

Drafting Agreements To Allow Licensing Companies To Litigate Without Joining Patent Owners

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When patent owners grant licensing companies or other licensees the right to license and enforce their patents, they often struggle with how much control to retain over the licensing and enforcement. If the patent owner retains too little control, it may be unable to use those patents offensively when sued by others or protect its customers from the assertion of those patents. Conversely, retaining too much control may require the patent owner to become a party to any litigation and thus incur the costs and disruption associated with litigation rather than having those costs borne by the licensing company.

On many occasions, the Federal Circuit has analyzed the various bundles of rights that patent owners may grant a licensee and determined whether the licensee may bring a patent enforcement litigation at all and if so, whether the licensee must join the patent owner as a party in any such litigation. In performing this analysis, the Federal Circuit has identified three categories of licensees: (1) the exclusive licensee who has received "all substantial rights" in the patent (this category of licensee has enough rights to sue alone); (2) the exclusive licensee with "fewer than all substantial rights" in the patent (this category of licensee has enough rights to sue so long as the patent owner is joined in the suit); and (3) the non-exclusive, or "bare" licensee (this category of licensee has too few rights to sue even if the patent owner is joined in the suit).

In ascertaining which of the three categories applies, the Federal Circuit has focused on whether the patent owner retained the right to control and participate in an infringement lawsuit initiated under the licensed patent. Based on Federal Circuit precedent, if the patent owner retains the right to participate in an infringement litigation, it is unlikely that the licensee will have the right to sue alone and instead will need to join the patent owner as a party to the litigation. Therefore, patent owners and licensing companies who want the licensing company to bring infringement actions in their own name, without joining the patent owner or involving the participation of the patent owner, must carefully draft their license agreements so that the litigation rights retained by the patent owner do not destroy standing.

The Alfred E. Mann Decision

The Federal Circuit recently addressed the licensee/patent owner standing issue in *Alfred E. Mann Foundation for Scientific Research v. Cochlear Corp.*, No. 2009-1447 (May 14, 2010). In a variation on the typical issue, the Court decided whether a *patent*

owner retained sufficient rights in the patent to sue, as opposed to the usual issue of whether the *licensee acquired* enough rights. As the Federal Circuit explained, however, these two issues are intertwined and invoke the same analysis: resolving whether the licensee acquired all substantial rights in the patent. If so, the licensee can sue alone, and the patent owner lacks standing to bring suit.

In the *Mann* case, the Court applied and reaffirmed many of its prior licensee standing precedents and emphasized the importance of a patent owner's retained litigation rights in the analysis. Specifically, the Federal Circuit held that because the patent owner "had the right, following [the licensee's] refusal, to bring suit," the licensee did not acquire all substantial rights in the patent from the patent owner. In other words, because the patent owner retained a right to sue if the licensee declined meant that the licensee lacked standing to sue without the patent owner. Therefore, the patent owner itself had standing to sue. The Federal Circuit remanded the case to the district court, however, to determine whether the licensee must be joined or whether the patent owner could sue alone.

The Court also addressed another important right in the standing analysis, the right to sublicense infringers, explaining that such a right could render a patent owner's retained litigation rights illusory and restore a licensee's ability to sue in its own name alone. However, for this rule to apply, the licensee must have the power to settle and release liability for past infringement, rather than having that power remain with the patent owner and require the infringers to resolve past infringement with the patent owner. In the *Mann* case, the licensee possessed the right to sublicense infringers but could not grant such a license free of prior royalty obligations. Therefore, the Court found that the licensee's right to sublicense alleged infringers did not render the patent owner's litigation rights illusory.

Strategy and Conclusion

This case serves as a useful tool for licensees attempting to draft agreements in a manner that provides them with all substantial rights in the patent and the ability to sue alone.

1. Limit the patent owner's litigation rights. As evident from *Mann*, the patent owner's right to sue if the licensee first declines is sufficient to destroy standing and prevent the licensee from attaining all substantial rights. On the other hand, it appears that a licensee can have standing to sue alone if the only litigation right retained by the patent owner is the right to be notified if the licensee decides to file suit. Therefore, to be able to sue alone in its own name, a licensee should acquire as many, if not all, of the litigation rights associated with the licensed patent.
2. Acquire the right to settle for past infringement by infringers. As evident from *Mann*, this right can offset the patent owner's retained litigation rights that would otherwise destroy licensee standing to sue alone in its own name.

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