

## Re-Thinking Joint Ventures and Small Entity Status from the Patent Perspective

The last few months have seen a number of changes to the patent laws and regulations. Of particular interest, the laws and rules about the activities of joint ventures and about small entity status have changed, likely for the better. On December 21, 2004, the law regarding the use of confidential information shared pursuant to a joint research agreement as prior art was changed, such that certain disclosures of confidential information no longer qualify as prior art under specific conditions. Additionally, numerous rules relating to patent practice, including rules relating to small entity status, have been changed recently to support implementation of the PTO's 21st Century Strategic Plan. This Cooley Alert highlights a few of the most significant changes.

### Certain Disclosures of Confidential Information Shared Pursuant to a Joint Research Agreement No Longer Qualify as Prior Art

President Bush recently signed the Cooperative Research and Technology Enhancement (CREATE) Act of 2004, which amended the Patent Act in a way intended to "promote cooperative research involving universities, the public sector, and private enterprises." The CREATE Act allows parties to collaborate confidentially under a "joint research agreement" without fear that the subject of the confidential collaborations will be used as the basis for an obviousness rejection against a patent application filed by one of the parties. The CREATE Act is effective as of its December 10, 2004 enactment date,

and does not have an impact on any patent application already pending before the PTO or involved in a court proceeding on the enactment date.

Prior to enactment of the CREATE Act, 35 U.S.C. § 103(c) provided that subject matter only qualifying as prior art under one or more of 35 U.S.C. § 102(e), (f), or (g) would "not preclude patentability" under Section 103 (i.e., obviousness), where actual common ownership or an obligation of common ownership existed for that subject matter and the claimed invention. This prior version of the statute, however, did not accommodate collaborations among different companies with separately owned information.

By way of the CREATE Act, Congress has expanded the scope of the exemption under 35 U.S.C. § 103(c) for applications that meet these three criteria:

1. the claimed invention must be made by or on behalf of parties to a "joint research agreement" in effect on or before the date the claimed invention was made;
2. the claimed invention must be "made as a result of activities undertaken within the scope of the joint research agreement;" and
3. the application for the claimed invention must disclose or be amended to disclose the names of the parties to the joint research agreement.

Thus, except as explained below, under joint research agreements provided for by the CREATE Act, companies and organizations

can more freely collaborate and share confidential information, without fear that any received confidential information may become the basis for an obviousness rejection of a patent application for a subsequently developed, independent idea.

In reaction to the CREATE Act, the PTO enacted new rules on January 11, 2005, ostensibly intended "to implement the CREATE Act." Those new rules, however, also scale back the expanded exemption discussed above to some extent by providing a new ground of "double patenting" rejection for applications owned by different entities.

The PTO's interim rules have expanded the doctrine of double patenting to include applications owned by different entities associated with a joint research agreement,

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even though this doctrine historically has been used only for commonly owned applications. Thus, confidential information that qualifies under the expanded exemption of 35 U.S.C. § 103(c) under the CREATE Act can now form the basis of a double patenting rejection.

Overcoming such a rejection based on a patent application previously filed by one of the parties to the joint research agreement could prove difficult because the PTO's interim rules require a broad waiver from the owner of each patent application. Specifically, each owner must waive the right to separately enforce or license any patent issuing from that owner's patent application.

Because of the sensitive nature of confidential information and complexities involved in sharing such information, whether under a joint research agreement or otherwise, we strongly advise that you consult with an attorney prior to sharing such information or entering into any agreement.

### **Recent Rule Changes Have Changed Small Entity Status Applicability and Other Aspects of Practice Before the PTO**

The PTO has also made multiple rule changes effective on or before November 22, 2004 to implement its 21st Century Strategic Plan. Many of these rule changes are procedural in nature, but some substantive changes have also been made. Although the rule changes are too numerous to discuss in detail here, they are discussed in greater detail at <http://www.uspto.gov/web/offices/com/strat21/implementation.htm>. Some of the more interesting changes are discussed below.

For example, the rules regarding small entity status under 37 C.R.F. §1.27 have been amended. By way of changes to this rule, the PTO has clarified that a security interest held by a large entity (i.e., an entity that would not qualify for small entity status) in a company that would otherwise qualify for small entity status is not a sufficient interest to bar the company's entitlement to small entity status in most cases.

No currently enforceable obligation under the security interest agreement usually exists until a default occurs.

Also, companies are not precluded from claiming small entity status merely because they are primarily located in a foreign country. It was unclear whether this was the case prior to the most recent amendment because § 1.27 referred to the Small Business Administration (SBA) regulations, which require a company to have a location within the United States. The PTO has clarified, however, that the SBA regulations are referred to only for their size definitions, and are not intended to restrict small entity status to companies located within the United States.

It is important to note, however, that because of the complex nature of claiming small entity status and of related security agreements, and because of the potential loss of patent enforceability if small entity status is improperly claimed, one should consult an attorney prior to claiming small entity status.

The Patent Office also set out a number of structural rule changes that have an affect on some of the formalistic aspects of practice before the Office. If you would like to learn about the details of these changes, please contact one of the attorneys listed at the front of this Alert. ■