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Federal Circuit Friday
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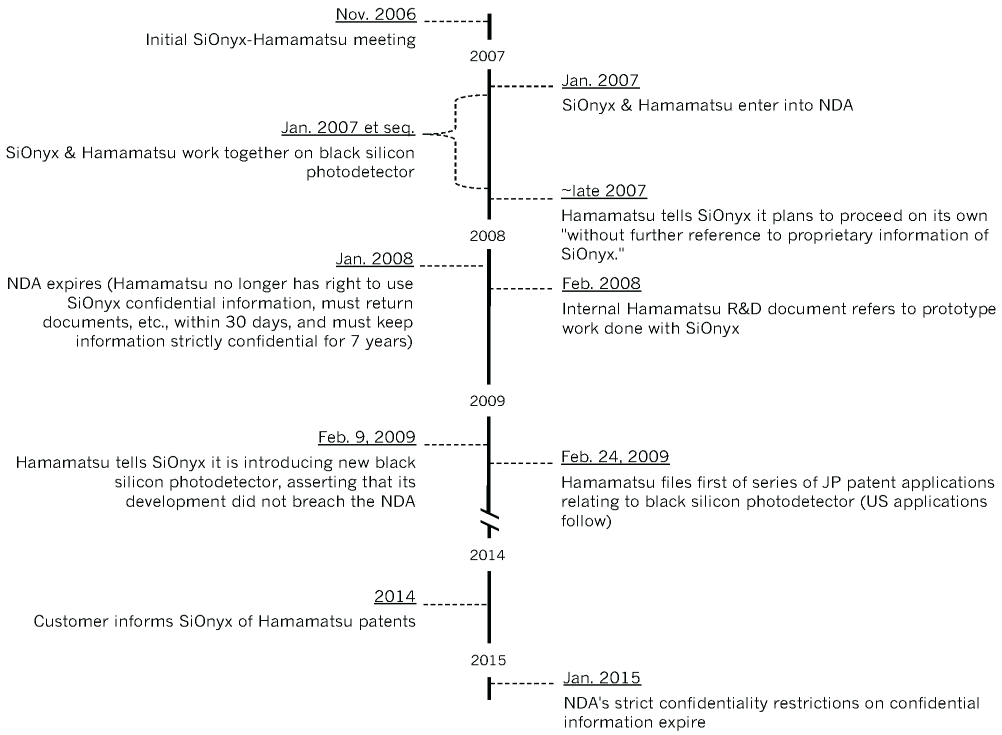
In *SiOnyx v. Hamamatsu* (December 7), the Federal Circuit determined that the terms of a non-disclosure agreement ("NDA") required assignment of both US and Japanese patents to a party that disclosed confidential technical information to the other party, even though the patents were based in part on independent R&D activity by the receiving party.

Background: Facts & The Issue

Harvard scientists developed a process for making "black silicon," a material having electrical properties different from ordinary silicon, and formed SiOnyx to develop and commercialize the material. SiOnyx worked with Hamamatsu briefly on using black silicon for photodetectors. The key events regarding the relationship can be usefully summarized in a timeline:



The NDA included two provisions relevant to this case, the second being of particular importance:

1. A party receiving confidential information (as defined in the agreement) shall maintain the information in strict confidence for seven years after the expiration of the agreement, after which the receiving party may use or disclose the confidential information.
2. A party receiving confidential information acknowledges that the disclosing party claims ownership of the information and all patent rights “in, or arising from” the information.

Trial determined that (i) Hamamatsu breached the NDA by using SiOnyx confidential information after the NDA expired in January 2008, and (ii) a SiOnyx founder was a co-inventor on Hamamatsu US patents. Those findings were not appealed.

The district court awarded SiOnyx *sole* ownership of Hamamatsu's relevant US patents per the second NDA provision referenced above (because Hamamatsu's use of SiOnyx's confidential information and a SiOnyx founder being a co-inventor on the U.S. Patents "necessarily implies that those patents arose, at least in part, from SiOnyx's confidential information") but declined to award SiOnyx ownership of the Japanese patents, "because the court questioned its authority to do so."

Hamamatsu appealed the award of sole ownership of the US patents to SiOnyx, and SiOnyx appealed the failure to award it sole ownership of the Japanese patents.

Background: Relevant Black Letter Law

1. Patent Ownership
   a. Ownership of a patent refers to who holds legal title to it.[1]
   b. Inventor initially owns the patent.[2]
   c. Co-ownership/Joint ownership.
      i. Can arise from joint invention by two or more inventors,[3] who may assign their rights to separate entities.[4]
      ii. Each co-owner/joint owner has "a pro rata undivided interest in the entire patent, no matter what their respective contributions."[5]
      iii. In general, each co-owner/joint owner may practice or otherwise exploit the patent without the consent of or accounting to the other co- or joint owners.[6]
   d. Transfer of ownership by contract.
      i. Because patents have "the attributes of personal property," they are "assignable in law by written instruments."[7]
2. Federal Court Jurisdiction in Patent Cases
   a. Territorial limits.
      i. In general, federal jurisdiction is limited to the territory of the United States,[8] a rule that "serves to protect against unintended clashes between our laws and those of other nations which could result in international discord."[9]
   b. Personal jurisdiction over parties.
      i. Personal jurisdiction refers to the court's power to render judgment over a defendant as a person (*i.e.,* "in personam"), as opposed to power to render judgment over property (*i.e.,* "in rem") or property in which a defendant has an interest (*i.e.,* "quasi in rem").
      ii. A United States district court may exercise personal jurisdiction over a defendant if the defendant "is subject to the jurisdiction of a court of general jurisdiction in the state where the district court is located"[10] or if "the

[1] *Beech Aircraft Corp. v. EDO Corp.,* 990 F.2d 1237, 1248 (Fed. Cir. 1993)("Ownership [of a patent] is a question of who owns legal title to the subject matter claimed in a patent, patents having the attributes of personal property.")

[2] *Id.* ("At the heart of any ownership analysis lies the question of who first invented the subject matter at issue, because the patent right initially vests in the inventor").

[3] *Ethicon v. United States Surgical Corp.,* 135 F.3d 1456, 1466 (Fed. Cir. 1998)("[W]here inventors choose to cooperate in the inventive process, their joint inventions may become joint property without some express agreement to the contrary.").

[4] *Schering Corp. v. Roussel-UCLAF SA,* 104 F.3d 341, 342, 344 (Fed. Cir. 1997)(Where one of two inventors assigned to X and the other inventor assigned to Y, X and Y were co-owners of the patent within the meaning of "joint owners" in § 262).

[5] *Ethicon v. United States Surgical Corp.,* 135 F.3d 1456, 1465 (Fed. Cir. 1998).

[6] 35 USC § 262 ("In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, or sell the patented invention within the United States, or import the patented invention into the United States, without the consent of and without accounting to the other owners.").

[7] 35 USC § 261.

[8] *Georgia v. Pennsylvania R. Co.,* 324 U.S. 439, 467, 468 (1945)("Apart from specific exceptions created by Congress the jurisdiction of the district courts is territorial"); *Foley Bros., Inc. v. Filardo,* 336 U.S. 281, 285 (1949) ("It is a longstanding principle of American law 'that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.").

[9] *EEOC v. Arabian American Oil Co.*, 499 U.S. 244, 248 (1991).

[10] Fed. R. Civ. P. 4(k)(1)(A).

defendant is not subject to jurisdiction in any state's courts of general jurisdiction" and "exercising jurisdiction is consistent with the United States Constitution and laws."[11]

c. A federal district court has the power to order a party over which it has *in personam* jurisdiction to transfer ownership of foreign patents.[12]

What *SiOnyx v. Hamamatsu* Adds:

The Federal Circuit held that SiOnyx *alone* owns both Hamamatsu's US and JP patents, exemplifying the power of contract and the scope of *in personam* jurisdiction in patent cases.

The Power of Contract (and a Failure of Proof).

In the NDA, Hamamatsu agreed that it and SiOnyx were reciprocally entitled to ownership of patent rights "arising from" confidential information that each of them disclosed to the other. The jury's findings that Hamamatsu used SiOnyx confidential information after the expiration of the NDA and that a SiOnyx founder was a co-inventor on the Hamamatsu US patents led the district court to conclude that "those patents arose, at least in part, from SiOnyx's confidential information." The Federal Circuit found no abuse of discretion in that determination.[13]

Hamamatsu argued the flip-side of the contractual obligation – that the patent rights also "arose from" the use of its own confidential information and therefore the NDA affords Hamamatsu a patent ownership interest and it should be a *co*-owner with SiOnyx. The Federal Circuit rejected this argument, explaining that "Hamamatsu has not established that any of the patents arose from confidential information [that Hamamatsu] disclosed [to SiOnyx] under the agreement." The point is that the relevant provision requires Hamamatsu to show that the patent rights arose from confidential information that *it shared with SiOnyx under the NDA* – only *that* category of confidential information suffices to invoke the patent ownership provision.

Scope of in personam Jurisdiction.

The Federal Circuit first noted that the determinations regarding ownership of the US patents apply equally to the JP patents – *i.e.*, because the US patents arose from Hamamatsu's use of confidential information disclosed to it by SiOnyx and because the US patents claim priority to the JP patents, the JP patents necessarily arose from Hamamatsu's use of confidential information disclosed to it by SiOnyx.[14]

Regarding the court's power to transfer ownership of the JP patents, the Federal Circuit explained that "an order compelling a party to assign ownership of a foreign patent is an exercise of the court's authority over the party, not the foreign patent office in which the assignment is made." Because there was no dispute that the court had *in personam* jurisdiction over Hamamatsu, the district court had authority to order the transfer of ownership. The Federal Circuit therefore reversed the district court's failure to do so.

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Closing Thoughts:

- Hamamatsu's breach of the NDA was not the *sine qua non* of the result. If the parties had continued to work together and a dispute about ownership arose, and Hamamatsu had not disclosed, or could not prove that it disclosed, relevant confidential information to SiOnyx, the result would be the same. Thus, rather than being "punishment" for breach, the ownership decision was a consequence of the language of the NDA and who disclosed what to whom.
- It seems like Hamamatsu might have been poorly advised about the effect of the NDA and how to position itself in the context of how it proceeded vis-a-vis SiOnyx (*e.g.,* had it disclosed even a scrap of confidential information to SiOnyx from which the patents rights could be said to have arisen, Hamamatsu would likely be a co-owner today). But it's possible that Hamamatsu knowingly decided to assume a significant risk of loss.

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[11] Fed. R. Civ. P. 4(k)(2).

[12] *See Richardson v. Suzuki Motor Co., Ltd.,* 868 F.2d 1226, 1249 (Fed. Cir. 1989)(where defendant misappropriated an invention and patented it in Japan and elsewhere, appropriate to require defendant to assign to plaintiff all relevant patents in all countries. "The courts are not powerless to redress wrongful appropriation of intellectual property by those subject to the courts' jurisdiction.").

[13] Note how the stringent "abuse of discretion" standard of review might have affected the outcome.

[14] Per 35 USC §119(a), the JP patents must be for "the same invention" as the US patents.