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Standing with a Bundle of Sticks: The All Substantial Rights Doctrine in Action

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Cover Page Footnote

*Mark Abate, a Partner at Goodwin Procter LLP, concentrates his practice on trials and appeals of patent infringement cases, and has particular expertise in matters involving electronics, computers, software, financial systems, and electrical, mechanical, and medical devices. He has tried cases to successful conclusions in U.S. district courts and the U.S. International Trade Commission and has argued appeals before the U.S. Court of Appeals for the Federal Circuit. He is the former President of both the New York Intellectual Property Law Association and the New Jersey Intellectual Property Law Association, and is a board member of the Federal Circuit Historical Society. **Christopher Morten is an Associate at Goodwin and Procter and a member of the firm's Intellectual Property Litigation Practice. He focuses on patent matters, with an emphasis on chemistry and the life sciences. He has experience in district court litigation, including Hatch-Waxman litigation, as well as trials at the Patent Trial and Appeal Board, patent prosecution, and patent strategy and counseling.

Standing with a Bundle of Sticks: The All Substantial Rights Doctrine in Action

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This Article provides an overview of the Federal Circuit's all substantial rights doctrine. Surveying decades of case law, this Article seeks to clarify this confusing area of the law and set out the essential rules for those engaged in patent licensing, patent assignment, and patent litigation. This Article begins by explaining why effective ownership of a patent is critical to standing, and then describes the framework through which courts determine whether a party is, in fact, in possession of all substantial rights and is therefore the effective owner. While there are many factors that courts may consider, certain rights take priority in this analysis, the right to enforce being the most important. This Article concludes by providing guidance on how to structure an agreement to ensure that these rights are allocated predictably and reliably to convey effective ownership of the patent.

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INTRODUCTION

The owner of a patent may sue for infringement of that patent.¹ This rule is easily applicable when the patent has been granted to a single party and the rights were never transferred to another. However, the question of ownership becomes more complicated when the rights have been sold or licensed. This is particularly true if, as is common today, an assignment involves the division of the rights in a particular patent among more than one party.² In this situation, the framework to identify the true patent owner or owners, who must be a plaintiff in the infringement lawsuit to establish standing, is known as the “all substantial rights” analysis.³

As this Article explains below, the all substantial rights standard is simple in theory: a party that possesses all of the substantial rights in a patent is the effective patent owner, with standing to bring an infringement suit in its own name.⁴ A party that possesses less than all substantial rights in the patent is not the effective patent owner and must join the patent owner if it brings suit.⁵ Yet the standard can be tricky in practice. When determining whether a particular party is effectively the patent owner with standing to bring suit on its own, courts, including the U.S. Court of Appeals for the Federal Circuit, have tended to characterize their analysis as a totality of the circumstances, case-by-case balancing of factors.⁶ These rather complex opinions make it

¹ See 35 U.S.C. § 281 (2012).

² See, e.g., *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1357–58 (Fed. Cir. 2010).

³ See *id.* at 1359–60.

⁴ See *id.* at 1359.

⁵ See, e.g., *Propat Int’l Corp. v. RPost, Inc.*, 473 F.3d 1187, 1193 (Fed. Cir. 2007).

⁶ See, e.g., *Alfred E. Mann*, 604 F.3d 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.”); *AsymmetRx, Inc. v. Biocare Med., LLC*, 582 F.3d 1314, 1321 (Fed. Cir. 2009) (“While any of these restrictions alone might not have been destructive of the transfer of all substantial rights, their totality is sufficient to do so.”); *Sicom Sys. Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 978 (Fed. Cir. 2005) (“[W]e must assess the Agreement at issue, weighing the rights in the patent transferred to Sicom against those

difficult to elucidate black-letter rules. However, over time, certain patterns have emerged.⁷ Parties negotiating the transfer of patent rights require confidence that they can structure an agreement to ensure that all substantial rights reside where the parties intend. This can be achieved by following a few guiding principles set forth below.⁸

Part I of this Article introduces the doctrines of constitutional and prudential standing and explores why effective patent ownership is necessary for a party to bring a patent infringement suit in its own name. Part II explains the metaphor of a patent as a “bundle of rights,”⁹ each of which can be individually sold, licensed, or otherwise transferred. This Part also introduces the Federal Circuit’s “all substantial rights” analysis, which weighs the rights within the bundle possessed by a particular party in order to determine whether that party possesses all substantial rights (and therefore constitutes the effective patent owner, with standing to sue in its own name). Part III shows that for a party to qualify as the effective patent owner, the party must possess a right to practice the patent. Part IV provides a survey of the Federal Circuit’s implementation of the all substantial rights analysis and illuminates the individual rights within the “bundle” that the Federal Circuit has identified as most important: first and foremost, the right to enforce, followed by the right to alienate and the right to indulge infringement. Part V shows that while other rights within the bundle may be considered by courts, they tend to be less important and rarely or never dispositive. Part VI concludes by showing that it is the substance, and not the form, of an agreement transferring patent rights that controls the all substantial rights analysis.

retained by Canada, to determine whether Canada assigned all substantial rights in the patent, or fewer than all such rights.”).

⁷ See *infra* Parts III–VI.

⁸ See *infra* Parts III–VI.

⁹ See *infra* text accompanying notes 44–45.

I. WHY PATENT OWNERSHIP MATTERS: THE PROBLEM OF STANDING

What drives the concern over who owns a patent? Ownership is critical because only a party in possession of the exclusionary rights conferred by the Patent Act is injured by infringement of the patent.¹⁰ Only the owner of all substantial rights in the patent may bring suit on its own, without joining another plaintiff (or plaintiffs).¹¹ This issue often arises in the analysis of a plaintiff's rights as an exclusive licensee,¹² but it can also involve the division of patent rights along other lines, such as those enumerated later in Part III. The U.S. Court of Appeals for the Federal Circuit has explained that there are two distinct types of standing requirements that must be met for a party to sue on its own: constitutional standing and prudential standing.¹³

A. Constitutional Standing

Every court must determine whether the plaintiff has the right to bring its dispute before the court. "Article III, § 2 of the Constitution limits the jurisdiction of federal courts to 'Cases' or 'Controversies.' The doctrine of constitutional standing serves to identify which disputes fall within these broad categories and therefore may be resolved by a federal court."¹⁴ "For a party to establish constitutional standing, it must 'show that the conduct of

¹⁰ See, e.g., 35 U.S.C. §§ 154(a)(1), 281 (2012); *Propat*, 473 F.3d at 1193 ("A party that is neither the legal owner of the patent nor the transferee of all substantial rights in the patent still has standing to sue for infringement if that party has a legally protected interest in the patent created by the Patent Act, so that it can be said to suffer legal injury from an act of infringement.").

¹¹ See, e.g., *Alfred E. Mann*, 604 F.3d at 1359–60.

¹² See, e.g., *Luminara Worldwide, LLC v. Liown Elecs. Co.*, 814 F.3d 1343, 1350–51 (Fed. Cir. 2016); *AsymmetRx, Inc. v. Biocare Med., LLC*, 582 F.3d 1314, 1321 (Fed. Cir. 2009); *Sicom Sys. Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 978–79 (Fed. Cir. 2005); *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991).

¹³ See *Morrow v. Microsoft Corp.*, 499 F.3d 1332, 1338 (Fed. Cir. 2007); see also 13A CHARLES ALAN WRIGHT ET AL., FEDERAL PRACTICE AND PROCEDURE § 3531 (3d ed. 2018) ("Standing requirements have been drawn from two sources, constitutional and prudential.").

¹⁴ *WiAV Sols. LLC v. Motorola, Inc.*, 631 F.3d 1257, 1263–64 (Fed. Cir. 2010) (quoting U.S. CONST. amend. III, § 2).

which [it] complains has caused [it] to suffer an “injury in fact” that a favorable judgment will redress.”¹⁵ The Supreme Court has characterized the necessary “injury in fact” as “an invasion of a legally protected interest which is (a) concrete and particularized; and (b) ‘actual or imminent, not “conjectural” or “hypothetical.”’”¹⁶

In the context of patent infringement litigation, the plaintiff’s injury is created by statute. Under 35 U.S.C. § 154(a), every patent grants to the patentee “the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States.”¹⁷ The Federal Circuit has “explained that a party has the right to sue for infringement of the patent ‘if that party has a legally protected interest in the patent created by the Patent Act, so that it can be said to suffer legal injury from [the] act of infringement.’”¹⁸ “Because the Patent Act creates the legally protected interests in dispute, the right to assert infringement of those interests comes from the Act itself.”¹⁹

WiAV Solutions LLC v. Motorola, Inc. and other Federal Circuit decisions recognize that an exclusive licensee has constitutional standing to sue an infringer.²⁰ However, this is merely a first step, as constitutional standing suffices to bring suit but does not, on its own, suffice to bring suit *alone*. As this Article explains below, additional *prudential* standing concerns dictate that, pursuant to the Patent Act, “[u]nlike the patentee or the transferee of all substantial rights in the patent . . . a [mere] exclusive licensee ordinarily may not sue in its own name alone,

¹⁵ *Id.* at 1264 (alteration in original) (quoting *Elk Grove Unified Sch. Dist. v. Newdow*, 542 U.S. 1, 12 (2004)).

¹⁶ *Lujan v. Defs. of Wildlife*, 504 U.S. 555, 560 (1992) (quoting *Whitmore v. Arkansas*, 495 U.S. 149, 155 (1990)).

¹⁷ 35 U.S.C. § 154(a)(1) (2012); *see also id.* § 271(a). Notably, “[a] patentee shall have remedy by civil action for infringement of his patent.” *Id.* § 281.

¹⁸ *WiAV*, 631 F.3d at 1264 (alteration in original) (quoting *Propat Int’l Corp. v. RPost, Inc.*, 473 F.3d 1187, 1193 (Fed. Cir. 2007)).

¹⁹ *Id.* at 1264–65.

²⁰ *See id.*; *see also*, e.g., *Morrow v. Microsoft Corp.*, 499 F.3d 1332, 1340 (Fed. Cir. 2007).

but must join the patent owner in an action brought against an accused infringer.”²¹

B. Prudential Standing

Understanding the all substantial rights doctrine requires an appreciation of the concept of “prudential standing”—even if the requirements of constitutional standing are met, a court may deny standing when, for prudential reasons, it decides that a plaintiff’s case does not warrant a decision on the merits.²² Supreme Court precedent concerning issues of standing has articulated certain prudential factors that limit who can bring suit,²³ known as the “prudential standing” doctrine.²⁴ As the Supreme Court stated in *Allen v. Wright*:

Standing doctrine embraces several judicially self-imposed limits on the exercise of federal jurisdiction, such as the general prohibition on a litigant’s raising another person’s legal rights, the rule barring adjudication of generalized grievances more appropriately addressed in the representative branches, and the requirement that a plaintiff’s

²¹ *Propat*, 473 F.3d at 1193.

²² See WRIGHT ET AL., *supra* note 13, § 3531; see also *United States v. Windsor*, 133 S. Ct. 2675, 2685 (2013) (noting that prudential standing “embodies ‘judicially self-imposed limits on the exercise of federal jurisdiction’” (quoting *Elk Grove Unified Sch. Dist. v. Newdow*, 542 U.S. 1, 11 (2004))).

²³ E.g., *Elk Grove Unified Sch. Dist.*, 542 U.S. at 12 (“Although we have not exhaustively defined the prudential dimensions of the standing doctrine, we have explained that prudential standing encompasses ‘the general prohibition on a litigant’s raising another person’s legal rights, the rule barring adjudication of generalized grievances more appropriately addressed in the representative branches, and the requirement that a plaintiff’s complaint fall within the zone of interests protected by the law invoked.’” (quoting *Allen v. Wright*, 468 U.S. 737, 751 (1984), abrogated by *Lexmark Int’l, Inc. v. Static*, 134 S. Ct. 1377, 1386, 1388 (2014))).

²⁴ Some commentators have questioned the continued vitality of the prudential standing doctrine, as distinct from the core requirements of constitutional standing, in view of the Supreme Court’s 2014 decision in *Lexmark International*. 134 S. Ct. at 1386, 1388 (holding that courts “cannot limit a cause of action that Congress has created merely because ‘prudence’ dictates”). However, after *Lexmark International*, the Federal Circuit has continued to ground the all substantial rights framework in prudential standing. See, e.g., *Luminara Worldwide, LLC v. Liown Elecs. Co.*, 814 F.3d 1343, 1349–50 n.3 (Fed. Cir. 2016).

complaint fall within the zone of interests protected by the law invoked.²⁵

In the context of patent infringement, several prudential concerns come into play. These concerns underlie the rule that an exclusive licensee who does not have all substantial rights in the patent ordinarily may not sue in its own name alone.²⁶ One prudential concern is that an infringement suit brought by an exclusive licensee alone risks invalidating or otherwise undermining the value of the patent, thereby harming the interests of the missing patent owner(s): “[A] patent should not be placed at risk of invalidation by the licensee without the participation of the patentee.”²⁷ The Supreme Court identified another prudential concern, the risk of subjecting defendants to multiple suits for the same act of infringement.²⁸ Obliging an exclusive licensee “with less than all substantial rights, such as a field of use licensee, to join the patentee before initiating suit” reduces this risk.²⁹ The Federal Circuit has further noted, as a corollary to the risk of subjecting a defendant to multiple suits, the risk “of inconsistent relief.”³⁰

Notably, concerns over assuring representation of all rights holders, avoiding repeated litigation, and avoiding inconsistent judgments are the same concerns that underlie Federal Rule of Civil Procedure 19, which broadly governs the required joinder of parties in federal court.³¹ Indeed, the Federal Circuit has, at times—if not consistently—entwined its standing analysis with Rule 19 and the concept of joinder of a necessary and

²⁵ 468 U.S. at 751.

²⁶ See, e.g., *Textile Prods., Inc. v. Mead Corp.*, 134 F.3d 1481, 1484 (Fed. Cir. 1998).

²⁷ *Schwarz Pharma, Inc. v. Paddock Labs., Inc.*, 504 F.3d 1371, 1374 (Fed. Cir. 2007).

²⁸ See *Int'l Gameco, Inc. v. Multimedia Games, Inc.*, 504 F.3d 1273, 1278 (Fed. Cir. 2007) (first citing *Gayler v. Wilder*, 51 U.S. (10 How.) 477, 494 (1850); then citing *Pope Mfg. Co. v. Gormully & Jeffery Mfg. Co.*, 144 U.S. 248, 251–52 (1892); and then citing *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 38 (1923)).

²⁹ *Id.*

³⁰ E.g., *A123 Sys., Inc. v. Hydro-Quebec*, 626 F.3d 1213, 1222 (Fed. Cir. 2010).

³¹ See, e.g., Howard P. Fink, *Indispensable Parties and the Proposed Amendment to Federal Rule 19*, 74 YALE L.J. 403, 414–22 (1965); see also FED. R. CIV. P. 19 (governing “Required Joinder of Parties”).

indispensable party. For example, *A123 Systems, Inc. v. Hydro-Quebec* expressly connects prudential standing with Rule 19:

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. In general, as we discuss below, an accused infringer must likewise join both the exclusive licensee and the patentee in a declaratory action because the patentee is a necessary party.³²

The Federal Circuit has held that a patent owner is almost always at least a necessary party to an infringement suit under Rule 19(a), so long as joinder is “feasible.”³³ However, the court has also cautioned that standing and Rule 19 joinder are two distinct analyses, and there is no “per[]se rule that patent owners are automatically indispensable parties—there is no patent-specific exception to Rule 19(b).”³⁴ *Alfred E. Mann Foundation for Scientific Research v. Cochlear Corp.* recognized that “when a necessary patent owner is not joined, even when Rule 19(a) is satisfied, the court must still perform the inquiry under Rule 19(b) to determine whether that owner is indispensable.”³⁵

³² 626 F.3d at 1217 (citations omitted). *A123* relies on an earlier Federal Circuit decision, *Enzo APA & Son, Inc. v. Geapag A.G.*, 134 F.3d 1090 (Fed. Cir. 1998), which expressly invoked Rule 19. *A123 Sys.*, 626 F.3d at 1217 (“Having found Geapag to be without standing for failing to join the patentee, it follows that the court lacks jurisdiction over Enzo’s declaratory judgment claims under [FED. R. CIV. P.] 19 for nonjoinder.” (citing *Enzo APA*, 134 F.3d at 1094)).

³³ *Univ. of Utah v. Max-Planck-Gesellschaft Zur Forderung Der Wissenschaften E.V.*, 734 F.3d 1315, 1326 (Fed. Cir. 2013).

³⁴ *Id.*

³⁵ *Id.* (citing *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1363 (Fed. Cir. 2010)).

C. Additional Comments on Standing and the Origins of the All Substantial Rights Doctrine

A party has standing to sue in its own name only when it is the effective owner of a patent; i.e., when it possesses all substantial rights in the patent. As the Federal Circuit has explained:

Either the licensor did not transfer “all substantial rights” to the exclusive licensee, in which case the licensor remains the owner of the patent and retains the right to sue for infringement, or the licensor did transfer “all substantial rights” to the exclusive licensee, in which case the licensee becomes the owner of the patent for standing purposes and gains the right to sue on its own. In either case, the question is whether the license agreement transferred sufficient rights to the exclusive licensee to make the licensee the owner of the patents in question. If so, the licensee may sue but the licensor may not. If not, the licensor may sue, but the licensee alone may not.³⁶

Ultimately, “the question is ‘who owns the patent?’ Does the transfer or retention of certain rights amount to an assignment of the patent or not?”³⁷

The remainder of this Article discusses the “all substantial rights” standard, as articulated by the Federal Circuit, and provides several practical tips for structuring the transfer of patent rights. Before diving into the substance, this Article makes a few additional points. First, the question of whether a party possesses all substantial rights in a patent and therefore constitutes the patentee, able to bring suit independently, is a question of law controlled by Federal Circuit precedent, rather than precedents of the regional circuits.³⁸ Second, because the question of patent

³⁶ *Alfred E. Mann*, 604 F.3d at 1359–60.

³⁷ *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1342 (Fed. Cir. 2006).

³⁸ See *WiAV Sols. LLC v. Motorola, Inc.*, 631 F.3d 1257, 1263 (Fed. Cir. 2010); *Bd. of Trs. of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 583 F.3d 832, 840 (Fed. Cir. 2009) (“The Federal Circuit ‘defers to the law of the regional circuits on matters of procedural law that do not implicate issues of patent law.’” (emphasis added))

ownership ultimately governs the question of standing, a jurisdictional issue, the all substantial rights issue can be raised at any time.³⁹ Indeed, if it perceives a potential standing issue, a court has the power to address the question of patent ownership *sua sponte*.⁴⁰

Third, the question of patent ownership is important in almost every transfer of patent rights. As indicated by the cases discussed below, effective transfer of patent ownership requires more than simple transfer of title. Indeed, as discussed in more detail in Part VI, the Supreme Court and Federal Circuit have reiterated that form does not control.⁴¹ An agreement that purports to “reassign” ownership of a patent from an assignor to a new assignee may not actually transfer ownership if the new assignee does not obtain the requisite rights.⁴² On the flip side, an agreement that purports to be a mere license preserving ownership in the hands of the licensor may, for all intents and purposes, make the licensee the effective patent owner.⁴³ For this reason, throughout the discussion that follows, this Article refers generically to a “buyer” and “seller” of patent rights, rather than “licensor”/“licensee” or “assignor”/“assignee.” The “buyer” and “seller” may also be viewed as the “transferee” and “transferor,” respectively, of the patent rights.

(quoting *Duro-Last, Inc. v. Custom Seal, Inc.*, 321 F.3d 1098, 1106 (Fed. Cir. 2003)), *aff’d*, 563 U.S. 776 (2011).

³⁹ See *Mentor H/S, Inc. v. Med. Device All., Inc.*, 240 F.3d 1016, 1018 (Fed. Cir. 2001) (“[T]he issue of whether an exclusive licensee has sufficient rights in a patent to bring suit in its own name is jurisdictional and, therefore, is not waived by a party’s failure to raise the issue in the district court.”); *see also, e.g.*, *Evident Corp. v. Church & Dwight Co.*, 399 F. 3d 1310, 1313 (Fed. Cir. 2005).

⁴⁰ See, e.g., *AsymmetRx, Inc. v. Biocare Med., LLC*, 582 F.3d 1314, 1318 (Fed. Cir. 2009).

⁴¹ See *Waterman v. Mackenzie*, 138 U.S. 252, 256 (1891); *A123 Sys., Inc. v. Hydro-Quebec*, 626 F.3d 1213, 1218 (Fed. Cir. 2010).

⁴² See, e.g., *Diamond Coating Techs., LLC v. Hyundai Motor Am.*, 823 F.3d 615, 618 (Fed. Cir. 2016) (citing *Minco, Inc. v. Combustion Eng’g, Inc.*, 95 F.3d 1109, 1117 (Fed. Cir. 1996)).

⁴³ See, e.g., *Luminara Worldwide, LLC v. Liown Elecs. Co.*, 814 F.3d 1343, 1351 (Fed. Cir. 2016).

II. THE “BUNDLE OF RIGHTS”

A patent confers a “bundle of rights” upon the patentee, and a patentee may choose to transfer any number of those rights to a licensee or assignee.⁴⁴ The more substantial the rights obtained by the buyer (and, consequently, the less substantial the rights left with the seller), the more likely it is that a court will find that all substantial rights have been transferred.⁴⁵ “Under *Waterman [v. Mackenzie]* and its successors, the critical determination regarding a party’s ability to sue in its own name is whether an agreement transferring patent rights to that party is, in effect, an assignment or a mere license.”⁴⁶

As an initial matter, it is worth noting that the determination of whether a party possesses all substantial rights in a patent is based on the allocation of rights at the time the complaint is filed.⁴⁷ A defective agreement that intends but fails to transfer all substantial rights from seller to buyer cannot be cured by a later execution of a *nunc pro tunc*⁴⁸ amended agreement. In *Enzo v. Geapag*, the Federal Circuit held that “*nunc pro tunc* assignments are not sufficient to confer retroactive standing.”⁴⁹ Citing *Enzo*, the Federal Circuit held in *Alps South, LLC v. Ohio Willow Wood Co.* that the question of whether a licensee “may be considered a ‘patentee’” turns on “whether the licensee possesses ‘all substantial rights’ at the time the complaint was filed.”⁵⁰

⁴⁴ *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991) (noting that a patent provides its owner with “a bundle of rights which may be divided and assigned, or retained in whole or part”).

⁴⁵ See, e.g., *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1360 (Fed. Cir. 2010) (noting that in the licensing context, “the question is whether the license agreement transferred sufficient rights to the exclusive licensee to make the licensee the owner of the patents in question”).

⁴⁶ *AsymmetRx, Inc. v. Biocare Med., LLC*, 582 F.3d 1314, 1319 (Fed. Cir. 2009) (citing the Supreme Court’s foundational decision in *Waterman v. Mackenzie*, 138 U.S. 252 (1891)).

⁴⁷ See *Enzo APA & Son, Inc. v. Geapag A.G.*, 134 F.3d 1090, 1093 (Fed. Cir. 1998).

⁴⁸ See *Nunc pro tunc*, BLACK’S LAW DICTIONARY (10th ed. 2014) (defining “*nunc pro tunc*” as “[h]aving retroactive legal effect through a court’s inherent power”) (emphasis added).

⁴⁹ *Enzo*, 134 F.3d at 1093 (Fed. Cir. 1998) (emphasis added).

⁵⁰ 787 F.3d 1379, 1385 (Fed. Cir. 2015) (emphasis added) (citing *Enzo*, 134 F.3d at 1093); see also *Diamond Coating Techs. v. Hyundai Motor Am.*, 823 F.3d 615, 621

When addressing the question of whether a given agreement transfers all substantial rights in a patent, a court is free to examine any and all rights in the bundle.⁵¹ In its analysis, a court should “weigh[] the rights in the patent transferred to [the buyer] against those retained by [the seller], to determine whether [the seller] assigned all substantial rights in the patent, or fewer than all such rights.”⁵² The Federal Circuit has also encouraged courts to consider the parties’ intent in this analysis.⁵³

The Federal Circuit has stated that there is no single, exhaustive list of rights a court must consider “to determine whether a licensor has transferred away sufficient rights to render an exclusive licensee the owner of a patent.”⁵⁴ While the Federal Circuit has “never purported to establish a complete list” of the rights that a court should consider,⁵⁵ it has, over the years, articulated quite a few. These run the gamut from the most important rights, like the right to practice and enforce the patent, to relatively minor ones, like the right to let the patents expire for the nonpayment of maintenance fees.⁵⁶ Among the rights that have been enumerated and considered by the Federal Circuit, the Authors have identified the following:

- (1) the right to make, import, use, and/or sell products covered by the patent;

(Fed. Cir. 2016) (reaffirming the rule that “[n]unc pro tunc assignments are not sufficient to confer retroactive [patentee status]” (alteration in original) (quoting *Alps S.*, 787 F.3d at 1384)).

⁵¹ See *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1360 (Fed. Cir. 2010).

⁵² *Sicom Sys. Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 978 (Fed. Cir. 2005).

⁵³ E.g., *id.* at 979 (“[T]his court has established that the intention of the parties to the Agreement and the substance of what was granted are relevant factors in determining whether all substantial rights in a patent were conveyed.”); *Mentor H/S, Inc. v. Med. Device All., Inc.*, 240 F.3d 1016, 1017 (Fed. Cir. 2001) (“[A court] must ascertain the intention of the parties and examine the substance of what was granted”); *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 874 (Fed. Cir. 1991) (“We must . . . examine whether the agreements transferred all substantial rights to the ’650 patent and whether the surrounding circumstances indicated an intent to do so.”).

⁵⁴ *Alfred E. Mann*, 604 F.3d at 1360.

⁵⁵ See *id.*

⁵⁶ See generally Parts III–V.

- (2) the right to enforce—i.e., to sue infringers;
- (3) the right to alienate rights and interests in the patent, through sale or other transfer;
- (4) the right to indulge infringement, and the related right to settle any infringement dispute;
- (5) the right to license or sublicense;
- (6) the right to supervise licensees;
- (7) the right to be informed and/or consulted in the event of litigation or licensing activity by the other party;
- (8) any reversionary right possessed by the seller;
- (9) the right to share in royalties or damages that flow from the patent;
- (10) the right to prosecute child applications and foreign counterparts; and
- (11) the obligation to pay maintenance fees and the right to let the patent expire for nonpayment of fees.⁵⁷

The Federal Circuit has never held that any particular right within the bundle is too small to merit consideration in the all substantial rights analysis.⁵⁸ Moreover, at times, the Federal Circuit has suggested that no single right within the bundle is ever truly dispositive.⁵⁹ However, two clear rules have emerged: (1) To

⁵⁷ See, e.g., *Luminara Worldwide, LLC v. Liown Elecs. Co.*, 814 F.3d 1343, 1347, 1350–51 (Fed. Cir. 2016) (considering rights 1, 2, 5, 7, 9, and 11 enumerated above); *Alfred E. Mann*, 604 F.3d at 1360–61 (considering rights 1, 2, 3, 4, 5, 6, 7, 8, 9, and 11); *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1342 (Fed. Cir. 2006) (considering rights 1, 2, 5, and 8); *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1342, 1345 (Fed. Cir. 2001) (considering rights 1, 2, 3, 4, 5, 7, and 9); *Vaupel*, 944 F.2d at 875 (considering rights 1, 2, 5, 7, 8, 9, and 10).

⁵⁸ Because courts are permitted to consider even relatively minor rights in their analysis, the “all substantial rights” analysis could have evolved into a quantitative analysis of who owns *substantially all* of the patent rights. See *infra* Part V. However, the Federal Circuit has tended to focus its analysis more qualitatively on the question of who owns the most substantial rights within the bundle. See *supra* note 57.

⁵⁹ See, e.g., *AsymmetRx, Inc. v. Biocare Med., LLC*, 582 F.3d 1314, 1321 (considering certain limits on a buyer and holding that “[w]hile any of these restrictions alone might not have been destructive of the transfer of all substantial rights, their totality is sufficient to do so”).

possess all substantial rights, a buyer must possess the right to practice the patent; and (2) assuming that precondition is met, the right to enforce the patent is usually dispositive. As this Article explains below, a party that lacks the right to enforce is very unlikely to possess all substantial rights, and therefore will be unable to establish that it possesses standing to sue for patent infringement in its own name.

III. A PRECONDITION: THE BUYER'S RIGHT TO PRACTICE

As noted in Part I, the right to practice the patent in full—that is, the right to make, use, offer to sell, sell, and import the patented invention—is a necessary but not always sufficient precondition for the transfer of all substantial rights.⁶⁰ In its recent decision *Diamond Coating Technologies, LLC v. Hyundai Motor America*, the Federal Circuit considered an agreement that, *inter alia*, did “not even grant [the buyer] a right to practice the patents-in-suit” and held that, “in this respect, [the buyer] unquestionably failed to acquire all substantial rights.”⁶¹

This rule dates back more than a century to the Supreme Court’s decision in *Waterman v. Mackenzie*, which focused on the “right to make, use, and vend the invention or discovery.”⁶² *Waterman* held that “the grant of an exclusive right . . . which does not include the right to make, and the right to use, and the right to sell, is not a grant of a title in the whole patent-right within the district, and is therefore only a license.”⁶³ *Waterman* held that any subdivision of the individual rights that collectively make up the right to practice the patent—e.g., “a grant of ‘the exclusive right to make and use,’ but not to sell, patented machines”—would

⁶⁰ See *supra* Section I.A (explaining that an exclusive right to practice the invention is necessary for constitutional standing to bring an infringement suit, because it is a violation of that exclusive right that creates an “injury” under the Patent Act).

⁶¹ 823 F.3d 615, 620 (Fed. Cir. 2016).

⁶² 138 U.S. 252, 255 (1891).

⁶³ *Id.* at 256.

necessarily mean that the buyer possessed, in effect, less than the whole patent.⁶⁴

In the context of standing, the injury that gives rise to the right to sue for patent infringement is the infringement of the right to practice the claimed invention that the patent confers.⁶⁵ An exclusive right to practice the patent is a necessary precondition for injury under the Patent Act and for constitutional standing.⁶⁶ “To be an exclusive licensee for standing purposes, a party must have received, not only the right to practice the invention within a given territory, but also the patentee’s express or implied promise that others shall be excluded from practicing the invention within that territory as well.”⁶⁷

The Federal Circuit has further held that certain restrictions on the buyer’s right to practice the patent preclude the transfer of all substantial rights⁶⁸: First, a field-of-use restriction⁶⁹ is “fatal” to the transfer of all substantial rights, even if the buyer’s right to practice

⁶⁴ *Id.* (quoting *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544, 546, 548 (1872)). However, a territorial restriction on a buyer’s rights has been held not to preclude the transfer of all substantial rights, such that an exclusive territorial licensee may have standing to sue absent the patent owner. *See id.* at 256. According to *Waterman*, a full assignment of the patent, or assignment of “the exclusive right under the patent within and throughout a specified part of the United States,” will “vest[] in the assignee a title in so much of the patent itself, with a right to sue infringers,” so that the assignee may do so “in the name of the assignee alone.” *Id.*; *see also Int’l Gamco, Inc. v. Multimedia Games, Inc.*, 504 F.3d 1273, 1276 (Fed Cir. 2007).

⁶⁵ *See supra* Part I.

⁶⁶ *See supra* Section I.A. As this Article explains in Part V.B below, a seller of a patent may retain a right to practice the patent as well as a limited right to sublicense the patent without preventing the buyer from enjoying an “exclusive” right to practice. *See Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1360 (Fed. Cir. 2010) (“The first step is to determine whether the license is exclusive or nonexclusive, because [the licensee] would have no right to sue, even by joining [the patent owner], under a nonexclusive license agreement.”).

⁶⁷ *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1552 (Fed. Cir. 1995).

⁶⁸ *See, e.g., Alps S., LLC v. Ohio Willow Wood Co.*, 787 F.3d 1379, 1383 (Fed. Cir. 2015).

⁶⁹ *Field-of-Use Restriction*, BLACK’S LAW DICTIONARY (10th ed. 2014) (defining “field-of-use restriction” as “[a] license provision restricting the licensee’s use of the licensed property to a defined product or service market or to a designated geographical area”).

is otherwise exclusive and unencumbered.⁷⁰ Second, a hard expiration date on the buyer's rights, prior to expiration of the patent, also precludes transfer of all substantial rights. In *Aspex Eyewear*, the Federal Circuit held that a buyer that obtains rights "for only a fixed period of years... does not meet the all substantial rights standard."⁷¹

The scope of the buyer's right to practice has rarely been the focus of the Federal Circuit's all substantial rights analyses, and in many cases the right is presumed and not mentioned. An agreement need not expressly grant the buyer the right to practice—or enumerate the individual rights to make, use, sell, etc.—as the buyer's right to practice may be (and often is) subsumed into a broader grant of all rights and interests in the patent.⁷²

An important consequence of the rule that all substantial rights require a right to practice—and a potentially helpful practice tip—is that any agreement that purports to transfer to the buyer the exclusive right to enforce the patent (even absent participation by the seller), without also transferring the right to practice the patent, is insufficient to transfer all substantial rights (or to confer

⁷⁰ *Alps S.*, 787 F.3d at 1383–84 (observing that “[p]recedent dictates that the original agreement’s field of use restriction is fatal to Alps’s argument that it had standing to file this action” without joining the patent owner, and holding that “[b]ecause the license restricted Alps’s rights in the ’109 patent to the field of prosthetic products, Alps lacked standing to pursue this litigation without naming AEI as a co-plaintiff”); *see also* Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc., 776 F.3d 837, 843 (Fed. Cir. 2015) (observing that, among other encumbrances on the buyer’s rights, “there was a field of use restriction,” and holding that “[t]here was no basis . . . to conclude that [the seller] had transferred ‘all substantial rights’”); Int’l Gamco, Inc. v. Multimedia Games, Inc., 504 F.3d 1273, 1278 (Fed. Cir. 2007) (stating that the all substantial rights doctrine “compels an exclusive licensee with less than all substantial rights, such as a field of use licensee, to join the patentee before initiating suit”).

⁷¹ *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1343 (Fed. Cir. 2006); *see also id.* at 1342–43 (“By having rights for only a limited portion of the patent term, [the buyer] simply did not own the patent. It was merely an exclusive licensee without all substantial rights.”).

⁷² *See, e.g.*, Suffolk Techs. LLC v. AOL Inc., 910 F. Supp. 2d 850, 856 (E.D. Va. 2012) (holding that an agreement’s transfer of the “entire right, title[,] and interest” in a patent implicitly included transfer of the “right to make, use, and sell the invention covered by” the patent (quoting contract language from the agreement at issue in the case)).

constitutional standing on the buyer): “A ‘right to sue’ provision within a license cannot, of its own force, confer standing on a bare licensee.”⁷³ Hence, a buyer with the right to enforce, but without the right to practice, cannot show injury.⁷⁴

Finally, while the buyer’s right to practice must be exclusive with respect to third parties, a seller’s retained right to practice the patent does not necessarily preclude the transfer of all substantial rights, so long as the buyer’s right to practice is otherwise exclusive.⁷⁵ The seller’s right to practice can be structured as a retained right, or can alternatively be structured as a license from the buyer back to the seller.⁷⁶ This Article discusses this issue further in Section V.B.

IV. THE HEART OF THE ALL SUBSTANTIAL RIGHTS ANALYSIS: WEIGHING THE MOST IMPORTANT RIGHTS WITHIN THE BUNDLE

When the essential precondition of the right to practice the patent has been met, a court moves to the heart of the all substantial rights analysis: weighing the various rights within the “bundle.”⁷⁷ Rather than set forth cut and dry rules as to which rights a buyer *must* always hold to possess all substantial rights, the Federal Circuit has tended to characterize its analysis as a flexible, holistic balancing test.⁷⁸ However, a clear hierarchy has emerged, with a handful of rights weighed most heavily in the court’s balancing. As this Article explains below, the right to enforce the patent has emerged as the single most important in the Federal

⁷³ *Textile Prods., Inc. v. Mead Corp.*, 134 F.3d 1481, 1485 (Fed. Cir. 1998) (observing that even if a right-to-enforce “provision were read broadly to give [the buyer] an independent right to sue in [the seller’s] name, such a provision would be ineffectual of its own force”).

⁷⁴ Recall that the core injury that gives rise to constitutional standing to sue for patent infringement is a violation of “the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States.” 35 U.S.C. § 154 (2012). A party that lacks a right to exclude others is not injured by infringement. *See supra* Part I.

⁷⁵ *See infra* Section V.B.

⁷⁶ *See infra* Section V.B.

⁷⁷ *See supra* text accompanying notes 51–53 for further explanation of this analysis.

⁷⁸ *See supra* Part II.

Circuit's all substantial rights analysis.⁷⁹ The right to alienate, as well as the right to indulge infringement, tend to follow the right to enforce in order of importance.⁸⁰

A. The Single Most Important Right: The Right to Enforce

The most important right weighed in the all substantial rights analysis is almost certainly the right to enforce. This is not surprising given that the ultimate question the all substantial rights inquiry addresses is whether the buyer can enforce the patent in its own name.⁸¹ Meaningful encumbrances on the buyer's right to sue alleged infringers are very likely, if not certain, to preclude transfer of all substantial rights and have been found dispositive in several cases.⁸² By contrast, an agreement providing an unfettered right to enforce the patent is more likely to be considered as having transferred all substantial rights and conferred standing upon the buyer.⁸³ The Federal Circuit has stated that, "the exclusive right to sue is 'particularly dispositive' in cases where . . . we are deciding whether a patent owner must be joined as a party."⁸⁴ Whether a patent owner (i.e., the seller) must be joined as a party essentially

⁷⁹ See *infra* Section IV.A.

⁸⁰ See *infra* Sections IV.B–C.

⁸¹ See, e.g., *Diamond Coating Techs., LLC v. Hyundai Motor Am.*, 823 F.3d 615, 620 (Fed. Cir. 2016) (finding that "[r]etaining control of [licensing or litigation] activities is [...] critical to demonstrating that the patent has not been effectively assigned to the licensee") (alterations in original) (quoting *Azure Networks, LLC v. CSR PLC*, 771 F.3d 1336, 1343 (Fed. Cir. 2014), vacated on other grounds, 135 S. Ct. 1846 (2015)).

⁸² See, e.g., *id.* at 619–20; *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1362 (Fed. Cir. 2010); *Sicom Sys. Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 978–79 (Fed. Cir. 2005); *Abbott Labs. v. Diamedix Corp.*, 47 F.3d 1128, 1132 (Fed. Cir. 1995).

⁸³ See, e.g., *Luminara Worldwide, LLC v. Liown Elecs. Co.*, 814 F.3d 1343, 1350–51 (Fed. Cir. 2016).

⁸⁴ *AsymmetRx, Inc. v. Biocare Med., LLC*, 582 F.3d 1314, 1319 (Fed. Cir. 2009) (quoting *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991)); see also *Keranos, LLC v. Silicon Storage Tech., Inc.*, 797 F.3d 1025, 1032 (Fed. Cir. 2015) (stating that the right to sue accused infringers is the most important factor in determining whether all substantial rights have been transferred); *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1342 (Fed. Cir. 2006) ("A key factor has often been where the right to sue for infringement lies.").

entails the same analysis as whether the buyer has all substantial rights.⁸⁵

In case after case, the Federal Circuit has held that restrictions on a buyer's ability to sue was at least a significant factor, if not the most significant factor, in preventing the transfer of all substantial rights in the patent.⁸⁶ Indeed, to the Authors' knowledge, in every instance where the court has considered an agreement that did not provide the buyer with an unfettered right to enforce the patent on its own, it has concluded that the buyer did not possess all substantial rights.⁸⁷

In *Abbott Laboratories v. Diamedix Corp.*, the Federal Circuit held that an exclusive licensee possessed less than all substantial rights in a patent, given that the licensor reserved the right to sue for infringement if the licensee declined to do so, and that the licensee was "obligated under the agreement not to 'prejudice or impair the patent rights [of the patentee] in connection with' [the licensee's own litigation]."⁸⁸ In holding that the licensee "may not sue on its own for infringement," *Abbott* quoted *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.* for the rule that transfer of the exclusive right to sue is "particularly dispositive."⁸⁹ In *Sicom Systems Ltd. v. Agilent Technologies, Inc.*, the Federal Circuit held that an exclusive licensee possessed fewer than all substantial rights in a patent, given, *inter alia*, that the licensor retained a right to sue noncommercial accused infringers, having transferred to the licensee only the right to sue commercial infringers.⁹⁰ In *Alfred E. Mann Foundation for Scientific Research v. Cochlear Corp.*, the Federal Circuit held that an exclusive licensee did not possess all substantial rights in the patent, in light

⁸⁵ See, e.g., *AsymmetRx*, 582 F.3d at 1319–20 (noting how the buyer must have all substantial rights in the patent to bring suit on its own without the seller (i.e., patent owner)).

⁸⁶ *Diamond Coating Techs.*, 823 F.3d at 620–21; *Alfred E. Mann*, 604 F.3d at 1362; *Sicom Sys.*, 427 F.3d at 978–79; *Abbott Labs.*, 47 F.3d at 1132.

⁸⁷ See generally *supra* notes 82–84 (cataloguing various cases on how an exclusive right to sue affects an all substantial rights determination).

⁸⁸ *Abbott Labs.*, 47 F.3d at 1132 (quoting the agreement at issue in the case).

⁸⁹ *Id.* (quoting *Vaupel*, 944 F.2d at 875) (citing *Vaupel*, 944 F.2d at 875–76).

⁹⁰ 427 F.3d at 978–80.

of the fact that the patentee reserved the right to sue for infringement if the licensee declined to do so.⁹¹

One case, *Speedplay, Inc. v. Bebop, Inc.*, looks at first glance as if it might be an outlier.⁹² In *Speedplay*, the buyer did not obtain an unfettered right to enforce the patent, as the seller retained some rights to sue, but the court nonetheless held that the buyer possessed all substantial rights.⁹³ The Federal Circuit held that the seller's retained rights were irrelevant because the buyer possessed the ability to grant royalty-free licenses at will to any party sued by the seller.⁹⁴

By contrast, an absence of restrictions on a buyer's ability to sue has consistently been found by the Federal Circuit to indicate the transfer of all substantial rights in the patent.⁹⁵ Notably, in *Vaupel* the seller retained numerous rights, including: "1) [A] veto right on sublicensing . . . ; 2) the right to obtain patents on the invention in other countries; 3) a reversionary right to the patent in

⁹¹ 604 F.3d at 1362; *see also, e.g.*, *Diamond Coating Techs.*, 823 F.3d at 620–21 (noting that the seller retained significant control over the buyer's enforcement and litigation activities, and concluding on the basis of this and other factors that fewer than all substantial rights had been transferred); *Clouding IP, LLC v. Google Inc.*, 61 F. Supp. 3d 421, 434 (D. Del. 2014) (holding that an exclusive licensee possessed fewer than all substantial rights in a patent, given that, *inter alia*, the licensor could "circumvent [the licensee's] decision to allow infringement and, instead, bring suit directly as a counter-plaintiff").

⁹² 211 F.3d 1245, 1251 (Fed. Cir. 2000).

⁹³ *Id.*

⁹⁴ *Id.* ("[The sellers'] right to sue an infringer if [the buyer] does not is illusory, because [the buyer] can render that right nugatory by granting the alleged infringer a royalty-free sublicense.")

⁹⁵ *See, e.g.*, *Luminara Worldwide, LLC v. Liown Elecs. Co.*, 814 F.3d 1343, 1350 (Fed. Cir. 2016) (noting that "the transfer of the right to sue for infringement is critical" and holding that an exclusive licensee possessed all substantial rights in view of the fact that the patentee, "has not retained the right to sue here"); *Keranos, LLC v. Silicon Storage Tech., Inc.*, 797 F.3d 1025, 1032 (Fed. Cir. 2015) ("Importantly, [the assignor] did not retain the right to sue accused infringers, which 'is the most important factor in determining whether an exclusive license transfers sufficient rights to render the licensee the owner of the patent.'" (quoting *Alfred E. Mann*, 604 F.3d at 1361)); *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991) (noting that "[t]he agreements also transferred the right to sue for infringement of the . . . patent, subject only to the obligation to inform [the seller]" and holding that all substantial rights had, in fact, been transferred).

the event of bankruptcy or termination of production . . . ; and 4) a right to receive infringement damages, . . . ” Nonetheless, the court—focusing on the “particularly dispositive” right to enforce—held that all substantial rights had been transferred to the buyer.⁹⁶

Thus, a potentially useful practice point emerges from the case law on the right to enforce. If the parties intend to transfer ownership, an agreement should transfer from seller to buyer the sole and undivided right to sue for infringement and to defend the patent. With some exceptions, the seller should not retain a right to veto or otherwise interfere with the buyer’s infringement litigation. However, as this Article explains in Section V.B, the Federal Circuit has held that a seller may retain certain rights to grant licenses or releases to parties accused of infringement, without precluding the transfer of all substantial rights. For example, when a patent is assigned or ownership is otherwise transferred, the patent remains subject to pre-existing licenses and other obligations, which can include a licensee’s right to grant sublicenses.⁹⁷

B. The Right to Alienate

After the right to enforce, the hierarchy of the remaining rights within the bundle is less clear. However, the buyer’s right to alienate (e.g., to sell, transfer, or reassign) its rights is arguably the next most important consideration. Agreements that restrict a buyer’s right to alienate are unlikely to transfer all substantial rights, although such restrictions are less certain to be determinative than restrictions on the right to enforce.

In *Abbott*, the court noted that a licensor (Diamedix) had retained “the right to prevent Abbott from assigning its rights under the license to any party other than a successor in business,” and held that such a right is of “the sort that are commonly held sufficient to make a patent owner who grants an exclusive license a necessary party to an infringement action brought by the licensee.”⁹⁸ Thus *Abbott* seems to hold that restrictions on a

⁹⁶ 944 F.2d at 875.

⁹⁷ See *infra* Section V.B.

⁹⁸ 47 F.3d 1128, 1132 (Fed. Cir. 1995).

buyer's right to alienate its rights in the patent make the seller a necessary party (and the buyer the holder of less than all substantial rights in the patent).⁹⁹ In *Sicom*, the licensor's retention of a right to veto an exclusive licensee's attempts to reassign its license was concordantly a factor in finding that all substantial rights had not been transferred.¹⁰⁰ But in *Intellectual Property Development, Inc. v. TCI Cablevision of California, Inc.*, the court held that all substantial rights had been transferred to an exclusive licensee even though the licensor retained, *inter alia*, the right to prevent the licensee from assigning its license without the licensor's written consent.¹⁰¹ Therefore, although the right to alienate is arguably the next most important consideration in the all substantial rights analysis, it is not always dispositive.¹⁰²

C. The Right to Indulge Infringement

Compared to the right to sue for infringement—which, as noted above, is of paramount importance—the Federal Circuit has been less clear on the importance of the right to indulge¹⁰³ (i.e., to permit) infringement. The right *not* to enforce the patent could be viewed as the flip side of the right-to-enforce coin, and at least one case has implied that it may be of equal importance.¹⁰⁴ In *Abbott*, the Federal Circuit specifically enumerated restrictions on the buyer's right to indulge infringement—the seller's retained “right to bring suit on the patents if [the buyer] declined to do so”—as well as limits on the buyer's ability to alienate its patent rights, and the seller's ongoing “right to make, use, and sell products

⁹⁹ See *id.*

¹⁰⁰ See *Sicom Sys. Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 979 (Fed. Cir. 2005).

¹⁰¹ See *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1342 (Fed. Cir. 2001).

¹⁰² See *id.*

¹⁰³ The right to indulge infringement may be viewed as the right to waive the right to enforce and thereby, permit infringement to go unpunished. “Implicit in the right to exclude is the ability to waive that right” *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1379 (Fed. Cir. 2000).

¹⁰⁴ See *Abbott Labs.*, 47 F.3d at 1132 (observing that “the right to indulge infringements . . . normally accompanies a complete conveyance of the right to sue”); see also *Sicom Sys.*, 427 F.3d at 978 (noting the holding in *Abbott Labs.*).

embodying the patented inventions,” in concluding that all substantial rights had not been transferred.¹⁰⁵

Following *Abbott*, the Federal Circuit considered in *Alfred E. Mann* an exclusive license agreement that gave the patent owner a right to bring an infringement suit on its own if the licensee declined to do so.¹⁰⁶ “[I]f [exclusive licensee] AB declined to bring an infringement action against an infringer, [assignee] AMF was permitted to file suit.”¹⁰⁷ The Federal Circuit held that “[b]ecause AB cannot indulge infringements for an unlimited time . . . AB holds substantially less than the complete right to sue.”¹⁰⁸ The *Alfred E. Mann* decision concluded that the exclusive licensee’s inability to indulge infringement for an unlimited time made it possess “substantially less than the complete right to sue.”¹⁰⁹

In the same vein, in *Diamond Coating Technologies* the Federal Circuit addressed an agreement that limited the buyer’s “discretion to refrain from suing certain companies,” as evidenced by, for example, a list of companies included within the agreement “which [the buyer] ‘reserves the right not to assert the [patents-in-suit] against.’”¹¹⁰ The Federal Circuit agreed with the district court that, “if [the buyer] has unfettered discretion on enforcement, then [the list] would be superfluous.”¹¹¹ The agreement in *Diamond Coating Technologies* further included a “list of ‘companies that [the seller] reasonably believes represent licensing opportunities’ and restrict[ed] [the buyer’s] ability to remove companies from that list.”¹¹² The Federal Circuit considered such restrictions on the

¹⁰⁵ 47 F.3d at 1132, 1133.

¹⁰⁶ See *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1357 (Fed. Cir. 2010).

¹⁰⁷ *Id.* at 1363.

¹⁰⁸ *Id.*

¹⁰⁹ *Id.* (“Thus, AMF’s retained right to sue is significant, and so we hold that the license agreement was not a virtual assignment of the patents-in-suit to AB.”).

¹¹⁰ *Diamond Coating Techs., LLC v. Hyundai Motor Am.*, 823 F.3d 615, 621 (Fed. Cir. 2016) (alteration in original) (quoting *Diamond Coating Techs., LLC v. Hyundai Motor Am.*, Nos. 8:13-cv-01480-MRP, 8:13-cv-01481-MRP(DFM), 2015 WL 2088892, at *6 (C.D. Cal. Apr. 1, 2015)).

¹¹¹ *Id.* (second alteration in original) (quoting *Diamond Coating Techs.*, 2015 WL 2088892, at *6).

¹¹² *Id.* (quoting agreement at issue in the case, marked J.A. 249, 256).

right to indulge infringement to limit the right to enforce—namely, a provision granting the buyer the right to enforce the patent in its “*reasonable* sole discretion,” and requiring it to take into consideration the best interests of the seller in bringing suit.¹¹³ The court concluded that, together, “[t]hese provisions show that [the seller] retained significant control over [the buyer’s] enforcement and litigation activities.”¹¹⁴

However, there are perhaps not yet enough cases addressing the significance of the right to indulge infringement to confirm that its importance places it in the same elite class as the right to enforce. What is clear is that an absence of restrictions on the buyer’s right to indulge infringement support a conclusion that all substantial rights have been transferred to the buyer.

V. LESS IMPORTANT RIGHTS WITHIN THE BUNDLE

Beyond the rights to enforce, alienate, and indulge infringement, the Federal Circuit has tended to place less emphasis on the remaining rights within the bundle. For example, the court has tended to find that all substantial rights have been transferred even when the seller retains a monetary interest in the patent, or when the seller retains a license to practice the patent itself.¹¹⁵

A. *The Seller’s Retained Monetary Interest*

In its recent decision *Luminara Worldwide, LLC v. Liown Electronics Co.*, the Federal Circuit held, rather unequivocally, that a seller’s ongoing “financial interest in litigation and licensing without more does not amount to a substantial right forcing joinder of the patentee.”¹¹⁶ *Luminara* made clear that provisions granting a seller continuing monetary interests of various types, including interests in both licensing revenues and any damages collected from infringement litigation, are consistent with an assignment of

¹¹³ *Id.* at 620 (quoting agreement at issue in the case, marked J.A. 209).

¹¹⁴ *Id.* at 621.

¹¹⁵ See *infra* Sections V.A–C.

¹¹⁶ 814 F.3d 1343, 1351 (Fed. Cir. 2016).

the patent, rather than a mere license.¹¹⁷ This decision perhaps reflects a modern understanding that the parties may want to structure an agreement such that the consideration paid by the buyer is contingent, at least in part, on the revenues the buyer is able to extract from the patent. However, the origins of this rule date back to the Federal Circuit's foundational *Vaupel* decision, holding that "the right to receive infringement damages" was not substantial enough "to reduce the transfer to a mere license or indicate an intent not to transfer all substantial rights."¹¹⁸ Indeed, this rule is grounded in the Supreme Court's 1889 *Rude v. Westcott* decision, which held that a seller's continued share in a portion of "sales, royalties, or settlements, or other source . . . does not, in any respect, modify or limit the absolute transfer of title."¹¹⁹

In *Luminara*, patentee Disney negotiated an exclusive license to certain patents with licensee Luminara, then called Candella.¹²⁰ Disney (and its affiliates) retained certain rights, including "the right . . . to practice the patents; title to the patents; the responsibility to pay maintenance fees to keep the patents in force; a financial interest in litigation and licensing; and a right to notice of litigation and licensing activities."¹²¹ The court held that Luminara nonetheless possessed all substantial rights in the patents, and that "[n]one of [the] retained rights individually or cumulatively are substantial enough to preclude Luminara from bringing suit in its name alone."¹²²

Similarly, in *Intellectual Property Development*, the Federal Circuit held that all substantial rights had not been transferred to the buyer, despite the seller's retention of, *inter alia*, a right to

¹¹⁷ See *id.*

¹¹⁸ *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991); see also, e.g., *Propat Int'l Corp. v. RPost, Inc.*, 473 F.3d 1187, 1191 (Fed. Cir. 2007) ("[T]he fact that a patent owner has retained a right to a portion of the proceeds of the commercial exploitation of the patent . . . does not necessarily defeat what would otherwise be a transfer of all substantial rights in the patent.").

¹¹⁹ 130 U.S. 152, 162–63 (1889).

¹²⁰ 814 F.3d at 1346.

¹²¹ *Id.* at 1351.

¹²² *Id.*

share in any profits realized from litigation.¹²³ In *Vaupel*, the court considered a provision that required the buyer to pay to the seller “any money damages obtained from third parties based on infringement of [the patent] up to a maximum of five percent of third party sales,” and held that this provision did not preclude transfer of all substantial rights.¹²⁴ In *Bard*, the court considered that the seller had “retained the right to share in damages” as a factor in concluding that all substantial rights had not been transferred.¹²⁵ The seller in *Bard* also imposed “a field of use restriction” on the buyer’s right to practice the patent.¹²⁶ As noted above, the Federal Circuit has elsewhere held that a field of use restriction is “fatal” to the transfer of all substantial rights.¹²⁷

B. The Seller’s Retained Right to Practice and to (Sub)license

Like a seller’s retained financial interest, the Federal Circuit has also found that a seller’s retained right to practice does not preclude the transfer of all substantial rights.¹²⁸ This is true even when the seller reserves the right not only to practice the patent itself, but to license or sublicense to affiliates, such as those with whom it has a limited business relationship (i.e., a franchise agreement).¹²⁹

As an initial matter, it is clear that a seller’s retained right to practice a patent does not prevent a buyer from becoming an exclusive licensee with constitutional standing to sue. In the Supreme Court’s 1926 decision, *Independent Wireless Telegraph*

¹²³ See 248 F.3d 1333, 1342, 1345 (Fed. Cir. 2001).

¹²⁴ *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875–76 (Fed. Cir. 1991) (quoting agreement at issue in the case); see also *Suffolk Techs. LLC v. AOL Inc.*, 910 F. Supp. 2d 850, 857 (E.D. Va. 2012) (addressing a buyer’s obligation “to pay to [the seller] [fifty-percent] of adjusted gross proceeds earned on” the patent and holding that “[t]his obligation also represents [the seller’s] compensation for assigning [the patent] to [the buyer] and is ‘not inconsistent with an assignment.’” (quoting *Vaupel*, 944 F.2d at 875)).

¹²⁵ 776 F.3d 837, 843 (Fed. Cir. 2015).

¹²⁶ *Id.*

¹²⁷ *Alps S., LLC v. Ohio Willow Wood Co.*, 787 F.3d 1379, 1383 (Fed. Cir. 2015).

¹²⁸ See *Luminara Worldwide, LLC v. Liown Elecs. Co.*, 814 F.3d 1343, 1351 (Fed. Cir. 2016).

¹²⁹ See *id.*

Co. v. Radio Corp. of America, the original patentee granted an exclusive license to its patent but “reserve[ed] to itself non[-]exclusive, non[-]transferable, and personal rights to make, use, and sell [patented devices] for defined purposes.”¹³⁰ The Court held that the licensee was nonetheless an exclusive licensee with standing to sue for infringement alongside the patentee as co-plaintiff.¹³¹

As noted in Part II, an exclusive license does not necessarily confer prudential standing or the right to bring suit absent the patent owner.¹³² There is a separate question of whether a seller’s retained rights to practice and to sublicense a patent could preclude transfer of all substantial rights in the patent. *Luminara* addressed this issue in some depth and expressly concluded that the answer is no: A seller’s retained rights to practice and to sublicense to affiliates are significantly less important in the all substantial rights analysis than a seller’s retained right to enforce the patent, and do not preclude the transfer of all substantial rights.¹³³ As noted above, in *Luminara* the patentee, Disney, granted Luminara an exclusive license but retained “the right for Disney Enterprises and its Affiliates to practice the patents.”¹³⁴ Disney’s licensed “Affiliates” included “any other entity, theme park, or venue operated by or under license from The Walt Disney Company or any of its Affiliates.”¹³⁵ This category encompassed third parties with a license from Disney that “relate[d] to the operation of the Affiliate in some way, such as with a franchise agreement.”¹³⁶ The court in *Luminara* concluded that Disney’s retained right to practice the patents and to sublicense to third-party affiliates did not preclude a transfer of all substantial rights: “[T]his is not a substantial right requiring joinder.... The retained right to practice a patent is not the same as a retained right to exclude

¹³⁰ 269 U.S. 459, 461 (1926).

¹³¹ See *id.* at 468.

¹³² See *supra* Section I.B.

¹³³ See 814 F.3d at 1351.

¹³⁴ *Id.*

¹³⁵ *Id.* at 1348 (quoting agreement at issue in case, marked J.A. 420).

¹³⁶ *Id.* at 1349.

others from doing so.”¹³⁷ Thus the seller’s retained right to practice is clearly not dispositive.

The *Luminara* court did note that a seller’s retention of an unfettered right to sublicense the patent to any and all third parties would be inconsistent with the transfer of all substantial rights to the buyer: “[I]f the patentee has retained the right to freely license the patent, it stands to lose substantial rights if the claims are held invalid or the patent held unenforceable.”¹³⁸ At the same time, *Luminara* sets forth a rule as to the type of sublicensing rights a seller may retain: A patent owner may generally sell a patent subject to a reserved right to practice the patent, and a reserved right to sublicense the patent to parties with whom it has a limited business relationship (such as a franchisor/franchisee relationship), without preventing the transfer of all substantial rights.¹³⁹ Beyond this rule, *Luminara* suggests that the more limited a seller’s retained right to sublicense to *new* third parties, the less likely this retained right will interfere with transfer of all substantial rights.¹⁴⁰

¹³⁷ *Id.* at 1351. In certain other cases, the Federal Circuit has considered a seller’s retained right to practice and concluded that all substantial rights had not been transferred. However, these cases can be squared with *Luminara* by observing that other, more important factors were present in these cases. In *Abbott*, the Federal Circuit weighed the fact that the seller “retained a limited right to make, use, and sell products embodying the patented inventions,” in concluding that “[u]nder *Waterman* and its successors, Abbott . . . may not sue on its own for infringement.” 47 F.3d 1128, 1132 (Fed. Cir. 1995). But the seller in *Abbott* had also limited the buyer’s rights to enforce and to alienate the patents. *Id.* “Unlike in *Vaupel*, [the seller in *Abbott*] retained . . . a right to bring suit on the patents if Abbott declined to do so, and the right to prevent Abbott from assigning its rights under the license to any party other than a successor in business.” *Id.*; see also *Fieldturf, Inc. v. Sw. Recreational Indus., Inc.*, 357 F.3d 1266, 1269 (Fed. Cir. 2004) (stating that “the licensor’s retention of a limited right to develop and market the patented invention indicates that the licensee failed to acquire all substantial rights,” while the agreement in question also failed to grant the licensee any right to enforce the patent).

¹³⁸ *Luminara*, 814 F.3d at 1350.

¹³⁹ See *id.* at 1348 (noting that *Luminara*, at the time called *Candella*, would have limited rights if Disney Enterprises were given the right to license to any entity).

¹⁴⁰ See *id.*

C. Even Less Significant Rights

Remaining rights within the “bundle” tend to be less significant and will therefore be analyzed in less depth. While these rights may be weighed in the court’s analysis, they are unlikely to be determinative. These rights include reversionary rights possessed by the seller and restrictions on the buyer’s ability to license the patent.

As to reversionary rights, the Federal Circuit has held that a “reversion of rights to the [seller] following breaches of the license agreement” is a factor that weighs to some extent against finding that all substantive rights were conveyed to the buyer.¹⁴¹ Yet the court also held that “a reversionary right to the patent in the event of bankruptcy or termination of production by” the buyer is not a right “so substantial as to reduce the transfer to a mere license or indicate an intent not to transfer all substantial rights.”¹⁴² That is, a provision mandating the reversion of patent rights to the seller in the event of the buyer’s failure to make payment, or another breach of the agreement, does not preclude the transfer of all substantial rights and is merely a factor in the analysis. By contrast, as noted in Part IV, a hard termination date upon which the buyer’s rights revert to the seller clearly precludes the transfer of all substantial rights.¹⁴³

As to restrictions on a buyer’s ability to license, *Vaupel* considered a seller’s retained “veto right on sublicensing by” the buyer and concluded that this did not prevent the transfer of all substantial rights.¹⁴⁴ This demonstrates that a seller’s right to interfere with a buyer’s licensing activity does not necessarily control.

¹⁴¹ *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1360–61 (Fed. Cir. 2010).

¹⁴² *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875 (Fed. Cir. 1991); *see also Waterman v. Mackenzie*, 138 U.S. 252, 257–61 (1891) (holding that assignment of a patent “subject to [a] mortgage” and reversionary interest did not prevent transfer of title).

¹⁴³ *See Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1343 (Fed. Cir. 2006).

¹⁴⁴ 944 F.2d at 875.

A practice point emerges from this Part—a seller of patent rights may retain a rather large array of “less important” rights, including a right to practice, a right to license or sublicense, and a monetary interest in the patent, without precluding transfer of effective patent ownership to the buyer.

VI. THE (UN)IMPORTANCE OF FORM

Having discussed the rights commonly considered in a court’s analysis of whether all substantial rights have been transferred and having identified the most important rights in that analysis, this Article turns to the question of form—that is, the form of the agreement that transfers patent rights between parties, whether it be a license, an assignment, or another agreement. For example, does it matter if a particular right is reserved by the seller of a patent, rather than transferred to the buyer and then granted back to the seller?

The case law generally instructs that it is the substance of the agreement, and not its form, that controls. As noted above, the Supreme Court held in 1891 that, “[w]hether a transfer of a particular right or interest under a patent is an assignment or a license does not depend upon the name by which it calls itself, but upon the legal effect of its provisions.”¹⁴⁵ The Federal Circuit has reiterated this rule: “In determining ownership for purposes of standing, labels given by the parties do not control. Rather, the court must determine whether the party alleging effective ownership has in fact received all substantial rights from the patent owner.”¹⁴⁶

Under the bundle-of-sticks analogy, the mechanism by which each party obtains its respective rights—i.e., by reservation, assignment, license, etc.—should not control the substantive apportionment of those rights.¹⁴⁷ The Federal Circuit has stated

¹⁴⁵ *Waterman*, 138 U.S. at 256.

¹⁴⁶ A123 Sys., Inc. v. Hydro-Quebec, 626 F.3d 1213, 1218 (Fed. Cir. 2010).

¹⁴⁷ See *id.* From a purely practical perspective, and entirely separate from the all substantial rights and standing question, contracting parties should remember that the form of the agreement can sometimes be important, as it affects the operation of the

that “[w]e have not allowed labels to control by treating bare formalities of ‘title’ transfer as sufficient to determine that an ‘assignment’ of the entire exclusive right has occurred.”¹⁴⁸ Rather, the Court explained that, “[t]o determine whether a provision in an agreement constitutes an assignment or license, one must . . . examine the substance of what was granted.”¹⁴⁹ Thus, the answer is that it should not matter whether a particular right is reserved by the seller of a patent, rather than transferred to the buyer and then granted back to the seller; the ultimate allocation of rights is what matters.

CONCLUSION

To have standing to bring a suit for patent infringement in its own name, a party must possess all substantial rights in the patent, making it the effective owner—if not the formal owner—of the patent.¹⁵⁰ While the all substantial rights doctrine gives courts discretion to consider the totality of the circumstances, a few key considerations have emerged. First, a necessary (but not alone sufficient) condition for possession of all substantial rights is an unfettered right to practice the patent.¹⁵¹ Second, assuming that this condition is met, the single most important right in the court’s analysis is the right to enforce the patent (i.e., to bring suit against alleged infringers), as any limitations on this right almost certainly preclude possession of all substantial rights.¹⁵² Third, the right to alienate rights held in the patent and the right to indulge

agreement itself. For example, from the seller’s perspective, an agreement structured as a grant of rights to the buyer with a license back from the buyer to the seller can be riskier than a simple reservation of the same rights. A license could be terminated or set aside (e.g., in the event of the buyer’s bankruptcy), whereas a reservation typically operates independently of the buyer. Additionally, a license back from buyer to seller must necessarily be granted post-assignment, creating a risk in the event that the assignment is itself found defective in some way.

¹⁴⁸ *Diamond Coating Techs., LLC v. Hyundai Motor Am.*, 823 F.3d 615, 618 (Fed. Cir. 2016).

¹⁴⁹ *Id.* (quoting *Vaupel*, 944 F.2d at 874).

¹⁵⁰ *See supra* Part I.

¹⁵¹ *See supra* Part III.

¹⁵² *See supra* Section IV.A.

infringement have also been found important, at least in certain cases.¹⁵³ Beyond these rights, other rights and interests in the patent, including financial interests and a seller's retained rights to practice or sublicense the patent to affiliates, tend to be less important.¹⁵⁴ Fourth, the form of an agreement transferring patent rights is not dispositive, but rather it is the intent of the parties that controls.¹⁵⁵ To ensure transfer of all substantial rights, it is not necessary, but may be helpful, to structure the agreement as an assignment rather than as an exclusive license. It may also be helpful to state that any rights retained by the seller of the patent are not intended to interfere with the buyer's rights to practice and enforce the patent, as these rights are the most important in the analysis.

The Authors hope that in laying out certain rules and trends within the Federal Circuit's all substantial rights doctrine, readers will feel confident in structuring an agreement to transfer patent rights that will predictably and reliably allocate ownership of the patent.

¹⁵³ See *supra* Sections IV.B–C.

¹⁵⁴ See *supra* Part V.

¹⁵⁵ See *supra* Part VI.