

# PATENT FILE

## Making a stand

**Eric W Schweibenz** and **Alexander B Englehart** consider how the US ITC handles potential 'standing defences'



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**As most US section 337 practitioners know, the US International Trade Commission (ITC) allows a patent owner, including a non-practising entity (NPE) to rely on its licensee's activities to satisfy the domestic industry requirement.** More particularly, this approach, sometimes referred to as "domestic industry by subpoena", provides a way for the NPE patent owner to show that a US industry exists for products protected by the asserted patent(s) via a third-party company who previously took a licence to the asserted patent(s).

When facing this type of attack, ITC respondents should investigate potential standing defences, including not only verifying that the NPE complainant holds exclusionary rights and thus has constitutional standing, but also verifying that there are no other entities with any exclusionary rights. The existence of such other entities – even implied exclusive licensees – could create a prudential or statutory standing defect for the NPE, which could lead to the case being terminated.

### Standing defences at the ITC

The ITC's standing requirement for entities bringing section 337 complaints is set forth in commission Rule 210.12 and it requires that intellectual property-based complaints "include a showing that at least one complainant is the owner or exclusive licensee of the subject intellectual property".<sup>1</sup>

In practice, the ITC applies the standing requirement established by courts in patent infringement cases to determine whether the administrative standing requirement is satisfied.<sup>2</sup> In both federal courts and before the ITC, "[t]he question of standing to assert a patent claim is jurisdictional".<sup>3</sup>

### Constitutional standing v prudential or statutory standing

It is critical to investigate whether an ITC complainant asserting patent infringement

actually holds exclusionary rights in the asserted patent(s) at the outset of the investigation. A lack of exclusionary rights would mean that the complainant lacks "constitutional standing" to assert patent infringement. Importantly, constitutional standing defects cannot be cured after filing because the ITC's subject matter jurisdiction is determined on the date the complaint is filed.<sup>4</sup>

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Generally, the patent owner at the time suit is filed will satisfy the constitutional standing requirement.<sup>5</sup> This is because the Patent Act provides that [a] "patentee shall have remedy by civil action for infringement of his patent", 35 USC § 281. The Federal Circuit has further explained that the Patent Act, however, does not limit the right to sue to only patent owners and assignees, but includes any party that "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".<sup>6</sup> Parties that hold exclusionary rights [under the patent] are often identified as exclusive licensees.<sup>7</sup>

Parties that hold exclusionary patent rights have constitutional standing to sue alleged infringers. However, in order to sue without joining additional parties as plaintiffs, a plaintiff with constitutional standing must also satisfy the prudential or statutory standing requirement by possessing all substantial rights in the asserted patent(s). If a party has constitutional standing to enforce, but does not possess all substantial rights, it lacks prudential or statutory standing and must join the owner or exclusive licensee of the remaining rights as co-plaintiff. Since prudential or statutory standing is not jurisdictional, a defect in such standing in district court can normally be cured if the party owning the remaining substantial rights to the asserted patents is joined as a party.<sup>8</sup>

A critical difference between district court and ITC practice, however, is that where the party owning the remaining substantial rights to an asserted patent could have been named as a co-complainant at the outset of an ITC case, but was not, the complainant generally lacks the necessary "good cause" to amend the complaint later in the investigation, and the investigation may be terminated without allowing such amendment. In the 337-TA-818 investigation, administrative law judge (ALJ) David P Shaw found that the complainant, VirnetX, Inc (VirnetX) lacked prudential standing because another entity, non-party Science Applications International Corp (SAIC), held certain substantial rights in the asserted patent, including the right to review and object to any proposed licence, assignment, or settlement, and an equity interest in any licensing or litigation proceeds. VirnetX twice moved to amend its complaint after institution to add SAIC as a co-complainant, but ALJ Shaw denied both motions and later terminated the investigation, finding that VirnetX lacked the necessary good cause to amend its complaint to cure the prudential standing defect.<sup>9</sup>

In view of the above, a prudential or

statutory standing defect at the ITC can be just as problematic for a complainant as a constitutional standing defect. Unlike the district court – where prudential or statutory standing defects can generally be cured after filing by joining the remaining party or parties with substantial rights – this may not be possible at the ITC, where the rules require good cause to amend the complaint to add an additional complainant. Thus, if a non-party entity held substantial rights in the asserted patent(s) but was not named as a co-complainant from the start, there may be no opportunity for the complainant to cure the defect, and the investigation could be terminated at any time, as in the 337-TA-818 investigation. This could be particularly problematic for the complainant if the respondent(s) filed *inter partes* review (IPR) petitions at the US Patent and Trademark Office, after an ITC investigation was instituted and before any new ITC complaint is re-filed after any standing defects are remedied.

### Exclusive licences

It is also important to note that unlike patent assignments – which must be in writing to be effective – exclusive licences can be oral or implied. For example, in *Aspex Eyewear*, the court found “without doubt, more than enough on which a reasonable jury could believe that there was an oral and/or implied exclusive licence.” *Aspex Eyewear* involved sister companies owned by the same family that had the same president. One of the sister companies, Chic, had a written exclusive licence to the patents-in-suit. The other one, Aspex, distributed products embodying the patents-in-suit, although it had no written licence to do so. The evidence from which the court determined a jury could reasonably conclude an exclusive licence existed between Chic and Aspex included that the companies were owned by the same family, at all times had a close business relationship, and that Aspex had the right to practice the patent and exclude others. In light of these facts, among others, the court found that although Aspex’s licence was implied, it was still exclusive.<sup>10</sup>

All of this matters greatly because even if there is only one patent owner and that patent owner files a complaint alleging patent infringement, the patent owner can still lack prudential or statutory standing if there is an exclusive licensee that is not also named as a co-plaintiff.<sup>11</sup>

At the ITC, this could mean that an investigation could be terminated if a respondent is able to show that another entity held an exclusive licence – even an oral or



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implied one – on the date the complaint was filed, but was not named as a co-complainant.

### Comment

It is important to fully consider potential standing defences at the ITC. While a complainant would likely be able to re-file the complaint after it fixes any standing defects, the concomitant delay resulting from having to start over could lead to serious strategic problems for the complainant.

### Footnotes

- 19 CFR § 210.12(a)(7).
- See, eg, *Certain catalyst components and Catalysts for the polymerization of olefins*, Inv No 337-TA-307, 1990 ITC LEXIS 224, at \*50, comm’n op (18 June 1990). (“[W]e see little basis for inferring a different standing requirement under section 337 than the courts have established in patent infringement cases”).
- SIRF Tech v Int’l Trade Comm’n*, 601 F.3d 1319, 1325 (Fed Cir 2010).
- See, eg, *Certain thermoplastic-encapsulated electric motors, components thereof, and products and vehicles containing same*, Inv No 337-TA-1052, order no 7, slip op at 11-12 (11 August 2017). (Terminating investigation for lack

of constitutional standing).

- See, eg, *Crown Die & Tool v Nye Tool & Mack Works*, 261 US 24, 40-41 (1923); see also *Aspex Eyewear, Inc v Miracle Optics, Inc*, 434 F.3d 1336, 1341 (Fed Cir 2006).
- Propat Int’l Corp v RPost, Inc*, 473 F.3d 1187, 1193 (Fed Cir 2007).
- Morrow v Microsoft Corp*, 499 F.3d 1332, 1340 (Fed Cir 2007).
- See, eg, *Intellectual Prop Dev, Inc v TCI Cablevision of Cal, Inc*, 248 F.3d 1333, 1345-48.
- See, eg, *Certain devices with secure communication capabilities, components thereof, and products containing the same*, Inv No 337-TA-818, 2012 ITC LEXIS 2675, Order No 15 (July 18, 2012) (granting motion to terminate investigation for lack of prudential standing); cf *Certain audio processing hardware, software, and products containing the same*, Inv No 337-TA-1026, 2018 ITC LEXIS 1457, at \*15-60, Commission op (18 April 2018) (reversing ALJ’s initial determination that complainant lacked prudential standing).
- See *Aspex Eyewear, Inc v Altair Eyewear, Inc*, 288 Fed. Appx 697, 705 (Fed Cir 2008). (“An exclusive licence need not be in writing for the licensee to have standing”). See also *Atmel Corp v Authentec, Inc*, 490 F. Supp. 2d 1052, 1055 (ND Cal 2007) (finding that a parent corporation had an implied exclusive licence to a patent owned by its subsidiary).
- See, eg, *Aspex Eyewear, Inc v Miracle Optics, Inc*, 434 F.3d 1336, 1344 (Fed Cir 2006). (“For the same policy reasons that a patentee must be joined in any lawsuit involving his or her patent, there must be joinder of any exclusive licensee.”); *A123 Systems, Inc v Hydro-Quebec*, 626 F.3d 1213, 1222 (Fed Cir 2010) (finding parties should be joined as co-plaintiffs where there is more than one party with a right to sue).

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