

REPORT

NEWLY ENACTED REVISION TO 35 U.S.C. §103(c) EXCLUDES FROM AN OBVIOUSNESS ANALYSIS CERTAIN PRIOR ART OWNED BY PARTIES TO A JOINT RESEARCH AGREEMENT

December 10, 2004

President Bush today signed legislation that revises 35 U.S.C. §103(c) by adding paragraphs (2) and (3). Existing 35 U.S.C. §103(c) excludes subject matter that otherwise qualifies as prior art against a claimed invention only under 35 U.S.C. §102(e), (f) and (g) from being relied upon in an obviousness analysis of the claimed invention if the prior art and the claimed invention were commonly owned at the time the claimed invention was made. The new paragraphs further exclude prior art that is not commonly owned, if the later invention was made by or on behalf of parties to a joint research agreement.

The revisions to 35 U.S.C. §103(c) become effective December 10, 2004 (today), as to all U.S. patents issued on or after this date.

I. Revision of 35 U.S.C. §103(c)

A. The Statutory Changes

35 U.S.C. §103(c) has been revised to include new paragraphs (2) and (3). As revised, 35 U.S.C. §103(c) now reads:

"(1) Subject matter developed by another person, which qualifies as prior art only under one or more of subsections (e), (f), and (g) of section 102 of this title, shall not preclude patentability under this section where the subject matter and the claimed invention were, at the time the claimed invention was made, owned by the same person or subject to an obligation of assignment to the same person.

(2) For purposes of this subsection, subject matter developed by another person and a claimed invention will be deemed to have been owned by the same person or subject to an obligation of assignment to the same person if

(A) 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;

(B) the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and

(C) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement.

(3) For purposes of paragraph (2), the term 'joint research agreement' means a written contract, grant, or cooperative agreement entered into by two or more persons or entities for the performance of experimental, developmental, or research work in the field of the claimed invention."

B. Reasons for the Changes

Before enactment of the new law, 35 U.S.C. §103(c) was limited to paragraph (1) above. Under prior 35 U.S.C. §103(c), subject matter that qualified as prior art against a claimed invention only under 35 U.S.C. §102(e), (f) or (g)

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could not be used against a claimed invention in an obviousness determination under 35 U.S.C. §103(a) so long as the subject matter and the claimed invention were owned by the same person or subject to an obligation of assignment to the same person at the time the claimed invention was made. "Same person" was construed to mean the exact same entity.

The exclusion established by prior 35 U.S.C. §103(c) thus did not exclude from the obviousness analysis any prior art under 35 U.S.C. §102(e), (f) or (g) that was owned by (assigned to) different entities, including overlapping entities having at least one owner in common. This was seen as being particularly prejudicial with respect to parties involved in a joint research agreement.

For example, company A may have owned confidential information and shared such information with company B during the course of joint research between companies A and B. Such information could qualify as prior art under 35 U.S.C. §102(f) and/or (g), and thus could previously have been relied upon in an obviousness analysis of a later claimed invention assigned to an entity other than company A (e.g., assigned jointly to companies A and B or assigned to company B). Thus, even though the information was confidential, a subsequent jointly developed claimed invention owned by a different entity could have been found unpatentable for obviousness over such confidential information. This is because the confidential prior art and the subsequently developed invention were not owned by the same entity. In *Oddzon Products, Inc. v. Just Toys, Inc.*, 122 F.3d 1396, 43 USPQ2d 1641 (Fed. Cir. 1997), the Federal Circuit confirmed that such confidential shared information could be relied upon in determining the obviousness of a subsequently jointly developed and differently owned claimed invention.

Amended 35 U.S.C. §103(c) rectifies this situation by making the same exclusion of prior 35 U.S.C. §103(c) available to benefit parties to a joint research agreement.

C. Three Requirements Must be Met for Exclusion to Apply

To fall under the new exclusion of 35 U.S.C. §103(c)(2), (A) a joint research agreement has to be in effect on or before the date the claimed invention was made, (B) the claimed invention has to be the result of activities undertaken within the scope of the joint research

agreement, and (C) the patent application has to disclose, or be amended to disclose, the names of the parties to the joint research agreement. The term "joint research agreement" is defined in 35 U.S.C. §103(c)(3) to mean "a written contract, grant, or cooperative agreement entered into by two or more persons or entities for the performance of experimental, developmental, or research work in the field of the claimed invention."

D. An Anomaly in the Language of the Statute

Interestingly, it appears that on its face the new law extends extra benefits to parties to joint research agreements by excluding from the obviousness analysis of claims to an invention developed under a joint research agreement any prior art qualifying under only 35 U.S.C. §102(e), (f) or (g). That is, on its face the new law does not require that the excluded prior art be owned by at least one party to the joint research agreement. Thus, an argument can be made that according to the new law, prior art under 35 U.S.C. §102(e) owned by A cannot be relied upon under 35 U.S.C. §103(a) with respect to an application directed to an invention developed under a joint research agreement between B and C where the above three requirements are otherwise met. It remains to be seen how the Patent Office, courts and/or Congress will deal with this issue once it is brought to their attention. However, the legislative history indicates that this possible result was not the intent of the revision. The House of Representatives (House) report specifically stated that to gain the benefits of the new law, "the invention and the subject matter (i.e., prior art or information qualifying solely under 35 U.S.C. §102(f)) that is being excluded must be owned by, or otherwise subject to the control of, one or more of the parties to the joint research agreement."

E. Effective Date and Applicability of the Amended Statute

The effective date of the new law is December 10, 2004 (today). Specifically, according to the enacting legislation, this new law will apply to all patents having an issue date of today or after.

Because the new law is applicable to patents granted on or after today, it appears that the new law should apply to pending applications that have not yet issued as patents. As summarized in the House report, the intent of Congress is to have the new law apply to pending patent applications,

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including applications for reissue, and the Patent Office will likely permit reliance upon the new law in pending applications. However, it remains to be seen how the U.S. Patent and Trademark Office (PTO) will address this apparent legislative oversight.

Assuming that the PTO will permit reliance upon the new law in pending applications, the new law would apply immediately to all pending applications that have not yet issued, regardless of filing date.

The new law would also apply immediately to all applications for reissue of earlier-issued patents. This may be quite significant to any patents issued prior to the effective date in which the claims were drafted to be non-obvious from earlier filed, non-commonly owned prior art that could now be disqualified under the new provisions of 35 U.S.C. §103(c)(2). It could also be quite significant to any patents issued prior to the effective date in which the claims may be invalid as obvious from non-commonly owned prior art that could now be disqualified under 35 U.S.C. §103(c)(2). For any such patents, it is now possible to file a reissue application to seek claims that are not anticipated by, but would have been obvious in view of, non-commonly owned prior art that would now be excluded from the obviousness analysis. Of course, any reissue application seeking claims broader than the claims of the issued patent must be filed within two years of the issue date of the patent.

The new law, however, does not affect any final decision of a court or the PTO rendered before today. A "final decision" by the PTO includes decisions by the Board of Patent Appeals and Interferences, but not final rejections by Patent Examiners. However, if an application is under final rejection, it is possible that the Examiner will refuse to consider the effect of the new law upon the patentability of claims in the application (assuming the PTO permits reliance upon the new law in pending applications) because it raises a new issue requiring a further search of the claims. In any applications under final rejection that will be affected by the new law and in which the Examiner refuses to consider the issue, the filing of a continuing application or Request for Continued Examination (RCE) before abandonment of the application would permit application of the new law to the claims.

F. Most Significant Aspects Relating To Prosecution of Applications Before the PTO

1. Rejections under 35 U.S.C. §103(a) Relying upon §102(e) Prior Art

Under 35 U.S.C. §103(c)(1), where the Patent Office has made a rejection under 35 U.S.C. §103(a) relying upon a published application or issued patent that qualifies as prior art only under 35 U.S.C. §102(e), it is possible to overcome this rejection simply by informing the Patent Office that the claimed invention and prior application or patent were, at the time the claimed invention was made, owned by or subject to an obligation of assignment to the same entity.

Under 35 U.S.C. §103(c)(2), it will now also be possible to overcome such a rejection where the claimed invention and the earlier filed application/patent are owned by different entities, so long as (A) a joint research agreement was in effect on or before the date the claimed invention was made, (B) the claimed invention was the result of activities undertaken within the scope of the joint research agreement, and (C) the patent application directed to the claimed invention is amended to disclose the names of the parties to the joint research agreement.

Of course, we caution that before invoking this new provision, consideration must be given to (1) whether any published or patented foreign counterparts of the earlier filed application or patent qualify as prior art under another provision of 35 U.S.C. §102, such as 35 U.S.C. §102(a), (b) and/or (d), and (2) whether there are any earlier corresponding U.S. patent application publications, such as a published U.S. application or issued (or published) parent application, that qualify as prior art under 35 U.S.C. §102(a) and/or (b). If so, although it is possible to remove the cited earlier filed published application or patent from the obviousness rejection under 35 U.S.C. §103(c)(2), the rejection may still be maintained upon substitution of the earlier corresponding document that is prior art under 35 U.S.C. §102(a), (b) and/or (d). In this instance, we recommend (1) pointing out that 35 U.S.C. §103(c)(2) overcomes the rejection, (2) informing the PTO of (and filing an Information Disclosure Statement to provide a copy of) the earlier corresponding document, and (3) substantively traversing the rejection based upon the teachings set forth in the earlier corresponding document

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(considering whether or not the earlier document contains the same disclosure as the cited published application or patent).

2. Obviousness-Type Double Patenting Rejections

The PTO may also make an obviousness-type double patenting rejection of a claimed invention, asserting that the claimed invention is not patentably distinct from claims in another pending or patented application. Under prior practice, this rejection could be overcome by filing a terminal disclaimer in the application directed to the patentably indistinct claimed invention only if the two cases were commonly owned. Under prior practice, a terminal disclaimer in the application with the patentably indistinct claims had to (1) disclaim any term of a patent issuing from the application containing the patentably indistinct claims that would extend beyond the term of a patent issuing from the other application and (2) state that the patent issuing from the application will not be enforceable during any time in which the granted patent is owned by a different entity from that of the other application. Requirement (2) was to prevent a multiplicity of patents claiming patentably indistinct inventions from becoming separately owned and enforced.

Terminal disclaimer practice must be revised for applications falling under the provisions of new 35 U.S.C. §103(c)(2). This is because under §103(c)(2), it will now be possible for different patents containing patentably indistinct claims to be owned by different entities, and thus current requirement (2) above requiring common ownership for enforceability is not appropriate with respect to such patents. Congress thus directed the PTO to require a new form of terminal disclaimer for this situation. Congress recommended that the new terminal disclaimer require (1) disclaimer of any term of the patent issuing from the application with the patentably indistinct claims that would extend beyond the term of the patent issuing from the other application, (2) that the owner of the application with the patentably indistinct claims waive the right to enforce the patent issuing therefrom separately from the patent issuing from the other application, and (3) that the owner of the application with the patentably indistinct claims and the

owner of the other application agree to the terms of the terminal disclaimer.¹

The last two elements of the recommended terminal disclaimer are new. To illustrate, as a result of new element (2) above, if the owner of a first issued patent sues a party for infringement, the different owner of the patent having patentably indistinct claims would have to either also assert infringement of that patent in the same litigation or lose the right to assert the patent against that party for the same infringing product/process. As a result of new element (3) above, if the owner of the patent having the patentably indistinct claims sues a party for infringement, the different owner of the first issued patent (in which no terminal disclaimer was filed) would similarly either also have to assert infringement of that patent in the same litigation or similarly lose the right to assert the patent against that party for the same infringing product/process.

We will keep you informed as to the specific requirements for this new form of terminal disclaimer when promulgated by the PTO.

3. Illustrative Examples

To assist in your understanding of this new law, we provide the following illustrative examples.

a. Ownership Issues in the Research Agreement

35 U.S.C. §103(c)(2) is applicable where the parties to a joint research agreement did not or could not agree, in advance of making claimed inventions under the terms of

¹ As you are aware, attorneys with appropriate powers of attorney may currently sign terminal disclaimers on behalf of the owner(s) of an application. If requirement (3) is adopted by the PTO, and assuming our firm has an appropriate power of attorney from all of the owners that would need to sign the terminal disclaimer, our firm will require agreement to the filing of the terminal disclaimer from all of the involved patent owners before we will sign and file such a terminal disclaimer. That is, if one owner is principally overseeing prosecution of an application and seeks to overcome an obviousness-type double patenting rejection by filing the new form of terminal disclaimer, we will require confirmation that all of the involved owners agree to the filing of the terminal disclaimer.

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the joint research agreement, to common ownership of jointly developed inventions.

The provision is thus applicable to research agreements where the ownership/assignment of inventions developed in the joint research is not specified at all. Further, it is also applicable to the more common situation where ownership/assignment of developed inventions is specified, but is different depending on the inventors or subject matter invented. For example, the research agreement may specify that inventions developed under the research agreement solely by inventors employed by company A are to be assigned to company A, inventions developed solely by inventors employed by company B are to be assigned to company B, and inventions developed by inventors of both company A and company B are to be assigned jointly to companies A and B. That is, such a research agreement specifies the ownership of inventions, but does not specify that the ownership is common for all developed inventions. 35 U.S.C. §103(c) does not exclude 35 U.S.C. §102(e), (f) and (g) prior art from an obviousness analysis in the foregoing situations. However, 35 U.S.C. §103(c)(1)-(3) now exclude such prior art subject matter, because it treats the prior art subject matter and the claimed invention as being owned by the same entity.

b. Timing of Exclusion

Parties often share confidential information with each other before establishing a formal joint research agreement, for example when each party is exploring the capabilities of the other party as well as the mutual benefits to be realized by the research agreement. Under new §103(c)(2), even though the joint confidential information was shared before a formal joint research agreement was established, the confidential information cannot be used in an obviousness analysis against a later developed invention, so long as the later invention was not developed prior to the effective date of the joint research agreement.

Thus, under §103(c)(2)(A), the key timing issue for the exclusion to apply is the date the claimed invention was made with respect to the date the joint research agreement was effective. So long as the joint research agreement was in effect before the date the claimed invention was made, all prior art of a party to the joint research agreement that is available only under 35 U.S.C. §102(e), (f) and/or (g) is excluded from the obviousness analysis of the claimed invention. It is irrelevant whether the confidential

information was shared before or after the effective date of the joint research agreement.

c. Illustration of Prosecution Example

Company A owns a U.S. patent issued January 1, 2004 (with no earlier publication date) from an application filed on January 1, 2003. Companies A and B enter into a joint research agreement on February 1, 2003. Companies A and B then develop an invention under the scope of the research agreement, and file an application on such invention on June 1, 2003, assigning the invention to both companies A and B. On June 1, 2004, the Patent Office rejects the claims of the application under 35 U.S.C. §103(a) relying upon the patent (which is prior art against the application only under 35 U.S.C. §102(e)), and also rejects the claims of the application under the doctrine of obviousness-type double patenting over the claims of the earlier patent.

Assuming that there are no published or patented §102(a), (b) or (d) prior art foreign counterparts to the earlier patent, the rejections may be overcome by (1) amending the application to include the names of the parties (A and B) to the joint research agreement, (2) stating in the response that the requirements of 35 U.S.C. §103(c)(2) are satisfied, and (3) filing a terminal disclaimer in accordance with requirements to be established by the PTO.

Again, note that it is not necessary for the joint research agreement to have been in place before the filing date of the earlier patent. It is only required that the joint research agreement be in place at the time the later claimed invention is made.

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II. Conclusion

We will continue to study the effects of the changes to 35 U.S.C. §103(c) and future related rulemakings by the PTO, and look forward to responding to any questions you may have.

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