



Intellectual Property Law Section

State Bar of Texas

Spring 2012

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Update From The Chair

By Steve Malin

It is always a pleasure to introduce another one of our outstanding Section newsletters. This Spring 2012 edition includes several substantive articles covering topics for intellectual property practitioners. Many thanks to Steve Malin our strong committee leadership and to the individual authors who provided these articles.



The 2011-2012 State Bar year is well underway, and a highlight of the year was the Advanced Patent Litigation program held July 14-15, 2011 in San Antonio. Craig Lundell chaired the event with Sanford Warren and it was a great success. Programs included a very popular judges panel moderated by Jerry Selinger, in house counsel panel moderated by Brianna L.

Hinojosa-Flores, and an impressive set of opening statements by Damon Young and Bill Cavanaugh. Thanks to Mary McDonald of the State Bar for her invaluable help with this program.

Our latest CLE program was the Advanced Intellectual Property Course on March 22-23, 2012 in Houston. Vice Chair Paul Morico was the Course Director for the program, which featured a wide variety of IP-related topics and was preceded by a March 21 half day Workshop entitled “Practicing Under the New Patent Laws” led by Director Hope Shimabuku. The Section’s Women in IP Task Force hosted a breakfast meeting with guest speaker Marcella Watkins entitled “Women in IP Practice – Breaking the Glass Ceiling.” The women’s breakfast has become a wonderful tradition for our Section.

We will also feature a Section CLE event during the State Bar Annual Meeting on June 15th in Houston. Chair-Elect Scott

Breedlove is chairing that event, which should be another outstanding program. Once again, our Section will offer a full day CLE program for the price of a one-day Friday registration to the Annual Meeting. There will also be a reception the Thursday evening before our CLE program. In keeping with tradition, we will hold our annual business meeting and luncheon on June 15th, where we will elect new officers and council members, as well as present our Section's awards. Those awards include the Women & Minorities Scholarships, the Outstanding Texas Inventor of the Year Award, and the Chair Award. You can register for the Annual Meeting at <http://www.texasbar.com/annualmeeting>, and please confirm your plans to attend our Section's ticketed business luncheon on Friday.

In my first newsletter submission, I encouraged volunteerism by joining one of our outstanding committees. I'll reiterate that focus once again. With over 2,000 members in our Section, Committees truly offer the best opportunity for you to get involved and to get to know other IP practitioners from around the state.

I look forward to seeing you at one of our upcoming CLE programs. If you have any ideas about how the Section leadership can better serve our members, I encourage you to contact me or any other officer or council member.



Mark Your Calendar

State Bar of Texas Intellectual Property Law Section

- A full day CLE will be held during the

State Bar of Texas Annual Meeting at the Hilton Americas Houston and George R. Brown Convention Center in Houston, June 15, 2012. The annual business meeting and awards presentation will be held during the luncheon. A reception will be held the prior evening, on June 14.

- An Advanced Patent Litigation CLE will be held on August 2-3, 2012 at the Four Seasons Resort and Spa in Las Colinas.

For more information, go to www.texasbarcle.org.

The Austin Intellectual Property Law Association.

- The April CLE lunch will be held at the Westwood Country Club in Austin on April 17, 2012 beginning at 11:30 a.m.
- The May CLE lunch will be held at the Westwood Country Club in Austin on May 15, 2012 beginning at 11:30 a.m.

For more information, go to www.austin-ipla.org.

Dallas Intellectual Property Law Section will host its April monthly lunchtime CLE seminar on April 27, 2012 at the Belo Mansion, 2101 Ross Avenue in Dallas. For more information, go to www.dbaip.com.

American Intellectual Property Law Association.

- The 2012 Spring meeting will be held in Austin, May 10-12, 2012.
- The 4th Annual Trademark Boot Camp will be held on June 22, 2012 at the Westin Hotel in Alexandria, VA.

For more information, go to www.aipla.org.

The International Trademark Association will host its annual meeting at the Walter E. Washington Convention Center in Washington, D.C., May 5-9, 2012. For more information, go to www.inta.org.



In The Section

Membership Committee Soliciting Employment Opportunity Information, Proposing eMentorship Program

The Employment Task Force of the Membership Committee has recently obtained Council approval to solicit employers for job opportunity information.

SO FOR YOU EMPLOYERS: The Employment Task Force is now accepting employment opportunity information for distribution to the IP Law Section members via the Section's website and LinkedIn Group, free of charge. Please forward intellectual property related employment opportunity information for full-time, part-time, contract, and/or internship positions that are suitable for Section members to Dawson Lightfoot at Conley Rose, P.C. Dawson can be reached at dlightfoot@dfw.conleyrose.com and 972-731-2273.

Proposed eMentorship Program: The Employment Task Force continues to investigate the demand for an eMentorship Program in which Section mentor volunteers would provide guidance to Section mentees with the goal of starting and/or steering the mentee's career in intellectual property law.

Call for Submissions

The IP Law Section Newsletter is a great way to get published! The Newsletter Committee welcomes the submission of articles for potential publication in upcoming editions of the IP Law Section Newsletter, as well as any information regarding IP-related meetings and CLE events. If you are interested in submitting an article to be considered for publication or to calendar an event, please email your submission to Newsletter@texasbariplaw.org.

Article Submission Guidelines:

STYLE: Journalistic, such as a magazine article, in contrast to scholarly, such as a law review article. We want articles that are current, interesting, enjoyable to read, and based on your opinion or analysis.

LENGTH: 1-5 pages, single spaced.

PERSONAL INFO: Please provide a one paragraph bio and a photograph, or approval to use a photo from your company or firm website.

If you have any questions, please contact Kristin Jordan Harkins, Newsletter Officer, at kharkins@dfw.conleyrose.com.

Texas Inventor of the Year Nominations

The 2012 Texas Inventor of the Year will be recognized at the IP Law Section lunch on June 15, 2012 at the Annual Meeting of the State Bar of Texas in Houston. Please use the attached form, which includes five sections, to submit nominations for the 2012 Texas Inventor of the Year. Nominations are due by April 30, 2012. The Inventor Recognition Committee will select the winner based primarily upon the responses in Section III.

Each nomination should be submitted as a single electronic file (e.g., using PDF or Zip format). Nominators must be members of the IP Law Section and may make any number of nominations. Nominations of clients and employees are accepted and encouraged.

Please submit all nominations via email to Michelle LeCointe at michelle.lecointe@bakerbotts.com.

Public Relations Committee IP Law Presentation to Fort Worth ISD Students

The Public Relations Committee has furthered its goal of developing a program about IP for the general public. A connection with Fort Worth Independent School District (FWISD) Trustee, Tobi Jackson, led to an invitation to present an IP program to Eastern Hills High School (EHHS). The committee used this opportunity to develop a pilot program for high school students. On February 8, 2012, four IP attorneys provided one-hour sessions to two groups of EHHS students who are enrolled in FWISD's Gold Seal Programs of Choice for legal or fire science study. These programs "offer rigorous coursework in designated fields and are designed to provide college credit, college preparation and/or licensures and certifications to equip students for success in the modern workforce" per the FWISD. Each of the two one-hour sessions was provided to lower classmen and upper classmen.

Participating attorneys were Genie Hansen, past SBOT IP Section Chair and current chair of the Public Relations Committee (Hemingway & Hansen, LLP, Dallas); Nicole Sallie Franklin, attorney and IP Specialist (Facebook, Austin); Todd Basile, associate

(Klemchuk Kubasta, LLP, Dallas); and Spencer Jones, Corporate Attorney - IP (Radio Shack, Fort Worth). Also in attendance were FWISD attorneys Bertha Whatley and Tanya Dawson, and FWISD Superintendent Walter Dansby. The program began with the IP attorneys



Genie Hansen introduces EHHS students to IP law.

discussing their educational background and how they became IP attorneys. Next, Genie Hansen provided a short introduction to IP law. Nicole Sallie Franklin, a 2011 graduate of Texas Wesleyan School of Law in Fort Worth, provided a great interactive program concerning trademarks and copyrights, complete with hands-on props. She quizzed the students on whether certain objects were subject to trademark or copyright protection. Nicole had a prior career in the



Nicole Sallie Franklin discussing trademarks and copyrights.

music industry and publishes a fashion blog, so she was a great inspiration to the students. Todd Basile, a 2011 SMU Dedman School of Law graduate, told the students about his work in the engineering field prior to attending law school. He presented on Patents and Trade Secrets, and engaged the students with a clip from Willy Wonka and The Chocolate Factory, which involved the theft of trade secrets, and gave out Wonka® bars to students who correctly answered a few questions he posed. The remainder of the time was reserved for questions. The FWISD and EHHS were very positive about the program, and the committee received great feedback from a short survey drafted by Nicole. The committee has been invited back for another presentation in May, and the content is currently under development.

The committee is also drafting an IP booklet in cooperation with the Texas Association of Young Lawyers.



Spencer Jones, Todd Basile, and Nicole Sallie Franklin.



Practice Points

Is it time to disclaim the Trademark “Disclaimer Rule”?

By John M. DeBoer

Have you ever actually thought about the legal effect of making a disclaimer while registering a trademark (or servicemark) with the U.S. Patent and Trademark Office? Surely at some point someone else has pondered the question. A recent experience with the USPTO with respect to an Applicant seeking to register a composite mark presented an opportunity to look closer at the law around disclaimers.

This particular case was initially not unlike many others in that an Office Action was received with the Applicant’s mark rejected by an Examining Attorney as likely to cause confusion with a Registrant’s composite mark. In review of the office action, there seemed some significance in the fact that in formulating the rejection, the Examining Attorney relied heavily on the word-portion of both the Applicant’s and the Registrant’s marks. A first immediate thought was whether the Examining Attorney gave enough consideration to the marks in their entirety, which is set out in §1207.01 of the Trademark Manual of Examining Procedure (“TMEP”) as being a fundamental rule for composite marks.

A subsequent thought was admittedly more of curiosity and inquisitiveness, and more or less fell from the tree of the first thought.

Meaning, as the word-portion of the Registrant was so descriptive in nature, it was vexing as to how the Examining Attorney could free himself so easily from the design portion of the mark, and instead focus predominantly on the word portion. There was outright astonishment when it was realized the Registrant had disclaimed the word-portion in entirety.

The only comment from the Examining Attorney (surely a TMEP “form paragraph”) was the following:

Lastly, the fact that **Registrant** has disclaimed the wording in its mark will not prevent a finding of confusion. A disclaimer does not remove the disclaimed matter

from the mark. See *In re National Data Corp.*, 753 F.2d 1056, 224 USPQ 749 (Fed. Cir. 1985); *Specialty Brands, Inc. v. Coffee Bean Distributors, Inc.*, 748 F.2d 669, 672, 223 USPQ 1281, 1282 (Fed. Cir. 1984); *In re Iolo Techs., LLC*, 95 USPQ2d 1498 (TTAB 2010).

The only problem with this explanation is this purported “Disclaimer Rule,” and the case law seemingly supporting application of it, have nothing to do with giving the **Registrant** such a hammer to bludgeon with. Thought out rationally, does it really make sense to tell a Registrant his mark has a problem (*i.e.*, descriptiveness) that requires a disclaimer of rights in order to fix the problem, but then that very same problem now works in the Registrant’s favor? Interestingly enough there is no clear answer other than what seems might be a misapplication of the law.

So what is the DISCLAIMER RULE: The USPTO online glossary provides the following definition of a trademark disclaimer:

A statement that the applicant or registrant does not claim the exclusive right to use a specified element or elements of the mark. The purpose of a disclaimer is to permit the registration of a mark that is registrable as a whole but contains matter that would not be

registrable standing alone, without creating a false impression of the extent of the registrant’s right with respect to certain elements in the mark.

Have you ever actually thought about the legal effect of making a disclaimer while registering a trademark or servicemark with the U.S. Patent and Trademark Office?

In regard to trademark registration, TMEP §1213 further provides:

(a) The Director may require the applicant to disclaim an unregistrable component of a mark otherwise registrable. An applicant may voluntarily disclaim a component of a mark sought to be registered.

(b) No disclaimer, including those made under subsection (e) of section 7 of this Act, shall prejudice or affect the applicant’s or registrant’s rights then existing or thereafter arising in the disclaimed matter, or his right of registration on another application if the disclaimed matter be or shall have become distinctive of his goods or services.

There are two caveats to extract from the above. One, by filing a disclaimer, an

Applicant or Registrant readily and willingly disclaims any and all exclusive right to use the specified element or elements of the mark. Two, a disclaimer shall not prejudice the Applicant's or Registrant's rights then existing or thereafter arising in the disclaimed matter.

In other words, a registration for "Hank's Hardware", with "Hardware" disclaimed does not give a Registrant any more or less rights in the word "Hardware" than exist or possibly arise after the fact. Yet, by way of the "Disclaimer Rule" as presently applied by Examining Attorneys (with the form paragraph cited case law), the Registrant now receives an unexpected boon in its legal scope of protection.

THE DISCLAIMER CASES: The TMEP cites the following five cases as applicable to the consideration of disclaimers during a likelihood of confusion analysis.

See *In re National Data Corp.*, 753 F.2d 1056, 224 USPQ 749 (Fed. Cir. 1985);

Specialty Brands, Inc. v. Coffee Bean Distributors, Inc., 748 F.2d 669, 672, 223 USPQ 1281, 1282 (Fed. Cir. 1984);

Giant Food, Inc. v. Nation's Foodservice, Inc., 710 F.2d 1565, 1570, 218 USPQ 390, 395 (Fed. Cir. 1983);

Schwarzkopf v. John H. Breck, Inc., 340 F.2d 978, 144 USPQ 433 (C.C.P.A. 1965);

In re MCI Communications Corp., 21 USPQ2d 1534, 1538-39 (Comm'r Pats. 1991).

A thorough reading of these cases in their entirety presents no discernible basis to support the present interpretation, and subsequent use, by Examining Attorney's to

apply the cases to a Registrant's disclaimer.

For example, in each of *National Data Corp.*, *Specialty Brands*, and *Giant Food* (each involving a comparison between composite marks) it was the **Applicant** (not the **Registrant**) who had disclaimed subject matter as a purported tactical matter, with the Applicant alleging its disclaimed portion should not be considered in a likelihood of confusion determination. Quite appropriately the courts disregarded the Applicant's assertion that they could make a disclaimer like this for tactical purposes.

In essence, the Court's view in these cases was when an Applicant makes a voluntary disclaimer of subject matter, such a disclaimer does not affect the scope of protection of a Registrant. The Court in *In re Nat'l Data* elegantly noted:

"Applicant voluntarily disclaimed these words, as a tactical strategy, believing it would assist in avoiding a holding of likelihood of confusion with the cited mark.

However, such action cannot affect the scope of protection to which another's mark is entitled."

It remains axiomatic that an Examining Attorney must evaluate an Applicant's entire mark, including any disclaimed matter...to determine registrability.

With a slight variation in facts, *Schwarzkopf* was an

opposition proceeding decided at the CCPA. In that case the Opposer asked the court to consider the Applicant's disclaimer in order to focus the likelihood of confusion analysis as to the non-disclaimed portion of the mark. However, in its brief the Opposer stipulated (inadvertently or otherwise) that it is "well established that disclaimed material forming part of [Applicant's] trademark cannot be ignored in determining whether the marks are confusingly similar...", to which the CCPA readily agreed, providing further

precedent for the notion it is the Applicant's mark that should be viewed in its entirety, regardless of any disclaimed portion.

With clear attention to an Applicant's voluntary disclaimer, it can hardly be said there is any dicta or holding in these cases that provide a conduit for an Examining Attorney to twist their application to provide authority to remove a Registrant's disclaimer from a likelihood of confusion analysis.

As for *MCI Communications*, the applicability of the case to a disclaimer comes straight out of the history of disclaimer law. The Commissioner held that, in accordance with the 1962 amendment to the Trademark Act that permits voluntary disclaimers, §6 of the Act permits an Applicant to disclaim matter voluntarily, regardless of whether the matter is registrable or unregistrable. The Commissioner specifically overruled all previous Office authority holding otherwise, as the previous practice prohibited the entry of disclaimers of registrable components of marks. As a result of the holding, an applicant could now disclaim any matter in a mark, and the Office would accept the disclaimer.

The *MCI* decision categorically provides that the entry of a voluntary disclaimer does *not* render registrable a mark that is otherwise unregistrable under relevant sections of the Trademark Act, such as §2(d) or §2(e).

In other words, there is nothing stated in *MCI* that means upon acceptance of a disclaimer the mark itself is accepted for registration. To the contrary, it remains axiomatic that an Examining Attorney must evaluate an Applicant's entire mark, including any disclaimed matter (voluntary or involuntary), to determine registrability. No one would disagree otherwise.

In Summary, a disclaimer made by a

Registrant during examination phase should not be discounted when the Registrant's mark is used to reject a subsequent Applicant from registering its mark, as the case law provides for scrutiny of an Applicant's disclaimer, not the other way around. Now if only the Examining Attorney would keep the distinction between Applicant and Registrant in mind.

The above article expresses the view of the author and not necessarily those of the State Bar of Texas IP Law Section or any of its affiliates.



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From First-to-Invent to First-Inventor-to-File: How Does it Affect Your Patent Practices and Clients?

By Meredith J. Fitzpatrick

On September 16, 2011, President Obama signed into law the *Leahy-Smith America Invents Act*, Pub. L. No. 112-29 ("AIA"). The AIA heralds a significant shift in many areas of substantive patent law that are expected to impact the way U.S. corporations, universities, and entrepreneurs do business. This article will describe the shift from the 1952 Patent Act's "first-to-invent" system to the AIA's "first-inventor-to-file" system ("FITF") and the impact these changes will likely have on your patent practice and clients.

The Shift Toward a First-Inventor-to-File System Substantially Changes 35 U.S.C. § 102. The AIA has enormous implications both in terms of the substantive patent law and patent procedure. Among the most significant and highly publicized changes is

a move from the United States' previous "first-to-invent" system to the new FITF system, which brings the system more in-line with patent laws in foreign jurisdictions. The previous first-to-invent system allowed an applicant to patent an invention upon proving he invented it before anyone else. In contrast, the AIA rewards the first person who first discloses the invention publicly or files a patent application, regardless of who invented the invention first.

The AIA fundamentally and radically alters 35 U.S.C. § 102 in order to achieve the shift from the first-to-invent system to the FITF system. The previous version of 35 U.S.C. § 102(a) barred an applicant from receiving a patent when "the 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." 35 U.S.C. § 102(a) (emphasis added). In contrast, the AIA bars patenting of any invention that 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." AIA § 102(a)(1) (emphasis added). Further, the 1952 Patent Act section 102(b) provides a grace period that allows applicants to wait to file an application up to one year after the patenting or description of the invention in a printed publication or the public use or sale of the invention. The AIA greatly narrows this grace period by only allowing applicants to wait to file an application within one year of disclosure of the invention if the disclosure came from the inventor or someone who obtained the information from the inventor. The AIA grace period also applies if the

disclosure in question post-dates an earlier disclosure made by the inventor or someone who obtained the information from the inventor. By greatly narrowing the one-year grace period between the public disclosure of the invention and the effective filing date of a U.S. patent application the AIA places a critical emphasis on the filing of U.S. patent applications as early as possible, and before the disclosure of any invalidating prior art.

The AIA eliminates section 102(c), which barred an inventor from receiving a patent on an invention he previously abandoned. The abandonment provision of the previous section 102(c) provided an impetus to inventors to quickly and diligently disclose their inventions to the public. The FITF system provides that same motivation by awarding patent rights to the first inventor who files

The shift to the First-Inventor-To-File system significantly reshapes several fundamental aspects of the Patent Act, including the scope of prior art, the inventors' grace period, and mechanisms to ensure the first person to file is the true inventor.

for a patent—thus obviating a need for a separate motivation to disclose more quickly under the previous section 102(c).

The AIA incorporates the previous section 102(d) into AIA section 102(a). Under section 102(d) of the 1952 patent act, a patent that issues from a foreign patent application constitutes invalidating prior art to the U.S. patent application for the same invention filed in the U.S. more than one year after the effective filing date of the foreign patent application. Under the AIA section 102(a), the foreign patent application itself becomes prior art to the U.S. patent application once the foreign patent application becomes publicly available.

The AIA disposes of section 102(f), which barred applicants from patenting others' inventions. The AIA's FITF system does not bar this activity outright, but rather provides

derivation proceedings, in which, upon a challenge from a third party, an applicant must prove he or she actually conceived of the invention. However, only other applicants to a patent can institute derivation proceedings, and they must do so within a specific time period of one year. If an application goes unchallenged throughout this period, the AIA provides no bar to patenting of others' inventions.

Further, the AIA removes section 102(g), which bars an applicant from receiving a patent where, before the applicant conceived of his invention, a third party in the U.S. conceived of the same invention, and diligently reduced it to practice before the applicant. Section 102(g) defenses to invalidity during litigation often result in high costs associated with location of the prior art, third-party depositions, and extensive expert testimony. Thus, removal of this sub-section will tend to lower litigation costs. Moreover, the FITF negates the need to quibble over which inventor conceived of and reduced their invention to practice first.

The First-Inventor-to-File System Expands the Scope of Prior Art. The AIA significantly expands the scope of what constitutes prior art. Previously, a prior publication anywhere in the world constituted prior art, but prior public use or sale constituted prior art only if it took place in the United States. Under the AIA, as with printed publications, prior public use or sale anywhere in the world constitutes prior art. In addition, while public use or sale previously constituted prior art only when it occurred more than one year before the filing date, the same activities constitute prior art under the AIA up until the effective filing date. Further, the AIA does not

distinguish between prior art activities of others and those of the inventor, as the 1952 Patent Act does. Under the AIA, all prior art based upon public activity occurring before the effective filing date, whether by the inventor or another, is lumped together in section 102(a)(1).

Further, the AIA redrafted 35 U.S.C. § 103 to expand the scope of prior art that can be considered in determining whether a patent is invalid for obviousness. Under the 1952 Patent Act, a claimed invention cannot be patented if it is proven to be obvious to a person of ordinary skill in the art at or before the time of *invention*. In other words, a patentee can “swear behind” a section 103 prior art reference that was available

Under the AIA, the claimed invention must be non-obvious up until the effective filing date...If a prior art reference is available before the effective filing date of a patent, it has potential to invalidate a patent...

before the filing date of the patent by proving he conceived of the invention before the prior art reference was available and diligently worked to reduce the invention to practice. Under the AIA, the claimed invention must be non-obvious up until the *effective filing date*. In other words, patentees can no longer swear behind section 103 prior art references. If a prior art reference is available before the effective filing date of a patent, it has potential to invalidate a patent, even if the date of invention pre-dates the availability of the prior art reference.

The First-Inventor-to-File System Provides an Ambiguous Grace Period. The AIA provides a one-year grace period during which disclosures do not constitute prior art if the subject matter disclosed comes directly or indirectly from the inventor. While it appears clear that patents, published patent applications, and printed publications fall within the definition of “disclosures,” a question remains as to

whether public use, sale, or acts that make the invention “otherwise available to the public” similarly constitute disclosures falling within the one-year grace period. The AIA provides no definition of the term “disclosure.” The legislative history provides some argument that *all* activities are “disclosures” and hence within the scope of the grace period. However, the Federal Circuit will likely address this issue, potentially many years from now.

The AIA Provides a Floating Transition Date to First-Inventor-to-File System.

The changes toward the FITF system, particularly the redefinition of what constitutes prior art, are governed by a “floating” transition date. Instead of a firm transition date that makes the AIA applicable to any new application filed after a certain date, the new FITF system comes into effect for patent applications and patents issued on those applications that contained: (1) a claim to a claimed invention where the filing date of the earliest application for which the claimed invention is entitled under sections 119, 365(a), 365(b), 120, 121, or 365(c) falls on or after March 16, 2013; or (2) a specific reference under sections 120, 121, or 365(c) to any patent or application that ever contained such a claim. Thus, applications filed on or after March 16, 2013 that claim priority back to patents filed before that date are governed by the old first-to-invent system rather than the FITF system, unless the application also claims priority to a patent filed on or after March 16, 2013. If the applicant makes a priority claim to a patent or application filed on or after March 16, 2013, then the FITF system governs, even if that priority claim is later canceled.

Because of the floating transition date and

perceived advantages with the first-to-invent system (such as narrower prior art provisions, and a broad grace period that is sharply limited in the AIA), patent practitioners expect a surge of initial patent application filings, either as provisional applications or as original foreign applications just before March 16, 2013. Applicants will likely continue to file continuations-in-part claiming priority to applications filed under the first-to-invent system for many years to come. This situation will force patent attorneys and the courts to remain familiar with, apply, and develop two separate statutory schemes.

Derivation Proceedings Replace Interference Proceedings.

In order to move toward a FITF system, the AIA provides mechanisms to ensure that the first person to file is the true inventor. The new law replaces interference proceedings with derivation proceedings in which the newly formed Patent Trial and Appeal Board (which replaces the Board of Patent Appeals and Interferences) will determine if an inventor named in an earlier-filed application derived the claimed invention from the inventor in a later-filed application.

Interference proceedings will remain available for certain legacy patents and applications. But, under the new derivation proceedings, an applicant may file a petition for a derivation proceeding within one year of the first publication of a claim to an invention that is the same or substantially the same as the earlier application’s claim to invention. They must do so within that year or permanently lose the opportunity to do so. The effective date of the derivation provision is March 16, 2013.

The AIA provides a one-year grace period during which disclosures do not constitute prior art if the subject matter disclosed comes directly or indirectly from the inventor.

How Will the First-Inventor-to-File System Likely Impact Clients?

The AIA skews the balance between individuals and small and large organizations. Individuals and small organizations, such as research facilities, startups, and entrepreneurs have traditionally relied heavily upon their ability to prove first conception (rather than first filing) and have taken advantage of the 1952 Patent Act's grace period under section 102(b) in order to raise money before filing patents. Large organizations, such as corporations, have typically employed a first-to-file strategy for decades, because they can afford to race to the USPTO shortly after each conception of an invention. Under the FITF system, individuals and all organizations, regardless of their size and resources, must win a race to the USPTO in order to receive a patent, which places small organizations and individuals at an enormous disadvantage compared to large organizations.

The fundamental restructuring of the Patent Act from the first-to-invent system to the FITF system will force research institutions, startups, and entrepreneurs to rethink their patenting processes. Small organizations may look to provisional patent applications as a priority document upon which to secure a date of invention for proving patentability. Filing a provisional application early in the invention process allows research institutions, entrepreneurs, and startups to secure an early filing date while providing a one-year grace period to secure funding and proceed with the more in-depth and expensive process of attaining a non-provisional application. However, effective provisional applications under the new law must fully disclose the invention to the same extent that a non-provisional application does. A sparse disclosure in a provisional application affords very little protection under the AIA. Additionally, given the ambiguity of the applicability of the grace

period to public uses and offers for sale, small organizations should not make commercial offers for sale until after the patent application or provisional patent application has been filed.

Large organizations will need to make changes in their approach as well. Certain practices by large organizations, such as outsourcing of manufacturing through foundry agreements, may be impacted by the ambiguous grace period provisions, creating potentially invalidating prior art where none existed previously. Further, given the not insignificant fee increases the PTO currently proposes for the filing and prosecution of patents, large and small organizations will likely pursue patent protection and maintenance of those protections on fewer inventions.

The shift to the FITF system significantly reshapes several fundamental aspects of the Patent Act, including the scope of prior art, the inventors' grace period, and mechanisms to ensure the first person to file is the true inventor. These changes will impact your clients' patenting strategies and procedures on a daily basis and will cause attorneys and courts to keep abreast of and sometimes simultaneously apply two different statutory schemes for decades to come.

The above article expresses the view of the author and not necessarily those of the State Bar of Texas IP Law Section or any of its affiliates.



Meredith J. Fitzpatrick is an associate in the Intellectual Property Practice Group at Vinson & Elkins LLP. Her principal practice area is patent litigation encompassing many diverse technologies, including the manufacture of LCD televisions, multiple facets of cellular phone technology, airplane wing design, and computer software.

The AIA's Expanded Prior Use Defense: A boon for the trade secret-centric company?

By: Kirk Voss & Derek Gilliland

In a recent attempt to step in line with the rest of the world, the United States has dramatically changed the landscape of its patent laws. President Barack Obama signed the Leahy-Smith America Invents Act (AIA) into law on September 16, 2011. The AIA modifies the U.S. patent system significantly. The biggest substantive change is the transition from the old “first to invent” system to the “first to file” system. But, for companies that value trade secret protection in addition to patent protection, the most interesting addition into the pantheon of U.S. patent law is a broader “prior use defense.” Generally, the prior use defense is a limited defense to patent infringement for a party commercially using an invention ultimately patented by another. If businesses take the right precautions, this defense could be an important tool against the dreaded and feared patent plaintiff. It may even be a deciding factor in choosing whether to patent an invention or to forgo patent protection and instead maintain the innovation as a trade secret.

A Little History

Congress first codified the prior use defense in 1999 amid the fear-mongering resulting from the United States Courts of Appeals for Federal Circuit's decision in *State Street Bank and Trust v. Signature Financial Group*. In *State Street*, the Federal Circuit held that methods of doing business could be patented. The financial industry almost had a collective heart attack when it realized potential liability waited around every corner.

To appease the financial industry's concerns, Congress attempted to throw it a bone in the form of 35 U.S.C. § 273 – the first codification of the prior use defense.

Unfortunately for patent infringement defendants, the statutory defense was doomed from the outset. Section 273 purported to only apply to “methods of conducting business”, but it failed to define what that phrase meant. So, the defense was completely inapplicable for litigation involving patents covering the remaining patentable subject matter (*i.e.*, machines, manufactures, non-business methods, and compositions of matter). That limitation severely restricted its practical use. Unsurprisingly, in a recent report, the United States Patent and Trademark Office (“USPTO”) could find **no** successful use of the prior use defense. A quick survey of patent infringement cases in the past decade confirms the USPTO's research. Perhaps this finding is due to the limited scope of the defense, or possibly litigants did not want to pay to find out what “methods of conducting business” meant, especially when other defenses, such as patent invalidation due to obviousness or anticipation, were already well defined.

Learn by Example

For a better understanding of the newly amended prior use defense, we'll use an example to cover the basics and flush out some particulars. Let's say Alfred, sole engineer of his upstart company, develops a new method for using motion-based video game control in his mom's basement. Further, being the meticulous engineer that he is, Alfred does a bang-up job of documenting every step of his inventive process. Sadly, Alfred cannot even afford to

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pay rent for his struggling company, let alone fork out \$4,000 to get a patent application on file. But, Alfred is able to enlist the aid of a few of his friends to help manufacture some controllers and sell them locally. Although Alfred sells the controller, he never discloses to the public its inner workings or various special purpose methods for using it. A year later, Sony develops the same technology, files for patent protection, and eventually obtains patents covering all facets of the controller, including methods of making and using it. Sony subsequently files suit against Alfred.

The “New & Improved” Prior Use Defense

The AIA has significantly amended Section 273. Now, to assert the prior use defense, the accused infringer must show good faith, independent commercial use of the patented subject matter (either internally or through an arm’s length transaction) *at least one year* before the filing date of the claimed invention (or the inventor’s disclosure under newly amended 35 U.S.C. § 102(b)) 35 U.S.C. § 273(a). As amended, the defense is applicable for all types of patentable subject matter, not just business methods. In our example, because Alfred commercially used the controller technology more than one year before Sony filed its patent applications, Alfred should be able to assert the defense. Under the pre-AIA version of the defense, Alfred would have been out of luck because his non-publically disclosed methods of using the controller technology were not “methods of conducting business.”

Importantly, the defense suffers from numerous nontrivial restrictions. The AIA provides that the defense is personal. *Id.* at

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(e). So, if Alfred licensed his controller technology to Microsoft, Microsoft would not be able to assert Alfred’s internal prior use as a defense in a suit filed by Sony. Further, the defense may only be asserted for the geographic areas where the invention was commercially used prior to the filing (or disclosure) date of the patentee. *Id.* Another notable restriction: when a university or affiliated technology transfer organization was the owner of the patent “at the time the invention was made,” the

defense is inapplicable. *Id.* Additionally, if Alfred abandons his use, Sony could recover for Alfred’s infringement. *Id.* Another limitation is the defense is not a general license. *Id.* If Alfred’s use consisted only of a method for using the controller technology, he would still be liable for

infringement under Sony’s remaining patent claims. Notably, as with the traditional anticipation and obviousness patent invalidity defenses, the accused infringer must satisfy a “clear and convincing” evidentiary burden. *Id.* at (b). However, successfully proving the defense does not invalidate the asserted patent; it only relieves the defendant of liability. *Id.* at (g).

Clearly, the prior use defense requires some significant hoop-jumping to be of any value. But, any business would be foolish to not be cognizant of it in view of the ever-increasing volume of patent litigation.

Choosing Trade Secrets Over Patent Protection

When first enacted in 1999, Section 273 raised some concerns over the perceived tension between trade secret law and patent law. For intellectual property to qualify as a trade secret, a business must erect Helm’s

Deep to guard it. Patent law, on the other hand, requires a prompt enabling disclosure of the invention in exchange for a time-limited monopoly. Those two policies, secrecy versus full disclosure, are diametrically opposed. With the passage of Section 273, was Congress implying that trade secret protection was somehow more important than patent protection? Those concerns proved to be unwarranted, as the original version of the defense had no practical application since its enactment. Further, nothing in Section 273 actually requires per se trade secret protection. In reality, only trade secrets would need the benefit of the defense. If Alfred publicly disclosed his method of using and developing his technology, he (and any other defendant) could use that disclosure under 35 U.S.C. §§ 102 and 103 to invalidate Sony's patents. Reliance on the prior use defense would be unnecessary.

There are a number of valid, practical reasons for businesses to prefer trade secret protection to patents. First, patent prosecution is an expensive undertaking.

Getting a competent patent application on file should cost the applicant north of \$4,000. Then add costs for responding to USPTO Office Actions, issuance fees, maintenance fees, and suddenly, small businesses are faced with bills for \$25,000 during the life of the patent. These costs could be a drop in the bucket for a Fortune 500 company, but for the Alfreds of the world, just the filing fee may be a non-starter. Faced with combining high prosecution costs with numerous innovations in need of protection, smaller businesses may better allocate their

resources to growth and prefer to keep their inventions under hat.

Second, patent prosecution takes an inordinate amount of time. The USPTO might not issue its *first* Office Action until three years after an applicant files for a patent. For businesses in highly evolving technological sectors, the patent may issue (if it issues at all) long after the innovation's useful life. By opting for trade secret protection, a company can avoid the bureaucratic quagmire that is the USPTO.

Third, a patent has a limited life, whereas trade secrets can exist indefinitely. If a company envisions its innovation having an effective lifespan significantly longer than 20 years, it is probably better served through

trade secret protection. Coca-Cola, Dr. Pepper, and WD-40 are great examples of trade secrets that have protected proprietary formulas long beyond the life of a patent.

With the AIA's expansion of Section 273, businesses have yet another reason to walk the trade secret path. Now, every patent plaintiff (besides universities) must fear a defendant's internal

intellectual property as a nullifying weapon in its defensive arsenal. But the prior use defense is only useful if you can prove it.

Proving Prior Use

To prove prior use by clear and convincing evidence, an accused infringer faces an uphill battle. The life of a patent is fairly long (twenty years from filing), and a patent plaintiff may file suit for infringement up to six years after the patent has expired. This expansive period of potential liability creates numerous problems for a defendant.

The only reliable way to prove prior use is through systematic, extensive, and meticulous documentation of the accused infringer's innovation... Ideally, the documentation should be commensurate in scope to that of a prospective patent application.

Reliance on sworn testimony is simply not practicable. Fading memories, dead or fired employees, and a need to prove the defendant performed or made each recited element of the asserted claims of the patents-in-suit are all death knells to proving this defense via testimony.

The only reliable way to prove prior use is through systematic, extensive, and meticulous documentation of the accused infringer's innovation. If a company opts for trade secret protection, it should instill a culture of full and consistent documentation. This culture serves a two-fold purpose. First, it keeps innovation protected as a trade secret from the outset. For example, Alfred should have every employee enter into confidentiality and non-compete agreements as a condition of employment. Alfred should conduct regular meetings to remind his employees of their non-disclosure obligations. He should also mark his documents as proprietary and confidential. Alfred should also limit access to his innovations and compartmentalize his development groups to prevent unnecessary sharing of proprietary information.

Second, this "documentation culture" helps a defendant actually prove the defense. Because the accused infringer will have to negate each element of the asserted patent claims, the more disclosure the documentation contains, the better. Ideally, the documentation should be commensurate in scope to that of a prospective patent application. To that end, Alfred might consider retaining competent patent counsel to draft a never-to-be-filed patent application and keep that trade secret "disclosure" on file indefinitely. Further, Alfred should have a knowledgeable employee timely memorialize IP development in the ordinary course of business, and continue to maintain those records for as long as possible. Hopefully, that practice will create a self-

authenticating, admissible hearsay business record. Alfred should also consider having multiple employees witness the document. It might even be useful to have the documentation made in affidavit or declaration form. Of course, keeping that documentation adequately secret may pose its own risks, but without it, an accused infringer has no chance of proving the defense.

Conclusion

Although the previous incarnation of the prior use defense was extremely limited, the AIA has expanded its applicability to all cases of patent infringement. For those companies that, for whatever reason, choose to protect their IP as trade secrets, the defense may be a viable option in future patent litigation. However, to take advantage of it, a company must keep its innovations sufficiently documented.

The above article expresses the view of the authors and not necessarily those of the State Bar of Texas IP Law Section or any of its affiliates.



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State Bar of Texas, Intellectual Property Law Section

2012 TEXAS INVENTOR OF THE YEAR

Nomination form

The 2012 Texas Inventor of the Year will be recognized at the Annual Meeting of the State Bar of Texas (SBOT) in Houston on June 14-15, 2012.

Please use this form, which includes five sections, to submit nominations for the 2012 Inventor of the Year. The Inventor Recognition Committee of the Intellectual Property Law Section (IPLS) of the SBOT will select the winner based primarily upon the responses in Section III. Please insert additional space below, or append additional pages, as needed.

Section I. General Instructions

1. Each nomination should be submitted as a single electronic file (e.g., using PDF or Zip format).
2. All nominations are **due by April 30, 2012**. Also, nominators must be IPLS members. Any member may make any number of nominations. Nominations of clients and employees are accepted and encouraged.
3. Please submit all nominations via email to Michelle LeCointe:
michelle.lecointe@bakerbotts.com (Phone: 512-322-2580).

Section II. Background Information

1. Nominee:

Name, business affiliation, and address of nominated inventor:

Year of birth (if known):

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2. Either (a) attach a current resume for the nominee, or (b) list the educational accomplishments, career positions, current professional memberships (including offices held), and the nominee's prior awards.

3. List all of the nominee's U.S. patents by number and title (a database printout is sufficient). (Note: only a copy of the patent(s) described in Section III should be attached.)

Section III. Invention(s) forming the Basis of the Nomination

Please append one or more pages with the following information:

1. **Information on the U.S. patent(s) for which the nomination is being made:**

Identify the U.S. patent or patents for which the nomination is being made. Include a detailed description and a brief history of the invention(s). *All nominations must be based on inventions having at least one United States patent.* The committee will consider a nomination based on an invention covered by an existing or even an expired patent.

Append copies of the patent(s) describing the invention(s). Additional visual aids may also be included.

2. **Known litigation, interference, or other proceedings:** Identify any known litigation, interference, or other proceeding that involves or involved the invention(s) or patent(s). The committee will not consider inventions based on patents (a) currently in litigation, re-examination, reissue, and interference proceedings, or (b) that have been held unenforceable or invalid.

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3. Describe the specific contribution of the invention(s) to society.

4. **Describe the impact the invention has had on Texas commerce.** All nominations must be based on inventions that have significantly impacted the Texas economy. More general impact on the US or world economy may be described, but specific effects on Texas should be included in some fashion.

Section IV. Nominator(s) (Please insert additional space as needed)

1. Name and address of each IPLS member who is nominating the named inventor, including business affiliation.

Name #1:

Bus. Affiliation:

Address:

Email:

Name #2:

Bus. Affiliation:

Address:

Email:

2. Date of submission of this nomination:

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3. Signature(s) of Nominator(s)

Section V. Appendices

Please append copies of the patent(s) describing the invention(s), a current resume (or similar) for the nominee, and any visual aids or other supplementary information below.