

# What To Know About Licensee Standing In Trade Secret Cases

By **Esha Bandyopadhyay and Alana Mannige** (June 16, 2020)

Licensing of intellectual property has become a staple of commercial transactions. Frequently, a license agreement will include use of trade secrets, but not full ownership.

While the owner of a trade secret clearly has standing to sue for trade secret misappropriation, it is less clear whether an aggrieved licensee also has standing to sue. This question is an important consideration whenever trade secrets are captured in a license agreement.

The short answer is that trade secret licensees generally do have standing to sue for trade secret misappropriation, provided that the licensee meets the other requirements of standing.[1] At the state level, courts have generally allowed licensees to bring state claims for trade secret misappropriation.[2]

In fact, as recently as April 30, the U.S. Court of Appeals for the Third Circuit held that mere lawful possession (as opposed to ownership or licensee rights) is sufficient to establish standing to bring a claim for trade secret misappropriation under Pennsylvania's Uniform Trade Secrets Act.[3] And at the federal level, the Defend Trade Secrets Act specifically states that licensees can bring suit.[4]

At the state level, the general trend has been to allow licensees standing to sue for trade secret misappropriation. Indeed, the UTSA, which has been adopted by nearly all states, provides that the complainant is entitled to remedy under the act. While there are cases in some jurisdictions that imply in dicta that full ownership of the trade secrets at issue is required for standing, none of these cases directly address the issue of licensee standing.[5]

In North Carolina, which has not adopted the UTSA (at least neither expressly nor entirely), the trade secret statute itself specifically provides that "[t]he owner of a trade secret shall have remedy by civil action for misappropriation of his trade secret." [6]

However, some courts have expressed doubt that the legislature's use of the term "owner" (as opposed to "complainant") in the North Carolina statute was a deliberate decision, and thus there is some degree of uncertainty regarding whether the term "owner" in North Carolina's statute is as limiting as it might otherwise seem.[7]

In contrast to North Carolina, most states have adopted the UTSA's language on this point, and, as stated above, typically recognize standing for licensees of trade secrets. The Texas legislature, for example, amended the definition of "owner" in the Texas Uniform Trade Secret Act in 2017; the definition of "owner" includes anyone with a right to enforce the trade secret.

In fact, most jurisdictions that have considered the issue have held that even nonexclusive licensees have standing to sue.[8] A nonexclusive license occurs when the owner of intellectual property grants a license to a licensee but also reserves the right to grant a license to others. In contrast, an exclusive licensee is one who exclusively holds the rights that have been granted.



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Practitioners of patent law may be surprised to hear that, in the context of trade secrets, nonexclusive licensees may have standing to sue for misappropriation. In patent law, the general rule is that exclusive licensees who have received all substantial rights in the patent have standing to bring suit in their own name, while nonexclusive licensees generally do not.[9]

One might assume that the same general rule applies to trade secret licensees. In fact, some early courts considering this issue seemed to take their cues from patent law.[10]

However, trade secret law is not patent law, and despite their similarities, there are many important differences, including on the issue of standing. The rationale behind this difference is best understood by considering the policy motivations that undergird patent law compared to trade secret law. Patent law seeks to promote innovation by protecting inventions in exchange for disclosure of those inventions.

Trade secret law, on the other hand, seeks to encourage ethical business practices and fairness when it comes to respecting the confidentiality of certain types of information.[11] As one court explained, "misappropriation of a trade secret is not only an intrusion on property, it is also a breach of confidence." [12]

In short, the harm suffered by a victim of trade secret misappropriation does not emanate solely from a violation of property rights, but also from a violation of confidence and fair and ethical business practices. Thus, anyone who possesses a trade secret, whether an exclusive licensee or not, can theoretically suffer harm via a violation of confidence.

For this reason, most courts have found that a victim of trade secret misappropriation has standing to file suit, regardless of whether that victim is a nonexclusive licensee.[13] In fact, an actual license is generally not required at all — for state law claims, simply having lawful possession of a trade secret is sufficient to confer standing, so long as all of the other requirements of standing are met.[14]

Notably, while a nonexclusive license (or even mere possession) is generally sufficient to confer Article III standing, it is still possible that the trade secret owner will need to be joined in a lawsuit as a necessary or indispensable party in order to satisfy the requirements of prudential standing.[15] Prudential standing encompasses a prohibition against raising another person's legal rights.[16]

While there is plenty of guiding prudential standing jurisprudence in the context of patent law, there appears to be a dearth of relevant jurisprudence in trade secret law.

However, since issues of prudential standing and joinder are not unique to trade secret law, it seems reasonable to conclude that whether a trade secret owner needs to be joined as a necessary or indispensable party should be assessed on a case-by-case basis under the traditional analysis required by Federal Rule of Civil Procedure 19.

Under that analysis, a trade secret owner would presumably need to be joined. Consider, for example, that through the licensee's misappropriation lawsuit, the owner's trade secrets are deemed lacking in independent economic value, thereby losing their status as trade secrets. In such a case, surely the owner would be considered a necessary party.

However, at least one state court has held that "[w]hen more than one person is entitled to trade secret protection with respect to the same information, only that one from

whom misappropriation occurred is entitled to a remedy." [17]

The result is somewhat of a Catch-22: while a trade secret owner may need to be joined in order to satisfy the requirements of prudential standing, the owner itself may not have standing if the trade secret was misappropriated from a licensee and not from the owner.

The practical result in such situations may be the same result as when a necessary party cannot be joined due to lack of jurisdiction: The court must determine whether in "equity and good conscience" the case should be dismissed because the owner is "indispensable." [18] Such an analysis would depend upon the jurisdiction and the facts of the case. [19]

Indeed, the only courts that have thus far considered the issue of joinder in licensee trade secret cases seem to support a case-by-case approach rather than a bright line rule. [20]

For example, one court found that the owner of a trade secret was not a necessary party in part because the owner had already successfully adjudicated its rights in a prior lawsuit and "[e]ach [licensee] ha[d] an individualized basis for its claims against [the defendant], and [the defendant's] ability to assert defenses to those claims [was] in no way affected by [the owner's] absence." [21]

At the federal level, for those bringing a claim under the DTSA, the statute itself provides important guidance, stating that "[a]n owner of a trade secret that is misappropriated may bring a civil action under this subsection...", [22] and defining an "owner" to be "the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed." [23]

Notably, this definition of the term "owner" in the DTSA was initially enacted in 1996 as part of the Economic Espionage Act. In 2016, Congress simply utilized that preexisting definition to describe who may bring a civil action under the DTSA.

To date, no cases have considered whether a nonexclusive licensee qualifies as a licensee under the statute. However, given that the statute does not distinguish between exclusive and nonexclusive licensees, in addition to the fact that numerous courts have found nonexclusive licensees to have standing under state statutes, it seems likely that a court would find that nonexclusive licensees have standing under the DTSA.

Notably, the DTSA does appear to limit standing to owners (legal or equitable) and licensees. Thus, if one does not have either ownership of, or a license to, a trade secret, but only has lawful possession, then one should consider bringing a claim under state law, not federal.

As explained above, numerous courts applying state law have found that mere lawful possession is enough to confer standing under state laws based on the UTSA, so long as all of the other typical requirements of standing are met.

With respect to joinder of a trade secret owner, the DTSA does not appear to require that "only [the person] from whom misappropriation occurred is entitled to a remedy" [24]; rather, the DTSA only requires that the plaintiff be an owner/licensee of a trade secret that has been misappropriated. [25]

Thus, if a licensee files suit for trade secret misappropriation and the trade secret owner is determined to be a necessary party, then joinder appears to be a more likely outcome

under the DTSA than in state court actions.

Both owners and licensees should keep these considerations in mind during any commercial transaction involving trade secrets. For a potential licensee, there may be value in seeking express recognition that the license intends to grant standing to sue in addition to rights to use, including a clause stating that the owner is not a necessary or indispensable party to any misappropriation claim.

Conversely, under some circumstances, a trade secret owner may wish to expressly exclude standing to sue from the rights granted by a license or may seek to include a clause stating that the owner is a necessary and indispensable party to any misappropriation claim.

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[1] See, e.g., *Lujan v. Defs. of Wildlife*, 504 U.S. 555, 560 (1992) (discussing the other requirements of standing: injury-in-fact, causal connection, and redressability).

[2] See *Metso Minerals Indus., Inc. v. FLSmidth-Excel LLC*, 733 F. Supp. 2d 969, 978 (E.D. Wis. 2010); *Bladeroom Grp. Ltd. v. Facebook, Inc.*, No. 5:15-cv-01370-EJD, 2018 U.S. Dist. LEXIS 10905, at \*38 (N.D. Cal. Jan. 2, 2018); *BladeRoom Grp. Ltd. v. Facebook, Inc.*, 219 F. Supp. 3d 984, 991 (N.D. Cal. 2017); see also *DTM Research, L.L.C. v. AT&T Corp.*, 245 F.3d 327, 331-34 (4th Cir. 2001); *Williams-Sonoma Direct, Inc. v. Arhaus, LLC*, 304 F.R.D. 520, 527 (W.D. Tenn. 2015); *Advanced Fluid Sys. v. Huber*, 28 F. Supp. 3d 306, 323 (M.D. Pa. 2014); *DaimlerChrysler Servs. v. Summit Nat'l*, No. 02-71871, 2006 U.S. Dist. LEXIS 32049, at \*26-7 (E.D. Mich. May 22, 2006).

[3] *Advanced Fluid Sys., Inc. v. Huber*, et al., Nos. 19-1722, 19-1752 (3d Cir. Apr. 30, 2020).

[4] See 18 U.S.C.S. § 1836; 18 U.S.C.S. § 1839.

[5] See, e.g., *Woodfords Family Servs. v. Casey*, 832 F. Supp. 2d 88, 98 n.10 (D. Me. 2011) ("[I]n order to prevail on its claim for misappropriation of trade secrets, Woodfords must establish that it owns that which it is striving to keep secret."); *Cytodyn, Inc. v. Amerimmune Pharm., Inc.*, 160 Cal. App. 4th 288, 297, 72 Cal. Rptr. 3d 600 ("Under the UTSA, a prima facie claim for misappropriation of trade secrets requires the plaintiff to demonstrate: (1) the plaintiff owned a trade secret . . .") (internal quotation marks and citation omitted); *Brigham Young Univ. v. Pfizer, Inc.*, No. 2:06-CV-890 TS, 2012 U.S. Dist. LEXIS 43261, at \*9 (D. Utah Mar. 26, 2012).

[6] N.C. Gen. Stat. § 66-153.

[7] See *Next Advisor Continued, Inc. v. Lendingtree, Inc.*, 2017 NCBC LEXIS 52, \*18, 2017 NCBC 51; *SCR-Tech LLC v. Evonik Energy Servs. LLC*, 2014 NCBC LEXIS 71, at \*1-2 (N.C. Super. Ct. Dec. 31, 2014).

[8] See *Metso Minerals Indus., Inc. v. FLSmidth-Excel LLC*, 733 F. Supp. 2d 969, 978 (E.D. Wis. 2010); *Bladeroom Grp. Ltd. v. Facebook, Inc.*, No. 5:15-cv-01370-EJD, 2018 U.S. Dist. LEXIS 10905, at \*38 (N.D. Cal. Jan. 2, 2018); *BladeRoom Grp. Ltd. v. Facebook, Inc.*, 219 F. Supp. 3d 984, 991 (N.D. Cal. 2017).

[9] *Alfred E. Mann Found. For Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1360 (Fed. Cir. 2010) (also noting that an exclusive licensee that has received less than "all substantial rights" may be permitted standing as a co-plaintiff with the patent owner).

[10] See *Frank M. Denison, D.D.S., Inc. v. Westmore Dental Arts, P.C.*, No. 80-842, 1981 U.S. Dist. LEXIS 17332, at \*15 (W.D. Pa. Jan. 15, 1981) (noting that patent law appears to provide "the best guidance," and not requiring joinder of the trade secret owner because "[t]he only indicia of ownership not enjoyed by plaintiffs is the right to assign or sub-license their interest in the trade secret."); *Memry Corp. v. Ky. Oil Tech., N.V.*, No. C-04-03843 RMW, 2006 U.S. Dist. LEXIS 94393, at \*26 (N.D. Cal. Dec. 18, 2006).

[11] See *KEWANEE v. BICRON*, 416 U.S. 470, 481 (1974).

[12] *Metso Minerals Indus., Inc. v. FLSmidth-Excel LLC*, 733 F. Supp. 2d 969, 977 (E.D. Wis. 2010).

[13] See *Metso Minerals Indus., Inc. v. FLSmidth-Excel LLC*, 733 F. Supp. 2d 969, 978 (E.D. Wis. 2010); *Bladeroom Grp. Ltd. v. Facebook, Inc.*, No. 5:15-cv-01370-EJD, 2018 U.S. Dist. LEXIS 10905, at \*38 (N.D. Cal. Jan. 2, 2018); *BladeRoom Grp. Ltd. v. Facebook, Inc.*, 219 F. Supp. 3d 984, 991 (N.D. Cal. 2017).

[14] See *Advanced Fluid Sys., Inc. v. Huber, et al.*, Nos. 19-1722, 19-1752 (3d Cir. Apr. 30, 2020); *DTM Research, L.L.C. v. AT&T Corp.*, 245 F.3d 327, 331-34 (4th Cir. 2001); *BladeRoom Grp. Ltd. v. Facebook, Inc.*, 219 F. Supp. 3d 984, 990 (N.D. Cal. 2017); *Williams-Sonoma Direct, Inc. v. Arhaus, LLC*, 304 F.R.D. 520, 527 (W.D. Tenn. 2015); *Metso Minerals Indus., Inc. v. FLSmidth-Excel LLC*, 733 F. Supp. 2d 969, 978 (E.D. Wis. 2010); *Advanced Fluid Sys. v. Huber*, 28 F. Supp. 3d 306, 323 (M.D. Pa. 2014); *DaimlerChrysler Servs. v. Summit Nat'l*, No. 02-71871, 2006 U.S. Dist. LEXIS 32049, at \*26-7 (E.D. Mich. May 22, 2006).

[15] See *Elk Grove Unified Sch. Dist. v. Newdow*, 542 U.S. 1, 12 (2004) (discussing the requirements of Article III standing and prudential standing, and noting that prudential standing encompasses a prohibition against "raising another person's legal rights"); *Lans v. Digital Equip. Corp.*, 252 F.3d 1320, 1328 (Fed. Cir. 2001) (applying prudential standing doctrine to patent infringement plaintiff who lacked title to the asserted patent); *Frank M. Denison, D.D.S., Inc. v. Westmore Dental Arts, P.C.*, No. 80-842, 1981 U.S. Dist. LEXIS 17332, at \*14-15 (W.D. Pa. Jan. 15, 1981) ("Of course, the fact that the [trade secret] licensee may bring a suit for misappropriation on his own behalf does not dictate the answer to the question raised by defendants as to whether the owner is a necessary or indispensable party to that action.").

[16] *Elk Grove*, 542 U.S. at 12.

[17] *Macquarie Bank Ltd. v. Knickel*, 793 F.3d 926, 936 (8th Cir. 2015) (quoting Uniform Trade Secrets Act § 3 cmt. (2005)).

[18] Cf. *Northrop Corp. v. McDonnell Douglas Corp.*, 705 F.2d 1030, 1042 (9th Cir.

1983).

[19] See *Williams-Sonoma Direct, Inc. v. Arhaus, LLC*, 304 F.R.D. 520, 530-31 (W.D. Tenn. 2015) (contrasting approaches in different jurisdictions).

[20] See *Faiveley Transp. USA, Inc. v. Wabtec Corp.*, 758 F. Supp. 2d 211, 219 (S.D.N.Y. 2010); *Westmore Dental Arts*, 1981 U.S. Dist. LEXIS 17332, at \*8-19.

[21] *Faiveley Transp. USA, Inc. v. Wabtec Corp.*, 758 F. Supp. 2d 211, 219 (S.D.N.Y. 2010).

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[24] *Knickel*, 793 F.3d at 936 (quoting Uniform Trade Secrets Act § 3 cmt. (2005)).

[25] See 18 U.S.C.S. § 1836 ("[a]n owner of a trade secret that is misappropriated may bring a civil action under this subsection...").