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Portfolio Media, Inc. | 860 Broadway, 6th Floor | New York, NY 10003 | [www.law360.com](http://www.law360.com)  
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | [customerservice@law360.com](mailto:customerservice@law360.com)

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## The Prior Use Defense Under AIA

Law360, New York (November 09, 2011, 12:06 PM ET) -- Imagine your company is sued for patent infringement and you learn that the accused technology has been in use by your company for years prior to the filing of the patent application. Until recently, prior use of the patented technology was not an independent defense to patent infringement and your company could be held liable.

The America Invents Act has changed that situation by creating a broad prior use defense. This defense will give companies a powerful tool to combat patent infringement claims, provided that they keep good records of their prior use.

Like the situation above, prior to 1999, a company could be found to infringe a patent even if it had been using technology long before a patent application was filed by another person. In 1999, Congress created a limited prior use defense in response to the Federal Circuit's decision in *State Street Bank*, which held business methods patentable. Congress added Section 273 — entitled "Defense to Infringement Based on Earlier Invention" — to the patent statute. It provided a prior use defense for companies accused of infringing a patent claim on "a method of doing or conducting business." In the past 12 years, few companies have availed themselves of the Section 273 defense.

The America Invents Act reformed U.S. patent law by, among other things, expanding the prior use defense beyond business methods. The act replaces Section 273 with a new section entitled "Defense to Infringement Based on Prior Commercial Use." Leahy-Smith America Invents Act, Pub. L. No. 112-29, §5.

Now the prior use defense extends well beyond business method patents to include any "subject matter consisting of a process, or consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process." As of Sept. 16, 2011, the prior use defense applies to any technology patented after this date.

A prior use defense to patent infringement, like an invalidity defense, must be proved by clear and convincing evidence. To qualify for the defense, the prior use must be good faith commercial use in the United States. The commercial use must be "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 of such commercial use." In addition, commercial use must occur at least one year before the earlier of "(A) the effective filing date of the claimed invention; or (B) the date on which the claimed invention was disclosed to the public."

While the prior use defense is a powerful tool, it is carefully tailored. It is a personal defense to infringement, which cannot be licensed or assigned to another except as part of a good faith transfer of an entire business or line of business. Thus, if the defense proves successful, the patent is not held invalid. A successful prior use defense avoids infringement of only the specific subject matter of the commercial use; it does not provide a general license to all claims of the patent. The defense does extend, however, to improvements that do not otherwise infringe claimed subject matter.

A special exemption is provided for universities — the prior use defense cannot be used against universities or technology transfer organizations that facilitate the commercialization of technologies developed by universities. This exception for universities, however, does not apply “if any of the activities required to reduce to practice the subject matter of the claimed invention could not have been undertaken using funds provided by the Federal Government.”

One issue likely to be contested in litigation is the meaning of “commercial use” because the phrase is not specifically defined. The statutory language and legislative history evince a broad interpretation of commercial use and when it begins. For example, Section 273(c) — entitled “Additional Commercial Uses” — sets forth two qualifying commercial uses: (1) use or marketing during a premarketing regulatory review period, and (2) nonprofit laboratory use by universities, hospitals and other nonprofit entities.

Moreover, the legislative history suggests that “commercial use” may begin early in the use or development of the technology. Sen. Patrick Leahy, D-Vt., one of the co-sponsors of the patent reform bill, explained that the prior use defense vests when “innovative technology is first put into continuous internal use in the business of an innovator’s enterprise with the objective of making a commercializable product.” Senate Congressional Record, Sept. 8, 2011, at S5427.

Commercial use also includes “internally used methods and materials” “when there is evidence of a commitment to put the innovation into use followed by a series of diligent events demonstrating that the innovation has been put into continuous — into a business activity with a purpose of developing new products for the benefit of mankind.” *Id.*

Importantly, as the legislative history implicitly suggests, a prior use defense is only as good as the evidence that supports it. Long before the defense is raised, companies must take steps to preserve the factual basis for the defense. For example, a company that wants to preserve a prior use defense should keep detailed records relating to its efforts to reduce to practice its technology and the diligent steps it took to maintain continuous commercial use of the technology.

Startups and other companies that rely on their own internal, unpatented technology are well advised to document their development and implementation of the technology to ensure the earliest possible date for prior use. Companies that take the time to document their prior commercial use will be in the best position to take advantage of the broader prior use defense offered by the America Invents Act.

--By Craig R. Smith, Lando & Anastasi LLP

*Craig Smith is a partner in the Cambridge, Mass., office of Lando & Anastasi. He advises high-tech companies on how to protect and defend their intellectual property, and represents them in complex intellectual property litigation.*

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