

## PATENT PRUDENTIAL STANDING

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### INTRODUCTION

Imagine this scenario. You are one of the more fortunate law graduates with a job in this economic environment. You have been working endless hours on a major patent litigation case that yields around \$2.5 million in patent litigation fees for the firm. Your client has been happy with the results. After several years of discovery, the case went to trial on invalidity, infringement, enforceability, and a host of other complex issues. The judge entered a verdict in favor of your client. The parties then spent additional time on post-trial briefings. As predicted, opposing counsel filed an appeal. You informed your client that you are confident the Federal Circuit will affirm the district court's decision on invalidity and infringement. To your surprise, however, the Federal Circuit focuses on whether your client has standing to bring a patent claim in the first place. Neither your client nor the opposing counsel raised any standing issues in the district court or the Federal Circuit. Nevertheless, the Federal Circuit rules that your client lacks something called patent prudential standing.<sup>1</sup> You are bewildered. Unfortunately, you are not alone.

Every year, and after spending precious resources litigating their cases, patent litigants face an unanticipated result in the Federal Circuit: a finding that the plaintiffs lacked prudential standing to bring their infringement

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<sup>1</sup> See *AsymmetRx, Inc. v. Biocare Med., LLC*, 582 F.3d 1314, 1318, 1322 (Fed. Cir. 2009) (ruling that the plaintiff lacked patent prudential standing); *Mentor H/S, Inc. v. Med. Device Alliance, Inc.*, 240 F.3d 1016, 1017 (Fed. Cir. 2001) (per curiam) (holding that the plaintiff did not satisfy the patent prudential standing requirement); see also *A123 Sys., Inc. v. Hydro-Quebec*, 626 F.3d 1213, 1217 (Fed. Cir. 2010) (discussing patent prudential standing). For a discussion of prudential standing in general, see Jeffrey Kahn, *Zoya's Standing Problem, or, When Should the Constitution Follow the Flag?*, 108 MICH. L. REV. 673, 688 (2010) (noting that the judicially-created prudential standing "zone-of-interests" test began in the 1970s "as part of the growth of the administrative state" and that the test "denied standing to litigants who otherwise met constitutional standing requirements if their claims fell outside the 'zone of interests' that the statute or constitutional provision was intended to protect").

claims.<sup>2</sup> In some cases where the district court has already rendered a verdict, or the parties never raised a standing issue on appeal, the Federal Circuit zealously decides *sua sponte* to address whether the plaintiff has patent prudential standing to litigate.<sup>3</sup> Rather than stabilizing the process, the Federal Circuit's patent prudential standing rulings have injected uncertainty into the court's case law and have added further expense to the already exorbitant cost of patent litigation.<sup>4</sup>

Many judicial districts have sought to reduce excessive litigation costs by adopting local patent rules providing strict procedures and schedules designed to control discovery abuse, shorten litigation time, and establish certainty.<sup>5</sup> Nevertheless, vast resources spent on years of discovery, *Markman* hearings,<sup>6</sup> and full trials on invalidity, infringement, enforceability, and damages are nullified when the Federal Circuit ultimately decides to rule that a plaintiff lacks standing. Consequently, the Federal Circuit undermines lower court efforts, reinserting uncertainty and imposing additional costs.

But what is patent prudential standing? The Federal Circuit has mandated that in order to satisfy patent prudential standing, a plaintiff must possess all "substantial rights" to the patent in question, a requirement of particular concern in licensing contexts.<sup>7</sup> If a plaintiff is a licensee and does not have all of the substantial rights, that plaintiff lacks prudential standing

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<sup>2</sup> See generally *Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359, 1368 (Fed. Cir. 2010) (holding that the plaintiff lacked standing to bring the suit after three years of costly litigation on the merits relating to patent and Hatch-Waxman Act issues); *AsymmetRx*, 582 F.3d at 1318 (deciding on plaintiff's standing without the parties having raised the issue on appeal).

<sup>3</sup> See *Mentor H/S*, 240 F.3d at 1017 (ruling on standing even though the parties did not appeal on standing); see also *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1374-76 (Fed. Cir. 2000) (focusing on standing after several years of litigation in the district court).

<sup>4</sup> See John C. Paul & D. Brian Kacedon, *Exclusive Patent Licensees May Have Standing to Sue for Infringement Even if Others Have the Right to License the Patent*, FINNEGAN (Jan. 24, 2011), <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=7853c148-f3b8-46a3-927b-8b45ec995719> (noting the difficulty of ascertaining with certainty which parties have standing to sue for patent infringement). See also Judge Pauline Newman's critique that the Federal Circuit's decisions on standing waste resources but fail to support any policy. *Abraxis*, 625 F.3d at 1368 (Newman, J., dissenting).

<sup>5</sup> See generally Xuan-Thao Nguyen, *Justice Scalia's "Renegade Jurisdiction": Lessons for Patent Law Reform*, 83 TUL. L. REV. 111, 140 (2008) (discussing local patent rules and how the Eastern District of Texas has transformed itself with its local rules).

<sup>6</sup> Patent claims construction hearings are referred to as *Markman* hearings after *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996), in which the Supreme Court held that claims construction is a matter of law decided by judges, not jurors.

<sup>7</sup> See generally *A123 Sys., Inc. v. Hydro-Quebec*, 626 F.3d 1213, 1217 (Fed. Cir. 2010) ("Under long-standing prudential standing precedent, an exclusive licensee with less than all substantial rights in a patent, such as a field-of-use licensee, lacks standing to sue for infringement without joining the patent owner.").

and cannot maintain a patent suit.<sup>8</sup> How one satisfies patent prudential standing is both unclear from precedent and fraught with uncertainty in practice. For example, the Federal Circuit has ruled that a licensee may lack prudential standing even when granted an exclusive right to make, use, and vend the licensed patent for the duration of the patent term, and despite having met constitutional standing requirements.<sup>9</sup> Indeed, regardless of whether constitutional standing has been satisfied, a plaintiff must still satisfy the patent prudential standing requirement by meeting the “all substantial rights” requirement laid down by the court.<sup>10</sup> In other words, whether a plaintiff has standing or not is within the Federal Circuit’s discretion.<sup>11</sup>

In exercising that discretion, the Federal Circuit has frequently engaged in unpredictable analyses of what constitutes “substantial rights” in a patent and whether a plaintiff licensee has acquired all the substantial rights to a given patent.<sup>12</sup> What constitutes substantial rights in one case does not seem to hold true in subsequent cases.<sup>13</sup> Further, while an exclusive licensee can be deemed to be a patent owner in one case and therefore have standing, in other cases exclusive licensees are ruled to lack standing either with or without leave to cure the defect.<sup>14</sup> The Federal Circuit’s confusing test breeds further uncertainty because the court has devised different categories

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<sup>8</sup> See *Prima Tek II*, 222 F.3d at 1382 (finding that the licensor had retained some rights in the patents and that the exclusive licensee therefore did not receive all substantial rights in the patents and so lacked prudential standing to bring suit).

<sup>9</sup> See *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1336, 1348 (Fed. Cir. 2001) (holding that the exclusive licensee lacked prudential standing despite a grant provision according the licensee “an exclusive license, to make, use, and sell the inventions, the right to grant sublicenses, the right to collect monies, damages and/or royalties for past infringement and the right to bring legal action to collect the same” (internal quotation marks omitted)).

<sup>10</sup> See *Totes–Isotoner Corp. v. United States*, 594 F.3d 1346, 1352 (Fed. Cir. 2010) (“In addition to Article III standing requirements, [the plaintiff] must also meet prudential standing requirements.”); see also *Intellectual Prop. Dev.*, 248 F.3d at 1348 (“The general principle . . . in any infringement suit brought by an exclusive licensee having fewer than all substantial rights is prudential rather than constitutional.” (citing *Prima Tek II*, 222 F.3d at 1377)).

<sup>11</sup> See *Intellectual Prop. Dev.*, 248 F.3d at 1348 (“In addition to the three-prong Article III standing test . . . standing doctrine embraces judicially self-imposed limits, known as prudential limits, on the exercise of jurisdiction.” (citing *Allen v. Wright*, 468 U.S. 737, 751 (1984))). Judicially-created prudential standing requirements are “founded in concern about the proper—and properly limited—role of the courts in a democratic society.” *Warth v. Seldin*, 422 U.S. 490, 498 (1975). Outside of patent cases, the prudential standing requirements preclude causes of action where a plaintiff’s grievance is not within the zone of interests under a statute. See, e.g., *Allen*, 468 U.S. at 751.

<sup>12</sup> See *Propat Int’l Corp. v. RPost, Inc.*, 473 F.3d 1187, 1192-93 (Fed. Cir. 2007); *Int’l Gamco, Inc. v. Multimedia Games, Inc.*, 504 F.3d 1273, 1280 (Fed. Cir. 2007); *Prima Tek II*, 222 F.3d at 1377-78.

<sup>13</sup> See *infra* Part IV.

<sup>14</sup> “We explained that the requirement that the exclusive licensee must normally join the patent owner in any suit on the patent is a ‘prudential’ requirement, not a constitutional requirement based on Article III limitations, and that an action brought by the exclusive licensee alone may be maintained as long as the licensee joins the patent owner in the course of the litigation.” *Propat Int’l*, 473 F.3d at 1193.

of standing outcome based on whether the exclusive licensee has *sufficient* substantial rights.<sup>15</sup> As a result, the inquiry into whether patent prudential standing exists is itself confounding and costly because neither attorneys nor litigants can confidently interpret or predict the court's seemingly intractable standing precedent.<sup>16</sup> Such an incoherent doctrine begs for a different approach.

To be fair, the Federal Circuit is not alone in creating convoluted standing requirements.<sup>17</sup> Outside the patent arena, standing has been in crisis mode for the last several decades.<sup>18</sup> Standing doctrine and court precedents on standing have been uniformly and harshly criticized.<sup>19</sup> Generally speaking, standing is a threshold matter.<sup>20</sup> Any standing issue, if one exists, ought to be addressed at the earliest phase of the litigation as a matter of

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<sup>15</sup> *Id.* at 1192.

<sup>16</sup> See *infra* Part II. Standing in non-patent areas suffers harsh criticism. See, e.g., Richard J. Pierce, Jr., *Is Standing Law or Politics?*, 77 N.C. L. REV. 1741, 1758-63 (1999) (providing quantitative and qualitative studies of how appellate decisions on standing are dependent on whether circuit judges were appointed by Republican or Democratic presidents); Cass R. Sunstein, *What's Standing After Lujan? Of Citizen Suits, "Injuries," and Article III*, 91 MICH. L. REV. 163, 168-97 (1992) (applying qualitative methods to demonstrate that judges' standing decisions are influenced by judges' views on substantive law).

<sup>17</sup> Joshua G. Urquhart, *Disfavored Constitution, Passive Virtues? Linking State Constitutional Fiscal Limitations and Permissive Taxpayer Standing Doctrines*, 81 FORDHAM L. REV. 1263, 1268 (2012) (observing that in tax cases the "basic issue of federal court taxpayer standing has been the subject of tens or even hundreds of thousands of pages of academic and judicial commentary over the past several decades"); see also Ann Althouse, *Standing, in Fluffy Slippers*, 77 VA. L. REV. 1177, 1182 n.21 (1991) (listing standing criticisms articulated by scholars).

<sup>18</sup> Daniel E. Ho & Erica L. Ross, *Did Liberal Justices Invent the Standing Doctrine? An Empirical Study of the Evolution of Standing, 1921-2006*, 62 STAN. L. REV. 591, 594 (2010) ("In theory, the doctrine serves a distinct function, namely ensuring that a litigant is the proper party to bring a claim in court. Yet standing remains one of the most contested areas of federal law, with criticisms of the doctrine nearing the number of commentators."); Steven L. Winter, *The Metaphor of Standing and the Problem of Self-Governance*, 40 STAN. L. REV. 1371, 1373 (1988) (observing that, despite efforts to address the standing problem, "standing law remains largely intractable"); see also Robert J. Pushaw, Jr., *Justiciability and Separation of Powers: A Neo-Federalist Approach*, 81 CORNELL L. REV. 393, 480 (1996) (arguing that the root of standing problems is that the standing doctrine is "theoretically incoherent").

<sup>19</sup> See ERWIN CHERMERINSKY, *CONSTITUTIONAL LAW: PRINCIPLES AND POLICIES* 60 (3d ed. 2006) (noting that the incoherent standing doctrine has been frequently attacked in an extensive body of scholarship); 1 LAURENCE H. TRIBE, *AMERICAN CONSTITUTIONAL LAW* 390 (3d ed. 2000) ("[T]he law of standing has for some time been one of the most criticized aspects of constitutional law.").

<sup>20</sup> See Luke Meier, *Using Tort Law to Understand the Causation Prong of Standing*, 80 FORDHAM L. REV. 1241, 1265-69 (2011) (discussing the Supreme Court's cases on creating a "threshold" or gate-keeping function through the standing requirement and explaining how the threshold function is important from both doctrinal and procedural perspectives). The Supreme Court, however, has moved standing inquiry into an inquiry on the merits. See Mark V. Tushnet, *The New Law of Standing: A Plea for Abandonment*, 62 CORNELL L. REV. 663, 663-64 (1977); see also Amanda Leiter, *Substance or Illusion? The Dangers of Imposing a Standing Threshold*, 97 GEO. L.J. 391, 395-400 (2009) (detailing the history of standing law).

judicial efficiency and economy.<sup>21</sup> But scholars have long complained and shown, through both qualitative and quantitative means, that courts are arbitrary and biased in their standing decisions.<sup>22</sup> The nature of patent prudential standing in the Federal Circuit mirrors this broader crisis. Instead of staying clear of the standing doctrine dilemma, the Federal Circuit has forged its own unpredictable path with its patent prudential standing decisions. In some cases, and to the surprise and frustration of litigants and dissenting judges in the Federal Circuit, patent prudential standing has seemingly become a new tool for reversing and vacating district court decisions.<sup>23</sup> Moreover, the Federal Circuit has embarked on another troubling trend by zealously policing patent prudential standing.<sup>24</sup> There is simply no good reason for the Federal Circuit to exacerbate and add to the broader standing maelstrom.

This Article argues that the Federal Circuit's patent prudential standing doctrine is completely unnecessary. The doctrine should be abandoned, and the Federal Circuit should instead follow a Supreme Court precedent dating back to 1926. In *Independent Wireless Telegraph Co. v. Radio Corp. of America*,<sup>25</sup> the Supreme Court directly addressed patent claims made within a licensing context.<sup>26</sup> There, the Supreme Court avoided any analysis of whether the exclusive licensee owned all substantial rights to the patent.<sup>27</sup> Instead, the Supreme Court framed the inquiry around whether the patent's owner is an indispensable party who must be joined as co-plaintiff in order to satisfy statutory requirements of who may bring a patent suit.<sup>28</sup> The *Independent Wireless* Court unequivocally ruled that a patent licensor in an exclusive licensing arrangement is an indispensable party, and therefore jurisdiction under the patent statute is met when the exclusive licensee includes the patent owner in the litigation.<sup>29</sup> The Court's *Independent Wireless* decision was subsequently codified as the rule for joinder, Rule 19, in the Federal Rules of Civil Procedure ("FRCP").<sup>30</sup> The Federal Circuit therefore

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<sup>21</sup> See Paul C. Curmin & Christine M. Ford, *The Critical Issue of Standing Under Section 11 of the Securities Act of 1933*, 6 FORDHAM J. CORP. & FIN. L. 155, 158 (2001) ("Although the question of standing may be raised at any time, it is particularly appropriate to raise the issue in the early stages of litigation.").

<sup>22</sup> See, e.g., Pierce, *supra* note 16, at 1758-63; Sunstein, *supra* note 16, at 168-97 (demonstrating judicial bias in standing decisions); Tushnet, *supra* note 20, at 663-64 (criticizing the Supreme Court as having transformed the standing inquiry into an inquiry on the merits).

<sup>23</sup> See *Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359, 1368 (Fed. Cir. 2010) (Newman, J., dissenting); see also *infra* Part II.

<sup>24</sup> See *infra* Part V.B.

<sup>25</sup> 269 U.S. 459 (1926).

<sup>26</sup> See *id.* at 461; see also *infra* Part III.B, VI.

<sup>27</sup> See *infra* Part VI.

<sup>28</sup> See *Indep. Wireless*, 269 U.S. at 466.

<sup>29</sup> *Id.* at 468.

<sup>30</sup> See FED. R. CIV. P. 19 advisory committee's note (1937), reprinted in 28 U.S.C. app., at 132 (2006).

should abandon its patent prudential standing requirement and instead follow the *Independent Wireless* ruling. In so doing, the court will increase certainty for litigants, eliminate a source of judicial inefficiency, and lower the overall cost of litigation for parties.<sup>31</sup>

Part I of this Article reviews the rise in patent litigation costs and how unpredictable patent standing law has only added to those costs. Part II traces and summarizes how standing doctrine has become a crisis and is subject to almost universal condemnation. Part III examines the Federal Circuit's creation of patent prudential standing and observes that the Federal Circuit's justification for its prudential standing doctrine is highly suspect, particularly given *Independent Wireless*. Part IV examines the "substantial rights" component of the Federal Circuit's patent prudential standing test and the confusion that test has created. Part V details the results of this confusion by reviewing multiple Federal Circuit rulings on prudential standing, assessing cases where the Federal Circuit has devised an imaginary scale of "prudence," and examining how the Federal Circuit zealously focuses on patent prudential standing even when neither the district courts nor the litigants involved have raised the issue. Part VI returns to the Supreme Court's *Independent Wireless* decision, arguing that it provides a better solution to the problem of patent licensees filing infringement suits against third parties. Part VI first details the licensing context in which the *Independent Wireless* Court solved the problem, and then examines the potential benefits to courts and litigants were the Federal Circuit to properly apply the *Independent Wireless* decision and discard its patent prudential standing doctrine. Part VI is then followed by a brief conclusion.

## I. PATENT LITIGATION COSTS AND THE FEDERAL CIRCUIT'S STANDING CRISIS

Patent litigation is costly, and the high cost of patent litigation has become a topic of major concern. Judge Ellis of the Eastern District of Virginia has linked high litigation costs to a potentially negative impact on competition when companies are discouraged from challenging weak patents.<sup>32</sup> Judge Rader has also been vocal about high litigation costs in patent cases and has made several recommendations to curb them.<sup>33</sup> Congress has spent

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<sup>31</sup> See *infra* Part I.

<sup>32</sup> T.S. Ellis, III, *Distortion of Patent Economics by Litigation Costs*, CTR. FOR ADVANCED STUDY & RES. ON INTELL. PROP. 11, 24 (July 2000), <http://www.law.washington.edu/casrip/symposium/Number5/pub5atcl3.pdf> ("[H]igh litigation costs distort patent markets by discouraging challenges to weak, potentially invalid patents and by discouraging potential competition at the borders of a patent's scope.").

<sup>33</sup> Randall R. Rader, *The State of Patent Litigation*, 21 FED. CIR. B.J. 331, 334-35 (2012).

years working on patent reform and has recently included provisions aimed at reducing patent litigation in the new Americans Invent Act.<sup>34</sup>

On average, a patent suit will cost between two and six million dollars depending on the amount in controversy and whether the case proceeds to trial.<sup>35</sup> Before mounting expensive discovery and preparing for trial, parties often decide to engage in motion practice during the early stages of the litigation, allowing courts to resolve questions of venue, jurisdiction, and justiciability.<sup>36</sup> In other cases, the parties proceed directly to litigation in accordance with local patent rules that many district courts have adopted to streamline the process and instill a level of certainty and predictability.<sup>37</sup> Local patent rules typically mandate that the parties focus on disclosure before the initial case management conference.<sup>38</sup> First, disclosure requires the party claiming infringement to submit all infringement claims along with all supporting patent documents.<sup>39</sup> The alleged infringer then typically has only forty-five days to disclose all invalidity claims and supporting

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<sup>34</sup> See Brian Wm. Higgins, *AIA Goals: Reduce Patent Litigation*, MD. INTELL. PROP. L. BLOG (Oct. 16, 2011), <http://www.marylandiplaw.com/2011/10/articles/ip-news-and-trends/aia-goal-reduce-patent-litigation/>. The Act's joinder provision seeks to reduce patent litigation brought by non-practicing entities. See Dennis Crouch & Jason Rantanen, *Rush to Judgment: New Dis-Joinder Rules and Non-Practicing Entities*, PATENTLYO (Sept. 20, 2011, 2:10 PM), <http://www.patentlyo.com/patent/2011/09/rush-to-judgment-new-dis-joinder-rules-and-non-practicing-entities.html>.

<sup>35</sup> The American Intellectual Property Law Association's 2011 survey shows that, for patent cases with amounts in controversy below \$25 million, the litigation cost is \$2 million. For cases with amounts in controversy above \$25 million, the litigation cost reaches \$6 million. See AM. INTELLECTUAL PROP. LAW ASS'N, REPORT OF THE ECONOMIC SURVEY 2011 36 (2011).

<sup>36</sup> See generally Michael Anthony Bottar, *Civil Practice*, 62 SYRACUSE L. REV. 571, 585 (2012) (observing that a frequent motion practice topic is venue); Matthew I. Hall, *Standing of Intervenor-Defendants in Public Law Litigation*, 80 FORDHAM L. REV. 1539, 1556 (2012) (discussing cases where courts decided a motion to dismiss based on whether a case or controversy existed); Katherine C. Sheehan, *Predicting the Future: Personal Jurisdiction for the Twenty-First Century*, 66 U. CIN. L. REV. 385, 440 (1998) (noting the expensive cost of motion practice and suggesting ways to reduce the cost by reforming how personal jurisdiction is decided). Pretrial and motion practice, however, are also very expensive and time consuming. See Matthew R. Huppert, Note, *Commercial Purpose as Constitutional Purpose: Reevaluating Asahi Through the Lens of International Patent Litigation*, 111 COLUM. L. REV. 624, 660 (2011) (stating that pretrial discovery and motion practice can take months or years to complete).

<sup>37</sup> See Arthur Gollwitzer III, *Local Patent Rules—Certainty and Efficiency or a Crazy Quilt of Substantive Law?*, ENGAGE, Mar. 2012, at 94, 95 (asserting that, based on a study, “in districts adopting local patent rules, the average time patent cases were pending decreased by 2 ½ months when compared to the average time pending prior to adopting the rules. Moreover, at the time of adoption, local lawyers seemed to agree that the rules would streamline patent cases by increasing the courts’ efficiency and certainty in handling patent cases” (footnote omitted)).

<sup>38</sup> See, e.g., W.D. TENN. PATENT R. 3.1.

<sup>39</sup> For example, in the Eastern District of Texas, Rule 3.1 of the Local Patent Rules requires that within ten days of the initial case management hearing, the party asserting patent infringement must serve on all parties a “Disclosure of Asserted Claims and Infringement Contentions.” E.D. TEX. PATENT R. 3-1.

documents.<sup>40</sup> The parties will then disclose patent terms for construction and focus on subsequent exchanges prior to claim construction briefings and a *Markman* hearing to determine the scope of the patent claims.<sup>41</sup> The parties then direct their attention to other discovery and prepare for trial. Even in streamlined district court proceedings, it can be prohibitively expensive to engage in all of the procedures and stages required in a typical patent suit.

After years of commitment, the use of precious financial and non-financial resources, and enormous collective effort, neither party wants to see the Federal Circuit decide that the plaintiff lacked standing to bring a patent infringement claim in the first place.<sup>42</sup> Nor do parties want to see their case, after having been litigated on the merits in district court, become focused on a standing matter for the first time on appeal in the Federal Circuit, threatening reversal of the district court's decision and effectively restarting the entire process.<sup>43</sup>

Members of the Federal Circuit have noted the severity of the patent prudential standing problem.<sup>44</sup> Indeed, in *Abraxis Bioscience, Inc. v. Navinta LLC*,<sup>45</sup> Judge Newman of the Federal Circuit captured the exasperation felt by litigants and admonished the Federal Circuit for its convoluted standing jurisprudence in a dissenting opinion:

The district court, applying the laws of contract and property transfer, held that the three patents in suit were owned by the plaintiff Abraxis when this suit was filed, and that the plaintiff had standing to bring this suit. The defendant did not seek interlocutory review of that

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<sup>40</sup> *See id.* at 3-1, 3-3.

<sup>41</sup> *See id.* at 4-1 to -6.

<sup>42</sup> As a threshold issue, standing must be decided at the outset of the litigation, not years after the cases have been decided on the merits. *See Meier, supra* note 20, at 1268-69.

It seems relatively clear that, in describing standing as a threshold matter, the Court has intended both the doctrinal and procedural aspects associated with that word. The *Steel Co.* case directly addressed the doctrinal sequencing point. The procedural points have never been as firmly addressed, but nevertheless a general understanding seems to have emerged. First, on the question of who decides the issue, although never specifically addressed, it seems clear that standing is a legal question that must be determined by a court rather than a fact question to be determined by a jury. Second, on the question of when to decide the issue, the general consensus seems to be that standing decisions are most usefully determined *early* in a lawsuit. As Professors Wright and Miller have stated, it is desirable “to decide standing at the outset [of litigation], as a means of sorting out those suits that do not deserve to proceed toward trial on the merits.” Sometimes this concept is described as a gatekeeping function. This conception of standing (including the fairly traceable requirement) as a threshold issue to be determined at the outset of litigation seems intuitively correct: if the federal court lacks power over the case, this characteristic should be identified as quickly as possible.

*Id.* (alteration in original) (footnotes omitted).

<sup>43</sup> *See infra* Part V.

<sup>44</sup> *See generally* *Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359, 1368 (Fed. Cir. 2010) (Newman, J., dissenting) (discussing the “new and convoluted law unique to the patent aspect of commercial transactions”); *Morrow v. Microsoft Corp.*, 499 F.3d 1332, 1344 (Fed. Cir. 2007) (Prost, J., dissenting).

<sup>45</sup> 625 F.3d 1359 (Fed. Cir. 2010).



ruling; and there have been over three years of litigation, including full trial of infringement of all three patents, and judicial determination of complex questions of law and fact concerning the Hatch-Waxman Act and its application. This court now finds that the plaintiff did not have standing, after all.

The court thus erases the trial, nullifies the judgment, cancels the appeal, and sends the case back so that the parties and the district court and this court can do it all again. However, the court has not shown reversible error in the district court's ruling on the question of standing, a ruling based on state contract and commercial transaction law. Instead, the panel majority creates a new and convoluted law unique to the patent aspect of commercial transactions. No special public policy is served, and no reason exists for creating a new commercial law, divergent from the governing state law, when the subject of the commercial sale is a patent. I must, respectfully, dissent.<sup>46</sup>

Judge Newman's criticism highlights the troublesome path that the Federal Circuit has been taking for some time. The Federal Circuit's decision in *Abraxis* is an illustration of how eager the Federal Circuit has been to seize the standing issue, in some cases disregarding years of litigation and completion of a full trial on infringement.<sup>47</sup> The court's unwelcome standing decision in *Abraxis* obliterated the entire trial—fought so hard by the parties—and ignored the district court's judgment.<sup>48</sup> The decision also terminated the appeal brought by the parties on the merits.<sup>49</sup> Worst of all, the Federal Circuit sent the case back to restart the entire litigation, not for any articulated policy reasons, but “so that the parties and district court and this court can do it all again.”<sup>50</sup>

The Federal Circuit is wastefully increasing litigation costs with its standing jurisprudence, as seen in the *Abraxis* decision. In addition to unnecessarily exorbitant costs, parties also face uncertainty and unpredictability under the Federal Circuit's standing jurisprudence. In the end, parties may doubt the sincerity of the Federal Circuit's desire to reduce litigation costs as espoused by Judge Rader, the current chief judge.

## II. STANDING DOCTRINE IN CRISIS

Litigants simply don't know what to expect from the Federal Circuit with regard to patent prudential standing. Ironically, the Federal Circuit's decisions on standing share company with judges' decisions in non-patent courts, decisions that have propelled standing doctrine into a full crisis in the last several decades.

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<sup>46</sup> *Id.* at 1368 (Newman, J., dissenting).

<sup>47</sup> *Id.*

<sup>48</sup> *Id.*

<sup>49</sup> *Id.*

<sup>50</sup> *Id.*

### A. *Constitutional Standing and Its Crisis*

Courts and scholars generally agree that standing is a threshold requirement without which a plaintiff cannot gain access to the court and the merits of the case will never be heard or decided.<sup>51</sup> Judges, legal scholars, and lawyers can easily recite the black-letter law and underlying policy reasons for the standing doctrine as propounded by Supreme Court precedents and applied in determining whether a plaintiff satisfies constitutional standing.<sup>52</sup> Perhaps in unison, they will all rapidly fire: (1) the plaintiff must suffer an “injury in fact”; (2) the defendant must have caused the injury, and (3) the injury must be redressable by the requested remedy.<sup>53</sup> They will continue by articulating that the three requirements reduce inefficiency in litigation.<sup>54</sup> Standing requirements ensure that courts will be more judicious in taking only concrete cases,<sup>55</sup> and also prevent the judicial branch from encroaching on the legislative and policymaking power of the other two branches of government.<sup>56</sup>

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<sup>51</sup> See generally Warth v. Seldin, 422 U.S. 490, 498 (1975) (standing is a “threshold question in every federal case, determining the power of the court to entertain the suit”); Wayne Batchis, *Suburbanization and Constitutional Interpretation: Exclusionary Zoning and the Supreme Court Legacy of Enabling Sprawl*, 8 STAN. J. C.R. & C.L. 1, 32 (2012) (noting the Supreme Court’s long history of addressing “the enduring threshold requirement that a plaintiff have standing to sue in order for a court to consider a legal claim”); Nancy C. Staudt, *Modeling Standing*, 79 N.Y.U. L. REV. 612, 612-13 (2004) (“Standing is a threshold requirement. Without standing, plaintiffs are barred from court; with it, they quite possibly will get a hearing on the merits.”).

<sup>52</sup> William A. Fletcher, *The Structure of Standing*, 98 YALE L.J. 221, 222 (1988) (asserting that “stated purposes and black-letter doctrine of standing are numbingly familiar” to all); see also Evan Tsen Lee & Josephine Mason Ellis, *The Standing Doctrine’s Dirty Little Secret*, 107 NW. U. L. REV. 169, 170-71 (2012) (noting that for the last forty years courts and litigants have understood that the Supreme Court’s standing doctrine requires imminent injury-in-fact, causation, and redressability as mandated by Article III of the Constitution); Christopher Warshaw & Gregory E. Wannier, *Business as Usual? Analyzing the Development of Environmental Standing Doctrine Since 1976*, 5 HARV. L. & POL’Y REV. 289, 320 (2011) (applying a quantitative method to analyze cases brought in business and environmental law which faced dismissal for lack of standing).

<sup>53</sup> See Allen v. Wright, 468 U.S. 737, 751 (1984) (“A plaintiff must allege personal injury fairly traceable to the defendant’s allegedly unlawful conduct and likely to be redressed by the requested relief.”); see generally Lee & Ellis, *supra* note 52, at 176-83 (explaining in detail the meaning of injury-in-fact, causation, and redressability).

<sup>54</sup> Fletcher, *supra* note 52, at 222 (listing the benefits of standing requirements).

<sup>55</sup> See Staudt, *supra* note 51, at 624 (discussing how standing promotes judicial efficiency and values).

<sup>56</sup> See Lujan v. Defenders of Wildlife, 504 U.S. 555, 576-77 (1992) (refusing to find Article III standing based on citizen suit provisions allowing “any person” to bring suit against the government, and rationalizing standing doctrine on the basis of constitutional limits upon the judiciary and prevention of judicial encroachment on the policymaking function of the elected branches); see also Heather Elliott, *Congress’s Inability to Solve Standing Problems*, 91 B.U. L. REV. 159, 175-76 (2011) (discussing different views on how standing limits and separates the three branches of government). Justice Antonin Scalia has long voiced his view that the standing doctrine is a tool to maintain the separation of powers.

The consensus on standing, however, does not advance any further than these basic tenets. As applied, standing doctrine and judicial decisions on standing have long been subject to scathing criticism, being described as “lawless, illogical, and dishonest.”<sup>57</sup> Scholars disdain standing doctrine as incoherent<sup>58</sup> and standing decisions as a product of judges’ political ideologies.<sup>59</sup> Some scholars have even advocated for abandonment of the standing doctrine.<sup>60</sup> Judge William Fletcher, writing as a law professor, scrutinized standing doctrine and suggested that everyone should “abandon the idea that standing is a preliminary jurisdictional issue, and abandon the idea that Article III requires a showing of ‘injury in fact.’ Instead, standing should simply be a question on the merits of plaintiff’s claim.”<sup>61</sup> Other scholars have advocated solutions to reform standing.<sup>62</sup> Much ink has been spilled in

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See Antonin Scalia, *The Doctrine of Standing as an Essential Element of the Separation of Powers*, 17 SUFFOLK U. L. REV. 881, 881 (1983).

<sup>57</sup> Heather Elliott, *The Functions of Standing*, 61 STAN. L. REV. 459, 501 (2008) (discussing the pathologies of standing and noting that “the incoherence of the standing doctrine has led to repeated accusations that the Court is lawless, illogical, and dishonest”); see Gene R. Nichol, Jr., *Rethinking Standing*, 72 CALIF. L. REV. 68, 68 (1984) (complaining that standing decisions are inconsistent and noting that “[i]n perhaps no other area of constitutional law has scholarly commentary been so uniformly critical”); see also *Valley Forge Christian Coll. v. Ams. United for Separation of Church & State, Inc.*, 454 U.S. 464, 475 (1982) (“We need not mince words when we say that the concept of ‘Art. III standing’ has not been defined with complete consistency in all of the various cases decided by this Court . . .”).

<sup>58</sup> Fletcher, *supra* note 52, at 221 (“The structure of standing law . . . has long been criticized as incoherent.”); Kevin A. Coyle, Comment, *Standing of Third Parties to Challenge Administrative Agency Actions*, 76 CALIF. L. REV. 1061, 1061 n.2 (1988) (noting that other scholars have characterized both the Warren and Burger Courts’ decisions on standing as highly erratic).

<sup>59</sup> See Pierce, *supra* note 16, at 1758-63; Sunstein, *supra* note 16, at 168-97. Recently scholarship on standing reveals standing’s “dirty little secret” or inconsistency. See Lee & Ellis, *supra* note 52, at 175-83 (identifying the contradiction between standing doctrine’s requirements under Article III of the Constitution and the last forty years of federal court decisions on standing).

<sup>60</sup> See generally Fletcher, *supra* note 52, at 223; Cass R. Sunstein, *Standing Injuries*, 1993 SUP. CT. REV. 37, 46-50 (1993) (describing the degree of confusion and manipulability in characterizing injury in standing cases); Tushnet, *supra* note 20, at 680-84.

<sup>61</sup> Fletcher, *supra* note 52, at 223; see also Amy J. Wildermuth & Lincoln L. Davies, *Standing, on Appeal*, 2010 U. ILL. L. REV. 957, 1011 (2010) (“The inefficiency, uncertainty, and inaccuracy generated by standing doctrine also impose large costs on both parties and courts in cases where standing is ultimately found. This is made most clear by those cases at issue here, appellate petitions for review directly from administrative agency decisions, what we have called standing on appeal cases. Indeed, the lack of procedural justice that standing on appeal cases create is yet another reason to urge abandonment of the current standing inquiry altogether, or in favor of some other more procedurally just mechanism.”).

<sup>62</sup> See Heather Elliott, *Standing Lessons: What We Can Learn When Conservative Plaintiffs Lose Under Article III Standing Doctrine*, 87 IND. L.J. 551, 592-97 (2012) (discussing proposals to reform standing).

the development of a corpus of scholarship on standing,<sup>63</sup> yet nothing good has resulted from all that effort thus far.<sup>64</sup>

### B. *Prudential Standing and Its Crisis*

In addition to the incoherence and confusion of constitutional standing, courts have added another layer called prudential standing,<sup>65</sup> which is based on the Supreme Court's "sense of prudent judicial administration."<sup>66</sup> While injury, causation, and redressability are the only constitutional standing requirements, justiciability relating to third party standing and generalized grievances are seen as falling within the prudence of the courts.<sup>67</sup>

In assessing prudential standing, courts typically require plaintiffs to assert their own legal right, not the rights of a third party.<sup>68</sup> Moreover, the court may refuse jurisdiction if the matter merely consists of "'abstract questions of wide public significance' which amount to 'generalized grievances,' pervasively shared and most appropriately addressed in the representative branches."<sup>69</sup> Congress, not the judiciary, has the authority and the capability to address generalized grievances.<sup>70</sup> Under prudential standing,

<sup>63</sup> Forty years ago standing literature was already "enormous." Louis L. Jaffe, *Standing Again*, 84 HARV. L. REV. 633, 633 (1971). The body of critical scholarship continues to grow. See F. Andrew Hessick, *Probabilistic Standing*, 106 NW. U. L. REV. 55, 59 (2012) (arguing that, given the severe criticism of the current standing doctrine, courts should adopt a new approach where they "consider multiple factors, such as the need for judicial review, the quality of decisionmaking, separation of powers, and federalism. This prudential test would be superior to current doctrine not only because it does not rely on a flawed Article III doctrine that implicitly obscures so many different theoretical and practical considerations, but also because it would increase the legitimacy of judicial decisions by promoting transparency").

<sup>64</sup> See Winter, *supra* note 18, at 1373 (observing that, despite efforts to address the standing problem, "standing law remains largely intractable").

<sup>65</sup> Jonathan Remy Nash, Essay, *Standing and the Precautionary Principle*, 108 COLUM. L. REV. 494, 505 (2008) ("The [Supreme] Court over the years has also created other limitations on federal courts' ability to hear cases. These limitations are often called 'prudential' standing doctrines, since they are said to be based not on any constitutional command, but on courts' conceptions of when they should as a matter of prudence decline to hear a certain type of case. Examples of prudential standing doctrines include the prohibition against raising the claims of third parties and the 'zone of interest' test." (footnote omitted)).

<sup>66</sup> Erwin Chemerinsky, *A Unified Approach to Justiciability*, 22 CONN. L. REV. 677, 691 (1990).

<sup>67</sup> See *Valley Forge Christian Coll. v. Ams. United for Separation of Church & State*, 454 U.S. 464, 474 (1982) ("Beyond the constitutional requirements, the federal judiciary has also adhered to a set of prudential principles that bear on the question of standing.").

<sup>68</sup> *Id.* ("[T]his Court has held that [under prudential standing] 'the plaintiff generally must assert his own legal rights and interests, and cannot rest his claim on relief on the legal rights or interests of third parties.'" (quoting *Warth v. Seldin*, 422 U.S. 490, 499 (1975))).

<sup>69</sup> *Id.* at 474-75 (quoting *Warth*, 422 U.S. at 499-500).

<sup>70</sup> Kimberly N. Brown, *Justiciable Generalized Grievances*, 68 MD. L. REV. 221, 244-45 (2008).

courts therefore exercise their prudence to prohibit plaintiffs from asserting claims of a third party or litigating a general grievance.<sup>71</sup>

In reality, though, prudential standing is indistinguishable from constitutional standing. Indeed, Dean and then Professor Erwin Chemerinsky keenly observed that on the surface the distinction between constitutional standing and prudential standing is useful, as it delineates what Congress can or cannot do with respect to each type of standing.<sup>72</sup> For instance, Congress cannot use its power to expand federal judicial review power beyond the boundaries of Article III.<sup>73</sup> But Congress can override prudential limits by passing statutes that disregard prudential requirements and thereby expand federal judicial review.<sup>74</sup> However, according to Professor Chemerinsky, a careful review of judicial decisions on standing reveals that constitutional and prudential standing are indistinguishable.<sup>75</sup> In fact, courts have engaged in futile attempts to make a distinction between constitutional standing and prudential standing.<sup>76</sup> Chemerinsky noted that the constitutional standing requirement of “injury in fact” dictates that the plaintiff, not a third party, must suffer the injury, just as the prudential standing prohibition against third-party claims states that the plaintiff cannot maintain an action if the rights asserted belong to others.<sup>77</sup> What, in reality, makes a requirement constitutional or prudential? Cynically, it is often seen as being merely what “the Court says it is.”<sup>78</sup>

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<sup>71</sup> The Supreme Court has also required that a plaintiff’s complaint fall within “the zone of interests to be protected or regulated by the statute or constitutional guarantee in question.” *Ass’n of Data Processing Serv. Orgs., Inc. v. Camp*, 397 U.S. 150, 153 (1970). Additionally, in environmental law courts have developed several requirements for prudential standing. Specifically, and while courts evaluate whether the claim is within the “zone of interests,” the test is “relaxed” in environmental law because citizen suits are permitted in environmental statutes that “extend[] standing to the outer boundaries set by the ‘case or controversy’ requirement of Article III of the Constitution.” *Warshaw & Wannier*, *supra* note 52, at 298 (alteration in original) (quoting *Ecological Rights Found. v. Pac. Lumber Co.*, 230 F.3d 1141, 1147 (9th Cir. 2000)) (internal quotation marks omitted).

<sup>72</sup> Chemerinsky, *supra* note 66, at 691-92.

<sup>73</sup> *Id.* at 692.

<sup>74</sup> *Id.*

<sup>75</sup> *Id.*

<sup>76</sup> *Id.*

<sup>77</sup> *Id.*

<sup>78</sup> Chemerinsky, *supra* note 66, at 691-92; *see also* Brown, *supra* note 70, at 225-26 (“It is fair to say that, in the view of many, the standard is utterly bankrupt. It has enabled the Supreme Court to produce contradictory rulings on competing constitutional and prudential theories, leaving the standing doctrine hopelessly incoherent and subject to manipulation.”).

### III. TRACING THE CREATION OF THE FEDERAL CIRCUIT'S PATENT PRUDENTIAL STANDING

With the current standing crisis as a backdrop, the Federal Circuit has irrationally injected prudential standing doctrine into patent law. Furthermore, the Federal Circuit's prudential standing jurisprudence has moved the doctrine away from its threshold function or gatekeeping role and forced litigants to expend resources years after they have already engaged in litigation. Worse, the Federal Circuit has focused on prudential standing even in cases where the parties have already litigated and received judgment on the merits, adding further financial burden to the already prohibitively expensive patent litigation process.<sup>79</sup> To understand this degradation of efficiency and certainty, it is worth exploring how and when the Federal Circuit created its patent prudential standing jurisprudence.

#### A. *Move Over Constitutional Standing*

To determine whether a plaintiff satisfies constitutional standing requirements, courts often look to the *Lujan* elements.<sup>80</sup> According to *Lujan v. Defenders of Wildlife*,<sup>81</sup> Article III standing requires the plaintiff to establish that he suffered an "injury in fact," defined as "an invasion of a legally protected interest" that must be both "concrete and particularized" and "actual or imminent, not 'conjectural' or 'hypothetical.'"<sup>82</sup> As previously discussed, the plaintiff must also show that the defendant caused the injury and that the injury is redressable by the requested remedy.<sup>83</sup>

The Federal Circuit, which holds exclusive appellate jurisdiction over patent cases, has added to this constitutional standing baseline with its own prudential standing rule specifically for patent infringement actions.<sup>84</sup> Even a plaintiff with constitutional standing is not automatically granted standing to bring a patent suit.<sup>85</sup> In order for the action to proceed, the plaintiff must

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<sup>79</sup> See *AsymmetRx, Inc. v. Biocare Med., LLC*, 582 F.3d 1314, 1318 (Fed. Cir. 2009) (vacating the district court's decision based on lack of standing); *Mentor H/S, Inc. v. Med. Device Alliance, Inc.*, 240 F.3d 1016, 1017 (Fed. Cir. 2001) (per curiam) (determining the plaintiff lacked standing despite a district court trial on the validity, infringement, and enforceability of the patent).

<sup>80</sup> *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560 (1992).

<sup>81</sup> 504 U.S. 555 (1992).

<sup>82</sup> *Id.* at 560-61 (quoting *Whitmore v. Arkansas*, 495 U.S. 149, 155 (1990) (internal quotation marks omitted)).

<sup>83</sup> The other two elements under *Lujan* are, first, a causal link between the injury and the conduct complained of and, second, that the resulting injury will be "redressed by a favorable decision." *Id.* at 560-61 (quoting *Simon v. E. Ky. Welfare Rights Org.*, 426 U.S. 26, 27 (1976)) (internal quotation marks omitted).

<sup>84</sup> See *Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359, 1363-64 (Fed. Cir. 2010).

<sup>85</sup> See *id.*

satisfy the Federal Circuit's patent prudential standing requirement. As a result, it is ultimately up to the Federal Circuit's own prudence to decide whether the plaintiff has met his standing burden.

Tracing the origin of the Federal Circuit's patent prudential standing leads to two early cases. The Federal Circuit first fully articulated its patent prudential standing doctrine in *Intellectual Property Development, Inc. v. TCI Cablevision of California, Inc.*<sup>86</sup> That case, however, was not the first time that the Federal Circuit penned the word "prudential" in regards to standing for a patent case. The Federal Circuit began justifying prudential standing in *Prima Tek II, L.L.C. v. A-Roo Co.*<sup>87</sup> and cited its own prior cases decided a decade earlier for further support.<sup>88</sup> In other words, the Federal Circuit had prudential standing creation in the making for quite some time.

1. *Intellectual Property Development v. TCI Cablevision of California*

Intellectual Property Development ("IPD") brought a patent infringement suit against TCI Cablevision ("TCI") in the District Court for the Southern District of New York in 1994.<sup>89</sup> A year before the litigation, IPD obtained its patent rights from Communications Patents, Ltd. ("CPL"), a United Kingdom company that had entered into liquidation.<sup>90</sup> The grant accorded IPD numerous rights to the patent.<sup>91</sup> Specifically, the grant provided IPD with an exclusive license "to make, use, and sell the inventions," including the right to grant sublicenses to third parties.<sup>92</sup> IPD had the right to bring legal action for past infringements and collect damages and royalties.<sup>93</sup> IPD was also required to keep CPL informed about any infringement litigation related to the patent.<sup>94</sup> In the event of a settlement related to patent infringement litigation IPD had to obtain prior written consent from CPL, and CPL could not unreasonably withhold the consent.<sup>95</sup> IPD agreed to share equally with CPL any net profits from infringement litigation.<sup>96</sup>

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<sup>86</sup> 248 F.3d 1333 (Fed. Cir. 2001).

<sup>87</sup> 222 F.3d 1372 (Fed. Cir. 2000).

<sup>88</sup> *Id.* at 1377 (citing *Ortho Pharm. Corp. v. Genetics Inst., Inc.*, 52 F.3d 1026, 1030 (Fed. Cir. 1995); *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991)).

<sup>89</sup> *Intellectual Prop. Dev.*, 248 F.3d at 1337.

<sup>90</sup> *Id.* at 1336.

<sup>91</sup> *Id.*

<sup>92</sup> *Id.*

<sup>93</sup> *Id.*

<sup>94</sup> *Id.* at 1337.

<sup>95</sup> *Intellectual Prop. Dev.*, 248 F.3d at 1337.

<sup>96</sup> *Id.*

Armed with those rights, IPD brought its patent infringement claim against TCI, and the parties battled in court for five years.<sup>97</sup> In the first year of the litigation, TCI filed a motion to dismiss on the grounds that IPD lacked standing.<sup>98</sup> The district court dismissed TCI's motion.<sup>99</sup> As the litigation extended into its fifth year, IPD moved to voluntarily dismiss the suit with prejudice.<sup>100</sup> The district court granted the dismissal, but the defendant proceeded to the Federal Circuit, appealing the district court's refusal to dismiss for lack of standing.<sup>101</sup>

With this case, the Federal Circuit announced that prudential standing was a requirement for patent cases. Asserting that the *Lujan* Article III standing test was insufficient for justiciability in the patent context, the Federal Circuit announced that prudential standing would be an additional requirement.<sup>102</sup> With that announcement, the Federal Circuit summarily concluded that as "a prudential principle, an exclusive licensee having fewer than all substantial patent rights" has no prudential standing to bring an infringement case in its own name.<sup>103</sup> Even if the exclusive licensee satisfies the three-prong test under *Lujan*, in the absence of possessing all substantial rights to the patent, the licensee simply cannot sue in its own name.<sup>104</sup> In the case at hand, IPD met the *Lujan* constitutional standing test but failed to satisfy the prudential test.<sup>105</sup> The court asserted that in such cases the licensee must reach out to the patent owner and name that owner as co-plaintiff in order to prudentially satisfy the Federal Circuit's jurisdictional requirement.<sup>106</sup>

The *IPD v. TCI* court cited several Supreme Court opinions for support. However, none of the Supreme Court cases relied on by the Federal Circuit addressed patents.<sup>107</sup> The cases cited also did not involve complainants suffering concrete and particularized injury to their patent rights.<sup>108</sup> For

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<sup>97</sup> *Id.*

<sup>98</sup> *Id.*

<sup>99</sup> *Id.*

<sup>100</sup> *Id.* at 1338.

<sup>101</sup> *Intellectual Prop. Dev.*, 248 F.3d at 1338.

<sup>102</sup> *Id.* at 1348 ("In addition to the three-prong Article III standing test delineated in *Lujan*, standing doctrine embraces judicially self-imposed limits, known as prudential limits, on the exercise of jurisdiction.").

<sup>103</sup> *Id.*

<sup>104</sup> *Id.*

<sup>105</sup> *Id.* at 1349 (stating that the plaintiff "met the constitutional requirements for standing from the outset of its suit").

<sup>106</sup> *Id.* at 1348.

<sup>107</sup> *Allen v. Wright*, 468 U.S. 737, 739-40 (1984); *Valley Forge Christian Coll. v. Ams. United for Separation of Church & State, Inc.*, 454 U.S. 464, 470 (1982); *Warth v. Seldin*, 422 U.S. 490, 493 (1975); *Ass'n of Data Processing Serv. Orgs., Inc. v. Camp*, 397 U.S. 150, 151 (1970).

<sup>108</sup> *Allen*, 468 U.S. at 739-40; *Valley Forge Christian Coll.*, 454 U.S. at 470; *Warth*, 422 U.S. at 493; *Data Processing Serv. Orgs.*, 397 U.S. at 151.



example, at one point the Federal Circuit quoted from *Warth v. Seldin*,<sup>109</sup> a zoning case where the plaintiffs had incurred no injury to themselves, and in which the Supreme Court held that a “plaintiff must assert his own legal rights and interests, and cannot rest his claim to relief on the legal rights or interests of third parties.”<sup>110</sup> The Federal Circuit also quoted from another Supreme Court decision, *Valley Forge Christian College v. Americans United for Separation of Church and State, Inc.*,<sup>111</sup> a case involving taxpayer challenges to a donation of federal property to a religious college.<sup>112</sup> The Supreme Court did not, however, base its decision on prudential standing, and instead cited to *Lujan*’s requirement that judges refrain from “adjudicating ‘abstract questions of wide public significance’ which amount to ‘generalized grievances’ . . . most appropriately addressed in the representative branches.”<sup>113</sup> Finally, the Federal Circuit cited *Allen v. Wright*.<sup>114</sup> *Allen* also did not base its holding on prudential standing, and it was a class action case in which African American parents challenged the Internal Revenue Service for allegedly insufficient procedures in denying tax-exempt status to private schools that promoted racially discriminatory policies.<sup>115</sup>

Returning to *IPD v. TCI*, IPD’s exclusive license granted the right “to make, use, and sell” the inventions; grant sublicenses; and bring legal action for past infringement and collection of damages and royalties.<sup>116</sup> These contractual grants were deemed sufficient to establish concrete and particularized injury in fact against defendant TCI, which was found to have been infringing the patented invention.<sup>117</sup> Additionally, infringement of these important patent rights neither presents an abstract question of generalized grievances nor asserts the rights of a third party. Nevertheless, the Federal Circuit propounded the rule that an exclusive licensee plaintiff such as IPD cannot maintain patent infringement litigation without satisfying the court’s own prudential standing requirements, effectively precluding IPD’s opportunity to recover against its particularized, concrete, and constitutionally sufficient injuries.<sup>118</sup>

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<sup>109</sup> 422 U.S. 490 (1975).

<sup>110</sup> *Intellectual Prop. Dev.*, 248 F.3d at 1348 n.13 (quoting *Warth*, 422 U.S. at 499) (internal quotation marks omitted).

<sup>111</sup> 454 U.S. 464 (1982).

<sup>112</sup> *Id.* at 467-69.

<sup>113</sup> *Id.* at 475 (quoting *Warth*, 422 U.S. at 499-500).

<sup>114</sup> 468 U.S. 737 (1984).

<sup>115</sup> *Allen*, 468 U.S. at 739-40, 751.

<sup>116</sup> *Intellectual Prop. Dev.*, 248 F.3d at 1336.

<sup>117</sup> *Id.* at 1346-47.

<sup>118</sup> *Id.* at 1348 (stating that the only time the exclusive licensee can bring a patent infringement suit in its own name is when the infringer is the patent owner and “cannot sue itself”).

2. *Prima Tek II, L.L.C. v. A-Roo Co.*

While *IPD v. TCI* explicitly stated the rule, the Federal Circuit's patent prudential standing jurisprudence originated a year earlier in *Prima Tek II, L.L.C. v. A-Roo Co.*, the very first case in which the Federal Circuit used the word "prudential."<sup>119</sup> In that case, Southpac owned six patents and granted an exclusive, worldwide right to make, use, and sell products and processes covered by the patents to Prima Tek I.<sup>120</sup> In addition, Southpac provided Prima Tek I the sole and exclusive right to sue third parties for patent infringement and to collect damages for past infringements.<sup>121</sup> Moreover, Southpac was bound by any judgment rendered from litigation that involved the patents at issue.<sup>122</sup> Subsequently, Prima Tek I transferred its rights under the exclusive license agreement to Prima Tek II.<sup>123</sup> In 1997, Prima Tek II and its licensees launched a patent infringement action against A-Roo Company ("A-Roo"), which in turn challenged the Prima Tek plaintiffs on standing.<sup>124</sup>

The district court ordered Prima Tek I to join as a necessary party to the suit and denied A-Roo's standing motion.<sup>125</sup> The parties then litigated the case over the next two years.<sup>126</sup> In 1999, A-Roo conceded to patent infringement, admitted that the patents were not invalid, and agreed to a permanent injunction.<sup>127</sup> After entry of the final decree, the plaintiffs moved for the court to declare that the case was exceptional based on A-Roo's egregious misconduct during the litigation.<sup>128</sup> The district court found that A-Roo had engaged in misrepresentation and "bad faith motion practice" and held that the plaintiffs had shown by clear and convincing evidence that the case was exceptional.<sup>129</sup> Accordingly, attorney's fees and costs were awarded against A-Roo.<sup>130</sup>

A-Roo appealed to the Federal Circuit regarding the district court's judgment that the case was exceptional.<sup>131</sup> In addition, A-Roo argued on appeal that the district court erred in ruling that the plaintiffs had standing

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<sup>119</sup> 222 F.3d 1372, 1377 (Fed. Cir. 2000).

<sup>120</sup> *Id.* at 1374.

<sup>121</sup> *Id.* at 1374-75.

<sup>122</sup> *Id.* at 1375.

<sup>123</sup> *Id.*

<sup>124</sup> *Id.*

<sup>125</sup> *Prima Tek II*, 222 F.3d at 1375-76.

<sup>126</sup> *Id.* at 1376.

<sup>127</sup> *Id.*

<sup>128</sup> *Id.*

<sup>129</sup> *Id.* (internal quotation marks omitted).

<sup>130</sup> *Id.*

<sup>131</sup> *Prima Tek II*, 222 F.3d at 1376.

to bring the suit.<sup>132</sup> The Federal Circuit focused on the standing issue, not whether the case was exceptional.<sup>133</sup>

The Federal Circuit ruled that, pursuant to the original agreement between Prima Tek I and Southpac, Prima Tek I lacked standing to bring a patent infringement suit in its own name.<sup>134</sup> Consequently, the court held that the plaintiffs failed to sustain the suit, and it reversed and vacated the district court's decisions on both attorneys' fees and damages.<sup>135</sup>

In reaching its decision, the Federal Circuit stated that it was adhering to the "general rule" on standing set forth by the Supreme Court that "a patentee should be joined, either voluntarily or involuntarily, in any infringement suit brought by an exclusive licensee."<sup>136</sup> Oddly, despite asserting its adherence to Supreme Court principle, the Federal Circuit dictated its own rule on standing by declaring the "general rule" is "prudential rather than constitutional in nature."<sup>137</sup> In establishing the contours of its new rule, the Federal Circuit examined whether the agreement between the patentee Southpac and the licensee Prima Tek I represented a transfer of all the substantial rights to the patent.<sup>138</sup> According to the Federal Circuit, if the transfer included all substantial rights, only then would the licensee have prudential standing to bring a patent infringement suit against others.<sup>139</sup>

Applying its newly minted prudential standing rule, the Federal Circuit found that the exclusive license agreement between Southpac and Prima Tek I failed to transfer all the patent's substantial rights to Prima Tek I.<sup>140</sup> Engaging in a lengthy discussion of just what rights had been conveyed to the licensee, what rights were retained by the licensor, and what restrictions were imposed in the exclusive license agreement, the Federal Circuit concluded that Prima Tek I lacked standing to sue in its own name.<sup>141</sup> To sup-

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<sup>132</sup> *Id.*

<sup>133</sup> *Id.* at 1376-82.

<sup>134</sup> *Id.* at 1382.

<sup>135</sup> *Id.*

<sup>136</sup> *Id.* at 1377.

<sup>137</sup> *Prima Tek II*, 222 F.3d at 1377.

<sup>138</sup> *Id.* at 1377-78 ("The question before us, then, is whether the assignment from Southpac to Prima Tek I conveyed sufficient rights in the patents . . . [and] whether the assignment transferred 'all substantial rights' in the patents to Prima Tek I.")

<sup>139</sup> *Id.* at 1377 ("[T]his general rule—which we recognize as being prudential rather than constitutional in nature—is subject to an exception. The exception is that, where the patentee makes an assignment of all substantial rights under the patent, the assignee may be deemed the effective 'patentee' . . . and thus may have standing to maintain an infringement suit in its own name.")

<sup>140</sup> *Id.* at 1378-81 (analyzing what rights were conveyed and retained).

<sup>141</sup> *Id.* at 1380. Although Prima Tek I had the sole and exclusive right to sue third parties for patent infringement and to collect damages for past infringement, the right was limited in scope because it was "extinguished—by the sub-license to Prima Tek II." *Id.* That meant after the sublicense to Prima Tek II, Prima Tek I had no "right to exclude others from making, using and selling the patented inventions." *Id.* The Federal Circuit concluded that "Prima Tek I's asserted role as 'effective patentee' is doubtful. We

port its newly formulated requirements, the Federal Circuit cited two older cases, *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*<sup>142</sup> and *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.*,<sup>143</sup> both of which discussed whether a patent agreement is an assignment or a license.<sup>144</sup> Surprisingly, neither case mentioned or discussed any prudential standing principle.

### B. *Suspect Support for Patent Prudential Standing*

As noted above, the Federal Circuit asserted that it was following principles set forth in *Independent Wireless Telegraph Co. v. Radio Corp. of America*, a case decided by the Supreme Court in 1926.<sup>145</sup> However, a careful review of that decision does not support the Federal Circuit's use of *Independent Wireless* as support for its patent prudential standing jurisprudence.

In *Independent Wireless*, Lee De Forest obtained two patents in 1908 and 1909 for devices that would amplify feeble electrical currents and support improvements in "space telegraphy."<sup>146</sup> Mr. De Forest assigned the patents to De Forest Radio Telephone & Telegraph Company ("De Forest Company").<sup>147</sup> De Forest Company then granted "an exclusive license to make, use and sell the devices for the life of the [De Forest] patents to the Western Electric Company, reserving to itself non-exclusive, non-transferable and personal rights to make, use and sell them for defined purposes."<sup>148</sup> Thereafter, Western Electric Company assigned its rights under the patent license agreement to American Telephone and Telegraph Company, which then transferred those same rights to General Electric Company, which in turn assigned the rights to the plaintiff, Radio Corporation of America ("RCA").<sup>149</sup>

RCA received the "exclusive rights to use and sell in the United States, for radio purposes, apparatus for transmission of messages, and especially

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are further troubled by the fact that the agreement gives Prima Tek I virtually no control over the ability to sub-license the patents." *Id.*

<sup>142</sup> 944 F.2d 870 (Fed. Cir. 1991).

<sup>143</sup> 52 F.3d 1026 (Fed. Cir. 1995).

<sup>144</sup> *Prima Tek II*, 222 F.3d at 1377 (citing *Ortho Pharm.*, 52 F.3d at 1030; *Vaupel*, 944 F.2d at 875).

<sup>145</sup> *See id.* ("As a general rule, this court continues to adhere to the principle set forth in *Independent Wireless* that a patentee should be joined, either voluntarily or involuntarily, in any infringement suit brought by an exclusive licensee. However, this general rule [is] . . . prudential rather than constitutional in nature . . ." (citation omitted)).

<sup>146</sup> *Indep. Wireless Tel. Co. v. Radio Corp. of Am.*, 269 U.S. 459, 461 (1926).

<sup>147</sup> *Id.*

<sup>148</sup> *Id.*

<sup>149</sup> *Id.*

for use between ship and shore for pay.<sup>150</sup> RCA then brought an infringement action against the defendant, Independent Wireless Company, for infringing the De Forest patents.<sup>151</sup> The defendant objected to RCA having added the De Forest Company as co-plaintiff without De Forest Company's consent.<sup>152</sup>

The Supreme Court accepted the case to consider whether RCA could “make the De Forest Company a co-plaintiff against its will under the circumstances of the case.”<sup>153</sup> The Supreme Court held that the patentee, the De Forest Company, was an indispensable party for the patent infringement litigation and therefore must be made a plaintiff in the infringement action against Independent Wireless Company.<sup>154</sup> The Court reasoned that the patentee has an obligation to protect all lawful exclusive licensees and sublicensees against infringers and therefore was an indispensable party in the infringement suit.<sup>155</sup>

Nowhere in the *Independent Wireless* decision, however, did the Supreme Court advocate for prudential standing in patent infringement cases, or for the use of an “all substantial rights” standard. Instead, *Independent Wireless* ultimately served a pivotal role in the subsequent development of Rule 19 of the Federal Rules of Civil Procedure in 1937 for joining indispensable parties.<sup>156</sup> Moreover, the Federal Circuit itself would later note that the “holding of *Independent Wireless* was incorporated into the Federal Rules of Civil Procedure in 1937 with the adoption of Rule 19.”<sup>157</sup> In short, by the Federal Circuit's own admission, *Independent Wireless* does not lend support to the Federal Circuit's creation of patent prudential standing.

#### IV. THE UNCERTAIN MEANING OF “ALL SUBSTANTIAL RIGHTS”

Another recurrent complication in the case law is the meaning of “all substantial rights.” The Federal Circuit often claims that standing in patent cases is derived from the patent statute.<sup>158</sup> The patent statute provides that a

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<sup>150</sup> *Id.*

<sup>151</sup> *Id.* at 462.

<sup>152</sup> *Indep. Wireless*, 269 U.S. at 472.

<sup>153</sup> *Id.* at 464.

<sup>154</sup> *Id.* at 473-75 (“We hold that the De Forest Company was properly joined as a co-plaintiff by the Radio Corporation . . .”).

<sup>155</sup> *Id.* (“The objection by the defendant that the name of the owner of the patent is used as a plaintiff in this suit without authority is met by the obligation the owner is under to allow the use of his name and title to protect all lawful exclusive licensees and sub-licensees against infringers, and by the application of the maxim that equity regards that as done which ought to be done.”).

<sup>156</sup> See FED. R. CIV. P. 19 advisory committee's note (1937), *reprinted in* 28 U.S.C. app., at 132 (2006).

<sup>157</sup> *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1377 (Fed. Cir. 2000).

<sup>158</sup> *Id.*; *Ortho Pharm. Corp. v. Genetics Inst., Inc.*, 52 F.3d 1026, 1030 (Fed. Cir. 1995).

“patentee” is entitled to bring a civil action for infringement of his patent.<sup>159</sup> The statute also defines the patentee as including the “successors in title to the patentee.”<sup>160</sup> Accordingly, the Federal Circuit asserts that a plaintiff has prudential standing only if he possesses “all substantial rights” to the patent from the licensor.<sup>161</sup> However, determining what will satisfy that requirement is difficult based on the Federal Circuit’s wavering and incongruous precedent.

#### A. “All Substantial Rights” Confusion

Generally, a nonexclusive licensee will have no standing to bring suit or even join a suit with the patentee because it does not possess all substantial rights to the licensed patent and, as such, suffers no legal injury from patent infringement.<sup>162</sup> Obviously, an exclusive licensee possesses more rights in the patent than a nonexclusive licensee but enjoys fewer rights than an assignee of the patent.<sup>163</sup> The theory goes that an exclusive licensee becomes the “effective patentee” only if the transaction between an exclusive licensor and exclusive licensee grants “all substantial rights” to the patent.<sup>164</sup> In that case, the exclusive licensee will satisfy patent prudential standing’s “all substantial rights” requirement and can therefore bring a patent infringement suit without the patentee.<sup>165</sup>

But what are “all substantial rights”? Which rights will be deemed “substantial” to the patent, and which rights will not be accorded “substantial right” status? The Federal Circuit provides a circular definition stating that “all substantial rights” are “those rights sufficient for the licensee or assignee to be ‘deemed the effective patentee’” under the patent statute.<sup>166</sup> Moreover, the Federal Circuit proclaims that each transaction is “unique,” and therefore the Federal Circuit “‘must ascertain the intention of the parties and examine the substance of what [the licensing agreement] granted’ to determine if it conveys all of the substantial rights in the patent and is

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<sup>159</sup> 35 U.S.C. § 281 (2006).

<sup>160</sup> *Id.* § 100(d).

<sup>161</sup> *Prima Tek II*, 222 F.3d at 1377.

<sup>162</sup> A nonexclusive licensee has no constitutional standing to bring suit because the nonexclusive licensee does not own all the substantial rights in the patent and suffers no legal injury from infringement. *See Ortho Pharm.*, 52 F.3d at 1031; *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1551-52 (Fed. Cir. 1995).

<sup>163</sup> *See Rite-Hite*, 56 F.3d at 1551-52.

<sup>164</sup> *See Sicom Sys. Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 974 (Fed. Cir. 2005) (noting that the district court “concluded that ‘Sicom does not possess the substantial rights necessary to be an “effective patentee” for purposes of granting Sicom standing’”).

<sup>165</sup> *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991).

<sup>166</sup> *See Sicom*, 427 F.3d at 976 (quoting *Prima Tek II*, 222 F.3d at 1377).

sufficient to grant standing to the licensee.”<sup>167</sup> In other words, the Federal Circuit has taken on a trial court’s role in determining the facts and intent of the parties.<sup>168</sup>

As a result, the Federal Circuit decisions determining whether “all substantial rights” have been conveyed for purposes of standing furnish a body of law that is both unclear and unpredictable. For example, in *Prima Tek II*, discussed supra, the Federal Circuit determined that Prima Tek I was not granted all substantial rights to the patents from Southpac, even though Prima Tek I had the sole exclusive right to sue third parties for infringement and to collect damages for past infringements, and Southpac had agreed to be bound by judgments on validity, infringement, and enforceability rendered from a suit involving the patents at issue.<sup>169</sup> Prima Tek I also received the exclusive right to make, use, and sell products and processes covered by the patents.<sup>170</sup> The Federal Circuit rested its decision on the fact that Prima Tek I had no ability to control sublicensees of the patents.<sup>171</sup> The Federal Circuit’s reasoning on sublicensing rights in this case, however, was antithetical to the result in *IPD v. TCI*.

As previously discussed, IPD purchased the patent at issue from CPL when CPL entered liquidation.<sup>172</sup> IPD received the right to make, use, and sell the invention.<sup>173</sup> IPD had the right to grant sublicenses, the right to collect royalties and damages for past infringements, and the right to bring litigation.<sup>174</sup> The agreement also accorded IPD the right to bring legal action under the purchased patent in IPD’s “own name to prevent infringement” or to “collect damages for past infringement” or to “defend proceedings” in which CPL was not a necessary party to the action, provided that IPD sought consent from CPL.<sup>175</sup> CPL agreed not to unreasonably withhold consent.<sup>176</sup> In addition, IPD was not allowed to assign benefits under the agreement to a third party without prior consent from CPL.<sup>177</sup> This time, the

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<sup>167</sup> *Id.* (quoting *Prima Tek II*, 222 F.3d at 1378) (alteration in original).

<sup>168</sup> See Timothy Denny Greene, “All Substantial Rights”: Toward Sensible Patent Licensee Standing, 22 FED. CIR. B.J. 1, 23 (2012) (critiquing the Federal Circuit’s “all substantial rights” cases as “tend[ing] toward semantic mush rather than functional or pragmatic analysis, which tends only to muddy the standard, confusing courts and litigants and injecting uncertainty into the litigation process”).

<sup>169</sup> *Prima Tek II*, 222 F.3d at 1374-75.

<sup>170</sup> *Id.* at 1374.

<sup>171</sup> *Id.* at 1380.

<sup>172</sup> *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1336 (Fed. Cir. 2001).

<sup>173</sup> *Id.*

<sup>174</sup> *Id.* (noting that through a liquidator, CPL and IPD entered into an agreement that accorded IPD “an exclusive license, to make, use, and sell the inventions, the right to grant sublicenses, the right to collect monies, damages and/or royalties for past infringement and the right to bring legal action to collect the same” (internal quotation marks omitted)).

<sup>175</sup> *Id.* at 1336-37.

<sup>176</sup> *Id.* at 1337.

<sup>177</sup> *Id.*

Federal Circuit relied on the inform-and-consent requirement in ruling that the agreement failed to assign all substantial rights to IPD.<sup>178</sup> Though IPD had the right to sublicense, the Federal Circuit chose to ignore that factor even though the same right was seen as determinative in *Prima Tek II*.<sup>179</sup>

*Vaupel Textilmaschinen v. Meccanca Euro Italia* further obfuscated the meaning of “all substantial rights.” The Federal Circuit held that Vaupel received all substantial rights to the patent at issue even though the licensor retained a veto right on sublicensing by Vaupel.<sup>180</sup> The Federal Circuit found that the licensor’s sublicensing veto was “a minor derogation” from the grant of rights and did not interfere with the licensee’s rights under the licensed patent.<sup>181</sup> The court also did not assign any importance to other rights retained by the licensor. For example, the licensor retained the right to obtain patents on the invention in other countries, and the reversionary right to the patent in the event Vaupel entered bankruptcy or terminated production based on the patents.<sup>182</sup> In addition, the licensor retained the right to receive infringement damages.<sup>183</sup> Peculiarly, the Federal Circuit ignored all of these retained rights and concluded that all substantial rights had been conveyed to the licensee.<sup>184</sup> Further, the Federal Circuit found “particularly dispositive” the agreement provision that transferred the right to sue for infringement of the patent at issue subject only to the obligation of “informing” the licensor.<sup>185</sup>

The Federal Circuit also twisted the “all substantial rights” requirement to fit its own decision in *Textile Productions, Inc. v. Mead Corp.*<sup>186</sup> In that case, Textile and Mead concurrently executed a general agreement and a purchase agreement regarding the patent at issue.<sup>187</sup> Under the general agreement, the parties split the patent prosecution cost of several patent applications, and Textile was to “assign its entire interest in and to any and all patents derived therefrom to [Mead].”<sup>188</sup> The purchase agreement designated Textile as the manufacturer of products covered by the patent at issue, and Mead would “purchase” such products.<sup>189</sup> The purchase agreement also had a contingency provision that if Textile could not meet Mead’s delivery requirements, Mead would have the right to grant the necessary licenses to

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<sup>178</sup> *Intellectual Prop. Dev.*, 248 F.3d at 1344.

<sup>179</sup> *Id.* at 1345.

<sup>180</sup> *Vaupel Textilmaschinen KG v. Meccanca Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991).

<sup>181</sup> *Id.* (citing *Bell Intercont’l Corp. v. United States*, 381 F.2d 1004, 1017 (Ct. Cl. 1967)).

<sup>182</sup> *Id.*

<sup>183</sup> *Id.*

<sup>184</sup> *Id.*

<sup>185</sup> *Id.*

<sup>186</sup> 134 F.3d 1481 (Fed. Cir. 1998).

<sup>187</sup> *Id.* at 1482.

<sup>188</sup> *Id.* (alteration in original).

<sup>189</sup> *Id.* at 1483.



a third party in order to obtain the products and would share any royalties obtained from third parties with Textile.<sup>190</sup> Based on the contingency provision and a presumption by the court, the Federal Circuit decided that Textile did not acquire all substantial rights to the patent.<sup>191</sup> The Federal Circuit noted that, because the agreements were silent as to Mead's ability to grant further licenses, Mead should be presumed to retain such a right.<sup>192</sup> The Federal Circuit then asserted that the presumed, retained right was important in supporting its conclusion that Mead did not transfer all substantial rights to the patent.<sup>193</sup> In other words, the Federal Circuit seemed to be making up its own rule as it deemed fit.

Viewed together, these four cases provide neither certainty nor insight for parties to a patent agreement as to whether the purchaser will have standing to bring infringement suits against others. There simply is no clear rule or guidance that can be drawn from these cases to determine whether or not the licensee will be deemed to have received all substantial rights to the transferred patents.<sup>194</sup>

#### B. “All Substantial Rights” and Standing Categories

The Federal Circuit has further complicated standing determinations by delineating several categories of standing. These categories are: (a) where the licensee has standing to bring the action in its own name; (b) where the licensee has standing to bring the action as a co-plaintiff but

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<sup>190</sup> *Id.*

<sup>191</sup> *Id.* at 1484-85.

<sup>192</sup> *Textile Prods.*, 134 F.3d at 1485.

<sup>193</sup> *Id.*

<sup>194</sup> The Federal Circuit has listed some of the rights that should be examined:

Of course, transfer of the exclusive right to make, use, and sell products or services under the patent is vitally important to an assignment. We have also examined the scope of the licensee's right to sublicense, the nature of license provisions regarding the reversion of rights to the licensor following breaches of the license agreement, the right of the licensor to receive a portion of the recovery in infringement suits brought by the licensee, the duration of the license rights granted to the licensee, the ability of the licensor to supervise and control the licensee's activities, the obligation of the licensor to continue paying patent maintenance fees, and the nature of any limits on the licensee's right to assign its interests in the patent. Frequently, though, the nature and scope of the exclusive licensee's purported right to bring suit, together with the nature and scope of any right to sue purportedly retained by the licensor, is the most important consideration. Where the licensor retains a right to sue accused infringers, that right often precludes a finding that all substantial rights were transferred to the licensee. It does not, however, preclude such a finding if the licensor's right to sue is rendered illusory by the licensee's ability to settle licensor-initiated litigation by granting royalty-free sublicenses to the accused infringers. Under the prior decisions of this court, the nature and scope of the licensor's retained right to sue accused infringers is the most important factor in determining whether an exclusive license transfers sufficient rights to render the licensee the owner of the patent.

Alfred E. Mann Found. for Scientific Research v. Cochlear Corp., 604 F.3d 1354, 1360-61 (Fed. Cir. 2010) (citations omitted).

needs to have the licensor as a co-plaintiff; and (c) where the licensee does not have standing to bring the action as a co-plaintiff, even if the licensor is added as co-plaintiff.<sup>195</sup> These categories are ostensibly based on whether the plaintiff has “all substantial rights.”<sup>196</sup>

For example, in *Vaupel* the exclusive licensee was deemed to have all the substantive rights in the patent and so could bring an infringement suit in its own name, a category (a) situation.<sup>197</sup> In *AsymmetRx, Inc. v. Biocare Med., LLC*,<sup>198</sup> the exclusive licensee had no right to bring a patent infringement suit in its own name; rather it needed to join the licensor in the lawsuit to satisfy the court’s prudential standing requirement, a decision congruent with category (b).<sup>199</sup> *Sicom Systems Ltd. v. Agilent Technologies, Inc.*<sup>200</sup> is a category (c) case, where the exclusive licensee had no standing under any circumstances, because it did not have all the substantial rights and adding the patent owner as co-plaintiff was deemed insufficient to cure the standing problem.<sup>201</sup> As these three cases demonstrate, it is impossible to draw a clear, reliable line around what “all substantial rights” really means, and whether a licensee will find itself in category (a), (b), or (c).

Perhaps in response to this lack of clarity, in *Alfred E. Mann Foundation for Scientific Research v. Cochlear Corp.*<sup>202</sup> the Federal Circuit recently attempted to catalog a list of rights designated as “sufficient rights” to render the exclusive licensee the owner of the patent for standing purposes.<sup>203</sup> At the outset, though, the court seemed to make matters worse rather than better. First, the *Mann* court seemed to suggest that the inquiry should focus on whether the patent transaction provided the exclusive licensee with *sufficient* “substantial rights” to bring a patent claim, rather than *all* “substantial rights.”<sup>204</sup> Second, the court provided a long and apparently non-exhaustive list of possible “substantial” rights, including: (1) the exclusive right to make, use, and sell products or services under the patent; (2) the licensee’s right to sublicense; (3) the licensee’s right to bring an infringement suit; (4) the licensor’s reversion of rights; (5) the licensor’s right to collect damages in infringement suits brought by the licensee; (6) the licensor’s right to control the licensee’s activities; (7) the licensor’s obligation to pay expenses

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<sup>195</sup> *Id.* at 1360 (citing *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1344 (Fed. Cir. 2006)).

<sup>196</sup> *Id.* at 1359.

<sup>197</sup> *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991).

<sup>198</sup> 582 F.3d 1314 (Fed. Cir. 2009).

<sup>199</sup> *Id.* at 1318.

<sup>200</sup> 427 F.3d 971 (Fed. Cir. 2005).

<sup>201</sup> *Id.* at 980.

<sup>202</sup> 604 F.3d 1354 (Fed. Cir. 2010).

<sup>203</sup> *Id.* at 1360 (“[T]he question is whether the license agreement transferred sufficient rights to the exclusive licensee to make the licensee the owner of the patents in question.”).

<sup>204</sup> *Id.*

associated with the patent; (8) the duration of the license; and (9) the licensee's right to assign its interests in the patent.<sup>205</sup>

As a result, the *Mann* decision simply fails to inform parties drafting a patent license agreement, or litigants in patent infringement actions, how many of these rights will be "sufficient" to place an exclusive licensee in category (a), (b), or (c) for standing. Indeed, and looking to prior case law, some Federal Circuit panels have ruled that rights (3) and (4) deserve the "most important consideration."<sup>206</sup> Others asserted that the licensor retention of the right to bring suit, a withholding of (3), is paramount, as long as it is not illusory.<sup>207</sup> And still other panels accorded no significance to the licensee's right to bring an infringement suit without the licensor's retention of rights.<sup>208</sup>

As a result, it is impossible to ascertain whether or not the exclusive licensee is deemed to have "all substantial rights." The Federal Circuit mandates that courts examine the language of the patent agreement between the plaintiff and the licensor to determine whether "all substantial rights" have been granted.<sup>209</sup> Not surprisingly, that requirement has created an incoherent body of law with unpredictable results.

## V. THE (IM)PRUDENCE OF EXERTING PRUDENCE

The Federal Circuit has ostensibly established that having an exclusive licensee lacking all the substantial rights to a patent join the patent owner in any suit on the patent is a prudential requirement, and that such licensees must do so if they want to assert and maintain any infringement claim.<sup>210</sup> However, plaintiffs must also be mindful of the unpredictable ways in which the Federal Circuit finds or denies standing, and the court's growing

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<sup>205</sup> *Id.* at 1360-61 ("Our prior decisions have never purported to establish a complete list of the rights whose holders must be examined to determine whether a licensor has transferred away sufficient rights to render an exclusive licensee the owner of a patent. But we have listed at least some of the rights that should be examined.")

<sup>206</sup> *Id.* at 1361 (citing *AsymmetRx, Inc. v. Biocare Med., LLC*, 582 F.3d 1314, 1320-21 (Fed. Cir. 2009)); *Sicom Sys. Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 979-80 (Fed. Cir. 2005); *Abbott Labs. v. Diamedix Corp.*, 47 F.3d 1128, 1132 (Fed. Cir. 1995).

<sup>207</sup> See *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245, 1251 (Fed. Cir. 2000).

<sup>208</sup> See *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal.*, 248 F.3d 1333, 1336-37 (Fed. Cir. 2001); *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1374 (Fed. Cir. 2000).

<sup>209</sup> *Calgon Corp. v. Nalco Chem. Co.*, 726 F. Supp. 983, 985-86 (D. Del. 1989) ("[W]e find that the language of the agreement between Calgon and Kurita concerning the '059 patent demonstrates that Calgon is a licensee of Kurita.")

<sup>210</sup> *Propat Int'l Corp. v. RPost, Inc.*, 473 F.3d 1187, 1193 (Fed. Cir. 2007) ("We explained that the requirement that the exclusive licensee must normally join the patent owner in any suit on the patent is a 'prudential' requirement, not a constitutional requirement based on Article III limitations, and that an action brought by the exclusive licensee alone may be maintained as long as the licensee joins the patent owner in the course of the litigation.")

tendency to zealously raise and resolve prudential standing questions sua sponte.

A. *Creating Uncertainty—Standing or No Standing*

The Federal Circuit has devised an imaginary scale of prudence, one that is confounding and unpredictable and that makes standing determinations more complicated. In some cases, even when the patent holder is added as co-plaintiff with the exclusive licensee, the Federal Circuit found that no prudential standing exists! A review of Federal Circuit decisions reveals the difficulty of predicting how the court will interpret and apply its own standing doctrine.

1. *Propat International Corp. v. RPost, Inc.*—No Standing, Dismissal Without Prejudice

In *Propat International Corp. v. RPost, Inc.*,<sup>211</sup> the plaintiff obtained its patent rights via an agreement entered into between Propat and Authentix in May 2002.<sup>212</sup> According to the terms of the agreement, Propat was the exclusive licensee with the right to sublicense to a third party the patent at issue, and it shared a certain royalty percentage with the licensor, Authentix.<sup>213</sup> In addition, Propat had the exclusive right to enforce the sublicensing agreements and to sue infringers and would provide Authentix with some of the proceeds resulting from enforcement of the patent.<sup>214</sup> Authentix's approval was to be acquired by Propat prior to selection of sublicensing targets or suits, but Authentix could not unreasonably withhold approval.<sup>215</sup> If Propat committed breach, became insolvent, failed to meet certain licensing activity thresholds, or ceased to engage in licensing efforts or litigation enforcement, Authentix could terminate the agreement.<sup>216</sup> Propat was also required to seek Authentix's consent if it wanted to assign its obligations under the agreement.<sup>217</sup> If Propat brought a patent infringement suit, Authentix would consent to join as a party to the litigation if required by the court, and Propat would pay all litigation costs incurred by Authentix.<sup>218</sup>

Based on those terms, the Federal Circuit held that Propat did not obtain all the substantial rights to the patent and therefore lacked standing to

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<sup>211</sup> 473 F.3d 1187 (Fed. Cir. 2007).

<sup>212</sup> *Id.* at 1189.

<sup>213</sup> *Id.* at 1190.

<sup>214</sup> *Id.*

<sup>215</sup> *Id.*

<sup>216</sup> *Id.*

<sup>217</sup> *Propat Int'l*, 473 F.3d at 1190.

<sup>218</sup> *Id.*

bring the lawsuit in its own name.<sup>219</sup> Specifically, the Federal Circuit ruled that the rights reserved by Authentix—such as its responsibility to maintain the patent; its enjoyment of an equity interest in the proceeds of licensing and litigation activities; the right to veto potential sublicensing targets or suits; the right to veto assignment of the license agreement; and the right to terminate the agreement—were “significant” and served as “indication” that Authentix retained “ownership interest” in the patent.<sup>220</sup>

Thus, in the eyes of the court, the rights Propat received under the agreement did not provide Propat all substantial rights to the patent.<sup>221</sup> According to the Federal Circuit, even with the broad authority to select licensees for licensing activities and the right to sue patent infringers and enforce its rights under the license agreements, Propat had no standing to bring a patent infringement action by itself.<sup>222</sup> The Federal Circuit therefore affirmed the district court’s ruling that Propat lacked standing to bring suit in its own name.<sup>223</sup>

Most troublesome, however, is what the Federal Circuit did next. The Federal Circuit held that Propat also had no standing to be a co-plaintiff in the patent infringement litigation.<sup>224</sup> When Propat requested the district court’s permission to join Authentix as a plaintiff in order to cure the standing problem, the district court dismissed the action.<sup>225</sup> The district court explained its dismissal solely on its assertion that Propat itself had no standing to bring the action as a co-plaintiff, and consequently the court did not rule on the request to join Authentix.<sup>226</sup>

On appeal, the Federal Circuit asserted that a party who is not a transferee of all substantial rights to the patent has standing to bring a suit by joining the patent owner only if that party has a legally protected interest in the patent.<sup>227</sup> The Federal Circuit further reasoned that only an exclusive licensee has a legally protected interest.<sup>228</sup> The Federal Circuit concluded that Propat’s right to license the patents to other third parties and its right to bring patent infringement suits against others render it similar to “an agent” but not a “co-owner” of the patent.<sup>229</sup> Therefore, the court determined, Propat could not bring an infringement suit against a third party, “even with

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<sup>219</sup> *Id.* at 1190-91, 1194.

<sup>220</sup> *Id.* at 1191.

<sup>221</sup> *Id.* at 1192-93.

<sup>222</sup> *Id.* at 1190, 1193.

<sup>223</sup> *Propat Int’l*, 473 F.3d at 1192-93.

<sup>224</sup> *Id.* at 1194.

<sup>225</sup> *Id.* at 1193.

<sup>226</sup> *Id.*

<sup>227</sup> *Id.* at 1193.

<sup>228</sup> *Id.*

<sup>229</sup> *Propat Int’l*, 473 F.3d at 1194.

Authentix named as a co-plaintiff,<sup>230</sup> and the court affirmed the district court's dismissal without prejudice.<sup>231</sup>

2. *Sicom Systems Ltd. v. Agilent Technologies, Inc.*—No Standing, Dismissal with Prejudice

In *Sicom* the Federal Circuit achieved a similar effect on litigants, but via different legal conclusions. *Sicom Systems Ltd.* (“Sicom”) brought a patent infringement action against *Agilent Technologies, Ltd.* (“Agilent”), and Agilent moved to dismiss the action with prejudice for lack of standing.<sup>232</sup> In response, Sicom asserted that it had standing to maintain the action based on an amended agreement entered in 2003 with the patent holder, the Canadian government.<sup>233</sup>

Under the amended agreement, Sicom received the “exclusive right to sue for commercial infringement.”<sup>234</sup> The Federal Circuit recognized that such an exclusive right is generally an important substantial right because “the right to sue” vests the licensee with the patent holder’s “right to exclude others from making, using, and selling the claimed invention.”<sup>235</sup> However, the court noted that the scope of Sicom’s right to sue was limited to “initiating commercial infringement actions” and therefore did not “signify that Sicom ha[d] the exclusive right to sue for all infringement.”<sup>236</sup>

Bearing that limitation in mind, the Federal Circuit held that the amended agreement did not provide Sicom with all the substantial rights to the patent and therefore Sicom lacked prudential standing to bring an infringement suit without joining the Canadian government as the patentee.<sup>237</sup> The court also recognized that Sicom could have joined the patent holder and obtained standing as co-plaintiff in order to maintain its infringement lawsuit.<sup>238</sup> Since Sicom had an opportunity to cure its standing defect by adding the Canadian government as a party to the litigation but failed to do so, the Federal Circuit affirmed the district court’s dismissal of the action with prejudice.<sup>239</sup>

The dismissal with prejudice appears harsh. As the alleged injured party, the exclusive licensee Sicom is barred forever from bringing a suit on

<sup>230</sup> *Id.*

<sup>231</sup> *Id.*

<sup>232</sup> *Sicom Sys. Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 973-74 (Fed. Cir. 2005).

<sup>233</sup> *Id.* at 973.

<sup>234</sup> *Id.*

<sup>235</sup> *Id.* at 979 (quoting *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991)) (internal quotation marks omitted).

<sup>236</sup> *Id.* (internal quotation marks omitted).

<sup>237</sup> *Id.* at 980.

<sup>238</sup> *Sicom*, 427 F.3d at 980.

<sup>239</sup> *Id.*

the patent infringement claim.<sup>240</sup> The defendant therefore could continue to engage in the alleged patent infringement activities without fear of infringement liability during the life of the patent.

3. *International Gamco, Inc. v. Multimedia Games, Inc.*—No Standing, Dismissal Without Prejudice

In *International Gamco, Inc. v. Multimedia Games, Inc.*,<sup>241</sup> the plaintiff Gamco brought a patent infringement action against Multimedia Games.<sup>242</sup> The defendant challenged the plaintiff on standing.<sup>243</sup> Adhering to its prudential standing jurisprudence, the Federal Circuit continued to expound that an exclusive licensee possessing less than all substantial rights to a patent lacks standing to sue for infringement without joining the patent's owner as a co-plaintiff.<sup>244</sup>

In this case, the patent owner International Game Technology (“IGT”) granted to Gamco the exclusive right and license “within the Territory, to make, use, sell, and offer to sell, with the right to sublicense others to make, use, sell, and offer to sell game system networks covered” by the patent.<sup>245</sup> The agreement and its subsequent amendment defined “Territory” as “the lawful operation of lottery games authorized by the New York State Lottery in the state of New York.”<sup>246</sup> Further, Gamco had the exclusive rights to sue “for the past, present, and future infringement” of the licensed patent within the Territory.<sup>247</sup> IGT reserved the right to approve any sublicense offered by Gamco, but IGT would not unreasonably withhold the approval.<sup>248</sup>

The district court found that Gamco held an “exclusive enterprise” license, because it was limited to a geographic area and field of use.<sup>249</sup> Therefore, the district court concluded that as an exclusive enterprise licensee Gamco had standing to file suit in its own name.<sup>250</sup> Recognizing the issue was one of first impression, the district court certified the following ques-

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<sup>240</sup> See *Dismissed With Prejudice Law and Legal Definition*, USLEGAL.COM, <http://definitions.uslegal.com/d/dissmissed-with-prejudice/> (last visited Sept. 19, 2013) (defining “dismissal with prejudice” as “dismissal of a case on merits after adjudication. The plaintiff is barred from bringing an action on the same claim. Dismissal with prejudice is a final judgment and the case becomes res judicata on the claims that were or could have been brought in it”).

<sup>241</sup> 504 F.3d 1273 (Fed. Cir. 2007).

<sup>242</sup> *Id.* at 1275.

<sup>243</sup> *Id.* at 1276.

<sup>244</sup> *Id.* at 1280.

<sup>245</sup> *Id.* at 1275.

<sup>246</sup> *Id.* (internal quotation marks omitted).

<sup>247</sup> *Int'l Gamco*, 504 F.3d at 1275 (internal quotation marks omitted).

<sup>248</sup> *Id.*

<sup>249</sup> *Id.* at 1276 (quoting the district court) (internal quotation marks omitted).

<sup>250</sup> *Id.*

tion to the Federal Circuit: “whether an exclusive patent license, with exclusive right of enforcement, restricted to the activities of a specific enterprise within a specific geographical territory, is sufficient to confer standing on the exclusive licensee to bring a patent infringement action in its own name only.”<sup>251</sup>

On appeal, the Federal Circuit completely ignored constitutional standing and focused solely on whether Gamco, as an exclusive enterprise licensee, had prudential standing.<sup>252</sup> The Federal Circuit claimed that the agreement conveyed an exclusive enterprise license to Gamco while IGT retained an exclusive territorial license, creating licenses that could overlap and therefore posed “a threat of multiple suits based on the same allegations of infringement.”<sup>253</sup> The Federal Circuit concluded that, as an exclusive enterprise licensee, Gamco did not hold all substantial rights to the licensed patent and lacked prudential standing to sue in its own name without joining the patent owner IGT.<sup>254</sup> Therefore, the Federal Circuit reversed the district court, dismissing Gamco’s suit without prejudice.<sup>255</sup>

#### B. *Exerting Prudence Zealously*

Another trend in the Federal Circuit’s standing jurisprudence is zealous enforcement of prudential standing against the parties. The Federal Circuit has repeatedly raised the issue on its own, even in cases where the parties and the district court did not invoke prudential standing as an issue. Unjustifiably adding inefficiency and extra costs to patent litigation, the Federal Circuit has chosen to focus on prudential standing years after the parties have concluded litigation on the merits. The following cases are illustrative of the Federal Circuit’s disturbing eagerness in enforcing prudential standing.

##### 1. *Mentor H/S, Inc. v. Medical Device Alliance, Inc.*

In *Mentor H/S, Inc. v. Medical Device Alliance, Inc.*,<sup>256</sup> the plaintiff, Mentor, brought a patent infringement action against the defendant, Medical Device Alliance, Inc.<sup>257</sup> Years after the complaint was initially filed, the case proceeded to a jury trial on infringement, validity, and enforceability; continued to post-trial briefings; and then arrived at the Federal Circuit on

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<sup>251</sup> *Id.* (internal quotation marks omitted).

<sup>252</sup> *Id.*

<sup>253</sup> *Int’l Gamco*, 504 F.3d at 1279-80.

<sup>254</sup> *Id.* at 1280.

<sup>255</sup> *Id.*

<sup>256</sup> 240 F.3d 1016 (Fed. Cir. 2001) (per curiam).

<sup>257</sup> *Id.* at 1017.



appeal.<sup>258</sup> Neither the plaintiff nor the defendant ever raised a standing issue before the district court or in the Federal Circuit.<sup>259</sup> The Federal Circuit raised the standing issue sua sponte and invited the parties to submit briefs on standing.<sup>260</sup> Subsequently, the Federal Circuit determined that Mentor did not have standing to bring its patent infringement suit.<sup>261</sup>

In reaching its holding, the Federal Circuit noted that Mentor had submitted several documents to support its claims pursuant to agreements between Mentor and Sonique.<sup>262</sup> These documents included an “Exclusive Evaluation and Distribution Agreement,” “Exclusive Distribution Agreement,” “Exclusive International Distribution Agreement,” and “Addendum to Exclusive Distribution Agreement (United States),” among others.<sup>263</sup> The Federal Circuit found that, under these documents, Mentor was an exclusive licensee to the patent at issue but did not have all the substantial rights to the patent.<sup>264</sup> Specifically, Sonique had retained the right to initially bring infringement litigation against others, and Mentor could only sue for infringement in the event Sonique failed to bring the action.<sup>265</sup>

The Federal Circuit stated that whether Mentor had prudential standing to maintain the suit was within the appellate court’s jurisdiction, even though the defendant had never raised the issue.<sup>266</sup> Although Mentor, as an exclusive licensee, satisfied the constitutional requirements for standing, the court found that Mentor did not have prudential standing to sue other infringers in its own name.<sup>267</sup> Upon additional briefings and months of delay, the Federal Circuit finally allowed Sonique to be added as co-plaintiff and subsequently focused on the merits of the case.<sup>268</sup>

## 2. *AsymmetRx, Inc. v. Biocare Medical, LLC*

The Federal Circuit followed a similar approach in *AsymmetRx*, but with substantially more dramatic results for the plaintiffs. *AsymmetRx, Inc.*

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<sup>258</sup> *Id.*

<sup>259</sup> *Id.*

<sup>260</sup> *Id.*

<sup>261</sup> *Id.*

<sup>262</sup> *Mentor H/S*, 240 F.3d at 1017.

<sup>263</sup> *Id.* at 1017-18.

<sup>264</sup> *Id.* at 1018.

<sup>265</sup> *Id.*

<sup>266</sup> *Id.* at 1019 (“[W]e are confident that it is within our jurisdiction as an appellate court to consider Mentor’s standing to bring suit, even though the issue was not raised in the district court.”).

<sup>267</sup> *Id.*

<sup>268</sup> *Mentor H/S, Inc. v. Med. Device Alliance, Inc.*, 244 F.3d 1365, 1373 (Fed. Cir. 2001) (ruling that the licensor Sonique could be joined as a co-plaintiff to satisfy the Federal Circuit’s own jurisdiction and without prejudicing the defendant because the defendant already had extensive discovery below relating to Sonique).

brought a patent infringement action against Biocare Medical for alleged infringement of several patents related to p63 antibodies, monoclonal antibodies that can be used to detect malignant carcinoma of the cervix, breast, and prostate.<sup>269</sup> AsymmetRx asserted that Biocare's sale of the p63 antibodies violated AsymmetRx's exclusive rights in the commercial diagnostic field, which it had obtained from an agreement with Harvard.<sup>270</sup> The parties litigated the case in the district court through the final judgment stage in which the district court ruled in favor of Biocare.<sup>271</sup> AsymmetRx then appealed the district court decision to the Federal Circuit.<sup>272</sup> Again, neither the parties nor the district court raised standing as an issue, but the Federal Circuit did and in so doing vacated the district court's ruling on the merits.<sup>273</sup>

Biocare had entered an agreement with Harvard in May of 2002 for a license to make, use, and sell p63 antibodies.<sup>274</sup> At the time of the Biocare and Harvard agreement, Harvard had two pending patent applications relating to p63 antibodies and the methods for using them to detect malignant carcinoma.<sup>275</sup> The Biocare license agreement specified that the scope of the license did not include "a license under any U.S. or foreign patents."<sup>276</sup> Moreover, the agreement defined the field of use as the life science research market but failed to actually limit the scope of Biocare's license to that field.<sup>277</sup>

Two years later, and after receiving the patent grants for p63 antibodies, Harvard entered into an agreement with AsymmetRx.<sup>278</sup> Under the AsymmetRx agreement, Harvard granted "an exclusive commercial license" allowing AsymmetRx to deploy p63 antibodies in a field of use defined as the "[s]ale of clinical and diagnostic products and services based on detecting p63 expression or mutation."<sup>279</sup> The agreement contained provisions relating to best efforts, sublicensing rights, and cooperation on patent maintenance.<sup>280</sup> Harvard, in turn, reserved the right to use the patented antibodies in academic research and grant non-exclusive licenses to other non-profit organizations and the U.S. government for academic research.<sup>281</sup> With respect to patent infringement litigation involving the licensed patents, the

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<sup>269</sup> *AsymmetRx, Inc. v. Biocare Med., LLC*, 582 F.3d 1314, 1316 (Fed. Cir. 2009).

<sup>270</sup> *Id.* at 1316-17.

<sup>271</sup> *Id.* at 1317.

<sup>272</sup> *Id.*

<sup>273</sup> *Id.* at 1318 ("The issue of AsymmetRx's standing to bring suit without Harvard joining as a plaintiff was not raised by either party or by the district court.").

<sup>274</sup> *Id.* at 1316.

<sup>275</sup> *AsymmetRx*, 582 F.3d at 1316.

<sup>276</sup> *Id.* (internal quotation marks omitted).

<sup>277</sup> *Id.*

<sup>278</sup> *Id.*

<sup>279</sup> *Id.* (alteration in original) (internal quotation marks omitted).

<sup>280</sup> *Id.*

<sup>281</sup> *AsymmetRx*, 582 F.3d at 1316.

agreement granted AsymmetRx the right to bring an action in its own name and at its own expense, although Harvard could elect to join as a party in any action brought by AsymmetRx.<sup>282</sup> Prior to entering into any settlement agreement stemming from an infringement suit, AsymmetRx was required to obtain written consent from Harvard, and Harvard was not to withhold consent unreasonably.<sup>283</sup>

In 2007, AsymmetRx brought its action against Biocare for patent infringement, alleging that Biocare's sale of p63 antibodies violated AsymmetRx's exclusive license.<sup>284</sup> The case proceeded to summary judgment.<sup>285</sup> The district court ruled for Biocare, stating that its agreement with Harvard permitted Biocare to sell p63 antibodies in the diagnostic market.<sup>286</sup> AsymmetRx appealed to the Federal Circuit.<sup>287</sup>

On appeal, the parties "focused on whether the district court properly interpreted the language of the Biocare License in finding that Biocare did not infringe any patent rights of AsymmetRx."<sup>288</sup> The Federal Circuit, however, had its own idea. Instead of addressing the question presented, the Federal Circuit focused on whether AsymmetRx had standing to bring suit.<sup>289</sup> Although neither the parties nor the district court had raised standing issues,<sup>290</sup> the Federal Circuit held that under the exclusive license agreement between AsymmetRx and Harvard, AsymmetRx was not an assignee of the patents.<sup>291</sup> Despite having all the rights listed in the agreement, including the right to bring litigation in its own name without informing Harvard, the court held that AsymmetRx lacked standing to bring suit without Harvard as co-plaintiff.<sup>292</sup> Predictably, the Federal Circuit vacated the district court's summary judgment ruling and remanded the case for further proceedings in accordance with the Federal Circuit's decision.<sup>293</sup>

What good does it do to require joining Harvard when the agreement between Harvard and AsymmetRx explicitly granted AsymmetRx the right to bring an infringement action in its own name when paying for its own litigation costs? How would joining Harvard change the course of the litigation? Would it prevent piecemeal litigation? Was it realistic to expect that Harvard would bring an action against Biocare after the litigation brought by AsymmetRx against Biocare? The answers for all of these questions are

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<sup>282</sup> *Id.* at 1317.

<sup>283</sup> *Id.*

<sup>284</sup> *Id.*

<sup>285</sup> *Id.*

<sup>286</sup> *Id.*

<sup>287</sup> *AsymmetRx*, 582 F.3d at 1317.

<sup>288</sup> *Id.* at 1318.

<sup>289</sup> *Id.*

<sup>290</sup> *Id.*

<sup>291</sup> *Id.* at 1321.

<sup>292</sup> *Id.* at 1320.

<sup>293</sup> *AsymmetRx*, 582 F.3d at 1322.

likely in the negative, which is arguably why Harvard granted the right to AsymmetRx to litigate any infringement action as it wished without consulting or including Harvard.<sup>294</sup> Perhaps before the Federal Circuit unilaterally invokes prudential standing, it should pause to consider the above questions.

#### VI. THE SUPREME COURT'S *INDEPENDENT WIRELESS* SOLUTION AND RESOLVING THE PATENT PRUDENTIAL STANDING CRISIS

All of this uncertainty begs for a different approach, one that is workable for litigants and the courts. To that end, the Federal Circuit should reshape its standing jurisprudence. A change in its current standing practice could replace uncertainty with new efficiencies. Litigation costs would be reduced if the Federal Circuit established a clear gatekeeping rule for standing, rather than continuing to complicate the unpredictable and unworkable patent prudential standing doctrine. In fact, there is a solution in plain sight to end the Federal Circuit's prudential standing fiasco. It is time to return to the Supreme Court's precedent on patent litigation and the indispensable party rule to rectify the Federal Circuit's confused standing doctrine. The patent statute clearly states that a patentee can assert patent infringement,<sup>295</sup> so the Federal Circuit can simply follow the statute by setting a bright-line rule that a patentee must be joined as an indispensable party.

In *Independent Wireless* the Supreme Court addressed head-on the standing problem created when exclusive patent licensees bring infringement suits against third-party infringers.<sup>296</sup> Most importantly, the *Independent Wireless* Court provided a solution to the problem. Avoiding the "unnecessary" inquiry of whether the exclusive licensee possesses all the rights of a patent owner,<sup>297</sup> the *Independent Wireless* Court focused instead on whether the patent holder is an indispensable party, and whether the patent holder must be named either voluntarily or involuntarily.<sup>298</sup>

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<sup>294</sup> See generally Jacob H. Rooksby, *Innovation and Litigation: Tensions Between Universities and Patents and How to Fix Them*, 15 YALE J.L. & TECH. 312 (2013) (proposing a statutory change to patent law that would allow university patent owners the option to decline involvement in litigation brought by an exclusive licensee).

<sup>295</sup> 35 U.S.C. § 281 (2006).

<sup>296</sup> See *supra* Part III.B for a summary of the facts of this case.

<sup>297</sup> *Indep. Wireless Tel. Co. v. Radio Corp. of Am.*, 269 U.S. 459, 475 (1926) ("We hold that the De Forest Company was properly joined as a co-plaintiff by the Radio Corporation upon the 25th averment of the bill. This makes it unnecessary for us to consider the argument on behalf of the appellee that the American Telephone and Telegraph Company was the owner of the patent instead of the De Forest Company.").

<sup>298</sup> *Id.* at 468-73.

A. *The Independent Wireless Decision*

In *Independent Wireless*, the Supreme Court recognized that when a patent holder grants another entity an exclusive right to make, use, or vend the patent, that grant does not constitute an assignment.<sup>299</sup> Therefore the exclusive licensee cannot bring a patent infringement suit in its own name.<sup>300</sup> The Supreme Court observed that, in exclusive license arrangements, the patent holder or licensor “holds the title to the patent in trust for such a licensee.”<sup>301</sup> Consequently, the Supreme Court noted that “on principle and authority” the patent holder “must allow the use of his name as plaintiff in any action” brought by the licensee, including a patent infringement action.<sup>302</sup>

The Supreme Court recognized that common practice regarding exclusive licenses was to include a provision imposing “the affirmative duty of initiating and bearing the expense” of patent litigation on the patent owner/licensor.<sup>303</sup> In cases where the license agreement is silent on this matter, “the implied obligation of the licensor to allow the use of his name is indispensable to the enjoyment by the licensee of the monopoly which by personal contract the licensor has given.”<sup>304</sup> Simply put, the Supreme Court understood that the patent holder must join as a co-plaintiff in any patent infringement suit brought by the exclusive licensee, regardless of the patent holder’s excuses.<sup>305</sup> With the patent holder as co-plaintiff, voluntarily or involuntarily, the exclusive licensee would satisfy patent law’s statutory jurisdictional requirement and could bring an infringement action.<sup>306</sup> Accordingly, the Supreme Court ruled that it was “unnecessary” for the Court to consider whether the exclusive licensee, American Telephone and Telegraph Company (and its subsequent sublicensees), had all the rights of the licensor, the De Forest Company.<sup>307</sup> Because the De Forest Company was properly joined as co-plaintiff, the Court could render a verdict on the patent infringement action.<sup>308</sup>

In addition to the jurisdictional importance of allowing the exclusive licensee to proceed with a patent infringement claim upon inclusion of the

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<sup>299</sup> *Id.* at 469.

<sup>300</sup> *Id.*

<sup>301</sup> *Id.*

<sup>302</sup> *Id.*

<sup>303</sup> *Indep. Wireless*, 269 U.S. at 469.

<sup>304</sup> *Id.*

<sup>305</sup> *Id.* (“Inconvenience and possibly embarrassing adjudication in respect of the validity of the licensor’s patent rights, as the result of suits begun in aid of the licensee, are only the equitable and inevitable sequence of the licensor’s contract, whether express or implied.”).

<sup>306</sup> *Id.* at 472.

<sup>307</sup> *Id.* at 475.

<sup>308</sup> *Id.*

patent holder as a co-plaintiff, the *Independent Wireless* Court also observed that there are other reasons to make the patent holder an indispensable party.<sup>309</sup> Res judicata and judicial consistency of interpretation are important “in most cases . . . to enable the alleged infringer to respond in one action to all claims of infringement for his act, and thus either to defeat all claims in the one action, or by satisfying one adverse decree to bar all subsequent actions.”<sup>310</sup> The ruling and rationale articulated in *Independent Wireless* became the guide for Rule 19 of the Federal Rules of Civil Procedure,<sup>311</sup> which joins indispensable parties voluntarily or involuntarily.<sup>312</sup>

### B. *The Prudence of Applying Independent Wireless in Lieu of Patent Prudential Standing*

*Independent Wireless* dictates that courts must recognize the patent holder or assignee as an indispensable party to an infringement action in

<sup>309</sup> *Indep. Wireless*, 269 U.S. at 468.

<sup>310</sup> *Id.*

<sup>311</sup> 7 CHARLES ALAN WRIGHT, ARTHUR R. MILLER & MARY KAY KANE, FEDERAL PRACTICE AND PROCEDURE § 1606 (3d ed. 2001). Professors Alan Wright and Arthur Miller traced the development of joining parties in patent cases and the impact of *Independent Wireless*:

The development of the practice of joining a party as an involuntary plaintiff was a response to a historical anomaly that culminated in the Supreme Court’s decision in *Waterman v. Mackenzie*, which held that even in equity the exclusive licensee of a patent must bring an infringement action in the name of the patent owner. . . .

The involuntary-plaintiff principle, which was first enunciated by the Supreme Court in *Independent Wireless Telegraph Company v. Radio Corporation of America*, allows plaintiff in a “proper case” to require the joinder of a party who must be added as a coplaintiff if the action is to continue.

*Id.* (footnotes omitted)

<sup>312</sup> *Indep. Wireless*, 269 U.S. at 468 (“If the owner of a patent, being within the jurisdiction, refuses or is unable to join an exclusive licensee as co-plaintiff, the licensee may make him a party defendant by process and he will be lined up by the court in the party character which he should assume.”). The Court emphasized again that:

The owner beyond the reach of process may be made co-plaintiff by the licensee, but not until after he has been requested to become such voluntarily. If he declines to take any part in the case, though he knows of its imminent pendency and of his obligation to join, he will be bound by the decree which follows.

*Id.* at 473. Rule 19(a) limits the use of the involuntary-plaintiff procedure to a “proper case.” FED. R. CIV. P. 19(a). Although the rule does not define what this means, the Advisory Committee note to the original rule identified *Independent Wireless* as an example of a “proper case.” Indeed, Rule 19 was amended on February 28, 1966. Notes of the Advisory Committee on Rules from 1937 state as follows:

*Note to Subdivision (a)*. The first sentence with verbal differences (e.g., “united” interest for “joint” interest) is to be found in [former] Equity Rule 37 (Parties Generally—Intervention). Such compulsory joinder provisions are common. Compare Alaska Comp. Laws (1933) § 3392 (containing in same sentence a “class suit” provision); Wyo.Rev.Stat. Ann. (Courtright, 1931) § 89–515 (immediately followed by “class suit” provisions, § 89–516). See also [former] Equity Rule 42 (Joint and Several Demands). For example of a proper case for involuntary plaintiff, see *Independent Wireless Telegraph Co. v. Radio Corp. of America*, 269 U.S. 459 (1926).

FED. R. CIV. P. 19 advisory committee’s note (1937), reprinted in 28 U.S.C. app., at 132 (2006).

order to avoid a multiplicity of litigation involving the same patents and parties.<sup>313</sup> Also, the patent holder or assignee must be treated as an indispensable party to an infringement action so the courts can provide consistent interpretation.<sup>314</sup> *Independent Wireless* wisely recognized that holding all the rights of a patent owner is “unnecessary” as a prerequisite to bringing a patent infringement suit.<sup>315</sup> The Federal Circuit should follow the Supreme Court’s teachings and end its confusing inquiry into whether the exclusive licensee has “all substantial rights” to the patent in order to sustain its litigation.<sup>316</sup> *Independent Wireless* directed the exclusive license inquiry to whether the patent holder or licensor is an indispensable party, and mandated that as long as the licensor is included as a co-plaintiff, voluntarily or involuntarily, the exclusive licensee can litigate an infringement case on the patent.<sup>317</sup> Prudential standing issues should not even enter the analysis.<sup>318</sup> Moreover, *Independent Wireless* has been incorporated into Rule 19 of the Federal Rule of Civil Procedure regarding the required joinder of parties, which by definition already plays a role in many patent suits.<sup>319</sup> Courts should therefore adhere to the *Independent Wireless* principles and apply Rule 19 as a matter of consistency, clarity, certainty, and efficiency.<sup>320</sup>

Perhaps an explanation for the Federal Circuit’s creation of its prudential standing rule is that the Federal Circuit merely sought to follow the patentee requirement under the patent statute. After all, the Patent Act provides that only a patentee has the right to assert a patent infringement action against others.<sup>321</sup> But the term “patentee” is defined as comprising both the

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<sup>313</sup> *Indep. Wireless*, 269 U.S. at 468.

<sup>314</sup> *Id.*

<sup>315</sup> *Id.* at 475.

<sup>316</sup> The Federal Circuit has claimed that it “adheres” to *Independent Wireless*’s principle “that a patent owner should be joined, either voluntarily or involuntarily, in any patent infringement suit brought by an exclusive licensee,” yet the Circuit continues to focus its inquiry on whether the exclusive licensee has all or fewer “than all substantial patent rights.” *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1347 (Fed. Cir. 2001).

<sup>317</sup> See Roger D. Blair & Thomas F. Cotter, *The Elusive Logic of Standing Doctrine in Intellectual Property Law*, 74 TUL. L. REV. 1323, 1350-51 (2000) (discussing patent standing and indispensable parties under *Indep. Wireless*).

<sup>318</sup> The inquiry should be simple. When evaluating patent transactions, courts should follow the simple rule that “[a] patent owner should be viewed as a necessary party if it retains ‘any interest’ in the patent.” *Erbamont Inc. v. Cetus Corp.*, 720 F. Supp. 387, 393 (D. Del. 1989).

<sup>319</sup> See Blair & Cotter, *supra* note 317, at 1358-59 (discussing standing in patent cases and Rules 19 and 20).

<sup>320</sup> See generally Jeffrey Bashaw, *FRCP 19: A Preferable Alternative to Traditional Judicial Rules for Determining Patent Licensee Standing*, SHIDLER J. L. COM. & TECH., Oct. 2007, ¶ 5, available at [http://digital.law.washington.edu/dspace-law/bitstream/handle/1773.1/408/vol4\\_no2\\_art7.pdf?sequence=3](http://digital.law.washington.edu/dspace-law/bitstream/handle/1773.1/408/vol4_no2_art7.pdf?sequence=3) (noting potential efficiencies by adopting Rule 19 in intellectual property contexts, including patent).

<sup>321</sup> 35 U.S.C. § 281 (2006) (“A patentee shall have remedy by civil action for infringement of his patent.”).

original patentee, to whom the patent was first issued, as well as subsequent successors in title to the patent.<sup>322</sup> Accordingly, if the patentee transfers or assigns all substantial rights under the patent to a third party, the assignee becomes the new patentee and can bring a suit in its own name.<sup>323</sup> Under that view, the Federal Circuit's patent prudential standing merely applies the patent statute by requiring that exclusive licensees must be in substance similar to patentees by having all substantial rights to the patent.<sup>324</sup>

But whether an exclusive licensee has sufficient rights to be treated like the patent owner is the test squarely rejected by the Supreme Court in *Independent Wireless*.<sup>325</sup> The Supreme Court recognized that there is a need to satisfy the patent statute but found the most logical approach in patent licensing cases was to have a clear rule requiring joining the patent owner to the lawsuit, voluntarily or involuntarily.<sup>326</sup> The *Independent Wireless* joinder rule therefore meets the patent statute's requirement and simultaneously allows parties to proceed with the litigation without wasting precious resources in determining which rights constitute a substantial right and whether the exclusive licensee possesses all, or "sufficient," substantial rights. Further, there is no need to engage in a multipronged inquiry in determining first whether the licensor is a necessary party *and* then whether the licensor is an indispensable party, as seen in the Federal Circuit's decisions.<sup>327</sup>

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<sup>322</sup> *Id.* § 100(d) ("The word 'patentee' includes not only the patentee to whom the patent was issued but also the successors in title to the patentee.").

<sup>323</sup> See generally *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1377 (Fed. Cir. 2000) ("The exception is that, where the patentee makes an assignment of all substantial rights under the patent, the assignee may be deemed the effective 'patentee' under 35 U.S.C. § 281 and thus may have standing to maintain an infringement suit in its own name."); *Ortho Pharm. Corp. v. Genetics Inst., Inc.*, 52 F.3d 1026, 1030 (Fed. Cir. 1995) ("Where a patentee makes an assignment of all significant rights under the patent, such assignee may be deemed the effective 'patentee' under the statute and has standing to bring a suit in its own name for infringement."); see also *Waterman v. Mackenzie*, 138 U.S. 252, 256 (1891) (explaining that an exclusive right to make, use, and vend patented machines gives the grantee the right to sue in his own name for an infringement because the right to make, use, and vend excludes all other persons, including the patentee).

<sup>324</sup> See, e.g., *Abbott Labs. v. Diamedix Corp.*, 47 F.3d 1128, 1130-31 (Fed. Cir. 1995) (citing the patent statutory provision to justify its standing requirement).

<sup>325</sup> *Indep. Wireless Tel. Co. v. Radio Corp. of Am.*, 269 U.S. 459, 466 (1926).

<sup>326</sup> *Id.* at 472.

<sup>327</sup> See *A123 Sys., Inc. v. Hydro-Quebec*, 626 F.3d 1213, 1217-22 (Fed. Cir. 2010) (analyzing whether the patent licensor is a necessary party under patent prudential standing analysis and whether the patent licensor is an indispensable party under Rule 19 analysis); see also *Schwarz Pharma, Inc. v. Paddock Labs., Inc.*, 504 F.3d 1371, 1374 (Fed. Cir. 2007) ("This court has interpreted the *Independent Wireless* joinder requirement to be one of prudential rather than constitutional standing."). The Federal Circuit can now just follow Rule 19 as the rule incorporated *Independent Wireless*.



## CONCLUSION

The Federal Circuit has done much to harmonize patent law in the United States since the circuit's creation by Congress in 1982. Lately, though, the Federal Circuit has come under blistering criticism, both internally and externally.<sup>328</sup> Unfortunately, the Federal Circuit's patent prudential standing is one example of the circuit's incoherent, convoluted rules. By expanding the court's standing requirements and doing so in a way that leaves the determination of standing entirely within the discretion of the court, the Federal Circuit has confounded litigants and greatly increased the costs of patent litigation while offering little substantive value to the parties. By insisting upon the application of its invented and poorly defined "all substantial rights" standard, the Federal Circuit has further deepened the standing crisis and added to the uncertainty facing litigants and all parties to a patent licensing agreement. It is therefore time for the Federal Circuit to retreat from patent prudential standing and follow the Supreme Court's precedent articulated in *Independent Wireless* for cases involving exclusive patent licensees. In so doing, the Federal Circuit will wisely continue to serve as a model for courts domestically and for patent tribunals internationally.

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<sup>328</sup> See generally Rochelle Cooper Dreyfuss, *In Search of Institutional Identity: The Federal Circuit Comes of Age*, 23 BERKELEY TECH. L.J. 787, 791 (2008) (observing that the Federal Circuit has been criticized for being too formalistic and rigid, "refusals to consider policy arguments, and reluctance to revise positions once taken"); Paul R. Gugliuzza, *Rethinking Federal Circuit Jurisdiction*, 100 GEO. L.J. 1437, 1494-95 (2012) (noting that some scholars have blamed the Federal Circuit for stifling innovation with its patent decisions and proposing ways to transform the circuit).