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The All Substantial Rights Doctrine: A Second Look

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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 conclusion 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 both the Federal Circuit Historical Society and the NYU Engelberg Center on Innovation and Law Policy. James Breen is an associate in Goodwin's Intellectual Property Litigation practice. He focuses his practice on representing clients in complex intellectual property litigation, including patent and post-grant invalidity proceedings, trade secret, trademark, unfair competition, and copyright matters. He also maintains an active pro bono practice. He has worked with organizations, such as Her Justice, to provide representation and advocacy for clients in custody and visitation proceedings, and both the California and New England Innocence Projects.

The All Substantial Rights Doctrine: A Second Look

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INTRODUCTION

Obtaining a patent is only one step in the journey. There is a plethora of paths that a patent owner can take, including licensing or assigning their patent rights to others. The question then becomes what powers and rights does that licensee or buyer have? Can the licensee or buyer bring infringement suits based on those patents? Do they need to join the original patent owner to do so? As was outlined in *Standing with a Bundle of Sticks: The All Substantial Rights Doctrine in Action* (“*Standing with a Bundle of Sticks*”),¹ courts look to the “all substantial rights” standard to answer those questions.

This Supplement to the prior Article provides a brief update on the all substantial rights doctrine in view of the Federal Circuit’s recent decision in *Lone Star Silicon Innovations LLC v. Nanya Technology Corp.*² This Supplement begins by summarizing the all substantial rights doctrine framework, specifically highlighting which rights within the bundle have been found to be most important. This Supplement then examines *Lone Star*, concluding that the Court’s holding fits within the framework that was previously established by the Federal Circuit and discussed in *Standing with a Bundle of Sticks*.

I. THE ALL SUBSTANTIAL RIGHTS DOCTRINE

It is a long-established principle that a patent confers a “bundle of rights” which grants the patentee certain powers and protections, including the power to retain all rights or divide and assign portions of those rights.³ However, only the owner of all substantial rights in the patent may bring suit to enforce the patent on its own, without the need to join another party. The issue of who owns all the substantial rights, and therefore who may bring suit on its own, often

¹ Mark J. Abate & Christopher J. Morten, *Standing with a Bundle of Sticks: The All Substantial Rights Doctrine in Action*, 28 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 477 (2018) [hereinafter *Standing with a Bundle of Sticks*].

² 925 F.3d 1225, 1227 (Fed. Cir. 2019).

³ *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”).

arises when an exclusive licensee desires to bring an infringement action.

Federal Circuit decisions, including *WiAV Solutions LLC v. Motorola, Inc.*, recognize that an exclusive licensee has constitutional standing to sue an infringer.⁴ However, in order for a party to bring suit *on its own*, it must also satisfy additional standing concerns, known as the “prudential standing” doctrine.⁵ The Supreme Court in *Allen v. Wright* stated:

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 complaint fall within the zone of interests protected by the law invoked.⁶

Courts have considered numerous prudential standing concerns in the context of patent infringement.⁷ Ultimately, however, “the question is ‘who owns the patent?’”⁸ To answer this question, the Federal Circuit looks to see which rights in the bundle have been transferred and whether the buyer possesses all substantial rights.

A. The Most Important Rights in the Bundle: The Right to Enforce, The Right to Indulge, and The Right to Alienate

Although no singular right is dispositive, the Federal Circuit has developed a pattern of analyzing which rights are the most crucial in determining who possesses all substantial rights in the patent.⁹ Among the numerous rights conferred to patent owners,¹⁰ one right in particular has risen to the top of the list as the most

⁴ *Standing with a Bundle of Sticks*, *supra* note 1, at 482.

⁵ *E.g.*, *Elk Grove Unified Sch. Dist. v. Newdow*, 542 U.S. 1, 12 (2004); *see also Standing with a Bundle of Sticks*, *supra* note 1, at 483.

⁶ 468 U.S. 737, 751 (1984).

⁷ *Standing with a Bundle of Sticks*, *supra* note 1, at 483–85.

⁸ *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1342 (Fed. Cir. 2006).

⁹ *See Standing with a Bundle of Sticks*, *supra* note 1, at 488–91.

¹⁰ *Id.*

important: the right to enforce the patent. Courts have consistently held that agreements which provide a buyer an unencumbered right to enforce the patent is indicative of the buyer holding all substantial rights. Similarly, courts have held time after time that hindrances on the ability of a buyer to sue alleged infringers is a strong indication that all substantial rights were not transferred.¹¹ For example, 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, *inter alia*, the licensee was “obligated under the agreement not to ‘prejudice or impair the patent rights [of the licensor] in connection with [the licensee’s own litigation].”¹² The Court concluded that the licensee “may not sue on its own for infringement,”¹³ acknowledging that the exclusive right to sue is “particularly dispositive.”¹⁴

Second to the right to enforce and of potentially equal importance¹⁵ is the right to indulge infringement, i.e., the right to allow infringement. In *Alfred E. Mann Foundation for Scientific Research v. Cochlear Corp.*, the agreement allowed the licensor to bring an infringement suit against an alleged infringer if the licensee chose not to.¹⁶ The Federal Circuit held that “[b]ecause [the

¹¹ See, e.g., *Diamond Coating Techs. v. Hyundai Motor Amer.*, 823 F.3d 615, 620–21 (Fed. Cir. 2016); *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).

¹² *Abbott Labs.*, 47 F.3d at 1132 (quoting the agreement at issue in the case); 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 transferring only limited enforcement rights, 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 counterparty”).

¹³ *Abbott Labs.*, 47 F.3d at 1132.

¹⁴ *Id.* (quoting *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 875–76 (Fed. Cir. 1991)); see also *Standing with a Bundle of Sticks*, *supra* note 1, at 496.

¹⁵ See *Standing with a Bundle of Sticks*, *supra* note 1 at 499; see also *Abbott Labs.*, 47 F.3d at 1132 (observing that “the right to indulge infringements . . . normally accompanies a complete conveyance of the right to sue”); *Sicom Sys.*, 427 F.3d at 978 (noting the holding in *Abbott Labs.*).

¹⁶ 604 F.3d at 1362–63.

licensee] cannot indulge infringements for an unlimited time . . . [the licensee] holds substantially less than the complete right to sue.”¹⁷

Lastly, a licensee’s power to alienate (e.g., to sell, transfer, or reassign) its rights in the patent is arguably the next most important stick in the bundle.¹⁸ If an agreement places significant restrictions or limitations on the power to assign full rights in the patent to a future buyer, the agreement is unlikely to be found to transfer all substantial rights.¹⁹

The Federal Circuit’s precedent leading up to *Lone Star* is fairly clear that, while the totality of factors must be considered, meaningful restrictions on the buyer’s right to enforce the patents beyond those already in existence are very likely to prevent the transfer of all substantial rights in the patent. Therefore, the question this Supplement endeavors to answer next is: Did the holding in *Lone Star* change this precedent?

B. Lone Star Silicon Innovations LLC v. Nanya Tech. Corp.

The Federal Circuit’s decision and reasoning in *Lone Star* fits squarely within the framework developed in its previous cases and again highlights the importance of an unfettered right to enforce the patents in the analysis of whether all substantial rights have been transferred.

1. Background

The dispute in *Lone Star* arose from a patent transfer agreement (“Agreement”) between Lone Star Silicon Innovations LLC (“Lone Star”) and Advanced Micro Devices, Inc. (“AMD”).²⁰ The Agreement purported “to transfer ‘all right, title and interest’ in the patents to Lone Star.”²¹ However, the Agreement also included several

¹⁷ *Id.* at 1363.

¹⁸ *Standing with a Bundle of Sticks*, *supra* note 1, at 498.

¹⁹ *See, e.g., Sicom Sys.*, 427 F.3d at 978–79 (finding that a 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).

²⁰ *Lone Star Silicon Innovations LLC v. Nanya Tech. Corp.*, 925 F.3d 1225, 1227 (Fed. Cir. 2019).

²¹ *Id.*

notable limitations on Lone Star's rights.²² For example, the Agreement only allowed Lone Star to assert the patents against the "Unlicensed Third Party Entit[ies]" specifically listed in the Agreement.²³ The Agreement also allowed AMD, without Lone Star's approval, to sublicense the covered patents to any unlisted entity that Lone Star sues.²⁴ Additionally, the Agreement limited Lone Star's power to assign the patents, i.e., the power to alienate, as well as allow the patents to enter the public domain.²⁵ It is also noteworthy that the Agreement required Lone Star to share with AMD between 35 and 50 percent of any revenue it generated from licensing the patents.²⁶

In late 2016, Lone Star filed six related infringement suits against parties specifically listed as Unlicensed Third Party Entities in the Agreement.²⁷ Each of the Defendants filed a motion to dismiss the complaint on the basis that Lone Star had no standing to sue under the Agreement.²⁸ In reaching its decision, the district court concluded that AMD did not transfer all substantial rights in the patents to Lone Star, and therefore Lone Star could not sue in its own name alone.²⁹ In the view of the district court, the "essence of this problem is that the patent owner tried to find a way to shield itself from counterclaims while retaining a way to reap the monetary benefits of suing competitors and others for infringement of its patents."³⁰ The district court subsequently dismissed all six cases and Lone Star appealed.³¹

²² *In re Lone Star Silicon Innovations LLC*, No. C 17-03980 WHA, 2018 WL 500258, at *2 (N.D. Cal. Jan. 20, 2018), *appeal dismissed sub nom.* Lone Star Silicon Innovations LLC v. Semiconductor Mfg. Int'l Corp., No. 2018-1578, 2018 WL 3869293 (Fed. Cir. June 12, 2018), *appeal dismissed sub nom.* Lone Star Silicon Innovations LLC v. Toshiba Corp., No. 2018-1578, 2018 WL 3869301 (Fed. Cir. July 2, 2018), and *vacated and remanded sub nom.* Lone Star Silicon Innovations LLC v. Nanya Tech. Corp., 925 F.3d 1225 (Fed. Cir. 2019).

²³ *Lone Star*, 925 F.3d at 1227–28.

²⁴ *Id.* at 1228.

²⁵ *Id.*

²⁶ *Id.*; *In re Lone Star Silicon Innovations LLC*, 2018 WL 500258, at *1.

²⁷ *In re Lone Star Silicon Innovations LLC*, 2018 WL 500258, at *1.

²⁸ *Id.*

²⁹ *Lone Star*, 925 F.3d at 1228–29.

³⁰ *In re Lone Star Silicon Innovations LLC*, 2018 WL 500258, at *1.

³¹ *Lone Star Silicon Innovations LLC v. Nanya Tech. Corp.*, 925 F.3d 1225, 1229 (2019). The district court also denied Lone Star's request to join AMD into the case as the Court concluded "that doing so would 'reward Lone Star for its litigation gimmick and unfairly

2. All Substantial Rights Analysis

At the heart of the Federal Circuit’s analysis was whether or not Lone Star possessed all substantial rights and therefore could sue in its own name. However, before diving into its analysis, the Court again emphasized the unimportance of the form or labels included in a transfer agreement.³² Although the Agreement purported to transfer “all right, title and interest” in the covered patents, the Court emphasized that the “analysis in these types of cases has never been so reliant on labels.”³³ Instead, as the Court has done previously, it examined the “totality” of the Agreement and whether it “reflects a transfer of all substantial rights in the asserted patents.”³⁴

As discussed above, “[the Court has] often focused on two salient rights; enforcement and alienation.”³⁵ These are arguably the two most important rights in the bundle. When the Court examined Lone Star’s ability to enforce, it noted the limitations placed upon them by the Agreement. If Lone Star desired to file suit against any entity that was not specifically listed as “unlicensed” it would need to seek AMD’s consent.³⁶ In other words, the Agreement did not provide a list of all unlicensed entities or simply identify some unlicensed entities, but rather the Agreement limited Lone Star’s ability to sue without AMD’s permission to only those entities listed in the exhibit. The Court labeled this a “hunting license.”³⁷

The Court also noted that this enforcement restriction was coupled with AMD’s unrestricted right to sublicense the patents to any unlisted litigation targets of Lone Star, and therefore indulge infringement, which made Lone Star’s enforcement powers

prejudice defendants.” *Id.* However, the Federal Circuit determined that “[u]ltimately once the district court correctly concluded that AMD did not transfer all substantial rights in the asserted patents to Lone Star, the district court should have considered whether AMD could have been or needed to be joined before dismissing this case. Its failure to do so was legally erroneous.” *Id.* at 1238–39. The Federal Circuit vacated the district court’s dismissal and remanded with an instruction that it consider whether AMD must be joined here. *Id.* at 1239.

³² *Lone Star*, at 1229; see *Standing with a Bundle of Sticks*, *supra* note 1 at 507–08.

³³ *Lone Star* at 1230.

³⁴ *Id.* at 1231.

³⁵ *Id.*

³⁶ *Id.*

³⁷ *Id.* at 1233.

“illusory, at least in part.”³⁸ Thus, the Agreement went beyond prohibiting Lone Star from suing any party that had a preexisting license, which in any event Lone Star could not do under the law,³⁹ and instead limited Lone Star’s ability to sue only certain listed entities. Further, the Agreement was more than a seller reserving the right to sublicense to its affiliates or those with whom it has a specified business relationship.⁴⁰ The Federal Circuit had previously held that the retained right to sublicense affiliates is significantly less important in the all substantial rights analysis than a seller’s retained right to enforce the patent.⁴¹

Notably, the Court was not convinced by Lone Star’s argument that restrictions on unlisted entities were irrelevant because all six defendants were Unlicensed Third Party Entities. As the Federal Circuit has previously held, the all substantial rights analysis is not limited to the factual situation of the case before the court, but rather, it considers the effect the agreement has on *all* substantial rights, including those not at issue. The fact that a party “transferred some rights, with respect to certain entities, does not mean it transferred all substantial rights in the full scope of the patent.”⁴² Limiting the licensee’s rights to enforce the patents to a specified list is analogous to an exclusive “field of use” license, which restricts the licensee’s use of the patent to a defined product or to a set geo-

³⁸ *Id.* at 1231.

³⁹ *See, e.g.,* Datatreasury Corp. v. Wells Fargo & Co., 522 F.3d 1368, 1372 (Fed. Cir. 2008) (explaining that license agreements “run with the patent” and are binding on subsequent owners of the patent).

⁴⁰ *Cf. Luminara Worldwide, LLC v. Liown Elecs. Co.*, 814 F.3d 1343, 1351 (Fed. Cir. 2016).

⁴¹ *See id.* at 1350–51. The Court in *Luminara* concluded that Disney Enterprise’s retained right to grant sublicenses to third-party affiliates (including any entity operated by or under a license from The Walt Disney Company), did not preclude the transfer of all substantial rights to Luminara. *Id.* Thus, Disney Enterprises’s retained right to license the patent to third parties was not a substantial right, for the purposes of the all substantial rights analysis. *Id.* The Court also stated that “[t]he retained right to practice a patent is not the same as a retained right to exclude others from doing so.” *Id.* at 1351.

⁴² *Lone Star Silicon Innovations LLC v. Nanya Tech. Corp.*, 925 F.3d 1225, 1232 (2019).

graphical area.⁴³ These “field of use” limitations have previously been found “fatal” to the transfer of all substantial rights.⁴⁴

Just as Lone Star had limitations placed on its ability to enforce the patents, so too was its power to alienate restricted.⁴⁵ First, Lone Star was only allowed to transfer its rights to a third party if that party agreed to be bound by the same enforcement restrictions as Lone Star.⁴⁶ Again, Lone Star was required to obtain AMD’s consent if it wished to transfer the patents unencumbered.⁴⁷ The Court found that “[n]ot only does this substantially restrict Lone Star’s ability to transfer the patents, it ensures that AMD will always control how the patents are asserted”⁴⁸ because, as discussed above, the Agreement limited Lone Star’s ability to sue without AMD’s permission for all but those specifically listed entities. Thus, in evaluating the totality of the circumstances, any restriction on alienation must be read in the context of the entire agreement. Second, the Court found that the requirement that Lone Star assign the patents back to AMD before abandoning the patents was a limit on Lone Star’s ability to alienate the patent that had the same impact as the limit on transfer.⁴⁹ These two restrictions in this Agreement did much more than require that Lone Star comply with the law or existing contractual obligations. Once again, in this context, the limitations placed on Lone Star’s power to do what it wished with the patents was “fundamentally inconsistent with a transfer of all substantial rights.”⁵⁰

The Federal Circuit also considered other aspects of the Agreement and found that these further supported the conclusion that Lone Star did not have all substantial rights. One such factor was the Agreement providing AMD with a significant share in any licensing revenue Lone Star obtained for these patents, the Federal Circuit

⁴³ See *Standing with a Bundle of Sticks*, *supra* note 1, at 492 n.69.

⁴⁴ See, e.g., *Alps S., LLC v. Ohio Willow Wood Co.*, 787 F.3d 1379, 1383–84 (Fed. Cir. 2015).

⁴⁵ *Lone Star*, 925 F.3d at 1232; see also *Datatransury*, at 1372.

⁴⁶ *Lone Star*, 925 F.3d at 1232.

⁴⁷ *Id.*

⁴⁸ *Id.* at 1233.

⁴⁹ See *id.*

⁵⁰ *Id.*

having previously held that “the fact that [the transferor] retains a substantial share of the proceeds is consistent with [transferor’s] retaining ownership rights in the patent”⁵¹

In sum, when Lone Star licensed the patents from AMD it did not receive an unfettered right to enforce the patents. The limitations placed on Lone Star, including what the Court considered two of the most important rights within the bundle, led the Court to conclude that AMD did not transfer all substantial rights in the patents. Therefore, Lone Star could not assert the patents in its own name alone.

The case was remanded to the district court with an instruction to consider whether AMD must be joined to continue the case.⁵²

CONCLUSION

The Federal Circuit’s decision in *Lone Star* fits squarely within the framework previously established by the Federal Circuit under the all substantial rights doctrine. *Lone Star* further makes clear the most important rights within the bundle and reiterates that only the owner of all substantial rights in the patent may bring suit on its own.⁵³

Further, the holding in *Lone Star* highlights important considerations for patent practitioners. Specifically, when structuring agreements, parties who desire that the licensee be allowed to bring an infringement suit in its name alone should be mindful of the rights within the “bundle” that the Federal Circuit has made clear are the most important and ensure that those rights remain unencumbered by restrictions or limitations imposed by the licensor.⁵⁴ The Court’s decision in *Lone Star* has further emphasized the importance of a licensee or buyer’s unfettered right to enforce their patents, indulge infringement, and alienate their patents.

⁵¹ *Id.* (quoting *Propat Int’l Corp. v. Rpost, Inc.*, 473 F.3d 1187, 1191 (Fed. Cir. 2007)).

⁵² *Lone Star*, 925 F.3d at 1239.

⁵³ *See Standing with a Bundle of Sticks*, *supra* note 1 at 481.

⁵⁴ *See generally Standing with a Bundle of Sticks*, *supra* note 1.