

Tips for Managing Complex Multi-Subsidiary, Multi-Jurisdictional IP Portfolios



Practical tips addressing IP-related issues that arise for companies with multiple subsidiaries in the U.S. and/or abroad.

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You are in-house counsel for a company with multiple subsidiaries in the U.S. and/or abroad. In one common scenario, two or more subsidiaries are producing related innovations. In another common scenario, multiple subsidiaries desire to collaborate in developing joint innovations. In yet another common scenario, multiple subsidiaries that collaborate in developing joint innovations are in different countries. Do the above scenarios create IP-related issues? Yes. This article provides practical tips addressing IP-related issues surrounding these common scenarios.

File all patent applications in the name of a single holding company

What steps may the company and subsidiaries take to protect their respective innovations in the scenario where two or more subsidiaries produce related innovations?

The company and subsidiaries may need to establish a patent holding company. All of the company's and subsidiaries' pending patent applications are assigned to the patent holding company and are filed in the holding company's name. After a patent is granted, the patent can then be assigned or licensed to the relevant subsidiary.

The reasoning for this practice is as follows: Under 35 U.S.C. §102, a prior-filed application generally counts as prior art against any later-filed application. *See*, subsection (a)(2). However, an exception to this rule applies where the prior-filed application and the later-filed application are both *commonly owned* by the same entity, or subject to an assignment to that entity *as of the filing date* of the later-filed application. *See*, subsection (b)(2)(c).

An important point regarding this exception is that patent applications assigned to *different subsidiaries* of the *same company*, are *not* considered “commonly owned” under 35 U.S.C. §102. *See, e.g.*, Manual of Patent Examination Procedure (MPEP) 717.02(a) (defining “common ownership”). In other words, if multiple subsidiaries are filing patent applications in their respective names for related innovations, an earlier filed patent application of one subsidiary may be used as prior art against a later filed patent application of another subsidiary.

In addition, the company may not be able to overcome an obviousness-type-double-patenting rejection to a later-filed application, over an earlier patent, if the later filed application and the earlier patent are each in the name of different subsidiaries. *Email Link Corp. v. Treasure Island*, No. 2:11-cv-01433-ECRGWF (D. Nev. Sept. 25, 2012).

These issues, however, are altogether avoidable by filing all the patent applications in the name of a single, patent holding company.

The following hypothetical illustrates the benefits of using a patent holding company for filing all the company’s and subsidiaries’ patent applications:

Company A has two subsidiaries—Subsidiary B and Subsidiary C. In 2019, Subsidiary B files a patent application covering technology X. In 2020, Subsidiary C files a patent application covering technology Y. Technology Y is similar to Technology X, which is being commercialized by Subsidiary B but is used in a product being commercialized by Subsidiary C.

In 2023, the US Patent and Trademark Office (USPTO) rejects the 2020 filing from subsidiary C covering technology Y using the 2019 Technology X filing from subsidiary B as prior art. Subsidiary C tries to argue against this rejection but is unsuccessful. Accordingly, Company A loses patent protection covering the commercial product of its subsidiary C.

Now, consider the same hypothetical but using a patent holding company. In this hypothetical, Company A now has *three* subsidiaries—Subsidiary B, Subsidiary C and Patent Holding Company D.

Employees of Subsidiary B invent technology X. The employees of subsidiary B assign the invention to Patent Holding Company D. In 2019, a patent application covering technology X is filed in the name of Patent Holding Company D. Employees of Subsidiary C invent technology Y. The employees of subsidiary C assign the invention to Patent Holding Company D. In 2020, a patent application covering technology Y is filed in the name of Patent Holding Company D as well.

In 2021, company A coordinates an assignment of technology X from Patent Holding Company D to subsidiary B. In 2022, company A coordinates an assignment of technology Y from Patent Holding Company D to subsidiary C.

In 2023, the USPTO rejects the 2020 filing covering technology Y using the 2019 Technology X filing as prior art. Company A successfully overcomes this rejection by arguing that, even though the filings were subsequently assigned to different subsidiaries, Patent Holding Company D had common ownership of the

filings of both technology X and technology Y as of technology Y's 2020 filing date. Thus, Technology X cannot be used as prior art against technology Y.

The benefits of using a patent holding company are undeniable when viewed through this lens.

Get the right agreements in place

What if subsidiaries need to exchange confidential information as part of the collaboration?

Subsidiaries must ensure the right agreements are in place *before* any confidential information is exchanged.

One type of agreement for consideration is an intellectual property-focused employment agreement. As mentioned above, the common ownership exception can be established by showing that patent applications are subject to assignment to the same entity. Different employees, however, may work for different subsidiaries. To ensure that patent application filings from one subsidiary are not used as prior art against another, the employment agreement should establish that an employee is obligated to assign rights in his/her inventions to any and/or all the company's subsidiaries, jointly and/or separately. The employment agreement should delineate each subsidiary, including holding companies, and be amended and re-executed periodically to account for changes to the corporate structure of the company and/or subsidiaries.

Another type of agreement to consider is a confidentiality agreement. In *Hospitality Marketing Concepts v. Six Continents Hotels*, 2016 WL 9045853, at *5 (C.D. Cal. May 2, 2016), the Central District of California held that "Hospitality Marketing's failure to enter a confidentiality or non-disclosure agreement before voluntarily disclosing its alleged trade secrets to ... its Australian subsidiary ... extinguished their secrecy." *See, id.* at *5.

Accordingly, the confidentiality agreement should be drafted to maintain confidentiality across all the company's subsidiaries. If the confidentiality agreement does not bind all the company's subsidiaries, the exchange of confidential information across subsidiaries could destroy trade secret protection. In addition, an exchange of information between a company's subsidiaries, without having in place a confidentiality agreement that binds all the company's subsidiaries, could be considered a "public use" that could start the clock for filing a patent within the United States' one-year grace period. *See, Invitrogen Corp. v. Biocrest Manufacturing*, 424 F.3d 1374 (Fed. Cir. 2005) (holding that the presence or absence of a confidentiality agreement is a relevant factor in determining "public use"); *See*, 35 U.S.C. §102(a)(1).

Another type of agreement worthy of consideration is a joint development agreement. The joint development agreement should be put in place across all subsidiaries and should establish that all intellectual property is to be commonly owned by all subsidiaries. The reason behind including the common ownership language in the joint development agreement is that inventions that are subject to the joint development agreement at the time of filing cannot be used as prior art against each other. 35 U.S.C. §102(c).

Thus, prior to any collaboration, subsidiaries must consider what agreements are appropriate for the given situation.

Coordinate filings across borders

What should one do when an innovation born out of multi-subsidary collaboration is the subject of a patent application that lists inventors from different subsidiaries?

The company, in coordination with its subsidiaries, may need to establish a network of skilled local counsel in relevant jurisdictions to navigate the different prior art regimes in these countries. For instance, some countries provide grace periods for prior disclosures or filings. *See*, https://www.wipo.int/export/sites/www/scp/en/national_laws/grace_period.pdf (listing grace periods across various countries). Depending on the country, the grace period may provide six months to one year before a prior filing or the disclosure can be used as prior art. Some countries do not have grace periods. These are referred to as “absolute novelty” countries.

The company and subsidiaries also need to keep “foreign filing license” requirements in mind. Certain countries require that an invention “made in” that country be filed in that same country. *See*, https://www.wipo.int/pct/en/texts/nat_sec.html (listing foreign filing license requirements across various countries). In situations where different inventors collaborate across multiple subsidiaries in multiple countries, the invention should be filed first in the country with the strictest foreign filing license requirements. For example, if inventors in the United States and Japan collaborate on an invention, the application should be filed first in the United States because the United States requires foreign filing licenses but Japan does not. *See, id.*

Conclusion

The scenarios presented in this article are only some of the pitfalls large companies face when protecting innovations across subsidiaries. Engagement of experienced IP counsel is warranted to navigate these complex issues.

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