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Before the
UNITED STATES DEPARTMENT OF COMMERCE
Washington, DC 202030

USPTO Study on Prior User Rights)
Request for Comments)
Docket No. PTO-P-2011-0060

To: United States Patent and Trademark Office

COMMENTS OF MICROSOFT CORPORATION

Microsoft submits this information in response to the Office's request for comments on the study of patent prior user rights.

1. About Microsoft

Microsoft is the worldwide leader in software, services and solutions that help people and businesses realize their full potential. Microsoft is engaged in business worldwide, with offices in more than 100 countries. Microsoft spends approximately \$9 billion annually on research and development, and we rely heavily on patent protection to secure the resulting innovation.

Accordingly, we actively pursue patent protection in dozens of countries, and our international portfolio includes more than 10,000 issued utility patents with another 22,000 applications currently pending in foreign jurisdictions. Due to the nature and scope of its business, Microsoft has also had significant experience outside the U.S. with respect to both licensing transactions and patent infringement disputes.

2. Microsoft's experience relating to prior user rights in other jurisdictions.

Despite our extensive involvement in patent-related legal matters globally, Microsoft has had very little direct experience with the assertion of prior user rights. We have rarely (if ever) sought to assert prior user rights as a defense and have rarely (if ever) encountered an assertion of such rights by others in response to a claim of infringement by us.

Our experience (or, rather, lack thereof) with the assertion of prior user rights does not appear to be atypical. Judging from the absence of significant public discussion or controversy and the relatively small number of reported cases, it appears that prior user rights are rarely asserted in the jurisdictions with which we are most familiar.

As discussed below, we consider prior user rights to be an important aspect of first-to-file patent system and believe that a comparative assessment of European law supports what we have found to be true in our own experience: that a properly crafted system of prior user rights provides additional certainty and encourages commercialization in a first-to-file patent regime without reducing incentives to innovate or significantly impairing the rights of patent holders.

3. The positive experience with prior user rights in Europe is instructive.

All European Union countries except one recognize prior user rights in some form, and the sole outlier—Cyprus—is being encouraged to adopt prior user rights.¹ Although the specific formulation of the right varies from country to country, as a general matter a party who used

¹ Patrick Van Eecke et al., *Monitoring and Analysis of Technology Transfer and Intellectual Property Regimes and Their Use: Results of a Study Carried Out on Behalf of the European Commission (DG Research)*, at 23-24 (Aug. 2009).

an invention before the patent was filed has a personal right to continue using his or her invention after the patent is granted.

Laws on prior user rights developed independently in the EU member states, but in most countries these national laws have been in effect for decades. In Europe, there appears to be a general consensus that prior user rights provisions are necessary and desirable in a first-to-file system, and that the current provisions are functioning well. In fact, a study conducted on behalf of the European Commission found that prior user rights “are almost unanimously recognised in the EU as being just and desirable on the grounds of both fairness and efficiency.”² The prior user laws also appear to operate without controversy, and we are unaware of any evidence or suggestion that prior user rights have proven to be problematic or to disadvantage any particular subset of patent holders.

In most, if not all, European countries, prior user rights are easier to invoke than the relatively narrow defense now available under 35 U.S.C. § 273. For example, Belgium, France, and Luxembourg accept prior user rights for inventions that are only possessed (or even only conceived of) and that have not yet been actually used. Section 273(a), by contrast, requires an actual arm’s-length commercial transfer or “internal commercial use.” As the legislative history of the America Invents Act makes clear, “internal commercial use” requires “evidence of a commitment to put the innovation into use” as well as “a series of diligent events demonstrating that the innovation has been put into . . . a business activity with a purpose of developing new products for the benefit of mankind.”³ Moreover, countries such as the Czech Republic, Italy, Lithuania, and Luxembourg allow entities to assert prior user rights based on acts performed outside the country’s borders. Under § 273(a)(1), only entities who have used the subject matter in the United States can qualify for the prior user rights defense. And the UK standard of proof—“balance of probabilities”—is easier to satisfy than the “clear and convincing evidence” standard under § 273(b).

² *Id.*

³ 157 Cong. Rec. S5427 (daily ed. Sept. 8, 2011) (statement of Sen. Leahy).

Even though prior user rights are comparatively easy to assert in the European Union, there is no evidence of significant litigation relating to such rights. For example, the United Kingdom has had a prior user defense since 1977; to our knowledge, the defense has been asserted in only five reported cases.⁴ The report prepared for the European Commission provided a number of possible reasons for the lack of litigation: it could be the case that conflicts are resolved amicably, rather than through the courts; it is possible that few parties qualify as prior users and have evidence to substantiate their claim; or perhaps parties are simply unaware of their prior user rights.⁵

In sum, prior user rights in Europe are widely perceived as beneficial and are rarely the subject of litigation. We believe it is likely that the U.S. will have a similar experience in implementing the new § 273.⁶ In particular, given the lack of significant litigation or harmful consequences resulting from the comparatively broader and more liberal grant of prior user rights in most European countries, there is little or no basis for concern that the narrower defense provided by § 273 will produce such results.

4. The availability of prior user rights leads to more equitable outcomes and other significant benefits in a first-to-file system.

Although entities in the European Union rarely resort to litigation to enforce prior user rights, these rights are nonetheless crucial to a functional first-to-file system. As the report prepared for the European Commission observed, “[t]he fairness introduced by prior user rights can even be considered as key to the very existence and balance of a first-to-file system.”⁷

⁴ See *Forticrete Ltd v Lafarge Roofing Ltd* [2005] All ER (D) 358 (Nov); *Hadley Industries plc v Metal Sections Ltd and another* [1998] All ER (D) 617; *Lubrizol Corp. and Another v Esso Petroleum Co. Ltd and Others* [1998] R.P.C 727 (CA); *Helitune Ltd. v Stewart Hughes Ltd 2* [1991] F.S.R. 171; *Miller v Minister of Pensions* [1947] 2 All ER 372.

⁵ Van Eecke, *supra* note 1, at 106.

⁶ See Keith M. Kupferschmid, *Prior User Rights: The Inventor’s Lottery Ticket*, 21 AIPLA Q.J. 213, 226 (1993) (“There is no reason to believe that the explanations for the minute number of prior user rights cases, as outlined above, would not apply in the United States. Therefore, it is safe to conclude that there should also be an extremely small number of prior user rights cases in the United States.” (footnotes omitted)).

⁷ Van Eecke, *supra* note 1, at 96.

In the absence of prior user rights, the first filer can preclude an earlier inventor from using the invention—even if the earlier inventor has already taken substantial steps to bring the invention to market. This is widely perceived to be an unfair outcome, particularly where the first inventor has expended significant effort and resources in producing the innovation and in preparations for its commercialization. The perceived inequity of this result is addressed by a prior user defense. The first filer obtains the patent and may exclude anyone except the prior inventor, which is an appropriate reward for disclosing the invention to the public; but the prior inventor is permitted to continue existing activities, protecting the investment in commercialization that occurred prior to patenting of the invention.

This not only reduces the potential disincentive to make socially-beneficial investments in the rapid commercialization of new technologies, but also maintains an appropriate balance between patent and trade secret protection. While Microsoft relies primarily on patent protection to secure its investments in research and development activities, we also believe that it is critical to preserve an appropriate scope and role for trade secrecy, thereby allowing innovators to choose the form of protection most appropriate for their invention and that best serves their business goals.

There are a variety of reasons an innovator may rationally choose to forgo patent protection in favor of trade secrecy in specific situations. In some cases, resource constraints may preclude patenting as a viable option. In other cases, difficulties in detecting or proving infringement with respect to a particular invention may make patenting a less attractive option. Or an innovator may face a situation where patent protection is available in some but not all of the desired jurisdictions, thus allowing the invention to be appropriated without risk of infringement liability once disclosed in a patent. For these and many other reasons trade secrecy plays an important role as a complement to patent protection even for the most active users of the global patent system.

In our view, prior user rights strike an appropriate balance between these two forms of protection, particularly in a first-to-file system, by reducing the risk that an innovator who has

relied on trade secrecy and is actively commercializing his invention may be subject to infringement liability from a patent granted to a subsequent inventor.

Finally, prior user rights are needed to ensure that American firms are not disadvantaged by the United States' transition to a first-to-file system. In the absence of such a defense, firms whose operations are located in the U.S. would be subject to greater potential liability and business risk than competitors located in a jurisdiction that provided prior user rights due to the additional risk that a subsequently granted patent will interrupt their operations or interfere with their ability to make productive use of physical plant and other assets located in the country.⁸

5. There is no evidence that prior user rights negatively impact entrepreneurship, small businesses, universities, individual inventors, or the legal foundations of U.S. patent or trade secret law.

America has long benefited from a robust entrepreneurial environment. Prior user rights were part of the U.S. Patent Code between 1836 and 1952, and have existed in a more limited form since 1999.⁹ There is no evidence that the existence of prior user rights undermined American innovation, economic growth, or legal doctrine during those times. It is unlikely that the “narrow expansion” of § 273 in the America Invents Act will change this state of affairs.¹⁰

It is also unlikely that § 273 will have a negative impact on universities. Section 273 contains an express exclusion for universities and technology transfer organizations, language that was “carefully crafted between stakeholders and the university community” to ensure “an effective exclusion for most university patents.”¹¹ Prior user laws in the United Kingdom and elsewhere

⁸ See, e.g., Gary L. Griswold & F. Andrew Ubel, *Prior User Rights—A Necessary Part of a First-to-File System*, 26 J. Marshall L. Rev. 567, 581 (1993).

⁹ David H. Hollander, Jr., *The First Inventor Defense: A Limited Prior User Right Finds Its Way into US Patent Law*, 30 AIPLA Q.J. 37, 44, 51 & n. 48 (2002).

¹⁰ H.R. Rep. No. 112-98, pt. 1, at 44 (2011).

¹¹ 157 Cong. Rec. H4483 (daily ed. June 23, 2011) (statement of Rep. Smith).

lack a parallel exclusion, yet—to our knowledge—there is no evidence that universities in those countries have been negatively affected by prior user rights.

Moreover, as the United States shifts to a first-to-file system, the availability of prior user rights will actually help protect individual inventors and small companies. Even if individuals and small businesses cannot afford to prosecute and enforce a patent, they will be able to continue their existing uses in the event that another entity subsequently patents the invention. In other words, prior user rights help ensure that the investments made by individual investors and small companies “will not be destroyed by the sudden issuance of a patent.”¹²

6. Conclusion

As one of the largest patent holders in the world, and due to our reliance on patent protection to secure our investments in research and development, Microsoft is firmly committed to preserving strong and effective patent protection. As discussed above, we do not believe that prior user rights pose any significant risk to the efficacy of patent protection. Rather, based on experiences in multiple jurisdictions that provide prior user rights, we believe such rights generally operate in a manner that is beneficial to innovation, to business certainty, and to investment in the commercialization of new technologies.

We appreciate the opportunity to share Microsoft’s views on this important topic. Please do not hesitate to contact me if you have any questions as the USPTO prepares its report to Congress.

¹² Kupferschmid, *supra* note 6, at 217.

Respectfully submitted on behalf of Microsoft Corporation,

A handwritten signature in black ink that reads "Jason Albert". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

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