

What's Inside

Lifting the Veil of Secrecy 18-Month Publication of Patent Applications in the U.S. under the AIPA

Stephen Lesavich holds a Ph.D. in computer science and is a partner at Chicago's McDonnell Bohenen Hulbert & Berghoff, where he specializes in high-tech intellectual property issues. He can be reached via e-mail at lesavichmbhb.com. In this article, he discusses the new 18-month patent publication rule that took effect Nov. 29 as a result of the Domestic Publication of Foreign Filed Patent Applications Act of 1999. **P. 3.**

Who Owns the Invention, You or the Person You Hired

Douglas A. Miro and Marc A. Lieberstein are partners of Ostrolenk, Faber, Gerb & Soffen, LLP, in New York. Mr. Miro specializes in patent litigation and prosecution in a wide variety of arts, including Internet technologies, medical devices, steel-making, ceramics and refractories. Mr. Lieberstein focuses on intellectual property litigation involving domain names, commercial disputes, unfair competition and other aspects of e-commerce. In this article they discuss legal issues surrounding the ownership of inventions created by independent contractors. **P. 6.**

Judge Interprets Claims in Patent For Interactive Web Browsing

A federal judge in Chicago has interpreted the meaning of several terms used in a patent that describes a method by which Web browsers can enable interactive browsing. *Eolas Tech. v. Microsoft Corp.* **P. 14.** ☐

E.D.N.Y. Allows Immediate Appeal Of Discovery Ruling

For purposes of immediate appeal, a New York federal judge has entered a final judgment for his recent ruling that discovery is available under 28 U.S.C. § 1728 from a party to a proceeding before a foreign tribunal, and that the Japanese Patent Office is such a foreign tribunal. The judge noted that no cases in the Second Circuit have directly addressed these issues, and that Shipley Co. LLC, the party from whom discovery was ordered, could suffer irreparable harm if it is required to wait until the end of the case to appeal and the appeals court rules that discovery is not available. *In re Ishihara Chem. Co. Ltd.* **P. 15.** ☐

Court Finds No Jurisdiction, Tosses Invalidation Count for Lack of Controversy

A New York federal judge has dismissed, for lack of jurisdiction, claims against one defendant in a lawsuit over a patent license, finding that the plaintiff failed to show the defendant did business in New York or committed a tort that had effects there. The judge also dismissed, for lack of an actual controversy, the plaintiff's claim that the patent in the suit is invalid. *Arista Tech. v. Arthur D. Little Enters.* **P. 16.** ☐

ACTV Sues Disney, ESPN for Infringement Of Hyperlink Patent

The Walt Disney Co., ABC Inc. and ESPN Inc. are accused of infringing three patents covering technology for integrating television programming and Internet content. ACTV Inc. and its wholly owned subsidiary, HyperTV Networks Inc., filed the suit in the U.S. District Court for the Southern District of New York. *ACTV Inc. v. Walt Disney Co.* **P. 17.** ☐

NetZero Gets TRO Against Juno in Suit Over Floating Ad Banners

NetZero Inc. has obtained a temporary restraining order barring Juno Online Services Inc. from utilizing a floating ad banner in conjunction with its free Internet access services. NetZero alleges that Juno has infringed a patent covering the technology. *NetZero v. Juno Online Servs.* **P. 18.** ☐

Fed. Cir. Upholds Settlement of Infringement Suit over Video Game Patent

A Federal Circuit panel has upheld a settlement agreement that resolved a patent infringement lawsuit against Wal-Mart Stores Inc. and Apogee Software Ltd. stemming from the production and sale of a video game. *Inwood Int'l Co. v. Wal-Mart Stores.* **P. 19.** ☐

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Electronic Publisher: Robert Maroldo

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Production Manager: Mark McGuriman

Senior Editor: Donna Higgins

donna@andrewspub.com

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patentable invention. Unfortunately M. Ployer did not take its attorney's advice, and the contract with IND does not contain a provision for who owns the rights to any inventions or patents in the New Product.

This scenario commonly occurs in commercial settings because the parties do not foresee that future disputes may arise as to the ownership of any inventions, ideas or patentable technology that may be developed during the course of a relationship. Under the circumstances described above, does the employer/hiring company (M. Ployer) have the right to use the New Product developed by IND, an independent contractor (IND)? Can M. Ployer preclude IND from competing against M. Ployer and from selling the New Product to competitors of M. Ployer? Does M. Ployer have an ownership interest in any and all patent rights that may be obtained or that have already been obtained in the New Product?

It should initially be noted that no case law was found which specifically addresses these questions in the employer/independent contractor setting. Nevertheless, analogous case law enables the authors to surmise that the short answer to all these questions is yes, probably and possibly.

For purposes of this discussion, the authors will assume that M. Ployer contracted for and assigned IND to manufacture and develop the New Product, and that M. Ployer agreed to pay IND monetary compensation as consideration for it to develop the New Product.

The Right to Use

Let's first consider M. Ployer's right to use the invention developed by IND. Under the scenario described above, M. Ployer would likely be entitled to a non-exclusive royalty-free right to use the invention. This is usually characterized as a "shop right." The shop right concept has been applied in terms of an equitable license to use another's patented invention in the independent contractor/employer relationship such as the one between IND and M. Ployer.¹

The state of the law concerning shop right was discussed by the Federal Circuit in *McElmurry v. Arkansas Power and Light Co.*² A shop right has been defined as a right created at common law, when the circumstances demand it, under principles of equity and fairness. The shop right entitles an employer to use, without charge, an invention patented by one or more of its employees without liability for infringement.³ The Federal Circuit

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Douglas A. Miro and Marc A. Lieberstein are partners of Ostrolenk, Faber, Gerb & Soffen, LLP, in New York. Mr. Miro specializes in patent litigation and prosecution in a wide variety of arts, including Internet technologies, medical devices, steel-making, ceramics and refractories. Mr. Lieberstein focuses on intellectual property litigation involving domain names, commercial disputes, unfair competition and other aspects of e-commerce. In this article they discuss legal issues surrounding the ownership of inventions created by independent contractors.

M. Ployer Inc. contracted with IND Contractor Co. to assist in developing a New Product. This New Product will enable M. Ployer to surpass all of its competitors in the industry. M. Ployer and IND meet, discuss ideas, problems and goals and the development project begins. During the course of the project, IND comes up with M. Ployer's great New Product, and M. Ployer discovers that the New Product comprises a

infringers. If a patent application is published, the applicant is entitled to a reasonable royalty for damages for infringement for a period between the date of publication of the application and the date the patent is granted. These new provisional patent rights apply provided that: (1) actual notice of the published patent application is given to an alleged infringer; and (2) the claims in the published application are "substantially identical" to the claims in the issued patent. However, treble damages are not available for these provisional patent rights.

AIPA Impact on Patent Practice, Licensing and Litigation

The AIPA significantly changes patent practice in the United States. If a patentability search is conducted, the search should now include published patent applications. Since an application may be republished multiple times, the search must be conducted to include the potential for multiple republications with multiple sets of claims.

The AIPA also involves making a number of strategic patent practice decisions such as deciding to publish at all, deciding to voluntarily publish or publish early, deciding on the range of claims to initially publish and decisions relating to republishing applications with amended or canceled claims. The need to maintain secrecy or to file continuation applications at a later time must also be balanced against the possible desire to create prior art documents to use against a competitor or to take advantage of the new provisional rights to use against potential infringers.

The new rules under the AIPA make risk evaluation and management for licensing and litigation more difficult. An organization may be approached by a competitor and asked to take a license at a lower royalty rate based on claims in a published patent application before it issues into a patent. However, the organization may have a hard time evaluating the risk involved with a licensing request, since the number and scope of claims in the issued patent may be totally different (e.g., canceled or narrowed claims) than and not substantially similar to the claims in the published patent application.

An organization may also be approached by a competitor with a notice of a published application and a claim of alleged infringement to invoke the AIPA provisional patent rights. The organization may have a hard time

evaluating the litigation risk associated with provisional patent rights based on the claims in the published patent application. For example, what does the term "substantially similar" mean now, and what will it come to mean after a few patent cases are litigated? Are the claims in a published patent application substantially similar to the claims in the issued patent if they differ by a few words? How about if they differ by one or two claim elements or one or two claim features? Years of arguments over these issues are sure to follow.

The *Festo* Decision and the AIPA

Coincidentally, on Nov. 29, 2000, the U.S. Court of Appeals for the Federal Circuit handed down a decision in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, No. 95-1066 (Fed. Cir., Nov. 29, 2000) (*en banc*). The court took the case *en banc* to resolve specific issues related to the doctrine of equivalents that remained unanswered by the U.S. Supreme Court decision in the patent case *Warner Jenkins Co. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 137 Ed. 2d 146, 117 S. Ct. 1040 (1997). (**Editor's Note:** see e-Patent LR, December 2000, P. 3, for coverage of the *Festo* decision.)

In general, *Festo* held that if a patent claim is narrowed for any reason that relates to the statutory requirement of a patent (e.g., 35 U.S.C. §§ 101, 102, 103 and most likely including § 112), prosecution history estoppel arises. There is no range of equivalents for the narrowed claim element and application of the doctrine of equivalents for any narrowed claim element is completely barred. *Festo* at *25. Virtually every issued patent includes one or more narrowed claim elements that could be affected by the *Festo* decision, since normal patent practice has always included an iterative process of narrowing claims during the examination process. Most narrowing claim amendments were made for the patentability reasons discussed in *Festo*.

The dissent in the *Festo* decision has argued that the *Festo* holding provides a road map for potential patent infringers. Anyone seeking to lawfully copy a patented technology need only: (1) read the prosecution history to identify narrowing claim amendments made for patentability reasons; and (2) copy every other claim element exactly, and substitute any known interchangeable structure, matter or step for any claim element that has been narrowed. Any minor change, to even one narrowed element, should be sufficient to avoid liability for infringement. *Festo* at *180.

in *McElmurry* found that “the proper methodology for determining whether an employer has acquired a ‘shop right’ in a patented invention is to look at the totality of circumstances on a case-by-case basis and determine whether the facts of a particular case demand, under principles of equity and fairness, a finding that a “shop right” exists.”⁴

Factors that courts should look at are the “circumstances surrounding the development of the patented invention and the inventor’s activities respecting that invention, once developed, to determine whether equity and fairness demand that the employer be allowed to use that invention in his business.”⁵ The *McElmurry* court reviewed the Supreme Court “shop right” cases and found that the shop right definition in *United States v. Dubilier*⁶ was the most appropriate for determining whether a shop right exists. In *Dubilier*, the Supreme Court stated:

Where a servant, during his hours of employment, working with his master’s materials and appliances, conceives and perfects an invention for which he obtains a patent, he must accord his master a nonexclusive right to practice the invention.... Since the servant uses his master’s time, facilities and materials to obtain a concrete result, the latter is in equity entitled to use that which embodies his own property and to duplicate it as often as he may find occasion to employ similar appliances in his business.

In *McElmurry*, the employer, AP&L, hired Harold L. Bowman as a consultant to assist in the installation, maintenance and operation of a level detector at AP&L’s facility. Bowman worked with AP&L’s employees to redesign and develop a newly redesigned level detector to detect the level of fly ash. Bowman assisted AP&L’s employees to install and develop the level detectors at AP&L’s facilities. Ultimately, Bowman obtained a patent for the new level detector which he developed at AP&L’s facilities and at AP&L’s expense. The Federal Circuit found that AP&L had acquired a shop right in the patented level detector developed by Bowman at its facilities.

Similar to the IND/M. Ployer situation, Bowman developed a patented level detector while working for AP&L (the employer) and suggested it to AP&L as an alternative to the old level detectors. Indeed, Bowman had consented to and participated at least in part in the installation of the level detector at various AP&L facilities. Bowman also never asserted that AP&L was

precluded from using the level detector without its permission or that AP&L was required to compensate him for its use. The record suggested that Bowman actually believed quite the opposite.

Here, in our hypothetical, the circumstances surrounding the creation of the contract/project between M. Ployer and IND indicate that M. Ployer specifically hired IND to develop the New Product which comprises the alleged patentable invention. The New Product was to be made exclusively for M. Ployer’s use in order to make M. Ployer a dominant force in the relevant industry. M. Ployer specifically paid IND to develop the New Product. Following the rationale of *McElmurry*, M. Ployer should own at least a shop right.

From *McElmurry*, we learn that another factor to consider is whether the independent contractor unequivocally consented to, and acquiesced in, the hiring company’s exclusive rights to use the New Product for the hiring company’s benefit. If IND, like Bowman in *McElmurry*, never expressed any opposition to M. Ployer’s right to use the New Product, and the facts indicate that it was IND’s understanding that it was assigned to design and manufacture the New Product exclusively for M. Ployer’s use, and M. Ployer paid due consideration for IND’s services, a court would likely find the existence of an implied license or shop right in favor of M. Ployer.⁷

Accordingly, based on the law set forth in *McElmurry* and *Dubilier*, M. Ployer would own an equitable license or shop right in any patents or inventions derived from the New Product developed pursuant to the Project.

The Right to Prevent Unlawful Competition

The mere existence of the M. Ployer/IND relationship may be sufficient for M. Ployer to prevent IND from competing against M. Ployer in the marketplace for the New Product. As more fully discussed below, M. Ployer may bring a claim for breach of confidential relationship, independently of any shop right or trade secret claims against IND.⁸ The existence of a confidential relationship alone may be enough to prohibit disclosure of the information exchanged or developed during the course of the relationship and prevent IND from competing against M. Ployer.⁹

The *Kamin v. Kuhnau* case, decided in the Oregon Supreme Court, is most instructive here. In *Kamin*, the plaintiff, Kamin, employed an independent contractor

