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USPTO
Public Hearing on the Study of Prior User Rights
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>> TERESA STANEK REA: Good morning, everybody. I think we
should start this webcast because we have a number of people in
their home offices that are eager to hear what we have to say
today. Thank you all for taking the time to attend this very
important public hearing. I'd like to thank you on behalf of
the United States Patent and Trademark Office, Congress, and the
American public because we have a very important issue to
discuss today.

As you know, it's the responsibility of the United States
Patent and Trademark Office to present a study to Congress on
January 16th concerning prior user rights. There was a
publication in the Federal Register on October 7th identifying
this meeting and giving the public notice. And the objective of
this hearing is actually for us to obtain information from you,
our user community, on various aspects of prior user rights.

Now, you can submit either oral testimony today -- and we
have a number of people who will, indeed, be doing so. But to
those of you who are still organizing your thoughts and would
like to provide input, we are still very interested in that

input, and we would like you, if possible, to submit written comments by November 8th just because a report is due to Congress by January 16th, 2012. So thank you very much.

Now, the objective of the written comments and hearings is to collect information from you, the public, on the scope of prior user rights and to provide a study to Congress. Now, the public participation in the prior user rights study is necessary to assist us in performing this very important function. Congress has already identified and targeted several areas for study, and the agency, the United States Patent and Trademark Office, seeks your input on several topics, including your experiences relating to the use of prior user rights in foreign jurisdictions, the frequency or regularity with which individuals engage in business abroad, and the opinions as to why prior user rights are or are not needed in particular jurisdictions. Experiences in analyzing the effects of prior user rights on innovation in selected countries is also being solicited, and views as to whether there are any legal or constitutional issues replacing trade secret law in the United States patent laws is also being solicited.

Now, Director Kappos as well as the entire United States Patent and Trademark Office team, we are working diligently toward implementation of the America Invents Act. And this ongoing dialogue with the user community and business community is vital, not only for us to remain transparent in the process of enacting the new law, but we want to obtain your input to guide and shape how new provisions in the patent system will be implemented.

And that's why this study, as well as six other studies, mandated by Congress, focus intently on gathering your concerns, your experience, and your expectations with the adoption of prior user rights defense. So this public feedback will now allow us to work in concert with developing a set of what we consider best practices, perhaps, for all stakeholders:

So given the importance of our mission today, I'd especially like to thank Janet Gongola, Elizabeth Shaw, Jesus Hernandez, Susan Hoffman, and Mary Critharis, for their support in piecing together today's hearing so very promptly and keeping the congressional mandated timelines.

Of course, the entire USPTO is grateful for those who are offering their testimony today. And for all of those who didn't preschedule to present testimony, we still welcome your input, and you still have an opportunity to orally participate if you so desire. We want this to be a thoughtful, robust, well-rounded discussion. However, remember, the importance is for us to hear from you because we are still incorporating and organizing our thoughts on this study.

Now, embedded in the social contract between the patent and the rest of society is a timeless acknowledgment that the American marketplace rewards hard work, innovation, and creativity, and patents allow that ingenuity to be promoted and shared with the entire world, and we want to offer market incentives to thinkers and creators everywhere to continue thinking outside the box and building on previous breakthroughs. And that is just exactly what we want the America Invents Act to do.

But in that effort, prior user rights become especially valuable as they preserve a tradition of American innovation when allowing manufacturers who adopt a technology first to continue making products that predate a patent application that may be filed by another later. By not stifling those existing technological processes, these rights allow manufacturers that invest in a technology before any patent application exists to continue utilizing their investment. Otherwise, those expenditures may be wasted, closing plants, destroying jobs, and stunting business and economic growth. And in this region, this is exactly why the prior user rights study is so important for us to discuss today. And your feedback is extremely important.

Now, from my own personal perspective, having spent significant time dealing with the issue as it pertains to the chemical and biotech industries and the processes in particular in the biotech and life sciences space, I personally understand the grave importance of prior user rights and how challenges faced overseas can be of utmost concern to business operations.

So we want a heightened sense of predictability. We want transparency. We want to assist business in doing the most efficient operations that they can. So we all have a very important challenge ahead of us today in guiding us in the implementation of the America Invents Act. And many of my colleagues here at the USPTO will repeat some of these statements and provide additional guidance. I thank you all for taking the time, and I appreciate your efforts. Thank you. Janet? I'd like to introduce my colleague, Janet Gongola. She is a Patent Reform Coordinator; however, I think of her as the Patent reform Czarina. Janet?

>> JANET GONGOLA: Thank you very much. I want to echo Deputy Director Rea's comments in thanking you. This is the first of many hearings we are going to have because Congress has required the agency to conduct six additional studies targeting different areas of intellectual property law. And I'll talk more about those momentarily. The public's input as Deputy Director Rea has indicated is crucial to our ability to complete this study in particular, since the agency is not asserting in litigation a prior user rights defense. So for that reason, we especially

need your input to help us prepare this study.

We appreciate those of you who have prescheduled to give testimony today: Mr. Alan Kasper, on behalf of AIPLA; Mr. Gary Griswold; Mr. Dan Lang for Cisco; and Mr. Tom Kowalski. And we welcome those of you who did not preschedule to give testimony to give unscheduled testimony this morning. It's wonderful to receive the support of the IP community and together provide information on prior user rights to Congress.

I alluded earlier to six additional studies required under the America Invents Act. Congress has mandated us to consider the following studies: international patent protection for small businesses; genetic testing; misconduct before the office; satellite offices; virtual marking; and our implementation of the America Invents Act. The USPTO intends to follow the same protocol for these six studies that we followed for the Prior User Rights Study. We will be issuing notices in the Federal Register seeking written comments from the public as well as calling for the public to give testimony at public hearings. After receiving all of your input, it is our plan to compile it and prepare our report for Congress. We will make all of the commentary that we receive from you available on our microsite. In addition, we will make the report that we ultimately supply to Congress also available on our microsite.

Now I'm going to take a moment just to do some foreshadowing of what's to come with the other studies, also to give some plugs for the other studies. The International Patent Protection Study is running concurrent with the Prior User Rights Study. We have our first hearing for the International Patent Protection Study scheduled for this Thursday afternoon from 1:00 to 4:00 pm in this very room. The second hearing for the International Patent Protection Study will be held on Tuesday, November 1st, at the University of Southern California-Gould School of Law.

We will soon be doing a genetic testing study. Our plan is to publish a Federal Register notice seeking input and setting hearing dates in mid-January 2012. And our report on that study will be due in June of 2012. And then the remaining studies are not due until 2013 or thereafter. So eventually, our attention will turn to those studies as well.

I'd like to also review a few dates about submitting written comments for those of you who will not be giving testimony today. Written comments for the Prior User Rights and the International Patent Protection Study are needed by November 8. As mentioned, we will be submitting our report to Congress in mid-January of 2012 for both studies. So we encourage those watching today via the microsite to consider submitting comments to the agency for both studies. It is not too late. Sharing

your experiences and thinking on the prior user rights study will enable the PTO to prepare the most accurate and well-informed report possible for Congress.

With that, I'd like to introduce Mary Critharis, a senior level Patent Attorney in the Office of External Affairs and the leader of the prior user rights study. Mary will provide you more details about the scope of the Prior User Rights Study.

>> MARY CRITHARIS: Thank you, Janet. I would also like to thank those who helped organize this event. Personally, I'd like to thank Elizabeth Shaw, Jesus Hernandez, and Susan Hoffman for all of their efforts. As a Patent Attorney in the international office working with foreign intellectual property offices for the last 15 years, our office has always been very cognizant of the different practices among our foreign trading partners. Prior user rights as a defense available in most foreign territories. Currently the United States has a very limited prior user rights defense. With the passage of the Leahy-Smith America Invents Act, the U.S. will extend prior user rights to all subject matter. Effective for all patents issued after September 16, 2011, the prior user rights defense will apply to all commercial uses of inventions or arms-length sales of the useful end result of such uses, provided that such uses are made one year before the effective filing date of the claimed invention or the public disclosure.

In the United States, however, the defense will be limited in that it will not be available at the patent invention when made was owned or subject to an obligation of assignment an institution of higher education or a technology transfer organization whose primary purpose is commercialization of technologies developed by those institutions of higher education.

Pursuant to the AIA, we are holding these hearings because the PTO really needs the public's input relating to go the use of prior user rights in foreign jurisdictions as well as the potential impact of prior user rights on small businesses and on innovation.

As you can see from the thrust of the Federal Register notice, we are very interested in your experiences in foreign jurisdictions. I also like to point out that while many of you may not have a lot of experiences in foreign jurisdictions with prior user rights, that information is also very valuable to us. So any input that you can give to us regarding experiences that you have had, even if the experiences are nonexistence experience, it's still very useful to us. We know that this information can be very difficult, so we really appreciate all of your efforts in assisting us.

We also realize that Congress only gave us four months to

complete this study, and we may understand that this may not have been sufficient time for people to adequately gather the data that is necessary to comply with the Federal Register notice. In this regard, I'd like to really thank those who took time out of their busy schedules to gather up information, to testify and participate in the hearing today. I would also like to point out for those listening and those that are here that we're more than willing to discuss any issues that you may have, or if you want to submit written testimony at a later time, please feel free to contact me, and we can talk about that

Without further ado, I would like to invite Alan Kasper to present his testimony. Mr. Kasper is Director of Shugrue's International Department, and a former President of the American Intellectual Property Law Association. Thank you, Mr. Kasper.

>> ALAN KASPER: Thank you very much. Madam Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director of the United States Patent and Trademark Office, my name is Alan Kasper, and I am a partner in the Washington DC patent law firm Shugrue Mion PLLC, also past president of the American Intellectual Property Law Association, AIPLA. I am pleased to have opportunity to present the views of the AIPLA with respect to the subject of patent prior user rights for purposes of the United States Patent and Trademark Office preparing the report on the subject as required by the America Invents Act.

AIPLA is a U.S.-based national bar association whose approximately 16,000 members are primarily lawyers in private and corporate practice, in government service, and in the academic community. AIPLA represents a diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, unfair competition, and trade secret law, as well as other fields of law affecting intellectual property.

Our members practice or are otherwise involved in patent law and other intellectual property law in the United States and in jurisdictions throughout the world. AIPLA has long supported the adoption of patent prior user rights in the United States, particularly in connection with the adoption of a first inventor to file standard. Thus, AIPLA has a strong interest in the establishment of appropriate prior user rights in the United States.

AIPLA has, for almost 20 years, supported the principle that prior user rights should operate as a complete defense to infringement, being available to persons making good faith pre-filing commercial use or sale of a patented invention in the United States.

That support was detailed at a hearing before the

subcommittee on patents, rights, and Trademarks, of the committee of the United States Senate held on August 9, 1994, in connection with Senate bill S 2272. Mr. Gary Griswold, then a member of the Board of Directors of AIPLA, testified in support of the provisions of S 2272 because AIPLA believed that American business, especially small business, should have the protection of prior user rights because foreign-based corporations already have such protection. Almost a decade later, AIPLA's Board of Directors in 2003 reaffirmed the association's support for prior user rights that are, number one, personal and assignable with the entire business; two, available whenever effective and serious preparations for use or sale have taken place in the United States before filing; three, based solely on activity in the United States; and four, limited in scope to the subject matter of the prefiling activity.

Under that 2003 Board action, any requirement for good faith on the part of the prior users should be satisfied when the user comes into possession of the subject matter by legitimate means and does not make a prohibited use of the subject matter. The right should not otherwise be restricted; that is by quantitative means or by the imposition of any obligation to the patentee.

This support was maintained during the ensuing years in connection with the AIPLA response to the October 2003 Federal Trade Commission report to promote innovation, the proper balance of competition, and patent law and policy. And in connection with subsequent legislative proposals for prior user rights in connection with patent reform during the 108th Congress, the 109th Congress, the 110th Congress, the 111th Congress, and the current 112th Congress that passed the America Invents Act.

In particular, Mr. Griswold, in his capacity as past president of AIPLA, provided testimony before the subcommittee on courts, the Internet and intellectual property of the House of Representatives on June 9, 2005, in support of the prior user rights provision in HR 2795, the Patent Act of 2005, particularly in connection with the proposed movement to a first inventor to file system. Copies of Mr. Griswold's testimony before the Senate and House subcommittees are being made available to the USPTO.

AIPLA notes that in the Federal Register notice, questions were posed for response by two categories of respondents, those having experience related to the use of prior user rights in foreign jurisdictions and those who did not have such experience. Well, AIPLA, as an association of professionals in the IP field, does not itself have the experience to which the study is directed. Its members and the association have a deep

understanding of the practical implications of prior user rights systems and the balance that is struck with regard to the underlying principles and protections provided by the patent system and the protection provided by trade secret law. Thus, the following answers to the specific inquiries of the notice of October 7 represent the Association's opinions with regard to the best practice that is may be applied to those inquiries and not to the experience of the Association's members. It is expected that those members with empirical and anecdotal data will provide that separately to the Office.

With regard to the first question in the notice that relates to experience with prior user rights in foreign jurisdictions, AIPLA does not engage in business abroad, but its members represent entities that do have business interests in or connected with members of the European Union, Japan, Canada, and Australia. The patent laws in the identified jurisdictions are based on the first to file standard and provide protection to products and processes that are novel, non-obvious, including an inventive step, that is, and have utility or industrial applicability. Moreover, these laws generally limit novelty destroying activity to events that -- to events to those who make an invention available to the public. Secret practice of an invention, especially a process, is not novelty destroying prior art. Under such circumstances, an early inventor who has decided to keep an invention, particularly a valuable process or method innovation, secret and not file for a patent because of the related costs and public disclosures may lose the benefit of that invention if a subsequent inventor of the same invention who obtains a patent is able to successfully enforce the patent against the earlier inventor. Common sense and equity suggests that the early inventor should be permitted to use his or her innovation under reasonable restrictions, such as a limitation to the level of invention prior to filing of the patent application by the subsequent inventor. Thus, in the absence of appropriate prior user rights, an equitable balance between the first and subsequent inventors would not exist.

With regard to question 2 in the notice, AIPLA has not analyzed prior user rights against innovation rights in other countries and has not obtained any empirical or anecdotal data to that topic. However, studies of prior user rights in 34 countries were reported in 21 AIPLA quarterly journal number 8 in 1993. In prior user rights, the inventor's lottery ticket by Mr. Cooper Schmidt, a report on the limited use of such rights was reported in 12 international review of intellectual industrial review and property copyright 447, in 1981, entitled towards a harmonized prior user rights within a common market system.

Given the limited number of reported cases where prior user rights were enforced and the likelihood that cases where such rights resulted in an unexpected settlement would not be reported, such analysis may be difficult, and the AIPLA testimony before the U.S. Senate subcommittee on patents, copyrights, and Trademarks in 1994, AIPLA characterized the circumstances for use of this right as being rare, and it would be expected that future use similarly would be rare. Nonetheless, such provision provides a necessary balance that would permit an early equitable settlement of a patent dispute.

With regard to question 3 in the notice, AIPLA has not analyzed prior user rights and start-up enterprises and the ability to attract venture capital for new companies in other countries and has not obtained any empirical or anecdotal data with regard to that topic. As the law governing prior user rights in the United States has only recently been enacted, it would only be effective for patents issued on or after that date of enactment, there was really insufficient data to reply to the question. The AIPLA recognizes that the statutory language of the effective day provision is not as clear as it could be. The provision appears to define the subject matter of the prior user right without stating that the right itself is effective on a particular date. But any ambiguity in the language is resolved, we believe, by the heading of the provision effective date.

With regard to question 4 in the notice, similar to the answer to question 3, AIPLA has not analyzed prior user rights and the effect on small businesses, universities, and individual inventors. Again, the law governing the prior user rights in the United States has only recently been enacted and will only be effective for patents issued on or after the date of enactment. There is insufficient data to reply to this question.

With regard to question 5 in the notice, AIPLA does not believe that there are any legal or constitutional issues raised by the proposal to implement a prior user rights system with the appropriate limitations as presently exists. The U.S. Supreme Court addressed the compatibility of trade secret and patent laws in *Kuwan Oil Company v. Bychron*. Based upon the common goal of encouraging the development of new inventions.

Finally, with regard to question 6 in the notice, as previously noted, the change to the first to file patent system, particularly given the changes to the definition of prior art and the new grace period, eliminates the ability of an earlier inventor to demonstrate earlier invention and thus prevent an inventor who files first from obtaining a patent. The earlier independent inventor who maintains the invention as a trade secret and does not obtain patent protection because of the need

to disclose the invention and place it in the public domain after a limited period of exclusivity should not lose all investment in the substantial implementation of that invention. However, the rights preserved are not without restriction. As demanding proof is required for the new prior user right. For example, the defense cannot be asserted if the subject matter was derived from the patent holder or those in privity with the holder. And if the prior user failed to both reduce the subject matter of the patent to practice and commercially use it at least a year before the effective filing date of the patent or the date that the patentee publicly disclosed the invention and invoked the section 102b grace period, whichever is earlier.

In short, prior user needs to be -- the prior use needs to be substantial, and anything less would risk undermining the preference for early disclosures of technology that first to file is meant to encourage. Thank you for allowing me to present the views of AIPLA on this important topic of prior use rights. Thank you.

>> MARY CRITHARIS: Thank you very much, Mr. Kasper, for your valuable and frank testimony and also pointing out some of the challenges that are ahead of us. Next I would like to invent Gary Griswold. He is the consultant for the Coalition for the 21st Century Patent Reform, a coalition of nearly 50 companies working on Patent reform. Mr. Griswold was President and chief intellectual property council for 3M innovative properties company. Thank you, Mr. Griswold.

>> GARY GRISWOLD: Good morning. Thank you for allowing me to do this testimony by phone. I appreciate that. As you noted, I am a consultant and chair emeritus of the Coalition for 21st Century Patent Reform and was President and Chief Intellectual Property Counsel for 3M Innovative Properties Company until 2008. Today, however, I'm not testifying for either of those groups but testifying on my own. As you heard from Mr. Kasper, I was past president of AIPLA and testified in 1994 as well as 2005 on prior user rights as well as other topics in 2005. And have had a particular interest in this subject for a long time.

I will refer during my testimony periodically to a couple of articles that I co-authored with Andy Ubel and Eric Levinson, one is "Prior User Rights - A Necessary Part of a First-to-File System" and secondly another article, "Prior User Rights: Neither a Rose Nor a Thorn."

As a general proposition, I am very strongly in favor of strong and effective patent rights and a need for a strong and viable patent system. That's why I supported the America Invents Act and continue to support it. That is -- that desire for a strong patent system includes, in my opinion, a strong prior user right, which was expanded in the American Invents

Act, and I'll get into that in a little bit more in a minute.

The reason for my support for prior user rights is that it is, in my view, the best solution for a difficult situation, where you have someone who has invested significantly in developing a new technology and brought it to market and a later filer of a patent application on that technology. In that situation, you have the choice of invalidating the patent, or you have the choice of upholding the patent, enjoining all others, including prior user, from using the invention. Or you have what is the outcome with effective prior user right of upholding the patent's validity but exempting the prior user from liability for infringement, and that exemption is mapped out in some detail in the prior user right that is defined in the America Invents Act.

Therefore, I -- as I noted, I am very supportive of this conceptually and am very happy to have it in the law after a long period of debate on the subject starting back in the early '90s.

Now, one of the areas where prior user rights become particularly significant is with inventions that are not easily policed when they are the subject of a patent because you cannot determine whether or not the invention is being utilized by another party who may be putting goods in the market and utilizing that invention. In those cases, oftentimes the patent, the option for obtaining a patent is a hollow one because you are not able to enforce -- effectively enforce the patent but are in a situation where you are divulging the invention for use around the world without any effective means to prevent others from taking advantage of that invention. Therefore, the manufacturing processes are ones that are the types of inventions that frequently arise in connection with the discussions of prior user rights. These prior user rights are often characterized as being supportive of domestic manufacturing. In fact, in the debate relative to a harmonized patent law many years ago, they took prior user rights out of the discussion because it was considered to be a domestic issue. The fact that the United States did not have a prior user right under the first to invent system was problematic and was, of course, part of the discussion in the 1994 hearing that Alan Kasper referred to.

During that hearing, there were a number of folks that testified, including a small businessman, Bill Budinger, who had a company called Rodel, who had run into the fact pattern that you have of developing a new technology, which was later patented by a foreign entity, and he was very supportive of the concept of a prior user right because he had put this technology into operation to later be stopped by that foreign entity.

Now, in response to the specific questions that were raised in the notice, relative to the comparison of patent laws in the U.S. and other laws in other countries on prior user rights, when we looked at this in 1994, we found that countries representing about 85% of the gross national product outside of the United States provided prior user rights. These rights vary in scope, and as far as breadth or when they apply, generally speaking, they allow an implementer of an invention to have a right to continue after -- relative to a later filed patent application on that invention by another. So we found, like I say, about 85% of the GNP of countries outside of the United States have these prior user rights.

As noted by Alan, I personally have not done a study on the impact impact of prior user rights on innovation rates, but I do understand the impact on domestic manufacturing if they are not in place. Other countries which will be competing with the United States for manufacturing, if they do not have prior user rights -- if the United States did not have prior user rights, the U.S. is at a competitive disadvantage position because when you're looking at where to put in a manufacturing facility, which undoubtedly includes many process steps, some of which would not be patented for various reasons, including the policeability that I mentioned earlier, an important factor is whether or not that country provided prior user rights. So there is a significant impact, in my view, on the decisions where you locate facilities.

The third question is there a correlation between prior user rights in start-up enterprises and the availability to attract capital. I believe that prior user rights -- once again, I've not done a study on this personally, but my view would be that -- that, indeed, the ability to have a prior user right which the start-up enterprise may take advantage of could be -- well be very positive, and the fact that under the America Invents Act, we have removed the issues that would arise under 35 USC 102(g) prior invention should be actually a very positive thing for start-up enterprises. Relative to the effect of prior user rights on small businesses, universities, and individual inventors, as I noted, one of the key persons in developing the prior user right which found its way into the law in 1999 relative to business -- methods of doing or conducting business was a small businessperson who testified in 1994. So relative to that -- that individual, anyway, prior user rights and the benefits of them were very important. Relative to legal and constitutional issues regarding patent law, Mr. Kasper mentioned Kewanee versus Bicron, the Supreme Court case which recognizes the need for both trade secret law and patent law. I see no legal or constitutional issues whatsoever in having prior user

rights. It certainly is in support of both what we are trying to do with the patent system.

And relative to the last question of whether or not the change to the first to file patent system creates any particular need for prior user rights, I noted earlier the availability of defense for technology from an earlier inventor under 35 USC 102(g) available now under the first to invent system, is not under a first inventor to file system, so that does cause a -- provides some incentive to have prior user rights in the law. The prior user rights that are provided in the AIA have been expanded to include processes and machines, manufactures, and compositions of matter used in manufacturing or other commercial processes. So all that expansion will be very helpful to deal with issues that I discussed relative to prior user rights in manufacturing, in particular, or any processes that are used on the commercial basis.

As I noted at the beginning of my comments, I have written a couple -- co-authored a couple of papers on the subject back in the '90s, which I think is still very applicable to this important subject of prior user rights. They are referenced in my testimony that I submitted and will hopefully provide some utility as you consider this important question.

Those are my comments at this point, and I would be happy to answer any questions at the appropriate moment. Thank you.

>> MARY CRITHARIS: Thank you very much, Mr. Griswold. We really appreciate you agreeing to testify, and we will be looking at your articles in answering the sixth question. Any questions?

Next I'd like to introduce Thomas Kowalski. He is a shareholder in the New York office of Vedder Price and a member of the firm's intellectual property group.

>> THOMAS KOWALSKI: Good morning. Thank you for having me, and yes, my name is Tom Kowalski. I am appearing here today pursuant to section 3(m) of the America Invents Act or the AIA calling for a report on prior user rights and the October 7 Notice of Public Hearing in the Federal Register. I would like to thank again the Patent Office for having these hearings and scheduling my appearance. As mentioned, I am a shareholder in the New York office of Vedder Price in the intellectual property group. I am also an adjunct professor at New York University's Brooklyn campus, the Polytechnic Institute of New York University, teaching intellectual property law. I am also on certain editorial boards as well as an editorial advisor to Nature Biotechnology. I also speak at conferences. However, today my statements reflect my personal views based upon my education, training, and experience. I am not standing here on behalf of my clients, for my firm or New York University or any

of the conference organizers with whom I have been affiliated.

No person or entity has asked that I appear before you today.

My clients are based throughout the world, and I have been involved in global patent practice from August 1, 1986. I remember that day because it was my first day working in a law firm after the New York State Bar and graduation from law school. I have been so practicing through to the present. In more than 25 years of practice, I have participated, either via contributing to papers or via papers and in person, in patent proceedings in jurisdictions throughout the world, including in Australia, Austria, China, the Czech Republic, Denmark, England, France, Germany, Ireland, Japan, the Netherlands, New Zealand, Poland, Russia, Switzerland, Turkey, and of course, my home, the United States of America.

According to the AIA, the Director is to report to the Committees on the Judiciary of the Senate and House on a number of topics, including:

A comparison of laws of the United States to the laws of other jurisdictions, including the European Union and Japan;

An analysis of the constitutional and legal issues, if any, that arise from, quote, placing trade secret law in patent law, unquote;

An analysis of whether the change to a first to file patent system creates a particular need for prior user rights; and

Other topics.

In addition to reflecting upon that which I have encountered of prior user rights in my education, training, and experience, in preparation for today, I conducted research on prior user rights and consulted on prior user rights with colleagues throughout the world with whom I am familiar. In in this regard, beside the IP group from Vedder Price, I have received information from:

FB Rice from Australia,
Bird & Bird, Germany and the UK,
Arnold & Seidsman in the Netherlands,
WTS, Polish and European patent attorneys in Poland,
Carpmaels & Ransford in the UK,
Sigma Tau pharmaceuticals in Italy,
Rijk Zwaan in the Netherlands, [
Medichem in Spain,
Cabinet Plasseraud in France,
Smart & Bigar in Canada,
Vossius & Partner in Germany,
Inspicos in Denmark, and
Shiga International Patent Office in Japan,
to each of whom I am most grateful.

With that, I hope that you find me qualified to provide the

following comments. In addressing the topics of the AIA, I am going to take them actually out of order because I believe that it is best to start with the constitutionality and legality of prior user rights, the change to a first to file system necessitating prior user rights, and that the prior user rights of the AIA are, indeed, comparable to the prior user rights of other industrialized countries. Then I will also just touch upon and cite an article that is relevant, I think, to the other topics. With regard to the call for an analysis of the legal and constitutional issues that may arise from, quote, placing trade secret law in patent law, unquote, I question framing the prior use rights issue in the context of, quote, placing trade secret law in patent law. My initial response is, I focus on the words "if any" in the AIA and state that I do not see any issue of, quote, placing trade secret law in patent law, unquote, by the provision of prior user rights.

The term "prior user rights" to me is a misnomer. It should be called a prior user defense, and I will be using that term.

Section 273 of Title 35 according to the AIA provides a prior user defense. The prior user defense is limited to persons who perform acts or direct acts of certain commercial use of subject matter in the United States. The prior user defense provided by section 273 of the AIA is not to be licensed or assigned except as part of a good-faith assignment or transfer of an entire enterprise. I also mention site restrictions on the prior user defense when it is acquired.

I do not see rights being granted by Section 273 of Title 35 as provided by the AIA. Rather, I see a defense. The AIA explicitly states that it is a defense, not a general license.

Article 1, Section 8, clause 8 of the constitution empowers congress to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive rights to their respective writings and discoveries.

A patent provides a limited right to exclude, not a right to practice.

The extent of the exclusivity of patent rights is amongst other things within Congress's discretion. As presented in the 2002 article by Ochoa in volume 49 of the Journal of the Copyright Society of the USA, pages 19 to 125, and particularly pages 58 to 109, pursuant to Article 1, Section 8, clause 8, of the Constitution, since 1808 Congress has granted private laws granting patent extensions. In that context, there have been a number of litigated cases, including *The Fire Extinguisher C* (*Graham v. Johnston*, 21 F. 40 (C.C.D. Md. 1884)), wherein Congress passed an act permitting Graham's heirs to revive a patent application. In the subsequent infringement suit, the court rejected the argument that it violated due process, saying

with respect to Article 1, Section 8, clause 8, "With regard to the terms upon which the exclusive rights should be granted, it has been frequently held this the regulations in these matters are merely self-imposed restrictions on the constitutional power of congress which it can at, at its pleasure, disregard in any particular case. The right which the public is acquired to use the thing invented has never been held to be a vested right."

That the extent of exclusivity of the patent right is amongst other things within Congress's discretion is also evident by the intervening rights provision of Section 252 of Title 35. Also, Congress's ability to exercise discretion as to the grant of exclusive rights by patents is evidenced by Section 271C of Title 35, which provides that certain provisions of Title 35 shall not be applied against a medical practitioner for the performance of a medical activity that constitutes infringement.

Also, as detailed in AIPLA article by Hollander ("The First Inventor Defense: A Limited Prior User Right Finds Its Way Into U.S. Patent Law," Winter 2002 AIPLA Quarterly Journal, at page 51), there are other recognized exceptions to the exclusivity granted by U.S. patents.

It is judicially recognized that pursuant to Article 1, Section 8, clause 8, Congress has discretion as to the nature of exclusive rights granted by a patent. I see nothing prohibiting Congress from exercising its judicially recognized discretion and limited the exclusivity granted by a U.S. patent by providing a prior user defense as in new Section 273 of Title 35 under the AIA. Thus, to me, there should be no constitutional or legal issues presented by the prior user defense of new Section 273.

In this regard, I also mention that numerous commentators (e.g., Hollander, *supra*; Griswold, "Prior User Rights—A Necessary Part of a First-To-File System," 26 J. Marshall L. Rev. 567 (1993)) have detailed that there have been prior user rights or a prior user defense in the U.S. law before the 1952 Act. I particularly mention that Section 7 of the 1839 Act had a prior user defense. Thus, with a history of a prior user defense in patent acts prior to the 1952 Act, I also do not see any constitutional legal issues with the Patent Act under the AIA providing for a prior user defense. I do not see the prior user defense as granting any rights but only defining contours of the exclusivity granted by a patent.

Accordingly, with regard to Section 3(m)(1)(E) of the AIA and topic (5) of the October 7 of the Federal Register Notice, I do not see the prior user defense as, quote, placing trade secret law in patent law, unquote, or more generally presenting any legal or constitutional issues, but rather, as an exercise by Congress of the power and discretion afforded Congress by the

constitution.

Having established there are no legal or constitutional impediments, I will provide an analysis of how the change to the first file system creates a need for prior user rights. I am also providing my comments on how there are certain disadvantages under the present law of Section 102(b).

Sections 102(b), 102(g), 135 and 291 of Title 35 provide for interference proceedings, prior invention as prior art, and the on-sale bar to obtaining patent.

New sections 102, 135, 291 of Title 35 under the AI A permit and provide for derivation proceedings and change us to a first to file system.

With the elimination of current sections 102(b), 102(g), 135 and 291, interference proceedings, prior invention as prior art, and confidential transactions as being a bar to patenting are eliminated. Under the current law, the on sale bar of Section 102(b), without any prior user defense creates a scenario, to me, that presents a disadvantage to manufacturing in the United States.

From my education, training, and experience, it is not uncommon for a company to maintain a commercial method of making a product as a trade secret. Typically such methods are developed after the initial development of the product and provide an advantage to the company. Moreover, there are difficulties in patent claims to such methods. The methods tend to be practiced in a nonpublic manner, making detecting infringement difficult. Usually because of patent infringement difficulties, unless the product of a commercial method presents some indicia that it was produced by that particular method, for example, a particular trace impurity that arrives from the particular method of manufacture, the company may decide not to patent the commercial method but hold it as a trade secret.

In 1983, the Federal Circuit in the *D.L. Auld Company v. Chrome Graphics Corp.* case (714 F.2d 1144 Fed. Cir. 1983)) held that "Where methods were kept secret and were made secret after sale of the product of the method, that sale will not, of course, bar another inventor from the grant of a patent on that method. The situation is different where, as here, that sale is made by the applicant for the patent or his assignee A party's placing of the product of a method invention on sale more than a year for the party's application filing date must act as a forfeiture to any right of the grant of a patent on the method to that party."

That is, under current law, a second company could get a patent as to a method and enforce that patent against the first company even though the first company was the first to practice in the United States by manufacturing a product. That first

company, taking into account that we do not have prior user rights, may decide not to manufacture in the United States or may decide to move manufacturing to another country that has a favorable prior user defense, such as France, where mere possession of an invention prior to the patent application can be sufficient to defeat an infringement claim.

That is, in my experience in global patent practice for more than 25 years, I have observed the lack of prior user rights in the U.S. as a consideration for possibly moving manufacturing from the U.S. and that it has not come up in the various proceedings I have been involved with throughout the world. My experience, I believe, thus parallels what I understand are the views of the AIPLA I have heard today.

I respectfully submit that this disadvantage of Section 102(b) of the current U.S. law may have arisen from the decoupling of prior user defense and the grace period that occurred in the evolution of the present U.S. law. Specifically, the U.S. patent law in the 1952 Act maintained the on sale bar with the one-year grace period but decoupled from it and eliminated the prior user defense that had been present in the earlier 1839 Act. Accordingly, my view is that the current law carried forward, only a portion of its predecessors and provides a system that is disadvantageous to American manufacturing.

I respectfully submit that the prior user defense as provided by the AIA presents a correction of the U.S. patent law and, therefore, addresses a disadvantage to American manufacturing that has been present in the current law under Section 102(b). But moreover, the prior user defense is necessitated by the AIA shift to a first to file system.

Under current law, two adverse inventors, whether strangers to each other or whether there is derivation, can be involved in interference proceedings to ascertain who amongst them is the first inventor. Thus, in certain scenarios, the current law allows for manufacturing in the United States to have the possibility of defending being first to invent via interference proceeding.

While there are similarities between interference and derivation proceedings under the current law and the AIA, a particular difference to me is that what happens when the parties are strangers to each other.

New sections 135 and 291 of Title 35 pertain to scenarios where one party derives the invention from another. However, there is a void if the parties are strangers. What would be the recourse to a stranger to the patentee in the event the stranger happens to be practicing the claimed invention? If there were no prior user defense under the AI A but otherwise it shifted to

a first to file system with elimination of interference proceedings, the answer to my question would be: NONE. There would be no recourse to the stranger, to the patentee who happens to be practicing the claimed invention prior to the patentee. To me, that void would place American manufacturers at an even greater disadvantage.

Therefore, with respect to Section 3(m)(1)(F) of the AIA and topic (6) of the Federal Register Notice, I respectfully submit that under current Section 102(b), American manufacturers are at a disadvantage without prior user rights.

I also further submit that the shift to the first to file system presents a void by eliminating interference proceedings. I therefore respectfully submit the change to the first to file system creates a particular need for the prior user defense.

With respect to Section 3(m)(1)(A) of the AIA and topic (1) of the October 7, 2011 Federal Register Notice which call for a comparison of laws, I have researched and reviewed Section 119 of the Australian Patents Act, Section 56 of the Canadian Patent Act, Section 4 of the Danish Patent Law, Article 55 of the Dutch Patent Act, Article L613-7 of the French IP code, Section 12 of the German Patent Act; Article 68(3) of the Italian industrial property code, Section 79 of the Japanese patent law, Article 71 of the Polish industrial property law, Sections 54(1) and (2) of the Spanish patent law, and Section 64 of the UK Patent Act, all of which provide a prior user defense.

In my view, the prior user defense in various industrialized countries are not uniform; however, they are comparable to the prior user defense of new Section 273.

For example, the territorial aspect of new section 273 appears consistent with the territorial provisions of prior user defenses in the various laws of industrialized nations. Likewise, that the burden to establish the prior user defense in new section 273 is on the party asserting the defense also seems consistent throughout industrialized nations.

Similarly, that under the AIA that the prior user right of Section 273 is a defense is also consistent throughout most laws of the industrialized nations. Comparable to new Section 273, the prior user defense of the industrialized nations generally provide that one cannot license the right or defense. A number of these laws also provide that the defense is not transferable except with the business to which it pertains. Also comparable to Section 273, a number of these countries look toward the prior user having commercially exploited the invention, akin to the commercial use requirement of Section 273.

There are, of course, contrasts that can be made too. The industrialized countries do not have the "at least one year before provision of new Section 273. Japan casts its prior use

rights as nonexclusive license. Notably, the French prior user defense call for merely having possession of invention in French territory.

The prior user defense laws of the various nations are not uniform; however, they are comparable to the prior user defense provided by new Section 273.

Indeed, in doing my research and receiving materials from people throughout the world, it seems that there is a consistent issue with respect to the prior user defense, and that is how should a company preserve records so as to prove the defense when necessary? Some materials suggest notaries. Others suggest sending letters to one's self-akin to the ways in the past some may have preserved evidence for an interference.

With that said, the question yet to be determined is exactly how a party will demonstrate with clear and convincing evidence that a party is entitled to the prior user defense of new Section 273. In this regard, since I believe Section 273 dovetails with and fills the void created by the elimination of interference proceedings, may I suggest that for the clear and convincing evidence standard in new Section 273, that the courts consider corroborated evidence akin to what is used to prove invention in interference proceedings.

Finally, as to the other topic of the Federal Register Notice, I respectfully suggest that perhaps economists may be best to opine on these topics. In this regard, for the convenience of the Patent Office, I cite to you an article by Shapiro entitled "Prior User Rights," which is published in volume 95, number 2 of the Intellectual Property Litigation and Innovation, American Economic Review Papers and Proceedings, pages 92 to 96, in May of 2006. In this paper, economist Shapiro demonstrates the prior user rights, or the prior user defense as I call it, has attractive properties, including that competition is enhanced, innovation is rewarded, and private and social incentives are better aligned than in the absence of a prior user defense.

In conclusion, with respect to the topics of the AIA and the Federal Register Notice, it is my view that there are no constitutional or legal issues with Congress having provided prior user rights. There are presently serious disadvantage under current Section 102(b), and the first to file system indeed necessitate a prior user right or defense. And new Section 273 of Title 35 is comparable to the prior user defense laws of other industrialized nations. With that, thank you very much for the opportunity to opine on these topics, and I want to thank everyone throughout the world who has helped me in preparing for today.

>> MARY CRITHARIS: Thank you, Mr. Kowalski, for your very

valuable testimony. We really appreciate all the research you've conducted and sharing that research with us. Thank you.

Next I'd like to invite Dan Lang. He is Vice President of Intellectual Property and Deputy General Counsel at Cisco. Thank you, Mr. Lang.

>> DAN LANG: Deputy Under Secretary Rea and members of the United States Patent and Trademark Office, thank you for the opportunity to testify on the implementation of the America Invents Act. The Act was the culmination of six years of effort by Congress and the patent community to reform the patent laws. The Act fixes several long-term problems with our patent system. However, in conducting the Act's studies and implementing new regulations, it is vitally important that the Office be mindful of Congress's intent in passing several of the Act's provisions. In particular, the Act should recognize that robust prior user rights defense under 35 USC 273 is a vital requirement of the Act that goes hand in hand with a switch to a first to file system.

I am proud to be the Vice President for Intellectual Property for Cisco, which is one of the world's largest manufacturers of telecommunications equipment that powers the Internet with more than \$40 billion in annual sales and more than 66,000 employees worldwide. Cisco's success as a company is a direct result of our ability to innovate. Our products originally were designed for communications within private enterprises and networks. When the public Internet emerged in the mid 1990s, our products found immediate application for worldwide use. Today, Cisco's networking equipment forms the core of the global Internet and most corporate and government networks. We have invested \$5.8 billion in the 2011 fiscal year on researching and developing the next generation of networking equipment. Cisco is but one of the technology firms that forms the Coalition for Patent Fairness. The coalition represents a large section of America's technology industry. It consists of hundreds of members, including Apple, Autodesk, Dell, Google, Intel, Oracle, RIM, and Symantec. Together we employ millions of Americans, and with more than 75,000 U.S. patents and patent applications, we are key users of the patent system, and we believe in it. Our companies invest billions of dollars into research and development and have helped create the innovative culture that drives the U.S. economy. I believe the Coalition's companies will allow the United States to maintain its competitive edge into the future.

One of the Act's most significant changes is that it shifts America's patent system from a first to invent system to a first to file system. A first to file system rewards the party that wins the race to the patent office as opposed to the party who

can show it first conceived the invention. For example, in a first to file system, someone who later patents an invention can sue for infringement someone who earlier conceived the same invention. While there are benefits to a first to file system, there must exist a robust prior user defense for early innovators and prior users who do not obtain or even file for patent protection. Not every American business can afford to file a patent on or publish every idea that it conceives, particularly if that idea is just one of thousands of components or functions comprising that business's products or services. Resources spent to assure priority on every potentially patentable advance in a complex product will not be available to fund the innovations themselves.

Some American businesses may also determine that it is more beneficial to forego patent protection in the United States in favor of trade secret protection. To obtain patent protection for an innovation, the inventor must disclose that innovation to the public. However, while the disclosure is effectively worldwide, the patent protection is limited to the United States. Therefore, businesses competing against foreign companies or in markets outside the United States may be better served by keeping some innovations private. Indeed, many companies, particularly small businesses and start-ups, require the protection of trade secrets to fully develop products that would otherwise be hijacked by companies developing products for foreign markets unhampered by the constraints of American patents. Without prior user rights, many such small businesses and start-ups would be forced to choose between risky patent infringement liability on one hand and disclosing their innovations without the opportunity to develop their innovations into commercial products. Consider, for example, Coca-Cola's position in the late 1800s. Had the formula been patented when it was conceived, the world's most prized secret formula would have been disclosed to all competitors long before Coca-Cola would have had the opportunity to develop the international business it has today. Robust prior user rights allow small businesses and start-ups, including the future Coca-Colas of the world, the freedom and safety to protect future formulas while developing their products.

In remarks on the Act, Congressman Lamar Smith agreed that "the inclusion of prior user rights is essential to ensure those who have invented and used the technology—but choose not to disclose that technology—generally to ensure they not disclose their trade secrets to foreign competitors—are provide a defense against someone who later patents the technology.

Appreciating this potential problem, most countries with first to file patent system have robust protections for prior

users, including, for example, Austria, Denmark, Finland, Germany, the United Kingdom, Australia, Japan, and South Korea. Indeed, in the European Union, only Cyprus does not have a prior user defense. The above countries all have in common at least two basic protections for prior users. First, foreign patent prior user defenses protect all forms of invention, recognizing that the concerns about wasteful filings and the undermining of trade secret protection are generally applicable. Furthermore, protecting only processes would be insufficient because clever patentees could circumvent by prior user protections by including only apparatus claims, thereby depriving prior users of the defense. As these countries recognize, it would be unfair to allow a patentee by attacking a practicing company merely by switching the formalities of the claim. Second, these foreign jurisdictions extend the prior user rights defense not only to products and processes already in commercial use, but also to substantial investments in the development or preparation of those products and processes. For companies that develop and manufacture products, the research, development, and testing process can also take years and cost millions of dollars. A prior user rights defense that would not fully protect this investment has the perverse effect of penalizing American businesses who spend more time and investment in perfecting their products and services for the marketplace. Particularly in the current economic climate, we need to encourage and not create barriers that stifle continued investments in the U.S. industry.

American companies must be afforded the same basic prior user right protections as their foreign competitors enjoy in their own countries. As Congressman Smith stated, we must "ensure our most innovative companies who hold many of keys to U.S. economic competitiveness are provided sufficient prior use rights to put them on a competitive field internationally." Without a [ajw1]robust prior user rights defense, the patent system will strip technology away from Americans, punish independent inventors for filing second, and put American companies at a disadvantage over foreign companies.

We respectfully request that the Office strongly support prior user rights and confirm that the prior user rights provided by the Act have the breadth to fully address the concerns that we have noted.

Thank you very much for the opportunity to testify today. We will provide fully responsive comments on the questions provided by the PTO in our comments that we submit before the deadline of November 8. Thank you again.

>> MARY CRITHARIS: Thank you very much, Mr. Lang, and also for agreeing to participate in this hearing, especially so early

in the morning on your time.

>> DAN LANG: It's a pleasure.

>> MARY CRITHARIS: I'd like it now also add MaCharri Vorndran-Jones from the ABA, who agreed to present some testimony as well. Thank you, Ms. Jones.

>> MaCharri Vorndran-Jones: Good morning. As you stated, I am MaCharri Vorndran-Jones, representing the Intellectual Property Section of the American Bar Association. Deputy Under Secretary for the Intellectual Property, the views that I am expressing today represent those from the section white paper: "Agenda for 21st Century Patent Reform" as adopted by the IP Section of the American Bar Association. Views expressed today are on behalf of the American Bar Association Section of Intellectual Property Law and have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and should not be construed as representing the policy of the American Bar Association. The section favors in principle, particularly in light of the first to file system, support of prior user rights, provided that as a minimum, such rights shall be in the nature of a personal defense against a claim based on any patent alleged to cover an activity of the prior user begun prior to the earliest filing date on which the patent is entitled, and at the time of said earliest filing date, such activity had not been abandoned. The prior user activity was not based on information obtained or derived from the patentee or those in privity with the patentee. The prior user activity took place in the United States. The prior to said earliest filing date, the prior user had demonstrated operability of the invention covered by the patent and had taken significant steps towards its commercialization. And finally, such rights shall be available only to the party performing the activity on which the defense is based and to those in privity to such party and shall be nonassignable/nontransferable, except with the transfer of that part of the business of the party to which the activity pertained. Specifically, the section supports enabling legislation that would permit commercial use, including substantial preparation for commercial use of a patented invention to be recognized as a personal defense to patent infringement if undertaken in good faith by a person who has reduced the invention to practice prior to the effective filing date of a patent.

The section supports prior user defense for all patentable subject matter because it provides a personal defense to a legitimate prior user who does not win the race to the patent office. The application of the defense to all classes of patentable subject matter is advantageous for all sizes of businesses that may not make the investment or have the

resources to file patent applications and maintain patents on methods used in their businesses. The prior user right clarifies the interface between two key branches of intellectual property law, patents, and trade secrets. Patent law services the public interest by encouraging innovation, investment in new technology in return for the inventor making public disclosure of the invention. Trade secret law however also serves the public interest by protecting investments in new technology.

The prior user rights appropriately protect the inventor that may have deemed his invention unpatentable, marginally patentable, or simply elected not to file a patent application entirely in good faith. Rewarding another inventor who sought and obtained a patent in such circumstances is no less appropriate than providing a personal right to the good faith inventor deciding to benefit the public by commercializing the invention without patenting it. Accordingly, the section encourages application of the prior user defense to patentable subject matter for the benefit of businesses of all sizes. The section intends to submit timely written comments, fully responsive to the Federal Register notice. Thank you.

>> MARY CRITHARIS: Thank you very much, Ms. Jones. I'd like to now open the floor to anyone else who has any other comments or questions they would like to ask us.

Since I don't see any takers, I would like to officially close this hearing. On behalf of PTO, I'd like to thank everybody for their very thoughtful and comprehensive testimony. It'll be very useful to us, to the working group who is charged with putting together study, so thank you once again, and I look forward to any written comments. Thank you.

>> TERESA STANEK REA: Thank you so much for being here today. I'd like my colleague, Janet, to once again close things out and remind everybody about due dates.

>> JANET GONGOLA: The final comment is just a reminder if you would like to submit written comments for the Prior User Rights Study or the International Patent Protection Study, the due date is November 8. Please consult the October 7th Federal Register Notice that details where you can submit those comments. And thank you again to everyone who participated today in person, electronically, and who will be submitting comments. We really appreciate it.

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