities in their home countries. However, foreign entities could benefit from the prior user rights if their prior commercial use of an invention was in the US.

⁷ See U.S. Patent Statistics Chart for Calendar Years 1963 – 2011, available at http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm.

The relative impact here is to primarily benefit US stakeholders – especially US universities and manufacturers. Because the benefits are triggered by commercial use in the US, the law should encourage entities to take those actions in the US rather than abroad.

Congress should always be cautious in developing intellectual property laws that preferentially treat US-based entities both because of treaty obligations and because of the potential for creating international turmoil. In this case, however, the vast majority of the US's major trading partners have already implemented prior user rights that, in parallel fashion, marginally benefit their home industries. Thus, in this case, the US is merely catching-up to our trading partners' protectionist practices.

V. Criticisms of the USPTO Report on Prior User Rights

The USPTO's extensive report is admirable in the face of a dearth of evidence available on prior user rights. I have two primary criticisms of the USPTO report.

First, the USPTO arrived at a conclusion that the prior user rights created in the America Invents Act "strikes the right balance." Their conclusion was derived from the fact that we have no evidence to the contrary. Of course, that conclusion does not hold under any logic. No one in business, academia, or government has explored the prior user issues in sufficient depth to answer the questions posed by Congress. If we want answers, then the USPTO should roll up its sleeves and conduct a study that gets to the answers. Of course, that approach takes time and money.

My second criticism is about whether the USPTO is the proper body to be answering this particular question. The problem is that under US law, the USPTO has no role in patent infringement analysis, patent litigation, or regulation of start-up ventures. The agency has no expertise in this area and yet is being asked to determine the general impact of the law. A superior body may be the FTC, the Courts, and the community of US innovators.

VI. Ambiguities

The most difficult portion of the prior user rights provision is Section 273(e)(5)(B), which is an exception to the general university exception of 273(e)(5)(A). It reads as follows:

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

It is my view that this subsection needs to be entirely rewritten to more clearly identify the rule of law.

Finally, because these rights will be adjudged in the course of federal court litigation, the impact of the defense may be substantially impacted by the court's choices regarding burdens

of proof, corroboration of testimony regarding prior use and sufficiency of the evidence, waiver, etc. The current law provides no guidance on those issues that may be the key deciding factors in many cases.

VII. Conclusion

Thank you for this opportunity to present my remarks.

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