

Consequences of Co-Ownership of U.S. Patents

Q. What are the consequences of co-ownership of U.S. patents?

A. Co-ownership has some disadvantages, which may be modified by properly drafted agreements between the co-owners.

Schering Corp. v. Zeneca Inc., 104 F.3d 341 (Fed. Cir. 1997): Schering Corporation (“Schering”) and Roussel-UCLAF SA (“Roussel”) are co-owners of U.S. patent 4,472,382 (“the ‘382 patent”). One of the two inventors assigned his rights to Roussel, while the other inventor later assigned his rights to Schering. Roussel and Schering disputed this latter assignment’s validity. The dispute led to Roussel and Schering executing several agreements regarding co-ownership of the ‘382 patent. One of the agreements addressed the issue of third-party infringement:

“Upon discovery by any party of any infringement of the patent, such party shall notify the other diligently: if the parties agree to do so, appropriate legal action in connection therewith shall be undertaken by the parties jointly. In the event that such action is taken, each party shall contribute equally to the expenses of any such action. If any damages for infringement are awarded by a final decree or judgment, then after deducting all expenses arising from the litigation and reimbursing each party for its contributions, the remainder shall be divided equally among the contributing parties. If one party shall not wish to join or continue in any such action, but the other party shall wish to institute or continue such action, said one party shall render all reasonable assistance to said other party in connection therewith at said other party’s expense and said other party shall be entitled to retain all recoveries obtained with respect to such action.”

Later, Zeneca Inc. (“Zeneca”) approached Roussel for a license to the ‘382 patent. Around the same time, Schering approached Roussel for an agreement to have all rights transferred to Schering. Roussel did not tell either party of Roussel’s discussions with the other party. Eventually, Roussel decided to not sell the patent rights to Schering, but to negotiate a license to Zeneca.

Before a license agreement was completed, Zeneca began to market a product covered by the ‘382 patent, before actual sales. After learning of this, Schering wrote Roussel and proposed suing Zeneca for patent infringement, once Zeneca began to conduct sales. Later, Schering attorneys called Roussel to seek assistance in the impending lawsuit. The person at Roussel told the Schering attorneys that Roussel was negotiating a license with Zeneca. That same day,

Schering filed a suit against Zeneca. Still on the same day, Schering contacted Roussel and invoked its rights under the quoted paragraph.

Two weeks later, Roussel and Zeneca signed a non-exclusive license agreement. The agreement included a license to all persons who bought or used the product provided by Zeneca or authorized third parties.

In answer to Schering's lawsuit, Zeneca asserted a complete defense due to the license agreement. The district court ruled in a summary judgment motion for Zeneca. The Federal Circuit affirmed.

Some of the findings are described below. Each co-owner of a U.S. patent is ordinarily free to exploit the patented invention regardless of the wishes of any other co-owner. *See* 35 U.S.C. § 262. Each co-owner may license to others, without another co-owner's consent. These general principles apply unless the parties have an agreement to the contrary. *Id.* The Federal Circuit examined the quoted paragraph from the Schering-Roussel agreement. Despite the paragraph's provision for unilateral suits against infringers, Roussel was not prohibited from granting licenses. Also, the paragraph's requirement that Roussel provide Schering with "reasonable assistance" during the litigation did not prohibit Roussel from granting Zeneca a license. Roussel's license to Zeneca did not preclude Schering from suing Zeneca for infringement happening before receiving a license from Roussel.

The Federal Circuit also stated that, without an agreement to the contrary, a co-owner of a patent has the right to prevent a lawsuit and may not force the other co-owner to appear as an involuntary plaintiff under Rule 19 of the Federal Rules of Civil Procedure. If a co-owner waives his right to prevent a lawsuit (e.g. an agreement providing unilateral lawsuit rights), then the other co-owner may force the first co-owner to appear as an involuntary plaintiff. Regarding "reasonable assistance" the Federal Circuit found that this term means providing litigation assistance, like copies of documents and witness testimony, not to matters such as the right to license.

International Nutrition Co. v. Horphag, 257 F.3d 1324 (Fed. Cir. 2001): The Federal Circuit affirmed the findings in Schering, including that one co-owner can stop another co-owner from suing infringers by refusing to voluntarily join in the lawsuit. If the co-owner waived his right to refuse to join a suit, then the other co-owners may force him to join a suit.

N.B.: These cases have not been updated.

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