PATENT AND TRADEMARK LAW

Defending Prior Software Use With 35 U.S.C. Section 273

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Patent infringement cases involving software products can raise a number of unique challenges. One such challenge arises in connection with 35 U.S.C. Section 273, which provides a defense to patent infringement based on prior commercial use of a product or system. Evidence of prior commercial use of a device can be fairly straightforward; but evidence of prior commercial use of software can raise different and complex challenges in connection with source code, version control, and related issues. In an increasingly software-based world, companies should be mindful of these challenges, and best position themselves to raise—as needed—this Section 273 defense.

History and Purpose of 35 U.S.C. Section 273's Prior Use Defense

In the wake of the Federal Circuit's *State Street Bank* decision, which opened the floodgates for patenting methods of doing or conducting business, Congress passed the First Inventor Defense Act of 1999. See *State Street Bank & Trust v. Signature Financial Group,* 149 F. 3d 1368 (Fed. Cir. 1998); First Inventor Defense Act of 1999, 113 Stat. 1501A–555 (codified at 35 U. S. C. Section 273). The act was intended to "provide a limited defense to claims of patent infringement, see Section 273(b), for 'methods of doing or conducting business'" which were already in use but, prior to State Street Bank, had not been viewed as patentable subject matter. See *Bilski v. Kappos*, 561 U.S. 593, 613–14 (2010) (Stevens, J., concurring).

In 2012, the enactment of the America Invents Act (AIA), which represented the largest overhaul to the U.S. patent laws in decades, brought about a further expansion of these prior user rights. The AIA shifted the U.S. patent system from a first-to-invent patent system, as had historically been in place in the U.S., to a first-to-file patent system that better harmonized with patent systems abroad. Given that shift, the expansion of prior user rights was considered to be particularly important. Patent Law Reform: Injunctions and Damages: Hearing Before the S. Comm. on the Judiciary, 109th Cong. 159 (2005) (Statement of Mark A. Lemley). The expansion was

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intended to protect true first inventors' "right to continue using technology they invented" regardless of whether they had patented or used their invention publicly.

While there was initially some uncertainty about the potential consequences of expanding prior user rights, particularly in regard to small-entity-inventors, see Margo A. Bagley, "The Need for Speed (and Grace): Issues in a First-Inventor-to-File World," 23 Berkeley Tech. L.J. 1035, 1048, 1049 (2008), a report to Congress prepared by the U.S. Patent and Trademark Office found "there is no substantial evidence that the prior user right defense established by the AIA will have a negative impact on small businesses or independent inventors." David J. Kappos & Teresa Stanek Rea, U.S. Patent and Trademark Office, Report

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on the Prior User Rights Defense, 41, (2012). One reason identified for this was that "these rights are rarely litigated in Europe, [or] in other countries where available around the world." Additionally, the defense can be particularly important for smaller enterprises that may be less likely to turn to patenting of software inventions, because "forgoing patent protection in favor of a trade secret" can be a more efficient way to "allocate scarce resources to growth of other parts of the enterprise." Thus, availability of these prior user rights can be even more important in those circumstances.

Current Requirements of 35 U.S.C. Section 273

The current iteration of 35 U.S.C. Section 273, as enacted by the AIA, expands a prior commercial user's defense against infringement to all types of patents. The statute requires that, in order to be raised, the prior use must be a commercial use and occur at least 1 year before the earliest priority date

of the claimed invention of the patent at issue. The statute does have some limitations; Section 273(e) limits transfer of the defense "to another person except as an ancillary and subordinate part of a good-faith assignment or transfer for other reasons of the entire enterprise or line of business to which the defense relates," and, once transferred, the defense "may only be asserted for uses at sites where" use had already been established "before the later of the effective filing date of the claimed invention or the date of the assignment or transfer." Additionally, the defense applies "only to the specific subject matter for which it has been established and variations in quantity or volume of use, or improvements that do not infringe additional specifically claimed subject matter," and once commercial use is abandoned, activity prior to the abandonment may no longer be relied upon to reestablish the defense for any future use.

Applying 35 U.S.C. Section 273 to Software

These various limitations and restrictions on Section 273 raise a number of issues particularly in connection with patent infringement claims related to software inventions. When looking to apply Section 273 to software, it is important to be mindful of these timing and use requirements, and limitations on transfer, sites of use, subject matter, and potential for abandonment.

Additionally, the required proof of prior use, which can come in at least two different forms, raise unique challenges in the software context. The more direct, but more difficult form of proof, is source code. The less onerous options, but also less certain to meet the clear and convincing evidence burden of proof required under the statute, are secondary indicators of method of function, such as user manuals or guides. Either form can be effective as proof for establishing commercial use one year before the priority date of the asserted patent claims, however, they present different retention challenges. It may be easier to store an electronic version of, for example, a user guide, than to maintain a complete

copy of the original source codebase for the requisite period of time. These considerations will vary greatly based on the facts and the practical realities of each company's operations, and ultimately a more comprehensive retention policy for all software-related materials will strengthen a company's ability to rely on this defense in subsequent litigation.

The particular software at issue may also dictate the strength of these two avenues proof—and may raise the most challenging aspect of raising the defense. Because user interfaces are likely to remain fairly consistent, and because Section 273(e) allows for some minor improvements while still preserving the defense, higher level documents such as user guides can be strong evidence of consistent and continuing use of the prior used subject matter in this context. In contrast, if forced to rely on source code as proof, it is possible that established prior use could appear to be abandoned based on the extent of changes made between source code versions. Additionally, depending upon the extent of version control, it may be even more difficult to fit software revisions within Section 273(e)(3)'s exception for "variations in quantity or volume of use, or improvements that do not infringe additional specifically claimed subject matter." Thus, as a practical point, changes to relevant source code should be well documented and tracked to avoid unintentionally abandoning the specific covered prior use.

Software can also raise issues with respect to limitations on transfer and sites of use. For example, Section 273(e)(1)(B) limits transfer of rights under a prior use defense to transactions where it is "an ancillary and subordinate part" of the agreement. Unlike traditional equipment and sites of manufacture, there is no theoretical limit to the number of copies of software that may be made. The only limit on reproduction and further distribution by users is typically contained in license agreements. These activities can raise added complexity in connection with Section 273(e)(1) limitations. See Greg R. Vetter, "Are Prior User Rights Good for Software," 23 Tex. Intell. Prop. L.J. 251 (2015). Therefore agreements must be carefully drafted to ensure they only cover rights to use the software and cannot be construed as an attempt to transfer the defense.

Mergers and acquisitions can also complicate availability of a prior use defense. In particular, Secton 273(e)(1)(C)'s restriction on sites of use limits a prior use defense to "only be asserted for uses at sites" where it was in use before "the date of the assignment or transfer of such enterprise or line of business." Thus a business cannot acquire another entity and avail itself of the entity's prior use defense on a broader scale. After acquisition, the defense will only apply to the business of the acquired entity, and likely would not extend to the broader acquiring business. These are issues that transactional lawyers should consider carefully in connection with due diligence in M&A transactions, particularly in connection with those involving software-heavy businesses.

Conclusion

The prior commercial use defense of Section 273 is still fairly new, infrequently raised, and has not yet been heavily tested in litigation. Patent infringement cases related to software raise some particularly unique and complex issues. Given the widespread reliance on trade secrets to protect source code, those organizations that plan well and maintain the necessary evidence of their software development and use may find a safety net in the prior commercial use defense.

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