

Copyright © 1996 by the PTC Research Foundation of Franklin Pierce Law Center
IDEA: The Journal of Law and Technology
1996

Franklin Pierce Law Center's Fifth Biennial Patent System Major Problems Conference

IV. PRIOR USER RIGHTS

MR. KONKOL: I'm very pleased to be here, and I'm even more pleased to have a golden opportunity to participate in a frank discussion on the subject of prior user rights. Let me preface my remarks, if I may, with some suggestions on how to approach this subject. First, we know this is a very controversial subject right now, and because it is so controversial, I compliment Franklin Pierce Law Center for taking the bull by the horns and putting it on the agenda once again. I believe that this kind of conference can play a unique and a much needed role in helping to resolve such important issues or problems. This academic setting provides an excellent forum for civilized discourse and thoughtful discussion. There are other places for advocacy and lobbying, but I think this is one of the few places where simple civilized discourse among informed members and leaders of the profession can happen.

Prior user rights is also a very complex subject. I myself have *407 struggled with this issue over several years, and my thoughts on the subject have evolved considerably. So, I would therefore urge people looking at the subject to keep an open mind, to be willing to let their thoughts evolve and change, if justified. I think there are powerful arguments on both sides of the issue, the issue of whether to have prior user rights or not to have prior user rights. The major arguments against prior user rights is the focus of an excellent article written by Bob Rohrback, published recently in the University of Baltimore Intellectual Property Law Journal. His most powerful argument, I think, is that prior user rights would undermine the exclusivity of patents. As we know, the exclusivity of patents is almost sacrosanct among patent professionals.

On the other side, I've heard Karl Jorda speak very convincingly about equal rights for trade secret users. As a corporate practitioner, I quite agree that trade secrets are not nefarious or intrinsically inferior to patented technology. On the contrary, they should be encouraged. I think they are important to U.S. technological competitiveness, and I do not agree that someone who chooses trade secret protection over patent protection should merely suffer the consequences of his "mistake," if somebody else later patents the same invention.

So, there are valid and powerful arguments on both sides of this issue. We're talking about the fundamental interface between the rights of patent owners and the rights of trade secret users, and there is a tension there. There is no perfect solution. But we must achieve some kind of a balance and draw some kind of rational dividing line. I think one of the problems in reaching a consensus on this issue is that people may not appreciate that they are looking at it from an angle, in other words, from their own particular point of view based on their own experiences. It may depend on whether one works in a corporation, a law firm, or a university. Because the subject is so complex, it may also depend a lot on the analytical approach that one takes to the subject. Everything that someone says on the subject may be true, at least not false, but it is like the ten blind men and the elephant. Each sees a different part of the elephant. One concentrates on the trunk, another values the tusks, another is wrapped up in the floppy ears, but it is necessary for each of the blind men to communicate with each other in order for anyone to fully understand the situation. The same applies to the subject of prior user rights. It takes a diversity of views to get the full picture. Let me provide some background information on this issue.

In the broadest terms, as I have mentioned, we are talking about the interface between the rights of patent owners and the rights of trade secret users. There is more than one way to create a balance between those rights. Prior user rights is one possible solution. Another possible solution is to keep the present law on the subject. Another possible proposal is the prior invention right. I saw another proposal handed around at the table, and I think that's good because I think there's a need for creativity in the patent law. It's not just a binary decision-U.S. law or European law. I think we have to fully consider the various proposals.

Just so we are clear on the difference between, for example, a prior user right and a prior invention right, this is how I would define them. A prior user right is based on commercialization of the invention by a trade secret user before a patentee's filing date. A prior invention right is based on prior invention, not necessarily commercialization, before the patentee's invention date, so long as the invention is not abandoned or the prior inventor diligently commercializes the invention. In both cases, the right is a non-transferable or in personam right to use the invention validly patented by another. The idea of a prior invention right was a major issue in the U.S. in the late 1970s and the early 1980s, I gather from published articles. Then, with patent law harmonization in full gear, we spent a lot of time talking about prior user rights, at the 1993 Biennial Conference, for example, but it was in the context of first-to-file. Now, with patent law harmonization on the back burner, you're talking about prior user rights under first-to-invent. I assume we are also considering alternatives such as prior invention rights under first-to-invent or any other serious proposal.

But let me digress for just a minute because I can see that we are going to need to accurately define our terms and make careful distinctions. Let me give three examples. First, as I've indicated, a prior invention right is critically different from a prior user right, but to a large extent they are similar. They can achieve the same goal. As another example, it has been said that we had a prior user right in the U.S. under Section 7 of the

Act of 1839, but I think it's fair to say that it is not at all like the one being talked about in Congress right now. Third, I would submit that it is more accurate to say that we have under present U.S. law a de facto prior invention right than it is to say that we have a de facto *409 prior user right, and even that is only a rough approximation.

We need to define our terms in order to get a fuller understanding and a more accurate picture of what the law has been, what the present law is, what the law should be, and what the law would be under various proposals. For example, there seems to be confusion as to whether *Dunlop Holdings Limited v. Ram Golf Corporation* is good law. This was a 1975, 7th Circuit decision that involved an undisclosed new polymeric material, *Surlyn*,TM in a golf ball. The court found that the patent was invalid because of the prior public use and prior invention of the first inventor, who kept the invention as a trade secret. Some people think *Dunlop Holdings* is an aberration. I did a LexisTM search, and I found out it was cited 18 times, sometimes on this very issue. Also, I should mention that within the past year it was cited favorably by the Federal Circuit in *Checkpoint Systems v. U.S. International Trade Commission*. Citing *Dunlop Holdings*, the court stated, "The evidence clearly demonstrates that the inventor endeavored to market his invention as promptly and as effectively as possible." *Dunlop Holdings* is an example of a secret, non-informing use of an invention as patent invalidating prior art as distinguished from a secret use, for example, a secret process of making a commodity product in which the invention is not distinguishable in the final product that is marketed.

What I'm getting at is that *Dunlop Holdings*, assuming it's good law, speaks for a de facto prior invention right in the U.S. to some extent. I think, in practice, a patentee will likely refrain from suing a prior inventor/trade secret user because of the risk that the patent would be invalidated under § § 102(a) or 102(g) as in *Dunlop Holdings*, and particularly, as it may be difficult to prove that the invention was suppressed or concealed under current law. I know of no case where a jury or court shut down a manufacturing plant of a prior inventor. That is not to say that trade secret users are entirely protected under present law. But to a large extent, a de facto prior invention right may exist. This is important to recognize in order to: (1) evaluate the need for a prior user right, statutory prior user right or even a statutory prior invention right, and (2) to accurately analyze the differences between present law and the various proposals as a necessary analytical approach to determining what makes most sense economically and as a matter of fairness.

Let me add three more thoughts, and then I'd love to hear what *410 others think on this subject. First, it may help to think of both prior user rights and prior invention rights as an iceberg, without any negative connotation intended. Consider the major part of the iceberg below the water as those trade secrets that have existed for some time and which is the accumulation of all trade secrets that are still in use and have been used for more than a few years. Prior user rights and prior invention rights are identical icebergs in this respect. Prior invention rights and prior user rights differ at the tip of the iceberg with respect to those trade secrets that were recently invented or recently commercialized. Second, assuming *Dunlop* is good law, then the issue of prior user rights or prior invention rights becomes primarily a matter of process technology. In other words, if *Dunlop* takes care of non-informing uses by trade secret owners, then the only remaining

or the primary concern would be process technology. So, I believe that in order to justify either a prior user right or a prior invention right, we need to think in terms of process technology.

Relevant to this issue is, first, whether there's adequate patent protection for process technology outside the U.S. There's a very good article in the American University Law Review by Alan Wright in 1994 on this subject. Secondly, it's of relevance whether it is possible to effectively prevent products made by infringing processes from entering the U.S. under 35 U.S.C. § 271(g), and there's a good article in the George Washington Law Review in 1991 by Glenn Law on this subject. If many process patents are not adequately enforceable on a global basis, then a prior user right or a prior invention right makes more sense as a needed alternative to patenting. Third and finally, to confuse the matter a little bit more, let me add that if we did have a statutory prior invention right, Dunlop Holdings could be statutorily overruled. This would not be the case with a prior user right. We could go to a definition of novelty and public use consistent with European patent law where prior art would have to be truly available to the public in order to be invalidating. Prior art that was non-informing would merely form the basis of a prior invention right, so rather than undermining patents, a prior invention right might serve as preventing their invalidation as in Dunlop Holdings. In her fine introduction to the subject of prior user rights in 1993 at this Biennial Conference, Sylvie Strobel made reference to the difference between novelty in Europe and the U.S. as of underlying relevance to the *411 prior user right issue. I believe that by eliminating that difference, requiring prior art to be "informing" or according to EPC terminology "available to the public" and, in combination, by providing a prior invention right, then the dilemma that courts might potentially face of having to decide between either invalidating the patent of the inventor who disclosed the invention or shutting down the plant of the first inventor who disclosed the invention would be avoided. So, let the discussion begin.

MR. ARMITAGE: Chris began by making a comment that this is an issue on which I think he said he had struggled and had thoughts evolve. I need to make a confession to begin the discussion here, because this is an issue on which I had struggled, and my thoughts have evolved. In particular, in 1982, I published an article in the JPOS, which it was then known, which proposed that the United States adopt a system of prior invention rights. Fundamentally, it was precisely the concept Chris was talking about. I have to admit that I was younger then and vastly less wise, I hope, than I am now. As I now reflect on what I wrote in 1982, it was a totally unfortunate and unworkable system for a number of reasons.

First of all, if you're going to enjoy this prior invention right, you need to know what the invention date is of the patentee, because if you don't know what the patentee's invention date is, you don't know whether you even have the right. Therefore, in 1982 I said that this was no problem. We will simply create a simple administrative proceeding where we will access whether or not you're entitled to a prior invention right. In that article, I suggested that the patent interference system was in fact the ideal model of such a proceeding under which we could determine whether you should be entitled to a certificate of prior invention.

Now, Chris talked a bit about the tip of the iceberg difference between a prior user right and a prior invention right. The tip of the iceberg difference is that with a prior user right, you don't need an interference proceeding. You don't need to assess relative dates of conception. You don't need to assess whether there has been corroboration. You don't need to assess whether there's been reasonable diligence. You don't need to assess whether the doctrine of simultaneous conception and reduction to practice applies. You don't need to assess whether there has been an actual reduction to practice including a demonstration *412 of utility, and you do not need to assess whether after that reduction to practice there has been statutory abandonment, suppression, or concealment. Instead, under a prior user right, you look at the date on which you began your work. You look at the filing date on the face of the patent, and you basically decide for yourself whether you've begun work early enough or not.

Now, as unfortunate as that publication was in 1982, of course, it becomes vastly more unfortunate on January 1, 1996. Because on January 1, 1996, we will fully adopt as our date of invention the date of invention wherever in the world it occurred. And so, in effect, prior invention rights will be wide open to any inventor who has any set of proofs anywhere in the world and will be able to claim that right in the United States. Prior user rights, however, will continue to be what they have always been, and that is national rights. In fact, nationalistic rights. They will require prior commercial use in the United States. So, I apologize to the profession for my impassioned plea that we adopt prior invention rights, and I make this official public retraction today.

MR. WITTE: As many of you may know, I am opposed to prior user rights on the classic grounds that it unreasonably erodes the basic exclusionary right of the patent. But sometime ago, I decided to go along with prior user rights because I saw that as a key element in achieving the first-to-file system, and I'm still of that position. So, I will support prior user rights for that purpose if it goes along with the limitations that the Advisory Commission report had on a number of things. Although, I would have preferred that there be a possibility of royalties, which may still be there if it's deemed as an equitable remedy for the prior user, and also to cut back or eliminate the preparation for use. But I'm willing to accept that. For prior user rights as a stand-alone concept, I still have my basic problems. I see it primarily as a defensive right or protective right for the prior user in process technology. The arguments in favor of prior user rights are much stronger for process technology and the trade secret elements that go along with it. But a prior user right, as drafted, would extend to all patents, including product patents, and there my concern about prior user rights is greater.

Stepping back, I see prior user rights as this process patent remedy, and the result of three things. One is the deliberate decision to keep process technology a trade secret. The next is the argument that *413 it's too much trouble to try to recognize all the possible inventions that somebody might come along and get a patent on. The third one is cost. Well, in response to the last two, I say if you're really worried about your ability to continue practicing your secret process technology, and if you don't want to take the trouble and money to get a patent, then publish. This is a classic defensive maneuver that

can avoid the need for prior user rights. You protect your right to continue practicing by publication, and I think there are ways to do that that are fairly easy without attracting attention to a particular company. You publish anonymously, and you put your preferred process in with a lot of other disclosures. You establish a defensive protection, but you can still kind of retain the trade secret advantages. Now, if it's important technology, and you deliberately decide to keep it a trade secret, recognizing that you might be able to get a patent, well, I look at it this way: The risk for the trade secret decision is that somebody else is going to come up with the same technology and either patent it or also use it as a trade secret is about the same risk that would result if you published in the way that I described, with the concealment.

MR. GRISWOLD: I'm certainly in favor of prior user rights and not prior invention rights. The prior invention right does not provide certainty. It requires that the person who has done these acts talk to and deal with the patentee. That requires, then, that a disclosure of this information be provided to the patentee, and indeed there is some proceeding where that takes place. It puts the purchaser in a position where he as a businessman has to go out, go to the other party and find out whether or not he can go forward with his business unencumbered by this other patent or not. I don't like that disclosure. It's particularly bad for small businesses. The reason I say that is because I've been involved at 3M in buying many, many small businesses. We had to clear up issues like this before we would acquire the business. That would require the person who's operating this trade secret process in a small business to go to the patentee before we would acquire the business. So, I'm against anything that reduces the alienation of small businesses.

One of the reasons that people don't want to go to the patent system relative to processes is the policeability of the patent. If you can't police the patent here sometimes, and you can't police it abroad, then even if you get one over there, you wind up disclosing the technology, *414 and people use it to your detriment. I don't think we want to put our people in the United States in a position of disclosing their process technology or manufacturing equipment that's used to make things. That's confidential. I don't think we want to force businesses to disclose that and put at risk our manufacturing jobs in the United States. Now, other countries have seen fit to protect their domestic manufacturing industry by providing prior user rights and providing certainty to their manufacturers. Somehow in the United States, we can't come to grips with the idea that that is important for us, despite the fact we talk about balance of trade and all these kinds of issues. We put ourselves in a disadvantageous position when 45 percent of U.S. patents are granted to people from outside the United States. If we don't have a prior user right here, they can shut us down; whereas in their country, with our patents that we have in those countries, we can't shut them down because they have prior user rights. So, I think we've put ourselves in a bad position.

The final point I will make on this is that a prior user right is a nice balance. It protects the person who has invested, put the product on the market, and provided good to the public by doing so. It also protects the person who comes along later and files a patent, gets a patent, and provides a disclosure. It gives them the benefit of having a valid patent

that is useful against others than the prior user. So, it's a nice balance of the interests, and that's why we support it.

MR. GHOLZ: I make my living doing interferences. This is close to my heart, obviously. I am dead set against prior invention rights and in favor of prior user rights. I'm against prior invention rights because they are so close to interferences, at least traditional old fashioned interferences, which are priority contests. There are fewer and fewer of these today, but the interferences that are priority contests and the kind of proceedings that would be necessary to establish prior invention rights are enormously socially dysfunctional. They're very expensive in terms of what you pay outside counsel, but I think they are even more expensive to society in terms of taking some of our most productive inventors out of the laboratory and putting them to work reliving their past. It may be fun, and it may be entertaining, but it isn't good for the Republic. To have a prior invention right, you'd have to have a proceeding, which might have a different name but, by God, it would be an interference. That's what you're doing. That's what you're *415 trying to establish, and I think that the sooner we go to first-to-file, the better. That would get rid, not of all interferences, but of priority contest interferences. We don't want to recreate this monster via a prior invention right.

On the other hand, with prior user rights, there are pros and cons. I don't think this is a clear call, but the companies that have commercialized inventions, that have really put money into either actually commercializing or getting close to that point, the folks that are going to get prior user rights, have contributed. There is an economic value there to be protected, and it seems reasonable to me that that economic value should be protected.

I don't think that the cutoff date should be, as is proposed by most, the filing date of the application. I think the cutoff date for prior user rights should be the issue or publication date. If we go to published applications, the cutoff date should be the date of publication. Under our current law, it should be the date of issuance of the patent because you have the same risks of companies getting blind-sided while the application is secret, as you do with companies getting blind-sided prior to the filing date. But there you've got a social value that needs recognition, or at least can legitimately be recognized. The social value for an inventor who never gets around to trying to commercialize is, to my way of thinking, minimal.

MR. LOWIN: Mostly, I have questions about prior invention and prior user rights. The concept of going to a publication date, while it seems fair, on the one hand, because it gets published, you know what it is, you knew it before then, great. But what about intervening scientific publications that disclose the invention. Many times our inventors are ready to publish the day after they file, and you disclose the invention. Are you leading the public to believe they're free to do this? Are you going to lose your rights because you published before the application got published?

I have wondered for some time whether there is already a prior invention right in the U.S. patent laws. That would be § 102(f) because if somebody else invented it first, they're the first and true inventor, and the subsequent applicant isn't and is therefore not

entitled to the patent, at least the way I descriptively read that section. So, do we already have prior invention rights, and is that an appropriate defense as between a *416 later applicant and the real inventor?

I get concerned about the impact of a prior user right on different industries. In that case, I have to speak about the pharmaceutical industry. This is an industry where many different inventors are stimulated by the same developments. They're making preparations for commercialization of many of the same inventions at the same time. If all of them are going to be allowed to practice it because they were making those preparations, then it will defeat the entire idea of exclusivity. I admit I'm not familiar enough with how this is going to work, but that's a concern it raises for me.

The last concern is what kind of a right is a prior user right going to be? I get the feeling that you can't license it, but does that mean that you can't transfer it to a successor in interest of your company? Does the owner of a prior user right all of a sudden become a non-marketable organization even if they want to be taken over?

MR. SMITH: Dick Witte and I debated prior user rights a great deal during the course of the Advisory Commission deliberations. I have two or three comments, but I want to speak first about the product-oriented patent side of prior user rights. Dick and I come from completely different industries. The industry that I represented at IBM was one in which products typically involved the use of hundreds of inventions. There wasn't an equation between an invention and a product. Many of these inventions were more or less of modest character and not really worth patenting for protective purposes. Filing a patent application would be done for defensive purposes, if it was done at all.

Prior user rights, as I see them, are an absolutely essential adjunct to a first-to-file system. Prior user rights would provide some relief for the corporate manufacturer who didn't want to file patent applications on all the inventions in order to be the first to the patent office to protect his ability to commercialize those inventions. So, I disagree with Dick that the prior user rights are not essential with respect to product or inventions.

Now, speaking of prior user rights with respect to the current first-to-invent system, I'm in favor of the bill that is currently before the Congress, but I am not as adamant about the need for prior user rights in the current situation because we still have 35 U.S.C. § 102(g). People who have made inventions, even if they didn't file, if they were in fact *417 prior to the invention of the patentee that wants to stop them, have the capability of protecting themselves. So, prior user rights are not quite as essential today, except with respect to secret processes. I think there they do currently supply a very important relief for the trade secret process owner. I'm somewhat concerned about the existence in the present bill of the one year period prior to the filing of a patent application during which prior use cannot be created. I think that's a little bit harsh, but as I say, I'm not unduly concerned about it because I still have 35 U.S.C. § 102(g) available to me if I was indeed the first inventor. I worry though, that if the bill gets passed with that one year period in it, and we someday, let's hope, get to a first-to-file system, then we're going to have a problem with that one year period. We're going to have to reinvent prior user rights in an

environment where it's going to be a great deal more important. I fear it's going to be difficult to get rid of that one year period and that situation.

MR. BUDINGER: The current bill before Congress, and I think there's only one, is H.R. 2235. I've got a few copies of that bill that I'll put out here for those of you who didn't get a copy of it. That bill really is a very, very restricted form of prior user rights, and we've heard about many of those restrictions already.

I would like to make two comments. Chico asked if the publication date should be the date before which commercial use would establish a prior user right. The difficulty with that is that it opens the door for abuse, particularly against small inventors or university professors who want to practice or experiment with their invention before they file their patent application. These inventors often use the full one year grace period. If we allow someone to acquire a prior user right by establishing use prior to the publication date, there would be a tremendous opportunity for fraud. It would effectively eliminate the value of the one year grace period because anyone who noticed the invention could establish his right to use it simply by getting into production before the patent's publication.

One of the things that the drafters of the bill tried to work very hard to do was to keep people from being able to establish a prior use based on copying somebody else's invention and subsequent patent. As a patentee and one who is very concerned about the little inventors, the latest date on which a prior use could be established was a very important *418 consideration. The greatest consensus formed around commercial use and public benefit prior to the application date, and even then the user must be able to prove he had the technology a year before the application date.

The second issue is whether the prior user should have to prove he was a first inventor. I think Bob did a good job of highlighting the problem with this approach. He underscored that particularly for the little guy the cost of having to prove first inventorship would be just outrageous. If a small entrepreneur who had a legitimate prior use were to be required to prove inventorship, the cost would mean that a prior user right or a prior invention right would probably strongly disadvantage the little guy. That was something we tried not to do.

MR. BREMER: I couldn't help but think of Yogi Berra's expression, "this is deja vu all over again," because many of us here had this dialogue before. Generally, from the university perspective, I agree with Dick's approach. What people have to keep in mind here is that a prior user right constitutes a serious and really undefinable diminution of the premise and the promise of the patent grant. Gary talked about the certainty that his company would have for process protection, but what this means is that there is no certainty attaching to the right to exclude, and that's the trade-off. You would be losing what you are promised under the patent grant, which is the right to exclude others from practicing your invention. You will not know at all what the ability of your right to exclude is. Looking from the university perspective and the licensing of fundamental inventions, the loss of the right to exclude really shapes the incentive that a company

might have to license. It diminishes the incentive for licensing. That is a major concern of the university sector. So, in principle, the sector is against the prior user right approach, unless there are some real precautions taken and some definitive limitations imposed on the prior user right.

Under the first proposals for prior user rights, which were much broader than the bill that has been introduced and to which Bill Budinger referred, it's the perspective of the individual, company, or the non-manufacturing entity that dictate opposition or support. If you have a manufacturing entity, individual, university, nonprofit entity, federal laboratory, or a small business, the perspective on prior user rights is different for each of them. Even though it is touted as an equitable solution to balance trade secrets versus the patenting function, keep them *419 both in the picture, which we all admit is okay. For non-manufacturing entities, which includes universities, government labs, other nonprofit organizations, patent management organizations, institutes, teaching hospitals, and most individuals, prior user rights have no value or very little value. The right is not an alienable right. Therefore, those people tend to be disenfranchised by having a prior user right in the system. I think that agrees with Dick Witte's approach. We had discussed this, and I believe we agree on those elements. It would be a compromise position to accept the bill that's currently pending. Because it has some definitive limitations, it is one that perhaps would be acceptable to the university community. If that bill could be adjusted to take into account the effort that goes into the fundamental licensing situation, where a great deal of effort and money is spent in the patent and licensing function, and to recognize those activities as "commercial" development, which would fall within the purview of the bill, it would be wholly acceptable. I think that rather than belabor the point, those are the fundamental differences that we see.

MR. COLEMAN: I'm really just seconding many of the remarks, but I'll try to put a more practical IP management perspective on the discussion based on my experience. For example, you may have a very risk sensitive patent counsel and risk sensitive management of a high volume product manufacturer having a big investment in machines and processes. But, let me step aside here and say I'm not that convinced of the wisdom of prior user rights for products for probably the same reason you mentioned. However, for machines and processes, if you have the risk sensitive patent counsel and their respective risk sensitive management, you're going to double or triple the size of the patent department and the expense for patent prosecution. Without some action that clears up the uncertainty that presently exists in the law, and if you don't have some type of prudent legislation to clarify this uncertainty, then these undesired increases in the expenses of the IP system will arise. On the other hand, if you have a risk tolerant patent counsel and management, which I will confess was the case I was associated with, then you can keep down patent department costs by advising others to just take the risk, which is minimal, in view of the reported cases, or absence thereof. So, let's clear up prior user rights for at least processes and machines.

*420 MR. WELCH: I'd like to comment a little bit on what David said about the synthesis of chemical compounds and whether that would be commercialization under a prior user right. Certainly my understanding of how the prior user right would work is

that it wouldn't be the kind of commercialization that would qualify as a prior user right. I think the nature of the industry is such that you would be on file with the patent application long before the commercialization activity is really underway. I certainly think that the prior invention right would be a problem due to the uncertainty that it would engender and would be a disaster in that particular situation.

MR. KEEFAUVER: When I finished my term on the Advisory Commission, I ended up with a ton of paper like everybody else. I had a stack on computer software, much of it duplicate letters. I had a stack on cost and complexity of litigation, which I co-chaired. I had close to 29 issues on another pile. The final pile was on prior user rights because it was one of the more contentious issues. To quote myself from the transcript of the 1993. ABA-PTC section meeting, my own thinking on this whole issue has evolved over time, putting me in league with some other prior speakers. It's my opinion that the opponents and the proponents of prior user rights both overexaggerate either the benefits or its evils. I still think that to be the case.

The opponents put the patent system on just too high a pedestal. Certainly, I put it on a high pedestal, but we do have at least the Supreme Court saying that trade secrets are a valid way of protecting intellectual property. There's bound to exist some sort of a boundary problem, and it exists right at the place that we're talking about. After hearing all the discussions, and we exchanged many, many opinions on this issue, we did come up with a position. I later put in a resolution which we debated at the annual meeting in 1993. I would just like to tick them off. A lot of them have been alluded to, but I thought it might be interesting to mention them.

First of all, I agree, we're not in favor of prior invention rights. Second, we're talking about the context of a first-to-file system. Whatever prior inventor rights might exist in our present system, let them evolve any way they can. So, we're talking about first-to-file. Third, we said the prior user rights should be in the nature of a personal defense. Fourth, the activity should have begun before the earliest filing *421 date to which the patent is entitled. Fifth, there could be no derivation. Sixth, and this was somewhat controversial, we decided it should have taken place within the territory of the patent. In other words, if you're asserting a U.S. patent, prior activity in Germany or somewhere else would not count. Seventh, the prior user had to be a user. He had to have demonstrated operability and taken significant steps toward commercialization: no notebook entries, no mere ideas floating around, no general plans to market something. Finally, the activity should be available only to the party performing the activity in which the defense is based, be nonassignable and nontransferable except for that part of the business to which they pertain.

I think many people agreed after all that distillation that this was a fairly restricted prior user right; so, it wouldn't raise all the concerns which Howard Bremer and others had validly pointed out came out of the university community. Incidentally, I think this incremental bit of uncertainty that prior user right adds is just that, it's a small increment. A patent is not incontestable. You go out there to enforce a patent, and you will get a lot of surprises. So, I think this adds a very tiny increment to that degree of uncertainty.

I think this right would protect those concerned about investments where they need protection most. I'm pleased at the way the discussion has gone. It's much more harmonious than many discussions we had in our early days at the Advisory Commission. So, I think all has evolved. I think it is a key element of a first-to-file system, and I fully support the way the Advisory Commission finally came out.

MR. BALMER: I'd like to step back and ask why do we have patents in the first place? The Constitution says patents are there to promote the progress of the arts and sciences. What does that mean? One can say that means promoting innovation, the commercialization of new products, the lessening of cost to manufacture goods, and improving society. If one starts off from that standpoint, that throws a different light on the way one would look at the prior user rights. The objective is to get the invention commercial, so it benefits society. If it doesn't get commercialized, there's no benefit. If it gets commercialized, the reward ought to be going back to the innovators. Patents provide the kind of vehicle to reward innovators. Certainly there are rewards that do not require commercialization, but there are only a few Nobel prizes given out *422 every year. So, it ought to be the shared common interest of large corporations, small companies, mid-sized companies, universities, and independent inventors to get the inventions on the market-to complete the innovation process.

Prior user rights debates remind me of my wife's cat. I've got a cat at home. I'm not really proud that I've got a cat at home, but I've got a cat at home. When the cat's playing with me, I dangle a little string in front of her, and I can take away the toy mouse without any problem. The cat gets distracted. We ought not to be distracted when discussing prior user rights. The real target is to get a return on intellectual property. If the patent can be invalidated, then no return will exist. I think we've mentioned here before, that there is a risk that a patent is going to be invalidated by the earlier use, albeit in secret. Also, a particular invention does not reside by itself. There are often other technologies required to commercialize a technology. If someone makes an invention on making a way for making a particular pharmaceutical, then there are going to be equipment inventions. There are going to be a plurality of things that are required in order to get this new pharmaceutical on the market. If a patent exists in those ancillary technologies, then commercialization may not happen, and no reward will be reaped by the inventor.

Keep an eye on the commercialization target, it's just as much to the benefit of large corporations as it is to the individual inventor and the licensing university to assure prompt innovation. Get the inventive new product or process on the market, so it benefits society at an early date, and the rewards from the marketplace will be forthcoming.

In summary, the patent owner does not want to have a prior use defeat the patent, as is the case now in the U.S. If a patent held by a university is invalid over a secret prior user, the patent owner gets no reward. Further, the patent owner wants the invention commercialized to generate the sought-after reward. If that commercialization can be thwarted by a later issued patent, then the original patent owner loses. Prior user rights can benefit the patent owner by enhancing the certainty of validity over secret prior use

and by enhancing commercialization. Society benefits because to obtain prior user rights, a race to commercialization is promoted. The small business, the licensee, or the large corporation that commercializes a patented invention can continue *423 commercial activities even though a later inventor obtained a patent on an ancillary technology used by the small business, licensee, or large corporation.

MR. BARDEHLE: First of all, I want to assure you that we have, at least in Germany, and I think in other European countries, really no problems with our prior user right. We could not imagine giving up that right. We consider it justified that a company keeps something, particularly processes, secret and doesn't want to go to the patent office to have the invention published despite the possibility that somebody else might get a patent. We consider that completely justified, and there seems to be the same feeling in an article by Chris Konkol. I confess that I really cannot distinguish between prior invention rights and prior user rights because Konkol says in that article a prior invention right may be defined as a non-transferable right of a prior inventor to use an invention patented by another, even if the prior inventor has kept the invention as a trade secret. If he kept it as a trade secret, it's my view he used it, or at least he had the intention to use it. So, the difference to our prior user right is nothing.

The intention of use in our prior user right does not require the actual use of the invention because under normal circumstances, if used, it is in the public domain. When you sell something, it becomes prior art. But if you keep it secret, it's a different situation. This seems to be the prior invention right, but we consider that a prior user right and live with that because we think we need it. Of course, all this refers only to the first-to-file system. Whether you need a prior user right in first-to-invent system, I would say I cannot judge that, maybe not. I can't judge that given only my knowledge and experience with the first-to-file system.

These cases happen very seldom. This prior user right is not really a daily problem, so this problem should not be exaggerated. It works perfectly well. Of course, you have to prove what you have a prior use, and this is on the basis of documents, affidavits, or whatever. It may not go so far as you do in an interference, but in any case, you have to provide something to prove that you have been in possession of the invention. There is a slight difference in France. They have the so-called *propriete personelle*, which is a personal property without intention to use. I confess I have not yet had one case where I have *424 really seen a distinction between the *propriete personelle* and our prior user right because with *propriete personelle* there is always the intention of doing something with the invention. On the other hand, somebody might make an invention earlier, but keep it secret because he doesn't consider it a commercial subject. Years later, he sees the patent, and the patented product as a very interesting commercial product. When he then says, "I did that years ago," and wants to come back and claim a possible right of prior use, it would have been lost because he gave it up. He may have woken up only in view of a commercial success of another party. If there is a distance of some years, this right of prior use would disappear. Hans Goldrian can confirm that we live very well with the concept and would never think to give it up. So, from our point of view, we can only recommend it.

MR. RINES: Bill Keefauver talked about unanimity, but I'm not going to give you any unanimity. First of all, except for Bill Budinger, and I may be wrong, and I apologize if there's somebody else here who fits this category, I don't see anybody here that's an inventor, who started his own company, who makes his payroll, who has to get his product out on the market, and who has indeed to interest people in buying that product before his company can get launched. I see a group of lawyers. Now Bill, I love you, but your statement that first-to-file is a wonderful thing for the little guy, too, because it takes away the cost and it takes away these terrible interferences from the little guy. Oh, look at all the costs for these terrible interferences. But, what does the little guy say? Not you guys. What does he or she say? Our polls show, and I'll defy anybody to tell me I'm not telling the truth, that the independent inventors, the small entrepreneurial company groups in this country, are about 90 percent opposed to first-to-file. Why? Why? If it's going to take the cost away, it's going to take these terrible interferences and the hiring of lawyers away. Why don't they want it? Why? Who are you to be speaking for the independent inventor? Where is he or she here? I'm an individual inventor. I've got four companies going. I know what it is to make a payroll. I know how I have to launch a product. You guys don't, for my kind of a situation. I have to go out and use that one year leeway I'm given in the United States. What a fantastic concept that lawyers, more brilliant than what we have today, created in this country. First, two years, now one year. Try it out in the marketplace. Get the *425 bugs out of it. We're not going to penalize you. We're going to let you file your patent application within that year. Damn it, we need that year! We're not a giant corporation. We're not people with big marketing. We have to take chances. We have to build that product. And what happens when we put it out? We find out the customer says, "Nah, that's not what we want. No, if it did such and such we're interested." So, we have to go back and change it. That's the way the seed corn works. That's the way most of your companies were founded, by that kind of an individual.

We used to have lawyers in this country who tried to match the real requirements of that kind of innovation to the law. That's why we have the one year opportunity to market or to try before jumping in the patent office. We used to have a legal system that said don't hurry into the patent office. Come in with a careful and commercial product. We weren't penalized for it. So, when you tell me all the bad things are going to go away with first-to-file, I say to you, yes, if you want to disenfranchise our American groups that do not exist anywhere else in the world. Your precious EPO, Heinz, and I love you, Japan, and everybody else-are they even beginning to match the innovation that America has done and is doing? Look at the prolific invention that comes from our groups that don't exist in your country or your world, namely, extensive independent inventive groups, large numbers of small-entrepreneurial companies, large numbers of groups springing out of the universities that give that freedom in America to their inventors to do this, extensive university innovative and licensing programs that exist practically no where else in the world.

So, why the devil do you want us to wear their uniform and disenfranchise that whole group? If you, the large multinationals, were the only ones, I'm with you. If you decide

you're going to have first-to-file, we'll find a way in this other community. And I'll tell you, it will not be the patent system. We'll hide our secrets. We'll obfuscate. We will not tell you our technology. We will rely largely on contracts to do business and tie everybody up as tight as we can if they want our technology. We'll go the opposite direction from the very purpose of the patent system and Article 1, Section 8 of our Constitution. We're not going to come, I'll tell you, and disclose our inventions by being suckered into filing a provisional application. By the way, Nancy, *426 where's the "harmonization" with that? How many countries have the provisional application? And you're talking about "harmonizing." Now, what I want to point out to you is if you want to do this, we have no control. We'll organize the inventors groups. They're trying to get to the Congress. But have you ever found out why? Why do you have the nerve to try to speak for the independent inventors and the entrepreneurial inventors and the university groups? We have a university person here, and he tells you what their problem is and what prior user means or doesn't mean to them. If you want to ignore us and not try to find some kind of a compromise so we can live in the way innovation really happens for the little guy, well, you'll do it. We'll survive somehow. But look at the damage that you're doing to the system, at least in so far as our independent and entrepreneurial community is concerned, a community that does not exist in Japan, does not exist in Europe, and does not exist anywhere else in the world.

Next point, the statement was made "Let's try to have complete innovation as fast as possible." I want to take issue first with one thing. Maybe I'm a lousy lawyer, but I have never heard the Supreme Court say that the right to protection of trade secrets is the same as the rights of a patent. I never saw that anywhere. If you've got a contract with somebody that's going to respect the trade secret or somebody that tries to steal the trade secret, that's one thing. But when it's against the public, the trade secret has no rights. It never has. What are you giving them rights for? They're making the election. Sure, someone having a trade secret has a right to be sure that their employees don't steal it or that an employee doesn't come and give it to somebody else. But this country decided a long time ago that we did not want things left secret. Patent means pateo in Latin, open up. What was the purpose of Article 1, Section 8 of the Constitution? Now Bill and I have had long debates on this. And if you're going to have a prior user bill, and I pleaded with him not to use that word, I think his is the least objectionable bill, obviously because it has some of the things in it that I felt might make it real and might make it fair. But if you're going to take that now and try to open it up as if you had a first-to-file system, I'm not sure even Bill would support it any longer. But I've got to say to you, the small people want to do the same thing, get to the market as fast as possible.

Bob Armitage, you said a little while ago, something about this *427 cockamamie stuff about continuations-in-part and all this sort of thing. You notice who the submarine commander is of these submarine patents-the United States Patent Office. I'm in my fourth continuation application in a current situation with stuffy examiners who shut me off after one response to the search, because they're after the money of continuations to support their institution. I'm not trying to delay patents, but I can't work, particularly in some of these advanced fields, with uneducated and uncooperative examiners. They keep

shutting me off, pay a new fee, continue the application. The next thing you'll know, I'm going to be accused of delaying patents.

Now, we want to get to market, and we want to get there fast. Do you know what our batting average is? Five to nine years, not after the application filing date, but after the grant of the patent. That's the average that the small independent inventor and small entrepreneurial company. That's how long it takes them to sell the first product and start to get in the black, five to nine years. And in some areas twelve to fifteen years, particularly where there's breakthrough technology.

So, if you want to sit here like lawyers and talk about bureaucrats harmonizing and wearing the same uniform, go ahead, but remember what you're doing. You're killing a great system and the work of earlier great legal thinkers who gave time for the little guy to be able to participate in this process. There must be ways to compromise. So far as I'm concerned, I'm willing to compromise on Bill Budinger's bill on prior user rights because it prevents fraud, because it's very restricted to a case that I don't think is going to damage a lot of independent inventors or university people. It's restricted to a company that has been making something and has not chosen to share with the public how it does it. All of a sudden somebody in a foreign land, probably, reinvents the process, and this company sits in fear that they may be sued and stopped.

I invite your attention also to this new handout, a proposal by Bob Shaw and me. Bill's proposal is one way, I think ours is another very simple way, protecting the public, not the trade secret owner, who gets the benefit anyway, but protecting the public from belated process patents. My suggestion to you is that we could all live with this. The same way we decided years ago that any product that was on the market for more than one year in the United States is too late to patent, for anybody to get a patent. It doesn't matter, the inventor or anybody else. *428 If a product's on the market more than one year, we decided there's a public policy that's a fair balance, it's then too late. Why not say also that the process that was used to make the product that was on the market more than one year should also be barred from a patent? This gives the trade secret holders a year to decide whether to change course from trade secret to patenting. This protects somebody else from ever getting a belated process patent. It makes it too late, a statutory bar. So, if the product is barred, why not the process that has been used to make the product which has been dedicated to the public, whether the process is known or not, whether they kept it a trade secret or not? If it's not filed within one year, that process would be unpatentable to anyone. I commend this to you. A lot of thought has gone into this, and I want to tell you that this is one issue where I've tried to think not only from your point of view, the large corporate enterprises, but I've tried to think of it from the point of view of the university component, the point of view of the small independent inventors, the point of view of the small entrepreneurs and middle-sized companies. Indeed, I commend you to think about it. It is a compromise that I think will go a long way in solving this problem.

MS. HAYES: When Chris was speaking, I believe he said that there's no case where a jury has shut down the operation of a prior user. So, in that case, I can only assume that

the prior user right legislation will really have meat if we go to a first-to-file system, which is where I'm very much in the minority in this arena. When the Advisory Commission came out with their opinions several years ago, it was the university representation and corporate representation, but there was no one on that Advisory Commission who represented the independent inventor. The practical realities may be lost, even from the university perspective, because it's funded. The research departments of corporations are funded. The independent inventors are funded by extra mortgages and by borrowing money from their families. It's a very grass roots kind of thing. They're not the people who today are successes, but in the ten years that I've been editing and publishing Inventors' Digest, today's successes are yesterday's wannabes. They're the people who yesterday had to mortgage their homes and their life insurance policies to get where they are today. So, the practical reality of first-to-file for them is much different than it is for a university or a corporation. Someone with an idea may not have the technical skills to make a prototype or do the research needed to make their idea a viable reality. So, they have to go to someone else to have that done. Under a first-to-file system, they may as well just shoot themselves because it would be so easy for someone who could see the idea and see the practical potential, even better than the inventor possibly, and say, "Oh, yes, we can work with you on this," and then through the back door, go and file a patent application. They may not use their own name, maybe their brother-in-law's name. That's the reality that the independent inventor faces under a first-to-file system. There isn't the same threat to the corporate world that's already working internationally and has to use the first-to-file system. I don't think, sitting in a room like this, that people understand what will happen to independent inventors if we go to first-to-file. It's a not a boogeyman scenario either. I've talked with inventors in Europe who just wish they would switch to a first-to-invent system. Under the first-to-file, they have to work in total isolation. They can't prove their concept until after they file their application. They can't do any research until after they file their application. So, they have to invest their money in patent applications before they even know if they've got something that's viable. If they can't go to somebody else for help, they don't know what the real invention is or how it could have been made better, and they can't develop it before they go to the patent attorney.

MR. JORDA: Bob Rines extolled our patent system and, indeed, it's a venerable one. It served the country very well, but in this day and age, it looks so horse-and-buggy like and in need of reconstruction. But that's another story. Now I am not going to recant like Bob Armitage did on what I said back in 1979 in my very first article in the JPTOS on the respective rights of a first inventor/trade secret user and a Johnny-come-lately inventor/patentee. I am not recanting one word of that. Maybe I've gotten dumber, and Bob Armitage has gotten smarter.

First, the point has been made that prior user rights mean erosion of patent rights, which is not so, not so at all. No right is exclusive. The patent right is not exclusive. There's a veritable litany of statutorily or decisionally-created co-uses, forced sharing of inventions, estoppels, implied licenses, intervening rights, which are akin or tantamount to a prior user right. As for example, there are shop rights and temporary uses of inventions on vessels or aircraft; intervening rights in reissue cases; co-uses in

supplier/customer, manufacturer/distributor, and contractor/contractee relationships; public interest situations where injunctive relief is denied; and certain uses by government, etc. Thus, there are many exceptions, much erosion apart from a prior user right, so that the patent right is not exclusive.

Second, in a first-to-file system it's indispensable, as previously mentioned here today, to have a prior user right. A first-to-file system with a prior user right is fully equivalent to a first-to-invent system, only that it's better, simpler, and cheaper. Even in a first-to-invent system, you need the prior user right, and that's my conviction. You absolutely need it to protect trade secrets. Yes, we have the interference system, and if both parties, rival inventors, resort to the patent system and get into an interference, well, fine and good. The interference system will handle it. There's no need for a prior user right. It is different in a situation where one rival inventor resorts to the patent system and the other one resorts to the trade secret system, which he or she is fully entitled to do based on the Supreme Court decision in *Kewanee Oil*. There, the Supreme Court stated, "We conclude that an extension of trade secret protection even to clearly patentable inventions does not conflict with the patent policy of disclosure." So, there are two separate systems or worlds. If I resort to trade secret protection, I'm fully justified. Trade secret protection is a viable alternative to the patent system, a fully equivalent system for protection. Now, the point has been made time and again that if you don't seek patent protection, a competitor happening on the same development may obtain a patent and exclude you from using your own innovation. Now, if you believe that, I have a certain bridge to sell you. You would delude yourself in believing this because there is no case on the law books where it has ever happened that a first inventor/prior user was enjoined by a later patentee of the same invention. Even Pauline Newman stated in this very conference here two or four years ago, "I have not seen anyone who was a prior user who has been stopped on raising the § 102(g) defense, and from that viewpoint, it seems that the prior user right is alive and well." Thus, we have a de facto prior user system. Gary, you may recall Don Sell stating that ...

MR. GRISWOLD: I recall Don Sell. I don't know what he stated.

*431 MR. JORDA: Don Sell believed that an infringement suit against a prior trade secret user is not likely to succeed. As a matter of fact, in none of the cases where a second inventor/patentee tried to sue a first prior user for infringement did the former succeed. Chris mentioned the Checkpoint Systems case decided by the CAFC. When I saw it, I said "hurrah," and I wrote it on it. There the patent was invalidated under § 102(g) over the prior use of the other party, a small company. I'm surprised that Chris didn't mention the Friction Division case, a du Pont case. Now, what happened in that case? Friction, a small company, had a patent and sued du Pont. Du Pont defended on the basis of prior use, and the patent went down the drain, like the Dunlop Holdings case and any number of other cases. If anybody is intrepid enough when he or she knows that he or she was not the true first inventor to try to enforce the patent, he or she is going to end up with an invalid patent. Do we want that? No, because this is mutual destruction of trade secrets and patents. We want trade secrets to stand up and serve as a viable system of protection, and we want patents to stand up. But under our present situation, it's mutual

destruction because when the patent is issued, the trade secret is gone, and when the patent is declared invalid, everything is gone. A prior user right is going to save our necks. It's going to preserve the trade secrets, and it's going to preserve the patents, so I just don't understand this opposition.

A lot of fuss is being made about a trade secret holder suppressing and concealing the invention, which invokes § 102(g). Nonsense, because in the Friction case it was made very clear that there is no suppression, no concealment, and no abandonment if you keep a trade secret and you commercialize it or work towards its commercialization. Let me just quote from the Friction case briefly, "Making the invention publicly known requires only that the public enjoys the benefits of the use of the prior invention. Public use of the invention without disclosing the details of it is sufficient to negate any intention to abandon, suppress or conceal." Just keeping a trade secret does not mean suppression or concealment. On the contrary, concealment and suppression are the very essence in the trade secret system. Otherwise, the trade secret is gone. On the patent side, if you suppress or conceal as between two rival inventors who both resort to the patent system, the one who conceals and suppresses naturally is not going to get to first base, but that is not so *432 when you rely on the separate trade secret system for protection.

One final point, and that has to do with the oneyear limitation in H.R. 2235, which we are discussing. I agree with most of the qualifications and limitations in the bill, even though these limitations and qualifications sort of emasculate it, but that's okay. I can go along with that. The provision, this one year limitation, this is what I said to Congress the week before last in a hearing on this bill, this provision goes too far. It guts this prior user defense. It is too radical and stands well-established patent and trade secret principles on their heads, notwithstanding the invalidity provision. A first inventor is a first inventor is a first inventor and should be accorded the status of a first inventor, especially in the one year period prior to the entry of a rival inventor because it is in that period that the same invention is likely to be made by more than one inventor due to outside stimuli. A provision that requires good faith and rules out derivation effectively safeguards a second inventor patentee, although reliance on the present one year grace period is illusory and impractical because of the risk of loss of foreign patent rights which small businesses and universities attempt to obtain more and more often today. Also, I respectfully submit that this provision is not only unnecessary, but seriously flawed. The present bill gives with one hand and takes away with the other. Consequently, the American Bar Association no longer has any objection, and Doug Wyatt, who was also going to testify to Congress, but in opposition, told me with a grin there was no longer any need to oppose this bill.

MR. BENSON: Well, we have just demonstrated rather clearly that within this educational institute we have rather strongly held diverse opinions.

MR. KLINE: I'm a little familiar with that Friction case. There was a talk given and a publication that preceded any work done by the alleged inventors.

MR. GOLDSTEIN: Just a very brief comment with regard to what Karl said, which I thought was one of the best defenses of the prior user right that I've ever heard and truly a

convincing one. My comment relates to the one year provision, which Karl felt gutted the bill. I agree with that assessment. Based on my experience, it's absolutely remarkable how often, in interference situations, you end up with multiple parties *433 making the same invention almost simultaneously, within a month, within ten days. I had a situation where two parties filed on the same invention on the same day. This happened because the inventive entities are reacting to the same set of stimuli, the needs of the industry, and using the same art to build from. So, I agree with Karl that a provision which exempts activities which occur within a year of filing from prior user rights truly does weaken the bill.

MS. LINCK: I am very heartened to learn that after all these years of talking about prior user rights, Bob Rines has finally seen the light and is at least supporting a limited bill. I would hope that when we cover this topic three or four more times, he will see the full light and perhaps even come on board on first-to-file. One last remark: The administration, as probably all of you know, supports the Prior User Rights Bill and testified on behalf of support of the bill. I would like to point out that this is obviously against our interest because it cuts back on our business if people don't have to patent everything.

MR. BLANK: Well, I will comment on Karl's reading of Kewanee, which, for some reason, I had reason to read this past week and lecture on. It strikes me that I don't think you can say with any certainty that the question answered by the Supreme Court in that case will come out the same when there's a prior user right, much because of exactly what Nancy Linck says, that she knows that it's going to cut down on business before the Patent Office. This gives me reason to fear there will be a preemption question when there's a prior user right. Nancy Linck seemed to have indicated that she firmly believes a trade secret owner can get the best of both worlds without risk and no impetus to file. If that is true, and no one here has disputed it, the new and improved patent law will preempt state trade secret law, but only for valuable and inventive trade secrets. So, that's the first point. I think you'd want to go back and read Kewanee and review the logic and reasoning very carefully because what you might be doing is giving a prior user right and doing away with your state trade secret rights if you do so. It's not true that they didn't say that there was any conflict. They said, "In this case, there's no conflict." They might not hold that again.

Second, perhaps it's also my misfortune to have started a course. We teach patents and trade secrets by first quoting the full section of the *434 clause of the United States Constitution that give Congress the power to grant patents and copyrights. The specific provision that talks about rights does say "exclusive" and with due respect to Karl's argument, there are limitations on how far you can go from exclusive before it is no longer exclusive. These exceptions are very limited, except for the dealings with the United States government, which really has more to do with dealing with the sovereign power than it has to do with private rights. So, I think there still might be some constitutional dimensions to that "exclusive" right that this bill overlooks. I'm not speaking as anybody who supports or is interested in, frankly, small inventors. I'm saying the law is there, and the words are fairly clear. To suggest that they don't raise problems

is perhaps trying to solve practical problems without looking at constitutional issues. We have heard that filing and maintenance fees in Europe cannot be lessened because of concerns about sovereignty, and we have heard today that the results of harmonization have not, and will not, lower these costs. Is harmonization working as predicted and can it? Is it worth bending our Constitution to harmonize further? I don't know, but I suggest this issue is far more complicated than we have dealt with it so far. Perhaps we might be doing away with a lot of state trade secret rights by giving this prior user rights without reading Kewanee very carefully, and we might be urging unconstitutional changes.

MR. GOLDRIAN: I wanted to add to what Heinz Bardehle said about the possibility to have a prior right just for being in possession of the invention. This is not the normal way we have that. As you know, there is a real use; commercialization is necessary or at least serious preparations for that, and I believe that this is right. It contains still one danger. As far as products are concerned, if products are actually commercialized, then it will often be possible for an expert to see what the product contains and derive the invention out of that product and in this case, this is state-of-the-art, and it will destroy the novelty of any patent application after that. So, this is something which that group Dr. Rines had mentioned, that group of free inventors, that group of people from universities, and free entrepreneurs has to consider. If they actually start to try out their invention this could, for countries with absolute novelty, be something which destroys novelty. If their contributions are so substantial, which I don't doubt, then there should be patents outside the *435 U.S. for these people, too. So, these companies which actually want to have patents world-wide, just have to follow the first- to- file principle even in this country.

MR. KONKOL: The reason I raised my hand before was because I thought it was getting a little monotonous with everybody saying a prior invention right would cause uncertainty. I wanted to provide a little feedback on that. I'm not necessarily in favor of prior invention rights because if you have a de facto prior invention right, maybe you don't need a statutory prior invention right. But as far as this uncertainty issue, I of course considered that when I wrote my article. But one can't write exhaustively or completely about a complex subject like this in a ten-page article. So, you can consider it Part One. The point I want to make on the uncertainty issue is that it depends on what time you're talking about. If the invention has been commercialized for a long time, both prior user rights and prior invention rights are equally certain. If you're talking about the time when the inventor is making a decision to either keep an invention as a trade secret and exploit it or to patent it, there's more certainty with a prior invention right before you invest and spend a lot of money because prior invention rights vest earlier. If you're talking about after you've already spent the money preparing to commercialize the trade secret and whether you can figure out if you may infringe, then there may be more certainty for the trade secret user. I know this is a difficult issue, so maybe we'll just have to read the transcript later on to understand some of these comments.

The other issue that we were talking about was more certainty for the trade secret user. But, a prior invention right is no more certain, provides no more certainty for the patentee than a prior user right. It's certainly neutral for the patentee, and it's probably a negative for the patentee because at least we know how to determine the prior inventor. We don't

know how to determine the prior user. The patentee can't tell by looking at the cover of a patent whether a prior user has a prior user right, so that's my comment on certainty.

I have one other thing to say, because I was hoping Maury Klitzman might mention it, but I guess he left earlier. What he is looking at in one of his committees in the ABA is the idea of providing the most certainty by having an 18-month time limit under a limited first-to-invent system in which you can't contest priority unless the junior party *436 files within 18 months of the senior party. Similarly, a patentee could not contest a prior invention right by going back more than 18 months before his or her filing date. That would provide certainty for a prior invention right, and the benefit of that arrangement is it would be consistent. There would be internal consistency under a first-to-invent system. In other words, a prior user right is not consistent under a first-to-invent system because you're giving more of an advantage to the trade secret user than you are to the patentee who discloses the invention. That doesn't seem right.

The only other comment I want to make is that if you take a random selection of patent attorneys, I think they would be opposed to prior user rights. The reason I say that is because we have those kinds of votes in the ABA. Every vote I've seen has been overwhelmingly against a prior user right under first- to-invent. I'm not talking about first-to-file, that's a different issue. I think it may be due to the inconsistency with the first-to-invent system. I can't comment on Dr. Rines's proposal, because I haven't studied it enough, but I will.

MR. BUDINGER: I'm glad you picked on somebody who is not emotional about this subject! I also count myself as one of Joanne's former wannabes, I did want to be a successful inventor.

There are a lot of different topics that have come up here. I would like to say that I'm tickled to see the degree of unanimity in support, albeit sometimes qualified, that is behind the restricted prior user rights bill that we have in front of Congress now. I think one of the reasons for the lack of opposition is that there was a tremendous amount of input into that bill from almost every sector of the community that was concerned.

Finally, I want to key off something that both Dr. Rines and Joanne said. I personally believe that it would be possible to craft a first-to-file system that would be better for the small inventor than our current system, but I think it's going to take a lot of work. So, this comes just by way of a request: When this group gets down to doing that sort of thing, please pay a lot of attention to what the small inventors have to say and the small inventors' concerns and don't just run by them. Their concerns are real and legitimate, and I think a great deal can be handled if you listen to them.

*437 MR. ARMITAGE: I'm in a very awkward position. I've been coming to many of these conferences for several years, and I'm sure Karl Jorda has by now an expectation that what I'm about to say will be in agreement with what he's just said. This is not true. Bob Rines probably has a feeling that I'm going to disagree to some extent with what he said about H.R. 2235. He'll also be disappointed. Two weeks ago, on behalf of AIPLA,

that group indicated that we, in fact, do support the prior user rights bill pending before Congress in the form it's currently in. We did that because the last random vote of patent attorneys of which I'm aware of was at the AIPLA board where we basically endorsed the concept of prior user rights in a first-to-invent system. The last vote of patent attorneys that I'm aware of assembled at the ABA was also in support prior user rights. If we have a legislative vehicle that Bill Budinger, Bob Rines and, maybe kicking and screaming someday, Karl Jorda could agree to be passed into law, maybe we said all there is to say on this particular issue.

I did believe, however, that there were two or three things that need to be said about the small inventor community, the small entity inventor community. I've seen hundreds, maybe many hundreds, of patent license agreements that prescribe royalty rates. They prescribe royalty rates in countries that have prior user rights and prescribe royalty rights in countries that don't. To my amazement, there is no difference in those royalty rates. In other words, you pay exactly the same for exclusivity in a country where there is prior user rights as you do where there's no prior user rights. So, I therefore suggest that if there's any discount in a patent system that has prior user rights, it is of such a small magnitude that the number of significant figures used in royalty calculations round down to no change whatsoever. I do know, however, that in many license agreements I've seen involving universities, there is a huge penalty clause built in to take into account the possibility of a subsequent patentee for which no prior user right is available. I think most of you who work with license agreements find that there are often clauses that say: We will pay you five percent, eight percent, or ten percent, but if it turns out that in the course of practicing this invention, perhaps years from now, we incur a royalty obligation to someone else, someone who files later, we will actually have to take away from what we pay you what we need to pay a subsequent patentee. Under a prior user right system, *438 any royalties owed to subsequent patentees would be covered by the prior use right. And, indeed, in a university environment, you want your licensee to stay in business, no matter what subsequent patentees do. You don't want a situation where your own licensee stops paying you royalties because he is sued for patent infringement, is shut down, and you need to start all over again with new licensees.

There was also a statement made that perhaps the independent inventor was disenfranchised under the prior user right because the prior user right wasn't alienable to an individual. Of course, that's not true. If the individual is conducting a business as an individual and sells the assets of that business including intangibles, he can sell with that, under at least the legislative vehicles we've seen so far, his prior user right. Bob Rines did say something though that I do disagree with, and that is his "why, why" statement. Why, why do 90 percent of small entity inventors, individual inventors, appear to oppose a first-to-file system? And I don't know if the 90 percent figure is correct or not, but I have a belief that some of the answer is "lie, lie." There are so many people telling frightening stories about what will happen to small entity inventors if there is a first-to-file system that unless you're terribly sophisticated about what really goes on in patent interferences, you would have to be opposed to first-to-file.

I know a few things from studying interference statistics that ought to be told to small entity inventors. First of all, not only are there a relatively small number of interferences, but small entity inventors are horrifically underrepresented. They simply don't get into the interference contest. We know from statistics that the people who win patent interferences in almost all cases are the people who file first. If you don't file first, you don't typically win. We know that many of the exceptions to that rule were created under 35 U.S.C. § 102(g). In other words, the U.S. second filer could actually win in interference because the other party was limited to his foreign priority date, not his earlier foreign invention date. Starting January 1, 1996, that disappears. If theft and nefarious activity are a concern of small entity inventors, then I believe the opportunities for nefarious activity are undiminished in one system relative to the other. If you want to cheat in invention date proofs, you can do it. If you want to lie about whether or not you received knowledge of the information from someone else under oath, you can do it under a *439 first-to-invent system as easily as you can do it under a first-to-file system. Even if Chico Gholz is representing you, that may not be found out. In any case, since this is my last intervention, I want to thank the organizers of this conference for bringing this topic up because I think this topic is a perfect example of where we have debated this topic for six years, and we finally have found a way to perhaps get to the middle and get a piece of legislation out. I notice that practically nobody around this table has unbounded enthusiasm, but everyone here sees a solution.

MR. GRISWOLD: I can't be that colorful, but I would like to be. In fact, I like the compliment you made, Bob, about "all being lawyers." So, I have to admit to you, Bob, that for six and a half years I did run a business for 3M. Now how is that relevant? The reason it's relevant is that I did, of course, have a lot to do with innovation and the success that we had in our area on innovation and supporting research. It's also relevant in selecting plant sites. When I was managing that business, we selected where we would locate plants. When we were looking at U.S. versus outside the United States (O.U.S.), a factor to consider was indeed whether or not there was a prior user right when we were using trade secret processes. So, this is a real consideration that real people managing businesses do take into account.

Another thing I'll mention is that all of my in-laws are small businessmen and independent inventors. This is something that really kind of disturbs me when I see the issues that the independent inventor group are pushing, or what they don't push, and what they don't push is the question of cost. Joanne, I was surprised when you first spoke today that you did not intervene in the first discussion on cost because your inventors don't file O.U.S. That's the biggest issue. To me, that's a super issue; why independent inventors should not be attacking the cost question amazes me, particularly in the United States. Independent inventors have been galvanized on a bunch of issues. Why isn't the independent inventor group out there working like crazy on this \$55 million take away from the Patent Office? Why isn't the independent inventor group working like crazy to figure out a way to reduce costs outside of the United States so that they can have better access to the patent system O.U.S.? When I was managing the business at 3M, I would see many, many independent inventors come in to license 3M. None of them did not want

toget O.U.S. patents to license to 3M. They couldn't *440 afford it. That, in my view, is the most important issue that all of us should be working on.

Another point that Howard made was relative to the impact of licensing of patents with a prior user right. I agree with Bob that it will have no impact on royalty rates. There's always the question of 35 U.S.C. § 102(g). There are all these things that come up relative to the validity and enforceability, so I don't think that it will be impacted. Those are my final points on this issue, and as you know, I'm a supporter of prior user rights. I do find it very interesting after all these years that we do apparently have a consensus on this issue. I have some questions about the one year, but I realize that to have a consensus, you need the consensus of many people, so I did testify for IPO in favor of H.R. 2235 two weeks ago.

MR. GHOLZ: I'd like to respond to Bill Budinger's response to me. On the date that we will key off of for prior user rights, Bob Armitage said that fraud takes place in the interference system as it now stands, and that it's not always caught. Certainly that is true. If we have an issue of nonderivation, i.e., independent inventorship, then fraud will continue to take place, of course. People try. When you get lots of money on the table, even eminent and apparently upright members of community do squirly things. In interferences, it's absolutely amazing who we occasionally catch trying to commit fraud. Apparently, very, very eminent members of the faculty of fine universities get caught with their pants down. So, there are pros and cons, but the major pro on moving the date to the date of publication is the blind-side argument. It's really not fair to close people or companies down without intervening rights when they had no ability to protect themselves, to know that other people were doing whatever it is that creates the rights. It's not the filing of the patent application that is a public event that gives people the opportunity to prevent being blind-sided. It is some kind of publication, either a publication of the patent application, if we go to 18-month publication, or the issuance of the patent as things currently stand, or the publication of an article by the inventor. It seems to me that the fair way to divide this thing up is that when the patentee does any one of those things, that's either the patent issues under current law or the application is published if we go the 18-month publication, or if the inventor publishes an article or the like, that's what should be the key *441 date for purposes of creating an intervening right.

As to the fraud issue, yes, there will be some fraud. We'll do our best to catch it. We won't always catch it, but we usually do, Bob, I think.

MR. BARDEHLE: I could not agree more with Bob Rines when he made his emphatic pleadings for the small inventor who had to test his invention in the open market to find out whether it's reasonable and commercial. My classic example is always the winch raft. The winch raft is a very complicated device, and it had to be tested. Not everything working together was invented at the same time. It had to be tested on the open sea, creating prior art. It was prior public use with the effect, at least in our countries, that created a bar for patenting. You made a pleading for the grace period really, and that's why we are fighting for the grace period. We want to get back what we had in Germany and lost because of the European patent system and maintained just in our utility model

system. So, inventors in Europe were complaining about the possibilities of exploiting their invention before filing and fearing that somebody could copy it as Hans Goldrian rightly said. Nobody after making any public test can go to the patent office and file a patent application because there's prior art. The grace period takes only that piece of prior art away, against the inventor who created that piece of prior art. That's a great advantage of the grace period. We want to have that, and this has nothing to do with the prior user right. This is a totally different subject matter. I am happy that I can express it here again because we started with this idea, the whole idea of harmonization with the grace period, which unfortunately, now is lost in the new Patent Law Treaty. We hope that we can revive it. Go and convince the Europeans, and particularly the Scandinavians and the French that their inventors should also speak up, which unfortunately they don't do, and advocate the introduction of a grace period.

MS. HAYES: I'm glad I have the opportunity to revisit the concept of O.U.S. patents. The reality is, of course, that inventors are very concerned about the costs of patents, but the beginning inventor is the person who has the idea, maybe has a full-time job, and is struggling to get the money together for the prototyping and the patenting in the United States. People who counsel first-time inventors or people who *442 even have a small business will routinely tell them that until they get a portfolio together and have profits and understand how to market their product within the United States, it is not advantageous for them to look outside America for patenting. It doesn't mean that, in the best of all worlds, might not be what they should do, but the bottom line is they don't have the bucks to do it. So, it doesn't matter if the costs were half of what they are now. The average independent inventor starting out, and that's who I write to and talk to, normally does not have the funds to look at patenting outside the United States.

On the other issue that Gary mentioned, the independent inventor community has been extremely concerned about the money that has been taken away from the Patent Office by Congress. I also volunteer for a national organization, the United Inventors Association of the USA. Several of us have sent fax alerts to our constituents alerting them to this fact. They've been writing to their Congressmen to alert them that this is happening and that taking money from the PTO is totally outside the interest of the inventors. So, we're doing our best in that area. I'm sure we could do more, though.

Bob, when you talked about licensing patents and mentioned that prior user rights doesn't have an impact on royalty rates, I guess what I look at more is the effect on the entrepreneur who is not licensing, the people who want to start their own business. With the downsizing of corporate America, there are more and more people, engineers, salespeople, marketing people, who are going out on their own and trying to start their own businesses. One of the best examples that I've seen is the woman from IBM who took a \$25,000 buy-out and invented a little hair gizmo and is now a multi-millionaire. She's in business for herself. She doesn't care about licensing agreements. What prior user rights might have done to her would be very dramatic. She already suffers a lot with infringement. Prior user rights would devastate small entrepreneurs from the point that they don't have the corporate war chest. They don't have the profits from other products upon which to survive. They are trying to survive maybe on that first product or that fifth

product. So, they don't have all those assets, and if someone comes up and says, "Oh, I have the right to this as a prior user right," that could dilute their market substantially and even put them out of business!

MR. JORDA: Just one additional point. Bob Rines implied that, *443 except for Bill Budinger, no one in the audience was qualified to talk about prior user rights. In response Gary indicated that he's qualified to talk on the subject of prior user rights because he was a businessman for seven years, involved in innovation, and has relatives who are involved in innovation. I can't say that at all. I'm a lawyer and a patent lawyer. But, I do not feel disqualified for one second to talk on prior user rights, nor do I believe that any of you around this table is disqualified to speak about prior user rights or any of the other topics we are discussing today because you are not now or have not been in the past an inventor/entrepreneur. I had very solid prior user rights experiences at CibaGeigy Corporation. In fact, the best one, a classic one, I use as a Moot Court exercise here at Franklin Pierce Law Center.

MR. KONKOL: As long as it's going to be printed in the transcript, I'll start now while people are still returning from the break. I wanted to clarify the proposal for a limited first-to-invent system; there are two parts. First, under the proposal, a junior party applicant cannot contest priority if he files more than 18 months after the senior party. That would be coupled with a patentee being unable to antedate a prior invention right if the prior invention was more than 18 months before the patentee's filing date. That would be consistent. Also, to be consistent, the time limit for a patent applicant antedating a prior invention right must be the same or greater than the time limit for a junior party applicant contesting priority with a senior party applicant, in order that a patent applicant who discloses the invention to the public is not unfairly penalized relative to an independent inventor who keeps the same invention a trade secret. A nice thing about this proposal is that the prior invention right would ameliorate the 18-month limit for contesting priority.