

Keywords: exclusive license; assignment; substantial rights; standing

General: Plaintiff licensee lacks standing to sue for infringement, even though license agreement grants plaintiff exclusive right to sue for commercial infringement, since licensor retains legal title to patent, and right to sue for infringement other than commercial infringement.

Sicom Systems Ltd. V. Agilent Technologies, Inc.
76 U.S.P.Q.2d 1933 (Fed. Cir. 2005)
Decided October 18, 2005

I. Facts

Plaintiff Sicom Systems Ltd. (“Sicom”) is a licensee under U.S. Patent 5,333,147 (“the ‘147 patent”), which relates to a type of digital signal transmission channel monitor. The patent was developed by founding members of Sicom in connection with a contract with the Canadian government. Sicom negotiated a license under which Canada retained title to the ‘147 patent. Additionally, Canada retained the rights to (1) continue operating under the ‘147 patent; (2) veto proposed sublicenses; (3) grant contracts to further develop the ‘147 patent; (4) sublicense any improvements or corrections developed by Sicom; and (5) sue for infringement of the ‘147 patent except for “commercial infringement.” Thus, Sicom received the right to sue for commercial infringement.

On January 15, 2003, Sicom sued Agilent, LeCroy and Tektronix (collectively, “Agilent”) for infringement of the ‘147 patent. The Canadian government declined to join the suit. Agilent moved to dismiss the case for lack of standing, arguing that Sicom was not entitled to bring suit because Canada had retained substantial rights in the ‘147 patent under its license agreement with Sicom. The district court granted Agilent’s motion for dismissal.

Next, Sicom renegotiated the license agreement with Canada, obtaining the exclusive right to initiate actions alleging commercial infringement of the ‘147 patent. Thus armed with an express exclusive right, Sicom again sued Agilent for infringement on December 30, 2003. Agilent moved for a second dismissal for lack of standing, and the district court again agreed, dismissing Sicom’s complaint with prejudice. In reaching this conclusion, the district court reasoned that Canada still retained substantial rights under the ‘147 patent in spite of the amended license agreement. Specifically, the court pointed to Canada’s ability to pursue non-commercial customers of Agilent, such as governmental entities, the military and universities. Further, the court noted that Sicom did not receive the right to sue for past commercial infringement. Other limitations on Sicom’s rights included (1) the obligation to notify Canada before bringing suit; (2) the obligation to consult Canada regarding litigation; and (3) the obligation to refrain from admitting liability or settling litigation without written consent of Canada. Sicom appealed the district court’s decision dismissing the case and the decision making that dismissal with prejudice.

II. Issues

- A. Did the district court correctly determine the Sicom lacked standing to bring suit for infringement under the ‘147 patent?
- B. Did the district court correctly dismiss Sicom’s complaint with prejudice?

III. Discussion

- A. Yes. The general rule is that an exclusive licensee of a patent may bring infringement litigation unless the licensor retains “substantial rights” in the patent. If the licensor retains substantial rights, the licensor must join in the infringement litigation to ensure proper standing. The purpose of this rule is to prevent members of the public from being subjected to multiple infringement suits on the same patent. Reasoning in support of the rule is that a mere non-exclusive licensee does not suffer a legal injury from infringement of the patent by another.

The Federal Circuit stated that determination of whether a licensee is in possession of all substantial rights is properly made on a case-by-case basis. Moreover, the Court concluded that license agreements are unique and that the intention of the parties as to what rights are granted must be examined to determine whether a licensee has sufficient rights to convey standing to bring suit for infringement.

The Court next surveyed five recent cases in which the substantiality of a licensee’s rights was examined:

Intellectual Prop. Dev. Inc. v. TCI Cablevision of Cal., Inc. – assignor did not reserve license to make use and sell, but every other pertinent factor weighed in favor of an assignment of fewer than all substantial rights. The agreement indicated that, in some cases, the licensor was a necessary party to infringement litigation. The licensee had an obligation to keep licensor fully informed, and consult with licensor on litigation matters. Also, the licensee did not have the right to assign the agreement.

Prima Tek II, L.L.C. v. A-Roo Co. – This is an unusual case that sounds like it involves a licensing company. The licensor granted an exclusive right to make, use and sell products covered by the patent, but only as necessary to grant a sublicense to another party. The Court concluded that this was a transfer of fewer than all substantial rights in the patent because it was a mere sublicense, and did not include a right to exclude others.

Textile Prod., Inc. v. Mead Corp. – The Court held that fewer than all substantial rights were granted to the licensee because the license was silent on the issue of the licensor’s obligation to refrain from granting further licenses in the area of exclusivity.

Abbot Labs. v. Diamedix Corp. – Another case holding that an exclusive license resulted in a transfer of fewer than all substantial rights in a patent. The licensee was given a right of first refusal to sue infringers, but the licensor retained a right to sue, as well. Therefore, the licensee had a right to sue for infringement, but not to indulge infringement, which was described as normally accompanying a complete transfer of a right to sue. The licensor also retained the right to participate in infringement initiated by the licensee.

Vaupel Textilmaschinen KG v. Meccanica Euro Italia SPA – This is the lone case surveyed by the Court in which a transfer was found to constitute a transfer of all substantial rights necessary to allow a licensee to sue for infringement. The Court was swayed by the fact that the licensee was authorized to sue for infringement subject only to the obligation to inform the licensee. This conclusion was reached in spite of the fact that the licensor retained a right to veto sublicensing, the right to obtain patents in other countries, a reversionary right in the patent in the event of bankruptcy or termination of production, and a right to receive infringement damages.

In applying the law to the instant case, the Court noted that Canada retained significant rights in the '147 patent. Specifically, the Court identified the right to continue operating under the patented technology, the right to veto Sicom's reassignment of its rights or proposed sublicenses, the right to levy additional royalties or other consideration, the right to grant contracts and sub-contracts to further develop the invention claimed in the patent, and the right to offer sublicenses under any improvements or corrections developed by Sicom. The Court also noted that Sicom did not receive the right to settle litigation without written consent from Canada, or the right to sublicense or assign its rights without Canada's prior approval.

Most persuasive to the Court, however, was the fact that members of the public could be subject to multiple lawsuits by virtue of Canada's retention of the right to sue for non-commercial infringement. The Court said that this was tantamount to an absence of the right to indulge infringement outside the commercial sphere. Based on these facts, the Court concluded that Canada's license to Sicom conveyed fewer than all substantial rights in the '147 patent. Therefore, the district court's dismissal of Sicom's complaint for lack of standing was affirmed.

- B. Yes. The Court noted that dismissal with prejudice based on lack of standing is generally inappropriate where the lack of standing could be cured. Nonetheless, the Court upheld the dismissal with prejudice under an abuse of discretion standard because Sicom had already had one opportunity to correct the lack of standing after the dismissal of its first complaint.

IV. Conclusion

This review of cases makes it clear that a licensor must be very careful to convey sufficient rights to allow an exclusive licensee to bring suit for infringement. An assignment may be a better solution where a substantial reason for the transaction is to empower the transferee to bring infringement actions.