THE PRIOR USER RIGHT OF H.R. 400: A
CAREFUL BALANCING OF COMPETING
INTERESTS*

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I. INTRODUCTION

In January 1997, the 105th Congress began its session by re-introducing an intellectual property initiative drawn up late in the last Congress.1 The new bill, H.R. 400, is styled “The Twenty-First Century Patent System Improvement Act.”2 According to sponsor Representative Howard Coble of North Carolina, Chairman of the Subcommittee on Courts and Intellectual Property, H.R. 400 is supported by “an exceptionally large and diverse coalition of small and

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large companies, independent inventors and associations representing every type of U.S. industry and inventor that utilizes the patent system. Title III of this important legislation deals with a complex and controversial concept which lies at the intersection of patent and trade secret law: the prior user defense to patent infringement, or the so-called "prior user right."

The prior user right addresses the situation in which two parties independently invent an invention. In particular, the first party to invent may decide to protect the invention as a trade secret while the second party to invent may seek and obtain a patent for the invention. In this situation, one possible type of prior user right would operate as a limited, non-patent-defeating defense to patent infringement, allowing the first user of the invention to continue using the invention against a patent which subsequently issues to the second inventor.

Perhaps the best way to understand the operation of a prior user right is to consider a hypothetical situation in which such a right might apply. Consider the following set of facts.

FACTS

1. A first inventor discovers a previously unknown process for making widgets. The inventor decides to keep the process a secret. The inventor immediately begins using the process to produce widgets on a commercial scale. The widgets themselves do not reveal to the public the process with which they were made.

2. Six months after the invention was made, a second inventor independently discovers the process for making widgets. The second inventor files a patent application and the patent issues.

3. The first inventor does not apply for a patent.

4. The second inventor sues the first inventor for patent infringement.

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3. *Id.*
4. *Id.*
6. This hypothetical set of facts is based on one first proposed in Frank E. Robbins, *The Rights of the First Inventor-Trade Secret User As Against Those of the Second Inventor-Patentee (Part I)*, 61 J. PAT. OFF. SOC'Y 574 (1979).
Resolution of the dispute depends on the applicable legal rule. Several scholars have noted that to deal with disputes based on facts similar to those above, a legal regime could implement one of at least three possible legal rules:

**ALTERNATIVE LEGAL RULES**

1. The "Infringement Rule": The second inventor's patent is deemed valid and used to enjoin the first inventor's use.

2. The "Invalidation Rule": The first inventor's use invalidates the second inventor's patent, and competition in the market for the invention is unfettered.

3. The "Prior User Right Rule": The second inventor's patent is deemed valid, but the first inventor is exempt from liability for patent infringement.

According to both the Invalidation and Prior User Right Rules, the first inventor's use trumps the second inventor's patent. However, according to the Prior User Right Rule, the second inventor's patent remains valid against other parties, whereas under the Invalidation Rule, the patent is invalidated. While one could properly refer to both the second and third rules as forms of a Prior User Right Rule, this article uses that term to refer to a limited, non-patent-defeating defense to infringement.

Each alternative legal rule represents a balancing of competing interests. These competing interests include (1) the interest of the prior user in continuing to practice her invention, (2) the interest of the subsequent patentee in recouping the costs of her research and development ("R&D") and earning a profit, and (3) the interests of the public in disseminating the invention at low cost and in encouraging — or at least, not discouraging — innovation.

For more than three decades, scholars and policy makers have debated the question of whether the Prior User Right Rule represents

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7. See, e.g., Robbins, supra note 6, at 574-75; F. Andrew Ubel, Who's On First? — The Trade Secret Prior User or a Subsequent Patentee, 76 J. PAT. & TRADEMARK OFF. SOC'Y 401, 407 (1994).

8. The second rule, like the third, is an example of a prior user right in the broader sense that the prior user is not enjoined from practicing her secret process to make widgets.

the optimal balancing of these interests. The United States is currently the only leading industrialized nation in the world that does not include a formal prior user right in its patent statute. Recently, the Uruguay Round of GATT\textsuperscript{12} trade negotiations, the interest in international patent law harmonization and the talk of moving to a first-to-file system have fueled the prior user right debate.\textsuperscript{13}


11. HAROLD C. WEGNER, PATENT HARMONIZATION 116 (1993) ("Whereas some form of prior user right exists in the major countries of Europe and Japan (and elsewhere), the United States is unique among the leading nations of the world in not having a prior user right.") (emphasis in original); see also Lisa M. Brownlee, Trade Secret Use of Patentable Inventions, Prior User Rights and Patent Law Harmonization: An Analysis and Proposal, 72 J. PAT. & TRADEMARK OFF. Soc'Y 523, 535 (1990) (Japan, England, Germany, and France include a prior user right in their patent laws).

In the United States, perhaps the doctrine most closely resembling prior user rights is the doctrine of "intervening rights" provided for by 35 U.S.C. § 252 (1994) (implementing intervening rights in the context of reissue) and 35 U.S.C. § 307 (1994) (implementing the standard of section 252 in the context of reexamination). Reissue is a procedure used to correct errors made without deceptive intent that cause the patent to be wholly or partly inoperative. 35 U.S.C. § 251 (1994). Reexamination allows any person to request reconsideration of the validity of a patent's claims in light of cited prior art, and subsequently allows claim amendment by the patentee, so long as claims are not broadened. 35 U.S.C. §§ 301-305 (1994).

Intervening rights allow for continued use of a product or process after reissue or reexamination if a person, prior to reissue or reexamination, used or made substantial preparations to use a product or process. 35 U.S.C. §§ 252, 307 (1994).


13. See, e.g., WEGNER, supra note 11 at 124-25.

Currently, the United States and the Philippines are the only countries in the world with a first-to-invent, rather than a first-to-file, priority rule. See the discussion in ROCHELLE COOPER DREYFUSS & ROBERTA ROSENTHAL KWALL, INTELLECTUAL PROPERTY 731-33 (1996). Talk of implementing a first-to-file system in the United States has sparked interest in a prior user right; most countries with a first-to-file rule include some form of the prior user right in their patent laws. WIPO Memorandum of the International Bureau, Doc. HL/CE/IV/INF/2, Sept. 7,
Part II of this article explores the controversy by discussing the alternative legal rules set forth above and interests which each rule promotes. This part examines case law to find illustrations of each rule in operation. In Part III, this article examines the provisions of the prior user right proposed in H.R. 400, and analyzes its attempt to balance the competing interests. This article concludes that the prior user right of H.R. 400 represents a careful balancing of interests, and recommends the introduction of its prior user right into U.S. patent law.

II. ALTERNATIVE LEGAL RULES AND COMPETING INTERESTS

This section explores the controversy by discussing the alternative legal rules and competing interests set forth in Part I. This section turns to case law to illustrate how courts have treated these competing interests.

Section 102(g) of title 35 of the United States Code is the only section of the Patent Act that addresses the potential conflict between the rights of a trade secret prior user and a subsequent patentee. That section, in relevant part, provides "A person shall be entitled to a patent unless . . . before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it . . . ." As illustrated in the case law discussed below, courts have had difficulty in interpreting § 102(g), and they have favored different competing interests in their different interpretations of § 102(g).

Thus, the validity of the patent depends on whether the prior user or trade secret holder has "abandoned, suppressed, or concealed" the invention. If she has, the patent is not invalid under § 102(g), and the prior user who continues the use may be subject to a patent infringement lawsuit; if she has not, the patent may become invalid in view of her prior use.19

1987 at 18. The notion is that strict determination of patent rights by filing date is a harsh rule for first inventors, who may not be the first to file for a patent.
15. For purposes of this discussion, a basic assumption is that the prior use is not "public" enough to qualify as prior art under Section 102(a) of title 35 of the United States Code. See generally DREYFUSS AND KWALL, supra note 13, at 639-47.
17. See infra text accompanying notes 30-50.
19. Id.; see DREYFUSS & KWALL, supra note 13, at 646-47.
Thus, the primary issue is whether a prior user or trade secret holder has "abandoned, suppressed, or concealed" her invention. In many cases, courts have drawn a distinction between "secret uses" and "non-informing public uses," with the former constituting suppression or concealment on the part of the prior inventor (therefore not invalidating the patent), and the latter invalidating the patent. These cases dealing with secret uses and non-informing public uses illustrate the outcomes under the Infringement and the Invalidation Rules, respectively.

A. The Infringement Rule

The first alternative rule provides that the second inventor's patent is deemed valid and may be used to enjoin the first inventor's use. The patentee is the primary beneficiary of the Infringement Rule; this rule seeks to ensure that the patentee may recoup her R&D costs and earn a profit. The public interest is satisfied insofar as this rule promotes dissemination of knowledge by providing an enforcement mechanism for inventors who choose to disclose their inventions through the patent system.

Proponents of the prior user right maintain that the Infringement Rule goes too far in promoting the interests of the patentee over the interests of the prior user. They argue that a carefully drafted prior user right statute would protect the prior user's interest in continued use without significantly eroding the subsequent patentee's market. Moreover, some proponents of the prior user right contend that, by punishing the earlier inventor, the Infringement Rule discourages innovation, thereby not serving the public interest.

The Infringement Rule outcome is illustrated in case law dealing with "secret uses." A secret use typically involves secret commer-

\[\text{20. 35 U.S.C. § 102(g) (1994).} \]
\[\text{21. See infra text accompanying notes 33-45.} \]
\[\text{22. See infra Part III.A.2.} \]
\[\text{23. See, e.g., Hearings on H.R. 2235, supra note 10 (statements of Dieter Hoinkes and Karl Jorda).} \]
\[\text{24. Id.} \]
\[\text{26. E.g., Gillman v. Stern, 114 F.2d 28 (2d Cir. 1940); Metallizing Eng'g Co. v. Kenyon Bearing & Auto Parts Co., 153 F.2d 516 (2d Cir. 1946); W.L. Gore & Assocs., Inc. v. Garlock, Inc., 721 F.2d 1540 (Fed. Cir. 1983).} \]
cial exploitation of an inventive process in a factory. The public may receive the benefit of a product, although the product itself does not incorporate the invention. For example, the public may receive the benefit of the invention indirectly in the form of lower prices.

The theory is that since the use is "secret," the public has no way of reverse engineering the product to discover the secret, and the subsequent patentee should be rewarded for allowing the public to access her invention where the prior user did not allow this access. Thus the secret use cases favor the interest of the patentee and the interest of the public in dissemination of knowledge.

Recall the earlier hypothetical. A first inventor discovers a process, keeps the process secret, and immediately begins to use the process in production. The product gives no indication to the public as to how it was made. The first inventor never seeks a patent. Six months later, a second inventor discovers the process. The second inventor files an application, obtains a patent, and sues the first inventor for patent infringement.

The secret use line of cases suggests that in the above situation, the patent is not invalid under § 102(g), and there is nothing in § 102(g) to prevent the patentee from turning the prior user into a patent infringer. Gillman v. Stern is an example of such a case. Gillman constructed and obtained a patent for a pneumatic "puffing" machine for quilting. Stern subsequently invented a similar machine. Gillman sued Stern for patent infringement. Stern alleged that the machine had been invented and used by a third party, a man named Haas, prior to the plaintiff's invention. Haas had used the machine in his shop under tight security. The output from the machine had been sold, but the public had not been given access to the machine itself. Judge Learned Hand found for the patentee, holding that the prior use was secret use which was insufficient to invalidate the plaintiff's patent. In other words, sales of a machine's output do not anticipate that machine under § 102(g).

27. Ubel, supra note 7, at 405.
29. Ubel, supra note 7, at 424.
30. E.g., Gillman v. Stern, 114 F.2d 28 (2d Cir. 1940); Metallizing Eng’g Co. v. Kenyon Bearing & Auto Parts Co., 153 F.2d 516 (2d Cir. 1946); W.L. Gore & Assocs., Inc. v. Garlock, Inc., 721 F.2d 1540 (Fed. Cir. 1983).
31. See supra text accompanying note 6.
Gillman illustrates the Infringement Rule outcome. The primary interests served are the patentee's interest in recovering R&D costs and earning a profit, and the public interest in dissemination of knowledge. These interests differ from the dominant interests in the cases illustrating the second alternative rule.

B. The Invalidation Rule

The second alternative legal rule provides that the first inventor's use invalidates the second inventor's patent, and that the public may freely enjoy the invention thereafter. The trade secret holder is the primary beneficiary of this rule. At first glance, the trade secret holder who invalidates a patent under this rule nevertheless already has lost her secret to the public domain through the disclosure requirements of patent law. However, the Invalidation Rule may encourage second inventors to turn to trade secrecy protection in lieu of patent protection, and this benefits the trade secret holder because the second inventor would then "keep the secret" rather than disclose it to the world.

From the standpoint of proponents of the prior user right, this rule unnecessarily ignores the interests of the patentee and the public. The patentee loses her patent and is unable to recover R&D costs. As for the public interest, although this rule appears to make valuable information freely available by invalidating patents, it may not serve the public in the long run, because it may encourage the potential patentee to choose secrecy over disclosure, or discourage the inventor's investment in innovative activities altogether.

The Invalidation Rule outcome is illustrated by case law dealing with non-informing public uses. The non-informing public use, as opposed to the secret use, typically involves commercial exploitation of a product which incorporates the invention, but in such a way that the product does not disclose the invention. Thus, the public receives the direct benefit of a better product.

In the case of non-informing public use, the theory is that competitors may reverse engineer the product to discover the invention.

33. Ubel, supra note 7, at 407.
34. Moreover, independent discovery of a trade secret by another is a foreseeable risk of choosing trade secrecy protection.
35. E.g., Dunlop Holdings Ltd. v. Ram Golf Corp., 524 F.2d 33 (7th Cir. 1975).
36. Id. at 35.
37. Ubel, supra note 7, at 424.
Moreover, even if reverse engineering is very difficult or impossible, the non-informing public use is said to be a more visible spur to competition than secret use.\textsuperscript{38} The policy is that since the prior user gave the public some access to the invention, the law should not turn the prior user into an infringer. Thus the non-informing public use cases favor the interest of the prior user while acknowledging the interest of the public in dissemination of knowledge.

Consider a variation on the earlier hypothetical.\textsuperscript{39} A first inventor discovers a chemical compound, keeps the compound secret, and immediately begins to use the compound in products. The product gives no indication to the public as to the composition of the compound. The first inventor never seeks a patent. Six months later, a second inventor discovers the compound. The second inventor files an application, obtains a patent, and sues the first inventor for patent infringement.

The non-informing public use case law suggests that in the above situation, the prior user may invalidate the patent under § 102(g). An often-cited case is \textit{Dunlop Holdings Ltd. v. Ram Golf Corp}.\textsuperscript{40} In \textit{Dunlop Holdings}, Dunlop invented and obtained a patent on golf balls having covers made of the synthetic material Surlyn. Dunlop subsequently sued Ram Golf for patent infringement. Ram Golf alleged prior use by a third party, a man named Butch Wagner. One year before Dunlop’s date of invention, Wagner, who was in the business of selling recovered golf balls, made some sample Surlyn-covered balls by hand. Three months before Dunlop’s invention, Wagner developed a formula which he considered suitable for commercial production. Wagner then provided friends and potential customers with Surlyn covered golf balls. By the date of Dunlop’s invention, Wagner had received orders for more than 12,000 Surlyn-covered balls.\textsuperscript{41}

The \textit{Dunlop Holdings} court held that § 102(g) precluded patentability.\textsuperscript{42} The court cited three reasons for its conclusion:

First, even such a use gives the public the benefit of the invention . . . . If the new idea is permitted to have its impact in the

\textsuperscript{38} \textit{Id.}

\textsuperscript{39} This variation is based on a hypothetical fact pattern in \textit{Ubel, supra} note 7, at 406. For the earlier hypothetical, see \textit{supra} text accompanying note 6.

\textsuperscript{40} \textit{Dunlop Holdings Ltd. v. Ram Golf Corp}, 524 F.2d 33 (7th Cir. 1975).

\textsuperscript{41} \textit{Id.} at 35.

\textsuperscript{42} \textit{Id.} at 36.
market place . . . it surely has not been suppressed in an economic sense. Second, even though there may be no explicit disclosure of the invention concept, when the article itself is freely accessible to the public at large, it is fair to presume that its secret will be uncovered by potential competitors long before when a patent would have expired if the inventor had made a timely application and disclosure to the Patent Office. Third, the inventor is under no duty to apply for a patent, he is free to contribute his idea to the public, either voluntarily by an express disclosure, or involuntarily by a noninforming [sic] public use.\footnote{43}

Wagner provided the public with a product incorporating the invention, Surlyn-covered golf balls, but he did not explicitly disclose the composition of the improved cover. According to the court, since the invention itself was accessible to the public, albeit in a non-informing state, the prior use invalidated the subsequent patent.\footnote{44}

Recently, some courts have decided cases in a manner contrary to the secret use versus non-informing public use distinction, focusing instead on the degree to which the public received the benefits from the invention. In \textit{Friction Division Products, Inc. v. E.I. DuPont De Nemours & Company},\footnote{45} DuPont defended a patent infringement suit and moved for summary judgment on the basis of its own prior use and the prior use of two co-defendants. One of Friction Division’s arguments was that the inventive process in question was a proprietary trade secret process, i.e., a secret use, and that the public did not have direct access to anything incorporating the invention. The court first noted:

In order to avoid a finding that a prior invention was abandoned, suppressed, or concealed, under 35 U.S.C. § 102(g), the prior inventor must take affirmative steps to make the invention publicly known. Making the invention publicly known requires only that the public enjoy the \textit{benefits} or the use of the prior invention.\footnote{46}

\begin{itemize}
\item \footnote{43} \textit{Id.} at 37.
\item \footnote{44} \textit{Id.}
\item \footnote{46} \textit{Friction Div. Prods. v. E.I. DuPont,} 658 F.Supp. at 1013-14 (citations omitted).
\end{itemize}
Then, in response to Friction Division's argument that the public did not have direct access to anything incorporating the invention, the court cited Dunlop Holdings and held:

[T]his argument is completely invalid as a matter of law since the process itself does not have to be disclosed to the public in order to avoid a finding of abandonment, suppression, or concealment of the invention. Only the benefits of the inventor’s work need reach the public.\(^{47}\)

The court chose to ignore the secret use versus non-informing public use distinction. Instead, the court focused on whether the benefits of the prior inventor’s work reached the public.\(^{48}\)

Friction Division seems to be directly at odds with W.L. Gore & Associates, Inc. v. Garlock, Inc.\(^ {49} \) The Court of Appeals for the Federal Circuit decided Gore four years before the District Court of Delaware decided Friction Division. In Gore, the defendant asserted third-party prior use as a defense to patent infringement. The third party, Budd, had practiced a secret process (used to produce a tape of stretched Teflon) prior to the subsequent patentee’s invention date. The invention was a trade secret or proprietary process, and therefore was not incorporated into a product which reached the public. Indeed, the court remarked, “[i]f Budd offered and sold anything, it was only tape, not whatever process was used in producing it. Neither party contends, and there was no evidence, that the public could learn the claimed process by examining the tape.”\(^ {50} \) The prior use therefore fell into the category of “secret use,” and the court upheld the patent.

How does one reconcile Gore and Friction Division? One explanation is that courts are slowly moving away from the secret use
versus non-informing public use distinction and are more interested in whether or not the benefits of the invention reach the public. Like the old inquiry, the new test would turn on a public interest, i.e., whether the prior user disseminated either the invention or the benefits of the invention to the public.

On the other hand, some scholars point out that Gore involved an ordinary alleged infringer asserting third-party prior use, while Friction Division involved an actual prior user as a defendant. Interestingly, courts may be drawing the distinction not on the satisfaction or dissatisfaction of a public interest, but on the strength of the prior user's interest based on the prior user's status as a defendant or a third party. The notion is that perhaps a prior user's interest is strong enough to warrant invalidation of a second inventor's patent, whereas a third-party infringer's interest is not. Professor Karl Jorda, a staunch advocate of prior user rights, has reiterated for nearly twenty years (most recently in late 1995) that there is no case on the books in which a subsequent patentee has been able to enjoin or otherwise stop a first inventor or prior user from practicing the invention. Indeed, the focus may be moving from the presence or absence of a public interest to the strength of the prior user's interest.

Section 102(g) is the source of much uncertainty for both the trade secret holder and the patentee, and this uncertainty leads to market inefficiency. Cases involving § 102(g) and prior use are hardly predictable. The prior user or trade secret holder must hedge her bets as to whether she may continue her use in the face of a subsequent patent. For the patentee, § 102(g) indirectly creates a category of prior art that some scholars refer to as "secret prior art." Secret prior art is art which, although undetectable by an inventor who diligently searches the public domain before sinking costs and obtaining a patent, may invalidate the inventor's patent. Under the current regime, an inventor may search the public domain, discover

51. E.g., Ubel, supra note 7; Hearings on H.R. 2235, supra note 10 (testimony of Karl Jorda).
52. See Jorda, supra note 5 (arguing in favor of a prior user right); FPLC Conference, supra note 5 (statement of Karl Jorda); Hearings on H.R. 2235, supra note 10 (testimony of Karl Jorda). Few cases directly address the prior user/patentee conflict. See Brownlee, supra note 11, at 533 n.51 (1990).
53. Under the current regime, both section 102(g) and section 102(e) of the Patent Act create categories of "secret prior art." See, e.g., ROCHELLE COOPER DREYFUSS AND ROBERTA ROSENTHAL KWALL, INTELLECTUAL PROPERTY 645-46 (1996).
54. Id. at 647.
no prior art, sink costs into R&D efforts, and then obtain a patent for his invention, only to find that a trade secret holder who has not "abandoned, suppressed, or concealed" her invention may invalidate his patent and prevent him from recovering his costs and earning a profit.

Both the uncertainty associated with the application of § 102(g) and the possible shift from a focus on the public interest to the interest of the prior user invite consideration of the Prior User Right Rule.

C. The Prior User Right Rule

The third alternative legal rule, the Prior User Right Rule, would validate the second inventor's patent, while exempting the prior user from patent infringement. Under a prior user right, the prior user would be rewarded for her commercialization, and the subsequent patentee would be rewarded for his disclosure. Moreover, the prior user right would serve the public interest by enabling public dissemination of inventions at a low cost, arguably without discouraging innovation.

Opponents of the prior user right contend that this competition excessively erodes the patentee's market. In addition, they argue that the prior user right does not serve the public interest in dissemination because it exalts trade secrecy over public disclosure.

The idea of protecting the interest of the prior user is not new to U.S. patent law. For over one hundred years, and as late as 1952, the patent law explicitly provided a form of prior user right. Even today, in the context of reissue, the notion of equitable "intervening rights" allows the first user continued use of an invention after reis-

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56. Ubel, supra note 7, at 407.
57. See infra text accompanying note 104.
59. Id. at 12-13.
60. From 1839 to 1952, the patent law explicitly provided for a form of prior user right by exempting from liability certain persons using or selling the invention. See Act of March 3, 1839, ch. 357, § 7, 5 Stat. 353 (1839); Patent Act, ch. 230, § 37, 16 Stat. 198 (1870) (later section 4899 of the Revised Statutes).
61. A patentee may apply for a reissue patent to correct errors made without deceptive intent that cause the patent to be wholly or partly invalid. 35 U.S.C. § 251 (1994). See supra note 11.
sue if, prior to the reissue, that first user made, used, or prepared to make or use the invention.\footnote{E.g., Seattle Box Co. v. Indus. Crating & Packing, Inc., 756 F.2d 1574, 1578 (Fed. Cir. 1985).}

The prior user right traces its roots to section 6 of the Patent Act of 1836.\footnote{Act of July 4, 1836, ch. 357, § 6, 5 Stat. 117 (1836).} According to section 6 of the Patent Act of 1836, an inventor could obtain a patent on a new art, machine, manufacture, or composition of matter that was "not, at the time of his application for a patent, in public use or on sale, with his consent or allowance."\footnote{Act of July 4, 1836, ch. 357, § 6, 5 Stat. 117 (1836). See generally 2 DONALD S. CHISUM, CHISUM ON PATENTS § 6.02[1][b] (1997).}

Section 7, which supplemented section 6, provided

That every person or corporation who has, or shall have purchased or constructed any newly invented machine, manufacture, or composition of matter, prior to the application by the inventor or discoverer for a patent, shall be held to possess the right to use, and vend to others to be used, the specific machine, manufacture, or composition of matter so made or purchased, without liability therefor to the inventor, or any other person interested in such invention ... .\footnote{Act of March 3, 1839, ch. 357, § 7[A], 5 Stat. 353 (1839).} No patent shall be held to be invalid, by reason of such purchase, sale, or use prior to the application for a patent as aforesaid, except on proof

(1) of abandonment of such invention to the public; or

(2) that such purchase, sale, or prior use has been for more than two years prior to such application for a patent.\footnote{Act of March 3, 1839, ch. 357, § 7[B], 5 Stat. 353 (1839).}

The Supreme Court first addressed section 7 in McClurg v. Kingsland.\footnote{42 U.S. (1 How.) 202 (1843).} In that case, an inventor developed and patented an invention while employed by the defendants. When the inventor left his job and assigned his rights to one of his former employer's competitors, that assignee sued the former employer under the patent. The Court noted that section 7 had two objectives: (1) "to protect the person who has used the thing patented, by having purchased, constructed, or made the machine, ... from any liability to the patentee or his assignee," and (2) "to protect the rights, granted to the patentee, against any infringement by any other person."\footnote{Id. at 208-209.} The defen-
The prior user right eventually disappeared from the books, and explicit provisions for prior user rights were repealed during the codification of the patent laws in 1952. A committee report noted that the relevant sections had become "redundant and unnecessary." Given the rich history of the prior user right in U.S. patent law, however, it is not surprising that it was the subject of proposed legislation in 1967 and is again the subject of proposed legislation. The fact that the prior user right has proven itself workable in the past suggests that there is no reason to fear that its current introduction would disrupt the successful operation of the Patent Act. The following section explores the prior user right proposed in H.R. 400.

III. H.R. 400

Following the passage of GATT and responding to an increased interest in patent harmonization, Congress addressed the issue of prior user rights a few years ago with both a Senate bill and a House bill. On October 8, 1994, the Senate passed the Patent Prior User Rights Act of 1994. This bill provided that if, before the effective filing date of the application, a person commercially used in the United States any subject matter claimed in the patent, or made effective and serious preparation in the United States, then that person would not be liable for infringement of the patent. The bill also ex-

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69. Id. at 209.
71. Id.
74. H.R. 400 (see APPENDIX A):
   This title and the amendments made by this title shall take effect on the date of the enactment of this Act, but shall not apply to any action for infringement that is pending on such date of enactment or with respect to any subject matter for which an adjudication of infringement, including a consent judgment, has been made before such date of enactment.
75. S. 2272, 103d Cong. (1994).
76. Id.
emptied "good faith purchasers" who bought products from the prior user, and then used or sold them. 77 Unfortunately, due in part to its late introduction, the bill died with the 103rd Congress. 78

The following year, on August 4, 1995, Representative Carlos Moorhead sponsored the Prior Domestic Commercial Use Act of 1995. 79 This bill, H.R. 2235, required the person asserting the prior user right to have commercially used or reduced to practice the subject matter on which the right was based more than one year prior to the effective filing date of the application for the patent. 80 H.R. 2235 became Title III of H.R. 3460, and H.R. 3460 was approved by the House Judiciary Committee in July 1996. 81 On January 9, 1997, H.R. 3460 was re-introduced in the 105th Congress as H.R. 400. 82 On April 23, 1997, an amended H.R. 400 passed the House, and the bill was referred to the Senate Committee on the Judiciary. 84 During the editing of this article for publication, the Senate is considering S.507, the "Omnibus Patent Act of 1997," which largely adopts the prior user right proposed in H.R. 400. 85 This subsection examines the relevant portions of H.R. 400.

H.R. 400 provides for a limited prior user defense. 86 To summarize the proposal, H.R. 400 (1) allows good-faith prior users to practice the technology (and any variations and improvements that do not

77. Id.
80. Id.
83. The Kaptur Amendment (H.A. 29) was agreed to on April 23, 1997. This amendment classifies research conducted for the public good by a laboratory or nonprofit entity as "commercial use" within the meaning of the proposed statute.
86. H.R. 400 is significantly narrower than S. 2272, which would have extended a prior user defense to "good faith purchasers" who buy products that are subject to the prior user defense and then resell them. Cf.S. Rep. No. 103-405, at 6 (1994). Moreover, S. 2272 did not include H.R. 400's section 273(C)(7)'s one-year limitation. Cf. S. 2272, 103d Cong. (1994).
infringe the subsequent patent);\footnote{H.R. 400, 105th Cong. §§ 273(B), 273(C)(2) (1997).} (2) requires persons claiming prior user rights to prove commercial use or reduction to practice of the technology in the United States more than one year before the effective filing date of the patent;\footnote{H.R. 400 § 273(C)(7).} and (3) provides that an infringer who alleges the defense without reasonable basis would be liable for the patentee’s attorneys’ fees under § 285.\footnote{H.R. 400 § 273(D).} This article takes the following position with respect to H.R. 400: (1) It represents a healthy balancing of interests, (2) it would level the playing field for U.S. trade secret holders, and (3) it resolves a situation which requires a statutory solution, even if that situation arises infrequently.

**A. H.R. 400 Effectively Balances Competing Interests**

Overall, H.R. 400 represents a healthy balancing of competing interests. H.R. 400 serves (1) the prior user’s interests, by allowing continued use and by bringing certainty to the area of law covered by § 102(g); (2) the patentee’s interests, by providing a limited right to exclude, ensuring the prior user competes at a disadvantage (thus preserving the patentee’s market), and eliminating § 102(g) secret prior art; and (3) the public interest, by bringing about dissemination at a low cost (as the prior user and the subsequent patentee enter into limited competition) and encouraging innovation.

1. **H.R. 400 Serves the Prior User’s Interests**

By definition, H.R. 400 serves the prior user’s interest in continued use. Associated with this interest in continued use is an interest in certainty. H.R. 400 serves the prior user by bringing certainty to the area of law currently covered by § 102(g). Although the current regime most closely resembles the Invalidation Rule, there remains some uncertainty. As one American inventor who testified before the House in favor of the prior user right notes:

In the case of non public use, . . . the law is silent. The validity of the patent and the right to continue the use are both uncertain. That uncertainty may generate some large legal fees, [and] it is a killer for business — especially small business. Small businesses
cannot afford the huge costs of resolving an issue in equity. Ambiguity in the law hands the advantage to the deepest pocket.90

Because of the ambiguity in the law, a patentee may decide to sue a prior user. Whether the trade secret holder wins or loses the lawsuit, the disclosure requirements of the patent law dictate that the trade secret is lost to the public domain with the issuance of the patent. Given the choice between (1) losing a trade secret but enjoying a limited duopoly (under the Prior User Right Rule) and (2) losing a trade secret to the public domain (under the disclosure requirements of the patent law), a trade secret holder presumably would prefer the former.

2. H.R. 400 Serves the Patentee’s Interests

In addition to serving the prior user’s interests, H.R. 400 serves the patentee’s interests by (1) providing a limited right to exclude; (2) ensuring the prior user competes at a disadvantage; and (3) eliminating the category of secret prior art91 existing under § 102(g).

H.R. 400 supports a limited right to exclude.92 The right to exclude has its basis in the Patent and Copyright Clause of the Constitution, which provides “The Congress shall have power...[t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”93

Interestingly, perhaps the strongest argument against H.R. 400 from the patentee’s standpoint is that it erodes an existing right to exclude. Robert Rohrback, a strong opponent of the prior user right, notes that Congress and the courts have regarded the patentee’s right to exclude as sacrosanct and have permitted the erosion of the right to exclude “only upon a clear showing of public interest of the highest order [and] not to protect a private, commercial investment.”94 Likewise, interest groups voice the opinion that the prior user right deprives inventors of the “constitutional right to exclude.”95 Other

90. Hearings on H.R. 2235, supra note 10 (testimony of Bill Budinger), at 103-104.
91. See supra note 53.
92. See H.R. 400.
93. U.S. CONST. art. I, § 8, cl. 8 (emphasis added).
94. Rohrback, supra note 58, at 7.
inventors see the prior user right as tantamount to royalty-free compulsory licensing.\(^{96}\)

These arguments are flawed. Section 102(g) may invalidate a patent in light of a secret prior use. Under the current regime, the choice is not between the Prior User Right Rule and the Infringement Rule, but between the Prior User Right Rule and the Invalidation Rule. Arguably, H.R. 400 serves the patentee’s interest by altering the current statutory framework, moving it away from the Invalidation Rule. In effect, a prior user defense may create a right to exclude (albeit a limited one which excepts a prior user) where no right would have existed before. Accordingly, H.R. 400 makes it clear that “[a] patent shall not be deemed to be invalid under § 102 or § 103 of this title solely because a defense is established under this section.”\(^{97}\)

H.R. 400 is equipped with many safeguards that ensure the patentee’s market will remain largely intact. For example, the prior user right is void in cases involving bad faith or derivation from the applicant, and the party alleging the defense may be liable for attorneys’ fees.\(^{98}\) A prior user cannot take advantage of the patentee’s pre-filing disclosures to create a right against the patent.\(^{99}\) In the spirit of § 102(g), abandoned experiments cannot establish a prior user right to resurrect the invention.\(^{100}\) The prior user defense is personal and transferable only upon the good faith sale or transfer of the entire business unit which exploits the right; therefore the prior user is unable to erode the patentee’s market through mere licensing.\(^{101}\)

Improvements to the prior use are allowed only to the extent they do not infringe claims of the subsequent patent, whether or not they are independently developed. However, in a provision that surely would spawn litigation, the statute provides that a prior user is able to expand quantity and volume of use to meet reasonable market demands.\(^{102}\) Unfortunately, predicting market demand but-for the

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96. See Hearings on H.R. 2235, supra note 10 (testimony of William Budinger, quoting an article from Inventor’s Digest) at 103-104.
98. H.R. 400 §§ 273(B), 273(D).
100. H.R. 400 § 273(C)(5).
101. H.R. 400 § 273(C)(6).
102. H.R. 400 § 273(C)(2). The Campbell Amendment (H.A. 28) to H.R. 400 would have function to “limit the prior domestic user to the kind and volume of the prior use.” See Thomas: Legislative Information on the Internet (visited June 14, 1997) <http://thomas.loc.gov/cgi-bin/query/7?r105:./temp/~r105WszHt1060.> However, the
patentee’s subsequent disclosure involves a difficult but unavoidable counterfactual inquiry.

By eliminating the category of secret prior art currently existing under § 102(g), H.R. 400 serves the patentee’s reliance interest. Again, the subsequent patentee’s patent would not be invalidated; it would operate against the world, minus the trade secret user. In addition, H.R. 400 ensures that the scope of the prior user right would be linked to the invention’s degree of commercialization. A low degree of commercialization, implying little or no notice to the patentee, would correspond to a narrow prior user right. A narrow prior user right would correspond to slight erosion of the patentee’s market. In turn, slight erosion would imply a strong likelihood that the prior use would not have affected the patentee’s decision to pursue a patent in the first place. Thus by eliminating § 102(g) secret prior art, the prior user right would serve the patentee’s reliance interest in searching the public domain.

Overall, in addition to serving the prior user’s interest in continued use, H.R. 400 adequately serves the patentee’s interests, by (1) providing a limited right to exclude; (2) ensuring the prior user competes at a disadvantage, thus preserving the patentee’s market; and (3) eliminating § 102(g) secret prior art, thereby providing certainty as the patentee searches the public domain before sinking R&D costs into the invention.

3. H.R. 400 Serves the Public Interest

H.R. 400 is not limited to serving only the interests of the prior user and of the patentee. It also serves the public by providing access to inventions at low cost, as the patentee and prior user enter into limited competition, and by encouraging — or at least not discouraging — innovative activities.

Campbell Amendment failed. Thomas: Legislative Information on the Internet (visited June 14, 1997) <http://thomas.loc.gov/cgi-bin/bdquery/z?d105:HR00400:00@@X>. Some opponents to the Campbell Amendment expressed the views that it would be “extremely prejudicial to start-up firms and small businesses which are frequently acquired by larger firms” (Rep. Coble) and that it would discourage the transfer of a line of business to another firm that might be more efficient and competitive (Rep. Delahunt). Thomas: Legislative Information on the Internet (visited June 14, 1997) <http://thomas.loc.gov/cgi-bin/query/T?r105:/temp/~r105WsZHe6123:>

103. Arguably, a large amount of commercialization of the products of an inventive process will be accompanied with lower prices (economies of scale) and increased profits for a patentee’s competitor, alerting the potential patentee of the possible existence of a trade secret. Thus notice to the patentee is related to degree of commercialization.
The prior user right serves the public by providing access to inventions. H.R. 400's commercialization requirement, like the non-informing public use and Friction Division inquiries, serves the public interest in dissemination of inventions. H.R. 400 requires either actual use in commerce or, in cases where commercialization requires a "significant investment of time, money, and effort," substantial material preparation for commercial use.

The standard for preparation for commercial use would likely take into account such factors as (1) the costs incurred by the prior user and the proportion of those costs to the total costs for full commercialization; (2) the time invested in preparation and the proportion of that time to the total time required for full commercialization; (3) the complexity of preparation for practicing the claimed prior use; and (4) the diligence of the prior user in making preparations. Consideration of factors such as these ensures that the public will reap the benefits of the invention as soon as possible.

Not only would the public enjoy dissemination of the invention, but it would enjoy dissemination at a low cost. Under a prior user right regime, the patentee and prior user would enter into limited competition, driving prices down for the public. At first glance, competition between the patentee and the prior user would, unfortunately, result in diminished profits for both the patentee and prior user, perhaps deterring innovation. However, as discussed in previous sections of this article, the prior user right would bring certainty to the law, and this certainty would result in a more efficient market. Therefore, the limited competition and accompanying lower prices associated with a prior user right would not necessarily deter innovation.

A more real risk is that the prior user right would discourage innovation by exalting secrecy over disclosure to the point of discour-

104. In fact, at least one commentator proposes incorporation of the anomalous secret use versus non-informing public use distinction into the prior user defense. See Brownlee, supra note 11.


106. However, note that just before the House passed H.R. 400, an amendment was added classifying some research use as commercial use as that term is used in the legislation.

107. These and other factors should be considered in forming the standard for sufficient preparation for commercial use. These factors were derived by the Advisory Commission of the United States Secretary of Commerce, formed in 1990, which developed advisory positions for patent reform for the United States, and recommended the adoption of a prior user right. WEGNER, supra note 11 at 126-27 (1993).
aging use of the patent system, and with that, early public disclosure of inventions. As one scholar points out:

One of the basic purposes of any patent system ... is to encourage use of the system to provide a disclosure of technology for the subsequent benefit of the public, as contrasted with encouraging secret uses that (a) prevent dissemination of technological information; (b) avoid the possibility of development of design-around ... technology by others; and (c) eliminate competition for an indeterminate period while the secret remains undiscovered, thus depriving the public of the beneficial effects of competition.

However, a closer analysis suggests that a prior user defense will not encourage inventors to protect their inventions through trade secrecy to the detriment of the patent system and its principles of disclosure. Instead, that choice will be dictated by the characteristics, effectiveness, and suitability of each form of protection vis-à-vis the particular invention. As indicated by the Supreme Court in *Ke-waree Oil Co. v. Bicron Corp.*:

Trade secret law and patent law have coexisted in this country for over one hundred years. Each has its particular role to play, and the operation of one does not take away from the need for the other. Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation.

In many situations, intellectual property protection through the patent system is the natural solution. After all, trade secret protection has its drawbacks. Independent discovery of an invention destroys a trade secret. Trade secrecy does not protect against reverse engineering. Moreover, in some cases, trade secret protection may be prohibitively expensive.

However, in other contexts, trade secrecy is the only feasible form of intellectual property protection. For example, citing the example of inventive processes, one practitioner notes:

109. *Id.* at 10.
112. *Id.* at 493.
Secret use of technology cannot be dismissed as necessarily less beneficial to society than publicly disclosed use. Many important technological achievements — notably processes — can be effectively exploited only through secret use. Processes naturally are practiced away from the public's view in most cases. Patents covering them consequently are very difficult to enforce, so process patents often do not provide meaningful protection.\footnote{Hearings on H.R. 2235, supra note 10 (testimony of Gary L. Griswold).

As noted by the Kewanee Court, patent law and trade secret law have coexisted peacefully for hundreds of years.\footnote{See text accompanying note 112.} A prior user right would not encourage all inventors to resort to trade secrecy to the detriment of the patent system and its policy of disclosure. The prior user right merely makes the option of trade secret protection a more viable alternative for those inventions that would be better protected by trade secret law.

The prior user right would not discourage innovation, but it may actually encourage innovation by mitigating the pressure that many businesses face in deciding whether to obtain patent protection for relatively minor inventions for purely defensive purposes.\footnote{Hearings on H.R. 2235, supra note 10 (testimony of H. Dieter Hoinkes and of Karl Jorda).} Most countries now have a petty patent system or a prior user right to protect marginal inventions at affordable costs.\footnote{See 35 U.S.C. § 157 (1994); See generally 1 CHISUM, supra note 64, § 3.07[2], at 3-124. Through the S.I.R. program, an inventor discloses his invention with the same level of detail required to obtain a patent. The PTO will not examine the disclosure for utility, novelty, nor nonobviousness; and the inventor does not enjoy the right to exclude. The PTO publishes the S.I.R., and this publication ensures that competitors will not secure a patent for the same disclosed invention. Thus, the S.I.R. is a purely defensive device.} While the current U.S. patent law regime allows defensive protection of an invention through the Statutory Invention Registration ("S.I.R.") procedure,\footnote{Hearings on H.R. 2235, supra note 10 (testimony of Karl Jorda).} filing under this program requires the same degree of disclosure by the inventor as in a patent application. Therefore, the S.I.R. does not serve the inventor seeking protection for a trade secret. H.R. 400 would help economize resources by extending protection to marginal inventions as most other countries currently provide.

Thus, the prior user right of H.R. 400 would serve the public interest, would provide access to inventions at low cost as the pat-
entee and prior user enter into limited competition, and would encourage — or at the very least, not discourage — innovation.

B. H.R. 400 Levels the Playing Field

The inclusion of a prior user right in the U.S. patent law would redress a current imbalance of rights between U.S. and foreign businesses. Most foreign countries provide for a prior user right in their patent laws. U.S. businesses that hold patents in those countries cannot enforce these patents against prior users. However, the converse is not true. A domestic prior user has no prior use defense when accused of infringement by a foreign company holding a U.S. patent. Importantly, over 40% of all patents issued in the U.S. are granted to foreign entities, and this number is increasing. Moreover, as of 1996, foreign inventors can rely on earlier foreign activities to counter U.S. invention date proofs. Thus, the United States has been granting a large number patents to foreigners, while enhancing the enforceability of those patents against U.S. prior users. A domestic prior user right is needed to level the playing field.

The absence of a prior user right in the United States patent law gives manufacturers who rely on trade secrecy protection an incentive to locate plants in other countries. To illustrate, the former chief intellectual property counsel at a chemical manufacturing company, which once needed to select a country in which to build a plant implementing important inventive processes, notes:

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 . . . . [T]his is a real consideration that real people managing businesses . . . take into account.

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118. See, e.g., Brownlee, supra note 11 at 526.
121. Hearings on H.R. 2235, supra note 10 (testimony of Gary L. Griswold). Manufacturers who rely on trade secrecy protection have an incentive to locate plants in countries with a prior user right, so that they may defend themselves against subsequent patentees.
122. FPLC Conference, supra note 10 (statement of Gary L. Griswold).
Perhaps there is a correlation between reliance on trade secrecy and international operations, and perhaps the existence of a prior user right in other countries affects that correlation. A recent United States International Trade Commission report\textsuperscript{123} shows that a large number of United States companies that operate internationally consider the trade secret to be of great, or very great, importance for nearly 70\% of their sales, and of moderate importance to another 24\% of such sales.\textsuperscript{124} This far surpassed the importance assigned to other forms of intellectual property protection.\textsuperscript{125} However, a more detailed study is needed in order to draw any definite conclusions.

In summary, a prior user right is needed to level the playing field between U.S. and foreign inventors. In particular, it is needed to protect domestic prior users from foreign patentees and to avoid discouraging manufacturers who rely on trade secrecy protection from locating plants in the United States.

C. H.R. 400 Represents a Needed Statutory Solution

As a final matter, some critics argue that situations calling for a prior user right arise so infrequently that a \textit{statutory} prior user right is not needed.\textsuperscript{126} A related argument is that the patent system already supports a "de facto" prior user right outcome (i.e., each party has strong incentives for allowing coexistence of the patent and the prior use), so the creation of a \textit{statutory} right is not necessary.

Indeed, the limited data available relating to operation of the prior user right in foreign countries suggests the incidence of prior user right problems which would arise in practice in the United States would be very small.\textsuperscript{127} With the exception of the Philippines, every foreign country in the world operates under a first-to-file priority rule.\textsuperscript{128} One justification for the inclusion of the prior user right in the patent laws of foreign countries is that it alleviates the equitable shortcomings of strict determination of patent rights by filing date.\textsuperscript{129}

\begin{footnotesize}
\begin{enumerate}
  \item Id.
  \item Except the trademark, if it is considered a form of intellectual property. See ROBERT M. SHERWOOD, INTELLECTUAL PROPERTY AND ECONOMIC DEVELOPMENT 58 (1990).
  \item See, e.g., Brownlee, supra note 11.
  \item See infra note 130.
  \item See supra note 13.
  \item E.g., Ubel, supra note 7, at 433-34.
\end{enumerate}
\end{footnotesize}
Nevertheless, existing data suggests the prior user right is not invoked with great frequency in foreign countries. \(^{130}\)

Professor Karl Jorda, who served as patent counsel at Ciba-Geigy, reports that in a recent ten-year period at Ciba-Geigy, AG Switzerland, there were only three instances where the issue of prior user rights arose. \(^{131}\) Jorda estimates Ciba-Geigy Switzerland, a large transnational company, files close to 1,000 patent applications per year. \(^{132}\) These numbers suggest that (at least in Ciba-Geigy’s industry) the issue of prior user rights comes up approximately once per 3,300 patent applications.

In a study on the frequency with which the prior user right is asserted, the Max Planck Institute for Foreign and International Patent, Copyright, and Competition Law, Munich, sent a questionnaire to several German and Danish patent attorneys who, because of the composition of their clientele, would have special knowledge of prior-user-right practice. \(^{133}\) The patent attorneys replied that on average, they were consulted less than ten times per year regarding a prior user right, and half of the patent attorneys reported they were consulted less than five times per year regarding a prior user right. \(^{134}\)

In addition to suggesting that the incidence of a prior user right situation is too small to merit a statutory solution, critics of a statutory prior user right argue that a de facto prior user right already exists; that is, in any prior user situation, each party has strong incentives for reaching amicable settlement. \(^{135}\) Indeed, subsequent patentees may be hesitant to put their patents on the block against

\(^{130}\) There appears to be no detailed empirical study on the frequency with which the prior user right arises in foreign countries. Several scholarly articles cite the study reported in Lise Osterborg, Towards a Harmonized Prior User Right Within a Common Market Patent System, 12 Int’l Rev. Indus. Prop. & Copyright 447 (1981), which suggests that even attorneys likely to have experience dealing with the prior user right report being consulted only rarely on prior user right issues. See infra text accompanying note 133.

\(^{131}\) Hearings on H.R. 2235, supra note 10 (testimony of Karl Jorda). Jorda notes that the incidence of prior user disputes under foreign patent law is much less than the incidence of interference disputes in our patent system. To prevail in an interference, one must prove reduction to practice; whereas to prevail as a prior user, one must prove actual commercial use or preparation for commercial use — a much higher standard than mere reduction to practice.

\(^{132}\) Id.

\(^{133}\) Id.

\(^{134}\) Id.

\(^{135}\) See, e.g., Hearings on H.R. 2235, supra note 10 (testimony of Karl Jorda).
prior users. Likewise, prior users may prefer paying a small fee for a license, realizing that third parties will be shut out by the valid patent. It is not surprising that just as most of our interferences are settled amicably, so are most prior user disputes in other countries.

However, even if a prior user right issue arises infrequently and a de facto prior user right may exist already, a statutory prior user is needed. The law dealing with § 102(g) appears unsettled and is a source of uncertainty for both the patentee and the trade secret holder. This uncertainty favors the party with the most litigating resources. A statutory prior user right would eliminate this uncertainty and would redefine the bargaining position of the parties. In addition, perhaps a statutory solution is preferable to allowing parties with strong incentives to settle their own priority dispute. As seen in the context of settlements of patent interference proceedings, the patent law recognizes that a strong mutual desire to settle a priority dispute may lead to anticompetitive collusion. Finally, the infrequency with which prior user right issues arise and the possible existence of a de facto prior user are not convincing arguments for a company whose future depends on protection of intellectual property through trade secrecy.

IV. Conclusion

The time has come for the United States to reincorporate a prior user right in its patent law. H.R. 400 represents a healthy balancing of the interests of the prior user, the patentee, and the public. First, it serves the prior user’s interests, by allowing continued use of inventions with a greater degree of certainty than that currently provided by § 102(g) and case law. Second, it serves the patentee’s interests, by providing a limited right to exclude; by ensuring the prior user competes at a disadvantage, thus preserving the patentee’s market;

139. *Hearings on H.R. 2235, supra* note 10 (testimony of Karl Jorda) (noting that “de jure we have a totally unsettled situation”).
141. E.g., ROBERT PATRICK MERGES, PATENT LAW AND POLICY 317 (1992) (“The patent code recognizes that the settlement of an interference dispute presents an excellent opportunity for two competitors to engage in anticompetitive behavior, e.g., market division, price fixing or the like.”).
and by eliminating § 102(g) secret prior art. Third, it satisfies the public interest in dissemination of inventions at a low cost, as the prior user and the subsequent patentee enter into limited competition. Finally, a prior user right is needed to level the playing field for U.S. inventors. H.R. 400 represents a needed statutory solution; thus, its proposed section 273 should be added to the U.S. patent code.
H.R. 400 was passed by the House (amended) on April 23, 1997 and was referred to the Senate Committee on Judiciary on April 24, 1997. Title III of H.R. 400 would provide for a prior user right. The portion quoted below is from section 302 ("Defense to Patent Infringement Based on Prior Domestic Commercial or Research Use") of Title III, which proposes adding section 273 to 35 United States Code. The following represents the amended version of H.R. 400 which was passed by the House and referred to the Senate Committee on Judiciary:

273. Prior domestic commercial or research use; Defense to infringement

(a) Definitions. For purposes of this section-

(1) The terms "commercially used," "commercially use," and "commercial use" mean the use in the United States in commerce or the use in the design, testing, or production in the United States of a product or service which is used in commerce, whether or not the subject matter at issue is accessible to or otherwise known to the public;

(2) in the case of activities performed by a nonprofit research laboratory, or nonprofit entity such as a university, research center, or hospital, a use for which the public is the intended beneficiary shall be considered to be a use described in paragraph (1) if the use is limited to activity that occurred within the laboratory or nonprofit entity or by persons in privity with that laboratory or nonprofit entity before the effective filing date of the application for patent at issue, except that the use—

(A) may be asserted as a defense under this section only by the laboratory or nonprofit entity; and

(B) may not be asserted as a defense with respect to any subsequent use by any entity other than such laboratory, nonprofit entity, or persons in privity;

(3) the terms "used in commerce," and "use in commerce" mean that there has been an actual sale or other commercial transfer of the subject matter at issue or that there has been an actual sale or other commercial trans-
fer of a product or service resulting from the use of the subject matter at issue; and

(4) the "effective filing date" of a patent is the earlier of the actual filing date of the application for the patent or the filing date of any earlier United States, foreign, or international application to which the subject matter at issue is entitled under section 119, 120, or 365 of this title.

(b) Defense to infringement.

(1) A person shall not be liable as an infringer under section 271 of this title with respect to any subject matter that would otherwise infringe one or more claims in the patent being asserted against such person, if such person had, acting in good faith, commercially used the subject matter before the effective filing date of such patent.

(2) The sale or other disposition of the subject matter of a patent by a person entitled to assert a defense under this section with respect to that subject matter shall exhaust the patent owner's rights under the patent to the extent such rights would have been exhausted had such sale or other disposition been made by the patent owner.

(c) Limitations and qualifications of defense. The defense to infringement under this section is subject to the following:

(1) Derivation. A person may not assert the defense under this section if the subject matter on which the defense is based was derived from the patentee or persons in privity with the patentee.

(2) Not a general license. The defense asserted by a person under this section is not a general license under all claims of the patent at issue, but extends only to the subject matter claimed in the patent with respect to which the person can assert a defense under this chapter, except that the defense shall also extend to variations in the quantity or volume of use of the claimed subject matter, and to improvements in the claimed subject matter that do not infringe additional specifically claimed subject matter of the patent.
(3) Effective and serious preparation. With respect to subject matter that cannot be commercialized without a significant investment of time, money, and effort, a person shall be deemed to have commercially used the subject matter if —

(a) Before the effective filing date of the patent, the person reduced the subject matter to practice in the United States, completed a significant portion of the total investment necessary to commercially use the subject matter, and made a commercial transaction in the United States in connection with the preparation to use the subject matter; and

(b) thereafter the person diligently completed the remainder of the activities and investments necessary to commercially use the subject matter, and promptly began commercial use of the subject matter, even if such activities were conducted after the effective filing date of the patent.

(4) Burden of proof. A person asserting the defense under this section shall have the burden of establishing the defense.

(5) Abandonment of use. A person who has abandoned commercial use of subject matter may not rely on activities performed before the date of such abandonment in establishing a defense under subsection (B) with respect to actions taken after the date of such abandonment.

(6) Personal defense. The defense under this section may only be asserted by the person who performed the acts necessary to establish the defense and, except for any transfer to the patent owner, the right to assert the defense shall not be licensed or assigned or transferred to another person except in connection with the good faith assignment or transfer of the entire enterprise or line of business to which the defense relates.

(7) One-year limitation. A person may not assert a defense under this section unless the subject matter on which the defense is based had been commercially used or reduced to practice more than one year prior to the effective filing date of the patent by the person asserting the defense or someone in privity with that person.
(d) Unsuccessful assertion of defense. If the defense under this section is pleaded by a person who is found to infringe the patent and who subsequently fails to demonstrate a reasonable basis for asserting the defense, the court shall find the case exceptional for the purpose of awarding attorney's fees under section 285 of this title.

(e) Invalidity. A patent shall not be deemed to be invalid under section 102 or 103 of this title solely because a defense is established under this section.