June 12, 2009

Assuring All Substantial Rights in Exclusive Patent Licenses

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Introduction

Despite their best of intentions, parties draft license agreements which purport to have the patentee grant sufficient rights for a licensee to assert a patent against third parties, but fail to grant all substantial rights to sue. The surprising number of cases decided against the intended transfer of all substantial rights to empower a licensee to sue on a patentee is a testimony to the complexity of the jurisprudence in this area. This article attempts to cut the “Gordian knot” regarding all substantial rights in patent licenses.¹ First, the United States law defining the four key categories regarding the parties in a licensing transaction is reviewed. Next, thirteen key cases from the United States Court of Appeals for the Federal Circuit (“CAFC”)² are summarized which cases directly address the question of all substantial rights in patent licenses.³ Last, the article suggests fifteen practice pointers from the various decisions to assist practitioners in drafting exclusive licenses with all substantial rights which licenses will be upheld as originally intended.

Four Categories among a Continuum of Rights

Between the polar extremes of patentee and a bare licensee, there are theoretically an infinite number of permutations of rights, duties and limitations that can be constructed into patent assignment and license agreements. Indeed, even “[b]etween the extremes of the fully exclusive and the bare non-exclusive license there is a continuum of practical commercial arrangements.”⁴ Four categories serve well to exhibit key distinctions across the continuum of countless possibilities of rights, duties and limitations. These categories are, in descending order of rights:

- Patentee;
- Exclusive licensee with all substantial rights (also known as the “effective patentee”);
- Exclusive licensee without all substantial rights; and
- Bare licensee.

Each category will be discussed and described in more detail below.

¹ “Gordian Knot, in Greek mythology, [was a] complex knot tied by Gordius, king of Phrygia and father of Midas. Gordius was a Phrygian peasant who became king because he was the first man to drive into town after an oracle had commanded his countrymen to select as ruler the first person who would drive into the public square in a wagon. In gratitude, Gordius dedicated his wagon to the god Zeus and placed it in the grove of the temple, tying the pole of the wagon to the yoke with a rope of bark. The knot was so intrically entwined that no one could undo it. A saying developed that whoever succeeded in untying the difficult knot would become the ruler of all Asia. Many tried, but all failed. According to legend, even Alexander the Great was unable to untie the Gordian knot, so he drew his sword and cut it through with a stroke. The expression ‘to cut the Gordian knot’ is used to refer to a situation in which a difficult problem is solved by a quick and decisive action.” http://encarta.msn.com/encyclopedia_761557530/Gordian_Knot.html
³ Although this article is written from the perspective of the jurisprudence of the United States, practitioners that apply the underlying principles and practice pointers discussed herein will help assure that the intention of the parties to transfer all substantial rights will be enforceable.
⁴ See McNeilab, Inc. v. Scandipharm, Inc. (95 F.3d 1164; 1996) (“McNeilab”) at 3.
Patentee

The patentee holds all legal rights to the patent. As the owner of all legal rights in a patent, a patentee suffers constitutional injury by infringers of its patent and, accordingly, has standing to sue infringers in its own name. The CAFC has stated, “Unquestionably, a patentee who holds all the exclusionary rights and suffers constitutional injury in fact from infringement is one entitled to sue for infringement in its own name.”\(^5\) The patentee “includes not only the patentee to whom the patent was issued but also the successors to title to the patentee.”\(^6\) Thus, each assignee of the entire legal rights to a patent – the entire “bundle of sticks” – may sue in its own name as though it were the original patentee. This right to sue in its own name is based on constitutional standing.

Constitutional standing to bring a patent infringement suit arises from Article III of the Constitution. The CAFC elaborated, “Article III of the constitution limits the judicial role in our system of government to the resolution of ‘cases’ and ‘controversies.’ … To demonstrate the minimal constitutional standing requirements have been satisfied, ‘[a] plaintiff must allege personal injury fairly traceable to the defendant's allegedly unlawful conduct and likely to be redressed by the requested relief.’ These requirements have been described as the injury in fact, traceability, and redressability inquiries. But standing ‘often turns on the nature and source of the claim asserted. . . . Essentially, the standing question in such cases is whether the constitutional or statutory provision on which the claim rests properly can be understood as granting persons in the plaintiff’s position a right to judicial relief.’ … A ‘patentee’ is entitled to bring a ‘civil action for infringement of his patent.’ and the ‘patentee’ includes the patentee to whom the patent was issued and the ‘successors in title to the patentee’. … A patent grant bestows the legal right to exclude others from making, using, selling, or offering to sell the patented invention in the United States, or importing the invention. Constitutional injury in fact occurs when a party performs at least one prohibited action with respect to the patented invention that violates these exclusionary rights.”\(^7\)

Exclusive Licensee with All Substantial Rights

Not all exclusive licensees are created equal. Beyond simply noting the title of an “exclusive licensee”, one must additionally determine whether the exclusive licensee is possessed of “all substantial rights.” This legal term of art is defined by the CAFC as “as those rights sufficient for the licensee or assignee to be ‘deemed the effective patentee under 35 U.S.C. § 281’”\(^8\) and amounts to a transfer of title and all corresponding constitutional rights.\(^9\) Coupled with the exclusivity to control the use of the patent, the exclusive licensee with all substantial rights has standing to assert the patent without any joinder of the patentee, because such licensee is effectively the patentee already.\(^10\) Hence,

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\(^6\) See 35 USC §100(d).
\(^7\) See Morrow at 1338 and 1339. Citations omitted.
\(^8\) See Sicom Systems, Ltd. v. Agilent Technologies, Inc. (427 F.3d 971; 2005) (“Sicom”) at 976. Emphasis mine. An “effective patent assignment” has also been called a “virtual assignment” by the CAFC in Aspex Eyewear, Inc. v. Miracle Optics, Inc. (434 F.3d 1336; 2006) (“Aspex”) at 22.
\(^9\) See Morrow at 1340.
\(^10\) See Morrow at 1340.
as an effective patentee, an exclusive licensee with all substantial rights meets the constitutional standing requirement to sue in its own name as discussed above.\textsuperscript{11}

**Exclusive Licensee without All Substantial Rights**

It is critical to understand that not every exclusive licensee of a patent has all substantial rights to sue on its own patent infringers without joining the patentee. Although a patent infringer may infringe on the exclusive licensee’s constitutional rights\textsuperscript{12} by making, using, or selling the patented invention, the requirement of joinder of the patentee as an indispensable party is based on prudential policy as opposed to constitutional concerns.\textsuperscript{13} Citing the U.S. Supreme Court in *Independent Wireless Telegraph Co. v. Radio Corporation of America*,\textsuperscript{14} the CAFC in *Morrow v. Microsoft Corporation* stated that the exclusionary rights of exclusive licensees without all substantial rights “must be enforced through or in the name of the owner of the patent,” and the patentee who transferred these exclusionary interests is usually joined to satisfy prudential standing concerns. The patentee is joined for the purpose of avoiding the potential for multiple litigations and multiple liabilities and recoveries against the same alleged infringer.”\textsuperscript{15} In *Evident Corporation v. Church and Dwight Company*,\textsuperscript{16} the CAFC additionally reasoned to join the patentee on a prudential basis because, “from the standpoint of the patentee, [it can ensure] that its patent is not invalidated or held unenforceable without its participation.”\textsuperscript{17} Of course, Federal Rules of Civil Procedure (“FRCP”)\textsuperscript{18} joinder analysis omits the requirement of joining the patentee “[w]hen the patentee is the infringer, or the prudential concerns are not at play in a particular case.”

**Non-exclusive Licensee, Bare Licensee, or Mere License**

A non-exclusive licensee is sometimes called a “bare licensee” or a “mere licensee.” These names arise from the complete lack of exclusionary rights and constitutional standing to sue for patent infringement of the patent because the bare licensee cannot, as a matter of law, suffer any injury in fact from any infringement by a third party. In fact,


\textsuperscript{12} See *Morrow* at 1340. “A party such as [exclusive licensee] that has the right to exclude others from making, using, and selling an invention described in the claims of a patent is constitutionally injured by another entity that makes, uses, or sells the invention.”

\textsuperscript{13} See *Propat International Corporation v. RPost, Inc.* (473 F.3d 1187; 2007) (“Propat”) at 1193. “We explained that the requirement that the exclusive licensee must normally join the patent owner in any suit on the patent is a ‘prudential’ requirement, not a constitutional requirement based on Article III limitations, and that an action brought by the exclusive licensee alone may be maintained as long as the licensee joins the patent owner in the course of the litigation.” See also *Prima Tek* at 1377; *Intellectual Property Development, Inc. v. TCI Cablevision of California, Inc.* (248 F.3d 1333; 2001) (“IP Development”) at 1348; and *Mentor H/S, Inc. v. Medical Device Alliance, Inc.* (240 F.3d 1016; 2001) (“Mentor”) at 1018.

\textsuperscript{14} *Independent Wireless Telegraph Co. v. Radio Corp. of America* (269 U.S. 459; 1926).

\textsuperscript{15} See *Morrow* at 1340. Emphasis mine. Citations omitted.

\textsuperscript{16} See *Evident Corporation v. Church and Dwight Company* (399 F.3d 1310; 2005) (“Evident”).

\textsuperscript{17} See *Morrow* at 1314.

\textsuperscript{18} See *Morrow* at 1340. See also *Textile Productions, Inc. v. Mead Corporation* (134 F.3d 1491; 1998) at 1484. Another narrow exception exists when the government owns the patent and grants an exclusive license to a private licensee to enforce it. “Focusing on the purpose behind the Act [Bayh-Dole Act],’ the court held that when an exclusive license agreement allows a private licensee to bring suit for enforcement of a government-owned patent, the licensee does not need to join the government as a plaintiff. The court reasoned that if the government were required to make its limited litigation resources available any time one of its licensees sued for patent infringement, the Act’s goal of minimizing the cost of administering government-owned patents would be compromised. Accordingly, the court allowed *Nutrition 21* to sue for infringement without joining the government as a party to the lawsuit.” *Z-Trim Holdings, Inc. v. Fiberstar, Inc.* (07-C-0161-C, United States District Court for the Western District of Wisconsin, 2007) at 6. See also *Nutrition 21 v. United States* (930 F.2d 862; 1991).
the bare licensee is powerless to join the patentee in an infringement litigation commenced by the bare licensee even if the underlying license agreement purports to grant a right to sue or to join the patentee.\textsuperscript{19} “A nonexclusive license confers no constitutional standing on the licensee to bring suit or even to join a suit with the patentee because a nonexclusive licensee suffers no legal injury from infringement.”\textsuperscript{20}

Having a clear understanding of each of these categories of patent rights will assist in a proper construction of the key cases regarding all substantial rights. As well stated by the CAFC in \textit{Morrow}, “a patent is a bundle of rights which may be retained in whole or in part, divided and assigned. While parties are free to assign some or all patent rights as they see fit based on their interests and objectives, this does not mean that the chosen method of division will satisfy standing requirements.”\textsuperscript{21} Although the parties appear to have intended the transfer of all substantial rights, many CAFC cases reviewed in this article evince that the intentions alone as to “the chosen method of division” may not pass constitutional muster.

\textbf{Key Cases in which the CAFC Deemed “All Substantial Rights” Were Transferred}

The CAFC has decided a number of key and relatively recent cases in determining whether or not all substantial rights are transferred. This article will review thirteen of such important cases. Although the cases deal with a very broad range of technologies, the licensing terms provide an easy platform on which to normalize the contractual facts, compare the decisions, and cull essential legal doctrines.

The thirteen cases are separated below into two sections. First, the cases in which the CAFC found that all substantial rights were transferred are reviewed in chronological order. Next, the cases in which the CAFC found that all substantial rights were not granted are examined in chronological order.

\textbf{Cases: All Substantial Rights Transferred}

\textit{Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A. (“Vaupel”)}\textsuperscript{22}

The \textit{Vaupel} case was decided in 1991 by the CAFC and dealt with a method patent for cutting strips of varying widths on a weaving loom and melding and fusing “the ends of the weft threads thereby form[ing] a solid edge or ‘selvage’.”\textsuperscript{23} The question to be resolved was whether or not the patentee needed to be joined by the exclusive licensee in an infringement action pursuant to the FRCP Rule 19. The fact pattern involved various agreements that granted certain rights to the licensee, while retaining other rights for the patentee. The relevant contractual rights were as follows.

\begin{itemize}
  \item \textsuperscript{19} See \textit{Morrow} at 1340 and 1341.
  \item \textsuperscript{20} See \textit{Sicom} at 976. Similarly, while citing the U.S. Supreme Court, the CAFC stated, “Under Article III, ‘standing . . . is jurisdictional and not subject to waiver.’ \textit{Lewis v. Casey}, 518 U.S. 343, 349 n.1, 135 L. Ed. 2d 606, 116 S. Ct. 2174 (1996)” \textit{Pandrol USA, LP v. Airboss Railway Products, Inc.} (320 F.3d 1354; 2003) at 1367.
  \item \textsuperscript{21} See \textit{Morrow} at 1341 note 8. Citations omitted.
  \item \textsuperscript{22} \textit{Vaupel Textilmaschinen KG and Vaupel North America v. Meccanica Euro Italia S.P.A.} and \textit{American Trim Products, Inc.} (944 F.2d 870; 1991).
  \item \textsuperscript{23} See \textit{Vaupel} at 872.
\end{itemize}
The patentee granted to the licensee the rights to:
- exclusively make, have made, use, sell, lease, rebuild and maintain the patented invention;
- sublicense under the patent, subject to prior consent by patentee; and
- sue for past, present, and future infringements, subject only to the obligation to inform patentee.

The patentee retained the following rights to:
- veto sublicenses;
- obtain patents on the invention in other countries;
- a reversion to the patentee in the event of bankruptcy or termination of production by the exclusive licensee; and
- receive infringement damages (up to a maximum of 5%) obtained from third parties for patent infringement.

Writing for the court, Judge Lourie reviewed all the rights retained by the patentee and determined that “none of these reserved rights was so substantial as to reduce the transfer to a mere license or indicate an intent not to transfer all substantial rights.”

Of the veto right, the court reasoned that it “was a minor derogation from the grant of rights” and “[i]t did not substantially interfere with the full use by” the licensee.

The patentee’s right to pursue patents in foreign countries did not interfere with the licensee’s exercise of its rights under the US patent. The reversion arising under a termination or bankruptcy is “entirely consistent with an assignment.”

“Finally, the right to receive infringement damages was merely a means of compensation under the agreement; this was not inconsistent with an assignment.”

Turning to the licensee’s rights, Judge Lourie stated that the licensee’s right to sue for infringement subject only to the obligation to inform the patentee was “particularly dispositive” because there remained no “possibility of two suits on the same patent against a single infringer … because the right to sue rested solely with the” licensee, thereby obviating any need for FRCP Rule 19 joinder.

Thus, without any retained substantial rights by the patentee and with the sole right to sue vested in the licensee, the court concluded that all substantial rights in the patent were transferred to the licensee.

**McNeilab, Inc. v. Scandipharm, Inc. ("McNeilab")**

**McNeilab** is a 1996 case decided by the CAFC. It dealt with two patents involving a microtablet containing a pancreatic enzyme. In this case, the exclusive licensee was given the right to practice and sue on the patents while “the completeness of the transfer” was not defeated by certain contingencies allowing for termination of the license.

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24 See Vaupel at 875.
25 See Vaupel at 875.
26 See Vaupel at 875.
27 See Vaupel at 875.
28 See Vaupel at 875 and 876. Citations omitted.
29 McNeilab, Inc. v. Scandipharm, Inc. (95 F.3d 1164; 1996).
30 See McNeilab at 12.
The patentee granted to the licensee the rights to:
- exclusively make, use, and sell the product practicing the patents;
- sue infringers if the patentee did not do so within a reasonable time after receiving notice of the infringement; and
- retain proceeds from infringement actions it pursues.

Each of the patentee and the exclusive licensee retained the rights to terminate the license agreement if the other party:
- having notice, fails to cure a default under the agreement;
- incurs unreasonable burdens or excessive liabilities in its performance under the agreement; or
- is insolvent, bankrupt or liquidated.

Also, each party retained the right to terminate the license agreement due to supervening illegality by government action.

Lastly, the licensee was required to obtain the consent of the patentee prior to any assignment of the license other than to an affiliate.

Judge Newman reasoned that none of the rights of the patentee to terminate the license affect the “exclusivity of [the licensee’s] license; they are merely safeguards against conditions subsequent” and do “not change the fundamental nature of the agreement.”

To justify this reasoning, the court even cited Vaupel which decided that the reversion of rights from a licensee to the patentee, due to termination for cause or bankruptcy, is “entirely consistent” with the transfer of all substantial rights to the licensee in the first instance.

Of particular mention, the court also opined that the right of the patentee to consent to assignment “did not restrain [the licensee’s] full exercise of the exclusive license to make, use, and sell the patented subject matter. This was not a retention by [the patentee] of a substantial right under the patent, but a safeguard of the bargained-for consideration, which was based on the licensee's performance.” It is noteworthy that the effect on the transfer of all substantial rights when the patentee retains the right to consent to assignments appears to be still developing in 1996, the time of this case. In other cases reviewed in this article (especially Speedplay, IP Development, Sicom, and Propat), the court later distinguished between the right to withhold consent in a patentee's sole discretion and a right to only withhold consent reasonably. Based on the totality of subsequent assignment-related decisions of CAFC cases, it is plausible that McNeilab would be decided differently if it were tried today.

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31 See McNeilab at 12 and 13.
32 See McNeilab at 9.
33 See McNeilab at 14 and Vaupel at 875. However, as to the right to consent, it is instructive to note that Vaupel was based on slightly different facts. Vaupel did not deal with a patentee that retained a right to consent to the licensee’s assignment of its rights, rather the patentee in Vaupel retained the right to consent to sublicenses.
34 See McNeilab at 10.
35 See the discussion below regarding the right to consent to assignments in the section for practice pointers.
Sealing the licensee’s standing, the court held that all substantial rights were transferred to the licensee thereby permitting the licensee to sue on its own without joinder of the patentee.

*Speedplay, Inc. v. Bebop, Incorporated ("Speedplay")*36

The *Speedplay* case was decided in 2000 by the CAFC and dealt with patents on clip-less bicycle pedals and pedal cleats. Through a license agreement and a separate assignment, all substantial rights in a patent were purported to be transferred to an exclusive licensee. The focus in this case related to whether or not across the two transactions all substantial rights to the licensed patent were exclusively transferred. The salient elements of the licensing provisions of the agreement were as follows.

The patentee granted to the licensee the rights to:
- exclusively manufacture, have manufactured, distribute, market, use and sell products covered by the patents;
- enforce the patents;
- transfer the license, subject to the consent of the patentee provided that such consent shall not be withheld unreasonably; and
- exercise its rights through agents and sublicensees.

In exchange, the patentee retained the following rights to:
- initiate legal action against an alleged infringer in their own name, but only if licensee fails to bring such a suit within three months;
- consent to assignment by licensee provided that such consent shall not be withheld unreasonably;
- dictate the marking on products intended for foreign sale;
- inspect licensee’s books regarding the exercise of its license rights; and
- receive the assignment of any improvements made to the patents by the licensee.

Writing for the CAFC, Judge Bryson primarily focused on whether the rights retained by the patentee were sufficient to prevent all substantial rights from being transferred to the licensee. Regarding the patentee’s optional right to initiate legal action against an infringer if the licensee did not do so, the court stated that such right in the patentee “would not hinder [the licensee’s] enjoyment of the patent rights in any meaningful way” and that the licensee “for all practical purposes” controls the enforcement of the patents.37 With respect to the patentee’s assignment veto, the court determined that any patentee’s right to not unreasonably withhold consent to an assignment of rights by a licensee does not “significantly restrict the scope of” the licensee’s rights in the patents.38 The court dismissed the patentee’s right to improvements and the right to dictate the marking of products intended for foreign sale as having no limiting effect on the licensee’s exercise of the exclusive license.39 Similarly, the court found the patentee’s policing mechanism

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36 *Speedplay, Inc. v. Bebop, Incorporated (211 F.3d 1245; 2000).*
37 See *Speedplay* at 1251.
38 See *Speedplay* at 1251 and 1252.
39 See *Speedplay* at 1252.
of auditing the licensing books of the licensee to be “not a substantial proprietary right.” 40 In short, whether jointly or severally, all the rights retained by the patentee were not found to have a substantial effect, if any at all, in limiting the exclusive licensee’s exercise of the license and receiving all substantial rights to the patent.

The above three CAFC cases are the ones in which all substantial rights in the licensee were found. In the subsequent ten cases, the CAFC did not find all substantial rights transferred to the licensee.

**Key Cases in which the CAFC Deemed “All Substantial Rights” Were Not Transferred**

*Abbott Laboratories v. Diamedix Corporation v. Ortho Diagnostic Systems, Inc.* (“*Abbott*”) 41

Decided in 1995 by the CAFC, *Abbott* involved “two patents [relating] to immunoassay systems used to test blood for the presence of the hepatitis virus.” 42 While *Abbott* dealt directly with the attempted intervention by the patentee in an infringement lawsuit, the reasoning underlying the decision turned on whether all substantial rights were transferred to the exclusive licensee.

The patentee granted to the licensee the right to:

- exclusively to make, use and sell products incorporating the inventions claimed by the patents, subject to the patentee’s license and any pre-existing licenses;
- veto any attempted assignment by the patentee of its rights; and
- sue infringers but without the sole right to “indulge infringements.” 43

The patentee retained the right to:

- make, use and sell products practicing the patent;
- terminate the license (although the terms of such right are not detailed in the opinion);
- veto any attempted assignment by the licensee of its rights;
- sue infringers, subject to the licensee’s first right to sue;
- receive annual royalty payments from the licensee;
- receive infringement damages from the licensee with a minimum royalty of 1% of the infringing sales; and
- retain counsel in all infringement proceedings initiated by the licensee.

After listing most of the above retained rights by the patentee and comparing the facts with *Vaupel*, Judge Bryson singled out the licensee’s exclusive right to sue was “particularly dispositive” in determining if the licensee has standing to sue without joining the patentee. 44 “In this case, [the patentee] has retained a significantly greater interest in the patents than [the patentee] retained in *Vaupel*. Unlike in *Vaupel*, [the

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40 See *Speedplay* at 1252.
42 See *Abbott* at 1129.
43 See *Abbott* at 1132.
44 See *Abbott* at 1132.
patentee] retained a limited right to make, use, and sell products embodying the patented inventions, a right to bring suit on the patents if [the licensee] declined to do so, and the right to prevent [the licensee] from assigning its rights under the license to any party other than a successor in business. Those retained rights are the sort that are commonly held sufficient to make a patent owner who grants an exclusive license a necessary party to an infringement action brought by the licensee.”  

Additionally, the court bypassed the permissive intervention rule under FRCP 24(b) and focused instead on the FRCP 19(a) necessary party analysis. Ultimately, the court concluded that the patentee “retained substantial interests under the” patents such that the licensee “does not have an independent right to sue for infringements as a ‘patentee’ under the patent statute.”

Prima Tek II, L.L.C. v. A-Roo Company ("Prima Tek")

Prima Tek was decided by the CAFC in 2000 and involved six patents relating to decorative flower pot sleeves. This case dealt with a patent infringement suit brought by first- and second-generation exclusive licensees to the six patents. However the decision turned on the highly limited license to the first-generation licensee.

The patentee granted to the licensee the exclusive right to:
- make, use and sell the products and processes covered by the patents, subject to the patentee’s right to terminate the agreement with thirty days’ notice;
- sue infringing third parties; and
- collect damages for infringement.

The patentee retained the right to extend or terminate the license agreement at predetermined anniversary dates of the agreement.

Moreover, the agreement added that the patentee would be “bound by any judgment which may be rendered in any … suit with respect to validity, infringement and enforceability of any of the” patents where the underlying suit was initiated by the licensee.

Judge Clevenger’s opinion focused on the terminable nature of the contract at the will of the patentee and on the lack of the sublicense right by the licensee. Regarding the terminable nature of the contract, the court followed the reasoning from the U.S. Supreme Court’s Waterman and the CAFC Vaupel cases. In Waterman, the mortgagor was not held to be an indispensable party in the litigation because the possibility of a reversion due to a default on the mortgage was not a sufficient restriction to prevent the transfer of all substantial rights. Similarly, in Vaupel the reversionary right to the patent in the event of bankruptcy or termination of production by the licensee “was ‘entirely consistent’ with an assignment and therefore did not preclude the licensee from having standing to sue in

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45 See Abbott at 1132.
46 See Abbott at 1132.
48 See Prima Tek at 1375.
its own name.”50 Thus, the court held that “neither the termination clause nor the renewal cycle of the license agreement between [the patentee and the licensee] required [the patentee] to be joined in this action.”51

In contrast, the requirement on the first-generation licensee to “execute a sub-license to [the second-generation licensee] and to no one else”52 turned out to be the linchpin for denying the transfer of all substantial rights. “A licensee’s right to sub-license is an important consideration in evaluating whether a license agreement transfers all substantial rights.”53 Without the licensee’s right to broadly grant sublicenses, “the agreement effectively nullifies all [the first-generation licensee’s] exclusive territorial rights in the patents.”54 Therefore, the court held that notwithstanding the uneventful termination provision and notwithstanding the provision holding the patentee to any judgments arising from the licensees’ suits on the patents, the lack of full sublicense rights in the first-generation licensee prevented the transfer of all substantial rights.55

*Mentor H/S, Inc. v. Medical Device Alliance, Inc. (“Mentor”)56*

This case dealt with a method of performing liposuction. It was decided in 2001 by the CAFC. The fact pattern involved an exclusive licensee’s standing to sue in its own name notwithstanding a host of rights retained by the patentee.

The patentee granted to the licensee the exclusive right to sue infringers of the patent “in the event the [patentee] fails to do so.”57

The patentee retained the rights to:
- develop, manufacture and sell (only to the licensee) products practicing the patent;
- supervise and control the licensee’s product development; and
- sue infringers of the patent.

The patentee retained the duties to:
- pay maintenance fees of the patent; and
- sue infringers of the patent and the failure to do so would be a breach of the agreement.

In *Mentor*, the court found that the patentee’s right and duty to first sue infringers was “substantial.”58 The court distinguished these facts from those of *Vaupel* in which the licensee’s duty to only inform the patentee of a suit was “particularly dispositive” such that there was no risk of a multiplicity of suits arising from simply informing the patentee

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50 See Prima Tek at 1378.
51 See Prima Tek at 1379.
52 See Prima Tek at 1380.
53 See Prima Tek at 1380. Emphasis mine.
54 See Prima Tek at 1380.
55 See Prima Tek at 1380. “Because Prima Tek I’s rights under the agreement are significantly diminished by the sub-license requirement, we cannot say that the requirement is merely a ‘minor derogation’ from the grant of rights. Accordingly, we conclude that the agreement does not transfer all substantial rights in the patents to Prima Tek I.”
57 See Mentor at 1018.
58 See Mentor at 1018.
of the intended litigation. In Mentor, having the licensee second in line to sue compels the holding that the licensee was transferred fewer than all substantial rights in the patent.

Intellectual Property Development, Inc. v. TCI Cablevision of California, Inc. (“IP Development”)  

In 2001 the CAFC decided the IP Development case which involved an exclusive license agreement to the rights in a patent relating to wired broadcasting system using an optical fiber extending between an electro-optical transducer and a photo-sensitive detector. Notwithstanding the broad rights granted to the licensee, the totality of rights retained by the patentee prevented the transfer of all substantial rights.

Subject to pre-existing licenses, the patentee granted to the licensee the rights to:
- exclusively make, use and sell the invention;
- exclusively grant sublicenses;
- exclusively collect monies, damages and/or royalties for past infringement;
- sue in its own name to prevent infringement;
- prevent infringement, collect damages, and defend proceedings for revocation where the patentee is not a necessary party provided the licensee notifies the patentee in writing, keeps the patentee informed, and consults with the patentee; and
- settle or compromise any dispute provided it receives the prior written consent of the patentee which consent shall not be unreasonably withheld.

The patentee retained the rights to:
- prevent the licensee from proceeding in any joint litigation or legal action where the patentee is a necessary party by withdrawing consent to such joint litigation or legal action at any time;
- assign all its rights and obligations in the license agreement;
- prevent the licensee from assigning its rights under the license agreement to a third party without the prior written consent of the patentee; and
- collect fifty percent of profits realized from infringement claims.

In the situations where the patentee was a necessary party, Judge Gajarsa focused on the licensee’s need to seek consent of the patentee coupled with the patentee’s right to withdraw consent at any time as dispositive in the transfer of fewer than all substantial rights. “Indeed, a transferee that receives all substantial patent rights from a transferor would never need consent from the transferor to file suit because such an assignment essentially transfers title in the patent to the transferee.” Conversely, where the patentee was not a necessary party, the licensee in IP Development still needed to keep the patentee informed and consult with the patentee as to any litigation and settlements, although such duty incumbent on the licensee is “neutral” as to the lack of transfer of all substantial rights. Foreshadowing a test that the CAFC would deem under Sicom as “fatal” to the transfer of all substantial rights, the court also found the patentee’s right to

59 See Mentor at 1018.  
61 See IP Development at 1344. Emphasis mine.  
62 See IP Development at 1344.
prevent the “transferee’s right to assign is a substantial right reserved by the transferor.”\(^\text{63}\) In the end, the court held that the combination of the patentee’s retained rights to consent to litigation, prevent litigation through voluntary withdrawal, require consultation in other litigation, and veto assignments in its sole discretion prevented the transfer of all substantial rights to the licensee.\(^\text{64}\)

**Fieldturf, Inc. v. Southwest Recreational Industries, Inc. (“Fieldturf”)\(^\text{65}\)**

The *Fieldturf* case was decided by the CAFC in 2004 and dealt with a patent for artificial, carpet-like turf systems. The licensing arrangement included a series of prior complicated transactions that ultimately purported to grant limited but exclusive license rights to the licensee.

The patentee granted to the licensee the right to manufacture and market the embodiment of the patent, except for golf products.

The patentee retained a limited right to practice the patent.

Significantly, it turned out that the agreements omitted to clarify whether or not (i) the licensee would have the right to assert the patent against infringers, and (ii) the licensee’s right was exclusive as to developing, displaying, commercializing, and marketing embodiments of the invention.

Chief Judge Mayer narrowed the analysis to two key concepts: the lack of the right to assert and the non-exclusive nature of the license. Without a right to enforce the patent, the licensee is “no more than a bare licensee”\(^\text{66}\) and generally has “no right to sue for infringement” because the licensee does not have in full right to exclude others from practicing the patent and can, therefore, subject infringers to multiple lawsuits.\(^\text{67}\) As to the patentee’s rights, the CAFC also stated that the patentee’s “retention of a limited right to develop and market the patented invention indicates that the licensee failed to acquire all substantial rights.”\(^\text{68}\) As a result, the licensee lacked standing to sue.

**Sicom Systems, Ltd. v. Agilent Technologies, Inc. (“Sicom”)\(^\text{69}\)**

Decided by the CAFC in 2005, the *Sicom* case involved an exclusive license where the patent was owned by the government of Canada. The patent in issue covered the automatic monitoring of digital signal transmission channels. The exclusive patent license included broad rights in favor of the licensee and was later amended to augment the rights in order to assure the licensee was transferred all substantial rights. But the patentee still retained too much.

\(^{63}\) See *IP Development* at 1345. Emphasis mine.
\(^{64}\) See *IP Development* at 1345.
\(^{65}\) *Fieldturf, Inc. v. Southwest Recreational Industries, Inc.* (357 F.3d 1266; 2004).
\(^{66}\) See *Fieldturf* at 1269.
\(^{67}\) See *Fieldturf* at 1269, citing *State Contracting & Eng’g Corp. v. Condotte Am., Inc.*, (346 F.3d 1057, 1062; 2003) and *Vaupel* at 875 and 876.
\(^{68}\) See *Fieldturf* at 1269.
\(^{69}\) *Sicom Systems, Ltd. v. Agilent Technologies, Inc.* (427 F.3d 971; 2005).
The patentee granted to the licensee the exclusive right to sue for commercial infringement of the patent, subject to its giving prior notice to the patentee.

The patentee retained the right to:
- the legal title to the patent;
- practice the patent;
- grant contracts to further develop the patent;
- sublicense any improvements or corrections developed by the licensee;
- sue for non-commercial infringement;
- veto any proposed assignments in its sole discretion;
- veto any proposed sublicenses in its sole discretion;
- veto any proposed infringement settlements in its sole discretion; and
- levy additional royalties or other consideration.

Writing for the court, Judge Prost focused on the policy concern of having a single infringer be vulnerable to a multiplicity of suits because the licensee could not sue for all infringers. Having the patentee retain a right to sue over the non-commercial infringement of the same patent is “inconsistent with a genuine exclusive right to sue.”

Next the court highlighted that the all substantial rights standard is not met when the licensee does not have the right to assign, sublicense or settle without the prior written consent of the patentee. Citing the district court, Judge Prost cemented the doctrine that the restriction on a licensee’s “right to assign is a fatal reservation of rights by” the patentee. The court held as follows: “In light of [the patentee’s] right to permit infringement in certain cases, the requirement that [the licensee] consent to certain actions and be consulted in others, and the limits on [the licensee’s] right to assign its interests in the patent, we hold that the Agreement transfers fewer than all substantial rights in the patent from [the patentee] to [the licensee].”

Aspex Eyewear, Inc. v. Miracle Optics, Inc. (“Aspex”)
The patentee retained the right to:
- “commence legal action against third parties for infringing the patent if [the licensee] refused to do so within 30 days of receiving notice of infringement”;\(^{74}\)
- receive a pro rata share of damages awarded from the litigation where the share is proportioned on the litigation expenses paid for by the patentee (up to 50%); and
- a reversion in the patent for the patent’s remaining term after the exclusive license expired.

Writing for the court, Judge Lourie recognized that “a key factor has often been where the right to sue for infringement lies” which right was held by the licensee in this case.\(^{75}\) However, any potency of the licensee’s right to sue was roundly overcome by another more “dominant factor”, namely, “the provision limiting the term of the license.”\(^{76}\) The court held by stating the following: “By having rights for only a limited portion of the patent term, it simply did not own the patent. It was merely an exclusive licensee without all substantial rights. The [] patent was never assigned; it was exclusively licensed for only a fixed period of years, which does not meet the all substantial rights standard.”\(^{77}\)

The policy reason behind this holding is to avoid the multiplicity of lawsuits against the same infringer arising from the same act. Thus, notwithstanding the inclusion of exclusive and necessary rights “that strongly favor a finding of an assignment,”\(^{78}\) it appears fatal to any attempt to grant a license to all substantial rights in a patent to have a license term shorter than the remaining term in the patent.

*Propat International Corporation v. RPost, Inc. (“Propat”)*\(^{79}\)

The *Propat* case was decided in 2007 by the CAFC and addressed an arrangement where the patentee licensed a third party to sue patent infringers in its own name and secure payments through litigation or settlement to be shared between the patentee and the licensee. The patent in issue dealt with an “apparatus and method for authenticating the dispatch and content of documents.”\(^{80}\) The case turned on the substantial control retained by the patentee, especially the assignment veto.

The patentee granted to the licensee the right to:
- license and sue infringers, subject to the consent of the patentee provided that such consent shall not be withheld unreasonably;
- enforce the licensing agreements;
- retain a percentage share of the proceeds of the licensing royalties of any judgment or settlement; and
- require the patentee to be joined in any litigation if required by the court and if the licensee pays all the associated expenses of the patentee.

\(^{74}\) See *Aspex* at 1338.
\(^{75}\) See *Aspex* at 1342.
\(^{76}\) See *Aspex* at 1342.
\(^{77}\) See *Aspex* at 1342 and 1343.
\(^{78}\) See *Aspex* at 1338.
\(^{79}\) *Propat International Corporation v. RPost, Inc.* (473 F.3d 1187; 2007).
\(^{80}\) See *Propat* at 1188.
The patentee retained the rights to:
- the ownership of the patent, coupled with a duty to maintain the patent;
- an economic interest in the proceeds of the licensing royalties of any judgment or settlement;
- terminate the agreement if the licensee breaches the agreement, becomes bankrupt or insolvent, fails to obtain certain levels of income from the patent, or ceases to be actively engaged in licensing or litigation efforts; and
- consent to assignment of rights by the licensee provided that such consent could be freely withheld (“even if it does so ‘arbitrarily’”)

Interestingly, the agreement does not expressly state whether either party has a right to practice the patent.

After briefly reviewing each side’s views, Judge Bryson bluntly declared that all substantial rights to the patent were not transferred to the licensee. In addition to highlighting the patentee’s express ownership of the patent, he emphasized the patentee’s (i) retention of a “substantial measure of control over decisions affecting the patent rights” including the economic proceeds, (ii) right to notice and reasonably veto licensing and litigation strategies, and (iii) “unrestricted power to bar” the licensee from assigning its rights in the patent, together indicate that the licensee cannot have all substantial rights in the patent.

Also, the patentee’s right to terminate the agreement for the licensee’s non-performance to established expectations, “although not dispositive, is yet another indication that [the patentee] retains a significant ownership interest in the patent.”

Judge Bryson further underscored that the patentee’s right to freely withhold an assignment of rights by the licensee “constitutes a significant restriction” and indicates that the patentee “retains substantial ongoing control of the sort typically associated with the retention of an ownership interest in the patent.” In fact, citing its own precedent in Sicom, the court found the unrestricted restraint on transferability to be “fatal” to any attempted transfer of all substantial rights. After soundly denying the licensee of its claim to a transfer of all substantial rights in the patent, the court then uncompromisingly declared the licensee to be a “bare licensee” without any constitutional standing to bring the lawsuit in the first instance regardless of any desire for the prudential joinder of the patentee.

*Morrow v. Microsoft Corporation (“Morrow”)*

The *Morrow* case was decided in 2007 by the CAFC and dealt with a patent on the “dynamic generation of hyperlinks in a source document to other documents” in relation to Microsoft’s “Smart Tag Functionality.” The facts of this case related to a bankrupt patentee whose assets were liquidated by court-appointed committees. The committee

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81 See *Propat* at 1191.
82 See *Propat* at 1191.
83 See *Propat* at 1192.
84 See *Propat* at 1191.
85 See *Propat* at 1191.
86 See *Propat* at 1193 and 1994.
88 See *Morrow* at 1336.
distributed the patentee’s assets into three trusts. One trust retained legal title to the patent while another trust received the right to sue third parties for infringement of the patent. The latter trust sued Microsoft for patent infringement. The case turned on the separation of patent ownership from other key rights, such as the right to license.

The patentee granted to the licensee an exclusive license to:
- decide, at its discretion, whether to investigate, pursue, or dismiss patent infringement actions (and require full and prompt cooperation, assistance and joinder of the patentee in such actions);
- collect damages from infringement litigations (while assuming (i) any liability arising from claims or defenses of any infringement defendant, (ii) all costs and expenses associated with infringement litigations; and (iii) any litigation sanctions); and
- settle infringement actions, subject to the consent of the patentee which consent cannot be unreasonably withheld.

Curiously, the licensee did not receive any apparent right to:
- make, use, or sell the invention of the patent (“much less the exclusive right to do any of these things with the patented technology”)
- grant licenses or sublicenses under the patent or collect any licensing royalties.

In contrast, the patentee retained the rights to:
- the legal title to the patent;
- to grant exclusive and non-exclusive licenses to the patent to third parties (including the right to grant sublicenses);
- collect and retain all royalties on the licenses it grants;
- exclusively make, use and sell the patented technology (although it is separately from exercising this right under the liquidation plan); and
- assign the patent.

After discussing fundamental questions of constitutional and prudential standing requirements for the licensee to bring the suit, Judge Moore focused on the fact that the licensee did not hold “important” exclusionary rights such “an exclusive license, the exclusive right to license, and the right to sublicense.” Further, the patent owner held title to the patent and broad rights to sell, license, or assign the patents subject to the consent of the other two trusts involved in the liquidation where the consent requirement, like in Speedplay, was deemed “not significantly restrictive” on the patent owner. The fundamental dilemma for the licensee was that “the exclusionary rights have been separated from the right to sue for infringement. The liquidation plan contractually separated the right to sue from the underlying legally protected interests created by the patent statutes--the right to exclude. For any suit that [the licensee] brings, its grievance is that the exclusionary interests held by [the patentee] are being violated. [The licensee] is not the party to which the statutes grant judicial relief. [The licensee] suffers no legal

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89 See Morrow at 1338.
90 See Morrow at 1341.
91 See Morrow at 1342. Citation omitted.
injury in fact to the patent's exclusionary rights." 92 Although the licensee held certain exclusionary rights (but short of all substantial rights) and attempted to join the patentee in the suit to satisfy prudential standing requirements, the licensee still lacked constitutional standing requirements 93 because it suffered no injury in fact in that it lacked “the important rights to grant and enforce licenses." 94

*International Gamco, Inc. v. Multimedia Games, Inc. (“International”)* 95

Also decided in 2007, the *International* case dealt with a “a gaming system network configured to allow multiple players to engage in games drawn from a finite and centrally-stored pool of game plays.” 96 The key issue in the case was whether an exclusive license to both a territorial and field-of-use license was transferred all substantial rights in the patent to sue thereon.

The patentee granted to the licensee solely within a pre-defined territory, an exclusive license to:
- make, use, sell and offer to sell games that practiced the patent;
- sublicense others, subject to the patentee’s right to consent which shall not be unreasonably withheld; and
- sue for past, present and future infringement of the patent.

The patentee retained all rights in the patent subject to those rights in the licensee.

Moreover, the territory was defined as a hybrid between a territorial license and a field of use license as “the lawful operation of lottery games authorized by the New York State Lottery in the state of New York.” 97

The holding in *International* centered on the public policy of not subjecting infringers to a multiplicity of suits. First, the CAFC reasoned that neither did the territorial restrictions alone permit a multiplicity of suits nor preclude the transfer all substantial rights because the Patent Act expressly allows for geographically-restricted assignments of the patent rights. 98

Next, turning to the question of multiple claims arising from field of use or claim-by-claim licenses, the court hearkened back to a case called *Pope* 99 in which the U.S. Supreme Court found that to the degree that a patentee purports to grant an exclusive license to a patent claim but not to all claims of the patent and where the license claim is an element in other unlicensed claims of the same patent, there runs a risk of “the

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92 See *Morrow* at 1342.
93 See *Morrow* at 1344. See also *Propat* at 1194.
94 See *Morrow* at 1343. See also *Propat* at 1194.
96 See *International* at 1274.
97 See *International* at 1275.
98 See *International* at 1276 and 1279. See also 35 USC §261. “Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.” Emphasis mine.
potential for multiple litigations against any one defendant and among the licensees themselves.”

Drawing on Pope, the CAFC opined, “The claim-by-claim exclusive license in Pope is indistinguishable from an exclusive field of use license insofar as both types of licenses divide the scope of a patent right by its subject matter. Courts and commentators have relied on Pope for the proposition that an exclusive field of use licensee does not have standing to sue in its own name without joining the patent holder. . . . As noted by the U.S. Supreme Court, allowing a licensee, even one with exclusive rights to the patent for a particular field of use, to sue in its own name alone poses a substantial risk of multiple suits and multiple liabilities against an alleged infringer for a single act of infringement. To alleviate this risk, this court's prudential standing requirement compels an exclusive licensee with less than all substantial rights, such as a field of use licensee, to join the patentee before initiating suit.”

Resolving the combined effects of the two types of licenses simultaneously granted in the case, the CAFC reasoned, “The problem of a multiplicity of lawsuits arising from an exclusive field of use license is not cured by adding a geographic restriction.” Thus, the exclusive licensee was found to not have been granted all substantial rights and could not sue without joining the patentee.

**Fifteen Practice Pointers**

One can glean patterns from the above CAFC decisions on the transfer of all substantial rights to sue. The simple observation that the court appears far more likely to not find the transfer of all substantial rights is wholly inadequate. One must look to the substance of the provisions of the underlying license agreements to better understand how to craft license agreements to assure the intentions of the parties are met.

Upon reviewing the key terms of the license agreements mentioned in the above thirteen CAFC cases, one quickly notes that lack of obvious trends or patterns from the different combinations of terms in the various licenses thereby not leading one to immediate predictability as to the whether or not all substantial rights were transferred to the licensee. For instance, there are cases where all substantial rights were both found and not found where the licensee has the ostensible right by contract to (i) practice the patent, (ii) sublicense the patent, (iii) sue to assert the patent, and (iv) collect royalties or damages from infringers. Therefore, these provisions do not seem to be good predictors of the transfer of all substantial rights. Similarly, although both groups have cases where the patentee retains (i) the legal title to the patent, (ii) the right to collect royalties, and (iii) a reversion in the patent, many decisions turn on the wide variety of other retained rights by the patentee.

In order to more fully explore the nuances of the transfer of all substantial rights, it is prudent to cull out the doctrines on which the decisions turned. From such scrutiny, parties can incorporate or avoid the key words in license agreements to assure the intentions of the parties are met as to the transfer of all substantial rights. The following

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100 See International at 1277.
102 See International at 1279.
section summarizes the practice pointers one should take into account for the prudent drafting of license agreements intending to transfer all substantial rights in patents.

**Both Intention and Jurisprudence Count:** The CAFC has made clear that the enforceability of the contractual provisions is a function of the original intention of the parties as well as the law underlying the license’s terms. Along these lines the CAFC stated in *Vaupel*, “We must therefore examine whether the agreements transferred all substantial rights to the [] patent and whether the surrounding circumstances indicated an intent to do so.”103 The court repeated this same analytical approach in *Aspex* as follows, “To determine whether an agreement to transfer rights to a patent at issue amounts to an assignment or a license, we must ascertain the intention of the parties and examine the substance of what was granted.”104 To be sure, proper construction of a contract must be done in order to determine the intentions of the parties, but if the terms do not comport with the law, then the transfer of all substantial rights cannot be found notwithstanding the writing or intention of the parties. Ten of the above cases where all substantial rights were not found notwithstanding the intentions of the parties are a testament to the need for compliance with the substantive jurisprudence regarding the transfer of all substantial patent rights. As further stated by the *Morrow* court, “While parties are free to assign some or all patent rights as they see fit based on their interests and objectives, this does not mean that the chosen method of division will satisfy standing requirements.”105 Therefore, the transfer of all substantial rights appears to be analyzed as both a rule of law and a rule of construction.

**Practice Pointer:** In order to transfer all substantial rights, not only must the license agreement reflect the parties’ intentions, but it must also pass constitutional muster and comport with all relevant jurisprudence.

**Exclusive License to Assert:** In order to transfer all substantial rights, the licensee must have an exclusive license to assert the patent without joining the patentee, otherwise the infringer may be subject to multiplicity of suits for the same wrongful act. The *Vaupel, Abbott, Fieldturf* and *Sicom* decisions emphasized this often repeated public policy. Importantly, the *Abbott* court cited *Vaupel* stating that the licensee’s exclusive right to sue was “particularly dispositive” in determining if the licensee has standing to sue alone.106 Conversely, a non-exclusive patent license cannot transfer all substantial rights to the licensee to assert the patent. Both the *Abbott* and *Morrow* cases dealt with non-exclusive licenses and both were decided that all substantial rights were not transferred to the licensee.

A related fact pattern occurs when the patentee retains the first right to sue infringers while the exclusive licensee can only sue if the patentee fails to do so. Such were the facts of the *Mentor* case in which the CAFC clearly declared, “Finally, and most importantly, [the patentee] has the first obligation to sue parties for infringement; failure to take appropriate action against infringers would constitute a breach of the agreement.

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103 See *Vaupel* at 874. Emphasis in original.
104 See *Aspex* at 1340.
105 See *Morrow* at 1341 note 8.
106 See *Abbott* at 1132. See also *Vaupel* at 875, *Fieldturf* at 1269, and *Sicom* at 978.
[The licensee] only can sue for infringement in the event [the patentee] fails to do so. … Here, in light of [the patentee's] substantial retained rights, particularly its initial right and obligation to sue for infringement, we conclude that [the licensee] did not receive all substantial rights in the patent.”\textsuperscript{107} The exclusive licensee cannot hold a junior position to assert the patent in order to receive all substantial rights in the patent. Conversely, in \textit{Speedplay}, the licensee held the first right to sue and the patentee’s right to sue was second in line. The CAFC stated that the patentee’s secondary right to sue would not hinder [the licensee’s] enjoyment of the patent rights in any meaningful way” and that the licensee “for all practical purposes” controls the enforcement of the patents.\textsuperscript{108}

Lastly, the CAFC in \textit{Sicom} also emphasized the public policy against the risk of multiple lawsuits by opining that where the licensee and patentee split, respectively, the right to sue over the commercial and non-commercial infringement of the same patent is “inconsistent with a genuine exclusive right to sue.”\textsuperscript{109}

\textit{Practice Pointer: In order to transfer all substantial rights, assure the licensee has the exclusive right to assert the patent without joining the patentee.}

\textit{Practice Pointer: In order to transfer all substantial rights, assure the licensee has the exclusive right to assert the patent without being subject to or junior to any other party’s right to assert.}

\textit{Practice Pointer: In order to transfer all substantial rights, assure the licensee has the exclusive right to concurrently assert the patent in all domains, whether commercial or non-commercial or otherwise.}

\textbf{Exclusive Right to Practice the Patent:} In the transfer of all substantial rights, the exclusive right to exclude others from practicing a patent also implies the exclusive right to practice the patent. The \textit{Morrow} court expressly highlighted the connection of these exclusive rights in order for the exclusive licensee to effectively have the entire “bundle of sticks” of rights in the patent including the right to practice the invention under the patent statute. “A patent grant bestows the legal right to exclude others from making, using, selling, or offering to sell the patented invention in the United States, or importing the invention. … The all substantial rights inquiry is a proxy for the statutory requirement that a party bringing an infringement suit have the interests of a patentee, including the exclusionary rights granted by the patent statutes and other important incidental rights, such as the right to assign those rights or vindicate them through enforcement proceedings. … The assignee becomes the ‘effective patentee. … [T]he grant of an exclusive license to make, use, or sell the patented invention carries with it the right to prevent others from practicing the invention.”\textsuperscript{110} Incidentally, in each of the three CAFC

\textsuperscript{107} See \textit{Mentor} at 1018. Citations omitted. Italics mine.
\textsuperscript{108} See \textit{Speedplay} at 1251.
\textsuperscript{109} See \textit{Sicom} at 974.
\textsuperscript{110} See \textit{Morrow} at 1339 and 1340. See note 6. Emphasis mine. The argument above avers that if the exclusive licensee has the exclusive license to make, use or sell the patented invention, so would the effective patentee that has all substantial rights. Citations omitted. Italics mine.
cases reviewed in this article wherein all substantial rights were found, each exclusive licensee retained the right to practice the patented invention.

Furthermore, the patentee preferably has not previously granted any licenses to the patent. Exclusive licenses that are granted subject to prior licenses can be, but are not necessarily, problematic. For example, in the Abbott case, the CAFC expressly emphasized that the licensee “received a worldwide license to make, use, and sell products incorporating the inventions claimed in the patents. The license was exclusive to [the licensee] and its affiliates, but was subject to the rights previously granted to [the patentee’s] other licensees. In addition, the agreement reserved to [the patentee] the right to make and use products that exploited the patents, as well as the right to sell such products to [the patentee’s] previous licensees, to [the licensee’s] sublicensees, to end users, and to certain other parties to fulfill [the patentee’s] existing contractual obligations.”

In Abbott, no substantial rights were found in the licensee, but the holding was not based on the existence of prior licenses.

In the later Speedplay case, Judge Bryson distinguished Speedplay’s fact pattern with that of Abbott and highlighted the existence of prior licensees. In Abbott, “the grant to the licensee was subject to prior-granted licenses and to a limited right of the licensor to make, use, and sell products embodying the patented invention. … Abbott does not control this case. Unlike in Abbott, “the [Speedplay] license grant was not subject to any prior-granted licenses or to any retained rights by the licensor to practice the patent.”

In Speedplay, substantial rights were found to be transferred to the exclusive licensee.

Admittedly, other significant facts were in issue in both the Abbott and Speedplay cases that primarily drove their respective decisions. However, given the decision’s express mention of the prior licenses in Abbott and the lack thereof in Speedplay, one should infer that prior licenses militate against the transfer of all substantial rights to an exclusive licensee.

Practice Pointer: In order to transfer all substantial rights, assure the licensee has the right to make, use, sell, and offer for sale the patented invention.

Practice Pointer: In order to transfer all substantial rights, it is preferable to not have any prior licenses to the patent.

Right to License Others (Sublicense): It is “important” that the licensee has the right to license others (grant further sublicenses) in order to help assure the licensee is transferred all substantial rights in the patent. In Prima Tek, the court stated, “A licensee’s right to sub-license is an important consideration in evaluating whether a license agreement transfers all substantial rights.”

Although the Prima Tek court employed the softer words “important consideration” in lieu of “absolutely necessary” or “requirement,” this provision appears to be the single provision that prevented the transfer of all substantial rights.

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111 See Abbott at 1129.
112 See Speedplay at 1251.
113 See Prima Tek at 1380. Emphasis mine. See also Sicom at 934.
rights because the court explained away or minimized the legal effect of the other license provisions that potentially could have militated against the transfer of all substantial rights.\textsuperscript{114}

Consistently, the Morrow court three times highlighted the right to license others as “important.” In distinguishing the facts of the Morrow case from the Vaupel case, the court stated, the licensee “lacks an exclusive license, the exclusive right to license, and the right to sublicense. These are \textit{important aspects} of the exclusionary rights held by [the licensee in] Vaupel.”\textsuperscript{115} Shortly thereafter, the court added, “the right to license third parties is an \textit{important} patent right because implicit in the right to exclude is the right to waive that right; that is, to license activities that would otherwise be excluded. [The licensee] does not have the right to license or sublicense or otherwise forgive activities that would normally be prohibited under the patent statutes.”\textsuperscript{116} In the third instance, the court drove home the point by instructing, “While [the licensee] enjoys greater control over infringement litigation than did [the licensee in] Propat, it lacks the \textit{important rights to grant and enforce licenses} that [the licensee in] Propat held. [The licensee] lacks the right to waive the patent's exclusionary rights by waiving those rights in license or sublicense agreements.”\textsuperscript{117}

Moreover, the various cases including the Morrow, Vaupel, and Prima Tek have added another warning to practitioners in that courts “\textit{pay particular attention} to whether the agreement conveys in full the right to exclude" in order to find standing.”\textsuperscript{118} Therefore, the licensee must have the full right to exclude which right incorporates the right to license and sublicense others to the patent.

\textbf{Practice Pointer: In order to transfer all substantial rights, assure the licensee has the right to license others and grant sublicenses to others.}

\textbf{Seek Consent to Sue:} An exclusive licensee with all substantial patent rights is the constructive patent owner and “\textit{would never need consent} from the transferor to file suit because such an assignment essentially transfers title in the patent to the transferee,” according to the IP Development court.\textsuperscript{119} Citing IP Development and Sicom, the Propat court discussed the need to seek consent to sue in light of licensing and litigation strategies as a significant restriction on the licensee. This court ruled that the patentee’s “right to veto licensing and litigation decisions also constitutes a \textit{significant restriction} on [the licensee’s] interest in the patent. Although [the patentee] may decline to consent to [the licensee’s] decisions only if it does so reasonably, [the licensee’s] obligation to notify [the patentee] as to the selection of all targets for licensing or suit and to obtain [the patentee’s] consent to all such decisions indicates that [the patentee] retains substantial ongoing control of the sort typically associated with the retention of an

\textsuperscript{114} See Prima Tek at 1380. “Because Prima Tek I’s rights under the agreement are \textit{significantly diminished by the sub-license requirement}, we cannot say that the requirement is merely a ‘\textit{minor derogation}’ from the grant of rights. Accordingly, we conclude that the agreement does not transfer all substantial rights in the patents to Prima Tek I.” Emphasis mine.

\textsuperscript{115} See Morrow at 1341. Emphasis mine.

\textsuperscript{116} See Morrow at 1342. Emphasis mine.

\textsuperscript{117} See Morrow at 1343. Emphasis mine.

\textsuperscript{118} See Morrow at 1342. Emphasis mine. See also Vaupel at 875-6 and Prima Tek at 1379.

\textsuperscript{119} See IP Development at 1344. Emphasis mine.
ownership interest in the patent.” Accordingly, to assure the licensee is granted all substantial rights, the licensee must not be required to seek consent to sue.

*Practice Pointer: In order to transfer all substantial rights, assure the licensee does not have to seek consent from the patentee to assert the patent.*

**Inform Patentee of Litigation:** When compared to the licensee’s express right to sue, the duty on the licensee to inform the patentee of litigation on the licensed patents turns out to be persuasive in finding that all substantial rights can be transferred to the licensee. In a case that did not find all substantial rights in the licensee, the *IP Development* court cited the *Vaupel* case (a case that found all substantial rights in the licensee) by declaring, “the *Vaupel* court stated that it found ‘particularly dispositive’ the agreement provision that transferred the right to sue for infringement of the patent at issue subject only to the obligation to inform’ the patentee.”

The *Vaupel* court declared the oft-repeated policy reason for the patentees’ relatively impotent right to solely be informed as follows: the “grant [of the right to sue for infringement, subject only to the obligation to inform the patentee] is particularly dispositive here because the ultimate question confronting us is whether [the licensee] can bring suit on its own or whether [the patentee] must be joined as a party. The policy underlying the requirement to join the owner when an exclusive licensee brings suit is to prevent the possibility of two suits on the same patent against a single infringer.”

*Practice Pointer: The transfer of all substantial rights to an exclusive licensee with a right to sue is not jeopardized by the licensee’s duty to keep the patentee informed and consult with the patentee as to any litigation and settlements.*

**Right to Consent to Assignments:** Depending on the modifiers to the right drafted in the license, the patentee’s right to consent to the licensee’s assignment of its rights under the license agreement can be a substantial right.

In exclusive licenses, there appear to be three common expressions regarding the right to consent to assignments: (i) the patentee has the right to withhold consent in its sole discretion; (ii) the patentee cannot unreasonably withhold the consent, and (iii) the patentee has the right to withhold consent. Each category will be discussed in turn.

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120 See *Propat* at 1191. See also *IP Development* at 1333 and 1345 and *Sicom* at 971 and 979.
121 See *IP Development* at 1343. Emphasis mine as to “particularly dispositive”. Emphasis in original as to “inform”.
122 See *Vaupel* at 875. Emphasis mine.
123 See *Vaupel* at 876.
First, where the patentee has the right to withhold consent in its sole discretion is addressed very clearly by the \textit{Sicom} and \textit{Propat} cases. Of the thirteen cases reviewed in this article, these two cases are relatively current, having been decided in 2005 and 2007, respectively.

In \textit{Sicom}, the CAFC decided that a patentee’s right to withhold in its sole discretion a licensee’s assignment of its rights was “a \textit{fatal} reservation of rights by” the patentee thereby preventing the transfer of all substantial rights.\textsuperscript{124} The \textit{Propat} court concluded, “The right to dispose of an asset is an important incident of ownership, and such a restriction on that right is a \textit{strong indicator} that the agreement does not grant [the licensee] all substantial rights under the patent.”\textsuperscript{125} Immediately thereafter in \textit{Propat}, the CAFC expressly cited and confirmed its “fatal” holding in \textit{Sicom} in the instances of withholding consent in the patentee’s sole, and even arbitrary, discretion.\textsuperscript{126}

Second, where the patentee can only reasonably withhold the consent to assign is a license characteristic found in the \textit{Speedplay} case.

In 2000, the \textit{Speedplay} court decided that a right to not \textit{unreasonably} withhold its consent to assign a licensee’s rights was not a substantial right and “did not significantly restrict the scope of [the licensee’s] rights in the” patent.\textsuperscript{127} In this case, the licensee was ultimately found to have transferred to it all substantial rights in the patent. Therefore, a restriction to not unreasonably veto a proposed assignment of an agreement is “a reasonable condition in place to protect the [patentee’s] financial interest under the contract, and not a retention of proprietary rights in the” patents.\textsuperscript{128}

Third, the wording where the patentee can withhold the consent to assign, without any mention of tests of discretion or reasonableness, is found in three cases, namely, \textit{Abbott}, \textit{McNeilab} and \textit{IP Development}.

In the 1995 \textit{Abbott} case, the patentee retained a right to veto proposed assignments by the licensee other than those to a successor in interest. The decision in \textit{Abbott} to not find all substantial rights in the licensee almost exclusively centered on the right to sue. However, in responding to the licensee’s counterarguments of comparing the facts of the \textit{Abbott} case with those of the \textit{Vaupel} case, the court mentioned the effect of the assignment restriction. “In this case, [the patentee] has retained a significantly greater interest in the patents than [the patentee] retained in \textit{Vaupel}. Unlike in \textit{Vaupel}, [the patentee] a limited right to make, use, and sell products embodying the patented inventions, a right to bring suit on the patents if [the licensee in \textit{Abbott}] declined to do so, and the right to prevent

\textsuperscript{124} See \textit{Sicom} at 979. Emphasis mine.
\textsuperscript{125} See \textit{Propat} at 1191. Emphasis mine.
\textsuperscript{126} See \textit{Propat} at 1191.
\textsuperscript{127} See \textit{Speedplay} at 1251 and 1252. Emphasis mine. It seems rational to assume that a patentee’s right to reasonably withhold consent to assign a license agreement would be analyzed similarly to a patentee’s right to not unreasonably withhold consent to assign a license agreement, as was the case in \textit{Speedplay}.
\textsuperscript{128} See \textit{Internetad Systems, LLC v. Opodo Limited} (481 F. Supp. 2d 596; 2007) at 609. This case, out of the United States District Court for the Northern District of Texas, is the only reported case other than \textit{Speedplay} that the author has been able to locate involving the intended license of all substantial rights in patents that included a limitation on alienation that is subject to the patentee’s not unreasonably withholding consent to assign to a non-affiliate of the licensee. In this case, this limitation did not prevent the licensee from receiving all substantial rights in the patents.
[the licensee in Abbott] from assigning its rights under the license to any party other than a successor in business. Those retained rights are the sort that are commonly held sufficient to make a patent owner who grants an exclusive license a necessary party to an infringement action brought by the licensee.”

It is also noteworthy that the Abbott court cited three cases to support its finding of no transfer of substantial rights because of the assignment provision. In each of the three cited cases, the license required prior written consent of the patentee in order to effectuate an assignment of the licensee’s rights, and in two of the cases a narrow exception was made for successors in interest (similar to Abbott’s fact pattern). The essence of the decisions on which Abbott relied is as follows: “Just as the right to alienate personal property is an essential incident of ownership, the right to further assign patent rights is implicit in any true assignment. In the present case, [the licensee] may not assign his interests in the Patent without written permission from [the patentee]. Even if its entire business is sold, [the licensee] can not assign its interests in the Patent without written permission from [the patentee]. In light of these harsh restrictions on alienation, this court ‘need look no further in determining that [plaintiff’s transferor] reserved substantial rights under the agreement.”

Similar to Abbott, the McNeilab case concerned a patentee who retained a right to veto proposed assignments by the licensee other than those to affiliated companies. Parting ways with Abbott, a case decided only one year earlier, the CAFC declared that the right of the patentee to consent to assignment “did not restrain [the licensee’s] full exercise of the exclusive license to make, use, and sell the patented subject matter. This was not a retention by [the patentee] of a substantial right under the patent, but a safeguard of the bargained-for consideration, which was based on the licensee's performance.” The licensee in McNeilab was held to have all substantial rights in the patent.

Later, in 2001, came the IP Development case that involved the patentee’s right to provide prior consent to the licensee’s assignment of its rights. The condition precedent of assignment did not have any exception for successors in interest or affiliates as was the case in Abbott and McNeilab, respectively. In IP Development, the CAFC declared that the restriction on assignment was a “substantial right” and barred the transfer of all substantial rights in the case.

How does one reconcile McNeilab’s reasoning with that of Abbott and IP Development? Initially, one can distinguish the combination of granted and retained rights in McNeilab’s fact pattern as being very distinct from those of Abbott and IP Development thereby justifying the CAFC’s holdings. However, such a response is probably too hasty and superficial in light of the fact that the CAFC expressly considered the impact of the

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129 See Abbott at 1132. Emphasis mine.
132 See McNeilab at 10.
133 See IP Development at 1345.
assignment provisions and commented thereon in each of the three cases. Perhaps the following explanation will be instructive.

The issue of the assignment of rights being subject to the prior consent of the patentee was a factor in six of the thirteen CAFC cases reviewed here. Of all the cases on point, McNeilab is the oldest next to Abbott. Since McNeilab, the CAFC has used reasoning more consistent with the Abbott holding by using such language as the right of assignment is a “substantial right” and a “strong indicator”, while not having such right is “fatal”, to the transfer of all substantial rights. Overlooking McNeilab, the Sicom court cited both Abbott and IP Development in reasoning that the lack of assignment rights was fatal to the transfer of all substantial rights, even though the facts patterns of Abbott and IP Development involved no conditions of the patentee’s discretion or reasonableness in vetoing assignment proposals. These cases simply evince the evolutionary nature of the law where the courts divert from former opinions and clarify holdings with repeated holdings based on similar legal principles. Hence, it is altogether plausible that if the facts of McNeilab were tried again today, it would reach a different holding.

One learns from the cases involving the assignment of a licensee’s rights that proper and clear drafting will assure the intention of the parties is enforced by the courts. To assure that the licensee has all substantial patent rights, the agreement must not allow the patentee to veto any of licensee’s assignment proposals in any way, especially including in its sole discretion. An agreement that allows a patentee to not unreasonably withhold its consent to assignment will probably be upheld. However, if the parties truly intend to transfer all substantial rights, the parties should draft the agreement accordingly without lacing it with terms that can undermine the intention of the parties.

Practice Pointer: In order to transfer all substantial rights, do not permit the patentee to retain any right to veto proposed assignments of the exclusive license, especially including a veto right in the patentee’s sole discretion.

Termination Right Due to Default, Bankruptcy or Insolvency: Three CAFC cases, Vaupel, McNeilab, and Propat discussed the substantiality of the reversion in the patentee due to termination for cause. Each is briefly reviewed in turn.

In Vaupel, the patentee retained “a reversionary right to the patent in the event of bankruptcy or termination of production by” the licensee. Citing the precedent of the old U.S. Supreme Court chestnut Waterman, Judge Lourie in Vaupel declared that the termination provisions in the agreements were entirely consistent with an assignment. An assignment of a patent ‘may be either absolute, or by way of mortgage and liable to be defeated by non-performance of a condition subsequent’.

The McNeilab court also emphasized that the substantiality of an exclusive license is not undone by common termination rights. The court stated, “The right of the patentee to terminate the license in the event of the licensee's failure of performance does not negate

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134 See Sicom at 979.
135 See Vaupel at 875. See also Waterman, Mackenzie (138 U.S. 252; 1891) at 256.
the substantiality of the exclusive transfer of all rights to make, use, and sell the licensed product. Recovery of the patent right, should the arrangement fail through no fault of the patentee, is a common security provision when payment depends on the licensee's future performance. Such provision for contingencies that may defeat the entire arrangement does not change the fundamental nature of the agreement. Reasonable provision for unintended possibilities or force majeure does not defeat the substantiality of the transfer of the exclusive right to make, use, and sell the patented subject matter."

The 2007 Propat court appears to mildly raise the ante but reached the same result by stating that the patentee’s retained right to terminate the license for cause due to the licensee’s failure to meet certain performance expectations was not dispositive, but indicates the retention of a “significant ownership interest.”

It is important to recognize that Vaupel, McNeilab, and Propat appear to be decided on other grounds as discussed above. However, practitioners can glean from the cases that termination for any cause will militate to some degree, although likely not a substantial degree, against the transfer of all substantial rights.

Practice Pointer: In order to transfer all substantial rights, do not grant the patentee a reversionary interest in the patent except for bankruptcy or objectively egregious breaches of the agreement.

Less than Patent Term: An exclusive license that purports to transfer all substantial rights but is for a period less than the remaining term of the patent can result something the parties do not intend. In the Aspex case, the licensee was granted an impressive array of rights including the rights to sue on the patent, sublicense the patent, practice patent and collect infringement damages, while the patentee retained relatively insubstantial rights. However, all the express intentions of the parties were undermined by fact that the duration of the exclusive license was less than the remaining term of the patent. “By having rights for only a limited portion of the patent term, [the licensee] simply did not own the patent. It was merely an exclusive licensee without all substantial rights. The [] patent was never assigned; it was exclusively licensed for only a fixed period of years, which does not meet the all substantial rights standard.” This doctrine of matching the license to the patent term consequently appears to be a rule of law and not a rule of construction. Indeed, the Aspex court found this doctrine to be a “dominant factor” in the holding of the case. As with other factors discussed above, the policy reason behind this holding is to avoiding the multiplicity of lawsuits against the same infringer arising from the same act. Thus, notwithstanding the inclusion of other exclusive and necessary rights, it appears fatal to any attempt to grant a license to all substantial rights in a patent to have a license term shorter than the remaining term in the patent.

Practice Pointer: In order to transfer all substantial rights, assure the license to the underlying patent lasts the remaining term of the patent.

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136 See McNeilab at 8 and 9. Citations omitted.
137 See Propat at 1190 and 1191.
138 See Aspex at 1342 and 1343.
139 See Aspex at 1342.
**Less than Entire Territory:** The Patent Act expressly allows for the patent holder to grant exclusive licenses to practice the invention in all or a portion of the United States. The U.S. Supreme Court and the CAFC have both ruled that exclusive territorial licensees with all substantial rights but limited to “geographically-restricted assignments” “need not join the licensor to maintain a suit for patent infringement.”

*Practice Pointer:* A patentee may grant to an exclusive licensee all substantial rights in all or a portion of the geography of the United States.

**Less than All Fields of Use:** Patents can have multiple claims and uses. Licenses can attempt to carve out a license to portions of patent claims or relegate licensee’s rights to certain fields of use. As discussed above in *International*, the U.S. Supreme Court found that to the degree that a patentee purports to grant an exclusive license a patent claim but not to all claims of the patent and where the license claim is an element in other unlicensed claims of the same patent, there runs a risk of “the potential for multiple litigations against any one defendant and among the licensees themselves.” Continuing, the CAFC opined, “As noted by the Supreme Court, allowing a licensee, even one with exclusive rights to the patent for a particular field of use, to sue in its own name alone poses a substantial risk of multiple suits and multiple liabilities against an alleged infringer for a single act of infringement.” Therefore, carving out the patent rights granted to an exclusive licensee any of the patent’s claims or approved fields of use will prevent the licensee from receiving all substantial rights in the patent.

*Practice Pointer:* To assure the transfer of all substantial rights, the patentee must not divide up the exclusive license by the patent’s claims or the fields of use.

**Sharing in Damages:** Occasionally the patentee retains a right to receive from the exclusive licensee a portion of damages, royalties, and/or other settlement income from patent infringers. The *Vaupel* court stated that such recovery was “merely a means of compensation under the agreement.” After citing *Vaupel*, the *IP Development* court averred that the patentee’s “right to receive infringement damages [was] a neutral factor.” However, the CAFC in *Propat* cautioned where the patentee retains a substantial share of the proceeds. “To be sure, the fact that a patent owner has retained a right to a portion of the proceeds of the commercial exploitation of the patent, as [the patentee] has done in this case, does not necessarily defeat what would otherwise be a transfer of all substantial rights in the patent. Nonetheless, the fact that [the patentee] retains a substantial share of the proceeds is consistent with [the patentee’s] retaining ownership rights in the patent, while allocating to [the licensee] the duty to provide licensing and enforcement services.” Thus, the transfer of substantial rights is not

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141 See *Waterman* at 255 and *International* at 1276.
142 See *International* at 1277.
143 See *International* at 1278 and 1279. Citations omitted.
144 See *Vaupel* at 875.
145 See *IP Development* at 1344.
146 See *Propat* at 1191. Citations omitted.
defeated by having the patentee share an insubstantial part of the infringement recovery received by exclusive licensee.

*Practice Pointer: A patentee may share in an insubstantial part of the exclusive licensee’s monetary recovery received from patent infringers.*

**Conclusion**

Each license agreement must be drafted to reflect the shared intentions of the parties. Also, each license must be drafted to meet the tests of the Constitution and the law generally in order to be upheld. To draft enforceable exclusive license agreements, practitioners should fully appreciate the distinctions between the patentee, the exclusive licensees with and without all substantial rights, and bare licensees. Drawing on each of these four distinctions, the cases reviewed in this article indicate valuable practice pointers one should employ in drafting license agreements. Although the potential permutations of license provisions are infinite and are not (and cannot be) fully addressed by the courts, it is more efficient and predictable to assure the license agreements are upheld and enforceable by conservatively staying within the bright-line tests established by the courts.