

Patent Licensing And Assignment With An Eye Toward Enforcement: Tips For University Patent Owners

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As is well-known to any university licensing professional, the value of an institution's intellectual property is directly tied to successful out-licensing campaigns. But even the most harmonious licensing relationships may go south, leaving litigation as the only viable option for enforcing patent rights. Indeed, nearly a quarter of all universities significantly involved in patenting and technology transfer efforts have filed patent infringement lawsuits in the last several years, either alone or in conjunction with one of their exclusive licensees.¹ And, in some instances at least, litigating university technology has resulted in substantial rewards.²

What might be under appreciated is the degree to which various aspects of litigation may—at the time a suit is filed—already be beyond a university's control. For example, the question of whether or not to litigate at all may be in the hands of one of its licensees. Similarly, whether a university may, or must, be a party to a suit—in which its patents are asserted—is an issue that might already have been determined at the time the patent was first out-licensed. And whether or not a university even owns all rights in the patent might also have been determined years earlier.

Carefully structuring ownership and licensing agreements helps to ensure that there are no unwelcome surprises down the road. This article offers some guidance to universities on how to structure assignment and license agreements in a way that reflects their preferences regarding

enforcement efforts. Some universities may wish to retain control over enforcement efforts. Others, in contrast, may desire that all enforcement efforts be handled by a licensee.

Perfect Your Rights

Patent ownership rights initially vest in the inventor(s).³ Consequently, to perfect and protect their ownership rights, most universities enter into employment contracts with their employees, under which all rights in an inventor's work-related inventions are assigned to the university.

Knowing who the inventors are requires knowing which individuals contributed to the conception of the claimed invention.⁴ Under the patent laws, conception is complete as soon as there is the “formation in the mind of the inventor, of a definite and permanent idea of the complete and operative invention.”⁵ Any assistance provided to an inventor after the fact, in reducing the invention to practice,

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1. Jacob H. Rooksby, *University Initiation of Patent Infringement Litigation*, 10 *J. Marshall Rev. Intell. Prop. L.* 623, 660 (2011).

2. See, e.g., *Eolas Tech., Inc. & Regents of the Uni. of Cal. v. Microsoft Corp.*, No. 99-cv-626 (N.D. Ill. Jan. 14, 2004) (entering judgment on \$520.6 million jury verdict and also awarding prejudgment interest), subsequent settlement on confidential terms; *Regents of the Uni. of Cal. v. Monsanto*, No. 04-cv-0634 (N.D. Cal. Feb. 27, 2006) (entering settlement in excess of \$200 million, the largest biotech patent settlement in 2006); *Univ. of Pittsburgh v. Varian Med. Sys., Inc.*, No. 08-cv-1307 (W.D. Pa. Apr. 25, 2012) (enhancing \$36.8 million jury award by 200 percent, awarding attorneys' fees, prejudgment interest of 6 percent, and an ongoing running royalty rate of 10.5 percent).

3. “An application for patent shall be made, or authorized to be made, by the inventor. . . .” 35 U.S.C. § 111(a)(1). Thus, even where university research has been federally funded and the Bayh Dole Act is implicated, consistent with the “general rule that rights in an invention belong to the inventor,” patent ownership vests initially in the inventor. See *Stanford Junior Univ. v. Roche Molecular Sys.*, 131 S. Ct. 2188, 2195 (2011).

4. See 35 U.S.C. § 116; *Eli Lilly v. Aradigm*, 376 F.3d 1352, 1358-59 (Fed. Cir. 2004).

5. *Hybritech Inc. v. Monoclonal Antibodies, Inc.*, 802 F.2d 1367, 1376 (1986).

does not create additional “inventors.”⁶ Thus, while work performed under the direction of a faculty inventor by a new graduate student may warrant co-authorship on a subsequent manuscript or poster, it does not expand the pool of inventors.

Care should be taken to ensure that all inventors assign their rights to the university. This may require some additional steps—beyond entering into employment contracts—when university technology is developed collaboratively. An invention is considered to be a joint invention when it was conceived by two or more persons. The inventors need not have physically worked together at the same time, contributed the same type or amount of contribution to the inventive process, or even contributed to the subject matter of each claim.⁷ Thus, a joint inventorship scenario may easily arise in the context of a visiting scholar spending her sabbatical in a university lab, or while a faculty member is collaborating with individuals at another university, or at a nearby start up company. In these instances, it is critical that an assignment of rights also be obtained from the co-inventor(s), because any patent owner may assign or license all, or part, of her rights in the patent as she sees fit.⁸ In the absence of securing these rights, too, a university plaintiff in a patent infringement suit runs the risk that the accused defendant will obtain a license from a joint inventor thereby eviscerating the university’s infringement claim.⁹ Prudent drafting of any assignment agreement should include language that reflects a *present* assignment of rights to the university, and not a promise to assign.¹⁰ Language that ensures that the university owns all rights include provisions that state that an employee “agrees to grant and does

hereby grant all rights in future inventions” or that provide that “an employee’s inventions within the scope of the agreement shall belong exclusively to [employer] and [employee] hereby conveys, transfers, and assigns to [employer]... all right, title and interest in and to Inventions.”¹¹ By contrast, language to the effect that the inventor “promises to assign” may be problematic because such clauses “do not by themselves vest legal title to patents on the inventions in the promisee.”¹² Should an inventor serially execute assignments, a university may find itself in a position where a “promise to assign” was never fulfilled, and an inventor’s later, actual assignment to a third party controls.¹³

A corollary to ensuring that all inventors assign their rights to the university is determining the proper entity to hold those rights. Should the patent rights be assigned to the university itself? Or should a related entity tasked with licensing and enforcement efforts hold the patent rights? This decision is important because only the entity actually holding the ownership rights can enforce the patents,

11. *Id.* (internal citations omitted).

12. *Id.* (citations omitted).

13. This was precisely the scenario in the *Stanford v. Roche* case, which involved an invention on PCR-based methods for quantifying levels of the HIV virus in blood samples. 131 S. Ct. 2188, 2192-2193 (2011). The inventor had signed a Copyright and Patent Agreement in 1988, in which he “agree[d] to assign” his rights to Stanford. *Id.* at 2192. The inventor then collaborated with a company to better learn the PCR technique, and subsequently signed an agreement with that company that included present language of assignment, “will assign and does hereby assign... all right title and interest.” *Id.* The result of the competing assignments? The collaborator-company prevailed, because the language in the inventor’s agreement with Stanford was only a promise to assign. Thus, he had rights in his inventions when he later executed an actual assignment to the company. And, as a consequence, Stanford had no standing to enforce the patent rights.

It remains to be seen whether the distinction in “promise to assign” versus “present assignment” language continues to control questions of ownership. The issue presented to the Court in *Stanford v. Roche* related to whether rights vest in the inventor, even where his or her research was funded with federal monies. The Court expressly noted in a footnote, however, that the Federal Circuit’s interpretation of the assignment agreements was not the issue on which *certiorari* had been granted, so it had “no occasion to pass on the validity of the lower court’s construction of those agreements. *Id.* at 2194 n.2. This suggests that, perhaps, the Supreme Court may look for an occasion to address very similar agreements.

14. See e.g. *Schreiber Foods, Inc. v. Beatrice Cheese, Inc.*, 402 F.3d 1198, 1200-03 (Fed. Cir. 2005) (holding that a plaintiff lost standing to sue when it assigned the patent-at-issue to its subsidiary).

6. *Univ. of Pittsburgh of the Commonwealth Sys. of Higher Educ. v. Hedrick*, 573 F.3d 1290, 1297-98 (Fed. Cir. 2009) (affirming district court verdict finding work done by graduate student to help inventors reduce their previously conceived invention to practice insufficient for purposes of being a named inventor).

7. 35 U.S.C. § 116.

8. See, e.g., *Schering Corp. v. Roussel-UCLAF SA*, 104 F.3d 341, at 344 (Fed. Cir. 1997) (“unless the co-owner has given up these rights through an ‘agreement to the contrary,’ 35 U.S.C. § 262, the co-owner may not be prohibited from exploiting its rights in the patent, including the right to grant licenses to third parties on whatever conditions the co-owner chooses.”)

9. See e.g. *Lucent Technologies Inc. v. Gateway, Inc.*, 509 F. Supp. 2d 912, 924-25 (S.D. Cal. 2007) (dismissing infringement claims where defendant had previously taken a license from a co-owner of the asserted patent). *aff’d* 543 F.3d 710 (Fed. Cir. 2008).

10. *DDB Techs. v. MLB Adv. Media*, 517 F.3d 1284, 1290 (Fed. Cir. 2008).

regardless of any other entity's legal relationship to the patent holder.¹⁴

Finally, care should be taken to ensure that ownership is consistent across a patent family. Not uncommonly, a later patent in a patent family may be subject to a terminal disclaimer in view of a related, earlier-filed patent.¹⁵ Given that the identity of inventors can easily differ on different patents in a patent family, common ownership of all patents in the family will allow the patent holder to avoid invalidity claims under 35 U.S.C. § 103 (c).

Decide Your Desired Level of Involvement in Enforcing Your Patents

A university may desire to fully participate in any licensing campaign or enforcement litigation, perhaps alongside one of its licensees. This scenario has its benefits. Having a university's name associated with a licensing campaign adds instant credibility to licensing letters, and increases the likelihood that potential targets take licensing negotiations seriously. In any enforcement action, both judges and juries are likely to look favorably upon a university plaintiff, given the university's reputation.¹⁶

A university may even decide that it desires to enforce its patents alone. There is the obvious, additional benefit of not splitting a revenue stream. Moreover, this approach gives the university the ability to call all the shots. Whether it be deciding which licenses to grant, in which fields of use, or determining whether (and when) to file a lawsuit, a university has far more flexibility if it does not have to account for the myriad decision makers who might have to weigh in on its choices, should it involve a licensee in additional licensing or enforcement efforts. For example, a university may take the approach that it will license its technology as broadly as possible, preferring not to grant exclusivity to any one player in the industry. Such a strategy may, not surprisingly, be exactly the opposite strategy of an industry-licensee/partner.

The downside, of course, to a university licensing or litigating in its own name is that both undertakings are time consuming and costly. Undertaking a licensing

campaign may have the undesired outcome of a declaratory judgment action. And a patent infringement suit (or declaratory judgment suit) may often last for several years, and can cost, on average, between \$3 to \$6 million dollars if litigated through trial.^{17,18} As a party in a lawsuit, a university may have an increased discovery burden, both with respect to gathering material for production as well as having university employees spend time on litigation efforts, which will be a clear distraction from ordinary research, teaching and administrative obligations. Trials will assuredly be similarly grueling. Further, some universities may determine that the risks of losing a case, which may include negative publicity, outweigh any benefits of a potential win. These are all valid reasons for why some universities may decide that they prefer for their licensees to handle enforcement efforts.

Know the Impact of your Licenses

If a university decides to license its patents to other entities, it is critical that it determine—well in advance—the level of involvement it wishes to have in any future patent enforcement actions. The language in its license agreements will be key. Each agreement should address all of the rights and obligations that are retained by the university, and all of the rights and obligations that are transferred to the licensee.

Depending on the language of the license agreement, a university may find itself in any of the following scenarios:

- Assignor who has assigned its rights to an assignee;
- Licensor who has exclusively licensed, transferring all substantial rights to an exclusive licensee;
- Licensor who has exclusively licensed, transferring less than all substantial rights to an exclusive licensee; such as field of use; or
- Licensor with multiple, non-exclusive licensees.

Accordingly, depending on the rights granted to its assignee or licensee(s), a university may

- Have no right to sue to enforce its patent;
- Retain the ability to sue, depending on the actions of its exclusive licensee;

15. See, e.g., *Email Link Corp. v. Treasure Island, LLC*, Case no. 2:11-cv-01433, Dkt. No. 88 (D. Nev. Sept. 25, 2012) (dismissing a plaintiff-corporation's infringement suit where the asserted patent, held by one of the plaintiff-corporation's wholly-owned subsidiaries, was subject to a terminal disclaimer while the original patent to which the terminal disclaimer related was held by a second wholly-owned subsidiary, thus rendering the asserted patent invalid); and see MPEP § 804.03.

16. *Supra*, n. 2.

17. Price Waterhouse Coopers, *2011 Patent Litigation Study* 26 (2011).

18. American Intellectual Property Law Association, *Report Of The Economic Survey 2011* 45 (2011) (noting that average costs are for cases involving more than \$1 million in potential damages that go to trial. For cases that merely go down to between \$1.8 and \$3.8 million).

- Be required to join in suit if its exclusive licensee wishes to enforce the patent; or
- Be the only party who can sue to enforce its patent.

Understand Whether You Have the Right to Sue

Only a patent owner or its exclusive licensee has “standing” to bring a patent infringement suit. As the U.S. Supreme Court explained in, *Lujan v. Defenders of Wildlife*, “the core component of standing is an essential and unchanging part of the case-or-controversy requirement of Article III” of the U.S. Constitution.¹⁹ For standing to exist, there must be an “injury in fact,” which can be characterized as “an invasion of a legally protected interest which is both concrete and particularized, and actual or imminent. This is not met by an injury that is conjectural or hypothetical. Standing also requires that there be a “causal connection between the injury and the conduct complained of,” meaning “the injury is fairly traceable to the challenged action of the defendant.” Finally, it “must be likely, as opposed to merely speculative, that the injury will be redressed by a favorable decision.”²⁰

As applied to patent cases, the constitutional standing requirement is directly tied to the patent owner’s right to exclude others from making, using, or selling the patented invention. This is why only a patent owner or its exclusive licensee may enforce a patent. Standing protects parties that are accused of infringement because it enables them to respond, once, to any infringement claims regarding certain of its actions.²¹

If a university grants only non-exclusive licenses, no other entity has the right to exclude others from making, using, or selling the patented technology. In these instances, the university is the only entity that has the ability to sue to enforce the patent.²²

On the flip side, a university may desire to exclu-

sively license its patent, but also to retain the ability to sue to enforce the patent. In this scenario, the university patent holder must take care to retain enough rights in the patent during out-licensing so that the license cannot be characterized as a *de facto* assignment.²³

When considering the division of rights in a patent, and, thus, determining which parties may file suits to enforce the patent, federal courts undertake a fact intensive inquiry aimed at “ascertain[ing] the intention of the parties. . . .”²⁴ While the Federal Circuit has “never purported to establish a complete list of the rights” a party must hold to be deemed as having “all substantial rights,” it has set forth numerous relevant factors.²⁵ Those factors include the following:

- Whether the licensee has the exclusive right to make, use, and sell the patented invention and whether this right applies to all fields of use;²⁶
- Whether the licensee has the right to sue, and to manage said suits;²⁷
- The duration of the license rights;²⁸
- The extent of any veto right maintained by the licensor on sublicensing by the licensee;²⁹
- The existence of any reversionary rights to the patent;³⁰
- Whether the licensor retained the right to receive infringement damages;³¹
- Whether the licensor has any right to substantial proceeds from licensing and sublicensing by the licensee;³² and

23. See, e.g., *Propat Intern'l. Corp. v. Rpost, Inc.*, 473 F.3d 1187, 1189 (Fed. Cir. 2007); *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 873-77 (Fed. Cir. 1991) (holding that a licensee, in this case Vaupel, held sufficient rights that it was actually an informal assignee and thus had standing to assert infringement without having to join the licensor).

24. *Alfred E. Mann Found. For Scientific Research' v. Cochlear Corp.*, 604 F.3d 1354, 1359 (Fed. Cir. 2010). Note, also, that in “determining ownership for purposes of standing, labels given by the parties do not control.” *A123 Sys., Inc. v. Hydro-Quebec*, 626 F.3d 1218 (Fed. Cir. 2010).

25. *Alfred E. Mann*, 604 F.3d at 1360.

26. *Speedplay, Inc. v. Bepop, Inc.*, 211 F.3d 1245, 1250 (Fed. Cir. 2000).

27. *Id.*

28. *Alfred E. Mann*, 604 F.3d at 1361.

29. *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.3d 870, 875 (Fed. Cir. 1991).

30. *Id.*

31. *Id.*

32. *Propat Int'l Corp. v. Rpost, Inc.*, 473 F.3d 1187, 1191 (Fed. Cir. 2007).

19. 504 U.S. 555, 559 (1992).

20. *Id.*

21. *AsymmetRx, Inc. v. Biocare Med., LLC*, 528 F.3d 1314, 1319 (Fed. Cir. 2009) (quoting *Indep. Wireless Tel. Co. v. Radio Corp. of Am.*, 269 U.S. 459 (1926)); see also, *WiAV Solutions LLC v. Motorola, Inc.*, 631 F.3d 1257, 1264 (Fed. Cir. 2010) (stating that infringement actions are limited to those filed by owner or exclusive licensee that has received all substantial rights in the patent).

22. *Rite-Hite Corp. v. Kelly Co.*, 56 F.3d 1538, 1554-55 (Fed. Cir. 1995) (plaintiff does not have standing to assert patent infringement where it was only granted a “bare license to sell an invention in a specified territory, even if it is the only license granted by the patentee” because such a license “does not provide standing without the grant of a right to exclude others”).

- Inspection rights for the licensee's records related to the patent.³³

For example, in *Alfred E. Mann Foundation For Scientific Research v. Cochlear Corporation*, the Federal Circuit reviewed a district court decision dismissing a lawsuit brought by parties that had entered into a licensing agreement that granted “all substantial rights” to the licensee,” thereby depriving the patent holder of standing.³⁴ More specifically, the scope of the grant included an exclusive, worldwide license to make, use, and sell the patented products, the right to sue when any infringement is found, the right to control and settle any litigation it initiated, and the right to grant sublicenses with a portion of the royalties passing through to the patent holder.³⁵ The right to sue was exclusive to the licensee for the first three months. After that, however, the patent holder also had the right to sue and control its own litigation.

The Federal Circuit reversed the district court, finding that the patent holder had “retained substantial rights in the patents, including the right to sue for infringement if [its licensee] declines to do so.”³⁶ The court noted repeatedly that “the nature and scope of the licensor’s retained right to sue accused infringers is the most important factor in determining whether an exclusive license transfers sufficient rights to render the licensee [the holder of all substantial rights].”³⁷ In this case, even if the licensee could grant sublicenses to any defendant sued by the patent holder, the patent holder would get a portion of the royalties received by its licensee. In the context of this particular license agreement, the patent holder’s retained right to sue accused infringers (even constrained by its licensee’s right of refusal to sue) was sufficient for the patent holder to maintain standing to sue.³⁸

The court also cautioned in *AMF*, however, that “a patent may not have multiple, separate owners for purposes of determining standing to sue,” meaning it is possible for a patent owner to assign so many rights that it may no longer have standing to assert infringe-

ment on its own.³⁹ The issue essentially boils down to the question of “whether the license agreement transferred sufficient rights to the exclusive licensee to make the licensee the owner of the patents in question. If so, the licensee may sue but the licensor may not. If not, the licensor may sue, but the licensee alone may not.”⁴⁰

If the desire is to participate in any potential future infringement suit, exclusive license agreements should be drafted that allow the university to retain at least some level of control over future enforcement efforts. This might take the form of the right to take action against an infringer if the licensee chooses not to do so, the right to decide who to sue and where a suit will be brought, or just the express right to join and make decisions in any future litigation. Depending on the division of the other rights and obligations in the patent, retaining some measure of control over enforcement actions will generally support a university’s future efforts to join in infringement actions.

Understand Whether Your Licensees Have the Right to Sue

A determination of whether a license is “exclusive,” so that a licensee has standing to enforce a patent does not turn on the name the parties choose to give the agreement, but on the agreement’s substance. The analysis is very similar to the analysis that is undertaken in order to determine whether a patent holder has retained standing to sue. The Federal Circuit’s decision in *Vaupel Textilmaschinen KG v. Mecanica Euro Italia S.P.A.* is illustrative of this point.⁴¹

In *Vaupel*, the licensee was granted the right to make, use, and sell the licensed products, along with the right to sue for infringement after notifying the licensor, as well as the right to license and sublicense the patented technology.⁴² The patent holder retained the right to veto any sublicenses, a reversionary right in the licensed interests in the case of the licensee’s bankruptcy or termination of production, the right to obtain patents on the invention in other countries, and the right to receive infringement damages.⁴³

Despite these rights reserved to the licensor, the Federal Circuit held that “all substantial rights” were transferred to *Vaupel*, meaning it was an “exclusive licensee” with standing to bring an infringement ac-

33. *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245, 1252 (Fed. Cir. 2000).

34. *Alfred E. Mann*, 604 F.3d at 1357.

35. *Id.* at 1357-58.

36. *Id.*

37. *Id.* at 1361.

38. *Id.* at 1363. Further, as discussed herein, the Federal Circuit also instructed the district court to consider on remand whether the licensee was a necessary and indispensable party to the litigation under Rule 19. *Id.*

39. *Id.* at 1359.

40. *Id.* at 1360.

41. 944 F.2d 870, 874 (Fed. Cir. 1991).

42. *Id.* at 875.

43. *Id.*

tion on its own.⁴⁴ Of note, the court found that the broad right to enforce the patent granted to *Vaupel* was “particularly dispositive” because the ultimate question confronting the Court was whether the licensee could bring suit on its own, or whether the patent holder must be joined as a party.”⁴⁵

Patent holders have some degree of flexibility when it comes to granting exclusive licenses. They may choose to grant an exclusive license to one entity, for the entirety of rights in the patent. They may, instead, choose to grant exclusive licenses within a particular field of use. In these instances, too, license agreements may be structured to allow a “field of use” licensee to enforce the patent. As explained by the Federal Circuit in *WiAV Solutions LLC v. Motorola, Inc.*, to determine whether an exclusive field-of-use licensee’s license is “exclusive” for standing purposes requires determining whether a party the field-of-use licensee accuses of infringement can obtain a license from another entity that would allow it to conduct the allegedly infringing activity.⁴⁶ If the answer is no, then the infringer’s actions violate the exclusive field-of-use licensee’s exclusionary rights “and the injury predicate to constitutional standing it met.”⁴⁷

However, just because a license purports to be “exclusive” does not mean that it actually is when it comes to standing. For example, in *Asymmetrx, Inc. v. Biocare Med., LLC*, Harvard University granted Asymmetrx an “exclusive commercial license” to two of its patents and a “license to use” certain, patented antibodies.⁴⁸ Harvard, however, retained numerous rights for itself, including the following:

- The right to sue for infringement under the patents-at-issue if Asymmetrx elected not to sue them on their own;
- The right to approve any settlement;
- The right to join as a party and jointly control any infringement action brought by Asymmetrx;
- The right to make, use, and sell the antibodies at issue for academic research purposes as well as the right to grant non-exclusive licenses for the antibodies to other non-profit or governmental institutions for academic research purposes;
- The right to require Asymmetrx to meet

certain commercial use, availability, and FDS filing benchmarks;

- Maintaining input on sublicensing and receiving a share of those royalties; and
- The right to require Asymmetrx to grant sublicenses so long as they sublicenses are not contrary to sound and reasonable business practices.⁴⁹

Despite the “exclusive” commercial license to Asymmetrx, the numerous rights retained by Harvard were inconsistent with an “exclusive” grant to Asymmetrx. The court determined that the licensee lacked standing to bring an infringement suit on its own.⁵⁰

Despite the parties’ intent, and depending on the provisions in a license agreement, a patent holder may find itself joined as a party in a patent infringement suit.⁵¹ The key to this scenario is that while a patent holder may have exclusively licensed its patent, transferring enough rights in the patent so that its licensee has constitutional standing under *Lujan*, not all substantial rights were transferred. And, to perfect standing, the patent holder must be joined in suit.”⁵²

Understand Whether You May be Required to Join a Suit

In instances in which a licensee attempts to enforce a patent—and it is determined that the patent holder must join—joinder might be accomplished fairly painlessly. Many agreements are drafted to include a provision that the patent holder will join in any later suits if necessary.⁵³

Litigation, however, is not always instigated by a licensee. It may also be initiated by a declaratory judgment plaintiff, and, in these cases, too, standing must be satisfied. If defendant-licensee has constitutional standing, but lacks “all substantial rights” in the pat-

44. *Id.*

45. *Id.*

46. 631 F.3d 1257, 1266-67 (Fed. Cir. 2010).

47. *Id.* at 1267.

48. 582 F.3d 1314, 1317 (Fed. Cir. 2009).

49. *Id.* at 1321-23.

50. *Id.* at 1322.

51. *E.g. Int'l Gamco, Inc. v. Multimedia Games, Inc.*, 504 F.3d 1273 (Fed. Cir. 2007); *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372 (Fed. Cir. 2000)

52. *Id.* at 1360; see also, *A123 Sys., Inc. v. Hydro-Quebec*, 626 F.3d 1218 (Fed. Cir. 2010) (although a party was a necessary party, it was not indispensable and thus suit was not dismissed).

53. In the alternative, the patent holder may be involuntarily joined in suit. See, e.g., *Joy Technologies, Inc. v. Flakt, Inc.*, 772 F. Supp. 842 (D. Del. 1991) (utilizing the “involuntary plaintiff” provision of Rule 19(a)).

ent, a court has the option of forcing the declaratory judgment plaintiff to re-file its complaint and name the university patent holder as co-defendant.⁵⁴ In these instances, there can be a big difference in the outcome of the suit depending on the identity of the university patent holder.

In *A123 Systems, Inc. v. Hydro-Quebec*, the patent-in-suit was licensed from the University of Texas (“University”), and a declaratory judgment action was brought in Massachusetts against the University’s exclusive licensee, Hydro-Quebec (“HQ”).⁵⁵ HQ argued that A123’s declaratory judgment action should be dismissed because the University had not granted all substantial rights in the patent to HQ.⁵⁶ In the district court’s view, less than all substantial rights had been transferred to HQ, because it was only an exclusive licensee in a field of use. The patents-in-suit were related to lithium-based, rechargeable batteries. While HQ had an exclusive license to make, use and sell rechargeable batteries with a solid electrolyte, and to manufacture and sell one type of lithium cathode compound in bulk quantities, the University retained the right to license other parties in all other fields of use.⁵⁷

The Federal Circuit agreed that HQ did not have all substantial rights, which was supported by HQ’s own statements.⁵⁸ In pleadings filed in federal court, HQ had alleged that it was an “exclusive license to make, use and sell a *significant portion of the field* of technology described and claimed” in the patents in suit.”⁵⁹ Further, it had alleged exclusivity as to only lithium iron phosphate, because the University retained the rights in all other claimed, lithium compounds.

The next step was for the court to determine whether the University could be joined in suit as a necessary and indispensable party under Fed. R. Civ. P. 19. In *A123*, it was determined that the University was, in fact, a necessary party.⁶⁰ But because the University was the University of Texas, it enjoyed sovereign immunity and could not be sued outside the state of Texas without its consent. Thus the University

could not be joined in a declaratory judgment action in Massachusetts.⁶¹

The court then applied the four factors embodied in Rule 19(b) to determine whether UT was indispensable.

Specifically focusing on Factor 1 (“the extent to which a judgment rendered in the person’s absence might prejudice that person or the existing parties”) and Factor 3 (“whether a judgment rendered in the person’s absence would be adequate”), the court reasoned that because HQ only had a field-of-use license, its rights were by definition non-overlapping with the rights the University retained in the patent.⁶² As such, Factor 1 weighed in favor of a finding of indispensability because a claim construction order that favored HQ in the instant matter may harm the University in other matters.⁶³ Additionally, Factor 3 weighed in favor of indispensability because the University could assert infringement claims against *A123* that HQ could not, thus creating the risk of multiple lawsuits and inconsistent relief.⁶⁴ After determining that the University was an indispensable party, the court affirmed the district court’s dismissal of *A123*’s declaratory judgment action in favor of a later filed infringement suit brought by both HQ and the University in a different venue.

While the *A123* case is instructive, it bears noting that standing determinations are unpredictable. A district court reached a conclusion that was exactly the opposite of the determination in *A123*. In *Amgen, Inc. v. Ariad Pharmaceuticals, Inc.*, a declaratory judgment suit was brought in the District of Delaware against the licensee of a patent assigned to Harvard and MIT.⁶⁵

While the court in *Amgen* found that the universities were necessary parties due to the substantial rights they had retained for themselves, including the right to join in any litigation filed by *Amgen*,⁶⁶ the court refused to find that the universities were indispensable. Rather, the court reasoned that because the universities retained the right to “voluntarily

54. See, e.g., *Water Technologies Corp. v. Calco, Ltd.*, 576 F. Supp. 767 (N.D. Ill. 1983) (dismissing the plaintiff’s complaint for failing to join a necessary and indispensable party with leave to re-file against both the licensee and licensor).55. 626 F.3d 1213 (Fed. Cir. 2010).

56. *Id.* at 1216.

57. *Id.* at 1217-1218.

58. *Id.* at 1217.

59. *Id.* at 1218.

60. *Id.*

61. *Id.*

62. *Id.* at 1221.

63. *Id.*

64. *Id.* at 1221-22.

65. 513 F. Supp. 2d 34 (D. Del. 2007). One of the notable differences between the *A123* case and the *Amgen* case is that the university patent holders could not argue sovereign immunity, as they were private universities.

66. *Id.* at 41.

join” in any litigation filed by *Amgen*, they would not be prejudiced by any litigation that did not involve them.⁶⁷ Essentially, if they wanted to participate in the suit, they could do so, and their absence from suit merely reflected their choices not to participate. Because the universities were not indispensable, the court allowed the suit to continue as filed rather than force the joinder of the universities.⁶⁸

In sum, university patent holders would do well to thoroughly consider the level at which they wish to participate in any litigation involving their

patents. Armed with this knowledge, they should carefully draft their license agreements accordingly. Universities that desire to participate in, or control, litigations involving their patents, should craft non-exclusive license agreements, or exclusive license agreements under which they retain significant rights (including over enforcement efforts). By contrast, if a university does not want to be involved in an enforcement action, an exclusive license agreement (or exclusive, “field-of-use” licenses) is more appropriate. ■

⁶⁷. *Id.* at 43.

⁶⁸. *Id.* at 45.