

Co-ownership of Patent Rights in the United States and Canada

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The Parties hereby agree that all patent rights shall be co-owned.

This unassuming clause, appears to be an equitable and simple arrangement. However, co-ownership of patent rights raises a web of issues that parties should turn their minds to at the beginning of a relationship or when conducting patent due diligence. This is especially so when dealing with patents in different jurisdictions such as the United States and Canada, where the law regarding co-ownership of patents differs. The present article will discuss the issues raised by such co-ownership situations.

The Law

The Patent Right

Section 42 of the Canadian *Patent Act*¹ grants “to the patentee and the patentee’s legal representatives for the term of the patent, from the granting of the patent the exclusive right, privilege and liberty of making constructing and using the invention and selling it to others to be used.” This exclusive right to exclude others from using the invention is an assignable right, either in whole or in part². A patent right can be licensed to other parties. Similar provisions can be found in the patent laws of the United States^{3,4}.

Although these rights appear fairly straight forward, complications arise when patent rights are co-owned. A patent owner can only exclude non-patent owners from practicing the patented invention. This is so in both the United States and Canada. However, where the two countries differ is in the obligations one co-owner has to the other when establishing a relationship with third parties.

Co-ownership

In the United States, under 35 U.S.C. 262, “in the absence of any agreement to the contrary, each owner 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.” This means that absent an agreement, each co-owner can independently assign or license all or part of the patent rights to a third party without accounting to the other owner. Further, it enables each patent owner to exercise these rights without obtaining prior approval from the other owner(s). On the other hand, it also enables one owner to dilute the patent rights of the other owner(s), through

¹ R.S.C. 1985, c. P-4, as am. R.S.C. 1985, c. 33 (3rd Supp.); S.C. 1992, c.1; 1993, c. 2; 1993, c. 15; 1993, c.44; 1994, c. 26; 1994, c. 47; 1995, c.1; 1996, c.8, 1997, c.9, s. 111; 2001, c. 10; 2001, c. 34, s. 63; 2001, c. 41, s. 36.

² *Patent Act, ibid, s.50(1) and (2).*

³ 35 U.S.C. 154, grants to the patentee, his heirs or assigns, the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention or products made by the invention into the United States.

⁴ 35 U.S.C. 261, states that patent rights are assignable or conveyable in law either in whole or in part.

licensing or other activities. This may also not be the best for relationships between co-owners of unequal bargaining or marketing power where the “less” equal party may not have the same resources to market the invention.

When negotiating agreements involving U.S. parties or U.S. patent rights, it is important to note that the provisions of 35 U.S.C. 262 only apply to rights in the United States. Co-ownership rights of patents in other jurisdictions may differ. This is the case in Canada where there is no equivalent to 35 U.S.C 262.

Conversely, American parties, when dealing with Canadian patent rights should be similarly aware of the differences in the law.

In Canada, co-owners can independently use the patented invention themselves and can assign their entire right in a patent to another entity, but they cannot license their rights to a third party without the consent of the other co-owner(s).

The leading case on this topic is the 1995, British Columbia Court of Appeal decision in *Forget v. Specialty Tools of Canada Inc.*⁵. In *Forget*, Georgina and Daniel Forget were co-owners of a patent for a scissor-like tube-cutter⁶.

Daniel Forget assigned his entire right in the invention to Niwot Corporation. Niwot then licensed a third company Specialty Tools of Canada Inc., the right to manufacture and sell the tube-cuter in both Canada and the United States. Neither the initial assignment or subsequent license mentioned the rights of Georgina Forget in the patent. Ms. Forget was not consulted nor did she consent to the transfer. No accounting was made to her by the other co-owner or licensee.

The Court held that:

1. One co-owner can assign their entire interest in a patent to a third party without the consent of the other co-owner(s) and without accounting to the other co-owner(s), as long as said transfer does not have the effect of diluting the rights of the other co-owner(s). That third party then becomes a co-owner of the patent.
2. A patent is not infringed when one co-owner, without the consent of the other(s), makes or sells in Canada the patented invention.
3. A co-owner cannot grant a valid licence to work a patent to a third party, without the consent of the other co-owner(s), and if he purports to do so, the purported licensee does not hold a valid or effective licence as such a licence would dilute the rights of the other co-owner(s).
4. A patent is infringed when the licensee of one co-owner makes the patented invention without the consent of the other co-owner(s).

⁵ (1995), 62 C.P.R. (3d) 537 (B.C.C.A.), affirming (1993), 48 C.P.R.(3d) 323 (B.C.S.C.).

⁶ Canadian Patent No. 1178426.

In reaching its decisions the Court recognized that the Canadian *Patent Act* did not provide for such situations but found that the granting of a patent right is a *quid pro quo*: the exclusive right to exclude others from practicing the invention for the duration of the patent term in exchange for disclosure of the new invention to the public. To permit anything that would dilute the rights of a patent co-owner, would defeat the purpose of the *Patent Act* and diminish the incentive to invent.

Thus absent other issues, in the *Forget* case, an assignment from Daniel Forget to Niwot Corporation of his entire right to the patent would be valid, however the subsequent license to Specialty Tools would not.

Unlike in the United States, a prospective licensee of a Canadian patent should ensure that the license is consented to by all co-owners. For prospective assignees, who may wish to eventually license their rights, due diligence on the other co-owners is especially important in Canada.

Further, when potential co-owners are entering into a relationship, consideration should be placed on what rights each co-owner should have in the patent. Specific arrangements can be agreed to by the parties to overcome or confirm the rights afforded by 35 U.S.C. 262 or by Canadian case law. For instance, if one does not want the other party to commercialize the invention independently or without the consent of the other co-owner(s), this can be specifically set out in an agreement. As noted above, this would be of particular concern when one of the parties has a significant advantage in their ability to market the patented invention, potentially leaving the other out in the cold. An alternative arrangement may provide that each co-owner can practice the invention and/or license it in separate fields of use or geographic areas.

Other Issues

In addition to what rights each co-owner may have in dealing with their patent, other issues relating to co-ownership should also be considered:

1. Inventorship
2. Carriage of patent prosecution, filing strategies, and associated costs
3. Carriage of any litigation (enforcement or defense) and associated costs
4. Liabilities and Indemnities

Inventorship

All patent rights in Canada and the United States derive from the rights of the inventors. In Canada, a patent is granted to the inventor or the inventor's legal representative or assignee⁷. In the United States, a patent application must be filed in the name of the inventor(s), however it can be subsequently assigned. As

⁷ Canadian *Patent Act*, *supr*, note 1, ss. 27(1) and 49(1).

such, the identification and correct naming of inventors is important in following the chain of title to determine the ownership rights in a patent and to identify a co-ownership situation.

Ethicon, Inc. and Inbaw Yoon, M.D. v. United States Surgical Corporation and Young Jae Choi,⁸ is a case that illustrates the potential effect of incorrect inventorship. In this United States Court of Appeals case, the plaintiff did not recognize that they were dealing with a patent that was co-owned. Dr. Yoon filed an application for a trocar, an essential tool for endoscopic surgery, without informing Young Jae Choi. Dr. Yoon had collaborated with Choi on development of the trocar, but their relationship ended prior to the filing of the patent application. Dr. Yoon licensed the technology to Ethicon on an exclusive basis, who subsequently sued United States Surgical Corporation for patent infringement. In defending the action, United States Surgical Corporation located Choi and obtained a retroactive license from him for the patent. United States Surgical was successful in adding Choi as an inventor to the patent. This created a situation of co-ownership of the invention between Dr. Yoon and Choi. As ,under 35 U.S.C. 262, each co-owner can independently deal with the invention and United States Surgical had the right to practice the patented technology from Choi, the case was dismissed.

In Canada, for the same situation, neither licensee would have a valid license and could be sued for infringement by the other co-owner. However, the case would be similarly decided if Yoon and Choi had assigned their entire right in the invention to Ethicon and United States Surgical, respectively.

Patent Filing and Patent Prosecution

When and where to file a patent application may require some thought and co-owners may not agree on which jurisdictions should be pursued and the filing strategies to be adopted.

With regard to prosecution of a patent application, the Canadian *Patent Act* provides that in the case of joint inventors or owners, the patent office shall only communicate with the authorized correspondent of the inventors for the purpose of patent prosecution. However, information about the patent application prior to publication can be provided to the authorized correspondent or any applicant⁹. An authorized correspondent is defined under section 2 of the Patent Rules as a patent agent or associate agent appointed in accordance with the Rules, or an inventor authorized by all such inventors to act on their joint behalf, or if none is so authorized, then the first named inventor in the petition. Similar provisions can

⁸ 135 F. 3d 1456; 1998 U.S. App. LEXIS 1445; 45 U.S.P.Q.2d (BNA) 1545; 48 Fed. R. Evid. Serv. (Callaghan) 1226 (US Ct. App.).

⁹ Ss 2 (“authorized correspondent”), 6(1) and 11 of the Canadian Patent Rules, SOR/96-423, as am. SOR/99-2291.

be found in the Patent Cooperation Treaty¹⁰ and the patent laws of the United States¹¹. As such, the parties in a co-ownership relationship should consider who will represent them and make decisions during prosecution of the patent and reporting requirements to all parties.

Many decisions need to be made during prosecution of a patent and forms signed (for instance, where applicable: oaths, declarations, power of attorneys, assignment documents). In certain situations, one owner may be interested in pursuing a certain claim set more than another and is willing to pay the associated costs, while the other co-owner may wish to drop the claims. How these decisions will be made and disputes resolved should be considered at the outset. Cooperation of all parties (owners, inventors) should be obtained. For instance, if one co-owner does not wish to pursue a claim, an argument or a patent in a particular jurisdiction, the other co-owner(s) should have that right. This may be accompanied by cost considerations and a transfer of patent rights for those claims or rights in the particular jurisdiction.

Patent Litigation

Co-ownership may also affect the ability of one co-owner to enforce their patent rights against a third party. The *Ethicon*¹² case noted above is a United States example of how one patent owner can affect the ability of another to enforce their patent rights.

Section 55(3) of the Canadian *Patent Act* requires that a patentee be named a party to any infringement action. This presumably extends to all co-owners of the patent. Litigation is costly and can expose one to liability (costs of action etc..). One party may wish to pursue litigation while the other party does not. Co-owners should decide on how to pursue these issues, who will make the decisions and who will carry the costs. Irrespective of which party carries the cost or decision making ability, cooperation between co-owners should preferably be obtained to ensure that one co-owner will not act against the interest of another in enforcing the patent rights.

Liabilities and Indemnities

No one is immune to having a claim brought against them, especially if named in a patent. Parties in a co-ownership relationship, where one party may be entitled to independently deal with the invention, should consider requesting indemnity for any claims arising from the practicing of the patented invention by the other co-owner(s).

¹⁰ Rule 90.2 of the Regulations Under the Patent Cooperation Treaty (PCT), (as in force from January 1, 2000).

¹¹ 37 C.F.R. 1.33, where it states that double correspondence shall not be maintained. All correspondence for a patent application with joint applicants, must have all of their signatures or the signature of a common representative.

¹² *Supra*, note 8.

Summary

Co-ownership of patent rights raises a number of issues that parties should be aware, especially with regard to potential jurisdictional differences on the rights of co-owners. This has an impact not only on the issues to be considered during negotiations of agreements between parties, but also on those conducting due diligence. When possible, the specific understanding of the rights of each patent owner in a co-ownership situation should be set out in a written agreement.