

U.S. House of Representatives
Subcommittee on Intellectual Property,
Competition, and the Internet

“Prior User Rights”

Written Statement of

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On Behalf of

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February 1, 2012

Written Comment of Cisco Systems, on Behalf of The Coalition for Patent Fairness

Chairmans Goodlatte and Smith, thank you for the opportunity to provide testimony on technical changes to the America Invents Act. The Act is the culmination of six years of effort¹ by Congress and the patent community to reform the patent laws. The Act fixes several long-term problems with our patent system. As the United States Patent and Trademark Office (“USPTO” or “Patent Office”) recently recognized,² the Act must contain a robust prior user rights defense under 35 U.S.C. § 273, which goes hand-in-hand with the switch to a first-to-file system.

I. Introduction to Cisco and the Coalition for Patent Fairness

I am the Vice President for Intellectual Property of Cisco Systems. We are one of the world’s largest manufacturers of telecommunications equipment that powers the Internet, with more than \$40 billion in annual sales and more than 30,000 employees in the United States. Throughout our history as a company, Cisco’s innovation has powered the development of data networking, including the emergence of the Internet as a global platform for collaboration and communication. Cisco invested \$5.8 billion in the 2011 fiscal year on researching and developing the next generation of networking equipment. We hold over 8000 issued U.S. patents, testimony to both the extent of our innovative contributions and our commitment to the U.S. patent system.

I am here to represent not only Cisco, but also the Coalition for Patent Fairness (“CPF”). We are a cross-section of America’s leading technology companies, consisting of top software, hardware, semiconductor, networking and Internet companies, including Autodesk, Dell, Google, Intel, Oracle, RIM, SAP, and Symantec. CPF’s companies invest billions of dollars into research and development every year and have helped create the innovative culture that drives the U.S. economy. The coalition’s companies help the United States to maintain its competitive edge into the future. Together we own tens of thousands of issued U.S. patents and applications. As major stakeholders in the patent system and the

¹ See, e.g., Patent Reform Act of 2009, H.R. 1260, 111th Cong.; Patent Reform Act of 2007, H.R. 1908, 110th Cong.; Patent Reform Act of 2005, H.R. 2795, 109th Cong.

² Report on the Prior User Rights Defense, United States Patent and Trademark Office, Jan. 2012 (“Report”) (*available at* http://www.uspto.gov/aia_implementation/20120113-pur_report.pdf).

success of American innovation, we have worked together to seek improvements to the U.S. patent laws.

II. Prior User Rights Are Needed to Protect American Innovation and Jobs

One of the Act's most significant changes is that it shifts America's patent system from a first-to-invent system to a first-to-file system. This important harmonization with global patent standards ultimately can benefit the United States and US inventors, and that is why a broad cross-section of industry has long supported the principles behind such a change. Time-consuming challenges designed to prove "who invented first" are avoided by a first-to-file system. A pure first-to-file system gives all the rewards to the party that wins the race to the Patent Office, and denies any protection at all to the party that can show it first conceived the invention, but might have had legitimate business reasons not to seek patent protection. For this reason, the same broad industry support for first-to-file also includes support for prior user rights for those who invented first. While there are administrative benefits to a first-to-file system, there must exist a robust prior use defense for early innovators and prior users who do not obtain, or even file for, patent protection.³

Without a robust prior user rights defense, many American businesses would face disadvantages when competing against foreign entities. In order to obtain a United States patent, an inventor must publicly disclose its innovation. The resulting patent protection is limited to the United States, yet the public disclosure is available worldwide. Therefore, American businesses competing against foreign companies, or in markets outside the United States, may be better served by keeping some innovations private.⁴ In addition, it is not always practical for an

³ "Providing limited prior user rights in a first-inventor-to-file system addresses the inherent inequity such a system creates between an earlier commercial user of the subject matter and a later patentee." Report at 51.

⁴ See, e.g., Report at 3 ("Trade secret protection is of considerable value to United States businesses and the United States economy, and as such, there are compelling economic and policy justifications for providing a prior user rights defense to patent infringement."); Comments of James F. Kurkowski, Chief Intell. Prop. Counsel, Space Exploration Techs. Corp., to the USPTO, Comments of Space Exploration Techs. Corp. (Nov. 8, 2011) (describing the importance of trade secret protection in the space industry); Comments of Robert Barr et al., Executive Director, Bekeley Center for Law and Tech., Univ. of Cal., Boalt Hall Law School, to David Kappos et al., Undersecretary Dept. of Comm. for Intell. Prop. and Director of the USPTO, Prior User Rights for Venture Capital Backed Greentech Indus. (Nov. 6, 2011) (discussing the importance of trade secret protection in greentech to "American energy

American business to patent every invention it conceives, which may be in the thousands for a particular product. Without a robust prior user rights defense, American businesses who invent first, but do not file for reasons of trade secret protection or cost, would be subject to potential liability for patent infringement by those who later file for patents on the same innovations. We would be concerned by the prospect of opportunistic players, including foreign entities, investing engineering and legal resources in predicting the innovations that legitimate companies will soon bring to market and filing patent applications solely for the purpose of taxing the fruits of genuine product development. Without the need to develop products and services to satisfy real customers, they are free to invest all their resources to file numerous patent applications. Robust prior user rights maximize the protection to true innovators from such parasitic patent filing strategies.

Also, resources spent by U.S. companies to assure priority of patent application filings for every conceivable invention to defend against speculative litigation would significantly detract from being able to fund innovation through research and development and employment of a highly skilled workforce.

Indeed, we agree with the Chairman’s earlier remarks that “[t]he inclusion of prior user rights is essential to ensure that those who have invented and used a technology but choose not to disclose that technology – generally to ensure that they not disclose their trade secrets to foreign competitors – are provided a defense against someone who later patents the technology.” (Cong. Rec. Extension of Remarks, E1219, June 22, 2011).

The impact of the prior user defense on American industry is not just a theoretical one. A recent Lex Machina study determined that the prior user defense would have been featured in as many as 90 patent infringement cases in the United States between January 1, 2005, and October 15, 2011.⁵ These cases would have involved defendants in a variety of industries and technologies, such as manufacturing, banking, communications, pharmaceuticals, biotechnology, computer hardware and software, transportation, and medical devices. As the study concludes: “The fact that the prior inventorship defense was relied on so

independence, national security, manufacturing prowess, job generation capability, and general economic vitality.”).

⁵ Comments of Lex Machina, Inc., to the USPTO, U.S. Prior User Rights / Inventorship Study 2 (Nov. 7, 2011) (“Lex Machina Comments”).

heavily (against expectation), and was successful so often, reflects the importance of prior user rights.”⁶

III. American Businesses Need A Prior User Rights Defense That Puts Them On Equal Footing With Their Foreign Competitors

As the Chairman has previously stated, we must “ensure that our most innovative companies who hold many of the keys to U.S. economic competitiveness are provided sufficient prior user right protections to put them on an even competitive field *internationally*.” (Cong. Rec. Extension of Remarks, E1219, June 22, 2011 (emphasis added)). The USPTO’s recent prior user rights study echoed this sentiment when it concluded that “there is a strong preference that United States businesses be afforded the same advantages in terms of prior use protections in the United States that their competitors enjoy abroad.”⁷

We agree with both the Chairman and the USPTO. Most foreign competitors recognize the advantages of, and enjoy the benefits of, a robust prior user rights defense in their local jurisdictions, including, for example, Austria, Denmark, Finland, Germany, the United Kingdom, Australia, Japan, and South Korea. Among European Patent Convention countries, only Cyprus does not have any prior user rights defense.

Importantly, the above countries have in common three basic protections for prior users.

First, foreign patent systems’ prior user defenses protect *all* forms of invention, including processes, products, and products of processes, recognizing that the concerns about wasteful filings and the undermining of needed trade secret protection are generally applicable. Furthermore, protecting only processes is insufficient because patent claims can easily be written as apparatus and method claims. Indeed, the Lex Machina study revealed that the prior user rights defense in the identified 90 patent cases would have been applied against apparatus and method claims, suggesting that protecting only methods would leave legitimate prior users defenseless in many instances.⁸

Second, many foreign jurisdictions extend the prior user rights defense not only to products and processes already in commercial use, but also to protect

⁶ *Id.* at 3.

⁷ Report at 4.

⁸ See Exhibit A to Lex Machina Comments.

substantial investments in the development or preparation of those products and processes.⁹ For companies that develop and manufacture products, the research, development, and testing process can often take years and cost millions of dollars. In addition, many foreign jurisdictions do not limit prior user rights in time, instead protecting *any* activities that predate the filing of a patent application. A prior user rights defense that does not fully protect this investment has the perverse effect of penalizing American businesses who spend more time and investment in perfecting their products and services for the marketplace.

Third, prior user rights defenses in many foreign countries do not require the prior use to have occurred a full year before the relevant priority date. Generally, the defenses in foreign countries protect any private use that took place before the patent application was filed, and in some cases, any acts that took place before the patent was granted.¹⁰

IV. Proposed Technical Amendments

We must ensure that these three basic protections are equally available to American businesses under the AIA. Therefore, the Coalition for Patent Fairness proposes technical amendments be made to 35 U.S.C. § 273 that (1) clarify the

⁹ Report at 14-16.

¹⁰ Examples from three of the U.S.'s most significant economic competitors, the United Kingdom, Germany, and Japan:

United Kingdom: Pursuant to Section 64 of the Patents Act of 1977, a person is not liable for patent infringement if, before the patent is granted, that person either “does in good faith [the patented] act” or “makes in good faith effective and serious preparations to do [the patented] act.” UK Patents Act, § 64(1). This defense protects products as well as patented acts. *Id.* at § 64(3). Moreover, if the act or preparation was done “in the course of a business,” the prior user right is transferrable along with the business. *Id.* at § 64(2).

Germany: German law similarly protects both actions and preparations, and allows for transference of prior user rights along with a business. Section 12 of the German Patent Act states, in part: “A patent shall not apply to a person who had already been using the invention in Germany, or had made the arrangements necessary for doing so at the time of the filing of the application. . . . This authorization can only be willed or transferred together with the business.”

Japan: Rather than framing it as a defense, Japanese law grants prior users a non-exclusive license to patented technology and extends that protection to preparation as well. Japanese Patent Act, Article 79 states, in part: “A person who . . . made an invention identical to the said invention, or a person who . . . has been working the invention or preparing for the working of the invention in Japan at the time of the filing of the patent application, shall have a non-exclusive license on the patent right, only to the extent of the invention and the purpose of such business worked or prepared.”

intended scope of the prior user rights defense and (2) align the defense with the protections that foreign competitors enjoy abroad.

First, the proposed amendments must make clear that all statutory subject matter – and not just processes – are protected under the prior user rights defense. Importantly, and as noted above, foreign patent systems’ prior user defenses protect *all* forms of invention. Moreover, the Report states: “[T]he same ‘commercial use’ standard is applied to all statutory subject matter, specifically defined in the AIA as, ‘subject matter consisting of a process, or consisting of a machine, manufacture, or composition of matter.’”¹¹ We appreciate the USPTO’s understanding of the AIA’s intent to capture products as well as processes in the prior use defense, and recommend amendments be made to avoid any unintentional confusion with the current statutory language.

Second, the proposed amendments must expressly include substantial preparation of technology among the protected subject matter, and not only products and processes already in commercial use. Again as noted above, this is an important protection afforded to foreign competitors. This is of particular importance in those fields where companies must spend years (and millions of dollars) developing products for market. Protecting these investments is an important part of the America Invents Act. Amendments would be useful to simply clarify this point.

Finally, the proposed amendments must eliminate the requirement that prior use take place at least a full year prior to the patent application’s filing. Such a limitation does little more than put American companies at a disadvantage to foreign companies that are not encumbered by any such limitation. As the Report notes, the present statute is “significantly more restrictive than that for any other prior user rights system.”¹² Removing this artificial date restriction will put American businesses on par with foreign entities.

V. Conclusion

Without a robust prior user rights defense, the patent system will strip technology and jobs away from Americans, punish independent inventors for filing second and put American companies at a disadvantage over foreign competition. With them, American businesses can compete on equal footing and put their

¹¹ Report at 7.

¹² *Id.* at 21.

technologies to work at home. The proposed amendments ensure that American businesses can do just that.