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PERSPECTIVE

Exclusive Patent License Or Virtual Assignment?

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It seems simple enough. First, patent a technology. Then, enter into an exclusive license agreement, retaining the patent while allowing some other entity to commercialize the technology and pay you royalties.

It is not quite that simple, though. That patented technology is a bundle of rights and obligations. It is primarily the right to “exclude others from making, using, offering for sale and selling the invention throughout the United States....” But it is also other things, including the right to license and sublicense, the right to assign, and the obligation to maintain the patent.

An exclusive patent license divides up this bundle of rights and obligations. Inherently, an exclusive license gives the licensee the sole license to the patented technology (at least within a specified market or geographic area). The exclusive license may also give the licensee the right to grant sublicenses, with or without restrictions. It may give the licensee the exclusive right to sue, or split the right to sue between the licensor and the licensee. The license may prohibit assignment of the licensed rights, or it may condition assignment on the licensor’s approval, or it may provide that the licensee has an unrestricted right to assign.



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The licensor may retain the obligation to pay patent maintenance fees or transfer that obligation to the licensee. There are as many variations on how the bundle of rights and obligations may be divided, transferred and retained as there are license agreements.

If the exclusive license agreement is deemed to transfer “all substantial rights” (but not necessarily all rights) in a patent to the licensee, that license is, by operation of law, no longer what it says. Instead of a license, it becomes a virtual assignment of the patent, making the licensee the patent owner. That is exactly what the Court of Appeals for the Federal Circuit said occurred in *Vaupel Textilmaschinen v. Meccanica Euro Italia*, 944 F. 2d 870. In that case, the exclusive license gave the licensee the right to sue with certain limitations, and the licensor retained a veto right on sublicensing and the right to receive a portion of any infringement damages. In the Federal Circuit’s opinion, the rights retained by the licensor were not substantial and the exclusive license created a virtual assignment of the patent to the licensee.

The fact that an exclusive license may not mean what it literally says presents several challenges. The process of due diligence for a business transaction should clearly take into account the actual rights transferred by an exclusive license and not just what the license says on its face. Moreover, since only a patent owner has the right to sue for infringement in its own name, an analysis of any potential patent infringement suit should consider whether the licensor or licensee is the true owner. And finally, the failure to include the true patent owner in any infringement suit may lead to dismissal for lack of subject matter jurisdiction, even in the late stages of litigation.

But how much and what part of the bundle of rights has to be transferred for the exclusive license to constitute a virtual assignment? There is no bright line rule. Instead, the rights and obligations retained and transferred in the exclusive license must be considered in view of prior decisions. And since no exclusive license is likely to be exactly like one the courts have already considered, the analysis in the end will come down to a judgment call.

It is, however, important to exercise that judgment carefully, because the consequences of misjudgment can be expensive. In *Prima Tek II v. A-Roo Co.*, 222 F.3d 1372, the licensee — believing that it had standing as a virtual assignee of the patents — litigated through a final judgment in its favor. On appeal from the district court’s grant of attorney’s fees, the Federal Circuit held to the contrary, finding that the licensee did not have all substantial rights in the patents and therefore lacked standing to sue. As a result, the expense and effort devoted to getting the favorable judgment was in vain.

Similarly, in the recent case *AsymmetRx v. Biocare Medical*, 582 F.3d 1314, neither party raised any issue regarding ownership or standing, but the Federal Circuit asked *sua sponte* on appeal whether the exclusive licensee — who had been given the right to sue in its own name — re-

ally had that right. And the conclusion was that it did not, because the rights retained by the licensor were too substantial. The judgment was vacated and meaningless.

In other circumstances, an exclusive licensee may nevertheless be the patent owner entitled to sue. In *Speedplay v. Bebop*, 211 F. 3d 1245, the Federal Circuit found that the exclusive licensee was a virtual assignee of the patent despite the fact that the licensor retained a right, under certain circumstances, to sue for infringement in its own name. The other rights that were transferred in the exclusive license, including the right to grant royalty-free sublicenses to any alleged infringer, were simply too substantial for the licensor to retain ownership and the right to sue.

The line dividing a true exclusive license from a virtual assignment is both fine and curving. Analysis of the particular license in view of the case law — which continues to grow and change — is required to determine the side of the line on which the agreement falls. That analysis will tell you whether the patents your client wants to buy can be his or are someone else’s; whether your client has the right to sue; and whether your judgment has any value. It is an analysis worth considering carefully.