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# PRIOR USER RIGHTS—A NECESSARY PART OF A FIRST-TO-FILE SYSTEM

GARY L. GRISWOLD & F. ANDREW UBEL\*

## INTRODUCTION

Harmonization of the world's patent laws is now being considered by various governments, including that of the United States. One of the most drastic changes urged upon the United States is a change from our current first-to-invent system to a first-to-file system. Under present law, virtually every other country awards patents to the first person to file a patent application, whereas the United States awards patents to the inventor who can prove the earliest invention date.<sup>1</sup>

Last year, Congress considered the Patent System Harmonization Act of 1992, which would have replaced current sections 102, 103, and 104 of Title 35 with section 106, thereby implementing a first-to-file system.<sup>2</sup> When patent applicants are competing, section 106 would give priority to the first applicant reaching the patent office. In conjunction with this proposal, Congress also considered adding section 273 to secure limited rights, known as prior user rights, for persons who independent of the patentee create or use the invention but lose the first-to-file race to the Patent Office.<sup>3</sup>

The reasons most often cited in support of a change to first-to-file priority are efficiency and ease of administration.<sup>4</sup> Proponents of this system do not contend that a first-to-file priority system is

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1. See 35 U.S.C. § 102(g) (1988).

2. S. 2605, 102d Cong., 2d Sess. (1992); H.R. 4978, 102d Cong., 2d Sess. (1992).

3. See *Joint Hearings on S. 2605 and H.R. 4978 Before the Senate Subcomm. on Patents, Copyrights and Trademarks and the House Subcomm. on Intellectual Property and Judicial Administration of the House and Senate Comm. on the Judiciary*, 102d Cong., 2d Sess. (Apr. 9, 1992) [hereinafter *Joint Hearings*] (statement of Hon. William J. Hughes). See generally 138 CONG. REC. S5226-01, S5288 (1992) (introducing S. 2605); 43 PAT. TRADEMARK & COPYRIGHT J. 519, 533 (1992); 44 PAT. TRADEMARK & COPYRIGHT J. 3, 4 (1992) (summarizing testimony from joint hearing on S. 2605 and H.R. 4978).

4. See, e.g., Blake R. Wiggs, *Canada's First-To-File Experience - Should the U.S. Make the Move?*, 73 J. PAT. & TRADEMARK OFF. SOC'Y 493, 502-03 (1991); Gregory J. Wrenn, *What Should be Our Priority - Protection for the First to File or the First to Invent?*, 72 J. PAT. & TRADEMARK OFF. SOC'Y 872, 878-80

necessarily more equitable on a case-by-case basis than the first-to-invent priority system. Instead, the first-to-file system is said to be simpler and less expensive on the whole. This system is also more closely aligned with the patent laws of the rest of the world with which the United States participates in numerous patent treaties.<sup>5</sup>

Most intellectual property law organizations debating the relative merits of a first-to-file system versus a first-to-invent system eventually conclude that the United States should change to "first-to-file" as the basis for priority decisions between patent applicants.<sup>6</sup> They qualify this support, though, with the requirement that this change be accompanied by changes in the laws in other countries to provide improvements in patent protection in those countries and uniformity in the patent laws in at least the major industrial countries.

But does the American public want global uniformity? Considering that 45% of the United States patents are foreign-owned,<sup>7</sup> if the present first-to-invent system provides occasional advantage<sup>8</sup> to domestic applicants versus foreign applicants why not stay with it? An important reason to align with the rest of the world is that the process of obtaining global patent protection is so expensive, complex and fraught with pitfalls that many inventions originated in the United States are not being protected outside of the United States. In other words, United States inventors are making their inventions available to two-thirds of the world markets free of charge and are thus receiving absolutely no return for their use outside of the United States.

While some say that individual inventors, small businesses, and universities are not interested in patent rights in the rest of the world, the authors have never found this to be the case. It has been our experience that these parties do not pursue foreign patent protection for one of two reasons: either they have relied on the United States grace period<sup>9</sup> which has precluded them from ob-

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(1990); Donald R. Dunner, *First to File: Should Our Interference System be Abolished?*, 68 J. PAT. & TRADEMARK OFF. SOC'Y 561, 562-63 (1986).

5. *Joint Hearings*, *supra* note 3 (statement of Hon. William J. Hughes).

6. These organizations include the National Association of Manufacturers; The Advisory Commission on Patent Law Reform; Intellectual Property Owners, Inc.; the American Intellectual Property Law Association (AIPLA); and the American Bar Association - Patent, Trademark and Copyright Section.

7. David Silverstein, *Patents, Science and Innovation: Historical Linkages and Implications for Global Technological Competitiveness*, 17 RUTGERS COMPUTER & TECH. L.J. 261, 262 (1991). In 1983, the United States granted over 20% of its patents to the Japanese. *Id.*

8. Even this occasional advantage will be lost with Mexico and Canada when the North American Free Trade Agreement is implemented.

9. 35 U.S.C. § 102(b). The statute provides that "a person shall be entitled to a patent unless the invention was . . . in public use or on sale in this country

taining valid foreign patent rights<sup>10</sup> or they have decided to forego foreign filing because of the cost of pursuing foreign patents. The result is that the invention becomes dedicated to the public in much of the world, a particularly troublesome situation with university inventions which are often supported with taxpayer money. Thus, our vision of harmonization is to provide a cost effective, uniform, predictable and forgiving global patent procurement system which accommodates the full spectrum of inventors and patent owners and promotes innovation on a global basis.

This Article describes the concept of a first-to-file system and explores the necessity of implementing prior user rights in conjunction with such a system. Arguments are presented both in favor of and against the adoption of prior user rights and the recommendations of the Advisory Commission on Patent Law Reform in this area are examined. This Article concludes that prior user rights must be adopted with a first-to-file system. Finally, the historical development of prior user rights in the United States are traced, demonstrating that prior user rights are not unprecedented.

#### I. THE FIRST NECESSARY CHANGE: FROM FIRST-TO-INVENT TO FIRST-TO-FILE

Because every country except the United States and the Philippines<sup>11</sup> operates under a first-to-file system, harmonization of world patent laws essentially requires the United States to adopt a first-to-file method of establishing priority. Such a system would likely be implemented as proposed in section 106 of the Patent System Harmonization Act of 1992.<sup>12</sup> Section 106 would establish the so-called "first-to-file rule" giving priority between competing patent

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more than one year prior to the date of the application for patent in the United States." *Id.*

10. There is no grace period under foreign patent systems. See Pat K. Chew, *Faculty-Generated Inventions: Who Owns the Golden Egg?*, 1992 Wis. L. REV. 259, 310 n.213 (1992). Foreign patent systems require "absolute novelty," which requires that the inventor file the patent application before any public disclosure of the invention. *Id.*

11. See Wrenn, *supra* note 4, at 872.

12. Proposed section 106 provides as follows:

(a) IN GENERAL. — An applicant shall be entitled to a patent unless —

[*Anticipation*] (1) the subject matter was disclosed in the prior art, which for the purposes of this section means that such subject matter was publicly known or publicly used in the United States, or patented or described in a publication in the United States or in a foreign country, before the filing date or priority date of the application for patent,

[*Obviousness*] (2) though the subject matter is not identically disclosed or described in the prior art, the differences between the subject matter of the claim and the prior art are such that the subject matter as a whole would have been obvious at the time the application for patent for the invention was filed to a person having ordinary skill in the art to which said

applicants to the first applicant reaching the patent office. In contrast, under the current first-to-invent system, these rival applicants are entitled to prove their dates of invention to establish their respective priority.<sup>13</sup> If the determination of invention dates is not clear-cut, the rival applicants often engage in a battle for priority under section 102(g).<sup>14</sup> The first-to-file rule renders these costly interference procedures unnecessary. Priority under section 106 would be a faster, more efficient process based simply on the filing date of the application.

In practice, the majority of priority battles would have the same outcome under either system. Nevertheless, there is a justified concern that a first or "rightful" inventor who is slow to file his application might be shortchanged under the first-to-file system.<sup>15</sup> To ameliorate this potentially harsh rule, several statutory provisions have been proposed that would either work to facilitate the early filing of a low cost application or vest certain limited rights to the first-in-time inventor who either delays filing or fails to file at all.<sup>16</sup> One provision, section 273, provides limited but important

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subject matter pertains, except that patentability shall not be negated by the manner in which the invention was made,

[*Senior Priority*] (3) the subject matter is described in an application for patent of another applicant that has been previously filed in the United States and has been opened to public inspection under section 122, or

[*Loss of Right to Patent*] (4) the subject matter —

[*Derivation*] (A) was derived from an inventor not named in the application for patent, except that subject matter representing an obvious variant developed by an inventor not named in the application shall not preclude patentability under this subparagraph if such subject matter and the claimed subject matter were, at the time the application for patent is filed, owned by the same person or subject to the same person, or

[*Placement On Sale*] (B) was on sale in the United States more than one year before the filing date of the application for patent.

(b) GRACE PERIOD. - Notwithstanding the provisions of subsection (a), subject matter disclosed in the prior art not more than one year preceding the filing date or priority date of the application for patent shall not affect novelty or nonobviousness under this section whenever it results from a disclosure of information obtained directly or indirectly from an inventor named in the application.

S. 2605, 102d Cong., 2d Sess. (1992); H.R. 4978, 102d Cong., 2d Sess. (1992).

13. 35 U.S.C. §§ 102(g).

14. For a perspective on the pitfalls of interference practice, see generally Paul E. Morgan, *So You Think You Want to Get Into an Interference? Some Things You Should be Aware of First*, 74 J. PAT. & TRADEMARK OFF. SOC'Y 303 (1992).

15. S. 2605, 102d Cong., 2d Sess. (1992); H.R. 4978, 102d Cong., 2d Sess. (1992); *Joint Hearings*, *supra* note 3 (statement of Hon. William J. Hughes).

16. The Patent System Harmonization Act of 1992 provides an inexpensive procedure for filing a provisional application. Under amended section 41(a)(1), the fees due on filing an application may be paid in two parts. The first part, in the amount of \$150, is to be paid at the time of filing. The balance of the fees is deferred for up to 18 months, at which time the applicant may choose to either enter the examination phase and pay additional fees, or abandon the applica-

rights to the prior user of an invention.<sup>17</sup> A prior user under proposed section 273 receives the personal right to continue his practice of the invention without liability as an infringer under a subsequently granted patent. To qualify for these rights, a user must demonstrate his *own* commercial use of the invention, or preparation therefor, in the United States prior to the filing date of the patent. Section 273 restricts the scope of these rights to the subject matter of the prior use. In addition, because these rights are personal to the prior user they may not be transferred or sold separately from the underlying business to which the rights pertain.

In addition to offering greater administrative efficiency during the patent application process, sections 106 and 273 would provide important advantages to the patent owner. A patent granted under these provisions would be valid despite the existence of a secret prior use.<sup>18</sup> Thus, certain prior uses by others that would be sufficient to invalidate a patent under our current first-to-invent system, such as a secret use by another, would not affect a patent issued under sections 106 and 273.<sup>19</sup> The inherent uncertainty that secret prior uses cast over patents issued through our current system may be eliminated by a first-to-file system. Eliminating this uncertainty

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tion, thereby preventing public disclosure of it, and incur no further costs. S. 2605, 102d Cong., 2d Sess. (1992); H.R. 4978, 102d Cong., 2d Sess. (1992)

17. Proposed section 273 provides as follows:

(a) IN GENERAL. —

[*Prior User Rights*] A person shall not be liable as an infringer under a patent granted to another with respect to any subject matter claimed in the patent that such person has, acting in good faith, commercially used or commercially sold in the United States, or has made effective and serious preparation therefor in the United States, before the filing date or priority date of the application for patent.

(b) QUALIFICATIONS. —

[*Limits on Assignment*] (1) The rights based on prior use under this section are personal and shall not be subject to assignment or transfer to any other person or persons except in connection with the assignment or transfer of the entire business or enterprise to which the rights relate.

[*Derivation*] (2) A person shall be deemed to have acted in good faith in establishing rights under this section if the subject matter has not been derived from the inventor.

S. 2605, 102d Cong., 2d Sess. (1992); H.R. 4978, 102d Cong., 2d Sess. (1992).

18. Secret prior uses which would not jeopardize a patent issued under section 106 include any non-informing public uses or secret uses, by others, prior to the applicant's filing date. However, under proposed section 106(a)(3), pending patent applications are held "secret" for 18 months and may operate to anticipate a later-filed application. See *supra* note 12 for the full text of section 106.

19. This is in contrast to our current law where the prior use of an invention would possibly invalidate a subsequent patent and cause the entire subject matter to revert to the public domain. However, invalidation is merely a possibility under current United States law because a court might alternatively find that the prior user had abandoned, suppressed or concealed the invention. See 35 U.S.C. § 102(g). In that case, the patentee would retain a valid patent - perhaps even as against the prior user.

as to the validity of issued patents may in some instances increase the market value of United States patents.

## II. THE SECOND NECESSARY CHANGE: ADOPTION OF PRIOR USER RIGHTS

So what are prior user rights and how do they fit into the first-to-file system? Under current United States law, we have the ability to invalidate patents or patent applications under sections 102(g)<sup>20</sup> and 103<sup>21</sup> of the Patent Act. Under these statutes, a patent may be rendered invalid if the invention has been made in this country, or rendered obvious, by another who has not abandoned, suppressed or concealed the invention. For example, if inventor A made the invention first and does not apply for a patent, inventor A's act can invalidate the patent of inventor B who invents later and files for a patent.<sup>22</sup> In a first-to-file system this opportunity would not exist because the inventor who is first to file gets the patent. As a means of balancing this effect, the concept of prior user rights was developed to protect the investment of inventor A who has put into commercial use or made substantial preparations for commercial use of the invention which is the subject of B's later patent application.

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20. 35 U.S.C. § 102(g). Regarding this law, Judge Newman of the Court of Appeals for the Federal Circuit has stated,

I have not seen anyone who was a prior user who has been stopped upon raising the 102(g) defense and from that viewpoint[,] it seems that the prior user right is alive and well. Because someone has kept it as a trade secret has not succeeded, as far as I can tell, in avoiding the defense, because if it has been in commercial use, even if the process has been kept secret, it is considered a bar. If we go to a first-to-file system[,] we must face the important points that have been raised about forcing people into the patent system, even for marginal inventions technologically, in order to protect their prior user right. But if we stay with the current first-to-invent system, we would be changing direction if we felt that there should not be prior user right.

32 IDEA J. L. & TECH. 7, 60 (1991-92) (reprinting transcript of conference held Apr. 27, 1991, hosted by the Franklin Pierce Law Center, in cooperation with the Kenneth J. Germeshausen Center for the Law of Innovation and Entrepreneurship, and the PTC Research Foundation).

See also *Friction Division Prods. v. E. I. duPont de Nemours & Co.*, 658 F. Supp. 998 (D. Del. 1987), *aff'd* 883 F.2d 1027 (Fed. Cir. 1989) (unpublished). Some argue that the patent-defeating ability of 35 U.S.C. § 102(g) is limited, citing, for example, *W.L. Gore & Assoc. v. Garlock, Inc.*, 721 F.2d 1540 (Fed. Cir. 1983). However, that case involved 35 U.S.C. §§ 102(a) and (b), not § 102(g), and the prior secret use was not by the alleged infringer but by a third party.

21. 35 U.S.C. § 103 (1988).

22. 35 U.S.C. § 102(g).

A. *Prior User Rights Are an Alternative to "Winner Take All"*

In general, when faced with a conflict between an issued patent and a prior use by another, we have three basic alternative legal rules from which to choose. These rules are as follows:

- (1) invalidate the patent and open the whole field to the public;
- (2) uphold the patent's validity and enjoin use by all others, including the prior user; or
- (3) uphold the patent's validity but exempt the prior user from some degree of liability for infringement.

The historical changes in the United States patent laws demonstrate indecision about which legal rule to follow. Currently, one of the first two options is chosen, depending on the relative equities of the parties. These two "winner-take-all" solutions obviously work best in situations where one party is clearly more deserving of the right to use the invention.

For example, application of the second option, i.e., upholding the patent's validity, is equitable where an ordinary infringer attempts to rely on a third party's secret prior use to invalidate a patent and escape liability for infringement. The patentee, who honestly sought a patent without knowledge of the third party's secret prior use, has the equitable high ground. The infringer, having no personal rights to the invention, can be justifiably enjoined. Under the current system, however, the courts' use of the winner-take-all options can have one of the following unfortunate outcomes: invalidating an otherwise good patent in response to secret prior art; or enjoining a bona fide first-in-time inventor from continued use of his own invention.

The third option, granting a prior user right, is an alternative to the winner-take-all approaches. This option is the best solution in cases where both the patentee and the prior user independently acquire the invention and thus, both deserve rights in the invention. Somewhat suprisingly, there is historical precedent in American patent law for the explicit recognition of such rights. This precedent will be explored later in Section III of this Article.

Notably, prior user rights exist in most countries which have a first-to-file system.<sup>23</sup> For example, in Europe prior user rights are available in Austria, Denmark, France, Germany, Greece, Italy, The Netherlands, Norway, Sweden, Switzerland and the United King-

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23. For a description of many countries' patent laws, see the four-volume loose-leaf compilation, *MANUAL FOR THE HANDLING OF APPLICATIONS FOR PATENTS, DESIGNS, AND TRADE MARKS THROUGHOUT THE WORLD*, originally compiled in 1936 and updated regularly.



dom.<sup>24</sup> In Asia, prior user rights are available in China, Hong Kong, Japan, South Korea, Malaysia, Singapore and Taiwan.<sup>25</sup> Prior user rights are also available in Mexico and to a limited extent in Canada. A few countries (i.e. India, New Zealand, and Ireland) recognize only the prior user rights of their respective governments. Australia does not explicitly recognize prior user rights. Instead, Australia handles these situations through revocation of the patent.<sup>26</sup>

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24. For example, section 3 of the French Patent Act provides as follows: Anyone who, on the filing [or priority] date of the patent application, was already in possession of the invention, in good faith and within France, will have a personal right to use the invention notwithstanding the existence of the patent being granted for the said invention. (Such right cannot arise during the priority interval.) A right emanating from prior use can only be assigned together with the enterprise with which the right is connected.

See 1 OCTROIBUREAU LOS EN STIGTER, MANUAL FOR THE HANDLING OF APPLICATIONS FOR PATENTS, DESIGNS, AND TRADE MARKS THROUGHOUT THE WORLD at France 4-5 (Supp. 59, Mar. 198 & Supp. 61, Mar. 1990) [hereinafter MANUAL].

Also, section 12 of the German Patent Law provides as follows:

Personal rights of third parties (rights of prior use) are due to anybody who, at the time of filing of the application, was already using the invention within the Federal Republic of Germany, or had made the necessary arrangements for using the same . . . Third party rights of prior use are only transferable together with the business. No rights of prior use can arise during the priority interval if the patentee is a national of a country granting reciprocity in this respect.

See *Id.* at Germany 8-9 (Supp. 65, Apr. 1992).

Section 6 of the United Kingdom Patents Act of 1977 provides:

(1) Where a patent is granted for an invention, a person who in the United Kingdom before the priority date of the invention -

(a) does in good faith an act which would constitute infringement of the patent if it were in force, or

(b) makes in good faith effective and serious preparation to do such an act, has the right to continue to do the act or, as the case may be, to do the act, notwithstanding the grant of the patent; but this right does not extend to granting a license to another person to do the act.

See 3 *Id.* at United Kingdom 5 (Supp. 63, Mar. 1991).

25. For example, section 79 of the Japanese Patent Code provides:

When at the time of filing of a patent application . . . a person who has made an invention by himself without knowledge of the contents of an invention claimed in the patent application or has learned how to make the invention from a person just referred to, has been commercially working the invention in Japan or has been making preparations therefor, such person shall have a non-exclusive license on the patent right under the patent application. Such license shall be limited to the invention which is being worked or for which preparations for working are being made and to the purpose of such working or the preparation therefor.

See 2 *Id.* at Japan 3 (Supp. 66, Sept. 1992).

26. In Australia, the prior user problem is handled through negotiation of the patentee's rights. *Group Reports*, Congress of AIPPI, 40-44, Doc. Q89D (June 4-10, 1989) [hereinafter *Group Reports*]. Section 100 of the Australian Patents Act of 1952 provides that a standard patent may be revoked if the invention "was secretly used in Australia before the priority date of the claim." *Id.* at 42-43. Revocation is justified where any secret uses other than trial or experimental uses are established. Therefore, secret commercial uses can be used to invali-

While the scope of the prior user right varies, in most countries it provides a *legal* defense against patent infringement and allows the prior user to continue that technical activity which the prior user had commercialized, or made substantial preparations to commercialize. Most countries also provide provisions for the prior user to expand the volume of their activity to meet market demand.

*B. Current Proposals for Implementing Prior User Rights in the United States*

The Patent Harmonization Act introduced in the United States Congress in 1992 provided:

A person shall not be liable as an infringer under a patent granted to another with respect to any subject matter claimed in the patent that such person has, acting in good faith, commercially used or commercially sold in the United States, or has made effective and serious preparation therefor in the United States, before the filing date or priority date of the application for patent.<sup>27</sup>

This Act was qualified as follows:

(1) "The rights based on prior use under this section are personal and shall not be subject to assignment or transfer to any other person or persons except in connection with the assignment or transfer of the entire business or enterprise to which the rights relate," and

(2) "A person shall be deemed to have acted in good faith in establishing rights under this section if the subject matter has not been derived from the inventor."<sup>28</sup>

These two qualifications deal with major concerns raised by those opposed to prior user rights. If the prior user right was readily separable from a business, the prior user right would go beyond its basic purpose of protecting the investment of the non-deriving inventor and would allow an accused infringer to search for and license a prior user right thereby avoiding infringement. This would inequitably diminish the value of the patent. However, there is a need to allow a business to transfer the right as part of the sale of a business; otherwise, small businesses that rely on trade secrets may become significantly less alienable. As an additional qualification, prior user rights were not to be based on subject matter derived from the patentee. It is believed to be unfair to allow one to claim a prior user right if the information is derived from the patentee.

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date the patent. *Id.* The Australian contingent supports the rule laid down in WIPO Article 308. *Id.* at 41-42.

27. See S. 2605, 102d Cong., 2d Sess. (1992); H.R. 4978, 102d Cong., 2d Sess. (1992). The Patent System Harmonization Act of 1992 was introduced April 9, 1992 by Representative William J. Hughes and Senator Dennis DeConcini, in preparation for joint hearings on April 30, 1992.

28. *Id.*

tee, even if the information is gleaned from a publication of the patentee during the grace period.<sup>29</sup> Prior user rights are thus reserved for persons who independently acquire the invention.

Harmonization legislation may be reintroduced in Congress in 1993. The content of that legislation will likely not be dictated by the World Intellectual Property Organization (WIPO) Patent Law Treaty because the latest proposals concerning that treaty, dated January 29, 1993, provide two alternatives for prior user rights.<sup>30</sup> One alternative in Article 20 provides that prior user rights are optional and the other provides that they are mandatory. Article 20 was included in the treaty only because of the existence of Article 19 relating to rights conferred by the patent. Since Article 19 is recommended to be deleted, the last observation by WIPO on Article 20 is:

In conclusion, it is suggested not to include any Article on prior users' rights in the Treaty. In any case, it should be noted, firstly, that leaving the matter entirely to national laws appears to be reasonable since the beneficiaries of a prior user right are, in the vast majority of cases, only residents of the territory of the Contracting Party in question, and, secondly, that it will always be possible, if the position of the United States of America on prior users' rights moves at a later stage towards the solutions preferred by most other prospective Contracting Parties, to conclude a Protocol on the matter under Article 32.<sup>31</sup>

Thus, a decision whether to implement a prior user rights provision will apparently be left to the United States. Prior user rights provide protection for business and jobs in the countries which adopt prior user rights. If a country desires to forego protection of its industry and distinguish itself from other countries who have provided a prior user right, the treaty will allow it to do so.

### *C. Report of the Advisory Commission on Patent Law Reform*

The United States Secretary of Commerce in 1990 established the Advisory Commission on Patent Law Reform. In August, 1992, that commission issued a report including recommendations that the United States should change to a first-to-file system and that

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29. Some Europeans argue that one should be able to invest in a published invention because the public does not know whether a patent application has been filed or not. In a first-to-file system with a personal grace period, a published article is prior art to everyone except the author of the publication during the grace period. Europeans argue a first-to-file system with a grace period can become a first-to-publish system. They say that allowing derivation would drive inventors to file before publication, thus depriving the scientific community of early disclosure through publication. However, in our opinion, derivation will not be acceptable in the United States.

30. *Observations of the International Bureau Following the First Part (1991) of the Diplomatic Conference*, WIPO, ¶ 20, Doc. PLT/DC/69 (Jan. 29, 1993). [hereinafter *Observations*]

31. *Observations*, *supra* note 30, ¶ 20.C.

limited prior user rights should be adopted.<sup>32</sup> The report included comments made by the public in response to requests by the Advisory Commission. Comments regarding prior user rights from that report, as well as the authors' observations, are noted below.

### 1. *Arguments in Support of Prior User Rights*

Persons who advocate prior user rights support their position for the reasons that follow:

#### *Global Competitiveness*

The United States needs prior user rights to equalize the scope of patent rights granted by the United States patent system with the patent systems of our trading partners. Currently, prior users in most first-to-file countries can assert prior user rights against United States companies that hold patents in those countries. However, without a prior user rights provision, foreign owners of United States patents could prevent prior users in the United States from continuing to use their inventions, or require those users to pay royalties under a license. Thus, without prior user rights, the United States would expose domestic users to suit by foreigners who hold United States patents while the opposite situation would not occur.<sup>33</sup> Further, without the certainty provided by a prior user right, multinational businesses will hesitate to invest in plants and equipment in the United States for inventions that are not appropriate for patenting.<sup>34</sup>

#### *Protection of trade secrets*

Without prior user right, users of a trade secret run the risk of later independent invention and preclusive patenting by others. The public in turn may be deprived of the benefits provided by the invention. Notably, trade secret use of certain inventions, such as processes, is sometimes the best and only way to realize the benefit of the invention.<sup>35</sup> For example, in many cases a process patent affords inadequate protection in exchange for the inventor's disclosure, since process claims are often difficult if not impossible to po-

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32. THE ADVISORY COMMISSION ON PATENT LAW REFORM, A REPORT TO THE SECRETARY OF COMMERCE (1992) [hereinafter ADVISORY COMMISSION REPORT].

33. *Id.* at 49.

34. Lisa M. Brownlee, *Trade Secret Use of Patentable Inventions, Prior User Rights and Patent Law Harmonization: An Analysis and Proposal*, 72 J. PAT. & TRADEMARK OFF. SOC'Y 523, 535 (1990).

35. In *Kewanee Oil v. Bicron Corp.*, the United States Supreme Court stated that patents and trade secrets "have co-existed in this country for over one hundred years. Each has its particular role to play, and the operation of one does not take away from the need for the other." 416 U.S. 470, 493 (1974).

lice. Prior user rights, therefore, protect the valuable role trade secret law plays in the commercial arena.

*No reduction in patent incentive*

The incentive to patent major inventions would remain in the advent of a prior user right, so long as significant enforceable patent rights could be obtained to preclude others from using the invention. In addition, inventors would not feel compelled to file as many patent applications on minor inventions, such as improvements made during routine product development, as they would if a prior user right did not exist.<sup>36</sup> Furthermore, it is not in the United States' best interest to force inventors to disclose the best mode of an entire process to secure their rights in a small improvement. The base process would then be available for use by foreign manufacturers to the detriment of United States businesses.

*No significant increase in litigation*

Because litigation involving enforcement of prior user rights is rare in other countries, it is believed that such lawsuits should not significantly interfere with United States patent holders' activities.<sup>37</sup>

*More equitable*

Prior user rights as they exist in the United States today in section 102(g) are harsh, patent-defeating rights. In contrast, prior user rights, as proposed under the first-to-file system, are based on the equity of granting an inventor a right of limited scope to continue using an invention he conceived or independently created.

*Stronger Patent Grant*

In addition to offering greater administrative efficiency during the patent application process, a first-to-file priority system and a prior user right provision provide important advantages to the successful patent owner. A patent granted under these provisions would be valid despite the existence of a secret prior use.<sup>38</sup> Thus, certain prior uses by others that may be sufficient to invalidate under our current first-to-invent system (e.g., a secret use by another) would not affect a patent issued under this proposed

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36. *Id.*

37. *Id.*

38. Secret prior users which would not jeopardize a patent issued under section 106 include any non-informing public use or secret uses, by others, prior to the applicant's filing date. However, under § 106(a)(3) pending patent applications are held "secret" for 18 months and may operate to anticipate a later filed application.

system.<sup>39</sup>

Universities are certain to benefit from this change. Although universities infrequently possess trade secrets of the type that would vest them with prior user rights, they frequently patent their inventions. Under our current system, these inventions are exposed to invalidation by secret prior users. The change to a first-to-file system will enable a university to validly patent an invention which was secretly possessed by another. The university is then free to license the patent to whomever it wants. The prior user may themselves seek a license to maintain their exclusive position.

## 2. *Arguments Against Prior User Rights*

On the other hand, those who speak against the inclusion of prior user rights in a United States first-to-file system give as reasons the following:

### *Encouragement of secrecy*

The current United States patent system is based on a policy of encouraging the public disclosure of inventions.<sup>40</sup> By allowing someone to continue using an invention after it is patented by another, a system having prior user rights encourages secrecy and discourages disclosure of inventions.<sup>41</sup>

### *Source of litigation*

Prior user rights could increase the need for recordkeeping, and are a fertile ground for litigation and other burdens which characterize interference practice.<sup>42</sup> Even though suits to enforce prior user rights are not common outside of the United States, the United States is a litigious society.<sup>43</sup> Therefore, prior user rights would be claimed as a defense to infringement more frequently in the United States. In addition, it is likely that defendants here

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39. This is in contrast to our current law where the prior use of an invention would possibly invalidate a subsequent patent and revert the entire subject matter to the public domain. However, invalidation is merely a possibility under current United States law because a court might alternatively find that the prior user had abandoned, suppressed or concealed the invention. In that case, the patentee would retain a valid patent - perhaps even as against the prior user.

40. *Id.*; see also *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 486 (1974) (describing the policy behind the patent system as a reward-for-disclosure policy).

41. ADVISORY COMMISSION REPORT, *supra* note 32, at 49.

42. *Id.*

43. *Id.*; see also James A. Forstner, *The U.S. and Patent Harmonization: Potential Problems and Benefits*, 7 *World Intell. Prop. Rep.* (BNA) 20 (Jan. 1993).

would seek transfers of rights from bona fide prior users to avoid infringement.

### *Destruction of patent exclusivity*

Prior user rights threaten the exclusivity of the patent grant and jeopardize lucrative licensing deals and other opportunities of those who receive most of their income from licensing inventions.<sup>44</sup>

### *No benefit to universities*

Universities would rarely fall within the scope of a prior user right since they typically do not perform manufacturing activities. In addition, a university would not benefit from a prior user right since it does not have the means to transfer a prior user right with a business.<sup>45</sup>

### *3. Advisory Commission Recommendation*

The Advisory Commission on Patent Law Reform considered the concerns of those opposed to prior user rights and developed a set of recommendations for limited prior user rights. The commission's recommendations and the authors' observations are noted below:

#### *Time*

The Advisory Commission recommended that "The rights should be based only upon activit[ies] . . . prior to the earliest filing date to which the relevant claim or claims of the patent is or are entitled."<sup>46</sup>

A survey of other countries' laws shows that in general, the use of the invention must precede the priority date of the patent application.<sup>47</sup> The use also must be continuing and ongoing. Abandoned experiments, for example, would not later establish a prior user right to resume use of the invention.<sup>48</sup>

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44. ADVISORY COMMISSION REPORT, *supra* note 32, at 49.

45. *Id.*; see also Chew, *supra* note 10.

46. ADVISORY COMMISSION REPORT, *supra* note 32, at 49.

47. Japan, Korea and Malaysia require only that the commercialization be before the application date (not the priority date). However, derivation from the applicant will void the prior user right. See generally MANUAL, *supra* note 24 (describing each country's patent laws).

48. See, e.g., Norbert Marterer, *The Prior User's Right*, 21 IIC, INT'L REV. INDUS. PROP. & COPYRIGHT L. 521, 522 (1990) (discussing Austrian patent law).

### *Place Restrictions*

The Advisory Commission recommends that only activities taking place "in the United States" are entitled to prior user rights. This is consistent with most prior user rights statutes which similarly recognize a narrow geographical scope. In general, the protected right extends only to the specific activity that was occurring *within* the given territory prior to the filing of the patent. Consider a trade secret process that has been practiced in the United Kingdom with the resulting product having been sold in the United Kingdom prior to the filing of a patent. In such a case, the acts of practicing the process and selling the product in the United Kingdom would entitle the user to prior user right protection. However, if this same process had been practiced outside of the United Kingdom and the resulting product had been imported to the United Kingdom, the prior user right would not extend to any practice of the process in the United Kingdom. Only the continued importation and sale of products produced outside of the United Kingdom by that process would be allowed.

This limitation raises an interesting problem were the United States to adopt proposed section 106 (establishing a first-to-file system) without adopting proposed section 273 (providing for prior user rights). Under such a scenario, a global asymmetry in the patent laws would develop, putting domestic industry at a competitive disadvantage to foreign industry. The United States would be giving up existing first-to-invent protections, which are similar to a prior user right, while exposing United States corporations to the threat that a foreign inventor who seeks a United States patent could preclude United States corporations from continuing to use their own inventions. The opposite situation would not occur, since a United States corporation's foreign patent would not preclude a foreign prior user from his own market.

The narrow geographical limits of prior user rights obviously favor those parties that have an active presence in the jurisdiction. These rights *favor* domestic inventors, corporations and universities over foreign parties because the acts necessary to qualify for these rights must occur domestically. Therefore, adoption of prior user rights is necessary to ensure that United States entities are not placed at a competitive disadvantage.

### *Independent Creation*

The Advisory Commission's report requires that to qualify as a prior use, "the activity must have been done in good faith and without derivation from the patentee."<sup>49</sup> Further, the use must be

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49. ADVISORY COMMISSION REPORT, *supra* note 32.



based on independent development by the person claiming prior use, or by persons "who had an obligation at the time of such development to assign or license patent rights to or otherwise share such rights with such person."<sup>50</sup> The Advisory Commission's recommendation is consistent with other countries' laws. Most countries' prior user rights statutes require good faith on the part of the prior user at the time that the patent application is filed. This requirement is *not* met if, for example, the prior user had misappropriated the invention from the patent owner or had acquired knowledge of the invention through illegitimate means.

### *Prior Activity*

The Advisory Commission's report provides that "the prior user right must be based upon either actual use in commerce of the patented invention, or upon substantial material preparations for such commercial use."<sup>51</sup> In addition, the prior user must have completed an actual reduction to practice.<sup>52</sup> The following factors were provided as examples to consider as to whether or not substantial preparation for use has been proven by a potential prior user: (a) the costs incurred by the prior user; (b) the amount of time to complete the preparation for the commercial use; (c) the complexity of preparation; and (d) the diligence of the prior user in preparations for the prior use.

The Advisory Commission recommends that the burden of documenting the prior use be placed on the claimant.<sup>53</sup> In general, any commercial use of the invention prior to the application for patent by the second inventor will establish prior user rights in most countries having prior user rights statutes. For example, in Germany the rights are "due to anybody who, at the time of filing of the application, was already using the invention within . . . Germany, or had made the necessary arrangements for using the same."<sup>54</sup> Likewise, Japanese law explicitly requires that the invention either have been commercially worked in Japan or that commercialization has been prepared for in Japan.<sup>55</sup> France, on the other hand, will award prior user rights with less than full commercialization.<sup>56</sup> French law focuses instead merely on whether the prior user "possessed" the invention within France. Lodging a description of the invention in a closed envelope ("sous pli cachete") with a Notary

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50. *Id.*

51. *Id.* at 50.

52. *Id.*

53. *Id.*

54. See 1 MANUAL, *supra* note 24, at Germany 8-9 (Supp. 65, Apr. 1992).

55. See 2 *Id.* at Japan 3 (Supp. 66, Sept. 1992).

56. See 1 *Id.* at France 4-5 (Supp. 59, Mar. 1989 & Supp. 61, Mar. 1990).

Public or with a scientific society is sufficient evidence of possession to warrant prior user rights.<sup>57</sup>

### *Scope of the Right*

The Advisory Commission made the following recommendations concerning the scope of the prior user right:

The right created by the prior use or preparation should be limited to continuation of the particular activity which gives rise to the right. In the case of processes, this would limit the use to a continuation of use of an identified process but would not limit the products produced or affected by the process. In the case of products, the right would extend to future additions of the product only if they are not materially different from the version of the product which gave rise to the right. For example, improvements to the prior use should be permitted to the extent they do not fall within the scope of other claims in the patent.<sup>58</sup>

Further, the Commission recommended that "the prior user should be able to reasonably expand the prior use to meet reasonable market demands within the United States, rather than being restricted only to the pre-filing volume of use."<sup>59</sup> Finally, the Commission's report rejects any restriction on the prior user based on the prior use having been separately developed and commercialized in different regions within the United States.<sup>60</sup>

In other countries, a prior user who has established a bona fide prior use receives certain limited rights to continue operating his invention in spite of the subsequent issuance of an otherwise valid patent. In general, these rights cover only those uses that occurred prior to the patent application. An issue that frequently arises is whether a prior user should be allowed to modify and improve his practice after receiving the benefit of the patent disclosure. This question has not been uniformly resolved.<sup>61</sup> In Japan, prior user rights are limited to the invention which is being worked at the time of the patent application. This limits the ability of the prior user to adapt his invention to take advantage of subsequent technological advances, whether or not these advantages were gleaned from the patent application or were independently developed. In contrast, recent United Kingdom case law appears to allow *some*

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57. *Id.*

58. ADVISORY COMMISSION REPORT, *supra* note 32, at 50.

59. *Id.*

60. *Id.*

61. *Memorandum of the International Bureau, Committee of Experts on the Harmonization of Certain Provisions in Laws for the Protection of Inventions*, WIPO, 4th Sess., Doc. HL/CE/IV/INF/2, Annex II (November 2, 1987) [hereinafter *Memorandum*]. For example, jurisdictions are split as to whether the prior user rights should encompass a limited right to only the scope of the original use or preparation or a broader right to expand the use to satisfy the needs of the prior user's own business.

future modifications by the prior user.<sup>62</sup>

However, the prior user must be content with his present practices or seek a license to cover improvements disclosed and claimed in the patent which he wishes to incorporate. The authors submit that allowing the prior user to incorporate improvements which he has independently developed, or which are not disclosed in the patent application is fair. However, the prior user must be content with his present practices or seek a license to cover improvements disclosed in the patent which he wishes to incorporate.

In a majority of countries, there is no numerical limitation on the prior user to remain at their original level of activity. If the prior user expands his business he may commensurately increase his practice of the invention to meet the new demand.

### *Personal Nature of the Right*

The Advisory Commission recommended that, in accordance with several countries' laws, "prior user rights should be personal in nature and should not be transferable except with that part of the business which exploits the right."<sup>63</sup> Specifically, this provision prevents accused infringers from taking a license from a prior user to establish a defense against an infringement suit brought by the patent owner and is designed to protect the value of the patent.

This recommendation mirrors most existing prior user rights statutes which provide only a personal defense against patent infringement. The "personal" nature of this defense means that the owner, in general, cannot transfer his rights to another party. However, most of the statutes allow the prior user to transfer his rights upon the sale of an entire business unit with which those rights are associated.<sup>64</sup> This limitation avoids any unfairness to the patent owner which would occur if the prior user were able to freely license his prior user rights in competition with the patent rights.

### *Legal or Equitable Nature of the Right*

Another topic of debate is whether a prior user right should be legal, thus constituting a per se defense to infringement, or equitable, thus allowing courts discretion to evaluate the circumstances of the use before allowing the defense. The Advisory Commission recommends the latter, as follows:

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62. *Helitune Ltd. v. Stewart Huges Ltd.*, 1991 Fleet Street Reports 171, 206 (1991) ("provided a person carried out an infringing act before the priority [date of the patent in question], he can continue to carry out that act although the product or process might be different to some degree").

63. ADVISORY COMMISSION REPORT, *supra* note 32.

64. *Group Reports*, Congress of AIPPI, Doc. Q89D (June 4-10, 1989).

Prior user rights should be an equitable defense to a charge of patent infringement, and at a minimum should permit continuation of the use on the scale of commercial use undertaken, or for which sufficient preparations were made, before the patentee's earliest filing date. Where the totality of the circumstances make it appropriate, the Court should have the authority to access appropriate and reasonable royalties in favor of the patentee, or expand the right to ensure that justice is done.<sup>65</sup>

However, these authors favor a legal nature for prior user rights. Notably, the Patent Harmonization Act of 1992 provided that prior user rights were to be legal in nature. If the prior user rights are equitable in nature as proposed by the Advisory Commission, rather than legal as provided in the Harmonization Act of 1992 and in most other countries, the following problems will arise.

First, an "equitable" prior user right will be difficult, if not impossible, to value given the uncertainty of its being granted. As a rule, business managers need to quantify the financial obligations their companies will face. Therefore, the prior user may feel compelled to disclose his trade secrets to the patent holder in order to assess what, if any, liability there is to the patent holder and to prevent the accumulation of large royalty obligations. Thus, the inherent uncertainty of an "equitable" prior user right has the effect of forcing the prior user to disclose his trade secret to the patentee - just to avoid the risk of a later unfavorable or costly decision.

In addition, the granting of an equitable prior user right will not automatically exempt the holder of that right from having to pay royalties or make other compensation to the patent holder. This will impact the alienability of businesses that hold and rely on prior user rights because the issue of potential future royalty obligations will have to be resolved before the business will be saleable.

Faced with the above lack of certainty and hindrance of alienability, inventors will be forced to the patent system to protect their inventions. This will result in the negative results discussed above regarding forced disclosure of trade secrets where significant and enforceable patents are not available.

Finally, since an equitable right necessarily has less value to a prior user than a legal right, the adoption of an equitable right will tend to discourage domestic manufacturing. That is to say, the decision of where to place a manufacturing plant will be made in favor of the jurisdiction which has an absolute defense rather than a country which has only an equitable right.

In summary, the adoption of an equitable prior user right fails to adequately protect the prior user. Furthermore, due to its uncertain nature, such a right would be perceived by most businesses as

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65. *Id.* at 51.

having little, if any, value. Thus, businesses could be expected to act as if the right did not exist at all.

#### *Additional Characteristics of the Prior User Right*

The Advisory Commission considered and rejected other provisions for inclusion in a prior user rights proposal. These rejected provisions included: (1) providing special treatment for non-manufacturing entities; and (2) barring the availability of prior user rights where the use was intentionally concealed.<sup>66</sup> As to the first provision, there is a legitimate concern about the transferability of prior user rights by non-manufacturing entities such as universities who cannot transfer a business. This may need to be addressed in future legislation.

The prior user right is sometimes characterized as a substantial advantage only for large companies and of no use to individual inventors, small businesses or universities.<sup>67</sup> Individual inventors and universities, however, will benefit when they license their technology to medium- and large-sized companies. First, the licensee may rely on trade secrets when commercializing the invention. Those trade secrets will in some cases involve prior user rights and the income received by the individual inventor or university for licensing that invention will be due in part to those trade secrets. Second, the certainty offered by the first-to-file system will undoubtedly increase the value of the patent and increase its expected return through licensing. Finally, small businesses that do not use the patent system because of its high cost in procurement and enforcement or because of its inadequate protection of their inventions will want to have the ability to carry on their trade secret processes. These small businesses will have the comfort of a prior user right to continue against a patent holder, be it foreign or United States. If the small business later decides to transfer its business to another party, it will be able to do so if the prior user right is legal in nature without being impeded by a necessity to liquidate the amount of compensation owed to any patent holder.

The rejection of the second provision was sound. To not allow prior user rights for trade secrets, that is, intentionally concealed prior uses which are commercialized, would gut the prior user right. The resulting system would have the same deficiencies as a system adopting first-to-file without prior user rights. As has been shown, prior user rights are highly desirable in a first-to-file system.

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66. *Id.* at 51-52.

67. See Charles R. B. Macedo, *First-to-File: Is American Adoption of the International Standard in Patent Law Worth the Price?*, 18 *AIPLA Q.J.* 193, 228 (1990).

### III. HISTORICAL DEVELOPMENT (AND LOSS) OF STATUTORY PRIOR USER RIGHTS

The adoption of prior user rights in the United States is not without precedent. This section traces the treatment of prior user rights throughout the history of United States patent law.

Although the United States patent laws have historically attempted to limit the grant of a patent to the first inventor, the United States once had an explicit prior user rights statute which countered that limitation.<sup>68</sup> This section traces the historical treatment of prior user rights and seeks the present whereabouts of these rights.

#### A. Requirement That Inventions Not Be Known or Used by Others

Section 1 of the Patent Act of 1793 required that an invention for which a patent was sought not be "known or used before the application."<sup>69</sup> This section was later interpreted by Justice Story, in the case of *Pennock v. Dialogue*, to mean that the invention could not be "known or used *by others* before the application."<sup>70</sup> Section 6 of the Patent Act of 1836 codified this interpretation.<sup>71</sup>

Another portion of the *Pennock* decision that was incorporated in the 1836 Act was its policy against commercial exploitation by the inventor before the filing of a patent application.<sup>72</sup> Thus, the 1836 Act required that the machine, manufacture, or composition of matter not be "in public use or on sale, with his consent or allow-

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68. See Patent Act, ch. 357, § 6, 5 Stat. 117 (1836).

69. Patent Act, ch. 11, § 1, 1 Stat. 318 (1793).

70. *Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 18 (1829). In *Pennock*, Justice Story pondered, "[W]hat then is the true meaning of the words 'not known or used before the application?'" They cannot mean that the thing invented was not known or used before the application by the inventor himself, for that would be to prohibit him from the only means of obtaining a patent. . . . The words, then, to have any rational interpretation, must mean, not known or used by others before the application. *Id.* at 18-19.

71. Patent Act, ch. 357, § 6, 5 Stat. 117 (1836).

72. The *Pennock* Court interpreted the policy behind section 1 of the Act of 1793 to be the prevention of commercial exploitation by inventors prior to their application for a patent. The Court reasoned as follows:

[T]hus construed, there is much reason for the limitation thus imposed by the Act. . . . If an inventor should be permitted to hold back from the knowledge of the public the secrets of his invention; if he should for a long period of years retain the monopoly, and make, and sell his invention publicly, and thus gather the whole profits of it, . . . and then, and then only, when the danger of competition should force him to secure the exclusive right, . . . it would materially retard the progress of science and the useful arts, and give a premium to those who should be least prompt to communicate their discoveries.

*Pennock*, 27 U.S. (2 Pet.) at 19.

ance" prior to the date of the patent application.<sup>73</sup> Under the 1836 Act, a prior public use or sale of the invention *with* the inventor's consent would bar a patent, while a prior public use or sale *without* the inventor's consent would not be a bar.<sup>74</sup>

*B. The Prior User Rights Clause—Section 7 of the Act of 1839*

The above requirements were drastically changed just three years later when Congress replaced section 6 with a complicated provision that created both a vested prior user right and a two-year grace period during which time the inventor could publicly use his invention.<sup>75</sup> Section 7 of the 1839 Act provided:

[1] That every person . . . who has . . . purchased or constructed any newly invented machine . . . or composition of matter, prior to the application by the inventor . . . shall be held to possess the right to use, and vend to others to be used, the specific machine . . . or composition of matter so made or purchased, without liability therefor to the inventor . . . and [2] no patent shall be held to be invalid, by reason of such . . . use prior to the application for a patent . . . except on proof of [i] abandonment of such invention to the public; or [ii] that such purchase, sale, or prior use has been for more than two years prior to such application for a patent.<sup>76</sup>

Under the first clause, a prior user was not liable for patent infringement; under the second clause, the validity of the patent was preserved, despite the prior use.<sup>77</sup>

The Supreme Court first addressed this prior user defense against infringement in the case of *McClurg v. Kingsland*.<sup>78</sup> This case involved an employee/patentee trying to enforce a patent against his former employer. Apparently, the experiments leading to the invention were made in the employer's shop while the patentee was receiving wages. Later, the patentee left the employer's shop and assigned his rights in his invention to a competitive foundry. The assignee quickly sued the former employer for infringement of the patent.<sup>79</sup> In *McClurg*, the Court interpreted section 7 to have two objects: (1) "to protect the person who has used the thing patented, by having purchased, constructed, or made the machine . . . from any liability to the patentee or his assignee;" and (2) "to protect the rights, granted to the patentee, against any infringement by any other person." The latter relieves the inventor from the effects of the *Pennock* decision, which would have invalidated

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73. Patent Act, ch. 357, § 6, 5 Stat. 117 (1836).

74. See DONALD CHISUM, PATENTS § 6.02[1] n.9 (1992).

75. Patent Act, ch. 88, § 7, 5 Stat. 353 (1839).

76. *Id.*

77. This clause thus recognizes simultaneously both the right that an inventor has to his own invention and the rights and duties for obtaining a patent.

78. *McClurg v. Kingsland*, 42 U.S. (1 How.) 202, 205-06 (1843).

79. *Id.* at 204.

the patent because the inventor permitted prior use of the patented article.<sup>80</sup> Section 7 spared the inventor's patent from invalidation as long as he filed his application within two years of such prior use. Thus, section 7 gave a "grace period" for prior uses.

In construing section 7, the Court also dealt with the scope of the protection created by the prior user right clause. The assignee argued that the privilege only encompassed the specific machines manufactured prior to the application date. The Court rejected this argument and applied an expansive view of the "right to use and vend to others." Under this interpretation, the prior user was allowed to continue to make and use the machines even after the date of application.<sup>81</sup> However, the Court limited the prior user right to what had been practiced; the right could not be claimed to allow use of the patentee's later improvements.<sup>82</sup>

### C. Restriction of Section 7

One year later, Justice Story (then sitting on the Massachusetts circuit court) refused to apply this expansive interpretation of the prior user rights clause. In *Pierson v. Eagle Screw Co.*,<sup>83</sup> the court enforced the patent rights of the first inventor (Crum) against a second independent inventor (Read). Prior to Crum's application, Read had independently developed the same machine and sold a number of them to the defendant. Justice Story rejected the defendant's argument that he should be allowed to continue to use the machines. Justice Story limited the prior user right to cases where the pre-patent-application purchases were from the first inventor

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80. See *Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 14 (1829). In *Pennock*, the Court stated:

That if an inventor makes his discovery public, looks on, and permits others freely to use it, without objection or assertion of claim to the invention, of which the public might take notice; he abandons the inchoate right to the exclusive use of the invention, to which a patent would have entitled him, had it been applied for before such use, and that it makes no difference in the principle that the article so publicly used, and afterwards patented, was made by a particular individual who did so by the private permission of the inventor.

*Id.* at 14.

81. *McClurg*, 42 U.S. (1 How.) at 210. The Court found no error in the jury instructions that provided "the authority to use [the invention] before the patent carried the right to continue to make and use it after the patent had issued." *Id.* at 204, 210.

82. The Court stated, "The use of the invention before an application for a patent must be the specific improvement then invented and used by the person who had purchased, constructed, or used the machine to which the invention is applied." *Id.* at 210.

83. *Pierson v. The Eagle Screw Co.*, 3 Story 402, 19 F. Cas. 672 (C.C. R.I. 1844) (No. 11,156).



himself and effectively unstrung the first clause of section 7.<sup>84</sup>

Justice Story apparently adopted this restrictive view to circumvent the pirating of inventions by wrong-doers, even though the case before him presented an independent inventor rather than a "pirate."<sup>85</sup> The Supreme Court apparently adopted the Story "piracy" interpretation in 1858. In *Kendall v. Winsor*, the Court held that the jury was properly instructed that a defendant could not rely on section 7 prior user rights where the defendant surreptitiously derived the invention from the first inventor.<sup>86</sup>

Congress also adopted Story's interpretation in the Patent Act of 1870. By this Act, Section 7 was split into two independent sections. Section 24 of the Act of 1870 allowed a patent to be granted only for an invention which was not in public use or on sale for more than two years prior to the application for the patent, subject to the defense of abandonment within such two years.<sup>87</sup> Section 37 of the Act of 1870 allowed a prior user defense only in cases where the user shall have purchased the article from the inventor or con-

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84. Twenty-nine years later the Supreme Court reversed Story's interpretation of section 7 and held that the prior user rights apply to *all* pre-application makings, whether or not with the first inventor's consent or allowance. *Driven-Well Cases*, 123 U.S. 267, 273 (1887). In *Driven-Well*, the Court stated:

The first clause [of section 7] provides for the protection of a person who, prior to the application for the patent, purchases or constructs a specific machine or article, and declares that he may use and sell such specific machine or article after the patent is issued, without liability to the patentee. The section does not require, in order to this protection, that the purchase or construction shall have been with the consent or allowance of the person who afterwards obtains the patent and seeks to enforce it against such purchaser or constructor. The words "consent or allowance" are not found in the provision. The only requirement is that the specific machine or article shall have been purchased or constructed at some time prior to the application for a patent.

*Id.*

Justice Story's interpretation, however, had already been adopted in the Patent Act of 1870 and was therefore still the law. *See* Patent Act, ch. 230, § 24, 16 Stat. 198 (1870).

85. *Pierson*, 3 Story at 406-07 (noting that "it could never have been the intention of this clause to confer on a fraudulent purchaser, or a purchaser with full notice [of the prior invention], a right to use an invention pirated from the original inventor, by wrong.").

86. *Kendall v. Winsor*, 62 U.S. (21 How.) 322 (1858).

87. Section 24 provided in relevant part:

That any person who has invented or discovered any new and useful art, machine, manufacture, or composition of matter, or any new and useful improvement thereof, not known or used by others in this country, and not patented, or described in any printed publication in this or any foreign country, before his invention or discovery thereof, and not in public use or on sale for more than two years prior to his application, unless the same is proved to have been abandoned, may . . . obtain a patent thereof.

Patent Act, ch. 230, § 24, 16 Stat. 198 (1870) (later section 4886 of the Revised Statutes).

structed it with his knowledge and consent.<sup>88</sup>

Vestiges of prior user rights still remain in United States law.<sup>89</sup> They are found in one of the "winner-take-all" options discussed above, where the patentee may be divested of his patent rights because of a prior use. Upon the invalidation of the patent, all persons are entitled to make, use and sell the invention. A prior user may invoke any of the conditions of sections 102 and 103 to invalidate a patent which covers the subject matter that he had in fact invented and used, but had not patented.<sup>90</sup>

Significantly, however, this ability to invalidate a patent is not limited to prior inventors under the current system. Any defendant, even a blatant copier, may raise another's prior use and thereby invalidate the plaintiff's patent. Proposed section 106 eliminates this defense to infringement by rejecting the "winner-take-all" approaches. Under proposed sections 106 and 273, a defendant can rely only on his own prior use as a defense to infringement and cannot invalidate the patent based on another's secret prior use. Likewise, the patentee can enforce his patent rights against everyone but bona fide prior users. For these reasons, prior user rights are an important equitable component in a first-to-file system.

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88. Section 37 provided in relevant part:

That every person who may have purchased of the inventor, or with his knowledge and consent may have constructed any newly invented or discovered machine, or other patentable article, prior to the application by the inventor or discoverer for a patent, or sold or used one so constructed, shall have the right to use, and vend to others to be used, the specific thing so made or purchased, without liability therefor.

Patent Act, ch. 230, § 37, 16 Stat. 198 (1870) (later section 4899 of the Revised Statutes) (repealed 1952).

Section 37 was replaced by section 4899 of the Revised Statutes and later repealed in 1952 with a note in the Committee Report that it was "redundant and unnecessary" and that similar results would follow for "some other reason." The other reasons were not explained in the committee notes. It is possible that these reasons included modern developments in shop rights, laches and estoppel. Because section 4899 was restricted to instances where the user had the knowledge and consent of the inventor, it is unlikely that the "some other reason" included interference law under section 102(g) of the 1952 Act.

89. Although section 7 prior user rights may no longer be available as a defense to infringement, a prior user is not without a remedy. In fact, the opposite is true. Without section 7, the patentee is left holding a potentially invalid patent. In short, we have replaced the statutory defense for infringement by prior users with a "winner-take-all" patent infringement/validity battle.

90. Section 102 is entitled, "Conditions for patentability; novelty and *loss of right to patent*" (emphasis added). 35 U.S.C. § 102. The applicant must satisfy the requirements of this section to receive a patent. Once the patent is granted, a presumption of validity attaches. 35 U.S.C. § 282 (1988). Section 282 provides, however, that one defense to an infringement suit is the "invalidity of the patent or any claim in suit on any ground specified . . . as a condition for patentability." 35 U.S.C. § 282. Therefore, any of the conditions in sections 102 and 103 may be raised by the accused infringer.

## CONCLUSION

Those speaking against prior user rights tend to frame the discussion in terms of a struggle between United States inventors. The issue, however, is not between large and small businesses, between businesses and universities, or between individual inventors and groups of inventors. Rather, the issue is allowing *all* United States inventors to be competitive on a worldwide basis. To help accomplish this goal, the United States must harmonize its patent system with the rest of the world and adopt a cost effective first-to-file priority system - a system that includes prior user rights. Failure to harmonize will unnecessarily jeopardize the global protection of many United States originated inventions. As a result, two-thirds of the world markets will receive these inventions free of charge.

The change to the first-to-file priority system will be a fundamental, sweeping change. The first-to-file system, although more cost effective on the whole, can produce inequities for the first-in-time inventor who chooses not to seek a patent yet wants to commercialize his invention in the United States. Prior user rights are needed to protect and encourage domestic investment and commercialization in these inventions. Without this protection the inventor may instead choose to locate his investment in a jurisdiction which has a prior user right.

The Patent Harmonization Act of 1992 provides a well developed and fair prior user rights provision. Proposed section 273 provides adequate legal protection to bona fide prior users yet properly restricts these rights to those who independently acquire the invention. If the United States chooses to adopt a first-to-file priority system it should also adopt this prior user rights provision.