

Licenses

Drafting Exclusive Patent Licenses and Standing Considerations

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When licensing patent rights, one of the most important considerations is whether to grant the licensee the right to sue for infringement. What rights should the licensor confer—and what rights may it retain—without disturbing an exclusive licensee's standing to enforce the licensed patent? How should a patent holder that wants to preserve its right to sue alone or through joinder draft a licensing agreement?

Overview of Exclusive Licenses and Standing An exclusive patent license typically grants the licensee the sole right to practice an invention. It does not, however, automatically provide the licensee with the ability to enforce its rights should others infringe on its exclusivity.

Generally, only the owner of a patent has standing to sue for infringement. An exclusive licensee can participate in such a suit only if the patent owner has granted it sufficient rights beyond the license itself to confer standing. And in order to sue without joining the patent owner, the licensee must hold "all substantial rights" in the patent. Determining what rights are "substantial," however, is often a difficult task, and care must be taken in drafting license agreements to ensure that standing to sue is conferred in the manner desired by the parties. If the patent owner retains any substantial right, it must be joined in any future enforcement action.

Rights Needed to Confer Independent Standing Because a licensee must have "all substantial rights" to sue alone, courts have required the patent owner to confer several specific rights in the license agreement.

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These relate to exclusivity, control over litigation decisions, patent term length, field of use, and transferability.

Exclusivity. To have standing to participate in an infringement action, a licensee must have some level of exclusive right under the patent. A nonexclusive or "bare" licensee does not have standing to litigate patent infringement, regardless of whether the patent owner is joined in the suit. When the license does not explicitly grant any exclusionary rights under the patents, and there is no indication that the patent owner intended to grant such rights, the licensee will not qualify as an exclusive licensee.

Control over litigation decisions. A licensee must have control over whether to initiate litigation to have standing. If the patent owner retains the ability to veto litigation decisions, then the licensee is unlikely to be able to sue without joining the patent owner. This is true even when the patent owner merely retains a right to influence who the patent could or could not be enforced against, or under what circumstances the licensee may proceed. The same holds true if the patent owner retains the right to first sue infringers and provides the exclusive licensee the right to sue only when the patent owner fails or declines to do so. Similarly, the licensing agreement cannot divide the right to sue over the same patent between commercial and noncommercial infringement. Further, once the suit is filed, the patent owner cannot require the licensee to consult during the course of litigation.

Term. To confer independent standing on an exclusive licensee, the license must be valid for the life of the patent. Even if a license otherwise purports to give exclusive rights, an exclusive licensee does not have all substantial rights if that license is for a fixed term. In effect, this means that the patent owner may not retain a reversionary right to the patent, subject to limited circumstances.

Field of use. The licensing agreement cannot limit the right to exclude to a certain field of use, meaning use only in a specified industry rather than for any purpose. Under those circumstances, the patent owner retains exclusive rights to make, use, and sell products

covered by the patent in all areas outside the specified field of use and must therefore be joined in any litigation over the patent.

Transferability. The licensee must also be able to assign its rights under the agreement. Restrictions on the right to assign have been found fatal to the argument that the licensing agreement transferred all substantial rights in the patent. Additionally, the patent holder may not retain the right to veto any transfer decision, especially if the agreement allows it to do so arbitrarily.

Retaining Rights A patent owner may retain certain rights in the patent without destroying the licensee's ability to sue in its own name if the retained rights are not deemed substantial. Such "insubstantial" rights may include a notice requirement, limited control over sublicensing, control over preexisting licenses with other entities, termination of rights, territorial limitations, and insubstantial damages sharing.

Notification rights. Although the patent owner cannot retain veto power, it can require that the exclusive licensee provide notice before initiating litigation. Notice provisions are allowed because the patentee does not risk losing a retained right if the claims are invalidated or the patent held unenforceable.

Control over sublicensing. The patent owner may also retain limited control over the sublicenses that the patentee may grant. For example, the patent owner may require the licensee to obtain written consent before granting a sublicense because that control is viewed as only a "minor derogation" from the grant of rights and so does not deprive the licensee of standing to sue in its own name. The patent owner cannot, however, require the licensee to execute sublicenses to any specific entity.

Pre-existing licenses to others. A patent owner may retain control over any licenses that exist before the grant of all substantial rights to a licensee. Although this kind of license is not actually exclusive because other, prior licensees exist, the exclusive licensee still obtains all substantial rights remaining in the patent even though it is subject to the prior encumbrances.

Parties negotiating such terms should proceed with caution. Because courts look to the licensee's exclusionary right, who the defendant is matters. The question then becomes whether the plaintiff has the right to exclude the defendant in question. If the defendant could obtain a license from any of the prior licensees, and not just the plaintiff-licensee, that plaintiff does not have standing. The scope of prior licenses should therefore be examined to ensure that the prior licensee lacks the ability to grant sublicenses to any other entity. If another licensee has such rights, then that licensee has substantial rights that would defeat standing to sue.

One limited exception is when a prior license grants the licensee the ability to assign and license the asserted patent to related entities, such as subsidiaries and affiliates. This limited right, when confined to only related parties, does not defeat standing.

Termination of rights. A patent owner may retain a reversionary right to the patent in the event of bankruptcy, termination of production by the licensee, or failure to perform without destroying the licensee's independent standing. While this does indicate the retention of a significant ownership interest, reasonable pro-

visions accounting for unintended consequences or force majeure do not defeat the substantiality of the transfer of the exclusive right to make, use, and sell the patented subject matter. Similarly, a license subject to a limited term that automatically renews unless terminated by the patent owner does not defeat standing.

Territorial limitations. The U.S. Supreme Court has held that an exclusive licensee with all substantial rights, but limited to a "geographically restricted assignment," has standing to sue alone and does not need to join the licensor to maintain an infringement suit.

Insubstantial damages sharing. The fact that a patent owner has retained a right to a portion of the proceeds of the commercial exploitation of the patent does not necessarily defeat what would otherwise be a transfer of all substantial rights in the patent. Note, however, that retaining a "substantial" share of the proceeds may be viewed as retaining a substantial right requiring the patent owner to be joined in the suit. No precise lines have been drawn for the level of proceeds required to count as substantial, but if the patent owner does not wish to be joined in the suit, it should limit the portion of the proceeds it retains.

Maintaining Right to Sue If the patent owner does not wish to confer independent standing on the licensee, it is relatively easy to ensure that the patent owner must be joined with the licensee, or alternatively to ensure that the licensee has no standing at all.

To secure the ability to participate in a future patent suit, a patent owner can simply include a provision retaining the desired litigation rights in the licensing agreement. These may include, for example, a provision prohibiting the licensee from filing suit or a provision permitting the patent holder to join any lawsuit related to alleged infringement of the patents. Because the patent owner expressly retains the right to sue, the licensee by definition does not have all substantial rights. Or if the patent owner does not want the licensee to participate in a future suit, it must be careful to ensure that the licensee does not possess any *exclusive* rights to the patent. Absent the grant of an exclusive right, the licensee possesses only a bare license, which confers no standing at all.

Conclusion The grant of an exclusive license to make, use, or sell a patented invention carries with it the right to prevent others from practicing the invention. While express covenants may contractually regulate the licensee's enforcement rights, standing to sue for patent infringement ultimately turns on the licensee's proprietary interest in the patent. As a result, it is important that potential licensors identify which entities should have standing rights when drafting licensing agreements. If the patent owner intends to confer independent standing, it must grant "all substantial rights" to the licensee, including at least exclusive rights to the invention for the term of the patent, and the right to sublicense. The patent owner can retain some very limited rights such as notice of future suits, control over preexisting licenses with other entities, and reversionary rights, but any retained right should be examined carefully to ensure that the licensee's ability to sue in its own name is not impaired.