

The “New” Prior User Rights Defense Under The AIA: What’s To Come For The Clean Technology Industry?

BY BRYAN J. VOGEL¹ AND RYAN SCHULTZ²



Bryan J. Vogel



Ryan Schultz

President Obama signed into law the American Invents Act (“AIA”) on September 16, 2011. This has been touted as the most substantial overhaul of U.S. patent law in generations. In an apparent effort to enhance protection available for non-patented inventions and trade secrets, the AIA expanded the prior user rights defense. Generally, the “new” prior user rights defense is a defense to infringement based on one’s prior use of the claimed invention before the patent holder filed for patent protection.

This defense may have a particular impact on the clean technology industry. Inventions in the clean technology space often have high capital requirements, with substantial economic, technical and regulatory risks. Many clean technology companies forego patent protection and instead maintain an invention as trade secret to avoid their invention falling into the wrong hands. Consistent with this, the clean technology industry was a main proponent of expanding the prior user rights defense.³

In addition, over the past few years, there has been a significant increase in the number of patent applications expedited through the patent system under the U.S. Patent and Trademark Office Green Technology Pilot Program. The Program received over 3,500 applications and has resulted in over a 1,000 patents being issued as April 2012; the pendency time for these applications was typically less than 1.5 years.

Due to the nature of some clean technology and the rapid pace of development in this space, a number of clean technology patents may be ripe for the prior user rights defense.

THE PRIOR USER RIGHTS DEFENSE BEFORE THE AIA

In 1999, Congress passed the so-called “prior user rights defense,” codified as 35 U.S.C. § 273, in reaction to the Federal Circuit’s decision in *State Street Bank & Trust v. Signature Financial Group*.⁴ In *State Street*, the Federal Circuit concluded that business methods are patentable subject matter.⁵ In doing so, the Federal Circuit created uncertainty for U.S. businesses as to whether they might now be liable for patent infringement for continued use of business methods. In response to concerns expressed by the business community, Congress enacted a defense to business method patents. Specifically, an accused infringer could absolve itself of liability for patent infringement if it could prove that it had been using the patented business method one year prior to the filing of the patent at issue. At the time, this prior user rights defense was limited to patent claims directed to business methods and was restricted to the entity or individual accused of infringement.

AIA EXPANDS THE PRIOR USER RIGHTS DEFENSE

With the enactment of the AIA in 2011, Congress expanded the scope of the prior user rights defense in a number of ways. Section 273 now provides that “[a] person shall be entitled to a defense ... if such person, acting in good faith, commercially used the subject matter in the United States, either in connection with an internal commercial use or an actual arm’s length sale ... of a useful end result of such commercial use” if the use occurred “at least one year before ... the effective filing date of the claimed invention; or the date on

which the claimed invention was disclosed to the public in a manner that qualified for the exception from prior art under section 102(b).”

Most notably, the AIA expands the prior user rights defense to include all patented technologies that issue on or after the enactment of the AIA, or September 16, 2011. In addition, the AIA expanded who may assert the prior user rights defense. Now, the person who conducted or directed the performance of the commercial use may assert the defense along with agents, contractors, vendors, and parent and subsidiary companies. Further, the prior user rights defense may be transferred to a purchasing company if the right to the defense is ancillary or a subpart of a good faith purchase of the underlying company.

While expanding the prior user rights defense, the AIA also includes some very specific requirements that an accused infringer must satisfy in order to assert the defense. The accused infringer must prove that it reduced to practice the invention and used the invention in a commercial use for more than one year prior to the earlier of the effective filing date or the earliest publication by the patent owner. Notably, the burden of proof on the accused infringer is clear and convincing evidence, the highest standard in civil cases.

The AIA also creates a “university exception” to the prior user rights defense. This exception precludes an accused infringer from asserting the defense “if the claimed invention ... was, at the time the invention was made, owned or subject to an obligation of assignment to either an institution of higher education ... or a technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by one or more such institutions of higher education.”

THE POTENTIAL IMPACT OF THE PRIOR USER RIGHTS DEFENSE

The prior user rights defense will likely be a welcome and potentially effective defense to a claim of patent infringement for potential infringers, particularly in the clean technology industry. A number of the patents in the clean technology space cover incremental improvements over prior art technology. In addition, clean technology companies often maintain key inventions as trade secrets in order to maintain their competitiveness and avoid their inventions falling into the wrong hands. This is espe-

cially true in the international manufacturing environment for clean technologies. The common concern of clean technology companies is that disclosure of an invention via a patent application may allow foreign competitors to copy the invention – often using cheaper labor and with the assistance of foreign government subsidies – with little to no recourse.

While the defense may be welcome, care should be taken by both clean technology patent holders and accused infringers to understand the implications of the new requirements of the prior user rights defense.

Evidence of Use and Standard of Proof

As an initial matter, an accused infringer must be able to show that it (or a related person or predecessor in interest) began commercially using its invention at least one year before the patent holder's filing date. Further, the prior user rights defense only applies if the prior user's invention was created independently and without derivation from the patent holder's invention and the prior user acted in good faith. These requirements for the prior user rights defense put the onus on the prior user to maintain detailed records of, among other things, the reduction to practice and commercial use of the prior user's invention. This onus may be particularly cumbersome in view of the clear and convincing burden of proof the prior user must satisfy.

Implications of the University Exception

Clean technology patent holders and accused infringers need also appreciate the university exception to the prior user rights defense. This exception could have far-reaching implications. As discussed above, the university exception generally provides that patents owned or subject to assignment to universities are immune to the prior user rights defense.

Many clean technology companies partner or enter into licensing or joint venture agreements with universities to utilize their patented technologies. Under such circumstances, the patents are exempt from the prior user rights defense. This can be both a detriment and a benefit to clean technology companies that partner with universities. In the case where a competitor is practicing an invention that a partnering company obtained through a university, that competitor will not be able to avail itself of the prior user rights defense in the face of a patent infringement action – no matter how long the competitor may have been practicing

the invention. On the other hand, if there is a fall-out between the partnering company and the university, the partnering company may be subject to a patent infringement suit by the university without the benefit of the prior user rights defense – again, no matter how long the partnering company may have been practicing the invention prior to entering into the relationship with the university.

In view of these potential scenarios, the university exception may lead to an increase in licensing of patents owned by universities, particularly in the clean technology space. It must be noted, however, that this exception has an exception; the university exception does not apply if “the subject matter of the claimed invention could not have been undertaken using funds provided by the Federal government.”

Balance of Risk Versus Reward at Commercialization Stage

Review of § 273 reveals that the prior user rights defense presumably arises when a person commercially, but secretly, uses an invention. If the invention is not used in secret, the use would presumably be prior art under § 102(b). At the heart of this defense is the interaction between patents and trade secrets as a business strategy for protecting inventions. As mentioned above, clean technology companies often maintain inventions as trade secrets in order to maintain their competitiveness and avoid the inventions falling into the wrong hands. For example, if a clean technology company invents a manufacturing process for a biofuel that improves or optimizes the efficiency, cost or quality of producing the biofuel, the company has the choice of either keeping the details of the process trade secret or filing for patent protection. The company may choose to keep the details of its biofuel process trade secret to avoid it falling into its competitor's hands. In some cases, keeping an invention as a trade secret is less risky for the clean technology business community.

Fundamentally, however, if a clean technology company keeps its invention secret, it runs the risk that an independent inventor filing for a patent covering the same or substantially similar invention. Due to the rapid pace of development in this space, it is all the more likely that parallel, independent research and development is taking place in the same or substantially similar technology. A clean technology company 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 or substantially similar invention. The time and expense in conducting searches of published patent applications and the delay in actual publication of patent applications may make the task of discovering patent applications quite challenging – if not impossible in some instances. Further, patent applicants have the ability to amend claims during patent prosecution, which in some cases makes the defense a constant moving target.

Balance of Risk Versus Reward in Court

In court, the assertion of the prior user rights defense requires some careful consideration as well. As an initial matter, asserting the defense may unnecessarily open-up the prior user's trade secrets to the public or to a competitor. Asserting the defense puts the trade secrets directly at issue in the case and may allow the patent holder (presumably a competitor) to obtain more extensive discovery of the prior user's trade secrets than otherwise may be necessary or appropriate. An accused infringer may not want to subject its trade secrets to such scrutiny and discovery, even under a court protective order.

In addition, to assert the defense, the accused infringer may have to admit that its current use of its invention constitutes infringement. Indeed, when trying to establish the commercial use of the trade secrets, the prior user risks inadvertently establishing the patent holder's infringement case. The prior user's evidence may not satisfy the clear and convincing standard for the defense and yet may satisfy the preponderance standard for infringement.

Further, depending on the claims at issue, it may be that the prior user rights defense will not absolve an accused infringer from liability if its current accused use of an invention is different or has been altered from the use that forms the basis of its prior user rights defense. While the statute does not specifically address this issue, a court may find that the prior user rights defense requires current and continued use by the accused infringer of the prior use that is the subject of the defense.

Relatedly, the prior user rights defense is not a general license to all of the patent claims, but rather only to the specific use for which the accused infringer can establish a qualifying prior use. As such, a situation could arise where an accused infringer could assert the defense against some, but not all, of the claims at issue. Additionally,

§ 273 makes clear that “[a] patent shall not be deemed to be invalid under section 102 or 103 solely because a [prior user rights] defense is raised or established.”

Reasonable Basis for Raising the Defense

Finally, perhaps to limit the excessive use of the prior user rights defense, § 273 provides for a sanction against defendants who assert the defense without a “reasonable” basis for doing so. Specifically, § 273 provides that “[i]f the defense under this section is pleaded by a person who is found to infringe the patent and who subsequently fails to demonstrate a reasonable basis for asserting the defense, the court shall find the case exceptional for the purpose of awarding attorney fees under section 285.” Raising the defense must therefore be carefully considered.

CONCLUSION

Only time will tell what impact the prior user rights defense will have on development and commercialization in the clean technology space and more particularly on patent litigation involving such technology. The prior user rights defense certainly provides an additional arrow in the defense

quiver for an accused infringer. If history is any guide, the broadening of this defense to all technology areas may have little impact. During the time that the prior user rights defense has been available for use against business method patents, the authors are unaware of any reported cases where the defense was successfully asserted. Further, while the Federal Circuit has decided thousands of patent appeals during that time, the authors are unaware of any instance where the Federal Circuit has addressed the prior user rights defense.

Even so, the clean technology space may be a ripe area for testing the defense, particularly given the significant increase in the number of patent applications expedited through the patent system in the past few years and the nature of some clean technology. But, as discussed above, there are some factors a clean technology patent holder or accused infringer may want to consider in view of this new defense. Understanding the facts and the implications they will have on the defense will better set expectations for probable success at the outset of litigation, rather than presenting unwelcome surprises. 

ENDNOTES

1. *Bryan J. Vogel is a trial lawyer and partner with the firm Robins, Kaplan, Miller & Ciresi L.L.P. He is a registered patent attorney with a background in chemical engineering. Mr. Vogel helps clients in litigations, arbitrations and counseling in a broad range of industries, including life sciences, clean technology, polymer and chemical arts, telecommunications, software, consumer products, electronics and media and entertainment. Mr. Vogel's full bio can be found at <http://rkmc.com/Bryan-Vogel.htm>, and he can be reached at bjvogel@rkmc.com or 212.980.7400.*
2. *Ryan Schultz is an attorney with the firm in the Minneapolis office. He is a registered patent attorney with a background in biochemistry. Mr. Schultz has assisted clients in a wide variety of forums, including litigation, arbitration, and mediation. He has experience in a variety of technology fields including chemistry and life sciences, software, semiconductor, electronics, and computer hardware. His practice focuses in the areas of patent infringement and other intellectual property litigation. Mr. Schultz's full bio can be found at <http://rkmc.com/Ryan-Schultz.htm>, and he can be reached at rmschultz@rkmc.com or 612.349.8500.*
3. *See, e.g., “Report on the Prior User Rights Defense,” prepared by the U.S. Patent and Trademark Office, fn47, fn48, p. 40, fn212, fn247, fn257, p. 47, fn259 (January 2012); http://www.uspto.gov/aia_implementation/20120113-pur_report.pdf (last visited December 9, 2012).*
4. 149 F.3d 1368 (Fed. Cir. 1998)
5. *Id.* at 1370.

Action on Patent Trolls Must Address ITC Abuse

ITC Working Group Applauds DOJ & FTC for Workshop on PAE Activity

The ITC Working Group, a coalition of companies that includes Ford, Cisco, Apple, Intel and others, applauded the Department of Justice and the Federal Trade Commission for holding today’s joint workshop on Patent Assertion Entity (PAE) activities. The ITC Working Group said the event is another step toward highlighting — and ultimately addressing — the damage PAE’s inflict on the economy and on American innovation.

In 2011, the FTC issued a report that directly identified the concern about PAE abuse at the ITC, saying the discrepancy between ITC rules and case law has created “concern that the ITC may attract suits by patentees that are less likely to obtain injunctions in district court, potentially leading to hold-up and the resulting consumer harm...” Additionally, participants in today’s workshop, including Coleen Chien with the University of Santa Clara Law School, have called attention to the significant growth in PAE cases at the ITC — which jumped 400% between 2010 and 2011.

The ITC Working Group is seeking to restore original congressional intent for the ITC which is now being actively used to take action against the U.S. companies it was created to protect.

“This workshop makes it clear that, despite the best efforts of Congress and the courts, patent trolls continue to have a deeply damaging effect on the U.S. economy and consumers,” said Matt Tanielian, Executive Director of the ITC Working Group. “Nowhere is that more evident than at the ITC, where PAE’s — sometimes foreign-based — are having a field day bringing cases against companies with operations in the U.S. Neither the America Invents Act nor recent court rulings apply at the ITC, making it fertile ground for the exact type of abuse that Congress has sought to eliminate.”

Tanielian continued, “PAE’s have discovered that that the much lower bar for obtaining injunctions at the ITC gives them gives them tremendous leverage to demand outrageous licensing fees. Companies are left with little choice but to give-in to PAE demands, leading to higher costs for consumers and barriers to American innovation. To be effective, any effort to stop the corrosive impact of patent trolls must address ITC abuse.”

Neil Rubin, Senior Vice President of Litigation at Cisco, who will testify at the DOJ/FTC workshop, testified in July on Capitol Hill about the abuse of the ITC by PAE’s, stating:

“Most of [the] reforms and the improvements in case law that resulted from the [America Invents] Act do not apply to the ITC patent assertion entities who do not develop, do not make, do not sell and import products are now routinely using the ITC to assert their patents against U.S. operating companies, imposing great expense and burden on them and on U.S. consumers. These assertions in the ITC are injuring rather than protecting our domestic economy.”