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Re.: Patent Reform and the America Invents Act (H.R. 1249, S. 23)

Dear Congressmen Smith, Goodlatte and Coble:

The patent reform bill passed in the Senate, S.23, and the bill recently introduced in the House, H.R. 1249, make many fundamental changes in the substance of patent law that have received little attention in the public discussion, reports, and hearings on patent reform. I write to point out and discuss some of them.¹

Changing The Law To Give Patent Rights To The Inventor Who Is First To File A Patent Application Rather Than The First To Make The Invention. For about 200 years, United States patent law has assigned the right to a patent to the first person to make an invention, that is, the first person to conceive some product or process and actually conduct the research and development needed to show that the product or process may be successfully made and used. This second part of the inventing process is often the most risky, time-consuming and expensive part. The primary benefit of the patent system is that it increases investment in these activities. The principal claim is that the patent reform acts will reduce uncertainty and administrative and legal costs by awarding a patent to the first person to file a patent application rather than the first person to make an invention.

¹ I set out my views on changes to the Patent Act that would improve the law several years ago. See Chapter 13, John W. Schlicher, *Patent Law: Legal and Economic Principles*, West Group (1992, Second Edition 2003).

When two inventors seek a patent on the same invention, the Patent and Trademark Office identifies the first inventor by an interference proceeding. Many believe interference proceedings take too long and are too expensive. They propose assigning rights to the person whose lawyers filed the first patent application with the government rather than the person who first engaged in the R&D patent law seeks to encourage. If Congress wishes to assign patent rights in this way, Congress need merely eliminate sections 102(g)(1), 135, and 291 of the current act. I write because Congress is poised to do much more.

The America Invents Act Makes Fundamental Changes To Sections 102 and 103. Both bills amend sections 102 and 103 of the Patent Act. Since 1952, section 102 has provided several of the basic standards governing when some invention by some person is entitled to a patent and when that person loses the right to a patent. Most of the provisions of section 102 of the 1952 Patent Act were in place for at least about 100 years prior to 1952. Section 103 of the current act has provided another basic legal standard for granting a patent that has existed since about 1850. These bills eliminate current section 102 and replace it with a new section 102. Those bills also amend section 103.

These Bills Change The Time Used To Determine Whether An Invention Is New and Nonobvious. Section 102(a) of the Patent Act says that an inventor is entitled to a patent unless that invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country "before the invention thereof by the applicant for patent." Section 102(a) has been one of the basic criteria for determining whether an invention is new and novel since the 1830s. Section 102(e) of the Patent Act says that a person is entitled to a patent unless the invention was described in an application for a patent filed in the United States by another person "before the invention by the applicant for patent", if the earlier application is published or issues as a patent. Section 102(e) has been part of the Patent Act since 1952 and part of patent law since 1926. Section 103 of the Patent Act says a patent may not be obtained if the invention sought to be patented would have been obvious "at the time the invention was made" to a person having ordinary skill in the art. This basic standard has applied since 1850.

Section 102(a)(1) of these bills says a person is entitled to a patent unless "the claimed invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention." Section 102(a)(2) says a person is entitled to a patent unless the invention was described in a patent that issued or an application that was published or "deemed published" that "names another inventor and was effectively filed before the effective filing date of the claimed invention." Section 103 of these bills says that a patent may not be obtained if the invention to be patented "... would have been obvious before the effective filing date of the claimed invention to a person having ordinary skill in the art"

Sections 102(a), 102(e) and 103 of the Patent Act have nothing to do with patent interferences or deciding who obtains a patent when two inventors seek a patent for the same invention. Whatever costs and uncertainty are created by interferences and the need to do use invention dates to decide competing claims for a patent, they have no relation to the costs or uncertainty of determining novelty and nonobviousness based on the invention dates. In proceedings in the patent office, applicants tell the patent office about actual invention dates only when an issue arises and then do so by filing a declaration. In proceeding in the courts, the patent owners tell the court about invention date through testimony and then only when the issue

arises. I have not heard anyone suggest that the costs and any uncertainty created by this long-standing practice cause any harm.

The benefit of judging novelty and nonobviousness as of the date someone made an invention is that inventors are able to assess the availability of a patent and therefore the value of engaging in research and development by investigating whether at that time the invention is already available to anyone who wants to use it (is not novel) and whether some invention, if successfully conceived and tested, is one that is likely not to have been obvious to an ordinarily skilled person given the information and skill available to ordinary people at that time (is not obvious). If it is not, they may undertake those efforts confident that rights will be available. They need not bear the risk that, after they had undertaking that research and development, the right to a patent may be lost because the invention becomes available from another source or because better information and skill became available to ordinary people before they are able to prepare and file a patent application with the government.

Under these bills, the novelty and nonobviousness of an invention must be judged as of the time a patent application is filed and not at the earlier time when someone invested time and money to make it. This increases the risk of investment in inventing. No patent may be available even though at the time those investments were made the invention appear to be patentable.

This change will also create particularly difficulties in assessing nonobviousness. After these changes, the patent office, the courts and people affected by patents must judge nonobviousness based on whether some invention would have been obvious to a person of ordinary skill at the time an application was filed. The knowledge and information on which to build some invention on the date the invention was made may be far different and less helpful than knowledge and information available at a later time. For example, if an inventor makes some remarkable invention on January 1, 2012 that has befuddled everyone for decades, someone else makes the same remarkable discovery on June 1, 2012 and word of this second inventor's discovery travels throughout the scientific community before the first inventor files on January 1, 2013 (so that all people of ordinary skill know about it on the filing date), is the invention obvious and unpatentable?

The Basic Standard For Determining What Activities Constitute Prior Art Is Eliminated. Section 102(a) of current Patent Act defines the activities that constitute prior art for determining the novelty and nonobviousness of some invention by asking whether the invention was "known or used by others." This has been the standard since the 1830s and has been applied and explained in countless decisions. The essence of current law is that an invention was "known or used by others" when someone previously knew the invention and used some product or process embodying the invention for its normal purpose and in a way that would permit yet additional people to learn about the invention from observing those activities.

New section 102(a)(1) eliminates this standard from the Patent Act. There are two possible reasons why so little attention has been given to this fundamental change.

One is that the new section 102(a)(1) says that an invention may not be patented if it was "in public use or on sale." The prohibition of a patent that has been "in public use or on sale" more than one year before an application is filed is found in section 102(b) of the Patent Act.

Section 102(b) disappears under these bills. The assumption of those supporting this change may be that eliminating the “known or used by others” standard will make no difference because the activities that satisfy that standard under current law are the same activities that place an invention “in the public use bar on sale.” If that is the assumption, it is completely wrong. Under current law, activities may place an invention “in public use or on sale” even though no one could possibly learn about the invention from those activities.

For about 100 years, United States patent law has drawn a fundamental distinction between inventions that have been known or used by others and inventions that have been placed in public use and on sale. The novelty and nonobviousness of an invention someone made and was trying to patent were determined by comparing that invention to products and processes that had been known or used by others before that person made the invention. If the invention had not been known or used by others and was nonobviousness at the time it was made, the person had the right to a patent. However, the right was lost if the invention had been placed in public use or on sale by that inventor or anyone else more than one year before the inventor filed a patent application.

Those two limitations on the availability of a patent existed for entirely different reasons. As a result, the law developed very different standards for identifying activities by which an invention was known or used by others and activities that placed an invention in public use or on sale. Section 102(a) defined activities involving some invention that would prevent someone from obtaining a patent based on whether those activities made some invention available to public. When an invention is available for use by anyone in some way, there is no reason to provide incentives for someone to make that invention again. The invention is already available at what the law effectively deems to be no cost, so the invention should not be patentable because someone later decides to independently make it. The law provides incentives for people who wish to use inventions to look for them in publicly available sources and not incentives for people to make the same invention over and over again.

Section 102(b) defined activities involving some invention that prevent someone from obtaining a patent based on whether those activities involve commercial exploitation of some invention. An inventor is not permitted to commercially exploit an invention for a time and file for a patent only when use of that invention by others is threatened and a patent is needed to stop them. Section 102(b) seeks to prevent someone who makes an invention from profiting from its use for significantly longer than the term of one patent. Section 102(b) also prevents someone from obtaining a patent when someone else has been commercially exploiting that invention for a time to protect the investments others made in carrying out those activities for a period of time (one year) before some other inventor files an application.

Activities that place an invention in public use or on sale have nothing to do with whether those activities make an invention available to the public. For example, if someone offers to sell a product embodying some invention at a time when, under the Supreme Court’s most recent standard, that person had either reduce the invention to practice or prepared a written description of the invention in sufficient detail that it could have filed a patent application, that offer prevents anyone from obtaining a patent even if the offer was made in complete secrecy and no sale actually occurred (meaning that no product was ever delivered to anyone or used by anyone). If someone makes a contract to sell a product embodying some invention in the same circumstances, the contract also prevents anyone from obtaining a patent even if the parties to the

contract agreed to keep it completely confidential and the contract was never performed, meaning no sale actually occurred. If someone sells a product embodying some invention, it is been clear since the early 1900s that it does not matter whether someone could learn the invention by studying or using the product.

Likewise, it has been clear for well over 100 years that if some person devises a new product and gives it to someone else who uses it for its normal purpose, the invention has been “in public use” even though the public could not possibly learn about the invention by observing that use. Similarly, it has been clear since at least the early 1900s that if some inventor devises a new machine or process to make some product and sells that product, the invention is in public use even though the machine was used or the process carried out in a facility governed by the utmost secrecy. Those activities prevent that inventor from obtaining a patent even though they did not make the invention available to the public in the sense that the public could learn about the invention from them. In the 1980s, the Court of Appeals said that a different rule governed if the activities were carried out by someone other than an inventor seeking a patent. In that situation, if a third person uses the process in secrecy, that use does not place the invention in public use.

In addition, some activities do not place an invention in public use or on sale even though they make the invention available to the public. For example, if an inventor devises some product and is conducting experiments to see whether that product will perform as intended and those experiments require its use by the public in public areas, the invention is not in public use, even though the public is able to observe the invention and learn all about it. The reason for that rule is that the law permits an inventor to carry out experiments with an invention without those experiments impairing that inventor’s ability to obtain a patent. Conducting experiments with some invention does not commercially exploit the invention; they are part of the process of developing an invention for potential future commercial exploitation.

The other possible assumption of those supporting this change is that the activities that previously prevented the patent when some invention was “known or used by others” are the same activities that make invention “otherwise available to the public” under new section 102(a)(1). If that is the assumption, the language hardly requires that interpretation. If Congress is not changing the law, why is Congress changing the words?

I think it highly likely that the courts will understand that Congress intended activities that make an invention “otherwise available to the public” to be a broader range of activities than those by which some invention was “known or used by others.” For example, if someone gives a speech to some audience describing some invention, this speech alone does not mean that the invention was known or used by others under current law. The reason is that this speech is not use of anything. However a speech may certainly make an invention available to the public, at least until the memories of those who heard the speech fail. If the courts understand that Congress has instructed them to prevent someone from obtaining a patent if some earlier activity made an invention available to the public in any manner whatsoever, the nature of activities that prevent a patent may have been vastly broadened and it will take a very long time for the limits of that broadened scope of activities to become well defined and understood.

The American Invents Acts reflect a choice by Congress between using activities by which an invention is known or used by others and activities by which an invention is placed in

public use or on sale as the fundamental criteria for determining the novelty and nonobviousness of some invention. A choice is unnecessary. The America Invents Acts pick activities that place an invention in public use or on sale as the fundamental criteria for determining the novelty and nonobviousness of an invention. This is the wrong standard for those purposes. The use of the in public use and on sale standard to determine the novelty and nonobviousness of an invention will likely cause confusion for decades.

New Section 102 Broadens Activities That Prevent A Patent From Those Taking Place In The United States To Those That Take Place Anywhere In The World. Under current section 102(a), an invention was known or used by others only if the activities occurred in the United States. Even if an invention was previously known or used by others outside the United States, a person who later and independently makes that invention may obtain a United States patent. The reason for that rule is that the law implicitly deemed activities taking place outside the United States to be too expensive for people who might want to use some invention in the United States to learn about. Accordingly, patent law preserved the incentives for someone independently to make that invention.

Similarly, under current section 102(b), an invention is in public use or on sale only if those activities occurred in United States. The reason for that rule is that a United States patent grants rights governing commercial activities in United States and therefore only the commercial sale or use of some invention in United States has the potential for allowing the someone to capture the United States commercial value for significantly longer than the term of one patent.

Under new section 102(a)(1), activities taking place anywhere in the world prevent a patent if those activities placed an invention in public use or on sale or made the invention “otherwise available to the public.” The bills are not clear whether it is the United States public that matters for this purpose. Under this change, inventors, patent owners, and users of inventions presumably must attempt to learn about activities taking place anywhere in the world in order to determine whether some invention is patentable in United States. If someone in Beijing, Moscow, Tokyo, Hong Kong, New Delhi, Johannesburg, or any remote corner of the world offered to sell some product to someone before a patent application is filed, a United States patent may no longer issue. If the patent does issue, its validity will depend upon whether a search throughout the world for activities of that kind turns something up. The uncertainty about the patentability of some invention and the validity of some patent will be enormous. The costs of people in the United States learning about when any product or process was on sale or used anywhere in the world at any time and learning about whether the someone anywhere in the world did something that made some invention “otherwise available to the public” will be enormous. I expect that the uncertainty and cost of operating under this change to be much greater than the uncertainty and costs that result from patent interference proceedings.

New Section 102(a) Changes The Dates For Deciding Whether Some Activities Prevent A Patent. Under current law, an inventor may obtain a patent if he or she makes an invention before that invention was known or used by others in the United States. Under current law, an inventor who made an invention before those events occurred may lose the right to a patent for that invention if that inventor or anyone else places the invention in public use or on sale in the United States more than one year before the inventor files an application. As mentioned, these are portions of sections 102(a) and 102(b) of the current act. The America Invents Act eliminates those sections. Under new section 102(a), an inventor may obtain a patent only if it files a patent

application before the invention is patented, described in a printed publication, placed in public use or on sale or otherwise made available to the public by that inventor or anyone else.

New section 102(b) adds that a “disclosure” made one year or less before the filing date is not prior art in two situations.

One is if the “disclosure” was made by the inventor or by someone who obtained the “subject matter” directly or indirectly from the inventor. It is unclear whether this exception applies to all the events that constitute prior art or only on the events that disclose some invention, presumably to the public. The exemption would seem to apply when the prior art event is that it was patented, described in a printed publication or otherwise made available to the public. As I discussed, an invention may be in public use or on sale without disclosing some invention to the public. It is unclear whether under new section 102(b), activities that did not disclose the invention would qualify for the exemption.

Assume that when the exemption applies to all types of events whether or not they involve “disclosure”. The first exemption operates to permit an inventor to obtain a patent even if that invention was patented, described in a publication, in public use or on sale, or otherwise made it available to the public within one year of filing. The exemption also been operates to permit an inventor to obtain a patent if someone to “obtained the subject matter disclosed” directly or indirectly from the inventor seeking a patent.

The first part of that exception does not change the law. Under existing section 102(a), a publication or use of an invention by an inventor before filing an application does not prevent a patent because the publication or use is not by others. The underlying assumption is that the inventor seeking a patent must have made the invention before it published it or used it and the purpose of section 102(a) is not offended. Under existing section 102(b), a publication or use of an invention by an inventor seeking a patent does not prevent a patent if it takes place within one year before the inventor files an application. The purpose is to allow an inventor to commercially exploit an invention for one year to determine whether the costs of patenting are justified.

The second part of that exception may change the law. Deciding the extent of the change requires understanding what the exemption means and its meaning far from clear. The exemption applies to activities of people other than the inventor if they obtained the “subject matter” disclosed from the inventor. This could mean two entirely different things. It could mean that the person who published an article or offered to sell or sold some product embodying the invention learned to the invention from the inventor. Inventor told that person about the invention or gave them a document describing it. The exception might also mean that the exemption applies if a person used a product obtained from the inventor to place the product in public use or on sale. For example, the exception may apply if the inventor sold a product embodying the invention to someone else and that person used or resold the product. The language of the exception would seem to suggest that it has only the first meaning. However it is far from clear.

Whatever the first exception means, it changes the law in a fundamental way. Under current law, the public use or placing on sale of an invention by someone other than an inventor seeking a patent does not prevent the patent unless those activities take place more than one year

before an application is filed. Under the first exception, the public use or placing on sale of an invention by someone other than the person seeking a patent even one day before an application is filed prevents an inventor from obtaining a patent. This means that if someone conducts a lengthy and expensive research project to identify some invention that appears at the time of the project to be unknown to anyone and is in fact not available in existing patents, publications or products, that person may lose the right to a patent if someone else uses the invention or offers to sell, contracts to sell or sells a product embodying the invention one day before that inventor's attorneys file a patent application. The time required to prepare and file an application places patent rights at risk no matter how diligent or efficient the inventor and its attorneys are in preparing and filing that piece of paper.

An inventor no longer has the assurance that if it makes an invention that is entirely new at the time it was made and files an application within one year of that date, it will obtain a patent. Under the first exception, the inventor's rights would not be jeopardized by activities of people who learned the invention from the person seeking a patent. However, as to everyone else, their activities placed the availability of a patent in jeopardy.

The bills contain a second exception, one that is entirely unknown to the current law. The second exemption applies if "the subject matter disclosed had, before the disclosure, been publicly disclosed by the inventor or a joint inventor or another one who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor." I have difficulty understanding what those words mean. As with the first exception, it is unclear whether the second exception applies to all the events or only the those events that involved in disclosure of the invention to the public. The other words, does the exemption apply to patents and publications or apply to activities involving placing an invention in public use or on sale, even in secret?

Assume the second exception also applies to all patents, publication and other activities. If that is the meaning, the exception seems to say that if an inventor seeking a patent in some manner "publicly disclosed" the invention before that invention is patented, described in a publication, or placed in public use or on sale by someone else, the invention remains patentable to that inventor. Under this exception, an inventor who wishes to obtain a patent without running the risk that someone else may publish it, use it or sell at before an application is filed may protect its right to a patent by immediately publishing a description of the invention. In other words, patent rights now for the first time in history depend upon whether some inventor seeking a patent publishes an invention before someone else publishes the invention, patents it or uses it.

Under current law, an inventor may decide whether and when it is in its interest to publish a description of some invention, because the rights depend on that date the inventing activities occurred. Since we have no experience with operating a patent system in this way, the effects are difficult to predict. However one effect is certainly that the broad activity of inventing is less valuable to inventors, because the availability of rights now depends to some extent on the date on which they make the invention available to the competing enterprises.

New Section 102 Changes The Circumstances Under Which Some Activities By Others Prevent A Patent. Under current law, the activities of others (whether by publishing, patenting, selling or using some invention) are prior art or give rise to loss of rights whether those people developed the invention independently, learned it from someone else, or even learned it from an

inventor seeking a patent. It is unnecessary to know how some other person learned an invention before they patented it, published it or used it in order to determine the effect of those activities on the availability of a patent. For example, since the early 1800s, it has been clear that if an inventor tells someone else about an invention, and that person then publicly uses the invention or sells products embodying the invention, the invention has been placed in public use or on sale. Under the new law, this result is changed. The inventor may still obtain a patent. Under the new law, the legal significance of patents, publications, and public use or on sale activities of third parties depend on whether they learned the invention from the inventor seeking a patent.

Section 102(c) Is Eliminated. Under existing section 102(c), an inventor may not obtain a patent if it made some invention and then abandoned it, meaning generally that the inventor made a conscious decision not to use the invention, describe it in a publication, or patent it. If an inventor made some invention and essentially threw that invention in the wastebasket, that person's entitlement to a patent ended and may not be resurrected. These bills eliminate section 102(c) and presumably eliminate that rule from the law.

Under current law, if an inventor makes some invention that appears to be new and nonobviousness at the time it makes its investment, its entitlement to a patent are not placed in jeopardy by people who may have previously made the same invention but discarded it. Suppose some inventor devises a new product capable of doing something valuable that existing products can not do (like get better gas mileage). Someone else gets wind of the fact that some improvement has been achieved (though without learning how the other person achieved it), and recalls that he or she previously made an invention with the same goal in mind. This other person digs out its discarded idea and rushes to the patent office with a patent application. Under current law, the law protects the investments of the person who made the invention the other person had abandoned. The law does that by eliminating the abandoning inventor's entitlement to a patent. With this law eliminated, the second inventor is in constant jeopardy. If you makes some invention, your ability to make and sell products using that invention are now placed at risk that word leaks out that you may have done something new, prompting someone else who now recalls that they may have done something in the same area earlier to file a patent application and obtain the rights to that invention.

My assumption is that the proponents of these bills eliminate section 102(c) because the abandonment of an invention also plays a role under current section 102(g). The proponents may believe that with section 102(g) gone, section 102(c) has not role to play. This is wrong. Section 102(c) has a perfectly sensible role to play.

Section 102(d) Is Eliminated. Section 102(d) prohibits a patent if an inventor seeking a United States patent first patented the invention in a foreign country before filing an application in the United States and the foreign application was filed more than one year before the United States application. The presumed purpose is to make sure that patent rights on some invention in the United States are not in place long after patent rights in other countries have ended. This section is presumably eliminated on the assumption that in those circumstances a United States could not exist, because the invention was patented before a United States application was filed. However, under new section 102(b), a foreign patent, if considered a "disclosure," by an inventor will not prevent a United States patent, if the foreign patent issued within one year before filing of a United States application. The reason for eliminating section 102(d) is unclear.

Section 102(e). In general, these bills appear to preserve the law as it exists under current section 102(e). A variation of section 102(e) appears as section 102(a)(2). The most notable difference is an application may give rise to prior art if it is “deemed” published. If this means that an application that never sees the light of day becomes prior art, a remarkably harmful rule has been created. I will not discuss section 102(e) and new section 102(a)(2). My preference would be to eliminate section 102(e) as a basis for determining novelty and, more importantly, for determining nonobviousness. A person undertaking R&D should be able to determine whether, if made, a patent would be available for some invention based on patents, publications and activities that he or she may find and study. A person has no access to pending patent applications. Congress presumably wishes to retain this rule for determining novelty, because the public will have access and free use of an invention described and not claimed in the application when a patent issues or is published. However, Congress should seriously consider changing the rule to prevent use of such applications for determining nonobviousness. The ease or difficulty an ordinary person would encounter in making some invention at some time should not be judged by considering information that person could not possibly know.

Section 102(f) Is Eliminated. The current bills also eliminate section 102(f) which says that person is entitled to a patent unless that person “did not himself invent the subject matter sought to be patented.” Section 102(f) embodies the fundamental principle that people are entitled to patents only if they independently engage in the inventing activity the law seeks to encourage. In other words, the law rewards people who independently conduct research and development activities. Patents are not available to people who learn inventions from others who previously engaged in the desired activities. The reason is obvious. The law wishes to increase the value of research and development to encourage people to undertake it. The law does not wish to create incentives for people to simply learn information from others and describe it in a patent application. The bills eliminate that section. Whatever the reason, the elimination of section 102(f) may create confusion about whether Congress has altered this fundamental principle and decided that it is permissible to award a patent to someone who learned an invention from someone else.

In addition, the courts in the late 1990s looked to section 102(f) to conclude that information an inventor learned from other people is essentially deemed part of the prior art for purposes of determining whether the invention was nonobviousness at the time it was made. If Congress eliminates section 102(f), it is unclear whether that rule has changed.

Section 102(g) Is Eliminated. The current bills also eliminate section 102(g). The reason again is presumably that by changing to the so-called first-to-file system, patent rights are allocated between two inventors seeking a patent on the same invention based on their application filing dates, not their invention dates. To achieve that purpose, Congress must repeal the section 102(g)(1) that requires use of invention dates to determine who obtains a patent in an interference or in an action under section 291 to determine who is entitled to a patent if two patents issue on the same invention to two different inventors. Congress would presumably replace section 102(g)(1) with a section saying that when two inventors seek a patent on the same invention, the rights will go to the one who files first. Instead, Congress replaces section 102(g)(1) with nothing. Presumably the reason is that new section 102(a)(2), the counterpart of existing section 102(e), will operate prevent a patent to the second to file.

However, section 102(g) does much more. Current section 102(g)(2) prevents a patent to a second inventor, if someone else made the invention earlier and did not the abandoned it or suppressed and conceal it. In other words, section 102(g)(2) eliminates patent rights in situations where only one inventor is attempting to obtain a patent. Eliminating section 102(g)(2) implies that Congress wishes to eliminate this limitation on the availability of a patent.

This means that if someone is the first to make an invention and is making efforts to commercially exploit the invention, while not seeking a patent, someone who makes an invention later may obtain a patent on that invention, if the second inventor files a patent application before the first inventor's commercial aspirations come to fruition. The first inventor may become a patent infringer. This is a fundamental change in United States law. Under current law, the first inventor's ability to use the invention is protected. I have discussed in the book the merits of operating a patent system in that way. Under the bills, the first inventor may try to protect its ability to use its invention by filing a patent application. However, this will work only if it files before the second inventor. Lawyering will determine who obtains the patent.

If some inventor is able and willing to make some invention and to put the invention to commercial use without trying to obtain a patent, the public will obtain the benefit of the invention at prices unaffected by patent rights. It is difficult to explain what is gained by giving a second inventor a patent. However, rather than address this problem by retaining existing law, many attempt to solve it by allowing the second inventor to have a patent and create an immunity from infringement liability for the first inventor, typically referred to vaguely as "prior user rights."

Prior User Rights. The Senate bill calls for a study of "prior user rights" and a report to Congress. The House bill contains one possible type of "prior user rights" by broadening existing section 273 so that it applies to all inventions. Section 273 is entitled "Defense to infringement based on earlier inventor." The title suggests that the section provides a defense for an inventor who made an invention before someone else and, for whatever reason, the second inventor obtains a patent. However, the section does nothing of the sort. Rather, it provides this immunity from infringement to a person who might be the first, second or third inventor. As amended by the House bill, section 273 would provide immunity from infringement liability for any person who in "good faith" (1) actually reduced the invention to practice more than one year before a patent's effective filing date, and (2) used the invention in the United States in connection with an "internal commercial use" or an actual arms-length sale or other commercial transfer of a "useful end result" before the effective filing date, provided that this person did not derive the invention from the patentee and did not abandon use of the invention. As amended, the section 273 immunity would not apply to inventions made with federal government money. People who risk their own money inventing are not so privileged.

The Senate study and the House amendments are odd in one respect. Under section 102(a)(1) of the Senate and the House bills, if anyone places an invention "in the public use or on sale" at any time before someone else files a patent application, the patent application may not properly issue as a patent. In other words, people are protected who use an invention prior to someone else filing a patent application. The one exception under the bills is a use that takes place within one year of filing and after the person seeking a patent disclosed the invention to the public in some fashion. The law today also provides an exception for prior secret commercial

use of a process that has been declared not a public use. In all other situations, prior commercial users are protected. The section 273 immunity will never matter.

The Senate study and the House immunity are unusual in another respect. The main purpose of the bills is to eliminate the cost and uncertainty from using invention dates to determine who receives a patent. For that reason, the Senate and the House seem determined to change the law so that the availability of a patent depends on filing dates. At the same time the House expands the immunity provision so that invention dates matter and the Senate asks for a study. The net effect of these bills may be that a person seeking a patent may not have the benefit of its invention dates for purposes of receiving a patent, while a person wishing to use some invention freely may rely on its invention date to obtain immunity. The search for certainty and low cost in assigning patent rights may lead to a change the nature of the rights and a potentially large reduction in their value.

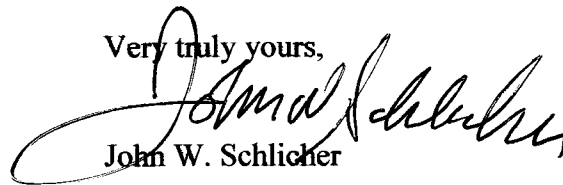
In general, prior user rights of any type have the potential to undermine the basic purpose of patent law. If one person in the United States has immunity from infringement of a patent, the value of a patent to another person is reduced, and may be reduced to zero. If the patent owner must compete in a market with one immunized company, this competition may reduced the price that the patent owner receives for its sales to something close to actual production costs, leaving no additional revenue to compensate the inventor for its R&D costs. If more than one company obtains immunity, this devaluing of a patent becomes even more likely and more severe. With prior user rights, an inventor may no longer assume that if it obtains a patent it will have valuable rights.

An Alternative to Prior User Rights – Joint Ownership. I am not sure whether the United States patent system will operate better if we retain the existing law that prevents a patent if someone makes an invention before someone else and does not abandoned it or allow a patent in the situation and try to devise some sort of immunity for some people. There is an alternative solution to the dilemma caused by the granting the patent to the first person to file an application rather than the first person to make an invention. It is to grant a patent jointly to all inventors who file patent applications for some invention within some limited period of time, such as one year. A variation would be to grant the patent jointly to the first to file and to anyone who filed later and who shows that it made the invention and was making investments to commercially exploit it before the first application was filed. There are other alternatives. The basic concept is to make all inventors who did what the law seeks encourage joint owners of the patent. This rule would preserve incentives to make inventions because patent rights remain exclusive. The law would provide that no joint owner could use or license the invention without authority of the others. This rule would leave to the people who made the invention to decide how the value of that invention will be divided among them. This approach may be preferable to one in which patent rights are not granted to anyone if someone else made the invention previously and did not abandoned or suppressed or suppress it and also preferable to one in which the law grants a patent to the first person to file an application and either makes all other earlier independent inventors patent infringers or gives earlier independent inventors prior user rights.

Conclusion. If you find any of the ideas in this letter useful, it would not be difficult to change the House bill to reflect these views.

One important characteristic of sound legal policy is that the law remains constant over a long period of time. Another is that the law has low public and private implementing costs. A third is that the law should allow people to understand with some certainty the way the law treats them if they behave in certain ways and should not make errors at a high rate. For the first reason, my preference is to change patent law only when the benefits to the public are clear and large. I do not perceived either large or clear benefits from the changes in the law discussed in this letter. For the second and third reasons, where patent law may be changed in ways that reduce administrative and legal costs, uncertainty and errors without diminishing incentives to make inventions, it should be. It is far from clear to me that these bills will provide reduced costs, greater certainty, and fewer errors with the same or better incentives to invent. Indeed, they may prove to have the opposite effects.

Very truly yours,

A handwritten signature in dark ink, appearing to read "John W. Schlicher", written over the typed name.

John W. Schlicher