

Patent owners can lose their ability to enforce a patent if a license is too exclusive

Courts will interpret an exclusive patent license as a virtual assignment of the patent, thereby giving the licensee the exclusive right to enforce the patent, if a patent owner gives a sufficiently large portion of rights in a patent to a licensee, and thus, the licensee is considered the patent owner for purposes of enforcing the patent.

In a recent Federal Circuit case, *Alfred E. Mann Foundation for Scientific Research v. Cochlear Corp.*, No. 2009-1447 (Fed. Cir., May 14, 2010), the Federal Circuit considered whether a licensor (patent owner) retained sufficient rights in an exclusive patent license to maintain ownership of the patent and the right to sue an alleged infringer. If the patent owner did not retain sufficient rights, then the licensee, rather than the patent owner, would have the sole standing to sue for infringement.

The Federal Circuit listed at least some of the rights considered in determining whether a patent owner has retained substantial rights in a patent, including: (i) whether the exclusive right to make, use and sell products or services under the patent was transferred; (ii) the scope of the licensee's right to sublicense; (iii) the nature of the license provisions regarding the reversion of rights to the patent owner following breaches of the license agreement; (iv) the right of the patent owner to receive a portion of the recovery in infringement suits brought by the licensee; (v) the duration of the license rights granted to the licensee; (vi) the ability of the patent owner to supervise and control the licensee's activities; (vii) the obligation of the patent owner to continue paying patent maintenance fees; and (viii) the nature of any limits on the licensee's right to assign its interest in the patent. The nature and scope of the exclusive licensee's purported right to bring suit, together with the nature and scope of any right to sue purportedly retained by the patent owner, was deemed by the court to be the most important consideration.

In this case, the court found that the patent owner remained the owner of the patents and had the right to sue for infringement because (i) the license agreement provided that the patent owner had the unfettered right to enforce the patents if the licensee first declined; and (ii) any sublicense granted by the licensee was required to include specified pass-through royalties. The Federal Circuit remanded the case to the district court to determine whether the licensee must be joined as a party.

Thus, a licensor (patent owner) can lose its ability to enforce a patent which is subject to an exclusive license if the patent owner does not retain certain rights. An exclusive license will not be considered tantamount to an assignment if the patent owner has unfettered rights to enforce a patent, even if those rights are secondary to the licensee, and if any sublicense rights granted requires specified pass-through royalties. However, the patent owner may still be required to include the licensee as a party to an infringement lawsuit.

If you have any questions regarding this LEGALcurrents, please do not hesitate to contact any member of our firm's Intellectual Property Practice Area at (585) 232-6500. ■



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