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Jeffrey Bashaw

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FRCP 19: A PREFERABLE ALTERNATIVE TO TRADITIONAL JUDICIAL RULES FOR DETERMINING PATENT LICENSEE STANDING

Jeffrey Bashaw¹

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Abstract

In *Aspex Eyewear v. Miracle Optics*, a patent infringement claim was initially dismissed because the court found that the parties bringing suit, a patentee and a patent sub-licensee, lacked standing because although the patentee had given all substantial rights to a licensee, the *sub*-licensee's license did not convey "all substantial rights." Thus, neither party had "all substantial rights," the traditional threshold test for patent licensee standing. While the Federal Circuit ultimately reversed and allowed the suit to go forward, the case demonstrates how the current patent standing rule only magnifies the expense of litigating an infringement suit by requiring additional resources for debating "all substantial rights." This Article analyzes the current standing rules for licensees of intellectual property under the various federal intellectual property statutes. In general, exclusive licensees have standing to sue, either alone or by joining the licensor. Although the fundamental motivation for this rule is sound, the rule can be unnecessarily rigid as applied and can prevent licensing arrangements from reflecting the intent of the parties. This article will also analyze FRCP 19's approach, which provides a more flexible and predictable rule.

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INTRODUCTION

<1>Licensing of intellectual property is a significant business, with U.S. receipts of royalties and fees from trade in intellectual property totaling \$48.3 billion in 2003.² Unfortunately, commerce in IP licensing does not always easily mesh with existing IP law. As a result, counsel involved in IP licensing transactions struggle to discern what terms

are required for their clients, who may be overprotected or underprotected, with transaction costs³ needlessly increased.⁴ Moreover, litigating infringement lawsuits is expensive, with the median cost to each party of litigating a patent infringement suit through trial being five hundred thousand dollars where “the stakes are relatively modest,” and rising to four million dollars where there is more than twenty-five million dollars at risk.⁵ In *Aspex Eyewear v. Miracle Optics*, a patent infringement claim was initially dismissed because the court found that the parties bringing suit, a patentee and a patent sub-licensee, lacked standing because although the patentee had given all substantial rights to a licensee, the sub-licensee’s license did not convey “all substantial rights.” Thus, neither party had “all substantial rights,” the traditional threshold test for patent licensee standing. On appeal, however, the Federal Circuit reversed, allowing the suit to go forward. This case demonstrated how the current patent standing rule only magnifies the expense of litigating an infringement suit by requiring additional resources for debating “all substantial rights.”⁶ In addition to monetary dissuasion from bringing a lawsuit, licensors are less capable of detecting unauthorized use, and may not have as strong an interest in suing infringers.⁷ As a result, it is often necessary that licensees have the flexibility to file lawsuits themselves. However, current standing rules unnecessarily prevent a patent licensee from suing in certain scenarios.

<2>This Article outlines current standing rules for licensees of various forms of intellectual property and examines the rationale behind them. Ultimately, the Article will conclude that the traditional patent standing rule is unnecessary in light of Federal Rule of Civil Procedure 19 (“FRCP 19” or “Rule 19”). Rule 19 addresses both of the concerns underlying the traditional test, but also provides a more efficient rule, for it does not always require the joinder of the patentee-licensor in order for the exclusive licensee to pursue an infringement claim. That is, where patent infringement is within the scope of the exclusive license, validity is not at issue,⁸ and the licensor has not reserved the right to sue, there is no reason to require joinder, which unnecessarily magnifies the costs of litigation and, in turn, transaction costs.⁹ This Article describes some of the common situations in which license agreements may have unintended consequences, and concludes with practice pointers for counsel working under the current rules to help avoid potential pitfalls of patent licensing agreements.

CURRENT STANDING RULES FOR LICENSEES OF INTELLECTUAL PROPERTY

<3>A nonexclusive license grants a right to use the IP without being sued for infringement – and nothing more.¹⁰ By contrast, an exclusive license grants not only a right to use the IP without fear of being sued for infringement, but also the licensor’s covenant not to license the IP to any other party, and the right to make, use, and sell the intellectual property. As such, exclusive licensees enjoy freedom from competition to the extent of the scope of the license.¹¹ In general, nonexclusive licensees have no standing to sue. In contrast, exclusive licensees generally do have standing to sue, either in their own name or by joining the licensor, depending on the type of IP involved.

Patents

<4>Under 35 U.S.C. § 281, “[a] patentee shall have remedy by civil action for infringement of his patent.” Section 100(d) defines “patentee” to include “not only the patentee to whom the patent was issued, but also the successors in title to the patentee.” Thus, the term “patentee” includes assignees. In determining whether an assignment has occurred, courts traditionally look to whether there has been a transfer of “all substantial rights under the patent” to the licensee, who in effect becomes an assignee.¹² Thus, not only patentees but also assignees (or exclusive licensees holding “all substantial rights”) of a patent may sue for infringement.¹³

<5>In addition, exclusive licensees not holding “all substantial rights” may generally sue for infringement upon joining the patentee-licensor. Courts have insisted upon joinder of the patentee-licensor for two primary reasons: (1) to avoid multiple lawsuits so that an infringer may only be sued once for the same infringing activity,¹⁴ and (2) to prevent a court from invalidating a patent without the patentee-licensor having the opportunity to defend its patent, because an infringement claim is often answered with a challenge to the patent’s validity.¹⁵ Exclusive patent licensees do have standing to sue in their own names where the patentee-licensor is the infringer.¹⁶ Nonexclusive patent licensees are denied standing to sue for infringement.¹⁷ Courts have denied standing to nonexclusive licensees because, since the licensor retains the ability to grant additional licenses, the “nonexclusive license[e] suffers no legal injury from infringement and, thus, has no standing to bring suit or even join in a suit with the patentee.”¹⁸

Copyrights

<6>Exclusive copyright licensees do have standing to sue in their own names.¹⁹ 17 U.S.C. § 501(b) provides that “[t]he legal or beneficial owner of an exclusive right under a copyright is entitled . . . to institute an action for any infringement of that particular right committed while he or she is the owner of it.” Moreover, a “copyright owner” expressly includes an exclusive licensee.²⁰ In this regard, copyright standing reflects the economic realities of copyright value. Like patent standing remains today, copyright standing once reflected a view of the property as “indivisible,” meaning that an assignment that would confer standing could only be made of an undivided interest.²¹ Anything less than all rights was a mere license. While patent law retained this view, as reflected in its standing rule, copyright evolved and is now viewed as “divisible,”²² with courts relying on FRCP 19 to determine questions of standing and joinder. This difference may be explained, in part, by reference to the underlying IP: copyrights are more prone to being divided, and copyrights are less frequently invalidated than patents.²³ However, the nature of copyright does not fully explain the difference in the way the law has progressed, and even commentators who acknowledge that copyrights are more prone to division continue to view patent indivisibility as an “outmoded concept.”²⁴

<7>In addition to copyright infringement, Congress enacted the Digital Millennium Copyright Act. This statute provides much broader standing than for copyright infringement, granting standing to “[a]ny person injured by a violation” of the anti-circumvention²⁵ and anti-trafficking²⁶ rules.²⁷ As such, even nonexclusive licensees likely have standing to enforce these new rights.²⁸

Trademarks

<8>Trademark licensees may or may not have standing to sue in their own names, depending on whether the trademark is registered or not.²⁹

Registered Trademarks

<9>Standing for infringement of federally registered trademarks is restricted to “the registrant,” and thus even exclusive licensees have no standing to sue in their own names.³⁰ This rule of standing invokes the same justification as the analogous rule for patent standing: defendants often respond to an infringement suit by

challenging the validity of the IP.³¹ Thus, it is appropriate in these cases for the registrant to be a party, since it “bears the risk of invalidity or restriction.”³²

Unregistered Trademarks & Trade Dress

<10> Exclusive licensees do have standing to sue for infringement of unregistered trademarks and trade dress under section 43(a) of the Lanham Act.³³ In fact, because the statute grants standing to “any person who believes that he or she is likely to be damaged” by an infringing act, nonexclusive licensees also have standing here.³⁴ This rule is justified by the fact that a purpose of trademarks is not merely to protect businesses, but also the consuming public.³⁵ Courts have also granted standing to exclusive licensees under common law.³⁶

CRITIQUE OF RATIONALE FOR DENYING STANDING TO EXCLUSIVE LICENSEES IN PATENT INFRINGEMENT CASES

<11> The current judicial patent standing rule denies licensees who lack “all substantial rights” standing to sue in their own names as a means of avoiding multiple lawsuits and reserving to patentee-licensors the ability to defend the validity of their patents.³⁷ However, the current rule is unnecessary in light of FRCP 19.³⁸ Rule 19 adequately provides for the joinder of patentee-licensors where necessary, but, unlike the traditional rule, not where unnecessary.³⁹ According to Rule 19, a party is to be joined if:

- (1) in the person’s absence complete relief cannot be accorded . . . , or
- (2) the person claims an interest relating to the subject of the action and is so situated that the disposition of the action in the person’s absence may (i) as a practical matter impair or impede the person’s ability to protect that interest or (ii) leave any of the persons already parties subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations by reason of the claimed interest.

<12> As such, Rule 19 effectively addresses both of the concerns underlying the current rule. In fact, a few courts have held that Rule 19 displaced the traditional rule.⁴⁰ Nevertheless, most courts decline to rely on Rule 19 in patent infringement cases, and instead continue to rely on the traditional standing rules. However, not only is Rule 19 sufficient, it is the better rule as it is more efficient than the traditional rule, for under Rule 19 a patentee-licensor need not always join in order for an exclusive licensee to pursue an infringement claim.

<13> The current rule may be inefficient because where parties anticipate uncertainty of standing and the possibility of being required to litigate unnecessarily, and as a result attempt to draft around the default rule, transaction costs are driven higher. In contrast, in copyright there is no need to belabor license versus assignment (“all substantial rights”) because standing is automatic, and if necessary, the licensor is joined under Rule 19.⁴¹ As such, less time is spent (1) negotiating and contracting for “all substantial rights,” and (2) litigating whether “all substantial rights” were granted.⁴² As a result, Rule 19 reflects the common-sense approach that parties should only be joined where necessary, as this likely best approximates the provisions that the parties themselves would have adopted. A party is not necessary where the infringement is within the scope of the exclusive license, validity is not at issue, and the licensor has not reserved the right to sue.⁴³

<14> In addition to the current patent rule’s inefficiency, its existence also indicates, in light of copyright standing, that the law is not progressing logically, because the same concerns underlying the patent standing rule exist for copyright law. In *Wales Industrial, Inc. v. Hasbro Bradley, Inc.*,⁴⁴ the court first noted that whether the transfer was “denominated an assignment or an exclusive license [was] of no consequence,” and then invoked FRCP 19 to

direct the licensee-manufacturer to be joined by the licensor-author of a copyright because (1) the copyrights' validity was in issue and (2) failing to join the author would have subjected the alleged infringers to the risk of multiple lawsuits and conflicting judgments as to the validity of the copyrights.⁴⁵ This case demonstrates that FRCP 19 provides a sufficient mechanism for courts to achieve these two important policy goals underlying the patent rule, but also retains the flexibility to decline joinder where it serves no useful purpose. No useful purpose is served in joining the licensor where the infringement is within the scope of the exclusive license, validity is not at issue, and the licensor has not reserved the right to sue.⁴⁶

BENEFITS OF EXCLUSIVE PATENT LICENSEES BEING ABLE TO SUE IN THEIR OWN NAMES

<15>It would be beneficial for exclusive licensees who lack "all substantial rights" to nonetheless have the ability to sue in their own names. First, granting exclusive licensees the ability to sue in their own name would make it easier to effect the intent of the parties where the licensor intended *not* to retain the right to join pending litigation.⁴⁷ In *Aspex*, a party who received "(1) the exclusive right to make, use, and sell products covered by the patent; (2) *the right to sue for infringement* of the patent; and (3) a virtually unrestricted authority to sublicense its rights under the agreement" was found to *lack* standing, merely because there was a hard termination date, and as such it was technically possible for an infringer to be subject to multiple lawsuits.⁴⁸ In this situation, and others, though the parties have apparently intended to give exclusive licensees the right to sue for infringement, the default rules prohibited such action.⁴⁹

<16>Second, exclusive licensee standing would lower transaction costs, because the contours of these investments would be crisper and less uncertain.⁵⁰ Where the intended consequences of transactions are likely to be affirmed in court, the parties spend less time belaboring the wording of their agreements. Rule 19's flexibility allows a court to join as necessary, rather than force contracting parties to spend time establishing "all substantial rights," both in advance when contracting, and in court when litigating. Moreover, when the licensor is involved in litigation only where necessary,⁵¹ the price of the license better reflects its economic value. That is, where infringement is within the scope of the exclusive license, validity is not at issue, and the licensor has not reserved the right to sue, there is no reason to require joinder, which needlessly multiplies the costs of litigation and, in turn, transaction costs. As such, the current rules, by not approximating the provisions the parties would have adopted, raise the cost of contracting.⁵²

<17>Finally, standing for exclusive licensees makes sense because the exclusive licensee is often the party with the keenest interest in enforcing rights against infringers,⁵³ and also often the party with the best ability to do so.⁵⁴

CONCLUSION

<18>In general, nonexclusive licensees have no standing to sue, but exclusive licensees usually do have standing, either in their own names or by joining the licensor. The traditional patent standing rule requires the joinder of the licensor where the transfer was anything less than a transfer of all substantial rights (i.e., an assignment) in order to avoid multiple lawsuits for the same infringing activity and in order to prevent the invalidation of a patent without the patentee having the opportunity to defend its patent. However, this rule is unnecessary in light of FRCP 19, which effectively ensures that both of the concerns underlying the traditional rule are adequately addressed. Moreover, FRCP 19 is more efficient, as it retains the flexibility to decline to require joinder where doing so serves no useful purpose, such as where the infringement is within the scope of the exclusive license, validity is not at issue, and the licensor has not reserved the right to sue.

<19> Working under the current rules, parties contemplating an IP licensing arrangement should be aware that their ability to sue third party infringers depends not only upon the type of IP, but also the type of license they hold. Subtle differences in the wording and structure of a license can alter the intended relationship, with significant consequences. In particular, the current patent standing rules require parties to ensure their agreements grant “all substantial rights” if the licensor does not wish to be a party to infringement litigation. In light of the current rules, parties to a licensing arrangement should consider adopting joint-enforcement and joint-defense clauses to ensure that each party gets what it thought it was bargaining for.

PRACTICE POINTERS FOR PATENT LICENSEES

Contractual terms cannot give a patent licensee standing,⁵⁵ but a carefully worded license can avoid some of the unintended consequences resulting from the current standing rules.

- **Practice Pointer 1—Where the goal is to grant an exclusive licensee “all substantial rights.”**

Although licensee standing is evaluated based on the totality of the circumstances⁵⁶ looking to both the intention of the parties and the substance of what was granted,⁵⁷ there are certain terms that are most important to determining standing.⁵⁸

- *The grantor's reservation of rights of use or marketing:* Fewer than all substantial rights are transferred where a licensor retains a limited right to develop and market the patented invention.⁵⁹ Moreover, an agreement must explicitly address this if it had been the arrangement in the past.⁶⁰
- *Rights to sue third parties for infringement:* “All substantial rights” requires the right to sue third parties for infringement.⁶¹ However, this alone is insufficient: fewer than all substantial rights are transferred where a patent owner retains even the *first* right to sue for infringement.⁶² Moreover, the right to sue solely for *commercial* infringement, while the licensor retains the right to sue for *non-commercial* infringement,⁶³ is insufficient to transfer all substantial rights.⁶⁴ Finally, the licensor retaining the right to approve litigation settlements is inconsistent with a transfer of all substantial rights.⁶⁵
- *Licensee's ability to transfer the license:* A license whereby a licensor retains a right to veto sublicenses or reassignments may transfer less than all substantial rights,⁶⁶ or such a veto right may not destroy “all substantial rights.”⁶⁷ Whether such a right destroys “all substantial rights” likely depends on the surrounding circumstances.⁶⁸ Thus, if the transfer is starting to resemble a license in other ways, this factor may tip the scales.
- *Termination and renewal provisions:* All substantial rights may be transferred even where the license terminates upon the occurrence of certain events, such as the licensee filing for bankruptcy or ceasing production of the patented product.⁶⁹ All substantial rights may be transferred for discrete periods of time. For instance, a two-year period followed by successive, one-year periods renewable at the discretion of the licensor can be a transfer of all substantial rights.⁷⁰ However, where there is a “hard” termination date beyond which the license cannot be renewed, the exclusive licensee lacks standing to sue in its own name.⁷¹

- **Practice Pointer 2—Special Considerations for IP holding companies or sister corporations.** ⁷² Parties should be cognizant of the consequences of separating legal ownership of a patent from the seller of a patented product.
- If a sister corporation is to manufacture, use, or sell a product or process covered by a patent which is licensed by another sister corporation, it is important that the sister corporation have an exclusive license. A court will not impute the lost profits of a sister corporation which lacks standing to sue to another sister corporation which does have standing to sue.⁷³ In this situation, either the company that owns the patent should also sell the product, or the license should be made exclusive.⁷⁴
- The IP holding company scenario is also problematic because exclusive licensees currently lack independent standing. As such, parties should avoid getting a “license to license.” For instance, a company which received a license which required the licensee to sublicense to a subsidiary is not a transfer of all substantial rights, and as such neither the licensee nor sub-licensee could sue in their own names.⁷⁵ With this in mind, parties should structure license agreements so that the party that will actually produce is the initial licensee rather than a required sub-licensee.
- **Practice Pointer 3—Contractual Claims.** Although a contract clause cannot confer standing,⁷⁶ it can help demonstrate that the intent was to convey “all substantial rights.” Moreover, a joint-enforcement or joint-defense clause can be used as leverage to encourage a licensor-patentee to sue, because failure to do so can give rise to a claim for breach of contract. Finally, recognizing that, under the current standing rules, one party may have the discretion to sue, parties to a license should consider including joint-enforcement or joint-defense clauses whereby both parties can demand that the other sue when the property is infringed, and whereby the proceeds or costs of litigation are apportioned among the parties.⁷⁷

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Footnotes

1. Jeffrey Bashaw, University of Washington School of Law, Class of 2008. Thank you to Professor Jane Winn of the University of Washington School of Law and Professor Eric Goldman of Santa Clara University School of Law.
2. National Science Board, National Science Foundation, *Science and Engineering Indicators*, Chapter 6, 23 (2006), available at <http://www.nsf.gov/statistics/seind06/pdf/c06.pdf>.
3. Transaction costs include the costs of preparing, entering into (or negotiating the terms), and monitoring (or enforcing), the execution of all kinds of contracts. Press Release, Royal Swedish Academy of Sciences, The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 1991 (Oct. 15, 1991), http://nobelprize.org/nobel_prizes/economics/laureates/1991/press.html (last visited Sept. 7, 2007) (awarding the 1991 Nobel Prize in Economics to Ronald Coase).
4. Christopher J. Mugel, *Trends in Software Licensing*, <http://www.kaufmanandcanoles.com/pubTemplates/article.asp?PubCode=261> (last visited Sept. 7, 2007).
5. Stephen A. Merrill, Richard C. Levin, & Mark B. Meyers, National Research Council of the National

. See also J. William Dockrey & Jonathan M.B. Blanchard, Ph.D., *Getting Over the Patent Licensing Hurdle: When Does the Licensee Have Independent Standing to Sue for Infringement?*, *Managing Intellectual Property*, April 2002, http://www.usebrinks.com/publication.cfm?publication_id=69 (last visited Sept. 7, 2007); Pearl Patent Enforcement and Royalties Ltd., *Patent Infringement Lawsuits: By the Numbers*, Oct 8, 2002, <http://www.pearlltd.com/index6.html> (last visited Sept. 7, 2007) (“Amount spent on legal fees to litigate patent infringement lawsuits in the U.S. in 2000: \$4.2 billion”).

6. 2 JAY DRATLER, JR., LICENSING OF INTELLECTUAL PROPERTY § 8.06[1] (2006).
7. See Mugel, *supra* note 4. See also Roger D. Blair & Thomas F. Cotter, *The Elusive Logic of Standing Doctrine in Intellectual Property Law*, 74 TUL. L. REV. 1323, 1394 (2000) (noting that licensors are not necessarily injured by infringement, particularly where the license is a lump-sum, as opposed to royalty, agreement).
8. However, a significant proportion of infringement claims are defended by challenging patent validity, thus reducing the potential gains of relying on Rule 19 as opposed to the default standing rules.
9. See DRATLER, *supra* note 6, at § 8.01.
10. *Sicom Systems, Ltd v. Agilent Technologies, Inc.*, 427 F.3d 971, 976 (Fed. Cir. 2005) (“A nonexclusive license confers no constitutional standing on the licensee to bring suit or even to join a suit with the patentee because a nonexclusive licensee suffers no legal injury from infringement”). See also Dratler, *supra* note 6, at § 8.01.
11. See DRATLER, *supra* note 6, at § 8.01.
12. *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1340 (Fed. Cir. 2006) (“While a licensee normally does not have standing to sue without joinder of the patentee, an exclusive license may be tantamount to an assignment for purposes of creating standing if it conveys to the licensee all substantial rights to the patent at issue”). See also *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 876 (Fed. Cir. 1991); 35 U.S.C. § 100(d) (1994) (stating that the term patentee “includes not only the patentee to whom the patent was issued but also the successors in title to the patentee”); DRATLER, *supra* note 6, at § 8.01.
13. *Aspex*, 434 F.3d at 1340 (“While a licensee normally does not have standing to sue without joinder of the patentee, an exclusive license may be tantamount to an assignment for purposes of creating standing if it conveys to the licensee all substantial rights to the patent at issue”).
14. *Id.* at 1343 (“ . . . the public policy in favor of preventing multiple lawsuits on the same patent against the same accused infringer”).
15. See DRATLER, *supra* note 6, at § 8.01.
16. *Independent Wireless Telegraph Co. v. Radio Corporation of America*, 269 U.S. 459, 468 (1926) (quoting *Littlefield v. Perry*, 21 Wall. 205, 223, 22 L. Ed. 577 (1875)) (“Here, however, the patentee is the infringer, and, as he cannot sue himself, the licensee is powerless, so far as the courts of the United States are concerned, unless he can sue in his own name”).
17. See *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1377 (Fed. Cir. 2000).

18. Ortho Pharmaceutical v. Genetics Institute, 52 F.3d 1026, 1031 (Fed. Cir. 1995).
19. See generally DRATLER, *supra* note 6, at § 8.06[2][a]; 1 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 5.1.1.1 (3d Ed. 2006).
20. See 17 U.S.C. § 101 (West 2007) (effective November 29, 1999) (Defining “[c]opyright owner,” with respect to any one of the exclusive rights comprised in a copyright” as “the owner of that particular right,” and further defining “transfer of copyright ownership” as “an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license”).
21. Blair & Cotter, *supra* note 7, at 1365-66.
22. 17 U.S.C. § 101 (“Copyright owner,” with respect to any one of the exclusive rights comprised in a copyright, refers to the owner of that particular right”); *Id.* at § 201(d) (“(1) The ownership of a copyright may be transferred in whole or in part . . . (2) Any of the exclusive rights comprised in a copyright...may be transferred as provided by clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title”); *Id.* at § 501(b) (“The legal or beneficial owner of an exclusive right under a copyright is entitled . . . to institute an action for any infringement of that particular right committed while he or she is the owner of it”). See also *Wales Industrial, Inc., Inc. v. Hasbro Bradley, Inc.*, 612 F.Supp. 510, 516-17 (S.D.N.Y. 1985) (noting that the denomination of assignment or exclusive license was of no consequence, and invoking FRCP 19 to determine the question of joinder).
23. Blair & Cotter, *supra* note 7, at 1371-72.
24. *Id.* at 1329.
25. “Anti-circumvention” rules prohibit circumventing technological mechanisms intended to control access to, and distribution and use of copyrighted works. DRATLER, *supra* note 6, § 8.06[2][d].
26. “Anti-trafficking” rules prohibit “trafficking in means to circumvent technological measures controlling access to copyrighted works.” *Id.*
27. 17 U.S.C. § 1203; JAY DRATLER, JR., CYBERLAW: INTELLECTUAL PROPERTY IN THE DIGITAL MILLENNIUM § 5.02 (2000).
28. DRATLER, *supra* note 27, at § 5.02[3].
29. See DRATLER, *supra* note 6, at § 8.06[4].
30. Lanham Act § 32(1), 15 U.S.C. § 1114(1) (West 2007) (effective April 27, 2005).
31. DRATLER, *supra* note 6, at § 8.06[4][a].
32. *Id.*
33. Lanham Act § 43(a)(1), 15 U.S.C. § 1125(a)(1).
34. *Id.*
35. See DRATLER, *supra* note 6, at § 8.01[2][e], § 8.06[4][b][i].

36. *Id.* at § 8.06[4][b][ii].
37. *See* *Independent Wireless Telegraph Co. v. Radio Corp. of America*, 269 U.S. 459 (1926). However, “[t]he modern-day standing rules in patent law have their roots in a series of nineteenth-century United States Supreme Court decisions interpreting the Patent Act as it existed at that time” and are too rigid today. Blair & Cotter, *supra* note 7, at 1336, 1406-07.
38. Traditional patent standing rules significantly predate the Federal Rules of Civil Procedure. *See* DRATLER, *supra* note 6, at § 8.06[1] (note 24.9) (“The rule that mere licensees cannot sue dates from . . . Littlefield v. Perry, 88 U.S. (21 Wall.) 205, 223, 2 L.Ed. 577 (1875),” “[t]he rule that patentees must be joined dates from the Independent Wireless Telegraph case in 1926,” and “[t]he Federal Rules of Civil Procedure were first promulgated in 1938”).
39. *See* Fed. R. Civ. P. 19 (“Joinder of Persons Needed for Just Adjudication”). *See also* DRATLER, *supra* note 6, at § 8.06[1][c] (Stating that the policy concerns underlying the traditional standing rule “could be handled adequately by proper compliance with Federal Rule of Civil Procedure 19....Indeed, Rule 19(a) of the Rules of Civil Procedure explicitly implements both policies of the patent standing rules, requiring courts to consider the possibility of multiple suits” And concluding that “[t]here is no logical reason under modern procedure to require the patentee’s joinder in all cases—let alone to elevate the question of joinder to the level of a jurisdictional defect” which only “needlessly multiplies expense and complexity in already complex litigation”); Blair & Cotter, *supra* note 7, at 1406-07 (“[M]andatory joinder under Rule 19 is likely to be the most appropriate vehicle for protecting those interests without giving rise to multiple litigation” and “there is no overriding need for the type of rigid standing rules exemplified by *Waterman*” and the traditional patent standing rules).
40. While most courts, including the Federal Circuit Court of Appeals, still follow the *Independent Wireless* test, some courts have held that Rule 19 displaced those traditional tests. *See* Blair & Cotter, *supra* note 7, at 1351. The requirement that licensees have standing only where “all substantial rights” are conveyed is judge-made, and thus subject to reversal in the same way as in *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) (finding that there is no prohibition in U.S. law on business method patents, thus departing from the prior business-method exception to patentability). *See also* *Parkson Corp. v. Fruit of the Loom, Inc.*, 28 U.S.P.Q.2d 1066, 1068-69 (E.D. Ark. 1992) (“Certainly, the traditional rule has been that when the interest transferred is deemed a license, the patent-holder is a necessary party because the patent holder is still the real party in interest with respect to the validity of the patentHowever, the adoption of the 1966 amendment to [Rule 19 of the Federal Rules of Civil Procedure](#) makes clear that patent owners are not *per se* indispensable parties in infringement actions”); *Erbamont, Inc. v. Cetus Corp.*, 720 F. Supp. 387, 393-94 (D. Del. 1989) (Finding that licensors were necessary parties under Rule 19(a), but “declin[ing] to definitively label the agreement . . . a license or an assignment” because “many cases fall in the middle of these two extremes”); *Rainville Co., Inc. v. Consupak, Inc.*, 407 F. Supp. 221, 223 (D.N.J. 1976) (“[T]his court is in agreement...that the approach set forth in [Rule 19 of the Fed.R.Civ.P.](#), and not the older cases...is to control the determination of the joinder issue”).
41. *See* Blair & Cotter, *supra* note 7, at 1370-71.
42. *See* DRATLER, *supra* note 6, at § 8.06[1][c] (2006).
43. *See id.*
44. *Wales Industrial, Inc. v. Hasbro Bradley, Inc.*, 612 F.Supp. 510, 516-17 (S.D.N.Y. 1985).

45. *Id.*; See also 82 A.L.R. Fed. 509.
46. See DRATLER, *supra* note 6, at § 8.06[1].
47. Intent does currently control courts' resolution of standing, but intent in this context involves whether "all substantial rights" were intended to be transferred. See *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1032 (Fed. Cir. 1995) ("To resolve the issue of standing, we must examine the licensing agreement to determine whether the parties intended to effect a transfer of proprietary rights to the licensee as an incident to protection of its interests") (citing Vaupel).
48. *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1342-43 (Fed. Cir. 2006) (emphasis added).
49. See also *Poly-America, L.P. v. GSE Lining Technology, Inc.*, 383 F.3d 1303 (Fed. Cir. 2004) (Plaintiff patent-owner not allowed to claim the lost profits of its sister corporation, which actually sold the goods, because the sister corporation did so under a non-exclusive license); *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372 (Fed. Cir. 2000) (Sub-licensees lacked standing to maintain an infringement suit in their own names because the primary licensee's rights under the agreement were significantly diminished by a sub-license requirement, and as such the licensing agreement did not transfer all substantial rights in the patent).
50. However, the counterargument can be made that reliance on Rule 19 simply shifts uncertainties from one aspect of the license to another by granting courts discretion in determining joinder.
51. DRATLER, *supra* note 6, at § 8.06[1][c] ("when an accused infringer's acts fall within the scope of an exclusive license, when the patentee has reserved no right to sue for those acts, and when no counterclaim or defense attacking the patent itself is raised, requiring the patentee to be joined needlessly multiplies expense and complexity in already complex litigation").
52. Hugh Collins, *Regulating the Employment Relation for Competitiveness*, 30 *INDUS. L.J.* 17, 40 (2001), available at <http://ilj.oxfordjournals.org/cgi/reprint/30/1/17.pdf> ("A change in default rules is only beneficial in the sense of saving on transaction costs if the rule corresponds to the term of the contract which the parties would have agreed if they had continued to negotiate every item in the contract").
53. An exclusive licensee would be the party with the keenest interest in enforcing its rights most particularly where the license is a flat rate, rather than a royalty. In a royalty arrangement, the licensor benefits from increased sales to the licensee, whereas in a flat rate arrangement, the licensor is paid the same amount regardless of the licensee's sales.
54. Jeffrey L. Van Hoosear, *Licensing Lessons: The Blackberry and eBay Cases*, July 2006, http://www.kmob.com/pdf/Backberry_Ebay.htm (last visited Sept. 7, 2007).
55. *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1034 (Fed. Cir. 1995) (despite a clause in a license purporting to grant standing, a nonexclusive licensee lacks standing). See also DRATLER, *supra* note 6, at § 8.06.
56. *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 874 (Fed. Cir. 1991).
57. *Id.*

58. See *Penril Datacomm Networks v. Rockwell Int'l Corp.*, 934 F. Supp. 708, 711 (D. Md. 1996) ("restraint on alienation is clearly at odds with true ownership[T]he critical flaw in the [Licensee]/[Licensor] arrangement as it bears on [Licensee's] standing is the nonexclusivity of [Licensee's] right to make, use and sell Patentthe 'most important' right under any patent [is] the right to sue third-party infringers"). See also *Ciba-Geigy Corp. v. Alza Corp.*, 804 F. Supp. 614, 633 (D.N.J. 1992) (finding the right to sue for infringement as a factor in favor of "assignment," and that the licensee did not need to join the patent owner where the license had transferred "substantial rights to exclusivity, to transfer, and to initiate a lawsuit under the patent"). See also *Surgical Laser Technologies, Inc. v. Laser Industries, Ltd.*, 21 U.S.P.Q.2d 1593 (E.D. Pa. 1991) (finding that an exclusive license agreement had provided the licensee with sufficient rights to maintain an action in its own name, even where the owner of the patent, the University of Washington, retained the right to certain academic and non-commercial uses, the right to consent to any judgment or any other voluntary disposition of a suit brought by licensee, not to be unreasonably withheld, and the right to intervene in any declaratory action alleging invalidity or non-infringement brought against the licensee).
59. *Fieldturf, Inc. v. Southwest Recreational Industries*, 357 F.3d 1266, 1269 (Fed. Cir. 2004) (citing *Abbott Laboratories v. Diamedix Corp.*, 47 F.3d 1128, 1132 (Fed. Cir. 1995)).
60. *Id.* ("Notably, the 1998 agreement did not address, as the 1994 agreement had, whether [licensor], or [licensee], would have the right to enforce the . . . patent against infringers. The 1998 agreement also did not address, as the 1994 agreement had, whether [licensor] would retain the right to 'develop, display, commercialize, and market' embodiments of the patent. These omissions are significant." The 1994 agreement had granted the licensor these rights, and the absence of explicit mention of them in the 1998 agreement was found to mean that the terms had not changed. Thus, the Court went on to find that, without granting the licensee the right to enforce the patent, either explicitly or impliedly, the document conveyed no more than a bare license).
61. See *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1342 (Fed. Cir. 2006) ("A key fact has often been where the right to sue for infringement lies"). See also *Vaupel*, 944 F.2d at 875-76 (the right to enforce the patent is "particularly dispositive" of standing issues because of the underlying policy to prevent "two suits on the same patent against a single infringer"); *Mentor H/S, Inc. v. Medical Device Alliance, Inc.*, 240 F.3d 1016, 1018 (Fed. Cir. 2001) ("In *Vaupel*, the grant of the right to sue for infringement, subject only to the obligation to inform the patentee, was particularly dispositive of our conclusion that *Vaupel* was an exclusive licensee with all substantial rights in the patent and could bring suit in its own name. *Vaupel*, 944 F.2d at 875, 20 U.S.P.Q.2D (BNA) at 1049. Here, in light of [Licensor's] substantial retained rights, particularly its initial right and obligation to sue for infringement, we conclude that [Licensee] did not receive all substantial rights in the patent"); and *Ciba-Geigy Corp. v. Alza Corp.*, 804 F. Supp. 614, 630 (D.N.J. 1992) (finding the right to sue for infringement as a factor in favor of "assignment").
62. *Mentor*, 240 F.3d at 1018 (Exclusive licensee lacked standing where licensor "most importantly,. . . has the first obligation to sue parties for infringement; failure to take appropriate action against infringers would constitute a breach of the agreement. [Licensee] only can sue for infringement in the event [Licensor] fails to do so").
63. Non-commercial infringement refers to use by "non-commercial customers...like governmental entities, the military and universities" *Sicom Systems Ltd. v. Agilent Technologies, Inc.*, 427 F.3d 971, 974 (Fed. Cir. 2005).

64. *Id.* at 979 (Licensee lacked standing to sue in own name because “[Licensee’s] exclusive right to sue for ‘commercial’ infringement does not signify that [Licensee] has the exclusive right to sue for all infringement”).
65. *Id.* at 979 (“Additionally, we find that Sicom, in other respects as well, has failed to show that it has all substantial rights under the patent. For instance, Sicom does not have the right to settle litigation without the prior written consent from Canada. . . .”).
66. *Id.* at 978-79 (Noting that licensor retained “the right to veto [Licensee’s] reassignment of its rights or proposed sublicenses” was inconsistent with all substantial rights, because “just as the right to alienate personal property is an essential indicia of ownership, the right to further assign patent rights is implicit in any true assignment,” quoting *Calgon Corp. v. Nalco Chemical Co.*, 726 F. Supp. 983, 988 (D.C. Del. 1989).
67. *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991) (finding that none of a series of reserved rights, including the right to veto sublicenses, “was so substantial as to reduce the transfer to a mere license or indicate an intent not to transfer all substantial rights”).
68. *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1340 (Fed. Cir. 2006) (“To determine whether an agreement to transfer rights to a patent at issue amounts to an assignment or a license, we must ascertain the intention of the parties and examine the substance of what was granted. *Vaupel*, 944 F.2d at 874 (explaining that the court must examine whether the agreements transferred all substantial rights to the patent at issue and whether the surrounding circumstances indicated an intent to do so”).
69. *Vaupel*, 944 F.2d at 874 (Plaintiff’s standing to sue in own name was upheld despite termination clause whereby the license would terminate automatically if the licensee filed for bankruptcy or stopped production of the patented product). *See also Snap-On, Inc. v. Hunger Engineering Co.*, 29 F. Supp. 2d 965, 969 (E.D. Wis. 1998) (citing with approval *Vaupel*’s finding that retention of a reversionary right does *not* show an intent not to transfer all substantial rights).
70. *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1379 (Fed. Cir. 2000) (“ . . . neither the termination clause nor the renewal cycle of the license agreement . . . required [Licensor] to be joined in this action”).
71. *Moore U.S.A., Inc. v. Standard Register Co.*, 60 F. Supp. 2d 104, 109-10 (W.D.N.Y. 1999) (infringement suit brought by exclusive licensee required joinder of patentee because the license was for a finite term of five years). *See also Aspex*, 434 F.3d 1336 (a termination provision in a license agreement precludes a transfer of all substantial rights where the license runs for less than the full term of the patent).
72. IP holding companies, in a variety of forms, comprise a significant percentage of IP licensing transactions. In 2003, seventy-five percent of the U.S. receipts of royalties and fees from trade in intellectual property took place between U.S. companies and their foreign affiliates. National Science Board, *supra* note 2.
73. *Poly-America, L.P. v. GSE Lining Technology, Inc.*, 383 F.3d 1303 (Fed. Cir. 2004) (Plaintiff patent-owner not allowed to claim the lost profits of its sister corporation, which actually sold the goods under a non-exclusive license granted by sister corporation patent-owner). *See also Carver v. Velodyne Acoustics, Inc.*, 202 F. Supp. 2d 1147 (W.D. Wash. 2002). In this situation the rules appear to be too

rigid, since the same interests are represented. Moreover, prior case law had stated a goal was to compensate for *all* harm. Here, however, the standing rules appear to be foreclosing that possibility. See Shari Fleishman Esfahani, *IP Holding Companies Beware: Lessons from the Poly-America Case*, *The Metropolitan Corporate Counsel*, Vol. 13, No. 9 (September 2005), available at <http://www.akingump.com/docs/publication/801.pdf#search=%22metropolitan%20corporate%20counsel%20licensee%22>. See also *King Instruments Corp. v. Perego*, 65 F.3d 941, 947 (Fed. Cir. 1995) ("This court must reject Tapematic's challenge" that "lost profits can be awarded only to one who makes or sells the patented device." Rather, "[t]he section's broad language awards damages for any injury as long as it resulted from the infringement"). See also *Rite-Hite Corp. v. Kelly Co., Inc.*, 56 F.3d 1538, 1545-46 (Fed. Cir. 1995) (Noting that "[n]otwithstanding the broad language of § 284, judicial relief cannot redress every conceivable harm that can be traced to an alleged wrongdoing," yet also noting that "the Supreme Court has interpreted this to mean that 'adequate' damages should approximate those damages that will *fully compensate* the patentee for infringement. Further, the Court has cautioned against imposing limitations on patent infringement damages").

74. See Esfahani, *supra* note 73.
75. *Prima Tek*, 222 F.3d 1372 (Sub-licensees lacked standing to maintain an infringement suit in their own names because the primary licensee's rights under the agreement were significantly diminished by a sub-license requirement, and as such the licensing agreement did not transfer all substantial rights in the patent).
76. *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1034 (Fed. Cir. 1995) ("[A] contract cannot change the statutory requirement for suit to be brought by the 'patentee.' By the same token, a right to sue clause cannot negate the requirement that, for co-plaintiff standing, a licensee must have beneficial ownership of some of the patentee's proprietary rights. A patentee may not give a right to sue to a party who has no proprietary interest in the patent") (citing *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 44, 67 L.Ed. 516, 43 S.Ct. 254 (1923)). See also *Prima Tek*, 222 F.3d at 1381 ("Just as a 'right to sue' clause cannot confer standing on a bare licensee, neither can a patent owner's agreement to be bound by judgments against a licensee circumvent the rule of *Independent Wireless* that the patent owner must ordinarily join, in any infringement action, an exclusive licensee who possesses less than all substantial rights in the patent.").
77. See, e.g., *Poly-America*, 383 F.3d at 1311 (" . . . parties to a lawsuit may allocate the disposition of infringement damages between themselves . . .").