

Keywords: Legal Title, Licensee, Standing, Transfer of All Substantial Rights, Agent, Exclusive Licensee, Bare Licensee

General: “Right to sue” clause in patent license does not necessarily convey sufficient interest to allow licensee to commence a lawsuit. Other limitations may mean that the licensee lacks “all substantial rights in the patent.”

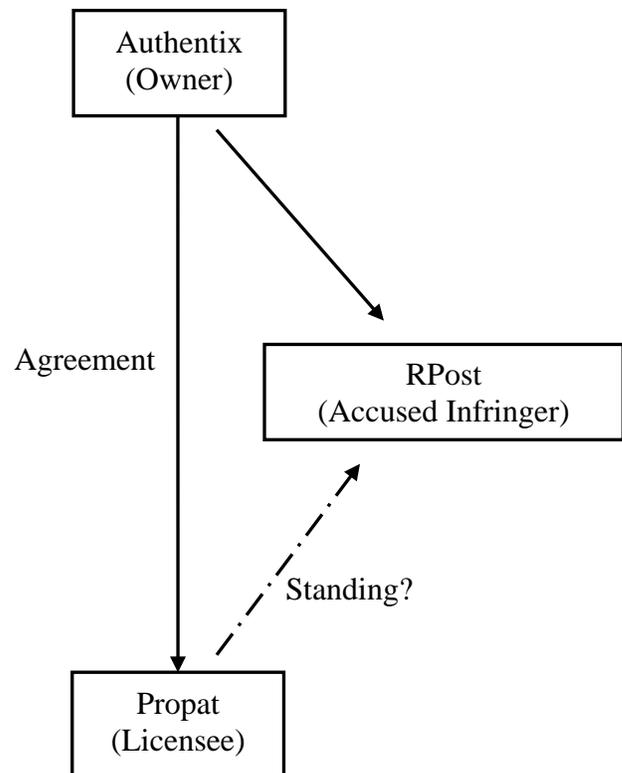
Propat International Corp. vs. RPost, Inc.
(Fed. Cir. 2007)
Decided January 4, 2007

I. Facts

The ‘219 patent entitled “Apparatus and Method for Authenticating the Dispatch and Contents of Documents” was assigned to Authentix by the inventors. Subsequently, in May 2002, Authentix entered into an agreement with Propat regarding the ‘219 patent. The agreement contemplates that Propat will be engaged in licensing and litigation. The agreement does not explicitly address whether Propat enjoys a license to practice the patent, or whether Authentix retains the right to practice the patent.

Agreement

- Propat has responsibility to license ‘219 patent to third parties, to enforce the licensing agreements, and to sue infringers.
- Propat gets a percentage of the proceeds of royalties, judgments, and settlements.
- Propat must consult with and obtain prior approval from Authentix for targets for licensing or suit, but Authentix may not unreasonably withhold or delay approval.
- Authentix may terminate agreement if: Propat breaches agreement, becomes insolvent, fails to obtain certain level of income from patent, or ceases to be actively engaged in licensing or litigation efforts.
- Propat is forbidden from assigning its rights and obligations under agreement without consent of Authentix, which consent Authentix may freely withhold.
- Authentix must consent to join as a party to any action brought by Propat if a court requires it to be joined, although Propat must provide counsel and defray expenses.



Propat charged RPost with infringing the ‘219 patent. However, the district court held that Propat is not the owner of the patent and thus does not have standing to sue. Focusing on the May 2002 agreement, the district court ruled that the agreement does *not* transfer all substantial rights in the patent to Propat but instead makes Propat a bare licensee under. The district court held that because Propat had no proprietary interest in the patent, Propat lacks standing to sue infringers even with the patent owner, Authentix, joined as a party. Propat appealed.

II. Issue

Did the district court err in holding that Propat does not have standing to sue RPost for infringement of the '219 patent?

III. Discussion

No. The Federal Circuit affirmed the district court's decision that Propat lacks standing to sue for infringement of the '219 patent, even with Authentix as an additional party to the action.

Standard

The Federal Circuit stated that the governing principles with regard to the issue of standing in patent cases is clear. The Patent Act (35 U.S.C. § 281) provides that "[a] patentee" is entitled to bring a civil action "for infringement of his patent." The term "patentee" includes "not only the patentee to whom the patent was issued but also the successors in title to the patentee. In other words, a suit for infringement of patent rights ordinarily must be brought by a party holding legal title to the patent. However, even if the patentee does not transfer formal legal title, the patentee may effect a transfer of ownership for standing purposes if it *conveys all substantial rights in the patent* to the transferee. In that event, the transferee is treated as the patentee and has standing to sue in its own name.

Parties

Propat argued that the May 2002 agreement grants it a sufficient interest in the patent to entitle it to sue for infringement in its own name, without naming Authentix as a co-plaintiff. It is undisputed that Authentix is the party with legal title to the patent, and therefore Propat is entitled to sue in its own name alone, without Authentix's participation, *only if Authentix has transferred to Propat all substantial rights in the patent*. In order to determine whether Authentix has done so, the Federal Circuit stated one must look to the agreement between the parties and analyze the respective rights allocated to each party under the agreement.

The parties took diametrically opposing views of the consequences of the agreement for purposes of determining Propat's standing as a plaintiff in this case. Propat argued that the district court was wrong to dismiss the action, because the agreement gives Propat all substantial rights in the patent and this is the functional equivalent of an assignment of the patent from Authentix. Accordingly, Propat contended that it should be treated as the "patentee" and that it is therefore entitled to bring this action without naming Authentix as a co-plaintiff. RPost, on the other hand, argued not only that Propat is not the "patentee," but also that Propat has no proprietary rights in the patent at all and instead is only a bare licensee. For this reason, RPost argued Propat has no right to participate in this action as a plaintiff and the district court properly dismissed the action of lack of jurisdiction.

District Court

The district court first found that the agreement does *not* assign to Propat the right to make, use, and sell the patented invention. Instead, the court concluded, Propat "merely has a right to enforce or license other parties to use, manufacture or sell" the invention. Second, the district court concluded that the right granted to Propat with respect to the invention is not exclusive, because Authentix retains the right to seek new patents on the underlying invention and therefore retains an implicit right to use invention. Finally, the court found that Propat's power to assign its rights under the agreement is entirely subject to Authentix's consent, which "Authentix can withhold . . . even arbitrarily." In light of the various rights retained by Authentix, the district court found that Propat "was not transferred all substantial rights and, as such, has no standing to sue on its own behalf."

Ownership

The Federal Circuit agreed with the district court. Authentix retains sufficient rights in the patent that it cannot be said to have assigned "all substantial rights" in the patent to Propat. To begin with, the agreement expressly provides that Authentix is, and will continue to be, the owner of the patent. The agreement identifies Authentix as the "owner of various technology," including the '219 patent. Moreover, the agreement provides that Authentix is

responsible to “maintain any . . . patents [it] owns or controls . . . each for its full term,” a provision that clearly includes the ‘219 patent. The responsibility to maintain a patent is one of the obligations that has been recognized by this court as an indication that the party with that obligation has retained an ownership interest in the patent.

Economic Interest and Control

In addition, Authentix retains an economic interest in the patent and a substantial measure of control over decisions affecting the patent rights. It enjoys an equity interest in the proceeds of licensing and litigation activities, a right to notice of licensing and litigation decision and the right to veto such decisions as long as the veto power was not exercised unreasonably, and the unrestricted power to bar Propat from transferring its interest in the patent to a third party. The Federal Circuit stated that in no case has their court held that a patentee who retains such broad and wide-ranging powers with respect to a patent has nonetheless transferred “all substantial right” in the patent.

It should be noted that a patent owner’s retention to a right to a portion of proceeds of the commercial exploitation of the patent, as Authentix has in this case, does not necessarily defeat what would otherwise be a transfer of all substantial rights in the patent. Nonetheless, the fact that Authentix retains a substantial share of the proceeds is consistent with Authentix’s retaining ownership rights in the patent, while allocating Propat the duty to provide licensing and enforcement services.

Authentix’s right to veto licensing and litigation decisions also constitutes a significant restriction on Propat’s interest in the patent. Although Authentix may decline to consent to Propat’s decisions only if it does so reasonably, Propat’s obligation to notify Authentix as to the selection of all targets for licensing or suit and to obtain Authentix’s consent to all such decisions indicates that Authentix retains substantial ongoing control of the sort typically associated with the retention of an ownership interest in the patent.

Authentix’s right to veto any transfer of Propat’s rights under the agreements particularly significant, the more so because the agreement expressly indicates that Authentix is free to veto any such transfer decision, even if it does so “arbitrarily.” The right to dispose of an asset is an important incident of ownership, and such a restriction on that right is a strong indicator that the agreement does not grant Propat all substantial rights under the patent. In fact, the Federal Circuit in *Sicom Sys.*, 427 F.3d 971, 979 (Fed. Cir. 2005), referred to the restraint on transferability of rights under the agreement as “fatal” to the argument that the agreement transferred all substantial rights in the patent.

Benchmarks

Finally, if Propat fails to meet certain specified benchmarks in its efforts to exploit the patent, Authentix is free to terminate the contract, at which point all of Propat’s rights with respect to the patent come to an end. Authentix’s power to terminate the agreement and end all of Propat’s rights in the patent if Propat fails to perform up to the specified benchmarks, although not dispositive, is yet another indication that Authentix retains significant ownership interest in the patent.

Right to Sue (and Licensing)

The Federal Circuit held that the rights allocated to Propat under the agreement are not sufficiently substantial to make Propat in effect the assignee of the patent. The Federal Circuit further explained that it has long been held that a “right to sue” clause in a contract, unaccompanied by the transfer of other incidents of ownership, does not constitute an assignment of the patent rights that entitles the transferee to sue in its own name. A patent owner may give another responsibility to select targets for suit – a power of attorney, in effect – without surrendering ownership of the patent. This same principle applies to Propat’s right to select licensees. While the rights to sue and grant licenses accord Propat broad authority to act as Authentix’s agent for purposes of licensing and litigation, they do not transfer ownership of Authentix’s patent.

Exclusive Licensee

In the alternative Propat argued that even if it is not the owner of all substantial rights in the ‘219 patent, the trial court should not have dismissed the complaint, but instead should have granted its request to add Authentix as a party and then permitted the action to continue. The district court, however, concluded that Propat lacks a sufficient interest in the patent to give it standing to sue even as a co-plaintiff and therefore dismissed the action without acting

on Propat's request to join Authentix. The district court reasoned that Propat's status is that of a bare licensee with no ownership interest in the patent and no right to participate in the infringement action.

A party that is neither the legal owner of the patent nor the transferee of all substantial rights in the patent still has standing to sue for infringement if that party has a legally protected interest in the patent created by the Patent Act, so that it can be said to suffer legal injury from an act of infringement. An exclusive licensee is considered to have such an interest. Unlike the patentee or the transferee of all substantial rights in the patent, however, an exclusive licensee ordinarily may not sue in its own name alone, but must join the patent owner in an action brought against an accused infringer. In *Indep. Wireless Tele. Co. v. Radio Corp. of Am.*, 269 U.S. 459 (1926), the Supreme Court explained:

The owner of a patent, who grants to another the exclusive right to make, use, or vend the invention, which does not constitute a statutory assignment, holds title to the patent in trust for such a licensee, to the extent that he must allow the use of his name as plaintiff in any action brought at the instance of the licensee in law or in equity to obtain damages for the injury to his exclusive right by an infringer.

269 U.S. at 469. The Federal Circuit has characterized the rule in *Independent Wireless* as meaning that an exclusive licensee has a sufficient interest in the patent to have standing to sue under Article III of the Constitution. 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.

By contrast, a bare licensee, i.e., a party with only a covenant from the patentee that it will not be sued for infringing the patent rights, lacks standing to sue third parties for infringement of the patent. Thus, an infringement action brought by a bare licensee must be dismissed. A bare licensee cannot cure its lack of standing by joining the patentee as a party.

This case does not fit neatly within either of those two categories (exclusive licensee or bare licensee). As noted, it appears from the agreement that the parties did not envision that Propat would practice the patent (exclusive or otherwise), but instead contemplated that Propat would be involved only in licensing and litigation. In *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24 (1923), the Supreme Court refused to recognize an assignment of the right to sue on a patent separate from the conveyance of a proprietary interest in the patent. The Court explained that if it were permissible for the patentee to retain ownership of the patent but to assign others the right to sue infringers, "it would give the patentee an opportunity without expense to himself to stir up litigation by third persons."

In this case, Propat lacks important indicia of a true ownership interest in the patent, such as the right to transfer its interest. Moreover, as discussed above, there are other restraints on Propat's rights, such restraints more in line with the status of Propat as an agent than a co-owner. Therefore, the Federal Circuit agreed with the district court that Propat's rights created in the May 2002 agreement did not accord its rights in the patent sufficient to give it standing to sue, even with Authentix named as co-plaintiff.

IV. Conclusion

(1) The Federal Circuit affirmed the district court's decision that Propat lacks standing to sue alone for infringement of the '219 patent because Authentix did not transfer all substantial rights in the '219 patent to Propat.

(2) The Federal Circuit also affirmed the district court's decision that Propat lacks standing to sue for infringement of the '219 patent, even with Authentix named as a co-defendant, because Propat is not an exclusive licensee but more of an agent of Authentix.