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Federal Circuit Friday

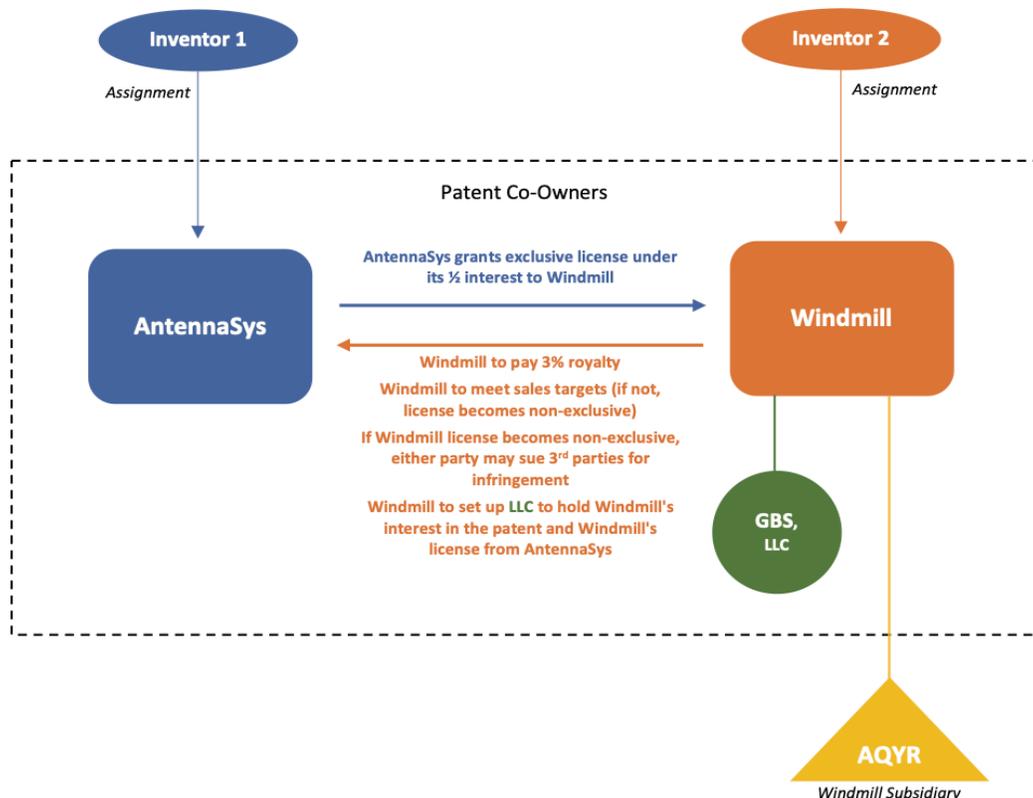
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In *AntennaSys v. AQYR* (October 7) the Federal Circuit partially untangled an expensive knotted mess of legally-incoherent patent rights and litigation positions, providing a cautionary tale about ensuring that your patent lawyer *knows the law and how to apply it*.

Background: Facts & The Issue

The facts are unnecessarily convoluted, so I'll simplify a bit. The two joint inventors of a portable antenna positioning apparatus and method each assigned their patent rights to their respective employers, AntennaSys and Windmill. AntennaSys agreed to exclusively license its one-half interest in the patent to Windmill provided that Windmill (i) paid 3% royalties on sales; (ii) met certain sales targets; and (iii) set up an LLC ("GBS Positioner LLC") to hold Windmill's one-half interest and Windmill's license from AntennaSys. If Windmill failed to meet the sales targets, then its license from AntennaSys would become non-exclusive and each party would be entitled to compete in the marketplace using the patented technology and to sue "third-party" infringers.



Windmill failed to meet the sales targets and the license became non-exclusive. AntennaSys then sued a subsidiary of Windmill ("AQYR") for patent infringement, but did not add or seek to add either Windmill or GBS LLC as party plaintiff.

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Apparently, the issues about patent co-owner rights were never litigated in the district court. After claim construction was completed, AntennaSys realized it could not prevail. Instead of simply dismissing the case, AntennaSys sought and obtained summary judgment of non-infringement by AQYR,¹ and then appealed the claim construction.

Background: Relevant Black Letter Law

1. Joint Ownership of Patents; Rights of Joint Owners

a. 35 USC §262 – "Joint Owners"

In the absence of an agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, and 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.

b. How created:

i. *By Invention*: "[I]n the context of joint inventorship, each co-inventor presumptively owns a pro rata undivided interest in the entire patent, no matter what their respective contributions."²

ii. *By Assignment*: Where one of two co-inventors assigns to X and the other co-inventor assigns to Y, then X and Y become co-owners of the patent within the meaning of "joint owners" in § 262.³

c. Licensing rights of joint owners:

i. "Each co-owner's ownership rights carry with them the right to license others, a right that also does not require the consent of any other co-owner."⁴

ii. An agreement granting each co-owner the right to bring suit unilaterally against third party infringers is **not** sufficient to deprive the other co-owner of the right to license any such third party.⁵

2. Enforcement of Jointly-Owned Patents – Infringement Litigation, Parties, and Rule 19:

a. All co-owners ordinarily must consent to join as plaintiffs in an infringement suit.⁶

i. Thus "one co-owner has the right to impede the other co-owner's ability to sue infringers by refusing to voluntarily join in such a suit."⁷

ii. Failure to join a co-owner is a failure to meet a statutory prerequisite to filing an infringement suit, not an Art. III "standing" issue.⁸

iii. Cannot use FRCP 19 (joinder of parties) to force non-consenting co-owner into a patent litigation.⁹

¹ A patent infringement plaintiff seeking summary judgment of non-infringement may seem very odd, but it was likely very smart. AQYR raised defenses of invalidity and inequitable conduct, but did not seek declaratory judgment on those grounds. Thus, obtaining a final judgment on the merits of infringement in favor of its opponent, AQYR, effectively mooted AQYR's invalidity and inequitable conduct defenses and prevented the invalidity/unenforceability case from going forward.

² *Ethicon v. United States Surgical Corp.*, 135 F.3d 1456, 1465 (Fed. Cir. 1998).

³ *Schering Corp. v. Roussel-UCLAF SA*, 104 F.3d 341, 342, 344 (Fed. Cir. 1997).

⁴ *Id.*; see also *University of Colorado Found. v. American Cyanamid*, 196 F.3d 1366, 1373 (Fed. Cir. 1999).

⁵ *Schering Corp.*, 104 F.3d at 342, 344-45.

⁶ *Ethicon*, 135 F.3d at 1468.

⁷ *Id.* Note also that a co-owner can license an alleged infringer (at least to the extent of co-ownership rights then held by the co-owner), thereby thwarting another co-owner's infringement suit. See 35 USC §262; *Schering Corp.*, 104 F.3d at 344.

⁸ *Lone Star Silicon Innovations LLC v. Nanya Tech. Corp.*, 925 F.3d 1225, 1299 (Fed. Cir. 2019)("[T]he Supreme Court has recently clarified that so-called 'statutory standing' defects do not implicate a court's subject-matter jurisdiction" and "whether a party possesses all substantial rights in a patent does not implicate standing or subject-matter jurisdiction."); *Schwendimann v. Arkwright Advanced Coating*, 959 F.3d 1065, 1071 (Fed. Cir. 2020)("In *Lone Star*, we made clear that whether one qualifies as a patentee under 35 U.S.C. § 281 is a statutory prerequisite to the right to relief in a patent infringement action, but does not implicate the district court's subject matter jurisdiction."). The distinction between statutory prerequisites and Art. III standing has consequences regarding the timing of objections – e.g., a jurisdictional issue (like Art. III standing) can be raised at any time (even on appeal) whereas a statutory issue (like co-owner consent) can be waived if not timely raised (absent unusual circumstances, in the district court).

⁹ *STC.UNM v. Intel Corp.*, 754 F.3d 940, 946 (Fed. Cir. 2014).

- b. Exceptions:¹⁰
 - i. Contractual waiver by a co-owner (e.g., unilateral litigation rights granted to other co-owner).
 - ii. Patent co-owner who grants exclusive license must allow their exclusive licensee to sue in their name.

What AntennaSys v. AQYR Adds or Changes:

This case adds nothing to the law, but it does highlight how important it is for a patent lawyer to know the law and how to apply it – both in structuring transactions and in litigating patent issues. As the Federal Circuit lamented:

There is little more frustrating for a district court judge than to have the parties jointly lead you down a wrong, and possibly unnecessary, path. That is what occurred here. Unfortunately, many threshold issues that may have obviated the need for either claim construction or an infringement verdict remain unresolved.

The threshold issues to which the court refers are fundamental black-letter rules regarding joint ownership of patents and the statutory prerequisites to bringing a patent infringement claim – *i.e.*, whether Windmill needed to be added as a party plaintiff to the suit against AQYR and whether AQYR was authorized by a co-owner to practice the patent. Let's look at each of these.

Did Windmill need to be added as party plaintiff such that AntennaSys could not maintain the suit on its own?

- Neither Windmill nor AQYR raised this defense in their responsive pleadings, in a 12(b)(6) failure to state a claim motion, or in a motion to dismiss.
 - So, did Windmill and AQYR waive this defense by not presenting it at the district court? Maybe. Because this is not an Art. III standing issue, absent unusual circumstances a waiver of the defense would result. But the Federal Circuit decided a remand was necessary – “We decline to read into the appellate record a waiver that the district court is better positioned to address.”
 - In addition to determining if the defendants waived the defense, the district court will also need to determine whether Windmill might have contractually waived its co-owner right to refuse to join the litigation (which may also depend on whether AQYR is a “third party” that AntennaSys was contractually entitled to sue on its own).
- The Federal Circuit noted that AQYR and Windmill asserted, incorrectly as a matter of law, that the Federal Circuit lacked jurisdiction because AntennaSys lacked standing to sue for infringement absent joinder of Windmill as a co-plaintiff. Absence of a co-owner as party plaintiff is a statutory issue, not a jurisdictional/standing issue.

Was AQYR authorized by a co-owner and thus not an infringer?

- “Absent agreement to the contrary, Windmill had every right to license the patent, and to the extent AQYR obtained an express or implied license from any patent co-owner, AQYR’s activities are authorized and non-infringing.”
- But “[n]either party addresses, in any meaningful way, Windmill’s right as a co-owner, to license the ’868 patent ‘without the consent of and without accounting to’ AntennaSys” (per the express language of 35 USC § 262).
 - “The briefing and the record before us is also unclear on whether there exists an express or implied license from a patent co-owner [e.g., Windmill] to the alleged infringer [i.e., AQYR].”
 - The Federal Circuit considered this omission surprising considering that even if AQYR were a “third party” subject to unilateral infringement suit by AntennaSys, a license from Windmill would render AQYR’s activities authorized and non-infringing.
- The Federal Circuit also noted that its “review of the agreement produces more confusion than clarity.” For example, the agreement requires Windmill to set up an LLC and assign its patent rights and license to that LLC. Although “Windmill did, in fact, create such an LLC, called GBS Positioner . . . the parties do not address GBS Positioner’s role, nor do they explain why, as the presumptive co-owner-by-assignment of Windmill’s interest in the ’868 patent, GBS Positioner is not an indispensable party to this litigation.”

The Federal Circuit remanded to the district court to address these threshold issues in the first instance.

This case forces me to ask: *Are there any lawyers that still read statutes and cases?* I can attest that those that do get better results for their clients at lower cost – and that is the *raison d’être* for Archetype-IP.

¹⁰ *Ethicon*, 135 F.3d at 1468 n.9