

Stuart Schanbacher, *Analysis of the Differences in Patent Rights of Assignees,
Exclusive Licensees and Nonexclusive Licensees*

Introduction

This comment explores the differences, in the context of patent law, between assignments, exclusive licenses, and nonexclusive licenses and whether policy concerns support the differences. The first section explores the definition of each type of interest. Intellectual property attorneys must understand the definition of each type of arrangement so the agreement records the transaction intended by the parties.¹ For example, if the parties intend that the transfer amount to an exclusive license, the drafting attorney must understand the definitional boundaries of an exclusive license.

The second section of this comment explains the differences in legal rights between each type of patent interest. Disagreements involving patent interests may revolve around the legal rights and duties of the parties. Many of the legal battles that occur involving assignees, exclusive licensees, and nonexclusive licenses will focus on what definition gets attached to a given party because there are a variety of legal implications that ensue depending on whether the transfer is held to be an assignment, exclusive license, or nonexclusive license.²

The third section of this comment explores whether patent and other policies support the differences in legal rights between assignees, exclusive licensees, and nonexclusive licenses. Whether policies support the current difference in legal rights between interests can be used by attorneys to support current holdings or lobby for change.³

¹ Harry R. Mayers & Brian G. Brunsvold, *Drafting Patent License Agreements* 2 (3d ed. 1991).

² Roger M. Milgrim, *Milgrim on Licensing* § 15.00 (2004) (noting many of the implications of whether a transfer is held to be an assignment or a license); *see also* Mayers & Brunsvold, *supra* note 1, at 2.

³ *See e.g.* *Intellectual Prop. Dev. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1345 (Fed. Cir. 2001), cert. granted, 248 F.3d 1333 *1349, 4 (Aug. 6, 2001) (brief by petitioner using policy arguments to persuade Supreme Court to hear its case).

I. Defining the Assignee, Exclusive Licensee and Nonexclusive Licensee

Understanding the definitional boundaries of an assignment, exclusive license, and nonexclusive license is important in understanding the scope of rights vested in the transferee because legal rights are different for each transferee category.⁴ However, a transfer may not be able to be easily placed in a particular category because there are gray areas between each type of patent transfer.⁵ If the agreement transferring rights does not place the transaction clearly in one category, the dispute necessitates that the definitional issue be resolved first.⁶ The winner of the definitional battle may be the winner of the lawsuit because of the differences in legal rights between the types of patent interests.⁷

A. Background on Patent Rights and Transfers

A patent has the attributes of personal property.⁸ The patent holder's bundle of rights includes the right to exclude others from making, using, selling, or offering for sale the patented invention during the patent term.⁹ Any agreement to transfer some or all of these rights must be either an assignment or a license.¹⁰ And, whether the transfer of rights is an assignment, exclusive license, or nonexclusive license is determined by the legal effect of the agreement, not by what the transfer is labeled in the agreement.¹¹

⁴ Milgrim, *supra* note 2, at § 15.00.

⁵ *Id.*

⁶ Jim Arnold Corp. v. Hydrotech Systems, Inc., 109 F.3d 1567, 1577 (Fed.Cir. 1997) (“the most expeditious conduct of the trial would necessitate that the [definitional] issue be resolved first, for if the [definitional] issue is resolved in the defendant’s favor [other issues may become moot]”).

⁷ *Id.*; Fieldturf, Inc. v. S.W. Recreational Indus., Inc., 357 F.3d 1266, 1269 (Fed.Cir. 2004) (dismissing claim because of the finding that plaintiff was a licensee, which precluded standing for infringement suit).

⁸ 35 U.S.C. §261 (2004); Patlex Corp. v. Mossinghoff, 758 F.2d 594, 599 (Fed. Cir. 1985).

⁹ 35 U.S.C. §154 (2004); Paper Converting Mach. Co. v. Magna Graphics Corp., 745 F.2d 11, 16-17 (Fed. Cir. 1984); *see also* Zenith Radio Corp. v. Hazeltine Research, Inc., 395 US 100, 135 (1969) (stating the corollary that the patentee has the exclusive right to manufacture, use, and sell the patented invention).

¹⁰ Waterman v. Mackenzie, 138 U.S. 252, 255 (1891); CMS Industries, Inc. v. L.P.S. International, Ltd., 643 F.2d 289, 294 (5th Cir. 1981); *In re* Cybernetic Services, Inc., 252 F.3d 1039, 1051 (9th Cir. 2001).

¹¹ *Waterman*, 138 U.S. at 256; *Juda v. Commissioner*, 877 F.2d 1075, 1078 (1st Cir. 1989); *Hook v. Hook & Ackerman, Inc.*, 187 F.2d 52 (3rd Cir. 1951); *Preload Enterprises, Inc. v. Pacific Bridge Co.*, 86 F.Supp. 976, 978 (D. Del. 1949).

B. Assignments

1. Authorization

The Patent Act specifically authorizes assignment¹² of patents or any interest therein,¹³ but does not define an assignment. Thus, the definition and boundaries of assignments must be determined from case law.

2. Definition

In general, an assignment is a transfer, in writing,¹⁴ of the entire interest in the patented invention.¹⁵ A patent transfer is an assignment if two conditions are met.¹⁶ First, the transferee must have the right to prohibit the making, using, or selling of the patented invention during the term of the patent.¹⁷ Second, the transferee must be able to independently maintain an infringement suit for the unauthorized making, using, or selling of the patented invention during the term of the patent.¹⁸ If both conditions are met it is straightforward to recognize the transfer as an assignment because all rights in the patent have been transferred.¹⁹

Two other types of transfers are assignments. A transfer of an undivided share of exclusive patent rights is also an assignment because all of the patent rights are still present - a

¹² Note that the term patentee includes all successors in title to the original patentee. 35 U.S.C. §100(d) (2004); *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1030 (Fed. Cir. 1995). The assignee is considered the effective patentee because an assignee is one who receives all substantial rights in a patent. *Id.*; *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 876 (Fed. Cir. 1991).

¹³ *Enzo APA & Son v. Geapag A.G.*, 134 F.3d 1090, 1093 (Fed.Cir. 1998).

¹⁴ 35 U.S.C. §261 (2004); *Valmet Paper Mach., Inc. v. Beloit Corp.*, 868 F.Supp. 1085, 1087 (W.D. Wis. 1994).

¹⁵ *Intellectual Prop. Dev. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1345 (Fed. Cir. 2001); *Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567, 1577 (Fed.Cir. 1997); *Preload Enterprises*, 86 F.Supp. at 978.

¹⁶ *Waterman*, 138 U.S. at 255.

¹⁷ *Id.*; *E.I. du Pont de Nemours & Co. v. U.S.*, 288 F.2d 904, 912 (Ct. Cl. 1961); *Broderick v. Neale*, 201 F.2d 621, 623 (10th Cir. 1953); *Hook v. Hook & Ackerman, Inc.*, 187 F.2d 52, 57-58 (3rd Cir. 1951); *Houdry Process Corp. v. Universal Oil Products, Co.*, 87 F.Supp. 547, 552 (D. Del. 1949).

¹⁸ *Waterman*, 138 U.S. at 255; *E.I. DuPont De Nemours*, 288 F.2d at 912; *Hook*, 187 F.2d at 57-58; *Broderick*, 201 F.2d at 623; *see also Intellectual Prop. Dev.*, 248 F.3d at 1342-1344 (noting that where the transferor retains the right to sue, or retains the right to sue first, the transfer is a license, not an assignment); *Houdry* 87 F.Supp. at 552.

¹⁹ *Waterman*, 138 U.S. at 255.

situation analogous to a joint tenancy.²⁰ In addition, transferring all of the exclusive rights covering a specific part of the United States is also an assignment.²¹

A transfer of patent rights may legally amount to an assignment even when the parties have not clearly intended the transfer to be an assignment.²² For example, an agreement that does not clearly provide for a transfer of all rights,²³ announces an intention not to transfer all rights,²⁴ or is explicitly labeled as a license²⁵ requires more analysis, but may still be an assignment depending on the scope of the rights transferred.

3. Virtual Assignments

When all of the substantial rights under the patent have been granted to the transferee, the transfer is considered a virtual assignment.²⁶ To decide whether “all substantial rights” have been transferred, one must look at each case to “ascertain the intention of the parties and examine the

²⁰ 35 U.S.C.A. §261 (2004); *Waterman*, 138 U.S. at 255; *Jim Arnold*, 109 F.3d at 1577; *Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1117 (Fed. Cir. 1996); *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1551 (Fed. Cir. 1995).

²¹ *Waterman*, 138 U.S. at 255; *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1377 (Fed. Cir. 2000); *Jim Arnold*, 109 F.3d at 1577; *Minco*, 95 F.3d at 1117; *Rite-Hite*, 56 F.3d at 1551; *Broderick*, 201 F.2d at 623; *Merck & Co. v. Smith*, 155 F.Supp. 843, 846 (E.D. Pa. 1957); *Preload Enterprises, Inc. v. Pacific Bridge Co.*, 86 F.Supp. 976, 978 (D. Del. 1949) (noting that a transfer of all the patent rights operative only on a territory less than the whole United States is also referred to as a grant, but has the attributes of an assignment).

²² *Waterman*, 138 U.S. at 256; *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 876 (Fed. Cir. 1991).

²³ *See, e.g. Rude v. Westcott*, 130 U.S. 152 (1889); *Littlefield v. Perry*, 88 U.S. 205 (1874); *Hook*, 187 F.2d 52 (3rd Cir. 1951).

²⁴ *See, e.g. Jim Arnold*, 109 F.3d 1567; *U.S. v. Carruthers*, 219 F.2d 21 (9th Cir. 1955); *Merck*, 155 F.Supp. 846.

²⁵ *Vaupel Textilmaschinen KG*, 944 F.2d at 876.

²⁶ *CMS Industries, Inc. v. L.P.S. International, Ltd.*, 643 F.2d 289, 294 (5th Cir. 1981); *Enzo APA & Son v. Geapag A.G.*, 134 F.3d 1090, 1093 (Fed.Cir. 1998) (explicitly using the term “virtual assignment”). However, a transfer of rights that is tantamount to an assignment is also referred to by courts as a “de facto assignment.” *See e.g. Cook, Inc. v. Boston Scientific Corp.*, 333 F.3d 737 (7th Cir. 2003). Other courts do not use a specific term, but refer to the transfer simply as a transfer of “all substantial rights.” *Intellectual Prop. Dev. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1345 (Fed. Cir. 2001); *Vaupel Textilmaschinen KG*, 944 F.2d at 874; *see Prima Tek II*, 222 F.3d at 1377-1378.

substance of what was granted.”²⁷ If the transferor retains any rights, the question becomes whether the rights granted to the transferee constitute a transfer of all substantial rights.²⁸

Although an agreement may transfer rights sufficient to constitute a virtual assignment, the agreement will nevertheless be held a license if the agreement is oral instead of in writing.²⁹ For example, in *Enzo APA*, the licensee asserted an infringement claim.³⁰ However, the agreement transferring rights to the licensee was not in writing at the time the licensee asserted the claim of infringement.³¹ The court held that because the agreement was not in writing, the transfer did not constitute a virtual assignment and the licensee could not assert rights reserved to assignees.³²

In testing whether a transfer amounts to a virtual assignment, it may be helpful to analyze some transfer arrangements already decided in the courts.

a. Transfers Labeled a License

Transfers that are labeled a license by the parties may be an assignment if all substantial rights are transferred.³³ For example, in *Vaupel*, the court had to determine whether the plaintiff had standing to sue in its own name, which required that the plaintiff be the assignee.³⁴ The agreement between the parties was labeled an exclusive license.³⁵ The agreement also reserved

²⁷ *Mentor H/S, Inc. v. Medical Device Alliance, Inc.*, 240 F.3d 1016, 1017 (Fed. Cir. 2001); *Vaupel Textilmaschinen KG*, 944 F.2d at 874; *Prima Tek II*, 222 F.3d at 1378.

²⁸ *Prima Tek II*, 222 F.3d at 1378.

²⁹ *Enzo APA*, 134 F.3d at 1093.

³⁰ *Id.* at 1091.

³¹ *Id.* at 1092-1093.

³² *Id.* at 1093. In *Enzo APA & Son v. Geapag A.G.*, the court also held that a nunc pro tunc agreement would not suffice to retroactively make an oral assignment into a virtual assignment. *Id.* Thus, if an agreement is memorialized in writing after initiating suit, the agreement is not sufficient to allow the transferee to assert the rights of a virtual assignee in that suit. *Id.*

³³ *Intellectual Prop. Dev. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1345 (Fed. Cir. 2001); *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 876 (Fed. Cir. 1991).

³⁴ *Vaupel Textilmaschinen KG*, 944 F.2d at 873-874 (the court explained that any transfer short of an assignment is a license, which does not give the transferee standing to sue in its own name); see *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891).

³⁵ *Vaupel Textilmaschinen KG*, 944 F.2d at 874.

certain rights to the transferor, including a veto right over sublicenses, a reversion upon a bankruptcy filing by the plaintiff, and a right to receive infringement damages.³⁶ However, the court reasoned that if the agreement transferred all substantial rights, the agreement would constitute an assignment that would entitle the plaintiff to sue in its own name.³⁷ Affirming the district court finding that the transfer was tantamount to an assignment, the court of appeals held that “none of [the] reserved rights was so substantial as to reduce the transfer to a mere license or indicate an intent not to transfer all substantial rights.”³⁸ Consequently, the court held the transfer sufficient to allow the plaintiff to sue in its own name.³⁹

b. Reservation of Rights to Oneself

Transfer of all the exclusive patent rights is controlling even where other conditions are added to the transfer. For example, where the right to make, use, or sell is transferred along with a right for the transferee to maintain infringement actions, the transfer is an assignment even where the transferor retains royalty rights,⁴⁰ certain contingent reversionary interests,⁴¹ the right to receive infringement damages,⁴² or rights amounting to a license back to the transferor by the transferee.⁴³ Even where the transferor retains veto power over sublicensing, the transfer is still a transfer of all substantial rights.⁴⁴

³⁶ *Id.* at 875.

³⁷ *Id.* at 873-874.

³⁸ *Id.* at 875.

³⁹ *Id.* at 876.

⁴⁰ *Hook v. Hook & Ackerman, Inc.*, 187 F.2d 52, 57-58 (3rd Cir. 1951); *Rude v. Westcott*, 130 U.S. 152, 156 (1889).

⁴¹ *Hook*, 187 F.2d at 58 (“Forfeiture clauses for nonperformance of conditions do not prevent title to a patent from passing to an assignee.”); *Littlefield v. Perry*, 88 U.S. 205 (1874); *Vaupel Textilmaschinen KG*, 944 F.2d at 875; *but see Juda v. Commissioner*, 877 F.2d 1075, 1078 (Where there is a reversion if a transferor fails to find a buyer, the transfer is not an assignment. The transferee is in form a broker.).

⁴² *Vaupel Textilmaschinen KG*, 944 F.2d at 875.

⁴³ *Hook*, 187 F.2d at 58.

⁴⁴ *Vaupel Textilmaschinen KG*, 944 F.2d at 875 (noting that while the written agreements did not constitute a formal assignment, they effected a transfer of all substantial rights allowing transferee to sue in its own name, a right not accorded to exclusive and nonexclusive licensees).

c. Transfers Limited to Only One Industry/Application

A transfer of patent rights that is limited to use in one industry may be an assignment.⁴⁵

In *U.S. v Carruthers*, the court held a transfer to be an assignment where the transfer was limited to one industry.⁴⁶ The court reasoned that because the industry was the only industry of real value for the invention, the transfer amounted to an assignment.⁴⁷ This decision leaves open the question of whether such a transfer would be an assignment if other industries were viable or became viable after the transfer.

A transfer of patent rights limited to one application may also be an assignment.⁴⁸ For example, where a transfer of rights was limited to toothbrushes, even though the invention could be used for other brushes, such a transfer has been held an assignment.⁴⁹

d. Ability to Sublicense

The ability to license or sublicense is an important factor in determining whether a transfer amounts to a virtual assignment.⁵⁰ In *Prima Tek II*, the court had to decide whether the limitations imposed on the transferee in sublicensing the invention precluded a finding that all substantial rights in the patent had been transferred.⁵¹ The transferee was limited to sublicensing the invention to a specific company and no one else.⁵² The court held that the restriction significantly diminished the transferee's rights so that the transfer was not a transfer of all substantial rights.⁵³ Compare this result with *Vaupel*.⁵⁴ In *Vaupel*, the transferor had the right to

⁴⁵ See, e.g. *Jim Arnold Corp. v. Hydrotech Systems, Inc.*, 109 F.3d 1567, 1577 (Fed.Cir. 1997); *U.S. v Carruthers*, 219 F.2d 21, 24-25 (9th Cir. 1955); *Merck & Co. v. Smith*, 155 F.Supp. 843, 846 (E.D. Pa. 1957).

⁴⁶ *Carruthers*, 219 F.2d at 24-25.

⁴⁷ *Id.*

⁴⁸ *First National Bank of Princeton v. U.S.*, 136 F.Supp. 818, 823-825 (D. N.J. 1955); see also *Merck*, 155 F.Supp. at 843.

⁴⁹ *First National Bank of Princeton*, 136 F.Supp. at 823-825.

⁵⁰ *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1380 (Fed. Cir. 2000).

⁵¹ *Id.*

⁵² *Id.*

⁵³ *Id.*

veto sublicensing by the transferee.⁵⁵ The court reasoned that the veto power retained by the transferor did not substantially interfere with the transferee's rights; so, the licensing veto was held not to preclude a virtual assignment.⁵⁶

C. Licenses

1. Authorization

Unlike assignments, the Patent Act does not explicitly authorize a patentee to convey licenses.⁵⁷ However, courts have implied the right to grant licenses and have drawn definitional and legal distinctions between assignments and licenses.⁵⁸ The Federal Circuit has derived the right of the patent owner to grant licenses from the basis that patents are property.⁵⁹ Thus, a patent owner has the right to exploit its patent, including the right to grant licenses thereon.⁶⁰ As stated by the *Prima Tek II* court, “[i]mplicit in the right to exclude is the ability to waive that right, *i.e.*, to license activities that would otherwise be excluded, such as making, using and selling the patented invention in the United States.”⁶¹

2. Licenses in General

In general, any transfer of rights in a patent that does not amount to an assignment is a license.⁶² Under a licensing arrangement, title to the patent stays in the hands of the transferor.⁶³

⁵⁴ *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991).

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ *See generally* 35 U.S.C. §§ 1-376 (2004) (Patent Act); *L.L. Brown Paper Co. v. Hydroiloid, Inc.*, 32 F.Supp. 857, 868 (noting that the right to license is based on common law property rights).

⁵⁸ *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1379 (Fed. Cir. 2000); *Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1116 (Fed. Cir. 1996); *Cedars-Sinai Medical Center v. Watkins*, 11 F.3d 1573, 1582 (Fed. Cir. 1993); *see Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891).

⁵⁹ *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985) (rejecting the argument that the ability to license is not a property right protected by the due process clause); *Cedars-Sinai Medical Center*, 11 F.3d at 1582; *Brownell v. Ketcham Wire & Mfg. Co.*, 211 F.2d 121, 128 (9th Cir. 1954).

⁶⁰ *Patlex*, 758 F.2d at 599.

⁶¹ *Prima Tek II*, 222 F.3d at 1379.

⁶² *Waterman*, 138 U.S. at 255; *Jim Arnold Corp. v. Hydrotech Systems, Inc.*, 109 F.3d 1567, 1577 (Fed.Cir. 1997); *Minco*, 95 F.3d at 1117; *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1551-1552 (Fed. Cir. 1995); *Broderick v. Neale*, 201 F.2d 621, 623 (10th Cir. 1953).

Another commonly used definition of a license is that it is simply a promise by the licensor not to sue the licensee for conduct that would otherwise be infringement.⁶⁴

Even where substantially all the rights to the patent have been transferred - normally an assignment - other conditions may render the transfer a license. For example, suppose the transferor sells all of its rights in the patent to a transferee, but the transferor had previously granted licenses under the patent. The transfer is a license even though all of the patentee's rights have been transferred.⁶⁵ In addition, a transfer for less than the full term of the patent may render a transfer a license.⁶⁶ Another example is an oral transfer of patent rights. An assignment must be in writing, so, even if an agreement transfers all of the substantial rights in the patent, it is a license.⁶⁷

The rights of licensees can vary greatly depending on the scope of rights transferred by the parties.⁶⁸ Courts use two different categories of licenses to separate important legal rights of patent transferees – the exclusive license and the nonexclusive license.⁶⁹ In determining whether an agreement amounts to a nonexclusive license or exclusive license, courts must look to the intentions of the parties “as manifested by the terms of their agreement and examining the substance of the grant.”⁷⁰

⁶³ *Jim Arnold*, 109 F.3d at 1577; *see also Waterman*, 138 U.S. at 255; *Minco*, 95 F.3d at 1117; *Rite-Hite*, 56 F.3d at 1551-1552; *Broderick*, 201 F.2d at 623.

⁶⁴ *Jim Arnold*, 109 F.3d at 1577. The definition of a license as a covenant not to sue is common in the licensing of intellectual property. Milgrim, *supra* note 2, at §15.34. However, when dealing with patent licenses, other definitional factors must be considered because of the differences in types of patent licenses. Jay Dratler, Jr., *Licensing of Intellectual Property* § 1.06[2] (2003).

⁶⁵ *Solarex Corp. v. Arco Solar, Inc.*, 805 F.Supp. 252, 259 (D. Del. 1992).

⁶⁶ *Juda v. Commissioner*, 877 F.2d 1075, 1078 (1st Cir. 1989); *but see Prima Tek II*, 222 F.3d at 1378.

⁶⁷ 35 U.S.C. §261 (2004).

⁶⁸ *See generally* Milgrim, *supra* note 2, at §15.

⁶⁹ *Intellectual Prop. Dev. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1345 (Fed. Cir. 2001); *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1030 (Fed. Cir. 1995); *see also* Milgrim *supra* note 2 at § 15. Milgrim on Licensing mentions a third category of license called a sole license. *Id.* at §15.33. However, the third category is largely subsumed by the exclusive license category. *Id.* Further there is little case law or literature explaining any legal differences between a sole licensee and the other types of licensees. *Id.*

⁷⁰ *Textile Productions, Inc. v. Mead Corp.*, 134 F.3d 1481, 1484 (Fed. Cir. 1998).

3. Nonexclusive License Defined

A nonexclusive license, inconsistently referred to as a “bare” license,⁷¹ is a promise by the licensor not to sue the licensee for infringement - making, using or selling the patented invention.⁷² Thus, a nonexclusive licensee has no property interest in the patent.⁷³ In addition, where a nonexclusive license has been granted, the licensor maintains the right to grant additional licenses, including licenses granting the same rights given previous nonexclusive licensees.⁷⁴

If a licensee “has not received an express or implied promise of exclusivity under the patent, i.e., the right to exclude others from making, using, or selling the patented invention, the party has a [nonexclusive license].”⁷⁵ The case of *Rite-Hite Corp. v. Kelley Co.* is a good illustration of where the lack of a right to exclude creates only a nonexclusive license. In *Rite-Hite*, the patentee licensed independent sales organizations (ISO’s) to sell the patented product.⁷⁶ The ISO’s argued that since the licensing agreement granted each ISO an exclusive territory, the licenses granted were exclusive licenses.⁷⁷ The court drew a distinction between an exclusive

⁷¹ *Intellectual Prop. Dev.*, 248 F.3d at 1345; *Ortho Pharmaceutical Corp.*, 52 F.3d at 1034; *Abbot Laboratories v. Ortho Diagnostic Systems, Inc.*, 47 F.3d 1128, 1131 (Fed. Cir. 1995); *Western Electric Co. v. Patent Reproducer Corp.*, 42 F.2d 116, 118 (2d Cir. 1930); *but see Fieldturf, Inc. v. S.W. Recreational Indus., Inc.*, 357 F.3d 1266, 1269 (Fed. Cir. 2004) (referring to a transfer as a bare license to distinguish it from an assignment, but not referring to the license in the sense of it being a nonexclusive license).

⁷² *Jacobs v. Nintendo of America, Inc.*, 370 F.3d 1097, 1101 (Fed. Cir. 2004); *Intellectual Prop. Dev.*, 248 F.3d at 1333, 1345; *Ortho Pharmaceutical Corp.*, 52 F.3d at 1031; *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1551 (Fed. Cir. 1995); *see also Jim Arnold*, 109 F.3d at 1577; *Western Electric*, 42 F.2d at 118.

⁷³ *Ulead Systems, Inc. v. Lex Computer & Management Corp.*, 351 F.3d 1139, 1147 (Fed. Cir. 2003) (“It is well settled that a nonexclusive licensee of a patent has only a personal and not a property interest in the patent.”); *Ortho Pharmaceutical Corp.*, 52 F.3d at 1031.

⁷⁴ *Ortho Pharmaceutical Corp.*, 52 F.3d at 1031; *Intellectual Prop. Dev.*, 248 F.3d at 1333; *Western Electric*, 42 F.2d at 118; *see also Textile Productions*, 134 F.3d at 1485.

⁷⁵ *Rite-Hite*, 56 F.3d at 1552.

⁷⁶ *Id.* at 1543-1544.

⁷⁷ *Id.* at 1552. It is interesting to note that the agreement between the patentee and ISO’s was highly qualified and subject to conditions. *Id.* The court specifically mentioned these limitations. *Id.* By the court’s own reasoning, if the agreement granting an exclusive territory was unqualified and the patentee promised to exclude others from that territory, such an agreement may be an exclusive license. *See id.* at 1552-1553.

sales territory and an exclusive license.⁷⁸ The court held that because “the ISO’s had no right under the agreements to exclude anyone from making, using, or selling the claimed invention,” the transfer was a nonexclusive license.⁷⁹

Alternately, in *Rite-Hite*, the court placed emphasis on there being no promise by the patentee to exclude others from practicing the invention.⁸⁰ The court used this reasoning again in *Textile Productions, Inc. v. Mead Corp.*⁸¹ In *Textile Productions* the court held that if the licensor has not promised to exclude others from practicing the invention in the field transferred to the licensee, the grant is a nonexclusive license.⁸²

4. Exclusive License Defined

In general terms, an exclusive license conveys more than a nonexclusive license, but less than an assignment.⁸³ To constitute an exclusive license, the patentee must covenant, by an express or implied promise, that others will be excluded from practicing the invention.⁸⁴ As stated by the *Ortho* court, while a nonexclusive license does not transfer any property rights, an exclusive license “makes the licensee a beneficial owner of some identifiable part of the patentee’s bundle of rights *to exclude others*.”⁸⁵ Thus, the line between a nonexclusive license and an exclusive license is crossed when the transfer grants a right to exclude, which transfers part of the property rights of the patentee.⁸⁶

⁷⁸ *Id.* at 1552-1553.

⁷⁹ *Id.*

⁸⁰ *Id.*

⁸¹ *Textile Productions, Inc. v. Mead Corp.*, 134 F.3d 1481, 1484 (Fed. Cir. 1998).

⁸² *Id.*

⁸³ *Intellectual Prop. Dev. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1345 (Fed. Cir. 2001); Harry R. Mayers & Brian G. Brunsvold, *Drafting Patent License Agreements* 32 (3rd ed. 1991).

⁸⁴ *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1552 (Fed. Cir. 1995); *Textile Productions*, 134 F.3d at 1484.

⁸⁵ *Ortho Pharmaceutical Corp.*, 52 F.3d at 1032 (emphasis added).

⁸⁶ *Id.*

The line between an exclusive license and an assignment is crossed when a court determines that all substantial rights in the patent have been conveyed.⁸⁷ Although there are situations where many of the patent rights are transferred, courts have held the transfer to be an exclusive license, not an assignment.⁸⁸ For example, in *Abbot Laboratories* the plaintiff-transferee argued that it received all substantial patent rights under the transfer.⁸⁹ The transferor “retained the right to make and use, for its own benefit, products embodying the invention, as well as the right to sell such products to end users, to parties with whom [the transferor] had pre-existing contracts, and to pre-existing licensees.”⁹⁰ In addition, the transferor had the right to bring its own infringement suit and was entitled to participate in any suit brought by the transferee.⁹¹ The court held the transfer to be merely an exclusive license because of the scope of rights retained by the transferee.⁹² By contrast, an agreement that simply licenses back to the transferor the right to make, use, or sell the patented invention is an assignment, transferring all substantial rights in the patent.⁹³

There are other common transactional elements that do not affect the status of the transfer as an exclusive license. One example is that an exclusive licensee does not have to be the only licensee.⁹⁴ However, the grant of an exclusive license must bind the licensor not to create any new licenses⁹⁵ and not to expand the scope of any previously granted licenses.⁹⁶ Another illustration is an agreement that allows the transferee to initiate suit. A clause allowing the

⁸⁷ *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1377 (Fed. Cir. 2000); *supra* Section I. B.

⁸⁸ *Abbot Laboratories v. Ortho Diagnostic Systems, Inc.*, 47 F.3d 1128, 1132 (Fed. Cir. 1995).

⁸⁹ *Id.*

⁹⁰ *Id.*

⁹¹ *Id.*

⁹² *Id.*

⁹³ *Littlefield v. Perry*, 88 U.S. 205, 220-222 (1874); *see supra* Section I. B.

⁹⁴ *Mechanical Ice Tray Corp. v. General Motors Corp.*, 144 F.2d 720, 725 (2d Cir.1944); *Western Electric Co. v. Patent Reproducer Corp.*, 42 F.2d 116, 119 (2d Cir. 1930) (explaining that an exclusive license may be granted although there exist previously granted nonexclusive licenses); *Solarex Corp. v. Arco Solar, Inc.*, 805 F.Supp. 252, 259 (D. Del. 1992).

⁹⁵ *Mechanical Ice Tray*, 144 F.2d at 725.

⁹⁶ *Id.*

licensee to initiate suit does not transform an exclusive license into an assignment because the transferee may still have to join the transferor in order for the suit to be valid.⁹⁷

II. Similarities and Differences Between Legal Rights of Assignees, Exclusive Licensees and Nonexclusive Licensees

Outlined below are some of the important legal issues that arise in patent litigation. The differences in rights of assignees, exclusive licensees, and nonexclusive licensees are defined for each of the issues.

A. Standing to Sue for Infringement

The line between assignees and nonexclusive licensees is clear on the question of maintaining an infringement suit on the patent. Assignees have the right to maintain infringement suits on their patents because an assignee has acquired all of the rights associated with the patent from the patentee.⁹⁸ Section 281 of the Patent Act provides standing to a patentee to sue for infringement of its patent.⁹⁹ When a patent has been assigned, the assignee is deemed to be the effective patentee.¹⁰⁰ Thus, an assignee has standing to bring an infringement suit in its own name because it is the patentee and section 281 of the Patent Act confers standing on the patentee¹⁰¹

⁹⁷ *Abbot Laboratories v. Ortho Diagnostic Systems, Inc.*, 47 F.3d 1128, 1132 (Fed. Cir. 1995).

⁹⁸ *Intellectual Prop. Dev. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1345 (Fed. Cir. 2001); *Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1117 (Fed. Cir. 1996); *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1030 (Fed. Cir. 1995); *see* the Patent Act 35 USC §281 (section 281 authorizes the patentee to bring suit).

⁹⁹ 35 U.S.C. §281 (2004); *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1376-1377 (Fed. Cir. 2000).

¹⁰⁰ *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1030 (Fed. Cir. 1995) (quoting *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891)).

¹⁰¹ *Id.*

Virtual assignees also have standing to sue for infringement in their own name.¹⁰² For example, in *Prima Tek II*, the court noted that an agreement limited to two years in duration and thence renewable for one-year periods would “not deprive the [transferee] of standing to maintain a patent infringement suit in its own name.”¹⁰³ Because virtual assignments do not clearly transfer all substantial rights, but are held to do so by a court ruling, the legal battle to define the party as a virtual assignee or licensee is an important preliminary issue.

Nonexclusive licensees do not have a right to maintain infringement suits because a nonexclusive licensee would not be *legally* injured by infringement.¹⁰⁴ In *Ortho Pharmaceutical*, the licensee, Ortho, wanted to join a suit by the patentee against an infringer.¹⁰⁵ The court stated that because the patentee retained the right to grant additional licenses, Ortho was a nonexclusive licensee and did not have a right to join the infringement suit.¹⁰⁶ The court reasoned that Ortho did not have any property interest in the patent.¹⁰⁷ Because an infringement of a patent can only harm one who has a property interest in the patent, a nonexclusive licensee does not have standing to sue one who infringes a patent.¹⁰⁸ Further, even if the agreement granting a nonexclusive license states that the licensee can sue, if the agreement is held to grant a

¹⁰² See, e.g. *Intellectual Prop. Dev. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1345 (Fed. Cir. 2001) (stating that a transfer of all substantial rights in the patent “confers constitutional standing on the assignee to sue another for patent infringement in its own name”); *Prima Tek II*, 222 F.3d at 1377.

¹⁰³ *Prima Tek II*, 222 F.3d at 1378; see also *Waterman*, 138 U.S. at 261 (reversionary interest did not make mortgagor indispensable party to suit); *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 874 (Fed. Cir. 1991) (reversionary clause did not preclude transferee from maintaining suit in its own name).

¹⁰⁴ *Intellectual Prop. Dev.*, 248 F.3d at 1345; *Ortho Pharmaceutical Corp.*, 52 F.3d at 1031; *Abbot Laboratories v. Ortho Diagnostic Systems, Inc.*, 47 F.3d 1128, 1131 (Fed. Cir. 1995); *Western Electric Co. v. Patent Reproducer Corp.*, 42 F.2d 116, 118 (2d Cir. 1930); see *Textile Productions, Inc., v. Mead Corp.*, 134 F.3d 1481, 1484 (Fed. Cir. 1998).

¹⁰⁵ *Ortho Pharmaceutical Corp.*, 52 F.3d at 1032.

¹⁰⁶ *Id.* at 1033.

¹⁰⁷ *Id.* at 1032.

¹⁰⁸ *Id.* at 1032-1034.

nonexclusive license, the nonexclusive licensee does not have standing to sue because the nonexclusive licensee has no proprietary interest.¹⁰⁹

An exclusive licensee may have a qualified right to maintain an infringement suit. An exclusive licensee may maintain an infringement suit only if the owner of the patent is joined as a coplaintiff.¹¹⁰ The patentee has a duty to allow the exclusive licensee to use the patentee's name in an infringement suit where the exclusive licensee has incurred damage due to violation of the exclusive rights granted.¹¹¹ If the patentee refuses or is unable to join the suit, the exclusive licensee may make the patentee a coplaintiff without the patentee's consent;¹¹² however, the exclusive licensee must first request that the patentee join the suit voluntarily.¹¹³ An exception to the rule for exclusive licensees is where the infringing party is the patentee.¹¹⁴ In such a case, exclusive licensees would have no remedy if they could not sue in their own name because the infringer (the patentee) cannot sue himself.¹¹⁵

Although an exclusive licensee *may* initiate suit if he voluntarily or involuntarily joins the patentee as coplaintiff, the exclusive licensee still must independently satisfy standing requirements.¹¹⁶

¹⁰⁹ *Id.* at 1034 (“[A] contract cannot change the statutory requirement for suit to be brought by the [patentee]. A patentee may not give a right to sue to a party who has no proprietary interest in the patent.”); *see* *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1381 (Fed. Cir. 2000); *Textile Productions*, 134 F.3d at 1485.

¹¹⁰ *Independent Wireless Telegraph Co. v. Radio Corp. of America*, 269 U.S. 459, 468-469 (1926); *Intellectual Prop. Dev. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1347-1348 (Fed. Cir. 2001); *Ortho Pharmaceutical Corp.*, 52 F.3d at 1030; *Abbot Laboratories v. Ortho Diagnostic Systems, Inc.*, 47 F.3d 1128, 1131 (Fed. Cir. 1995). Where the patentee is the infringer an exclusive licensee may have standing to maintain suit in its own name. *Ortho Pharmaceutical Corp.*, 52 F.3d at 1030; *see Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891) (noting that where the patentee is the infringer, it cannot sue itself).

¹¹¹ *Independent Wireless Telegraph*, 269 U.S. at 469; *Intellectual Prop. Dev.*, 248 F.3d at 1347.

¹¹² *Independent Wireless Telegraph*, 269 U.S. at 472-473; *Intellectual Prop. Dev.*, 248 F.3d at 1347.

¹¹³ *Independent Wireless Telegraph*, 269 U.S. at 473.

¹¹⁴ *Waterman*, 138 U.S. at 255; *Independent Wireless Telegraph*, 269 U.S. at 467.

¹¹⁵ *Waterman*, 138 U.S. at 255; *Independent Wireless Telegraph*, 269 U.S. at 467.

¹¹⁶ *Ortho Pharmaceutical Corp.*, 52 F.3d at 1031.

B. Transferability of Licenses and Granting of Sublicenses

A nonexclusive licensee cannot transfer his license in the absence of express permission in the transfer agreement,¹¹⁷ nor can he grant sublicenses.¹¹⁸ The restrictions of the nonexclusive licensee are due to a patent licensee having only a personal interest in the nonexclusive license; there is no property interest in a nonexclusive license.¹¹⁹ Although this rule is contrary to the law of some states,¹²⁰ federal law decides the question of the transferability of a nonexclusive license.¹²¹ And, it is a well-settled federal rule that nonexclusive licenses cannot be transferred.¹²²

An assignee has the ability to license the patent because a patent “necessarily include[s] the right to license and exploit [the] patents.”¹²³ “A patent for an invention is as much property as a patent for land.”¹²⁴ The right to license patents “falls squarely within both classical and judicial definitions of protectible property.”¹²⁵

There is little case authority available relating to an exclusive licensee’s legal right to transfer or sublicense the patented invention in the absence of an express agreement between the parties.¹²⁶ However, there is a strong legal argument that an exclusive licensee should be able to

¹¹⁷ *In re CFLC, Inc.*, 89 F.3d 673, 679 (9th Cir. 1996); *Unarco Indus., Inc. v. Kelley Co.*, 465 F.2d 1303, 1306 (7th Cir. 1972); Milgrim, *supra* note 2 at §15.02.

¹¹⁸ *CFLC*, 89 F.3d at 679; *E.I. du Pont de Nemours & Co. v. Shell Oil Co.*, 498 A.2d 1108, 1114 (Del. 1985); Milgrim, *supra* note 2 at §15.02.

¹¹⁹ *CFLC*, 89 F.3d at 679; *Gilson v. Republic of Ireland*, 787 F.2d 655, 658 (D.C. Cir. 1986); *see Ortho Pharmaceutical Corp.*, 52 F.3d at 1031-1033; Milgrim, *supra* note 2 at §15.02.

¹²⁰ *CFLC*, 89 F.3d at 679.

¹²¹ *Id.*; *Unarco Indus.*, 465 F.2d at 1306.

¹²² *CFLC*, 89 F.3d at 679 (“It is well settled that... a nonexclusive licensee of a patent has only a personal and not a property interest in the patent and that this personal right cannot be assigned unless the patent owner authorizes the assignment or the license itself permits assignment.”) (quoting *Gilson v. Republic of Ireland*, 787 F.2d 655, 658 (D.C. Cir. 1986)).

¹²³ *Cedars-Sinai Medical Center v. Watkins*, 11 F.3d 1573, 1582 (Fed. Cir. 1993) (quoting *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985)). Further, an assignee is the effective patentee so that the statements made regarding a patentee’s rights apply to an assignee. 35 U.S.C. §100(d) (2004); *see supra* note 12.

¹²⁴ *Patlex*, 758 F.2d at 599.

¹²⁵ *Id.*

¹²⁶ Jay Dratler, Jr., *Licensing of Intellectual Property* § 1.06[2] (2003).

transfer and sublicense the patented invention because exclusive licenses have many of the characteristics of property as patents themselves.¹²⁷

III. Do Patent and Other Policies Support the Differences in the Legal Rights Between Assignees, Exclusive Licensees and Nonexclusive Licensees?

This section explores whether the policies that have been advanced to support patent protection are furthered by the differences in legal rights between assignments, exclusive licenses, and nonexclusive licenses.¹²⁸ In addition, this section also explores whether other judicial policies support those differences.

A. Patent and Other Policies

1. Incentive to Invent

The patent laws of the United States promote the progress of the useful arts by giving exclusive rights to inventors for limited periods of time.¹²⁹ The exclusive rights given under the patent laws are an incentive to encourage inventiveness and research.¹³⁰ Patent protection is given in the hope that the inventive effort “will have a positive effect on society through the introduction of new products and processes...[and] by way of increased employment and better lives for our citizens.”¹³¹ An incentive is needed because of the labor and expense required to

¹²⁷ *Id.*

¹²⁸ For each of the arguments that support patent protection, there are counterarguments that suppose patent protection would not support those policies. Alan S. Gutterman, *Innovation and Competition Policy* 46-57 (Kluwer Law International Ltd. 1997). This comment explores whether those policies that have been advanced to support patent protection are furthered by the legal distinctions between assignments and licenses. If the arguments given in favor of denying patent protection are taken as true, the analysis of the benefits of assignments and licenses is moot.

¹²⁹ *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 63 (1998); *Diamond v. Chakrabarty*, 447 U.S. 303, 307 (1980); *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 600 (Fed. Cir. 1985) (without patent rights, the purpose set for forth in the Constitution to promote the useful arts would be undermined); Donald S. Chisum, *Chisum on Patents*, Appendix 12 (Vol. 9, 2004) (Senate Report Accompanying Senate Bill No. 239, 24th Congress, 1st Sess. (April 28, 1836)); *see* U.S. Const., art. I, § 8.

¹³⁰ *Chakrabarty*, 447 U.S. at 307; *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480-481 (1974).

¹³¹ *Chakrabarty*, 447 U.S. at 307 (quoting *Kewanee Oil*, 416 U.S. at 480-481 (1974)); *see* House Report No. 96-1307, 96th Cong., 2d Sess. (1980) (noting that a decline in research and development can have a significant effect on the economy because new technologies are the primary means of improving productivity); Donald S. Chisum, *Chisum on Patents*, Appendix 12 (Vol. 9, 2004) (Senate Report Accompanying Senate Bill No. 239, 24th Congress,

create inventions and reduce them to practice.¹³² Inventors increasingly must rely on private financing for the research necessary to produce new inventions.¹³³ Thus, much of the research necessary for new inventions would not be done in the absence of the financial reward that patent presents.¹³⁴ In addition, the incentive of a patent may reduce tax rates since if there were no patent incentive, new products and processes may only be invented as a result of investment by public funds.¹³⁵

2. Incentive to Disclose

The patent system encourages disclosure of new and useful inventions in return for a monopoly limited in time.¹³⁶ Without the protection afforded by a patent, inventors would be encouraged to keep inventions secret.¹³⁷ In addition, the public is “denied access to new information and the benefits of wider distribution, alternative uses and price competition in the marketplace, [and] incurs the social costs associated with duplicative research efforts.”¹³⁸

3. Other Policies

A patent has the attributes of personal property,¹³⁹ so, the policies that apply to legal rights of property owners and property transferees may apply to patent rights by analogy.¹⁴⁰ A

¹st Sess. (April 28, 1836)) (noting that the benefits given to the community greatly outweigh the temporary monopoly granted by the patent system).

¹³² *Pfaff*, 525 U.S. at 63; *Patlex*, 758 F.2d at 599 (noting that inventors will not work towards a goal if they are not permitted to enjoy a share of the benefit as their reward for their labors), Gutterman, *supra* note 128, at 1-2; WTO OMC Fact Sheet, TRIPS and Pharmaceutical Patents, 1 (“Intellectual property protection encourages inventors and creators because they can expect to earn some future benefits from their creativity.”); *but see* Gutterman, *supra* note 128, at 37, n2.

¹³³ Donald S. Chisum, et. al., *Principles of Patent Law* 1 & n.2 (Foundation Press 2001) (1998).

¹³⁴ *Patlex*, 758 F.2d at 599 (“encouragement of investment-based risk is the fundamental purpose of the patent grant...”); Chism, *supra* note 133, at 1-2.

¹³⁵ Chism, *supra* note 133, at 1-2; *see also* House Report No. 96-1307, 96th Cong., 2d Sess. (1980) (noting that the government “is bearing an ever increasing share of the burden of financing basic research and development”).

¹³⁶ *Pfaff*, 525 U.S. at 63; *In re CFLC, Inc.*, 89 F.3d 673, 679 (9th Cir. 1996) (quoting *Bonito Boats, Inc. v Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-151 (1989)).

¹³⁷ Gutterman, *supra* note 128, at 46.

¹³⁸ *Id.*

¹³⁹ 35 U.S.C. §261 (2004).

¹⁴⁰ Richard A. Posner, *Economic Analysis of Law*, 37-38 (Aspen Publishers 2003).

practical example is that of a license where the meaning in property laws closely mirrors that of patent licenses.¹⁴¹ A license in property law gives permission to do something on or to land, while similarly, a patent license is merely a waiver to sue for action, that if done without permission, would a violation of the licensor's rights.¹⁴²

Finally, many of the other policies associated with legal procedure and legal rights are applicable to patents. For example, judicial efficiency and avoiding a multiplicity of suits for the parties are policies that are as applicable to patent suits as they are to other actions.¹⁴³

B. Does Policy Support Allowing Assignment and Licensing of Patents?

1. Incentive to Invent

The ability of the patentee to grant assignments and licenses is vital to the patent policy of encouraging inventiveness and research because without the ability to transfer patent rights, the ability to profit from an invention may be eliminated.¹⁴⁴ Transferring patent rights is a source of income for the inventor, and “can be the only source when the [patentee] is not well situated to engage in large scale commercial exploitation.”¹⁴⁵ The primary purpose of granting patent protection is to allow the patentee to commercially exploit the patent, which allows the patentee to recoup the initial investment and encourages additional research and development.¹⁴⁶ Thus, allowing assignment and licensing of patents serves the policy of encouraging inventiveness and research because they are necessary for the inventor to exploit the patent.¹⁴⁷

¹⁴¹ Mayers & Brunsvold, *supra* note 1, at 29.

¹⁴² *Id.*

¹⁴³ Ortho Pharmaceutical Corp. v. Genetics Institute, Inc., 52 F.3d 1026, 1031 (Fed. Cir. 1995).

¹⁴⁴ Organization for Economic Cooperation and Development, Competition Policy & Intellectual Property Rights 11 (1989).

¹⁴⁵ *Id.*

¹⁴⁶ Gutterman, *supra* note 128, at 2; Dratler, *supra* note 126, at §15.34.

¹⁴⁷ Gutterman, *supra* note 128, at 2.

2. Incentive to Disclose

Allowing a patentee to assign and license a patent provides an incentive to inventors to disclose their invention to the public.¹⁴⁸ Assignments and licenses allow a patentee to transfer rights to maximize the exploitation of the patent.¹⁴⁹ This exploitation can assist the patentee to distribute the invention quickly and widely, which allows those who need the invention to get it and use it.¹⁵⁰ For example, where a patentee cannot manufacture enough units of the invention to satisfy public demand, the patentee can enter into a license agreement to provide the extra units consumers demand.¹⁵¹ Without the ability to exploit the patent, inventors would be encouraged to keep their inventions secret.¹⁵² The incentive to disclose also provides benefits to consumers who have greater access to the invention.¹⁵³ In addition, licensing can spur the creation of new processes and products.¹⁵⁴

3. Other Policies

Patent policies must not be promoted at the expense of the freedom to compete.¹⁵⁵ Certain licensing arrangements may raise antitrust issues.¹⁵⁶ The transfer of an exclusive license that withholds the ability of the licensee to sublicense the invention may interfere with the freedom to compete.¹⁵⁷

¹⁴⁸ *Id.*

¹⁴⁹ *Id.*; Dratler, *supra* note 126, at §15.34.

¹⁵⁰ Gutterman, *supra* note 128, at 9-10.

¹⁵¹ *Id.* at 9-10.

¹⁵² *Id.* at 46.

¹⁵³ *Id.*

¹⁵⁴ *Id.* at 10.

¹⁵⁵ *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 63 (1998); Chisum, *supra* note 133, at 5 (“[T]here exists a basic tension in patent law between the incentive to create and disseminate these informational goods on the one hand, and, on the other, free competition and efficient allocation of these goods.”).

¹⁵⁶ Milgrim, *supra* note 2 at §15.00.

¹⁵⁷ *Id.*

C. Does Policy Support the Differences in Rights Between Assignments and Licenses?

i. Standing to Sue for Infringement

1. Incentive to Invent

If a prospective patent owner does not have a legal remedy to protect a patent there is little incentive to try and invent new, useful, and non-obvious inventions.¹⁵⁸ An assignee should have standing to sue for infringement because every property owner has an interest in keeping its property free of an adverse judgment.¹⁵⁹ Patents have the attributes of personal property.¹⁶⁰ An assignee has all of the substantial rights in the patent and is considered the effective patentee.¹⁶¹ Because an assignee is an owner of property rights, the assignee should be able to sue for infringement just as any other property owner can sue for damage to his property; such power is expressly granted in the Patent Act.¹⁶²

The reasoning applied to the interest of an assignee in protecting its property is also applicable to an exclusive licensee because an exclusive licensee has a property interest in the patent.¹⁶³ A person with a property interest in a patent must be able to exploit the property to recoup the initial investment.¹⁶⁴ If an exclusive licensee did not have standing to protect its property, the effectiveness of an exclusive licensing arrangement would be diminished. Because the patent system depends on the ability of the patentee to exploit the invention, the reward would be diminished for the inventor resulting in a concomitant reduction in the incentive to innovate.¹⁶⁵

¹⁵⁸ Donald S. Chisum, *Chisum on Patents*, Appendix 12 (Vol. 9, 2004).

¹⁵⁹ *A.L. Smith Iron Co. v. Dickson*, 141 F.2d 3, 6 (2d Cir. 1944).

¹⁶⁰ 35 U.S.C. §261 (2004).

¹⁶¹ An assignee is the effective patentee so that the statements made regarding a patentee's rights apply to an assignee. 35 U.S.C. §100(d) (2004); *see supra* note 12.

¹⁶² 35 U.S.C. §281 (2004).

¹⁶³ *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1032 (Fed. Cir. 1995).

¹⁶⁴ *Gutterman*, *supra* note 128, 1-2.

¹⁶⁵ *Id.*

Refusing standing to a nonexclusive licensee does not affect the incentive to invent because the nonexclusive licensee is not the one who initially seeks patent protection. A disincentive to innovation would occur only if the standing requirements significantly reduced the ability of the inventor to profit from its invention.¹⁶⁶ The patent system, with its right to assign and license, provide an efficient system for the inventor to exploit the invention.¹⁶⁷ Thus, refusing standing to nonexclusive licensees does not affect the incentive to invent.

2. Incentive to Disclose

As the ability of an exclusive licensee to protect an invention decreases, the number of exclusive licenses may decrease, which restricts the dissemination of the invention.¹⁶⁸ Exclusive licensees have a property interest that needs to be exploited to make the patent system work. If exclusive licensees could not get legal protection for their property, the system of exclusive licensing would not work resulting in less dissemination to the public.¹⁶⁹

3. Other Policies

The limitation that an exclusive licensee must join the patentee in a lawsuit is justified by policies other than patent policies. The patentee is the primary property owner. Every property owner has an interest in choosing the forum and the time he will assert his rights.¹⁷⁰

In respect to the patentee/nonexclusive licensee relationship, it is the patentee who owns the property rights, so, the nonexclusive licensee should not have standing to sue.¹⁷¹ A nonexclusive licensee is not a property owner, but the beneficiary of a covenant not to be sued by

¹⁶⁶ *Id.*

¹⁶⁷ Milgrim, *supra* note 2 at §15.34.

¹⁶⁸ Gutterman, *supra* note 128, at 46.

¹⁶⁹ *Id.*

¹⁷⁰ *A.L. Smith Iron Co. v. Dickson*, 141 F.2d 3, 6 (2d Cir. 1944).

¹⁷¹ *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1031-1032 (Fed. Cir. 1995).

the patentee.¹⁷² More importantly, under a nonexclusive license, the patentee has the right to grant additional licenses under the patent.¹⁷³ Therefore, the patentee “may freely license others, or may tolerate infringers,” even though infringement may cause the nonexclusive licensee pecuniary loss.¹⁷⁴ As the *Western Electric* court analogized – infringement is no more a legal harm to a licensee than a trespass on Blackacre could be a legal harm to one having a right of way across Blackacre.¹⁷⁵

Refusing standing rights to nonexclusive licensees also serves other policies, such as preventing a multiplicity of suits.¹⁷⁶ For example, the infringer would still be subject to a suit by the patentee.¹⁷⁷ In addition, if nonexclusive licensees were allowed to sue for infringement, the infringer may be subject to suits by the other licensees.¹⁷⁸ Because the alleged infringer should be able to have the case adjudicated in one lawsuit, licensees should not be given standing to sue for infringement.¹⁷⁹ In addition, if nonexclusive licensees were allowed to maintain infringement suits, they would likely have to join the patentee as is required in the case of exclusive licensees. Because it would be unfair to subject the patentee to the will of multiple licensees, nonexclusive licensees should not have standing to sue for infringement.¹⁸⁰

¹⁷² *Intellectual Prop. Dev. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1345 (Fed. Cir. 2001); *Ortho Pharmaceutical Corp.*, 52 F.3d at 1031; see *Jim Arnold Corp. v. Hydrotech Systems, Inc.*, 109 F.3d 1567, 1577 (Fed. Cir. 1997); *Gilson v. Republic of Ireland*, 787 F.2d 655, 658 (D.C. Cir. 1986) (noting that a nonexclusive licensee has no property interest in the patent).

¹⁷³ *Id.*

¹⁷⁴ *Ortho Pharmaceutical Corp.*, 52 F.3d at 1031 (quoting *Western Electric Co. v. Patent Reproducer Corp.*, 42 F.2d 116, 118 (2d Cir. 1930)); *A.L. Smith Iron Co. v. Dickson*, 141 F.2d 3, 6 (2d Cir. 1944) (stating that the alleged infringement may cause damage to the licensee, but that the licensee has nothing to protect).

¹⁷⁵ *Western Electric Co. v. Patent Reproducer Corp.*, 42 F.2d 116, 118 (2d Cir. 1930).

¹⁷⁶ *Independent Wireless Telegraph Co. v. Radio Corp. of America*, 269 U.S. 459, 468-469 (1926); *Ortho Pharmaceutical Corp.*, 52 F.3d at 1031; *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 876 (Fed. Cir. 1991) (citing to FRCP Rule 19 that states a person must be joined if in their absence the other parties may be subject to multiple or inconsistent obligations).

¹⁷⁷ *Ortho Pharmaceutical Corp.*, 52 F.3d at 1031.

¹⁷⁸ *Id.*

¹⁷⁹ *Id.*

¹⁸⁰ *Id.*

There may be cases where policy would support an infringement suit by a nonexclusive licensee. For example, suppose that an infringing party's actions injure a nonexclusive licensee. Further, suppose that the patentee and the nonexclusive licensee are on opposite sides of the country, the patent only has a year left to run, and the patentee decides that it is not worth his time or effort to sue for the infringement. It would encourage violation of the patent laws if infringers thought they could take advantage of such situations. In such a situation, allowing an injured nonexclusive licensee to sue for infringement would serve the policy of encouraging compliance with the law as well as providing a remedy to an injured party.

If a nonexclusive licensee were allowed to bring suit, the patentee would need protection because the patentee owns the property rights to the patent. Safeguards could be used to protect the patentee, such as requiring the patentee's consent before the nonexclusive licensee would be allowed to maintain such a lawsuit. Alternately, if the patentee decided not to issue any more licenses, the nonexclusive licensee could argue that such a decision effectively converts his nonexclusive license into an exclusive license, in which case the licensee should be allowed to sue for infringement.

An exclusive licensee should have a qualified right to sue for infringement because he has rights in the patent that approach property based interests.¹⁸¹ Rights in a patent include the exclusive right to make, use, or sell an invention. The exclusive license makes the exclusive licensee a beneficial owner of an identifiable part of the patent because an exclusive license transfers, at least in part, the exclusive right to make, use, or sell the patented invention.¹⁸² Thus,

¹⁸¹ *Intellectual Prop. Dev. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1345-1347 (Fed. Cir. 2001); *Ortho Pharmaceutical Corp.*, 52 F.3d at 1032.

¹⁸² *Ortho Pharmaceutical Corp.*, 52 F.3d at 1031-1032; *Solarex Corp. v. Arco Solar, Inc.*, 805 F.Supp. 252, 258 (D. Del. 1992) (stating that the interest transferred by an exclusive license is effectively a proprietary interest equitably entitling an exclusive licensee to sue).

the right of an exclusive licensee to sue for infringement is based on the theory that the exclusive licensee has rights that amount to property rights.

ii. Do Policy Considerations Support Free Transferability of Licenses?

1. Incentive to Invent

Allowing the free transferability of nonexclusive licenses where no such intent is expressed “would undermine the reward that encourages invention.”¹⁸³ An important attribute of the licensor-licensee relationship is that the licensor controls the identity of its licensees.¹⁸⁴ If a nonexclusive licensee could freely transfer the license, the licensor would have to compete with all its licensees whenever a new party desires to use the patented invention.¹⁸⁵ Under free transferability, the licensor would also bear the risk of a nonexclusive licensee transferring its license to a party whom the licensor is unwilling to grant a license, such as a serious competitor.¹⁸⁶ The incentive to invent is reduced because free transferability of nonexclusive licenses would discourage their use.¹⁸⁷

Unlike nonexclusive licenses, exclusive licenses “have much the same characteristics of property as patents themselves.”¹⁸⁸ Allowing the transfer of exclusive licenses comports with the policy of free transferability of personal property.¹⁸⁹ The free alienation theory also applies to the case where a company who has purchased a nonexclusive license wants to merge or sell its assets. If nonexclusive licenses were non-transferable, businesses that own nonexclusive licenses would be required to get the licensor’s consent before merging or selling its assets, which would

¹⁸³ *In re CFLC, Inc.*, 89 F.3d 673, 679 (9th Cir. 1996).

¹⁸⁴ *Id.*

¹⁸⁵ *Id.*

¹⁸⁶ *Id.*

¹⁸⁷ Dratler, *supra* note 126, at §1.06[2].

¹⁸⁸ *Id.*

¹⁸⁹ *Id.*

impose a burden on commerce.¹⁹⁰ This concern is more important to the exclusive licensee because many firms build their businesses on exclusive licenses, while few firms build their business around a nonexclusive license.¹⁹¹ The incentive to invent is reduced because the ability to exploit the patent is diminished.¹⁹²

2. Incentive to Disclose

Allowing the free transferability of nonexclusive licenses would chill the incentive to disclose. Patentees would have less protection for their invention if nonexclusive licensees could freely transfer their licenses.¹⁹³ As the ability to protect an invention decreases, there is a greater incentive to exploit the invention secretly, which restricts the dissemination of the invention.¹⁹⁴

3. Other Policies

Certainty in business transactions and court decisions supports the continuation of the present rule that bars the transferability of nonexclusive licenses. The current rule is derived from case law and has a long history of application.¹⁹⁵ In the absence of a compelling policy reason to change the current rule, the current rule should be continued to comport with settled expectations.

Conclusion

It is important to define, as clearly as possible, the type of transfer being created because there are gray areas between each of the categories. If there are disagreements the most efficient process for resolving the dispute will be to resolve the definitional issue first. Once the transfer has been categorized, the legal rights of the parties can be applied via the established legal rights

¹⁹⁰ *Id.*

¹⁹¹ *Id.*

¹⁹² Gutterman, *supra* note 128, 1-2.

¹⁹³ *In re CFLC, Inc.*, 89 F.3d 673, 679 (9th Cir. 1996).

¹⁹⁴ *Id.*; Gutterman, *supra* note 128, at 46.

¹⁹⁵ *CFLC*, 89 F.3d at 677-679.

for each category of transfer. Finally, patent and other policies can be used to ensure that legal standards are in accord with policy.