

JOURNAL

of the Association of University Technology Managers™

Volume XIX 2007



Who Has Standing to Sue Third-Party Patent Infringers and the Factors Affecting Standing that Every Technology Manager Should Know

Russell E. Levine, PC, Christopher R. Liro, and Breana Smith

Abstract

When a university grants a patent license to commercialize the patented invention, an important but sometimes overlooked aspect is what roles the university and the licensee will take in any litigation asserting the patent. While the university may want to vest full responsibility for litigation against third-party infringers in the licensee in an effort to avoid the burdens of litigation, even an express license term to this effect may not achieve the parties' desired result. Moreover, the university may find that restrictions from, for example, the Bayh-Dole Act, preclude a transfer of rights sufficient to allow the university to avoid participating as a party to any litigation against third-party infringers. This paper examines the issue of when a licensee has standing to sue on its own, identifies how universities may structure licenses to achieve this result, examines obstacles, and presents factors for technology managers to consider to help overcome those obstacles.

Introduction

A hypothetical university develops a new chemical compound. Sensing its usefulness in industry, it applies for and, several years later, receives a U.S. patent. The university also grants to a major corporation what it calls an *exclusive* license to its patent application and any patents that issue from it. The university also includes a clause in the license agreement that allows the licensee to sue infringers without involving the university. In exchange, the university receives royalties from its licensee.

Russell E. Levine, PC, and Christopher R. Liro are partners at Kirkland & Ellis LLP in Chicago, Illinois. Breana Smith is a law clerk at the same firm.

All is well until a third party appears to be infringing the patent. The licensee, who stands to suffer substantial losses from the third-party infringing use, relies on the clause in the license agreement allowing it to sue infringers and initiates a suit against the third-party alleged infringer. But, in the litigation brought by the licensee, the accused infringer challenges the licensee's standing to sue in its own name, without joining the university as a co-plaintiff. The court decides that, notwithstanding the language in the license agreement, the licensee does not have standing to sue on its own. The case is dismissed.

The scenario described above is not uncommon and likely comes as an unexpected and expensive result to both the university and the licensee. While many technology managers and university counsel are well-aware of the basic terms of a license agreement, many do not consider the specific issue of standing and how competing clauses within the agreement may affect a licensee's standing to bring suit for infringement in its own name and without the need for the university as a co-plaintiff.

Since the passage of the Bayh-Dole Act in 1980, which allowed universities to retain more ownership of inventions created using federal research funds, universities have been increasingly successful in licensing rights to practice their patents. In many cases, the relationship between university-licensor and corporate licensee is ideal. The university has invested substantial funds and energy into the development of technologies. At the same time, the university may lack the capabilities to market those technologies for profit. On the other hand, the technology company may lack the research resources but has a far greater ability to develop and market a product that practices the patent.

Yet during the negotiation of the license, neither party may consider fully what will happen if and when the licensed patent is infringed by a third party. Many patent license agreements grant the licensee a broad right to sue for infringement. Such language, however, may not be sufficient to convey upon the licensee legal standing to bring an infringement claim. Further, depending on the total scope of rights granted to the licensee, a court may determine that the university is the *only* party that is entitled to sue.¹ If the university is willing to pursue the claim, there is no problem. But, if the university is unwilling to pursue the claim, the value of the license is lessened.

This article discusses the important role of the license agreement itself in conveying or not conveying independent standing to sue on the licensee. This article will focus specifically on the factors courts consider when deciding whether the licensee has or does not have such standing. Courts typically ask what rights the university retains and what rights the university granted to the licensee and on what conditions.² University licensors should be cognizant of and consider these factors when negotiating and drafting license agreements to increase the likelihood that their licensees will be found to have independent standing to sue third-party infringers if that is the objective.

Factors Considered in a Standing Analysis

For a party to bring a lawsuit, it must have standing to do so. Depending on the terms of a license agreement, a licensee may have independent standing to sue on its own, may have standing only if the patent owner is a co-plaintiff, or may have no standing at all.

The Patent Act provides a remedy to the patentee, the definition of which includes “not only the *patentee* to whom the patent was issued but also the successors in title to the patentee,”³ and such entities may bring suit on their own to enforce the patent. Moreover, licensees who have received “all substantial rights” under the patent also have independent standing because a “grant of all substantial rights in a patent amounts to an assignment—that is, a transfer of title in the patent—which confers constitutional standing on the assignee to sue another for patent infringement in its own name.”⁴

Standing is determined by looking not at the title of an agreement or at a specific clause in the agreement, but rather at the rights granted or not granted to the licensee.⁵ A licensee has independent standing only where all of the “substantial rights” of the patent are conveyed to the licensee.⁶ These essential rights of the patent include the right to exclude, the right to sue infringers, and the right to transfer.⁷ Other factors, including retention of the rights to practice and publish, also may be relevant. Short of a grant of all essential rights, the licensee will not have independent standing to sue. If the licensee was not transferred all substantial rights but nonetheless is an exclusive licensee, then it may bring suit only if the university is a co-plaintiff.⁸ If the licensee is a nonexclusive or bare licensee, it may not bring suit at all.⁹ The substance, and not the bare words, of the agreement between the

licensor and licensee is what is relevant. For example, even a document that purports to be an assignment may be found by a court not even to rise to the level of an exclusive license.¹⁰

Exclusivity

Exclusivity to a patent is an essential right for a licensee to obtain standing, but by itself is not sufficient to ensure *independent* standing. In general, there are two basic types of license agreements: exclusive and nonexclusive.¹¹ Under an exclusive license, a patentee typically grants all rights to make, use, and sell under the patent to a single (thus exclusive) licensee.¹² An exclusive license need not be worldwide, but may provide exclusive rights to practice a patent within a given limited territory.¹³ Further, under an exclusive license, the patentee may allow the licensee to sublicense its rights to a third party, as discussed in “The Right to Transfer” later in this paper. Universities may find it advantageous to offer exclusive licenses for patents that require significant outside investment for development or production, since corporations typically will not undertake such development and production in the absence of exclusivity.

Nonexclusive licenses, on the other hand, are those licenses that do not expressly preclude the licensor from licensing the patent to others. However, a license may still be exclusive where some rights to make, use, and sell the invention have been retained by the patentee.¹⁴ Essentially, nonexclusive licenses can be seen as waivers of infringement because they do not transfer the core property rights created by the grant of a patent.¹⁵ Nonexclusive licenses are sometimes referred to as *bare* licenses because the patentee has provided only a bare waiver of infringement.¹⁶

Accordingly, nonexclusive licenses do not confer standing—at all—to the licensee to sue for infringement because the licensee does not receive the property rights afforded to patentees and suffers no legal injury from infringement.¹⁷ Nonexclusive licensees do not have the right to join the licensor in a suit for infringement.¹⁸ Moreover, and of utmost importance to a university technology manager, nonexclusive licensees have no right to sue for infringement *even if* there is a contractual clause attempting to convey such right.¹⁹

The Right to Sue

Once exclusivity is established, a licensee's right to sue (or, conversely, to indulge infringement by electing not to sue)²⁰ is perhaps the most critical factor in determining whether a licensee has independent standing. Although merely granting the licensee the right to sue alone is not sufficient to convey independent standing, the right to sue is often a linchpin because "the right to sue is the means by which the patentee exercises 'the right to exclude others from making, using, and selling the claimed invention.'"²¹

For instance, in *Biagro Western Sales Inc. v. Helena Chemical Corp.*,²² the court found the licensee to be an exclusive licensee with *some* rights, but *not all* substantial rights that would provide for independent standing. The patentee, the University of California, had exclusively licensed a patent to Biagro Western Sales. When Biagro attempted to sue defendant Helena Chemical, Helena filed a motion to dismiss for lack of standing and failure to join an indispensable party, namely the University of California. The court agreed, finding that, regardless of what rights were conveyed to the licensee, "Plaintiff does not have the most important right: an unconditional ability to bring an infringement suit in its own name."²³ While the right to sue was not dispositive, restrictions on the right to sue tipped the scales against the plaintiff's independent standing.

*Sicom Systems Ltd. v. Agilent Technologies*²⁴ is another example of a court's refusal to find standing based on a limited right to sue granted to the licensee. In *Sicom*, the Canadian government was assigned a patent for a digital signal transmission channel monitor and subsequently entered into a license agreement with plaintiff *Sicom*, termed an *exclusive license agreement*. However, even despite language in the agreement that granted *Sicom* the exclusive right to sue commercial infringers, the court held that *Sicom* lacked standing because the licensor retained the right to sue noncommercial infringers.²⁵ Similarly, *Sicom* did not have the ability to indulge infringement outside of the "commercial sphere." The court also held that provisions that required *Sicom* to notify the Canadian government if it intended to sue, to consult the Canadian government in the event of litigation, and to obtain written consent from the Canadian government before settling also weighed against independent standing.²⁶

In contrast, in *Ciba-Geigy v. Alza*,²⁷ the court found independent standing largely because the university-licensor provided an unrestricted grant of the

right to bring infringement litigation. In this case, the University of California licensed its patent to Ciba-Geigy under an exclusive license agreement. Although the defendant Alza Corp. attempted to dismiss Ciba-Geigy's infringement suit on the grounds that Ciba-Geigy lacked standing, the court rejected this claim. The court found important that the University of California granted Ciba-Geigy the right to sue infringers and agreed to not file any infringement suits of its own.²⁸ The license also allowed that Ciba-Geigy could pursue the litigation on its own, with the University of California not required to participate. Because the decisions on enforcement lay with the exclusive licensee, it had all substantial rights and, thus, independent standing.

The Right to Transfer

The right to transfer is another factor that influences a court's determination of whether all substantial rights in the patent were transferred and, accordingly, whether a licensee has independent standing. "A licensee's right to sub-license is an important consideration in evaluating whether a license agreement transfers all substantial rights."²⁹ The right to transfer, or sublicense, the patent directly implicates "the total utility and value of the license" agreement.³⁰ Therefore, courts consider not only whether the licensee has been granted the right to sublicense, but also whether there are any restrictions on that right.

In Prima-Tek II LLC v. A-Roo Co.,³¹ for example, the court held that significant limitations on the sublicensing ability of the licensee vitiated its claims for standing. While the court acknowledged that every limitation would not serve to undermine the licensee's standing to sue in its own name,³² in this instance, where licensee Prima-Tek I could only license to a singular and predetermined party, all substantial rights in the patent were not transferred. Accordingly, the court held that, because the licensee's rights were "significantly diminished by the sub-license requirement," the licensee lacked standing to sue in its own name.³³ Similarly, a right to sublicense that requires additional royalties to the patentee based on sublicensed sales is considered less substantial than one that does not.³⁴

Other Rights Reserved by Licensor

Other rights retained by the licensor also may affect whether a licensee has independent standing. These include, for example, whether the university reserves the right to practice, publish, and use the patent for further research. Although, from the perspective of the researcher, maintaining the right to practice and publish the patent may be a substantial benefit, the university may be making itself an indispensable party to litigation or could prevent the licensee from bringing suit altogether if the retention provides for the possibility for further licensing by the university. For instance, in *Biagro*, the court found no independent standing based on, among other factors, that the licensee was required to provide progress and royalty reports to the university and must observe the university's rights to publish and use the patented technology.³⁵ Likewise, in *Abbott*, the court found no independent standing based in part on the patentee's retention of the right to make, use, and sell the patent for its own benefit.³⁶

In another example, in *Aspex Eyewear v. Miracle Optics*, although the license included transfer of many rights considered "substantial," such as an exclusive right to make, use, and sell products covered by the patent; the right to sue for infringement; and rights to sublicense, it was nonetheless deemed less of a transfer of all substantial rights and, thus, did not create independent standing.³⁷ The license was for a limited period of time and included a hard date for the return of these rights to the patentee, and the court held that "[b]y having rights for only a limited portion of the patent term, it simply did not own the patent."³⁸

On the other hand, it is important to remember that the patentee can keep *some* rights while still conveying all substantial rights. In other words, independent standing may be conveyed with a license that is somewhat short of a full and absolute assignment. For example, in *Vaupel*, independent standing was found despite the retention of a veto right on sublicensing, a reversionary right in the event of bankruptcy or termination of production, and a right to receive infringement damages.³⁹ In *Speedplay*, independent standing was found despite a term allowing the licensor to bring suit and to veto assignment in some cases.⁴⁰ And in *Ciba-Geigy*, independent standing was found despite terms requiring that the licensee notify the licensor if it intended to sue, that would allow the license to be converted to a nonexclusive license if the licensee could not meet market demand or defaulted, and

that provided the university the right to use the patent for educational purposes.⁴¹ Crucially, the cases do not hold that these rights are not important or that they can always be freely retained, but that, under the facts of the cases—and in consideration of the rights that were transferred—they did not limit the grant to a degree that would preclude independent standing.⁴²

Obstacles and Tradeoffs to a Transfer of all Substantial Rights

As is evident from the above discussion, there is a substantial tradeoff in terms of the university's control over the patent and a licensee's having standing to sue. Some universities, for example, as a matter of policy, may want to license certain technologies to all market participants and, thus, not grant exclusive licenses. If that is the case, the technology manager should realize that a licensee will be unable to file a suit against third-party infringers at all, and that the university will be responsible for any litigation. Importantly, as discussed, this is so even if the license purports to allow a licensee the right to bring or join in an infringement suit.

Similarly, even if there is an exclusive license in place, the university may wish to place limits on the licensee's ability to sublicense or transfer and may wish to continue to research and publish on the subject matter of the patent in a way that could be seen to impact "all substantial rights" under the patent. If that is the case, the technology manager should take into account that a court may not consider the license to confer a sufficient transfer of rights to provide independent standing and so the university may still find itself involved in future litigation, albeit likely to a lesser degree than had the license not been exclusive.

Moreover, aside from the particular technology transfer or licensing policies or objectives of a university, other restrictions may limit a university's ability to transfer "all substantial rights" under a patent. For example, previous settlement of a patent dispute may be seen as a license that would prevent subsequent exclusive licenses if the settlement allowed continued practice of the patent.

More commonly, university research sponsored by the U.S. government may be controlled by the Bayh-Dole Act and by funding agreements that must comply with the act.⁴³ To the extent that a patent is a "subject invention" under the act, the act prohibits assignment without approval of the sponsoring federal agency,⁴⁴ provides for retained rights by the federal gov-

ernment to practice or have practiced the invention for or on behalf of the United States,⁴⁵ and provides march-in rights to force a compulsory license under certain circumstances.⁴⁶ State laws and policies may include similar requirements and restrictions. At least one court has ruled that the Bayh-Dole Act provisions in the abstract do not preclude a license from transferring all substantial rights and do not turn an otherwise exclusive license into one that is nonexclusive.⁴⁷ However, the patent and license in that case were ruled not to be covered by the act in the first place, and there have not been cases reported that squarely address the question of whether a license that complies with the Bayh-Dole Act can ever convey all substantial rights.

When considering these tradeoffs and limitations, an important point is that, while a university may not be able to effectively shift full litigation responsibility to a licensee, specific license terms may address some of the specific burdens of litigation.⁴⁸ In other words, the issue of standing, while important, does not create an all-or-nothing proposition. For example, a university recognizing that it would not be likely to escape involvement in litigation altogether could agree with the licensor to apportionment of the costs of and recovery from any litigation. Such contractual provisions are further important because, in some instances, a licensee may be able to compel a licensor to participate in the litigation as a necessary party.⁴⁹

Conclusion

For a licensee to have standing to sue third-party infringers alone and in its own name, the license agreement must convey what the courts characterize as “all substantial rights.” While there is no absolute bright line between an agreement that conveys all substantial rights and one that does not, an agreement likely would be considered as sufficient if it provided the following to the licensee:

- Exclusive rights to make, use, sell, or offer to sell the patented invention;
- Unrestricted rights to sublicense the patent; and
- Rights to sue for past, present, and future infringement and the right to decide not to sue infringers.

To the extent that a university may elect or otherwise be prohibited by law from conveying these rights, transferring exclusive rights to the invention, i.e., to make, use, sell, or offer to sell, within a limited geographic area, will provide the ability for the licensee to sue, but the university likely will have to participate as a co-plaintiff in any litigation.

Notes

1. Roger D. Blair and Thomas Cotter, *The Elusive Logic of Standing Doctrine in Intellectual Property Law*, 74 TUL. L. REV. 1323, 1347 (2000).
2. *Id.*
3. 35 U.S.C. §§ 100(d) & 281 (emphasis added).
4. *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal.*, 248 F.3d 1333, 1345 (Fed. Cir. 2001).
5. *Mentor H/S, Inc. v. Med. Device Alliance, Inc.*, 240 F.3d 1016, 1017 (Fed. Cir. 2001); *Vaupel Textilmaschinen KG v. Meccanica Ero Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991).
6. *Mentor*, 240 F.3d at 1017.
7. *Ciba-Geigy Corp. v. Alza Corp.*, 804 F. Supp. 614, 630 (D.N.J. 1992) (essential rights include the “right of exclusivity, the right to transfer and most importantly the right to sue infringers”) (quoting *Calgon Corp. v. Nalco Chem. Co.*, 726 F. Supp. 983, 986 (D. Del. 1989)).
8. *Intellectual Prop. Dev.*, 248 F.3d at 1348.
9. *Id.* at 1345.
10. *Penril Datacom Networks, Inc. v. Rockwell Int’l Corp.*, 934 F. Supp. 708, 712 (D. Md. 1996).
11. *Id.*
12. *Textile Prods., Inc. v. Mead Corp.*, 134 F.3d 1481, 1484 (Fed. Cir. 1998) (“[I]f a patentee-licensor is free to grant licenses to others, licensees under that patent are not exclusive licensees.”); *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1552 (Fed. Cir. 1995) (“To be an exclusive licensee for standing purposes, a party must have received, not only the right to practice the invention within a given territory, but also the patentee’s express or implied promise that others shall be excluded from practicing the invention within that territory as well.”).
13. *Sicom Sys. Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 976 (Fed. Cir. 2005).
14. *Abbott Labs. v. Diamedix Corp.*, 47 F.3d 1128, 1132 (Fed. Cir. 1995).
15. *A.L. Smith Iron Co. v. Dickson*, 141 F.2d 3, 6 (2d. Cir. 1944) (“The reason why [a non-exclusive licensee] is not permitted to sue is because has nothing to protect.”).
16. *Intellectual Prop. Dev.*, 248 F.3d at 1345.
17. *Rite-Hite*, 56 F.3d at 1552.

18. *Intellectual Prop. Dev.*, 248 F.3d at 1345.
19. *Ortho Pharm. Corp. v. Genetics Inst., Inc.*, 52 F.3d 1026, 1034 (Fed. Cir. 1995) (“A patentee may not give a right to sue to a party who has no proprietary interest in the patent.”).
20. See *Abbott*, 47 F.3d at 1132 (finding no independent standing and noting that “although Abbott has the option to initiate suit for infringement, it does not have the right to indulge infringements, which normally accompanies a complete conveyance of the right to sue”).
21. *Sicom*, 427 F.3d at 979 (quoting *Vaupel*, 944 F.2d at 875).
22. 160 F. Supp. 2d 1136, 1148 (E.D. Cal. 2001).
23. *Id.* at 1147.
24. 427 F.3d 971, 978 (Fed. Cir. 2005).
25. *Id.* at 979.
26. *Id.*
27. 804 F. Supp. 614, 630 (D.N.J. 1992).
28. *Id.*
29. *Prima-Tek II LLC v. A-Roo Co.*, 222 F.3d 1372, 1380 (Fed. Cir. 2000).
30. *Applied Interact, LLC v. Vit. Teddy Bear Co.*, No. 04 Civ. 8713 HB, 2005 WL 1785115 at *6 (S.D.N.Y. July 28, 2005); see also *Penril*, 934 F. Supp. at 711 (“restraint on alienation is clearly at odds with true ownership”).
31. 222 F.3d at 1380.
32. See *Vaupel*, 944 F.2d at 875.
33. *Prima-Tek II*, 222 F.3d at 1380; see also *Sicom*, 427 F.3d at 978 (no standing when among other reasons patentee had right to approve sublicenses).
34. *Speedplay Inc. v. Bebop, Inc.*, 211 F.3d 1245, 1251 (Fed. Cir. 2000).
35. 160 F. Supp. at 1147.
36. 47 F.3d at 1132.
37. 434 F.3d 1336, 1342 (Fed. Cir. 2006).
38. *Id.* at 1343.
39. 944 F.2d at 875-76.
40. 211 F.3d at 1251-52.
41. 804 F. Supp. at 631-33.
42. See *Biagro*, 160 F. Supp. 2d at 1147 (distinguishing *Speedplay*).

43. See *Madey v. Duke Univ.*, 413 F. Supp. 2d 601, 610-615 (M.D.N.C. 2006).
44. 35 U.S.C. § 202(c).
45. *Id.*
46. 35 U.S.C. § 203.
47. *Ciba-Geigy*, 804 F. Supp. at 628-29, 634. The court in this case also rejected the argument that because the license agreement allegedly failed to comply with the Bayh-Dole Act, that it was a legal nullity leaving the licensee with no rights at all.
48. See *Ortho*, 52 F.3d at 1034.
49. *Intellectual Prop. Dev.*, 248 F.3d at 1347 (“[T]his court adheres to the principle that a patent owner should be joined, either voluntarily or involuntarily, in any patent infringement suit brought by an exclusive licensee having fewer than all substantial patent rights.”) (citing *Indep. Wireless Tel. Co. v. Radio Corp. of Am.*, 269 U.S. 459, 468-69 (1926)).

