ANDRUS.
INTELLECTUAL PROPERTY LAW

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FIRM NEWS

New Logo and Website Launched

Andrus is pleased to announce that we have shortened our name for simplicity and have developed a new logo to better reflect the traits of accessibility and practicality when counseling our clients and protecting our clients' intellectual property. Both of these traits are points of emphasis for us as a firm.

Coinciding with this new logo, we have improved our website to include more content and convenient access to on-line IP resources that we believe will be more useful to many of our clients. Please visit our site at andruslaw.com.

George H. Solveson Recognized as Leader in Law

Andrus is proud to announce that on February 16, 2011 George H. Solveson will be recognized as a 2011 Leader in the Law by the Wisconsin Law Journal.

This award is given to an elite group of attorneys who have demonstrated outstanding leadership, vision and legal expertise in Wisconsin's law community.

George is a partner at Andrus and head of the Intellectual Property Litigation Practice Team. He has extensive experience in litigating complex IP cases in the Eastern and Western U.S. District Courts of Wisconsin, and across the country.

George has represented numerous clients within the state of Wisconsin and is highly respected by his peers.

George is a member of the Wisconsin Intellectual Property Association, the State Bar of Wisconsin and the Milwaukee Bar Association.

Pitfall! Joint Development Agreements and the On-Sale Bar

By Daniel I. Hanrahan

Prior to joining Andrus, I spent five years as in-house counsel at a Milwaukee-based Fortune 500® company. In that time, I had the opportunity to draft a number of commercial agreements, including joint development agreements (JDAs). I quickly learned that joint development projects are fraught with loss-of-right pitfalls.

These joint development projects reminded me of an old video game called Pitfall®. In Pitfall® , a character known as Harry adventured through a jungle to recover treasure while avoiding hazards, such as quicksand, tar pits and rolling logs. Below are tips to help jump over the looming loss-of-right quicksand related to your upcoming joint development project.

If an invention is the subject of a commercial offer for sale and ready for patenting, then the on-sale bar under 35 U.S.C. 102(b) may apply, unless the company files a patent application within one year of both conditions being satisfied. *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 67 (1998). An invention is "ready for patenting" when: (1) the inventor has reduced it to practice; or (2) the inventor has "prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention." *Id.* at 67-68.

In *Pfaff*, at the request of Texas Instruments (TI), Pfaff began to develop a socket that later became the subject of a patent. Pfaff completed and sent TI a set of "detailed engineering drawings" and TI placed an oral order for sockets, although a prototype had not been made. The "detailed engineering drawings" described the design, dimensions, and materials to be used in making the device. The Supreme Court held that the drawings demonstrated that the invention was "ready for patenting," even though the invention had not yet been reduced to practice. Because there is no reference to a requirement of "substantial completion" of an invention in 102(b), the Supreme Court held that the on-sale bar applied.

But could the transfer of deliverables from a supplier in the course of a joint development project trigger an on-sale event under § 102(b)? In short, yes. However,

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Pitfall! Joint Development Agreements

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the following tips will help mitigate the risk of triggering the on-sale bar.

TIP #1: Verify the corporate relationship. A threshold issue concerns the nature of the parties involved in the sale or offer for sale. While a § 102(b) sale or offer to sell must be between two separate entities to trigger a critical date, the lines between entities is often obscured by case law. *See e.g., In re Caveney*, 761 F.2d 671, 676 (Fed. Cir. 1985) (buyer and seller are separate entities although the corporate entity that wholly owned seller also owned 49% of buyer and buyer was formed to be seller's exclusive seller in the United States); *Ferag AG v. Quipp Inc.*, 45 F.3d 1562, 1565, 1567 (Fed. Cir. 1995) (buyer and seller were separate entities despite the fact that seller owned 50% of buyer and buyer was seller's exclusive distributor). Therefore, look at the buy-sell relationship with a critical eye.

TIP #2: There is no "joint development exception" to the on-sale bar, even if the buy-sell entities employ joint inventors who assign their rights to their respective employers. But what if the sale is between "the same inventive entity," i.e., joint inventors from unrelated entities? This issue was addressed in *Brasseler*, where the Federal Circuit refused to recognize a "joint development exception" to the on-sale bar, despite the fact that the buyer and seller each employed one or more of the named inventors. *Brasseler v. Stryker Sales Corp*., 182 F.3d 888 (Fed. Cir. 1999). In *Special Devices, Inc. v. OEA, Inc.*, the Federal Circuit also refused to create a "supplier exception" to the on-sale bar where a patent owner had contracted with its supplier to have a commercial embodiment of the invention mass produced. *Special Devices, Inc. v. OEA, Inc.*, 270 F.3d 1353, 1355 (Fed.Cir.2001).

Therefore, if (1) there is a contract, such as a joint development agreement, that requires the delivery of a prototype or working model; and (2) there are specifications or drawings sufficient to build the invention, then one might argue both prongs of the *Pfaff* test are satisfied. In fact, actual delivery of the prototype or working model is not necessary, as no more than a firm offer to sell may be sufficient to establish the critical date.

TIP #3: Clearly document that you are paying for services, not products. To minimize the risk of creating a § 102(b) on-sale event based on the language of the JDA itself, consider using language that clarifies the nature of the joint relationship. For example, structure the JDA so that payment is made for research services, not the deliverables. Consider language such as, "Transfer of deliverables is not the subject of a commercial sale, as payment is made in consideration of the research and development services provided as set forth herein, not the sale of deliverables."

TIP #4: When possible, buyer should supply the raw materials for all prototypes and deliverables. Additionally, when practicable, make sure the buying company supplies all raw materials and that all purchase orders concern services rendered. Thus, any contracts will speak for themselves and legal title to a product will never change hands. *See* U.C.C. § 2-106 (a "sale" is the passing of title from the seller to the buyer for a price).

TIP #5: Set a reminder and file a patent application if necessary. A trial court faced with a commercial transaction between two parties and a product delivered during the transaction may deem the transaction a sale of the product, despite all such contractual language to the contrary. Given this uncertainty, the safest bet is to file a patent application – at least a provisional application – by the one-year anniversary of any offer to sell.

To track this, set a reminder approximately nine months after execution of the JDA to check for project activity concerning the *Pfaff* factors, e.g., whether any purchase orders have been issued for the manufacture of prototypes from drawings sufficient to build what will ultimately constitute the claimed invention.

While there is no easy solution, recognition of these loss-of-right pitfalls should enable counsel to chart a path around the quicksand and ensure a successful joint development project where inventions are successfully protected.

If you have any comments or questions, feel free to call or email Dan at dhanrahan@andruslaw.com.

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