The Limited Monopoly™

Diligence in Establishing "Common Ownership" and Joint Research Agreements

by John Hammond, PE and Robert Gunderman, PE

A Brief Prosecution Primer

Regular readers of this column may recall a basic premise of patent prosecution:[1] after some initial administrative steps, a Patent Examiner in the USPTO studies the Applicant's patent application, and performs a "prior art" search. The Examiner searches the patent literature, as well as non-patent literature sources such as academic journals, trade publications, and general Internet sources. In the search, the Examiner is seeking information that discloses the invention claimed in the patent application, or inventions similar to it, which can be used as the basis to reject the claims as lacking novelty, or being obvious.

In making a rejection of the claims due to obviousness, an Examiner combines teachings from multiple sources to allegedly result in the claimed invention, and makes a finding that it would have been obvious at the time of application filing (or pre-AIA, at the time the invention was made) for one of ordinary skill in the art to make the combination.

Problems Addressed by Revised Laws

Prior to 1984, a problem existed with the obviousness statute, 35 USC § 103 ("Conditions for patentability; non-obvious subject matter"), which was enacted in 1952. The problem was that any issued patents and publications were applicable as prior art, regardless of their origin. That included patents and published applications that were owned by the same person or entity that filed the patent application that was being rejected.

For example, when a company as the assignee filed a patent application, with ownership of the application established by an assignment from its employee inventors, not only could the application be rejected by citing prior art patents and applications of its competitors, the application could also be rejected by citing other patents and published applications of those inventors, or of other company employee inventors.

Not surprisingly, especially for large companies that had ongoing R&D programs in various product and technology areas and numerous employee inventors, this was a common occurrence.

"If you are running a tech company or setting up a joint research agreement with a development partner that will result in patent application filings, there are some things that you need to know."

Eventually, Congress recognized that it was inherently unfair that a company (or a university or other entity) could invest a substantial sum in developing a technology and pursuing patent protection, and then as its patent portfolio matured, the portfolio increasingly became a tool that could be used to deny the company further patents.

To address this problem, Congress amended 35 USC § 103 in 1984, adding section (c), which provided an exemption of the prior art that could be cited in an obviousness rejection. Under the revised statute,[2] if the subject matter of a reference cited by an Examiner and that of the claimed invention were commonly owned or subject to an obligation to assign at the time the claimed invention was made, then that reference could not be used to make a rejection of the claimed invention as being obvious. Hence the generally unpopular practice of using a company's own issued patents and published applications against its new applications ended with this revision to the statute.

However, another problem remained unsolved. Intellectual property that resulted from joint research and development ventures were not covered by this revision. The Bayh-Dole Act, enacted in 1980, significantly increased the motivation of universities to develop technologies and commercialize them. It was also common for private sector companies to at least partially fund the research via joint development agreements with the universities. However, the joint parties enjoyed no relief from the 103(c) provision of the statute.

The issue festered after 1997 when the Court of Appeals for the Federal Circuit ruled in *OddzOn Products, Inc. v. Just Toys, Inc.*[3] that information qualifying as prior art under 35 USC §

102(f) or 102(g) could be used to reject the claims in a patent application as obvious. This rejection could occur even if that information was confidential, shared among consenting parties, or undocumented, which is something that commonly occurs in a joint research and development venture.

In 2004, Congress further amended section 103(c) via the CREATE[4] Act. This revision extended the exemption to disqualify prior art if the claimed invention was made by or on behalf of parties to a joint research agreement that was in effect on or before the date the claimed invention was made, and the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement. In passing this legislation, Congress intended to address the adverse consequences of the *OddzOn Products* decision and to provide a safe harbor for cooperative research, particularly between universities and businesses.

The Most Recent Statute

With the enactment of the America Invents Act in September 2011, the provisions of 35 USC § 103(c) were removed from that section of the statutes. However, by no means were the provisions eliminated; instead, they were added to 35 USC § 102 ("Conditions for patentability; novelty). The portion of former 103(c) that dealt with common ownership (within a corporation or other entity and addressed by the 1984 legislation) is now subsection 102(b)(2)(C), and the portion that dealt with joint research agreements (i.e., the 2004 CREATE Act) is now subsection 102(c)(1) – (3).

It is important to note that with these provisions now under section 102, which addresses novelty, they limit the subject matter that can be used in rejection of claims as lacking novelty as well as being obvious. Additionally, in order to make these provisions consistent with the remaining major revisions to section 102, their respective wording was revised to stipulate that the common ownership or joint research agreements were "in effect on or before the effective filing date of the application" for patent, instead of "in effect on or before the date the claimed invention was made."

The Bottom Line – Be Careful

So what does this long-winded history of this portion of the patent statutes mean to you? If you are running a tech company (or a university tech transfer office), what is your "take away" list? Here are a few key points:

1. Establish the "obligation of assignment" by your employees in advance. Have employment agreements in place that include the obligation to assign. Better yet, in view of the decision in *Stanford v. Roche*[5] as a first level of assignment, have the employee agreement state that all inventions "are hereby assigned," instead of merely reciting the obligation to assign.

2. Execute the formal assignment of the invention and patent application by the employees to your company at the time of filing the application. You don't have to wait until after the application is filed.

3. Understand that the term in the statutes, "owned by the same person" includes ownership by a corporation. More importantly, "owned" means 100 percent owned by the actual person, corporation, or parties to the joint research agreement. Having complex arrangements between parties, including partially owned corporate subsidiaries, can create some serious pitfalls that can compromise the validity of a patent that may eventually issue.

4. Understand that "joint research agreement" means an agreement *in writing*. If you are entering into a joint research agreement that may produce patentable inventions, get the written agreement done upfront, preferably before the potential inventors start working together. Don't rely on a handshake agreement and leave it as something that you eventually will get around to, and know that the written agreement *must* be in place before any patent applications are filed.

These are basic points, but putting them into practice confidently will require the advice of an attorney well versed in current patent law and IP transactional matters.[6] Failing to attend to these details may place the validity of any future patents in jeopardy. Ignore them at your peril.

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1. See *The Limited Monopoly*™, March 2009.

2. Further amendments were made under the American Inventors Protection Act of 1999; see Pub. L. 106-113, 113 Stat. 1501, 1501A-591 (1999).

3. *OddzOn Products, Inc. v. Just Toys, Inc.* 122 Fed. 3 1396 (Fed. Cir. 1997).

4. Cooperative Research and Technology Enhancement Act of 2004.

5. *Stanford v. Roche,* 563 U.S. ___ (2011); complete opinion at **http://www.supremecourt.gov/opinions/10pdf/09-1159.pdf.**

6. Readers may contact either of the authors if a referral to a qualified attorney is needed.

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