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An assignment SOLELY for the purpose of having the assignee bring suit might be illegal (for champerty) in some states.<58> The circumstances are even more egregious when the assignment does not reference the intellectual property right, but merely the right to institute litigation.<58.1> However, where the obligation to bring suit is merely one aspect of the transfer (as where the assignee must either issue a license or enforce the patent within a period of time) no illegality may be found.<59> Some courts have indicated that even if the sole purpose of an assignment is to enable suit to be brought in a particular forum or by a particular plaintiff, the assignment is still valid.<60> However, a retroactive assignment, made without basis in fact (e.g., to perfect equitable or implied title), will not enable the assignee to sue intervening infringers.<61>

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58 Refac International v. Lotus Development, 131 F.R.D. 56, 15 U.S.P.Q.2d 1747 (S.D.N.Y. 1990).

The license in this case was held invalid under New York's champerty statute (N.Y. Judiciary Law, S 489) which states, ''no corporation ... shall take an assignment of ... any claim ... for the purpose of bringing an action thereon.''

58.1 Crown Die & Tool Co. v. Nye Tool & Mach. Works, 261 U.S. 24 (1922); SGS-Thompson Microelectronics v. International Rectifier, _F. Supp._, 29 U.S.P.Q.2d 1641 (C.D. Cal. 1993).

59 General Tire & Rubber Co. v. Jefferson Chem. Co., 363 F. Supp. 871, 180 U.S.P.Q. 33 (S.D.N.Y. 1973).

60 Discovery Rights, Inc. v. Avon Products, Inc., 182 U.S.P.Q. 396 (N.D. Ill. 1974); Rawlings v. National Molasses Co., 394 F.2d 645, 158 U.S.P.Q. 14 (9th Cir. 1968).

61 Duplan Corp. v. Deering Milliken, 444 F.Supp 648, 197 U.S.P.Q. 342 (D. S.C. 1977).

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<SUPP>[d]-Nonexclusive Licensees. It is well-settled that a nonexclusive licensee has no standing to file suit for infringement and indeed in most instances is not a proper party to such a suit.<24> The Supreme Court so held in the early leading decision of WATERMAN V. MACKENZIE (1891).<25> The reasoning of WATERMAN was formalistic in the sense that it relied on conceptual categories of interests. However, in A.L. SMITH IRON CO. V. DICKSON (1944),<26> Judge Learned Hand identified the substantive policy reasons for the denial of standing.

> ''It is indeed true that a mere licensee may have an interest at stake in such a suit; his license may be worth much more to him than the royalties which he has agreed to pay, and its value will ordinarily depend on his ability to suppress the competition of his rivals. The reason why he is not permitted to sue is not because he has nothing to protect. But against that interest is the interest of the infringer to be immune from a second suit by the owner of the patent; and also the interest of the patent owner to be free to choose his forum. ... Indeed, the owner may have granted a number of licenses, and it would be exceedingly oppressive to subject him to the will of all his licensees. These two interests in combination have been held to overweigh any interest of the licensee. ... ''

In KALMAN V. BELYN CORP. (1990),<26.1> the Federal Circuit held that the district court erred in denying a patentee's motion to add as co-plaintiff a sole manufacturing licensee, of which the patentee was a 50% owner, and in limiting the patentee's damages to 50% of the licensee's lost profits.

> ''... [W]e do not give any licensee who joins the patentee standing to sue an infringer. When the sole licensee, however, has been shown to be directly damaged by an infringer in a two supplier market, and when the nexus between the sole licensee and the patentee is so clearly defined as here, the sole licensee must be recognized as the real party in interest... . [I]n determining that [the licensee] has standing to join as a co-plaintiff, we not only give effect to principles of equity, but also the Congressional mandate that, in patent actions, '[u]pon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement ... ' 35 U.S.C. S 284 (1982).''<26.2> In REFAC INTERNATIONAL LTD. V. LOTUS DEVELOPMENT CORP. (1990),<26.3> the district court characterized as ''champertous'' and void under state law a nominal transfer agreement the sole purpose of which was to enable the plaintiff to pursue infringement litigation on the patentee's behalf. FRS, a Canadian corporation, owned the patent in suit. FRS entered into a license agreement with Refac, giving Refac a 5% interest in the patent in exchange for Refac's promise to sue at least two alleged infringers within one month. FRS retained substantial rights to control the litigation, for example, to approve counsel selection and settlements. Refac agreed to ''advance'' all litigation expenses. FRS and Refac would split equally the proceeds of Refac's litigation efforts. FRS appointed Refac its exclusive agent to license third parties, subject to FRS's approval. FRS retained broad rights

to terminate Refac's 5% ''ownership'' interest. Finding that Refac was a ''surrogate plaintiff'', not the real party in interest,'' the court ordered the action dismissed unless FRS agreed voluntarily to join the action as plaintiff. It cited New York's champerty statute, which provides that ''no corporation ... shall solicit, buy or take an assignment of ... any claim ... with the intent and for the purpose of bringing an action or proceeding thereon ... .''<26.4>

''Because REFAC is a 5% owner of the patent in question simply for the purpose of pursuing litigation on FRS's behalf, REFAC's agreement with FRS is nothing but a hunting license-which is to say, it is champertous and therefore void.''<26.5>

---------- FOOTNOTES ----------

24 Kalman v. Berlyn Corp., 914 F.2d 1473, 1481, 16 USPQ2d 1093, 1099 (Fed. Cir. 1990), ON REMAND, 22 USPQ2d 1303 (D. Mass. 1991), AFF'D, 988 F.2d 129 (Fed. Cir. 1993)(unpublished) (''a non-exclusive licensee of a patent has no standing to sue for infringement.''); Gilson v. Republic of Ireland, 787 F.2d 655, 229 USPQ 460 (D.C. Cir. 1986); Life Time Doors, Inc. v. Walled Lake Door Co., 505 F.2d 1165, 184 USPQ 1 (6th Cir. 1974)(nonexclusive licensee has no standing to appeal a judgment holding the patent invalid and not infringed); Western Elec. Co. v. Pacent Reproducer Corp., 42 F.2d 116, 118 (2d Cir. 1930), CERT. DENIED, 282 U.S. 873 (1930)(''In its simplest form, a license means only leave to do a thing which the licensor would otherwise have a right to prevent. Such a license grants to the licensee merely a privilege that protects him from a claim of infringement by the owner of the patent monopoly. ... He has no property interest in the monopoly of the patent, nor any contract with the patent owner that others shall not practice the invention. Hence the patent owner may freely license others, or may tolerate infringers, and in either case no right of the patent licensee is violated. Practice of the invention by others may indeed cause him pecuniary loss, but it does him no legal injury.''); Raber v. Pittway Corp., 23 USPQ2d 1313, 1314 (N.D. Calif. 1992), discussed at S 21.03[3][b] N.9.1 INFRA (''the owner of a patent or the owner's assignee has standing to commence an action for patent infringement, but a licensee alone does not.''); Refac International Ltd. v. Mastercard International, 758 F. Supp. 152, 155, 18 USPQ2d 1632, 1634 (S.D. N.Y. 1991) (''Status as an assignee or patentee is a crucial prerequisite to bringing suit on infringement. Failure to assign all rights under the patent bars a claim for infringement unless the patentee is made a party to the suit.''); Refac International Ltd. v. Visa USA Inc., 16 USPQ2d 2025 (N.D. Calif. 1990); Dentsply Research & Development Corp. v. Cadco Dental Products Inc., 14 USPQ2d 1039, 1043 (C.D. Calif. 1989) (''non-exclusive licensees cannot sue upon the patent to which they are non-exclusive licensee. Indeed, a mere licensee has no right even to be joined in a suit for infringement.''); Afros S.p.A. v. Krauss-Maffei Corp., 671 F. Supp. 1458, 5 USPQ2d 1145, 1180 (D. Del. 1987), AFF'D, 848 F.2d 1244 (Fed. Cir. 1988)(unpublished) (citing Treatise; on date of counterclaim for patent infringement, the counterclaimant lacked standing to sue because it was a mere license, a prior transfer of ownership of the patent being invalid under West German law; a later assignment of the patent to the counterclaimant did not ''relate back'' to the date of the counterclaim; ''The policy rationale for limiting the right to bring an infringement suit to those who possess all rights to the patent is to

permit complete adjudication of a dispute in order to protect the patent owners' rights and the public's access to the technological innovation contained in a patent.... Courts generally enforce the rule that a nonexclusive licensee alone may not sue for infringement, and that the patent owner, assignee, or exclusive licensee of a patent must be made a party to the suit.... Permitting a presently invalid assignment to serve as the basis of a claim under 35 U.S.C. S 281 on the ground that it later 'became' valid, which ratification transposes itself back in time, will impermissibly expand the class of persons able to sue for infringement. Moreover, permitting a claim where a foreign nation's law provides the basis for avoiding the owner/assignee rule may give foreign United States patent owners a distinct advantage over their domestic counterparts by allowing them to manipulate the scope of their liability through a transaction subsequent to the filing of the suit.''); Michod v. Walker Magnetics Group Inc., 4 USPQ2d 1815 (N.D. Ill. 1987) (''only a patent owner or an exclusive licensee may sue for patent infringement''); Blair v. Lippincott Glass Co., 52 F. 226 (C.C. Ind. 1892)(nonexclusive licensee improperly joined in a suit by patentee).

Cf. Edaco Stahlwarenfabrik Ernst Darmann & Co. v. Hill Novelties Mfg. Corp., 185 F. Supp. 621, 126 USPQ 41 (S.D.N.Y. 1960)(allegation in complaint that plaintiff is ''licensee'' is not sufficient to show standing to sue for infringement; plaintiff granted leave to amend complaint).

25 138 U.S. 252 (1891).

26 141 F.2d 3, 6, 60 USPQ 475, 478 (2d Cir. 1944).

See also Site Microsurgical Systems Inc. v. Cooper Companies Inc., 797 F. Supp. 333, 337 n.8, 24 USPQ2d 1463, 1466 n.8 (D. Del. 1992), discussed at S 20.03[1][b][vi] N.39.5 SUPRA (quoting Treatise: ''the statutory scheme does not directly grant standing to mere licensees nor does it appear to contemplate any such suit. A mere licensee will not have standing to sue for patent infringement because he/she has no legal rights under the patent. ... Standing is also not permitted as a matter of policy.'').

26.1 914 F.2d 1473, 16 USPQ2d 1093 (Fed. Cir. 1990), ON REMAND, 22 USPQ2d 1303 (D. Mass. 1991), AFF'D, 988 F.2d 129 (Fed. Cir. 1993)(unpublished).

26.2 914 F.2d at 1481-82, 16 USPQ2d at 1099-1100.

Compare Site Microsurgical Systems Inc. v. Cooper Companies Inc., 797 F. Supp. 333, 337-40, 24 USPQ2d 1463, 1466-69 (D. Del. 1992), discussed at S 20.03[1][b][vi] N.39.5 SUPRA (a corporate parent of a patent owner is not the ''real party in interest'' and has no standing to join the patent owner's infringement suit by virtue of either its stock ownership or its allegation that the alleged infringement causes it to lose sales of products closely linked to the patented equipment that its subsidiary, the patent owner, sells: ''While [the parent corporation] may have an interest at stake in the suit, [it] does not claim to hold legal title to the patents at issue and, thus, it has no standing to sue for patent infringement. ... [Unlike KALMAN, the parent] possesses no license of any kind and it is not marketing the patented technology on behalf of the patentee. ... Plaintiff contends [the parent] has standing by virtue of the EMVR [Entire Market Value Rule because] ... its product is closely related to the patented technology and that it is customary

in the industry to purchase both products as a package'' and because ''it anticipated the sale of [its] unpatented [product] with [its subsidiary's] sale of the patented equipment systems and that it suffered a significant and quantifiable loss of [product] sales due to the alleged infringement. ... The EMVR involves the extent of compensation rather than a party's entitlement to compensation. Since [the parent] has no right of recovery under the patents at issue, ... it has no right to invoke the EMVR and [the parties] present no authority which permits a manufacturer of a separate and distinct product, who has no rights under the patent, to recover patent infringement damages pursuant to the 'entire market value rule.''').

26.3 15 USPQ2d 1747 (S.D.N.Y. 1990).

26.4 N.Y. Judiciary Law S 489.

26.5 15 USPQ2d at 1748.

The court's champerty finding was unnecessary if the only relief granted was a requirement that the 95% owner be joined. Patent joinder rules require co-owner joinder without regard to how co-ownership was acquired. See S 21.03[3][d] INFRA.

The court did note that defendant had ''reserved the right to seek sanctions and fees under Fed.R.Civ.P. 11 or the relevant provisions of the patent statutes, and may pursue that remedy at the appropriate time.'' 15 USPQ2d at 1749.

---------- SUPPLEMENTS ----------

[d]-Nonexclusive Licensees

N. 24 Pfizer Inc. v. Elan Pharmaceutical Research Corp., 812 F. Supp. 1352, 1356, 27 USPQ2d 1161, 1163 (D. Del. 1993) (''Standing to sue for infringement generally rests with the legal title holder to the patent. ... Moreover, a mere licensee does not have standing to sue for patent infringement in its own name.'').

N. 26 See also Schneider (Europe) AG v. SciMed Life Systems Inc., 28 USPQ2d 1225, 1229 (D. Minn. 1993) (''The policy behind disallowing a 'bare licensee' from suing for patent infringement is that the 'bare licensee' enjoys no property rights in the patent; rather, the bare licensee' only enjoys the right to make or sell or use the patented object free from a suit for infringement.''); Amgen Inc. v. Chugai Pharmaceutical Co. Ltd., 27 USPQ2d 1578, 1585 n.11 (D. Mass. 1992), discussed at N. 20.1 SUPRA (''The key question for determining standing of a licensee is whether the licensee as matter of law has an exclusive property interest in the patent itself, not whether the licensee in fact has been harmed by a third-party infringer. ... [T]here are strong policy reasons why patent law does not confer standing on a nonexclusive licensee to sue a third party for infringement even though the licensee has suffered due to the infringement ... .'').

N. 26.1 See also Katrapat A.G. v. Advanced Machine and Engineering Co., 28 USPQ2d 1270 (N.D. Ill. 1993).

N. 26.2 See also Schneider (Europe) AG v. SciMed Life Systems Inc., 28 USPQ2d 1225, 1231 (D. Minn. 1993) (''Ample precedent exists for allowing a party who may not be able to bring an action for patent infringement in its own name to sue and recover damages as co-plaintiff in such an action.''; a sublicensee may join as co-plaintiff with an exclusive licensee and recover damages when (1) the exclusive licensee granted a nonexclusive license to the sublicensee to make, have made, use and sell the patented product in the United States and to grant further sublicenses in the United States, and (2) the licensee and sublicensee ''though separate corporate entities with separate origins, are owned by the same parent company'', ''operate in tandem with each other as part of a network of corporate entities aimed at marketing the [patented product] worldwide'', and ''do not compete in each other's respective market.'').

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