

District Court Draws Line on Terminal Disclaimers for IP Owned by Subsidiaries

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On September 25, 2012, the U.S. District Court for the District of Nevada ruled that the common ownership requirements of a terminal disclaimer were not met when the subject patent and its predecessor patent were owned by different wholly owned subsidiaries of a parent company. Takeaways from the case include:

- When asserting a patent that is subject to a terminal disclaimer, a single entity must own both the disclaimed patent and the predecessor patent - ownership of the patents cannot be divided between subsidiary companies.
- Following an example set forth in the Manual of Patent Examining Procedure (MPEP) does not provide a safe harbor regarding common ownership.
- The case highlights the importance of maintaining thorough patent records, especially for entities that divide patent ownership between subsidiaries.

In *Email Link Corp. v. Treasure Island, LLC et al.* [1], the asserted patent, U.S. Patent No. 7,840,176, was subject to a terminal disclaimer executed by Acacia Global Acquisition LLC to overcome a non-statutory double patenting rejection in view of U.S. Patent No. 7,508,789.[2] The terminal disclaimer disclaimed any term of the '176 patent extending beyond the statutory term of the '789 patent. At the time the infringement action was filed, plaintiff Email Link – a subsidiary of Acacia – owned the '176 patent and Online News Link, LLC – another subsidiary of Acacia – owned the '789 patent.[3]

The parties agreed that if ownership of a disclaimed patent is separated from the prior patent, the disclaimed patent is not enforceable.[4] Defendants argued that because the '789 patent was owned by Online News Link, the '176 patent was unenforceable. Plaintiff argued that because Acacia owned both Email Link and Online News Link, the two patents were commonly owned by Acacia.

The court granted defendants' motion to dismiss the infringement action, holding that the '176 patent was unenforceable as a matter of law for failing to comply with the common ownership provisions of the terminal disclaimer. In granting the motion, the court cited the "the basic tenant of American corporate law . . . that the corporation and its shareholders are distinct entities. . . . A corporate parent which owns the shares of a

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therefore, the '176 patent was unenforceable as a matter of law.^[6]

Interestingly, the court did not address Email Link's argument that the MPEP (and therefore the USPTO) endorses terminal disclaimers made by a parent company of wholly owned subsidiaries. MPEP § 1490, the section discussing terminal disclaimers, cites MPEP § 706.02(I)(2)^[7] as providing examples of common ownership. The first example of common ownership given in MPEP § 706.02(I)(2) is "Parent Company owns 100% of Subsidiaries A and B – inventions of A and B are commonly owned by the Parent Company." In view of this decision, the examples of MPEP § 706.02(I)(2) should not be relied on as safe harbors for determining if the common ownership requirements for terminal disclaimers are met.^[8]

^[1] *Email Link Corp. v. Treasure Island, LLC et al.*, No. 2:11-cv-01433 (D. Nev. September 25, 2012).

^[2] Terminal disclaimers are provided for by 35 U.S.C. § 253 and regulated by 37 C.F.R. § 1.321, which provides that a disclaimer must "[i]nclude a provision that any patent granted on that application . . . shall be enforceable only for and during such period that said patent is commonly owned with the application or patent that formed the basis for the judicially created double patenting."

^[3] When the terminal disclaimer was filed on July 2, 2010, the application that issued as the '176 patent and the '789 patent were also owned by Email Link and Online News Link.

^[4] *Merck & Co., Inc. v. U.S. Int'l Trade Comm'n*, 774 F.2d 483, 485 (Fed. Cir. 1985).

^[5] *Dole Food Co v. Patrickson*, 538 U.S. 468, 474-75 (2003).

^[6] The court did not reach defendants' other grounds for dismissal. The defendants also argued that the '176 patent was invalid because the terminal disclaimer was ineffective because it was signed by Acacia instead of Email Link.

^[7] MPEP § 706.02(I)(2) discusses common ownership as required to take advantage of 35 U.S.C. § 103(c).

^[8] At least one other district court has found to the contrary. In *Goss Int'l Ams., Inc. v. MAN Roland, Inc., et al.*, 2006 U.S. Dist. LEXIS 25769, *3-*5 (D.N.H. May 2, 2006), the District Court of New Hampshire, citing MPEP § 706.02(I)(2), found that the common ownership requirements are met when the disclaimed patent and prior patent were owned by a parent and its wholly owned subsidiary.