

Bill Would Create New Defense for “Prior User”

by [Mark T. Banner](#)¹

H.R. 1907 was passed by the House of Representatives on August 4, 1999. The Bill, officially called the “American Inventors Protection Act of 1999,” was more commonly referred to as the “Patent Reform” bill. Passage by the House is the first step towards becoming law. Widely debated for years, its passage was far from certain. After significant last-minute compromises, the Bill now goes to the Senate for consideration. If passed by Congress in its present form it is expected to be signed into law by President Clinton.

The Bill would add a new chapter to the law regulating Invention Promotion companies, would provide for publication of patent applications within 18 months after the earliest effective filing date, would provide additional procedures for reexamination, and would provide reorganization of the Patent and Trademark Office. In addition, one of the more controversial sections of the Bill would provide a new defense to patent infringement — the “First Inventor Defense,” sometimes referred to as “prior user rights.”

This defense would add a new section to the statute, §273, “Defense to infringement based on earlier inventor.” The defense would provide a restricted form of “prior user rights” for earlier users of business methods, and constitute a limited defense to patent infringement of “business method” patents that have proliferated since the *State Street Bank* decision of the Federal Circuit. The basic provision for the defense is stated in §273(b)(1) of the new proposed section. It would provide:

It shall be a defense to an action for infringement under section 271 of this title with respect to any subject matter that would

otherwise infringe one or more claims asserting a method in the patent being asserted against a person, if such person had, acting in good faith, actually reduced the subject matter to practice at least one year before the effective filing date of such patent, and commercially used the subject matter before the effective filing date of such patent.



Assertion of this new defense will require proof of certain specific, and reasonably strict terms. First, a person asserting the defense will need to establish the facts by clear and convincing evidence. Moreover, unsuccessful assertion of the defense would have dire consequences. According to proposed subsection (b)(8), a person who asserts the defense and later is found to infringe and to not have had a “reasonable basis” for asserting the defense will be subject to the provision that “the court *shall* find the case exceptional for purpose of awarding attorney’s fees” under the Patent Statute. (Emphasis added.) This mandatory finding of an exceptional case will not automatically result in the award of fees, but nevertheless should make assertion of the defense a serious act. No other section of the Patent Law has a mandatory provision for finding a case exceptional.

In addition, the defense is limited to those method claims that are directed to business methods, not all method claims. The decision to restrict the application of this defense to business methods was made at the last minute and resulted in an amendment to the bill to specifically provide the term “method” as used in the proposed new statutory section “means a method of doing or conducting business.” Thus, while the rest of the section provides a defense to infringement of a “method” claim in a patent, the defense does not include *all* method claims. It is restricted to “a method of doing or conducting business.”

The person asserting the defense must have actually reduced the accused business method to

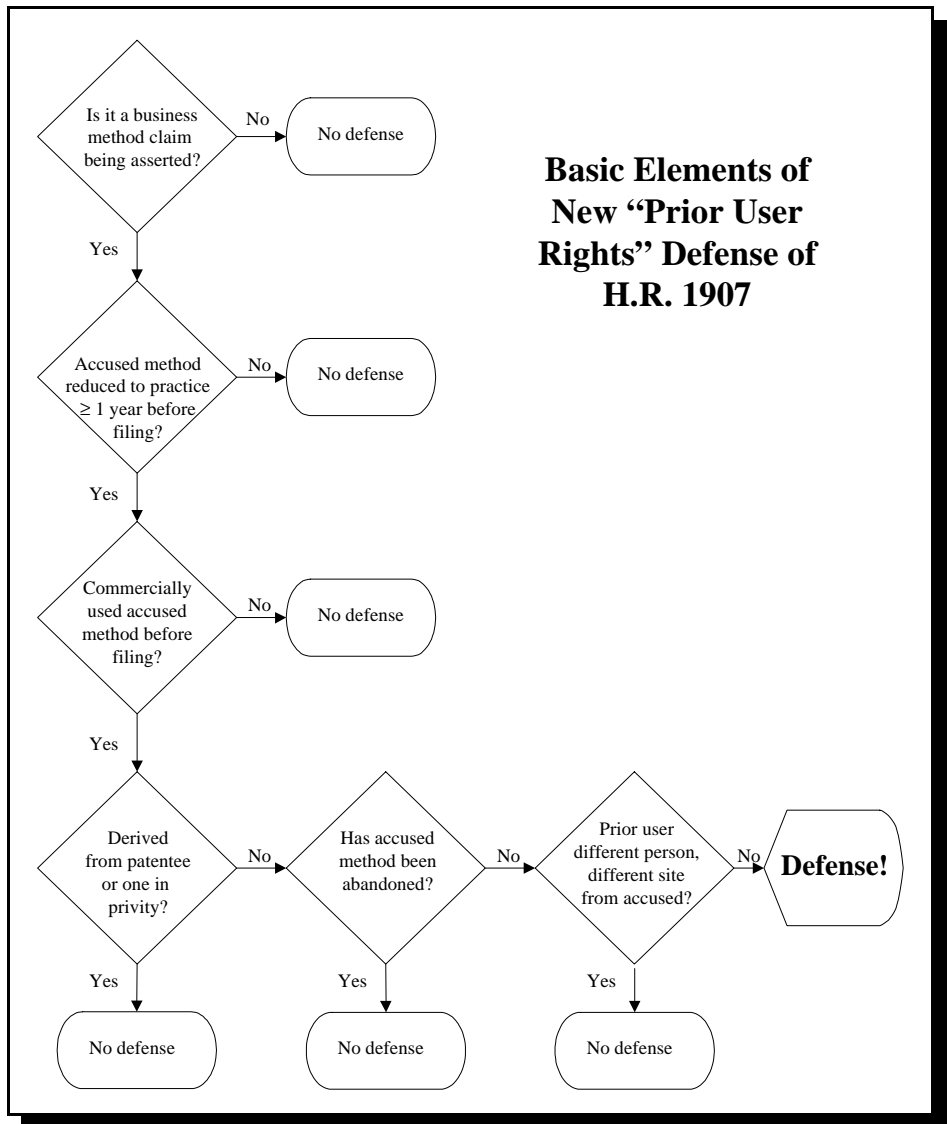
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practice at least one year prior to the effective filing date of the patent. In addition, the accused person must, again in good faith, have commercially used the subject of the claimed business method before the patent filing date. The terms “commercially used” and “commercial use” are defined in the statute. They mean use in the U.S. of the business method “so long as such use is in connection with an internal commercial use or an actual arm’s-length sale or other arm’s-length commercial transfer of a useful end result, whether or not the subject matter at issue is accessible to or otherwise known to the public.” An exception applies to subject matter that requires premarketing regulatory review for safety or efficacy, which will be considered in commercial use during the period of review.

A number of significant limitations apply as well. The defense is *not* available if the subject matter on which the defense is based was derived from the patentee or persons in privity with the patentee. The purpose of this limitation is to protect an inventor from having his own work used as a defense against a charge of infringement of his patent resulting from that work. If an accused infringer’s prior use was a result of information derived from the patentee, either directly or through third parties, it will not be the basis of this prior user defense.

Another significant limitation concerns abandonment of the prior user’s work. If the accused infringer had previously used the business method but thereafter abandoned that use, the earlier use cannot form the basis for a defense under this new defense.

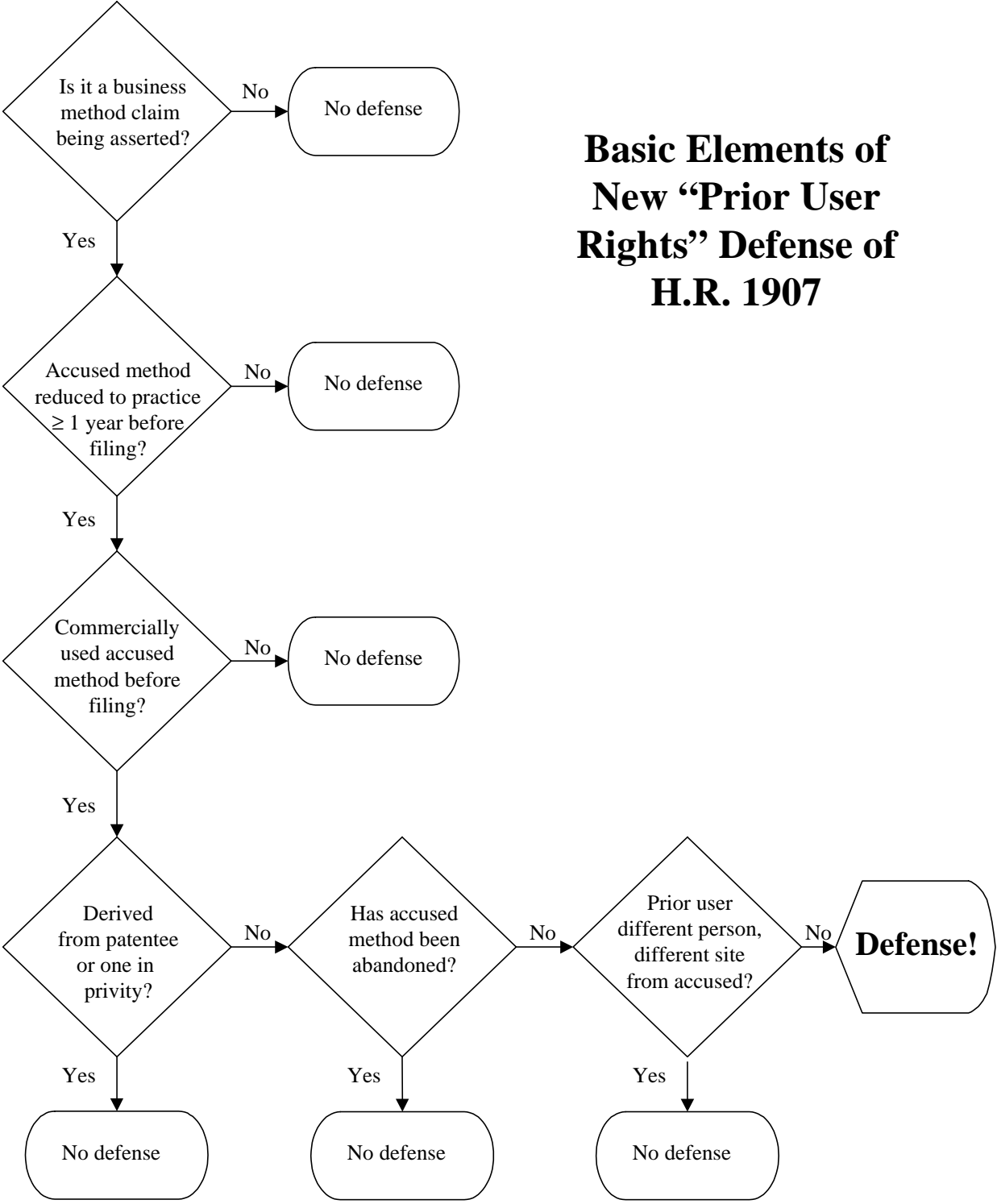
The defense would not be a “general license” but rather would allow continuation of only those activities that gave rise to the assertion of the defense. Thus, if the prior use formed a defense against one business method claim of a patent, but not another, the defense would apply only with respect to that claim. No license would be found with respect to the other claim.



Finally, the defense is a personal defense. It would apply only to the person who performed the acts that establish the defense. The benefits of any prior use cannot be licensed, assigned or transferred *except* as part of a good faith transfer of the entire enterprise or line of business to which the defense relates. Moreover, in the case of an assignment or transfer of the business the defense may only be asserted with respect to uses at sites where the use was ongoing either before the effective filing date of the patent, or the date of the transfer of the business.

If enacted into law in its present form the new defense will apply only to lawsuits prospectively. It will not apply to infringement actions pending, or to prior completed actions, including those concluded by consent judgment.

Basic Elements of New “Prior User Rights” Defense of H.R. 1907







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