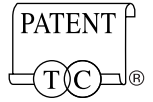


# INSIGHT<sup>®</sup>



INTELLECTUAL PROPERTY LAW AND PRACTICE

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*This newsletter is provided with our compliments. Its purpose is to inform our readers of developments within the firm and in the legal field of intellectual property law. We invite your comments, questions, and opinions.*

## A New Defense for the First to Invent

by Joshua Cohen



**Imagine your frustration . . .**

*Your rival just unveiled a patent that covers your proprietary business method, which you currently rely on to control your company's inventory. You had invented and adopted the method long ago—years before your rival even filed its patent application. You had even taken extensive measures to protect your method as a trade secret. But your rival independently developed the same method and now holds the patent.*

*To add to your frustration, you had invented your business method at a time when business methods were thought by many to be excluded from patent protection. But your rival's patent application was examined after the now famous State*

*Street case (47 USPQ2d 1596 (Fed. Cir. 1998)), which denied the existence of a business method exception to patent protection.*

**A Catalyst for Reform**

This scenario posed a serious dilemma. If an inventor (the "first inventor") chose to conceal a business method to maintain trade secret protection (perhaps based on a belief that patent protection was unavailable), such concealment could disqualify that business method as prior art to a second inventor's patent. The first inventor may therefore be left vulnerable to an infringement suit without a prior art defense. Alternatively, the first inventor could have disclosed the business method to the public so that it would be prior art to a later patent, but such disclosure would have dedicated the invention to the public.

Acknowledging this dilemma, and spurred to action by *State Street*, Congress sought to balance the interests of U.S. inventors of business methods with the interests of those who later invented and patented those methods. Congress also sought to clarify the interface between two competing branches of intellectual property law: patent law (which encourages innovation by providing a right to exclude others from an invention in return for public disclosure of the invention) and trade secret law (which encourages

innovation by protecting investments in new technology).

**The Defense**

After prolonged legislative proceedings, Congress created a "first inventor defense" in the American Inventors Protection Act of 1999 (the AIPA). The first inventor defense took effect on November 29, 1999, but it does not apply to infringement actions pending on that date or to adjudications made before that date.

The first inventor defense can be asserted by inventors accused of practicing a patented *method*. The defense is available if the accused infringer had, acting in good faith, actually reduced the invention to practice (i.e.,

demonstrated it to work for its intended purpose) at least one year before the earliest filing date of the patent. The accused infringer must also have *commercially used* the invention before the patent's earliest filing date.

The first inventor defense can be asserted to shield a first inventor from infringement liability or an injunction. The first inventor defense can also be asserted to limit, or "exhaust," a patent owner's rights. Generally, patent rights are exhausted with respect to a product upon the authorized sale of that product. When a person entitled to

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## A New Defense for the First to Invent

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assert the first inventor defense has sold a product produced by a patented method, the patent owner's rights under the patent are exhausted, with respect to that product, to the same extent as if the patent owner had made the sale instead.

The AIPA defines several key terms. The term “*method*” is limited to a method of doing or conducting business. Though earlier bills had proposed a broader defense

for all types of trade secrets, the first inventor defense created by the AIPA is more narrowly directed to business method inventions such as the pooled mutual fund investment scheme at issue in *State Street*. Nevertheless, the Congressional proceedings leading up to the AIPA indicate that “*method*” may be construed to encompass a wide range of inventions including, for example, internal human resources management processes and preliminary or intermediate manufacturing procedures. Ultimately, the issue of whether an invention is a “*method*” within the scope of the defense should turn on the underlying nature of the invention as opposed to the technical form of the patent claims. For example, a method for doing business claimed in a patent as a programmed machine may be considered a method if it could have been claimed as a method.

The terms “*commercially used*” and “*commercial use*” are limited by the AIPA to the use of a method in the United States. The use must be made in connection with an internal commercial use, an arm's-length sale, or other arm's-length transfer of a useful end result. The invention is also deemed to be “*commercially used*” during a regulatory review period while the safety or efficacy of the invention is being established. As for activities performed by a nonprofit research laboratory or a nonprofit entity (e.g., a university,

research center, or hospital), a use for which the public is the intended beneficiary is considered a “commercial use”.

### Limitations

The first inventor defense is subject to several significant limitations and qualifications:

- The invention on which the defense is based cannot have been derived from the patentee.
- The defense extends only to those patent claims for which the person can assert the defense—not to all claims of the patent at issue.
- The commercial use of an invention on behalf of a nonprofit research laboratory or entity may be asserted as a defense only for continued use by and in that laboratory or entity.
- A person who has abandoned commercial use of the invention at issue may not rely on activities performed before such abandonment to establish a defense with respect to actions taken after abandonment.

### Caveats

The first inventor defense must be established by clear and convincing evidence, and the penalty for unsuccessful assertion of the defense can be costly. A court is required by the AIPA to find a case exceptional for the purpose of awarding attorney fees if the person asserting the defense is found to infringe the asserted patent and fails to demonstrate a reasonable basis for asserting the defense.

Significantly, the AIPA also provides that a patent is not deemed to be invalid solely because the first inventor defense is raised or established. The patent can therefore be asserted against other infringers.

### Transferring the Defense

The first inventor defense can only be asserted by the person who performed the acts necessary to establish the defense. The right to assert the defense cannot generally

be licensed, assigned, or transferred to another person.

The defense can, however, be transferred to the patent owner. Also, the right to assert the defense can be transferred to another if it is part of a transfer of the entire enterprise or line of business to which the defense relates. When acquired as a part of such a transfer, however, the defense can only be asserted for uses at sites where the invention was in use before the patent's filing date or the transfer date, whichever occurs later.

### Looking Ahead

Until the first inventor defense is litigated, the exact scope of the defense remains in question, and the precise meanings of the terms “*method*” and “*commercial use*” are yet to be established. Nevertheless, the defense should be considered as a factor when deciding whether to pursue patent protection for a business method or to maintain that business method as a trade secret.

If trade secret protection is pursued, several steps can be taken to preserve the first inventor defense in the event that a second inventor obtains and asserts a patent. For example, it would be prudent to document and retain the following evidence:

- dates and details of actual reduction to practice (to establish that the invention was reduced to practice at least one year before an asserted patent's filing date);
- dates and details of “commercial use” in the United States (to establish that the invention was commercially used before the patent's filing date);
- documentation of independent invention (to rebut an assertion that the invention was derived from the patentee); and
- documentation of continued use (to rebut an assertion that commercial use of the invention was abandoned).

**The newly created first inventor defense can be asserted by inventors accused of practicing a patented method if the accused infringer had:**

- **actually reduced the invention to practice at least one year before the patent's earliest filing date; and**
- **commercially used the invention before the patent's earliest filing date.**

**Though earlier bills had proposed a broader defense for all types of trade secrets, the first inventor defense created by the AIPA is more narrowly directed to business method inventions such as the pooled mutual fund investment scheme at issue in *State Street*.**



On November 10, 2000, the Philadelphia Intellectual Property Law Association (PIPLA) held its annual dinner in honor of the Judges of the Federal Judiciary in Philadelphia, Pennsylvania. Here Ratner & Prestia's Christopher I. Halliday, Jonathan H. Spadt and Allan Ratner are seen with their wives enjoying the festivities. Ratner & Prestia's Kenneth N. Nigon, President of PIPLA, hosted the dinner and introduced the guests of honor and the speaker.

## Announcing

- We are pleased to announce that W. Mark Mullineaux has joined Ratner & Prestia as a shareholder on January 2, 2001 and will be resident in the Valley Forge office. "We are very excited about Mark coming on board with us. Mark is an excellent lawyer with a proven track record. His wealth of experience and knowledge will enhance the depth of our services to our clients," said Paul Prestia. Mark, who has a history of obtaining multi-million dollar verdicts in favor of his clients, will concentrate his practice in intellectual property litigation.



In addition to Mullineaux, other new additions to the firm include associate attorneys, Jasper Caro and Stanley Protigal, and Thomas M. Sossong, Ph.D., a Scientific Advisor in biotechnology. All will be resident in the Valley Forge office.

- On January 5, 2001, Chris Lewis and Jonathan Spadt hosted two first-year law students from Villanova University School of Law as part of Villanova's "A Day in the Law" program. The program, which provides a glimpse to first-year law students of what life is like in a law firm or corporation, got off to a great start in its inaugural year, when more than 75 law students were matched with Villanova law alumni. Chris and

## Reprints Available

- Allan Ratner's and Louis W. Beardell, Jr.'s article entitled, "Consider Pre-emptive Patent Clearance for Your E-Commerce Clients' Business Methods" was published in the *Intellectual Property Supplement of The Legal Intelligencer* in December 2000. The article focuses on how one company can review another company's intellectual property in an attempt to determine whether there is any infringement. The

article further explains the benefit of patent clearances when a company is being sold or goes into bankruptcy.

- Lowell L. Carson, a Scientific Advisor with Ratner & Prestia, co-authored an article in the July 2000 edition of *Physical Review A* entitled, "Anomalies, symmetries, and asymmetries in the relaxation oscillation spectra of multimode standing-wave solid-state lasers." *Phys-*

## Speaker's Forum

- Jim Simmons and Jonathan Spadt discussed general patent law and strategies with Binney & Smith scientists and R&D managers on December 14, 2000. The maker of Crayola® brand crayons, and one of Ratner & Prestia's newer clients, Binney & Smith has long been a leader in new technologies, and Ratner & Prestia is pleased to be helping them continue that tradition.
- Benjamin Leace participated in a 3-person panel that spoke at the Forensic & Litigation Services Conference on December 12, 2000. The objective of the conference was to enable practitioners and attorneys to perform successful litigation engagements and recognize the risks, opportunities and challenges involved in litigation services. Ben, along with the other two panelists, educated attendees on the background of intellectual property litigation, the types of damages resulting from intellectual property infringement, and the effect of "dot-coms" on intellectual property.

Jonathan exposed their students, Megan Spitz and David Miller, to a variety of topics, and asked them to provide counsel in an effort to resolve a hypothetical patent infringement dispute.

*ical Review A* is published by The American Physical Society through The American Institute of Physics. The work which the article describes was carried out at Bryn Mawr College and the International Center for Advanced Studies in Nizhny Novgorod, and was funded by a grant from both the International Center for Advanced Studies in Nizhny Novgorod and the Ford Foundation.

## Changes in Prosecution History Estoppel Analysis

The U.S. Court of Appeals for the Federal Circuit recently decided a case which could have major implications on both existing patents and on the way patent applications are prosecuted. The case is *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, No. 95-1066 (Fed. Cir. Nov. 29, 2000) (en banc) and follows an order by the U.S. Supreme Court that vacated the Federal Circuit's prior judgment, and remanded the case to the court for reconsideration in light of another case (namely, *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 41 USPQ2d 1865 (1997)). The subject matter of the case is the interplay between the doctrine of equivalents and the doctrine of prosecution history estoppel.

The Federal Circuit took key positions on four issues.

- First - the court held that because a substantial reason related to patentability is not limited to overcoming prior art, but includes other reasons related to the statutory requirements for a patent, an amendment that narrows the scope of a claim for any reason related to the statutory requirements for a patent will give rise to prosecution history estoppel with respect to the amended claim element.
- Second - the court held that voluntary claim amendments are treated the same as other claim amendments. Any voluntary amendment that narrows the scope of a claim for a reason related to the statutory requirements for a patent will, therefore, give rise to prosecution history estoppel with respect to the amended claim element.
- Third - the court held that when a claim amendment creates prosecution history estoppel, no range of equivalents is available for the amended claim element.
- Fourth - the court held that 'unexplained' amendments are not entitled to any range of equivalents. Moreover, the court held that "a patent holder seeking to establish the reason for an amendment must base its arguments solely upon the public record of the patent's prosecution, i.e., the patent's prosecution history."

The Court acknowledged that its decision would often limit patent owners to a literal infringement analysis. It sought the certainty that "the patentee and the public can look to the prosecution history, a public record, to determine if any prosecution history estoppel arises as to any claim element. If so, that

element's scope of protection is clearly defined by its literal terms."

One consequence of this decision may be that rather than acquiesce to patentability rejections and thereby surrender all recourse to the doctrine of equivalents, applicants will be increasingly likely to appeal a patent examiner's decision. The initial stop in that appellate route is the Patent and Trademark Board of Patent Appeals and Interferences which is already backlogged and often takes years to decide an appeal. Any significant increase in such appeals will only exacerbate this situation resulting in a significant lengthening in the average time and cost required to prosecute an application to issuance.

The impact of this decision has yet to be felt. Certainly, however, many believe it will be appealed and the Supreme Court may ultimately decide the issue. In the meantime, however, the implications associated with this narrowing of the doctrine of equivalents will have to be considered during the drafting of both applications and amendments during prosecution. More details will follow in future issues of INSIGHT.

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*Ratner & Prestia specializes in patent, trademark, and copyright matters and realizes an obligation to keep its clients, and others, informed in those areas. The articles in this newsletter are intended to provide only a brief, general overview of each subject and are not necessarily the opinion of this firm. R & P recommends that readers seek specific information on particular matters of concern.*

*INSIGHT is published by Ratner & Prestia. The firm welcomes your articles, ideas for articles, comments, and suggestions. Please contact Jonathan H. Spadt, the editor, at our offices:*

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