UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

ACOUSTIC TECHNOLOGIES, INC.,
Plaintiff,

v.

CIVIL ACTION NO.
10-10500-NMG

ITRON, INC.,
Defendant.

REPORT AND RECOMMENDATION RE:
DEFENDANT'S MOTION TO DISMISS FOR LACK OF STANDING
(DOCKET ENTRY # 9)

December 21, 2010

BOWLER, U.S.M.J.

Pending before this court is a motion to dismiss filed by defendant Itron, Inc. ("Itron") pursuant to Rule 12(b)(1), Fed R. Civ. P. ("Rule 12(b)(1)"), and Rule 12(b)(6), Fed R. Civ. P. ("Rule 12(b)(6)"). (Docket Entry # 9). Itron submits that plaintiff Acoustic Technologies, Inc. ("ATI") is only a co-owner of the patents in suit[1] and therefore lacks standing and subject matter jurisdiction to bring this patent infringement action.

ATI maintains that it is prudential standing that applies

[1] The patents in suit are: U.S. Patent No. 5,986,574 ("the '574 patent") covering "A System and Method for Communication between Remote Locations" and two continuation patents of the '574 patent consisting of U.S. Patent No. 6,239,722 ("the '722 patent") and U.S. Patent No. 6,509,841 ("the '841 patent").

and that CIC Global, LLC ("CIC Global"), the purported co-owner and assignee of the ownership interests of PECO Energy Company ("PECO") in the patents in suit, is not a necessary party under Rule 19, Fed. R. Civ. P. ("Rule 19"). Ownership of the patents in suit turns upon the construction of a January 20, 2005 Intellectual Property Rights Agreement ("the IPR") between ATI, CIC Global and PECO placed in context of a November 8, 2004 arbitration decision and various prior agreements between ATI and PECO. In a lengthy opinion, an arbitrator resolved issues regarding PECO's alleged breach of a settlement agreement with ATI. ATI and Itron dispute the meaning of the IPR and its effect upon PECO or CIC Global's alleged co-ownership of the patents in suit at the time.

After hearing oral argument on October 19, 2010, this court took the motion to dismiss (Docket Entry # 9) under advisement.

STANDARD OF REVIEW

"Rule 12(b)(1) is the proper vehicle for challenging a court's subject matter jurisdiction." Valentin v. Hospital Bella Vista, 254 F.3d 358, 362-363 (1st Cir. 2001). Because federal courts are courts of limited jurisdiction, federal jurisdiction is never presumed. See Viqueira v. First Bank, 140 F.3d 12, 16

(1st Cir. 1998). A court should treat all well-pleaded facts as true and provide the plaintiff the benefit of all reasonable inferences. Fothergill v. United States, 566 F.3d 248, 251 (1st Cir. 2009). Dismissal is only appropriate when the facts alleged in the complaint, taken as true, do not support a finding of federal subject matter jurisdiction. Id.

To survive a Rule 12(b)(6) motion to dismiss, the complaint must include factual allegations that when taken as true demonstrate a plausible claim to relief even if actual proof of the facts is improbable. Bell Atlantic v. Twombly, 550 U.S. 544, 555-558 (2007). Thus, while "not equivalent to a probability requirement, the plausibility standard asks for more than a sheer possibility that a defendant has acted unlawfully." Boroian v. Mueller, 616 F.3d 60, 65 (1st Cir. 2010) (internal quotation marks omitted). "[A]ccepting as true all well-pleaded facts in the complaint and making all reasonable inferences in the plaintiff's favor," Id. at 64, the "factual allegations 'must be enough to raise a right to relief above the speculative level.'" Gorelik v. Costin, 605 F.3d 118, 121 (1st Cir. 2010).

In order to assess the merits of a Rule 12(b)(6) motion, a court should consider the complaint and any documents attached to it. See Trans-Spec v. Caterpillar, 524 F.3d 315, 321 (1st Cir. 2008). It is therefore appropriate to consider the attached opinion by the arbitrator as well as the patents in suit.

Exceptions to restricting Rule 12(b)(6) review to the complaint exist "'for documents the authenticity of which are not disputed by the parties; for official public records; for documents central to [the] plaintiffs' claim; [and] for documents sufficiently referred to in the complaint.'" Mississippi Public Employees' Retirement System v. Boston Scientific Corp., 523 F.3d 75, 86 (1st Cir. 2008) (quoting Watterson v. Page, 987 F.2d 1, 3 (1st Cir. 1993) (brackets in original). These exceptions thus allow this court to review and consider the settlement agreement, the authenticity of which neither party disputes and which the complaint references.[2] See, e.g., Beddall v. State Street Bank and Trust Co., 137 F.3d 12, 17 (1st Cir. 1998) (agreement properly before court when "complaint's factual allegations are expressly linked to-and admittedly dependent upon-a document (the authenticity of which is not challenged"). Consideration of the settlement agreement is also appropriate with respect to the Rule 12(b)(1) challenge as is consideration of an assignment and assumption agreement. See Coyne v. Cronin, 386 F.3d 280, 286 (1st Cir. 2004); Dynamic Image Technologies, Inc. v. U.S., 221 F.3d 34, 37 (1st Cir. 2000); Callahan v. U.S., 337 F.Supp.2d 348, 350 n. 2 (D.Mass. 2004).

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[2] It is not appropriate to consider the assignment and assumption agreement attached to ATI's sur-reply (Docket Entry # 16, Ex. A) as part of the Rule 12(b)(6) record. It is extraneous to the complaint and does not fall within an exception.

<u>BACKGROUND</u>[3]

PECO is a public utility that distributes electric energy and installs meters at user locations. Prior to the 1990s, billing customers was labor intensive because PECO employees visited each user's home or business to read the meters. In or around 1994, PECO began developing a means of automatically reading customer meters and transmitting these readings to its billing system ("AMR system"). Other utilities also sought AMR systems during this time period.

PECO envisioned a system in which meters grouped together would communicate with a concentrator. The concentrator would then relay the data to a central computer or control device. In late 1996, PECO consulted with ATI in order to overcome design difficulties encountered in developing a workable system. ATI finalized the design which included a concentrator meter invented by Reada Bassiouni ("Bassiouni"), ATI's President. As an employee, Bassiouni assigned all of his rights in the concentrator meter to ATI.

By the second half of 1997, ATI had development

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[3] Citations to the record are provided only for direct quotations.

specifications for a two way AMR system. This version of the system used a concentrator meter to both measure electric usage at a user’s location and relay the data between discrete groups of meters and a central computer. The short range concentrator communicated with the defined groups of meters and then employed a wide area network (“WAN”) to transmit the data to the central device over power lines.

ATI also designed another version using a communication link to carry data from individual meters to a central computer utilizing a code division multiple access device. This alternate design consisted of:

> (i) the relay between the meters and central computer or control device would contain a code-division multiple access (CDMA) communication link for carrying data and would communicate with the meters and/or central computer through this link; (ii) the metering device and central computer would communicate.

(Docket Entry # 1, ¶ 20). Similar to this design, the ’841 patent claims a CDMA communication link:

> 8. A system for remote two-way meter reading comprising:
>
> a metering device comprising means for measuring usage and for transmitting data associated with said measured usage in response to receiving a read command;
>
> a control for transmitting said read command to said metering device and for receiving said data associated with said measured usage transmitted from said metering device; and

> a relay for code-division multiple access (CDMA) communication between said metering device and said control, wherein said data associated with said measured usage and said read command is relayed between said control and metering device by being passed through said relay.

(Docket Entry # 1, Ex. B).

On September 9, 1997, ATI and PECO executed a production agreement entitled As Sold Scope of Services, Understanding and Contractual Agreement ("the production agreement"). The production agreement included requirements for ATI to develop final technical specifications for the two way AMR system and production models for a concentrator meter and an insert for power lines communications ("PLC"). The settlement agreement defines "Contract IP" as "all intellectual property developed by ATI pursuant to [the production agreement], including Development Deliverables." (Docket Entry # 11, Ex. A, ¶ 4). The IPR also quotes this definition of Contract IP in a whereas paragraph.

During ATI's development of the AMR system in accordance with the production agreement, PECO decided to obtain another AMR systems from a third party. PECO's business direction changed and it sought to terminate the production agreement. ATI and PECO eventfully settled their differences and on September 28, 1999, executed the aforementioned settlement agreement.

Under the settlement agreement, PECO agreed to pay ATI

$1,200,000 and ATI agreed to complete certain testing requirements for the AMR system contained in development deliverables in the production agreement. Notably, PECO and ATI agreed to retain and share exclusive rights to all intellectual property including the developmental deliverables. (Docket Entry # 11, Ex. A, ¶ 4). In addition to this ownership right set out in paragraph four, paragraphs four and five established parameters and limitations in the licensing and assignment of the Contract IP.

Because the IPR references both paragraphs, it is worth setting them out in their entirety. They read as follows:

> 4. ATI and PECO shall each retain and equally share exclusive rights and title to *all* intellectual property developed by ATI pursuant to the September 9, 1997, contract,[4] *including* the Development Deliverables (the "Contract IP"). Except as provided in Section 5 below, neither Party shall license, disclose or assign any of the Contract IP to any other Party without the prior written permission of the other Party.
>
> 5. Within the one year period following the effective date of this Settlement Agreement either Party may assign its rights under the Original Contract as amended by this Settlement Agreement, including Contract IP, to another party without obtaining prior written permission of the other, provided that at the time of the assignment, the assigning Party owns at least twenty (20) percent ownership interest in the party receiving the assignment, gives

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[4] The September 9, 1997 contract refers to the production agreement.

> written notice to the other Party of such assignment and the assignment prohibits the party receiving the assignment from selling, assigning or licensing the Contract IP.

(Docket Entry # 11, Ex. A, ¶¶ 4 & 5).

Thus, paragraph four gave PECO and ATI "exclusive rights and title to all intellectual property" that ATI developed thus encompassing intellectual property. Further, the settlement agreement placed limits on PECO and ATI prohibiting their ability to freely license and assign their equally exclusive rights to third parties.

Paragraph seven of the settlement agreement provided that each party "will execute mutual releases" at which time the production agreement would terminate except to the extent set out in the settlement agreement. The paragraph reads as follows:

> At the time of Settlement Payment by PECO the Parties will execute mutual releases. Upon execution of mutual releases, the [production agreement] shall be terminated and, except as provided in this Agreement, neither Party thereto shall have any rights or obligations thereunder or with respect thereto.[5]

(Docket Entry # 11, Ex. A, ¶ 7). PECO and ATI executed the mutual release in March 2000.

Meanwhile, on October 16, 1997, PECO filed an application

[5] The IPR likewise distinguishes between obligations and rights.

that led to the ’574 patent. Naming Laurence J. Colton (“Colton”) as the inventor and PECO as the assignee, the application claims a system and method for automated meter reading consisting of: (1) a control means; (2) “metering devices arranged into a defined number of metering groups, with each meter containing means” to communicate data associated with usage; and (3) “a defined number of relays, with each” relay device “networked with the control means and one or more metering groups and having the capacity to exchange data between the control means and the metering group.” (Docket Entry # 1, ¶ 28). The United States Patent Office (“the PTO”) initially rejected the application over prior art. After amending the application to add a concentrator meter to the claims using the two way AMR system, the PTO granted the patent on November 16, 1999. The PTO later issued the two continuation patents.

In addition, within one year of the execution of the settlement agreement, PECO assigned the Contract IP and the ’574 patents and the two continuation patents to CIC Global. After ATI learned of the patents, it filed a demand for arbitration arguing that PECO breached the settlement agreement by licensing the patents to CIC Global within the proscribed one year period. ATI and PECO also disputed the meaning and reach of paragraph four of the settlement agreement.

In the November 8, 2004 decision by the arbitrator, he determined that the ’574 patent disclosed intellectual property inventions developed and reduced to practice by ATI pursuant to the production agreement, in other words, Contract IP.[6] Put another way, the decision found that the ’574 patent disclosed Contract IP consisting of both "[t]he PLC insert and concentrator insert." (Docket Entry # 1, Ex. C, p. 22). Noting that PECO had no right "to artificially separate the Contract IP from the patents that clearly describe it," the arbitrator determined that PECO concealed from ATI the assignments of the Contract IP and the patents in suit to CIC Global. (Docket Entry # 1, Ex. C, p. 22).

Rejecting PECO’s counterclaim, the arbitrator issued an award in favor of ATI. In the concluding section captioned "Remedy," he declared that the ’574 patent and the two continuation patents disclosed Contract IP. The relevant language on page 25 of the opinion, heavily relied upon by Itron,

[6] The arbitrator distinguished between "invention in the patent law sense" and Contract IP developed under the production agreement. (Docket Entry # 1, C, pp. 9 & 22). More specifically, he noted that the settlement agreement requires an "invention in the patent law sense" but "refers more broadly to intellectual property." (Docket Entry # 1, C, p. 22).

reads as follows:

> Patent No. 5,986,574 and the continuation patents do disclose intellectual property developed by ATI pursuant to the September 9, 1987 Agreement. Thus Section 4 of the Settlement Agreement applies and ATI shares with PECO (and PECO's assignee, CIC Global) exclusive rights to the 'Contract IP,' including Patent No. 5,986,574 and the reissue patents flowing from that patent. This award so declares.

(Docket Entry # 1, Ex. C, p. 25). The declaration is entirely consistent with the terms of paragraph four of the settlement agreement which provide for ATI and PECO to "equally share exclusive rights and title to all intellectual property developed by ATI pursuant to" the production agreement.[7] (Docket Entry # 11, Ex. A, ¶ 4) (emphasis added). The arbitrator also awarded ATI $2,500,000 representing half of the $5,000,000 contribution PECO made to capitalize CIC Global while recognizing the "significant royalties" to CIC Global from Motorola, Inc. ("Motorola") and Meridian Energy ("Meridian") derived from licenses of Contract IP. (Docket Entry # 1, Ex. C, p. 25).

A little more than two months later, ATI, PECO and CIC Global executed the IPR. The IPR addresses the rights of ATI,

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[7] Significantly, the settlement agreement uses the word "title" which, coupled with the arbitrator's use of "exclusive rights" including the patents in suit, indicates legal title to the patents.

PECO and CIC Global to the Contract IP. For reasons fully explained by the arbitrator and to which this court independently agrees, the ’574 patent discloses claimed inventions that incorporate and include the Contract IP.[8]

The IPR contains a number of recitals in several whereas paragraphs. The seventh whereas paragraph, highlighted by Itron, recites the arbitrator’s declaration “that ATI was a co-owner of the CCP Patents,” defined as the ’574 patent and the two continuation patents. (Docket Entry # 11, Ex. B). Another whereas paragraph recites and quotes the exclusive rights provision in paragraph four of the settlement agreement and the one year prohibition on assignment. The next whereas paragraph recognizes PECO’s execution of the assignment of the Contract IP and the ’574, ’722 and ’841 patents to CIC Global within the one year period.

Following these recitals, the IPR sets out the covenants and terms. The first requirement was that, “PECO shall remit payment of the [arbitrator’s] award in the amount of $2,500,000” along with interest in three business days of the IPR’s execution.

Next, paragraph four consists of a release and discharge by

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[8] Whether this finding and the other findings by the arbitrator apply to an opposing party presents a separate issue.

PECO and CIC Global of all of ATI’s obligations under any contract between the parties. Although limited to a release and discharge of the obligations of ATI, the language is undeniably broad. It reads as follows:

> 4. PECO and CIC Global hereby expressly release and forever discharge ATI and its . . . affiliated or related entities, successors and assigns from any rights, claims, demands or causes of action, known or unknown, suspected or unsuspected, whether in law or in equity, related to or in any manner pertaining to ATI’s obligations under any contract between the Parties, including by way of example, and without limitation, the Research and Development Agreement dated March 13, 1997, . . . the As Sold Scope of Services, Understandings and Contractual Agreement dated September 9, 1997 and the Settlement Agreement dated September 28, 1999.

(Docket Entry # 11, Ex. B, ¶ 4).

Paragraph five is a release and discharge by ATI of any claims or causes of action related to the licensing, assignments or sale of Contract IP to Motorola and Meridian. In pertinent part, the paragraph states:

> 5. . . . ATI recognizes and agrees that the damages awarded to it encompass its rights to share in the licensing, assignment, or sale of the Contract IP to Motorola, Inc., Meridian Energy, and their successors and assigns and expressly releases and forever discharges PECO, CIC Global and their . . . affiliated and related entities, successors and assigns from any claims, demands, or causes of action, known or unknown, suspected or unsuspected, whether in law or in equity, related to any licensing, assignment, or sale of the Contract IP to Motorola, Inc., Meridian Energy, and their successors and assigns.

(Docket Entry # 11, Ex. B, ¶ 5).

Paragraph six releases "the limitations" on the parties' ability to assign or license the Contract IP set forth in paragraphs four and five of the settlement agreement. It does not expressly refer to the exclusive "*title* to the intellectual property" (Docket Entry # 11, Ex. A, ¶ 4) that the first sentence of paragraph four addresses. The language reads as follows:

> 6. The Parties release, remise and discharge each other from the limitations set forth in paragraphs 4 and 5 of the Settlement Agreement dated September 28, 1999 on their right to assign or license the Contract IP and agree that each Party shall be hereinafter allowed, without the consent of any other party, (i) to sell, assign, license, abandon or otherwise transfer its interest in the Contract IP, including the right to retain a nonexclusive license in the Contract IP and (ii) hereinafter to grant nonexclusive licenses to use the Contract IP to third parties or affiliates. PECO and CIC Global shall not be entitled to any proceeds from the sale, assignment, license or other transfer by ATI after the date of this Agreement of an interest in the Contract IP, and ATI shall not be entitled to any proceeds from the sale, assignment, license or other transfer by PECO or CIC Global after the date of this Agreement of an interest in the Contract IP.

(Docket Entry # 11, Ex. B, ¶ 6).

Paragraph eight contains an integration clause. The clause provides that the IPR "constitutes the entire agreement between the Parties with respect to the subject matter hereof, and supercedes and cancels any and all prior discussions" thus evidencing an intent to bar parol evidence. It is also worth noting that the integration clause does not cancel prior "contracts" or prior "agreements" but, instead, "cancels any and all prior discussions, arrangements, and understandings between ATI[,]" PECO and CIC Global "with respect to the subject matter." (Docket Entry # 11, Ex. B, ¶ 8).

Finally, paragraph 11 refers to both parties as "co-owners of the CCP Patents"[9] albeit in the context of addressing a proper response to inquiries from the press. The paragraphs provides that:

> 11. Neither party will issue a press release or otherwise seek media coverage about this Agreement, the parties' dispute or the Arbitration. In the event that a press representative inquires about this Agreement, the Parties' dispute or the Arbitration, the Party receiving the inquiry may respond only by making a reactive comment whose substance shall be similar to and shall not exceed the substance of the following statement: "the parties have resolved their dispute." Notwithstanding the provisions of this paragraph 9[sic], the Parties agree that they have the right to advertise that they are the co-owners of the CCP Patents, without referring to the Parties' dispute or the Arbitration. Upon either Party's request, the other Party will confirm that each Party is a co-owner of the CCP Patents.

(Docket Entry # 11, Ex. B, ¶ 11). Paragraph 11 thus evidences the parties' objective intent to present themselves to the public as co-owners and their understanding of themselves as co-owners

[9] The IPR defines the "CCP Patents" as the patents in suit, to wit, the '574, '722 and '841 patents.

of the patents in suit.

At some point in time after issuance of the patents in suit, ATI learned about Itron's involvement in selling and installing AMR systems. ATI advised Itron about the '574 patent and the two continuation patents and the two entities entered into discussions about licensing the technology from ATI. Itron subsequently terminated the discussions and went on to develop, market and use purportedly infringing AMR systems containing concentrator meters and CMDA communication links. On March 24, 2010, ATI filed this infringement lawsuit against Itron.

DISCUSSION

Itron moves to dismiss this suit on the basis that ATI is a co-owner of the patents in suit and therefore lacks standing to bring this action. (Docket Entry ## 9 & 14). ATI submits that, as the inventor and therefore presumptive owner, ATI has the exclusive right to enforce the patents. Asserting that the arbitration decision did not directly address ownership but did establish its status as the inventor, ATI maintains that it never assigned or transferred its exclusive ownership rights. In any event, standing involves discretionary, prudential jurisdiction and there is no showing that PECO or its assignee is a necessary party under Rule 19, according to ATI. (Docket Entry ## 11 & 16).

A. Standing

As recently explained by the Federal Circuit, "Standing is a constitutional requirement pursuant to Article III and it is a threshold jurisdictional issue." Abraxis Bioscience, Inc. v. Navinta LLC, 2010 WL 4455838, *4 (Fed.Cir. Nov. 9, 2010) (citing Lujan v. Defenders of Wildlife, 504 U.S. 555, 560-61 (1992)). If, at the time suit is filed, the plaintiff "'lacked Article III initial standing, the suit must be dismissed, and the jurisdictional defect cannot be cured' after the inception of the lawsuit." Abraxis Bioscience, Inc. v. Navinta LLC, 2010 WL 4455838, at *5 (dismissing assignee of patent for lack of standing because agreement provided transfer of patents in future after filing of suit). Based "on Supreme Court jurisprudence,[10] . . . 'the plaintiff must demonstrate that it held enforceable title to the patent at the inception of the lawsuit' to assert standing." Abraxis Bioscience, Inc. v. Navinta LLC, 2010 WL 4455838, at *5.

[10] Keene Corp. v. United States, 508 U.S. 200, 207 (1993), and Minneapolis & St. Louis R.R. v. Peoria & Perkin Union Ry. Co., 270 U.S. 580, 586 (1926).

Standing to maintain a patent infringement suit "stems from the Patent Act" under which "[a] patentee" has the remedy of a "civil action for infringement of his patent," 35 U.S.C. § 281, and a patentee includes "the successors in title to the patentee," 35 U.S.C. § 100(d). Israel Bio-Engineering Project v. Amgen, Inc., 475 F.3d 1256, 1264 (Fed. Cir. 2007). Accordingly, "a suit for infringement ordinarily must be brought by a party holding legal title to the patent." AsymmetRx, Inc. v. Biocare Medical, LLC, 582 F.3d 1314, 1318 (Fed.Cir. 2009) (citing and quoting 35 U.S.C. §§ 100(d) and 281).

"The entity to whom the grant of a patent is made by the PTO or that entity's successor in title holds the 'legal title' to the patent." Arachnid, Inc. v. Merit Industries, Inc., 939 F.2d 1574, 1578 n.2 (Fed. Cir. 1991) (internal brackets omitted). "The legal title holder may or may not be the inventor" and the term "'patentee' includes not only the patentee to whom the patent was issued but also the successors in title to the patentee." Id. The '574 patent names PECO as the assignee. (Docket Entry # 1, Ex. A). The '841 patent names CIC Global as the assignee. (Docket Entry # 1, Ex. B). The arbitrator, however, determined that ATI accomplished the reduction to practice and therefore "produced the 'Contract IP'" disclosed in the ’574 patent. (Docket Entry # 1, Ex. C, p. 22). He also determined that ATI shares with PECO and CIC Global exclusive rights to the ’574 patent and the two continuation patents.

In any event, Itron does not argue that ATI had no ownership interest or title to the patents in suit at the time ATI filed the complaint. Rather, Itron argues that ATI was only a co-owner. ATI’s argument that it has exclusive and sole ownership of the patents in suit as the inventor[11] that reduced the patents to practice before the production agreement is unlikely given the facts alleged in the complaint. ATI was still developing the AMR system under the production agreement when “PECO decided to acquire an AMR system from a third-party.”[12] (Docket Entry # 1, ¶ 22). Accordingly, this court turns to the issues involving co-ownership.

Itron asserts that ATI is a co-owner and that all co-owners “must be joined to maintain an infringement action.” (Docket Entry # 14). Joinder of all co-owners of a patent presents an

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[11] This court recognizes the principle that “an invention presumptively belongs to its creator.” Teets v. Chromalloy Gas Turbine Corp., 83 F.3d 403, 407 (Fed.Cir. 1996).

[12] As noted infra, the argument also fails to merit a denial of the motion to dismiss because ATI does not provide adequate legal authority to apply the arbitrator’s invention findings, if any, to Itron. See LR. 7.1(b).

issue of standing but, as ATI notes, it is a prudential issue of standing rather than an Article III constitutional issue of standing. The general rule is that, "When a patent is co-owned, a joint owner must join all other co-owners to establish standing." Enovsys LLC v. Nextel Communications, Inc., 614 F.3d 1333, 1341 (Fed.Cir. 2010); SiRF Tech., Inc. v. Int'l Trade Comm'n, 601 F.3d 1319, 1325 (Fed.Cir. 2010) ("'[a]bsent the voluntary joinder of all co-owners of a patent, a co-owner acting alone will lack standing'"); Israel Bio-Engineering Project v. Amgen, Inc., 475 F.3d at 1264-65 (same); Ethicon, Inc. v. U.S. Surgical Corp., 135 F.3d 1456, 1467 (Fed.Cir. 1998) ("[a]n action for infringement must join as plaintiffs all co-owners"); see Prima Tek II, LLC v. A-Roo Co., 222 F.3d 1372, 1377 (Fed.Cir. 2000). Put another way, "Where one co-owner possesses an undivided part of the entire patent, that joint owner must join all the other co-owners to establish standing." Israel Bio-Engineering Project v. Amgen, Inc., 475 F.3d at 1264.

The Prima Tek court, however, explicitly recognized, however, that the rule "that a patentee should be joined, either voluntarily or involuntarily, in any infringement suit brought by an exclusive licensee" was "prudential rather than constitutional." Prima Tek II, LLC v. A-Roo Co., 222 F.3d at

1377. The Israel case, which considered the standing of an assignee, likewise quoted the prudential and constitutional distinction in a parenthetical summarizing and quoting Prima Tek. Israel Bio-Engineering Project v. Amgen, Inc., 475 F.3d at 1265.

More recently, the Federal Circuit rejected a dissenting opinion that Rule 19 permits the involuntary joinder of a necessary co-owner party except in two limited areas. See DDB Technologies, L.L.C. v. MLB Advanced Media, L.P., 517 F.3d 1284, 1289 n.2 (Fed.Cir. 2008). Simply put and subject to two exceptions, "Rule 19 does not permit the involuntary joinder of a patent co-owner in an infringement suit brought by another co-owner." DDB Technologies, L.L.C. v. MLB Advanced Media, L.P., 517 F.3d 1284, 1289 n.2 (Fed.Cir. 2008) (citing Ethicon, Inc. v. United States Surgical Corp., 135 F.3d at 1468). Given ATI and PECO's litigious history, there is little to indicate that PECO and CIC Global will voluntarily join in these proceedings.

The Ethicon decision as well as the DDB decision set out the two exceptions to involuntary joinder of a patent co-owner. DDB Technologies, L.L.C. v. MLB Advanced Media, L.P., 517 F.3d at 1289 n.2; see also Israel Bio-Engineering Project v. Amgen, Inc., 475 F.3d at 1265 (describing "the Ethicon joint ownership rule" as a "steel trap"). They are: "(1) an exclusive licensee may join the patent owner as an involuntary plaintiff in an infringement suit; and (2) a co-owner who, by agreement, waives his right to refuse to join suit, may be forced to join an infringement suit." Id. (citations omitted). ATI does not identify the existence of a waiver by agreement on the part of PECO or CIC Global of the right to refuse to join an infringement suit.

If PECO or CIC Global is a co-owner, this court also finds they are necessary parties under Rule 19(a). The absence of either party raises the possibility of subjecting Itron to double or otherwise inconsistent obligations. Further, the disposition of this action may impact the reach of the patents in suit thereby impairing their ability to protect their interests in the patents in suit. In addition, PECO and/or CIC Global are indispensable parties within the meaning of Rule 19(b). Analyzing the relevant factors under Rule 19(b), this court finds that in equity and good conscience, this action may not proceed in their absence under Rule 19(b).

In sum, whether under Rule 19 or the foregoing Federal Circuit precedent including the Israel decision, see Israel Bio-Engineering Project v. Amgen, Inc., 475 F.3d at 1268 (concluding that "[w]ithout a complete ownership interest or the voluntary joinder of Yeda, IBEP lacks standing to sue for infringement"), PECO and/or CIC Global, if co-owners, must be joined for ATI to proceed as the other co-party with this infringement lawsuit. Accordingly, this court turns to the disputed issue of the status of PECO and/or CIC Global as co-owners of the patents in suit.[13]

B. Co-Ownership

It is well settled that a patent owner "may assign or transfer [its] ownership interests in the patent." Israel Bio-Engineering Project v. Amgen, Inc., 475 F.3d 1256, 1264 (Fed. Cir. 2007). The assignment must be in writing, see 35 U.S.C. § 261,[14] and, to avoid an assignment conveying a mere license as opposed to legal title, the assignment must be either the whole patent, "an undivided part or share of that exclusive right" or "the exclusive right . . . throughout a specified territory." Lucent Technologies, Inc. v. Gateway, Inc., 543 F.3d 710, 720-721

[13] As noted, the '574 and '841 patents respectively name PECO and CIC Global as the assignee.

[14] As discussed infra, the settlement agreement and any assignment to CIC Global may satisfy this statutory requirement. It is not necessary to resolve the issue, however, because Itron fails to meet its burden that the arbitrator's finding that declares that ATI shares with PECO and CIC Global exclusive rights to Contract IP "including" the patents in suit (Docket Entry # 1, Ex. C, p. 25) applies against ATI.

(Fed.Cir. 2008).

"State law governs contractual obligations and transfers of property rights, including those relating to patents." Regents of University of New Mexico v. Knight, 321 F.3d 1111, 1118 (Fed.Cir. 2003); see, e.g., Enovsys LLC v. Nextel Communications, Inc., 614 F.3d 1333, 1342 (Fed.Cir. 2010) (examining "California law to determine who had an ownership interest in the patents"); Gjerlov v. Schuyler Laboratories, Inc., 131 F.3d 1016, 1020 (Fed.Cir. 1997) (state law governed breach of settlement contract reached in infringement action patent law). In other words, the question of legal title presents an issue of state law. Enovsys LLC v. Nextel Communications, Inc., 614 F.3d at 1342 ("[w]ho has legal title to a patent is a question of state law").

The settlement agreement and the IPR each address co-ownership of the Contract IP. Neither document contains a choice of law clause.[15] Cf. Kara Technology Inc. v. Stamps.com Inc., 582 F.3d 1341, 1349 (Fed.Cir. 2009) ("[b]ecause this is a contract claim, we apply state law" and, "[p]er the terms of Paragraph 12 of the NDA, and as agreed on by the parties, Texas

[15] The settlement agreement dictates that the resolution of any dispute take place in Philadelphia, Pennsylvania. (Docket Entry # 11, Ex. A, ¶ 9).

law governs"); see also U.S. Valves, Inc. v. Dray, 212 F.3d 1368, 1373 (Fed.Cir. 2000) (applying Illinois contract law to breach of contract claim). In any event, Pennsylvania and Massachusetts contract law adheres to similar principles which guide interpretation of the agreements.

Massachusetts law construes an agreement "'to give it effect as a rational business instrument and in a manner which will effectuate the intent of the parties.'" Bukuras v. Mueller Group, LLC, 592 F.3d 255, 262 (1st Cir. 2010). The parties' intent is "'gathered from a fair construction of the contract as a whole and not by special emphasis upon any one part.'" Id. "The words themselves remain the most important evidence of intention." Shane v. Winter Hill Federal Savings and Loan Association, 492 N.E.2d 92, 95 (Mass. 1986). If the words "are plain and free from ambiguity, they must be construed in accordance with their ordinary and usual sense." World Species List-Natural Features Registry Institute v. Reading, 913 N.E.2d 925, 930 (Mass.App.Ct. 2009). "Contract language is ambiguous 'where the phraseology can support a reasonable difference of opinion as to the meaning of the words employed and the obligations undertaken.'" Bank v. Thermo Elemental Inc., 888 N.E.2d 897, 907 (Mass. 2008); President and Fellows of Harvard College v. PECO Energy Co., 787 N.E.2d 595, 601 (Mass.App.Ct.

2003) (same).

Likewise, Pennsylvania law construes an agreement in order to "ascertain and give effect to the intent of the contracting parties." Mace v. Atl. Ref. & Mktg. Corp., 785 A.2d 491, 496 (Pa. 2001); accord American Eagle Outfitters v. Lyle & Scott Ltd., 584 F.3d 575, 587 (3rd Cir. 2009) ("'paramount goal of contract interpretation is to determine the intent of the parties'"). As in Massachusetts, in Pennsylvania it is "'firmly settled that the intent of the parties to a written contract is contained in the writing itself.'" Mace v. Atl. Ref. & Mktg. Corp., 785 A.2d at 496 (citation and internal quotation marks omitted). In the event "the words of a contract are clear and unambiguous, the meaning of the contract is ascertained from the contents alone." Id. "'A contract is ambiguous if it is reasonably susceptible of different constructions and capable of being understood in more than one sense.'" In re Old Summit Mfg., LLC, 523 F.3d 134, 137 (3rd Cir. 2008). "'[L]anguage used in a contract is normally to be given its ordinary meaning in the absence of evidence of some special meaning." Nova Chemicals, Inc. v. Sekisui Plastics Co., Ltd., 579 F.3d 319, 323 (3rd Cir. 2009).

Recognized rules of contract construction include the principle that "a contract is to be construed to give a reasonable effect to *each* of its provisions if possible."

State Line Snacks Corp. v. Town of Wilbraham, 555 N.E.2d 892, 894 (Mass.App.Ct. 1990) (emphasis added); see Strand v. Herrick & Smith, 489 N.E.2d 179, 182 (Mass. 1986) (letter "construed to give reasonable effect to each of its terms, so as not to render any provision superfluous"). In other words, "'An interpretation which gives a reasonable meaning to all of the provisions of a contract is to be preferred to one which leaves a part useless or inexplicable.'" S. D. Shaw & Sons, Inc. v. Joseph Rugo, Inc., 180 N.E.2d 446, 449 (Mass. 1962).

In addition, under Massachusetts law where general and more broadly inclusive language in a contract is inconsistent with more specific language, the latter ordinarily prevails. Lembo v. Waters, 294 N.E.2d 566, 569 (Mass.App.Ct. 1973); accord McDowell v. Von Thaden, 2006 WL 2808092, *1 (Mass.App.Div. Sept. 26, 2006) ("[s]pecific and exact contractual terms are accorded greater weight than general language"); accord Restatement (Second) Contracts § 203(c) ("specific terms and exact terms are given greater weight than general language"). Pennsylvania law likewise provides that "general terms yield to more special terms." First Nat. Bank of East Conemaugh for Use of U. S. Trust Co of Johnstown v. Davies, 172 A. 296, 297-298 (Pa. 1934). Thus, a "recital of the purposes of the instrument cannot control the plain language contained in the body of the instrument." Nelson Dairies, Inc. v. Royal, 6 Pa. D. & C.2d 371, 374 (P.A.C.P.

1955); see First Nat. Bank of East Conemaugh for Use of U. S. Trust Co of Johnstown v. Davies, 172 A. at 297-298 (noting "specifically enumerated items guaranteed . . . control the general statement in the preamble").

With these principles in mind, this court turns to the settlement agreement and the IPR. ATI argues that in the IPR PECO and CIC Global released any exclusive rights to ownership of the patents in suit created under paragraph four of the settlement agreement. ATI also points out that the IPR defines Contract IP separately from the CCP patents in the second and third whereas paragraphs as well as elsewhere in the agreement. (Docket Entry ## 11 & 14).

As stated in paragraph four of the IPR, "PECO and CIC Global . . . expressly release and forever discharge ATI . . . from any rights, claims, demands or causes of action . . . related to or in any manner pertaining to ATI's obligations under any contract between the Parties, including . . . . the Settlement Agreement." (Docket Entry # 11, Ex. B, ¶ 4) (emphasis added). If, as argued by ATI, PECO and CIC Global released all rights granted in the settlement agreement by virtue of this language, there would be no need for the IPR to include paragraph six. In paragraph six, "The parties release . . . each other from the limitations set forth in paragraphs 4 and 5 of the Settlement Agreement." (Docket Entry # 11, Ex. B, ¶ 6). Adhering to the maxim of affording meaning to all contractual provisions dictates that paragraph four of the IPR was a release by PECO and CIC Global of ATI's obligations under the settlement agreement but it was not a release of PECO and CIC Global's right in the settlement agreement to equally share exclusive rights and title to the Contract IP, as stated in the first sentence of paragraph four of the settlement agreement.

By its language, paragraph six of the IPR addresses nonexclusive licenses and assignments. Read in context, paragraph six of the IPR addresses the "limitations" in the second sentence of paragraph four of the settlement agreement that applies to the ability to assign and license the Contract IP and the "limitations" in paragraph five of the settlement agreement which also pertains to a party's ability to assign or license Contract IP without obtaining the prior written consent of the other party. Accordingly, the plain and unambiguous language of the IPR did not effectuate a global release of PECO's and CIC Global's equal and undivided share of intellectual property developed by ATI as set forth in paragraph four of the settlement agreement.

In other words, the first sentence of paragraph four in the settlement agreement endows ATI and PECO with an exclusive right and title to Contract IP. (Docket Entry # 11, Ex. A, ¶ 4, 1st sentence). Paragraph six of the IPR terminates only the "limitations" of the parties' "right to assign or license the Contract IP."

ATI also argues that the IPR distinguishes between Contract IP and the CCP patents, also known as the patents in suit. This is true. Moreover, as previously explained, it is ownership or legal title to the patents in suit that affords a party standing to bring a patent infringement suit.

The acknowledged distinction in the IPR between the Contract IP and the CCP patents, however, does not favor ATI's position. First, ATI posits that paragraph 11 "was meant only to convey that PECO co-owned the right to practice the patents in connection with exploiting the specific AMR system components developed under the Production Contract." (Docket Entry # 16, p. 4; Docket Entry # 11). Paragraph 11 contains no language dissecting "the CCP Patents" into a right to practice the claimed invention or license the claimed invention as opposed to the right to legal title or ownership of the claimed invention. To the contrary, the paragraph does not even distinguish between PECO and CIC Global's rights on the one hand and ATI's rights on the other hand. Instead, the language confers upon each "party" or the "parties"[16] the "right to advertise that they are the co-owners of the CCP Patents" and, upon request, to "confirm that each Party is a co-owner of the CCP Patents." (Docket Entry # 11, Ex. B, ¶ 11).

Affording the term "co-owner" its ordinary meaning in patent law or in common parlance and affording "CCP Patents" the defined meaning as the '574, '772 and '841 patents (Docket Entry # 11, Ex. B, p. 1) indicates that the parties intended to allow themselves the ability to advertise themselves as co-owners of the patents in suit. Further, the fact that the parties knew how to limit ownership to licensing and assignments, as evidenced by their use of these words in paragraph six of the IPR, supports construing the IPR as confirming that ATI shared with PECO and CIC Global the exclusive ownership right to the CCP patents.[17]

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[16] The IPR defines "party" and "parties" as ATI, PECO and CIC Global. (Docket Entry # 11, Ex. B, p. 1).

[17] A writing declaring the ability to advertise as a co-owner of a patent, however, does not necessarily satisfy the writing requirement in 35 U.S.C. § 261. See Abraxis Bioscience, Inc. v. Navinta LLC, 2010 WL 4455838, *7 (Fed.Cir. Nov. 9, 2010) ("an appropriate written assignment is necessary to transfer

Second, ATI maintains that the term "Contract IP" does not include the CCP patents. According to ATI, the arbitrator determined that ATI invented the '574 patent and the continuation patents. Citing the principle that "'an invention presumptively belongs to its creator'" (Docket Entry # 11) (quoting Teets v. Chromalloy Gas Turbine Corp., 83 F.3d 403, 407 (Fed.Cir. 1996)), ATI insists that the arbitrator decisively determined that ATI was the inventor of the patents and that ATI invented the claims in the patents before the September 9, 1999 production agreement. Hence, ATI is the sole owner of the inventions in the patents in suit because it created them before the production agreement and, they do not constitute Contract IP developed under the production agreement. ATI, however, fails to provide a legal basis to apply the particular findings of the arbitrator against Itron, a non-

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legal title from one to the other" and without "transfer of legal title of the patents, Abraxis had no standing to bring this infringement action"); see also Ortho Pharmaceutical Corp. v. Genetics Institute, Inc., 52 F.3d 1026, 1030 (Fed.Cir. 1995) ("[c]ourts look to the substance of an agreement to determine whether it has the effect of an assignment"). The settlement agreement, however, declares that ATI and PECO "equally share exclusive rights and title" to the Contract IP. (Docket Entry # 11, Ex. A, ¶ 4, first sentence). Thus, it might satisfy the writing requirement for present purposes if Contract IP included the '574 patent and the continuation patents. This issue, however, turns upon the effect of the arbitrator's decision on the rights of ATI and Itron.

party to the arbitration proceeding. See LR. 7.1(b).

Itron understandably relies heavily on the foregoing language at page 25 which plainly declares that the ’574 patents and the continuation patents disclose Contract IP and that “ATI shares with PECO” and CIC Global exclusive rights to the Contract IP, including the ’574 patents and the two continuation patents. (Docket Entry # 14, § II; Docket Entry # 9, p. 2). Itron’s assertion appears to raise an issue of defensive use of collateral estoppel or issue preclusion albeit not by name. See generally Martin v. Ring, 514 N.E.2d 663, 664 (Mass. 1987); Jones v. Verizon Communications, Inc., 2009 WL 3488079, *1 (D.Mass. Oct. 23, 2009) (“‘it is well-settled that issue preclusion may apply to arbitration proceedings’”). The application of collateral estoppel is an affirmative defense upon which Itron bears the burden of establishing. See Boston Edison Co. v. U.S., 64 Fed.Cl. 167, 185 (Fed.Cl. 2005) (“party seeking preclusion by collateral estoppel bears the burden of establishing each of the necessary elements”) (collecting cases); accord In re American Bridge Products, Inc., 599 F.3d 1, 7 & n.6 (1st Cir. 2010); Hoult v. Hoult, 157 F.3d 29, 32 (1st Cir. 1998) (“burden is upon . . . the party invoking collateral estoppel”). This district also requires at least a modicum of citation to legal authority to support a position. See LR. 7.1(b).

The arbitrator's findings are critical to a full understanding of the surrounding circumstances in which the parties entered into the IPR. See Wilmot H. Simonson Co., Inc. v. Green Textiles Associates, Inc., 755 F.2d 217, 219 (1st Cir. 1985); Davis v. Dawson, Inc., 15 F.Supp.2d 64, 108 (D.Mass. 1998) ("agreement is examined and construed with reference to all of its language and to its general structure and purpose and in light of the circumstances under which it was executed") (internal quotation marks omitted); see also Lower Frederick Tp. v. Clemmer, 543 A.2d 502, 510 (Pa. 1988) ("[i]n ascertaining the intent of the parties, it is proper to consider the surrounding circumstances of the transaction"); In re Mather's Estate, 189 A.2d 586, 589 (Pa. 1963) (intention ascertained "from the entire instrument taking into consideration the surrounding circumstances, the situation of the parties when the contract was made and the objects they apparently had in view and the nature of the subject matter"); see generally Martin v. Monumental Life Ins. Co., 240 F.3d 223, 234 (3rd Cir. 2001). The IPR can only be fully and fairly understood and interpreted when placed in the context of the arbitrator's decision and his conclusion on page 25. Itron, however, does not meet its burden of showing that the arbitration decision and the finding on page 25 can be used defensively against ATI. Accordingly, at this juncture the motion is subject to a denial albeit one without prejudice.

CONCLUSION

In accordance with the foregoing discussion, this court **RECOMMENDS**[18] that the motion to dismiss (Docket Entry # 9) be **DENIED** without prejudice.

/s/ Marianne B. Bowler
MARIANNE B. BOWLER
United States Magistrate Judge

[18] Any objections to this Report and Recommendation must be filed with the Clerk of Court within 14 days of receipt of the Report and Recommendation to which objection is made and the basis for such objection. Any party may respond to another party's objections within 14 days after service of the objections. Failure to file objections within the specified time waives the right to appeal the order.