

# UPDATE

FALL/WINTER 2009

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## LOOPHOLES, LAWYERS AND LEGALESE



BY: MARC S. COOPERMAN (L) AND TIMOTHY J. RECHTIEN (R)

Have you reviewed your employee agreements recently? This is a timely question given the epic battle between MATTEL® and MGA over BRATZ® dolls. One of the central disputes in that case is the meaning of an employment agreement, and its genesis is instructive on how to avoid similar conflicts in the future.

First, you may be asking why you should even care about the language of your employment agreements? The answer is reflected in the sheer scope and expense of the Bratz case, which is utterly astounding.

First, you may be asking why you should even care about the language of your employment agreements? The answer is reflected in the sheer scope and expense of the Bratz case, which is utterly astounding. The case has been ongoing for five years, has resulted in a \$100-million verdict and another reported \$100 million in combined legal fees, and has produced an incredible 550-plus page docket sheet that includes no fewer than 6,000 docket entries. Do we have your attention now?



The case began in 2004, when Mattel sued Carter Bryant, a former Mattel designer, accusing him of violating his agreement with, and duties owed to Mattel, and of infringing Mattel's copyright. Thereafter, the case swelled with Bryant and his new employer, MGA, filing their own complaints against Mattel. Eventually Bryant settled with Mattel, but MGA did not.

One of Mattel's key arguments was that Bryant conceived of the name "Bratz" and created drawings of the "Bratz" dolls while employed with Mattel, and that the name and designs belonged to Mattel. Essentially, Mattel's claims rested on a broad interpretation of an "Inventions Agreement" Bryant signed when he began [MORE](#)



*Battle Over Bratz*

Photo: Associated Press

[LOOPHOLES, FROM PAGE 1]

working for Mattel, which states in relevant part (with emphasis added):

*[I, the employee, agree] to communicate to [Mattel]...all inventions...conceived... at any time during my employment by [Mattel], [and] I hereby assign to [Mattel]...all my right, title and interest in such inventions, and...in any... copyright...or copyright applications based thereon....[T]he term "inventions" includes, but is not limited to, all discoveries, improvements, processes developments, designs, know-how... whether patentable or unpatentable.... [This agreement] shall not apply to an invention that the employee developed on his or her own time...except for those inventions that...relate at the time of conception or reduction to practice of the invention to the employer's business....*

MGA and Bryant, of course, argued for a more narrow interpretation of the agreement. In a series of rulings, the District Court agreed with Mattel and concluded that the Inventions Agreement conveyed to Mattel "any Bratz-related 'inventions' (including any designs, improvements, ideas, concepts and copyrightable subject matter), that Bryant created while employed with Mattel."

Though the decision is on appeal, and there are yet further proceedings ongoing at the district court level, the lesson is clear. Unless you enjoy spending a lot of time and money with your lawyers in court, take a small amount of time upfront with your lawyers to carefully review and craft any employment agreement. It may avoid a costly fight with the bad guys down the road. ■

## MARK T. BANNER SCHOLARSHIP FOR LAW STUDENTS



The Richard Linn American Inn of Court is offering a newly established scholarship for law students in honor of our past partner, Mark T. Banner. The scholarship is a tribute to Mark, sponsored by the Richard Linn American Inn of Court.

Mark was a founder of the Linn Inn, in Chicago, named for U.S. Court of Appeals for the Federal Circuit Judge Richard Linn.

Scholarship applications are open to any student who demonstrates the fundamental mission of the Inn and the

qualities important to Mark—a commitment to IP law, ethics, civility, and professionalism. The award also has an aspect of seeking to assist those in historically underrepresented groups in the intellectual property law field.

The scholarship was created with the help of Charles Shifley, shareholder of Banner & Witcoff and President of the Richard Linn American Inn of Court.

Banner & Witcoff is proud to be the founding contributor to this scholarship.

For more information on this scholarship please visit <http://www.linninn.org/>

## SUPREME COURT GRANTS CERT IN *BILSKI* CASE



BY: BRADLEY C. WRIGHT

On June 1, 2009, the U.S. Supreme Court granted certiorari in an important patent case involving the patentability of business methods. The case, *In re Bilski*, originated in the U.S. Patent and Trademark Office (USPTO) and was the subject of an en banc 2008 decision rendered by the U.S. Court of Appeals for the Federal Circuit. Bilski sought to patent a series of transactions between a commodity provider and market participants in a way that balanced risk. The USPTO rejected the patent application on the basis that it was not a “process” as that term is understood in patent law. According to the USPTO, in order to be patentable, a process must either be tied to a particular machine or it must transform something tangible (or data that represents something tangible). Because Bilski’s invention did neither, it did not meet the definition of a “process.”

The Federal Circuit affirmed the USPTO in an en banc decision, concluding that under controlling U.S. Supreme Court precedent, to be patentable a process must either be tied to a machine or it must transform something. Because Bilski’s claims met neither prong of this “machine-or-transformation” test, it was deemed to be unpatentable. In his dissenting opinion, Judge Mayer would have gone further, imposing a “technological arts” requirement for patentability. Two other judges filed dissenting opinions.

### SEEDS OF DISCONTENT

The *Bilski* case represents a rare opportunity for the Supreme Court to weigh in on the

outer limits of patentable subject matter, an issue it has not addressed for nearly 30 years. In 2006, three Supreme Court Justices filed an opinion dissenting from the dismissal of certiorari in another patent case, *Laboratory Corp. of America v. Metabolite*.

Justice Breyer, writing for the three dissenters, clearly rebuked the Federal Circuit’s *State Street Bank* line of cases, which had seemingly endorsed patentability for inventions that produced a “useful, concrete, and tangible result.” Justice Breyer noted that such a liberal test for patentability “would cover instances where this Court has held to the contrary.” The Federal Circuit’s Chief Judge Michel, writing for the *Bilski* majority, acknowledged the rebuke and clarified that the “useful, concrete and tangible result” language was not the test for patentability.

### BILSKI’S PETITION FOR CERTIORARI

Bilski’s petition for certiorari focused on two themes: First, Bilski argued that the Federal Circuit was once again applying rigid tests in patent cases that allegedly conflicted with Supreme Court precedent. Second, Bilski argued that the Federal Circuit incorrectly limited process patents to industrial manufacturing methods, ignoring the realities of innovation in the modern information age. According to Bilski, the boundaries of patentable subject matter should extend to anything under the sun made by man, with the recognized exceptions of laws of nature, natural phenomena, and abstract ideas. In its responsive brief, the USPTO played down any purported conflict with Supreme Court precedent. [MORE>](#)



*Machine-or-Transformation?*

[SUPREME COURT, FROM PAGE 3]

## BILSKI AT THE SUPREME COURT

Many patent attorneys were surprised by the Supreme Court's intervention in the *Bilski* case.

Some have questioned whether Bilski's patent claims provide a good vehicle for the Court to clarify this area of patent law. Oral argument in the case has now been set for Monday, November 9, 2009, and a decision is not likely before early 2010. The recent announced retirement of Justice Souter, one of the three Justices who signed on to the *Metabolite* dissenting opinion,

**The *Bilski* case represents a rare opportunity for the Supreme Court to weigh in on the outer limits of patentable subject matter, an issue it has not addressed for nearly 30 years.**

may have an impact on the outcome of the case, as may the recent confirmation of new Justice Sotomayor, who has experience as a judge in patent cases. Regardless of the outcome, it seems certain that the Supreme Court's decision will attempt to clarify and harmonize its prior decisions in this area. The result could have a wide-ranging impact on many industries that rely on patents involving information technology and business-related processes, as well as certain medicine-related applications.

## AMICUS BRIEFS FILED

Since the U.S. Supreme Court granted Bilski's certiorari petition, more than 40 amicus briefs have been filed, most of them filed in support of neither party. Heavily represented among the amicus filers are companies in the software, pharmaceutical, and medical diagnosis fields. In advocating reversal of the Federal Circuit's "machine-or-transformation" test, some amicus parties have urged a broader "usefulness" test, while others have urged the Supreme Court to focus on whether an invention provides a "technological contribution." Yet others have suggested that the test should distinguish

between applied inventions that would be patentable and abstract inventions that would not. Few amicus filers have urged outright affirmance of the Federal Circuit's decision.

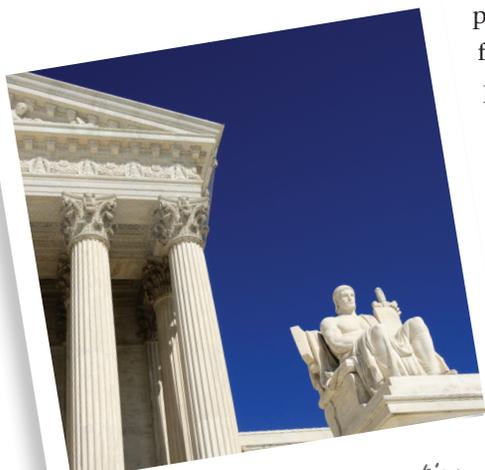
## USPTO STRUGGLING WITH TEST

The *Bilski* "machine-or-transformation" test has presented some difficulties for the USPTO, which has been left to apply it in pending patent applications without much guidance from the Federal Circuit. In its August 2009 New Interim Patent Subject Matter Eligibility Examination Instructions for patent examiners, the USPTO has acknowledged that "the state of

the law with respect to subject matter eligibility is in flux." The rejection rate for computer-related inventions, for example, has increased substantially, especially for method claims that recite little or no machine structure. In one case, for example, the USPTO's Board of Appeals concluded that a method reciting a "monitoring device" failed the *Bilski* test because "monitoring device" was not a specific machine. In other cases, the USPTO's Board of Appeals has struggled to determine what type of "transformation" would make a claim patentable. Patent attorneys have been left wondering how to claim various types of software and diagnostic processes in a way that would pass the *Bilski* test.

## CONCLUSION

It is difficult to predict how the U.S. Supreme Court will decide Bilski's appeal. For applicants struggling with difficult *Bilski*-type rejections, it may pay to defer further prosecution of the application (e.g., by filing an appeal or other action that would effectively defer prosecution on the merits) until the Supreme Court issues its guidance. ■



*Supreme Court Intervention*

# U.S. IP RIGHTS NOT NECESSARILY EXHAUSTED BECAUSE OF AN OVERSEAS SALE



BY: H. WAYNE PORTER

The first authorized sale of a good in the United States normally exhausts the U.S. intellectual property (IP) rights relating to that specific good. For example, assume that a widget or some part of that widget is protected by a U.S. copyright or a U.S. patent. When ownership of that widget is acquired with the authorization of the U.S. IP owner, the acquiring party is normally free to resell or otherwise dispose of the widget without further authorization from the IP owner.

A growing number of goods sold in the U.S. have at least some foreign origin. In many cases, an initial U.S. product sale is by a party other than an owner of U.S. IP rights relevant to the sold product. Frequently, the product seller has no contract or other relationship with the U.S. IP owner. For example, the seller may have acquired the product from some third party who purchased that product overseas from the U.S. IP owner. Some interests seem to argue that any overseas sale by a U.S. IP right owner should exhaust those U.S. IP rights, at least as to copyright and patent protection. However, U.S. law has not yet gone that far.

## COPYRIGHT

Under the “first sale” doctrine of U.S. copyright law, an owner of a particular copy that has been “lawfully made” under the U.S. copyright act is authorized to sell or otherwise dispose of that copy without needing the authorization of the copyright owner.<sup>1</sup> In *Omega S.A. v. Costco Wholesale Corp.*,<sup>2</sup> the Ninth Circuit Court of Appeals held that the first sale doctrine does not apply to goods that were manufactured and sold abroad by the U.S. copyright owner.

Omega manufactured watches in Switzerland and held the U.S. copyright on an “Omega Globe Design” that was engraved on those watches.<sup>3</sup> Omega sold those watches to third parties overseas, but did not authorize those third parties to import the watches into the U.S.<sup>4</sup> Costco acquired the watches originally purchased by the third parties and sold them in its U.S. stores without Omega’s authorization.<sup>5</sup>

The issue in *Omega* was the meaning of the phrase “lawfully made under this title” within the applicable U.S. copyright law section setting forth the first sale doctrine.<sup>6</sup> Specifically, 17 U.S.C. § 109(a) states that “the owner of a particular copy or phonorecord lawfully made under this title...is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy...” The phrase “this title” refers to the U.S. copyright laws.

Omega asserted that the first sale doctrine did not apply, as the manufacture and sale of the watches outside of the U.S. meant those watches were not lawfully made under the U.S. copyright laws.<sup>7</sup>

Costco asserted a contrary position based on *Quality King Distributors, Inc. v. Lanza Research International, Inc.*,<sup>8</sup> a 1998 U.S. Supreme Court decision.<sup>9</sup> In *Quality King*, the U.S. Supreme Court held that a product with a U.S. copyrighted label that was manufactured in the U.S., exported [MORE▶](#)

<sup>1</sup> 35 U.S.C. § 109(a).

<sup>2</sup> 541 F.3d 982 (2009).

<sup>3</sup> *Id.* at 983.

<sup>4</sup> *Id.* at 984.

<sup>5</sup> *Id.*

<sup>6</sup> *See id.* at 985.

<sup>7</sup> *Id.*

<sup>8</sup> 523 U.S. 135 (1998).

<sup>9</sup> *Id.*



“First Sale” Overseas

[U.S. IP RIGHTS, FROM PAGE 5]

to an authorized foreign distributor, and then shipped back into the U.S. without the copyright owner's permission via overseas third parties was subject to the first sale doctrine.<sup>10</sup> The Ninth Circuit found that *Quality King* did not address whether the first sale doctrine applied to copies manufactured outside the U.S.<sup>11</sup> and decided that "lawfully made [under the U.S. copyright laws]" was not satisfied by the U.S. copyright owner making copies overseas.<sup>12</sup> However, the Ninth Circuit went on to say the first sale doctrine *would* cover copies that were made overseas if those copies were sold in the U.S. with the copyright owner's permission.<sup>13</sup>

Costco has petitioned the U.S. Supreme Court to review the Ninth Circuit decision. The petition has been fully briefed, including numerous third party *amicus curae* briefs supporting Costco's petition.<sup>14</sup> Whether the Court will grant the petition is unknown as of writing this article. Even if the Court does grant the petition, however, it is not clear that the Court would expand the first sale

doctrine as far as Costco and *amici* propose. Notably, the Court's *Quality King* opinion recognized that an owner of a U.S. copyright could give exclusive U.S. distribution rights to party A and exclusive foreign distribution rights to party B, but that presumably only the copies manufactured by party A would be "lawfully made" under the first sale doctrine. Moreover,

it is not clear that expansion of the first sale doctrine would be consistent with the existence of separate U.S. and non-U.S. property rights. Although a U.S. copyright and a non-U.S. copyright may cover the same work and be held by the same entity, they are separate property interests. Finding that a copyright owner has exhausted its U.S. copyright in the absence of any U.S. activity authorized by the U.S. copyright owner could impair separate exercise of those distinct property interests.

## PATENT

The first sale doctrine in the patent context requires that the first U.S. sale have occurred under the U.S. patent.<sup>15</sup> Thus, a U.S. patentee can authorize overseas sales of a product that might practice an invention without exhausting U.S. patent rights on that same invention.<sup>16</sup> This is logical, as a U.S. patent and a non-U.S. patent for the same invention are also separate property interests that must be separately obtained from governmental authorities in the appropriate jurisdictions. Although many licensing agreements will cover both U.S. and non-U.S. patents for a particular invention, this need not be the case.

At first blush, a recent district court opinion from the Northern District of California might seem to expand the first sale doctrine. In *LG Electronics, Inc. v. Hitachi, Ltd.*,<sup>17</sup> the district court found that overseas sales *did* exhaust rights under a U.S. patent. However, it is not clear that the district court held that a foreign sale in and of itself was enough to exhaust a U.S. patent. On closer reading, the *LG Electronics* opinion arguably only holds that the location of a sale does not matter *if* that sale was authorized under a license that covers a U.S. patent.

<sup>10</sup> *Id.* at 986 (citing *Quality King*, 523 U.S. at 138–39, 144–52).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at 988.

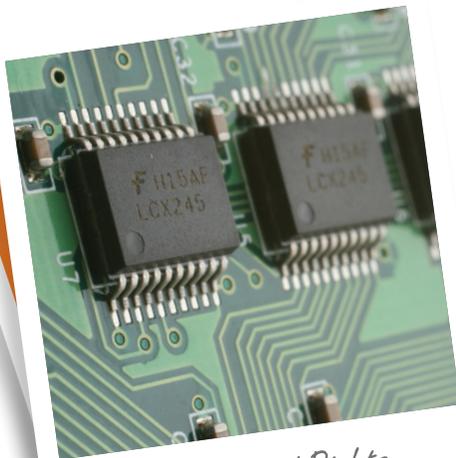
<sup>13</sup> *Id.* at 989–90.

<sup>14</sup> Those *amici* include eBay Inc. (brief filed June 17, 2009), Retail Industry Leaders Association, National Association of Chain Drug Stores, Amazon.com, Inc., Gamestop Corp., Movie Gallery, Inc., Quality King Distributors, Inc. and Target Corporation (brief filed June 17, 2009), Public Citizen, Inc. (brief filed June 16, 2009), Public Knowledge and the Electronic Frontier Foundation (brief filed June 17, 2009), and Entertainment Merchants Association and National Association of Recording Merchandisers (brief filed June 17, 2009).

<sup>15</sup> *Jazz Photo Corporation v. International Trade Commission*, 264 F.3d 1094, 1105 (Fed. Cir. 2001)(citing *Boesch v. Graff*, 133 U.S. 697, 701–703 (1890)).

<sup>16</sup> *Fuji Photo Film Company, Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005) ("patentee's authorization of an international first sale does not affect exhaustion of that patentee's rights in the United States").

<sup>17</sup> 2009 WL 667232 (N.D. Cal. 2009). This decision has not yet been appealed.



*Exhausted Rights*

In *LG Electronics*, Intel and LG entered into a license agreement that allowed Intel to make, use and sell products containing numerous U.S. patents.<sup>18</sup> The same agreement purported to not license other parties to combine Intel chips (covered under the agreement) with other components.<sup>19</sup> Intel later sold chips to various computer manufacturers, who then incorporated those chips into computers that were sold in the U.S.<sup>20</sup> In the separate case of *Quanta Computer, Inc. v. LG Electronics, Inc.*,<sup>21</sup> the U.S. Supreme Court found that the same license agreement did exhaust patent rights as to combinations of the Intel chips with other

patent to the same invention), the result may have been quite different.

In any event, the *LG Electronics* decision is not binding in other courts. Unless and until the Federal Circuit or the Supreme Court speaks further on this issue, there will remain numerous circumstances under which a U.S. patentee can authorize overseas sales without exhausting U.S. patent rights.

## CONCLUSION

At least under current law, the mere fact that an owner of U.S. IP rights sold an item overseas

<sup>18</sup> *Id.* at \*2.

<sup>19</sup> *Id.*

<sup>20</sup> *Id.* at \*4.

<sup>21</sup> \_\_\_ U.S. \_\_\_, 128 S.Ct. 2109 (2008).

<sup>22</sup> *Id.* at \*4.

<sup>23</sup> *Id.*

<sup>24</sup> *See id.* at \*10.

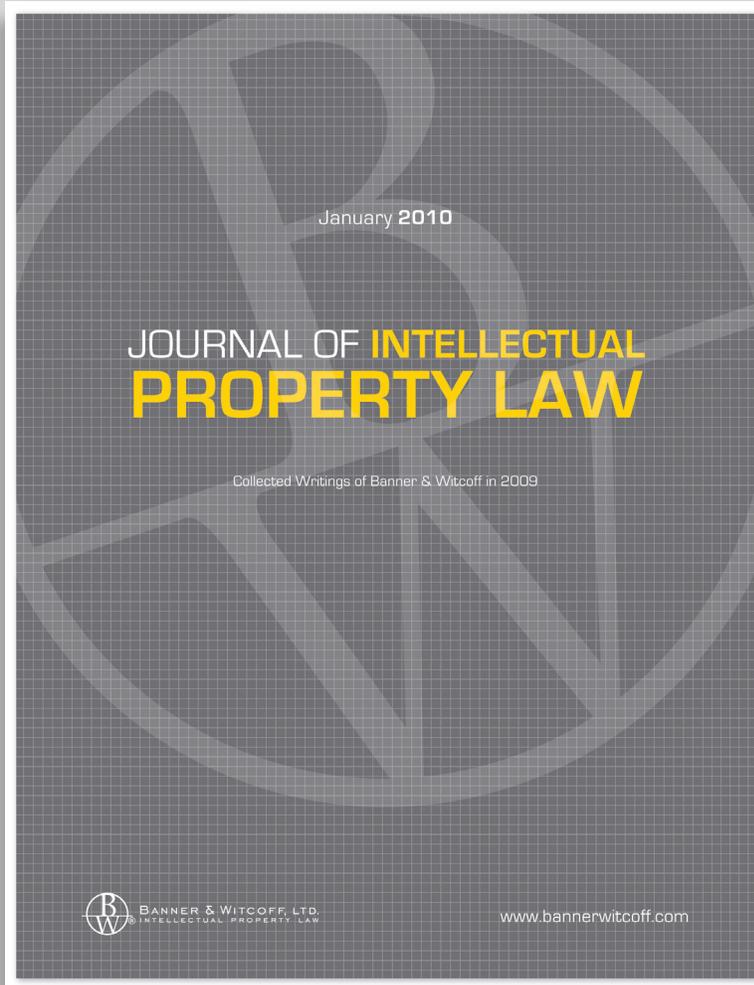
**Unless and until the Federal Circuit or the Supreme Court speaks further on the issue, there will remain numerous circumstances under which a U.S. patentee can authorize overseas sales without exhausting U.S. patent rights.**

components.<sup>22</sup> One of those patents (the '645 patent) at issue in *LG Electronics* was not at issue in *Quanta*.<sup>23</sup> LG argued that *Quanta* did not apply as to the '645 patent because, e.g., the authorized sales were not made in the U.S.

will not automatically exhaust those IP rights as to that item. The full context of the IP right owner's activities should be considered when determining if there has been exhaustion. ■

The district court rejected LG's argument and held that LG's patent rights were exhausted based on overseas sales to Intel under the agreement covering the U.S. patents. Although the court suggested that earlier Federal Circuit cases regarding the first sale doctrine were inconsistent with the Supreme Court's later opinion in *Quanta*,<sup>24</sup> it is important to remember the context of the *LG Electronics* case. The sales at issue were authorized under a license that covered the patent at issue. Had the sales been outside of the U.S. pursuant to an agreement that did not specifically cover the '645 patent (e.g., under a license that only covered a foreign

## 2010 JOURNAL OF IP LAW COMING SOON



The *Journal of Intellectual Property Law*, a compilation of representative published articles written by, or featuring comments from Banner & Witcoff's attorneys in 2009 will be available in January 2010.

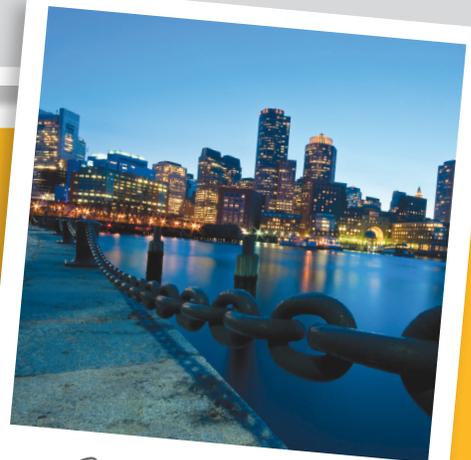
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## EXPERIMENTAL USE REQUIRES TESTING CLAIM ELEMENTS OR EVALUATING OVERALL SUITABILITY



BY: WILLIAM J. FISHER

Under U.S. law, an applicant is barred from obtaining a patent if the invention was on-sale or in public use more than one year prior to the filing of a patent application.<sup>1</sup> An exception to this rule is public experimental use of the invention.

### BASIS FOR EXPERIMENTAL USE EXCEPTION: *CITY OF ELIZABETH*

The U.S. Supreme Court established the law of experimental use in the *City of Elizabeth v. American Nicholson Pavement Co.*<sup>2</sup> The Supreme Court noted that an inventor was entitled to publicly experiment, to perfect the invention and ensure that the invention meets its purpose. To establish experimental use, the inventor must keep control of the invention, not sell the invention without requiring evaluation, and not voluntarily allow others to use the invention.<sup>3</sup>

### THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT RECENTLY ADDRESSED EXPERIMENTAL USE IN *CLOCK SPRING*

The Court of Appeals for the Federal Circuit held that public demonstration of a process was a public use under 35 U.S.C. § 102(b). In *Clock Spring, L.P. v. Wrapmaster, Inc.*,<sup>4</sup> the court found that all elements of the claimed method were publicly performed<sup>5</sup> outside the inventor's control, but did not base the holding on only this finding.<sup>6</sup> Rather, the court also found that there was no evaluation of the demonstration. Therefore, the demonstration was not an experimental use, and the court affirmed the summary judgment of invalidity.

The court affirmed the grant of a summary judgment of invalidity on a ground supported in the trial record but rejected by the district court.<sup>7</sup> The court noted that affirmance of "a grant of summary judgment on a ground supported in the record but not adopted by the district court"<sup>8</sup> is appropriate "if we conclude that 'there [wa]s no genuine issue as to any material fact and...the movant [wa]s entitled to a judgment as a matter of law.'"<sup>9</sup>

### CLOCK SPRING'S LAWSUIT

Clock Spring alleged that Wrapmaster infringed the claims of U.S. Patent No. 5,632,307. Clock Spring was the exclusive licensee and paid royalties to the Gas Technology Institute (formerly GRI).<sup>10</sup> Claim 1 of the patent was directed to a method for repairing damaged high-pressure gas pipes with filler in which three limitations were at issue: that (1) the pipe have a cavity to which (2) filler is applied (3) uncured.

### WRAPMASTER'S MOTION FOR SUMMARY JUDGMENT

Wrapmaster filed a motion for summary judgment of invalidity for prior public use in view of an October 1989 demonstration by Norman C. Fawley, an inventor, more than one year before the patent application was filed, and for obviousness.<sup>11</sup> In support of the motion, Wrapmaster submitted a 1994 GFI report describing the demonstration.<sup>12</sup>

In opposition, Clock Spring "did not dispute that the 1989 demonstration was public, or that it involved the limitations of the patent"<sup>13</sup> except the uncured filler limitation. Clock Spring also argued that the claims were not obvious and that the use had been an experimental use.<sup>14</sup> [MORE>](#)

1 35 U.S.C. § 102(b).

2 *City of Elizabeth v. American Nicholson Pavement Co.*, 97 U.S. 126 (1878).

3 *Id.* at 135.

4 *Clock Spring, L.P. v. Wrapmaster, Inc.*, No. 2008-1332 (Fed. Cir., Mar. 25, 2009).

5 *Id.* at 15.

6 *Id.* at 13.

7 *Id.*

8 *Id.* at 8.

9 *Id.*, citing Fed. R. Civ. P. 56(c); and *Aqua Tex Indus., Inc. v. Techniche Solutions*, 479 F.3d 1320, 1328 Fed. Cir. 2007). The court also affirmed a summary judgment rejecting Clock Spring's Lanham Act false advertising claims. The Lanham Act claim is not discussed herein.

10 *Id.* at 2, 4.

11 *Id.* at 4.

12 *Id.*

13 *Id.*

14 *Id.*

[DEMONSTRATION, FROM PAGE 9]

### THE DISTRICT COURT'S DECISION

A magistrate judge recommended grant of summary judgment of invalidity for public use and for obviousness.<sup>15</sup> The magistrate judge found that the 1994 GRI report precluded any issue of material fact regarding the 'uncured filler' limitation<sup>16</sup> and rejected Clock Spring's experimental use argument.<sup>17</sup>

Clock Spring objected to the recommendations, asserting that the three limitations were not present in the demonstration.<sup>18</sup> Clock Spring submitted 1993 and 1998 GRI reports and an NCF Industries, Inc., report describing the 1989 demonstration.<sup>19</sup>

The district court found that these three new reports raised a genuine issue of material fact regarding experimental use<sup>20</sup> and therefore rejected the public use recommendation, but accepted the prior art recommendation.<sup>21</sup>

### THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT AFFIRMS ON THE BASIS OF PUBLIC USE

On appeal, Wrapmaster argued that the court could affirm the grant of summary judgment of invalidity on the ground of public use because the 1989 demonstration was not an experimental use.<sup>22</sup> There was no dispute that the 1989 demonstration was a public event accessible to the public without obligation of secrecy,<sup>23</sup> or that, except for the three limitations, all limitations of Claim 1 were involved.<sup>24</sup>

The court found that the 1994 GRI report and the NCF report had photographs illustrating pinholes through the pipe and described the purpose of the demonstration as "to closely document the *entire process* of bell-hole repair."<sup>25</sup> The court noted that the 1989 demonstration was described in an Information Disclosure Statement and both the 1994 GRI report and

the NCF report as involving uncured filler.<sup>26</sup> Thus, the court found that there was no issue of material fact regarding the three allegedly missing elements.<sup>27</sup>

The court identified factors<sup>28</sup> for distinguishing between experimental and commercial use, as set forth in *Allen Engineering Corp. v. Bartell Industries, Inc.*:

1. The necessity for public testing;
2. The amount of control over the experiment retained by the inventor;
3. The nature of the invention;
4. The length of the test period;
5. Whether payment was made;
6. Whether there was a secrecy obligation;
7. Whether records of the experiment were kept;
8. Who conducted the experiment;
9. The degree of commercial exploitation during testing;
10. Whether the invention reasonably requires evaluation under actual conditions of use;
11. Whether testing was systematically performed;
12. Whether the inventor continually monitored the invention during testing; and
13. The nature of contacts made with potential customers.<sup>29</sup>

Clock Spring asserted that Fawley's detailed reports were proof that the inventor tightly controlled the 1989 demonstration. However, the court was not convinced because an independent observer analyzed and recorded the 1989 demonstration and some tests were done by the pipeline owner and Fawley did not control, or even watch, these demonstrations.<sup>30</sup>

However, the court did not rely on control as dispositive<sup>31</sup> and looked to whether the inventor sought to perfect the invention.<sup>32</sup> The NCF and 1994 GRI reports described different purposes of the 1989 demonstration.<sup>33</sup> The court found

15 *Id.* at 4–5.

16 *Id.*

17 *Id.* at 5.

18 *Id.* at 6.

19 *Id.* Fawley was president of NCF Industries.

20 *Id.*

21 *Id.* at 6–7.

22 *Id.* at 8.

23 *Id.*

24 *Id.* at 9–10.

25 *Id.*

26 *Id.* at 10–11.

27 *Id.* at 11.

28 *Id.* at 12.

29 *Id.*, citing *Allen Engineering Corp. v. Bartell Industries, Inc.*, 299 F.3d 1336, 1353 (Fed. Cir. 2002). Even though *Allen Engineering* involved a prior commercial sale, the court described these factors as equally relevant when evaluating a use event to determine whether the event is an experimental use.

30 *Id.* at 13.

31 *Id.* Lack of control over alleged testing events was found dispositive in *Atlanta Attachment Co. v. Leggett & Pratt, Inc.*, 516 F.3d 1361, 1366 (Fed. Cir. 2008).

32 *Id.* at 14, citing *EZ Deck, Inc. v. Schafer Sys. Inc.*, 276 F.3d 1347, 1352 (Fed. Cir. 2002).

33 *Id.* at 14.

[DEMONSTRATION, FROM PAGE 10]

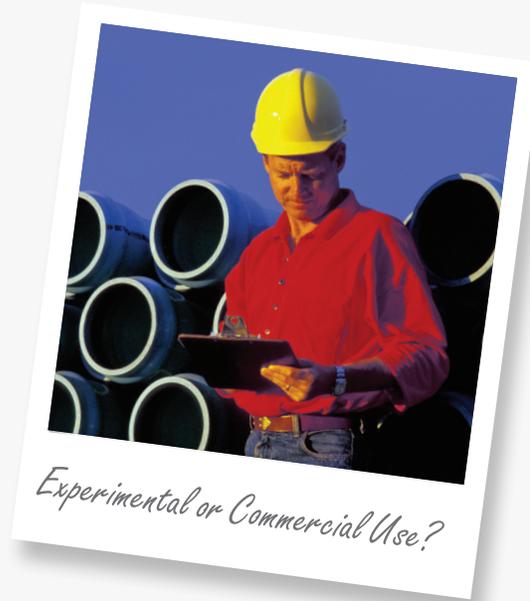
that the 1994 GRI report suggested that the demonstration was for durability testing but found that this testing was not tied to the patent application<sup>34</sup> because the installation was inspected only after the application was filed.

Thus, the court held the '307 patent invalid for prior public use,<sup>35</sup> and did not address the question of obviousness.<sup>36</sup>

### PRACTICAL APPLICATION

The doctrine of experimental use provides a negation of a public use, or a sale or on-sale event, that would otherwise be a statutory bar under 35 U.S.C. § 102(b). The court identified 13 instructive factors, some of which may be dispositive. A use must test claimed features of the invention or evaluate the entirety of the invention to determine whether the invention will work for its intended purpose. Testing to determine whether a customer will buy is a statutory bar. Further, testing should be evaluated before the application is filed.

Thus, the patentee is wise to keep control of the experiment, ensure that only the inventor or an authorized tester has access to the invention under an obligation of secrecy, and to make observations about the invention and whether it is fit for its purpose, not whether a potential customer finds the invention suitable or whether the invention will be commercially successful. ■



<sup>34</sup> *Id.* at 15.

<sup>35</sup> *Id.* at 15–16.

<sup>36</sup> *Id.* The court also rejected Clock Spring's argument that the 1989 demonstration must have been an experimental use because it was not legal to practice the claimed method on an operating pipeline.

## HOT TOPICS IN NANOTECHNOLOGY



BY: ERNEST V. LINEK

Nano this, nano that. What's all the fuss about making things small? Under the traditional rules of patent practice

changing the "size" of an invention does not make any difference in terms of patentability. The three criteria of (1) novelty, (2) utility and (3) non-obviousness—are all that matter. Simply making a known thing smaller does not create anything new.

In the nano world, these

nano-scale. Thus, reactions carried out at the nano-scale can often work much differently than comparable macro-scale reactions.

### DEFINITION OF THE NANO-SCALE:

When we talk about nanotechnology, we are typically talking about the understanding and manipulation of matter at dimensions falling in the nano-scale range; namely, from about 1 to 100 nanometers, where unique phenomena often enable novel applications. A nanometer is one-billionth of a meter ( $10^{-9}$  m). To better grasp the nano-scale, here are a few examples: a typical sheet of photocopy paper is about 100,000

**At the nano-scale, a change that might seem obvious can provide unexpected results, making an invention surprisingly non-obvious.**

criteria still rule; however, making things on the nano-scale often changes how one must view the obviousness of a given invention. At the nano-scale, a change that might seem obvious can provide unexpected results, making an

invention surprisingly non-obvious. Nano-scale versions of old materials can often have very different properties than their macro-scale counterparts. For instance, some are better at conducting electricity. Some are better at conducting heat. Some are stronger. Some have different magnetic properties. Some reflect light better or change color as their size is changed. In addition, nano-scale materials typically have far larger surface areas than similar volumes of macro-scale materials which means that more interactions with other materials may be possible at the

nanometers thick; from biology—the protein hemoglobin, which carries oxygen through the bloodstream, is about five nanometers in diameter; and from chemistry—a single atom of gold is about 1/3 of a nanometer in diameter.

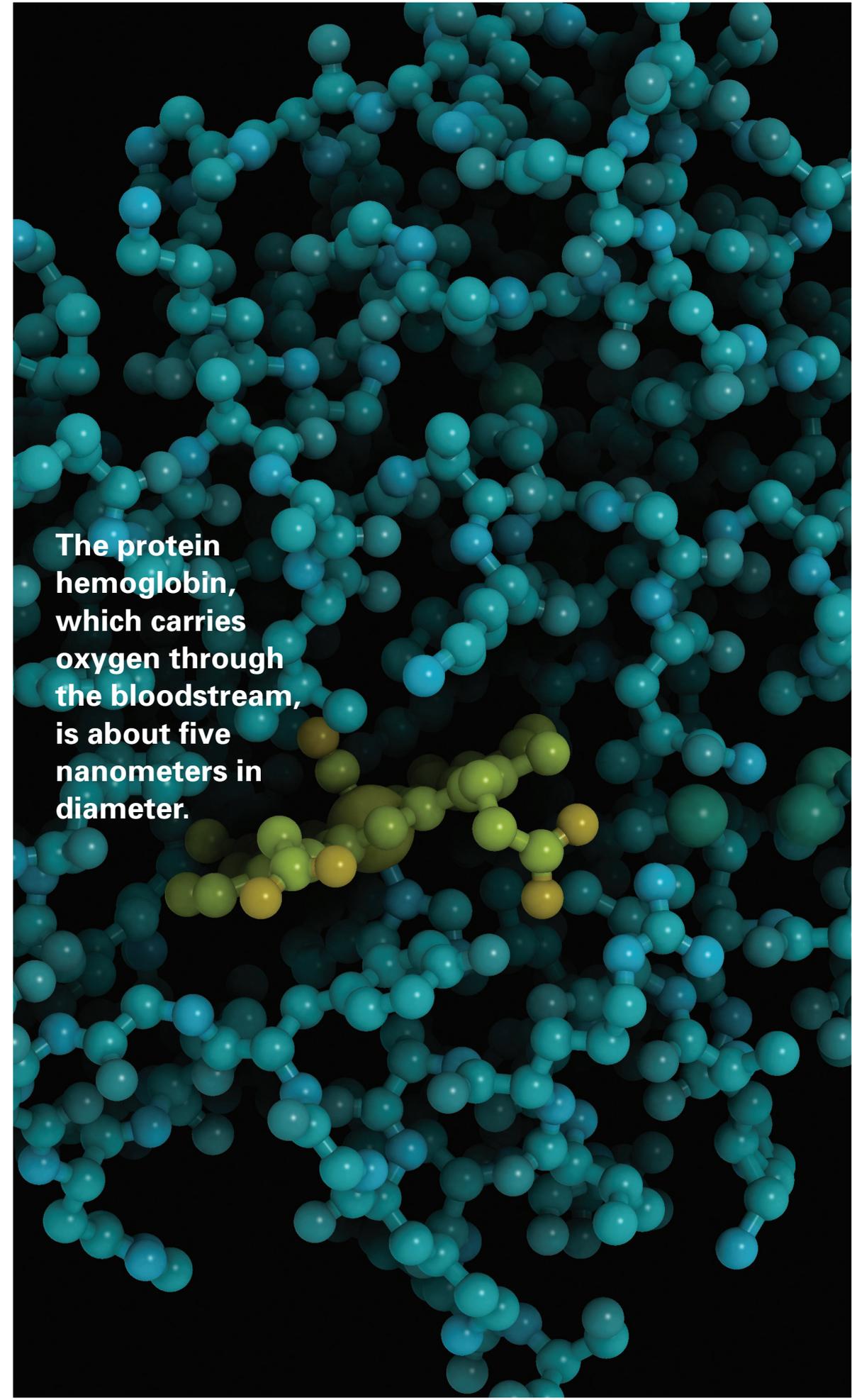
Nanotechnology thus encompasses nano-scale science, engineering, and technology. Nanotechnology involves imaging, measuring, modeling, and manipulating matter at this length scale.

While many definitions for nanotechnology exist, the National Nanotechnology Initiative, a U.S. Government research and development program ([www.nano.gov](http://www.nano.gov)) established to coordinate the efforts of 23 federal agencies in nanotechnology, defines it as follows:

- Research and technology development at the atomic, molecular or macromolecular levels, in the length scale of approximately 1–100 nanometer range; [MORE>](#)



*Tiny Technologies = Big Solutions*



**The protein hemoglobin, which carries oxygen through the bloodstream, is about five nanometers in diameter.**

[NANOTECHNOLOGY, FROM PAGE 13]

- Creating and using structures, devices and systems that have novel properties and functions because of their small and/or intermediate size; and/or
- Ability to control or manipulate on the atomic scale.

Nanotechnology research and development is taking place worldwide. In the United States, nanotechnology efforts are currently conducted in over 1200 companies, universities, and government laboratories, in all 50 states. The top four states with nanotechnology efforts are California, Massachusetts, New York and Texas. Major regional nano-centers are found in the greater Boston metropolitan area, the Bay Area of California, and the Dallas-Austin-Houston regions of Texas.

### NANOTECHNOLOGY APPLICATIONS

Some nano-scale materials are made in a top-down manner and others are made in a bottom-up manner. Top-down processing refers to the formation of smaller and smaller features starting from larger materials. Examples include semiconductor processing, whereby smaller and smaller patterning is used to fabricate precise nano-structures. Bottom-up processing takes the opposite approach, building organic and inorganic nano-structures on an atom-by-atom or molecule-by-molecule basis. Carbon nanotubes and buckeyballs are common examples of this type of nanofabrication.

Other applications include the following:

- Nano-scale materials are currently used in drug delivery devices, including dendrimers—nanomolecules that permit targeted drug delivery.
- Nano-scale materials are currently used in air and water filtration devices.

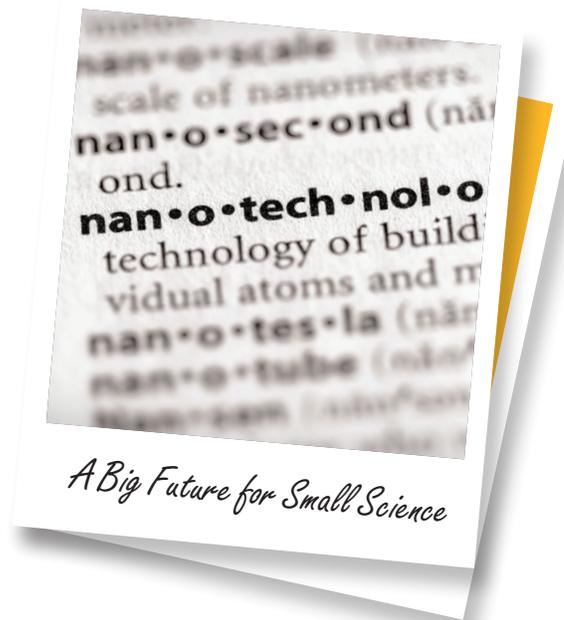
- Nano-films and nano-materials are currently used for catalysts, adhesives, water-repellency; anti-reflective coatings, self-cleaning coatings, anti-fogging, ultra-violet resistance; and/or infra-red resistance coatings.
- Nano-scale materials are currently used to increase mechanical strength of other materials—including sports equipment (tennis racquets, baseball bats), vehicle parts, and aircraft parts.
- Nano-scale materials currently used in electronic devices, including transistors, nanowires, semiconducting nanotubes, and quantum processors.
- Nano-scale materials are currently used in alternate energy applications, including solar cells made with nanorods created by atomic layer deposition, and fuel cells made with nano-polymers.

Research continues and more and more applications of nano-scale materials are created every day. Future projects could include one or more of the following; new electronic devices; alternative energy devices; new materials; and new medical applications. For example, research is being conducted on anti-terror uses of nano-sensors, e.g., for explosives and bioweapons detection. Medical research includes nano-biosensors for disease detection, particularly early detection of specific cancers. Research is being conducted on nano-materials for use in high capacity batteries that could be fully charged in minutes. Research is being conducted on lightweight nano-materials stronger than steel, and/or more conductive than copper.

The field of nanotechnology continues to grow. New discoveries continue to be made. New applications are constantly being found, and old technologies are constantly being improved.

[NANOTECHNOLOGY, FROM PAGE 14 ]

Look to the past to predict the future. A Google® search of the two words “nanoscale” and “patent” had over 1.6 million hits—indicating patent activity in this field is very active. Searching the term “nano” in the USPTO database for published applications (2001–2009) yielded over 38,000 published applications containing this term. The same search in the USPTO database of patents (1976–2009) yielded over 19,000 issued patents containing this term. Patent activity in the nanotechnology field is strong, and as research continues, more filings will be made. ■



## BANNER & WITCOFF HOSTS CORPORATE IP SEMINAR

On September 18, 2009, Banner & Witcoff hosted the firm’s 10th corporate IP seminar at the University of Chicago’s Gleacher Center. Topics included:

- What’s Next for Intellectual Property Law?
- The Impact of *In re Bilski*
- Challenges Facing Patent Litigators
- Strengthening Your License Agreements to Survive Bankruptcy
- Copyright Law: An Audio/Visual Study
- Design Patents Post-*Egyptian Goddess*
- Trademarks in Cyberspace
- Your Assets in the Virtual World

Thank you to all of our attendees for your time and participation. Plans are under way to host similar programs in cities near you.

If you were unable to attend, printed and electronic copies of the presentation are available, and an audio recording will also be available soon. Please contact Chris Hummel ([chummel@bannerwitcoff.com](mailto:chummel@bannerwitcoff.com)) for more information.



*2009 Corporate IP Seminar*

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