

No patent, no problem

THE CASE:

AntennaSys, Inc v AQYR Technologies, Inc
US Court of Appeals for the Federal Circuit
7 October 2020

The Federal Circuit paves the way for non-patent owners to sue infringers. Vedder Price's **Daniel H Shulman** and **Allison M Haas** report

For decades, a patent litigation could not go forward without all patent owners as plaintiffs. The US Court of Appeals for the Federal Circuit (the Federal Circuit or the court) had always framed this issue as one of standing: "Absent the voluntary joinder of all co-owners of a patent, a patent owner acting alone will lack standing."¹

As an issue of standing, the failure to join all co-owners was jurisdictional. Without standing, a court cannot hear a case, and the remedy is not a decision on the merits, but dismissal. As the court has stated, "[b]ecause standing is jurisdictional, lack of standing precludes a ruling on the merits."² And, a court always has an independent obligation to assure standing, even when raised for the first time on appeal (even if raised for the first time in the Supreme Court).

In 2019, in *Lone Star Silicon Innovations LLC v Nanya Tech Corp*, the Federal Circuit relied on a 2014 Supreme Court case to overturn precedent and announce a new rule that failure to join a patent owner is a defence on the merits, not a jurisdictional standing issue.³ Even then, however, the court noted that failure to join the patent owner would lead to dismissal.

On 7 October, 2020, in *AntennaSys, Inc v AQYR Technologies, Inc*, F.3d, No 19-2244, 2020 WL 5927398 (Fed Cir 7 Oct 2020), the court went a step further. With lack of joinder no longer a jurisdictional standing issue, but now to be treated as an affirmative defence, the court held for the first time that a case could go forward without the patent owner as plaintiff if the defendant waived its defence. In *AntennaSys*, the court stated, "motions to dismiss based on 'statutory standing' defects are properly brought under Rule 12(b)(6) rather than Rule 12(b)(1) in recognition of the fact that such defects are not jurisdictional" and "such a defense may not be presented for the first time on appeal absent 'unusual

circumstances.'" Ultimately, the court remanded the case to the district court to determine whether the defendants' objections had been waived. Importantly, though, if the objection had been waived, the case would go forward without all co-owners. The implications of this step are broad, substantial, and potentially dangerous for patent holders. As explained below, the court's decision would allow even a non-exclusive licensee to sue for patent infringement, so long as the defence of failure to join the owner were never raised.

"In *AntennaSys*, Windmill (the co-owner) had refused to be joined under Rule 19: a position that made perfect sense since it would be consenting to sue itself (through its allegedly infringing subsidiary)."

AntennaSys presented a curious fact pattern, though the court's holding was straightforward. *AntennaSys* concerned a patent co-owned by AntennaSys, Inc (plaintiff) and Windmill International, Inc (defendant). The licence became non-exclusive after Windmill failed to meet certain minimum

sales requirements. AntennaSys's amended complaint alleged patent infringement by AQYR Technologies, Inc (Windmill's wholly owned subsidiary) and five state law counts. Following an unfavourable claim construction, AntennaSys conceded non-infringement and appealed the claim construction. Although AntennaSys presented the case as a pure claim construction case, the court required a threshold issues to be resolved first: whether Windmill needed to be joined as patent co-owner.

After faulting the parties for neglecting to identify the failure to join the co-owner more clearly (either for the Federal Circuit or the district court in the first instance), the court addressed that threshold legal issue. The court reaffirmed that its earlier jurisprudence on co-owner standing could no longer survive the Supreme Court's decision in *Lexmark Int'l Inc v Static Control Components, Inc*, 572 US 118 (2014). According to the court, post-*Lexmark*, "it is improper to discuss requirements for establishing a statutory cause of action in terms of 'standing.'"⁴ The court noted *Lone Star* had pronounced a new rule that failure to join a patent owner is not a jurisdictional standing issue.

Though the court presumably simply followed *Lone Star*, that case presented a different scenario and one for which *AntennaSys* was not necessarily a foregone conclusion. In *Lone Star*, the exclusive licensee/plaintiff alleged itself to have all the rights of ownership. When the court determined the exclusive licence was insufficient to allow the plaintiff to sue on its own, it required the patent holder to be joined under Rule 19 (the rule requiring joinder of indispensable parties). On remand, the court therefore instructed the district court to fix join the patent holder under Rule 19, or to dismiss the case.⁵

In *AntennaSys*, Windmill (the co-owner) had refused to be joined under Rule 19: a

position that made perfect sense since it would be consenting to sue itself (through its allegedly infringing subsidiary). In *Lone Star*, the directive from the Federal Circuit on remand was to either join the patentee or dismiss the suit on the merits for failure to state a claim. In *AntennaSys*, however, the Federal Circuit remanded with a critically different instruction. Instead, the remand in *AntennaSys* allowed the district court to determine whether the patent co-owner (ie, Windmill) had waived its objection to non-joinder, potentially allowing the case to go forward without all patent owners joined.⁶

The possibility that a suit could proceed without all patent owners joined if an objection had been waived broke new ground. It is not clear that result was contemplated by *Lone Star*, and was certainly not contemplated by *Lexmark*, which discussed standing from the perspective of one who claimed to have suffered an injury from a false advertisement and not in relation to the Patent Act at all.⁷

Having untimely objections to having the patent owner(s) as a plaintiff as a waivable defence raises a number of worrisome scenarios. One obvious example is if a co-owner tries to enforce a patent without joining or notifying the other co-owner(s), and the defendant does not raise the issue, and the other co-owner(s) do not intervene, the absent co-owner's rights might be litigated without their knowledge.

It is easy to imagine some other troubling scenarios that are at least theoretically possible. For example, consider two adverse co-owners (as in *AntennaSys*). One might determine itself to be better off without a patent to deprive its co-owner of some competitive advantage (eg, licensing revenue). Now imagine that co-owner sues a defendant with a side agreement that they will settle with a consent judgment based on an agreed claim construction, invalidity, etc. The defendant is motivated to not raise the issue of the co-owner's joinder. Thorny conspiracy issues aside, if the co-owner is not diligently monitoring the actions of its co-owners, the co-owner's rights may be lost without its knowledge.

Consider, too, suits brought by licensees. If a missing patent owner plaintiff is a waivable defence, then a defendant could theoretically waive that defence, allowing even a non-exclusive licensee to sue for patent infringement. That result is an unavoidable extension of *AntennaSys*, but undermines established law that forbids non-exclusive licensees that right.⁸ Imagine if an exclusive licensee properly brings suit against an infringer on behalf of the patent owner, who sits on the sidelines, but the court later finds that the licence is, in fact, non-exclusive. Has



the patent owner waived its right to be joined as a plaintiff by relying on its belief that the licensee was exclusive? May the non-exclusive licensee continue the suit as the sole plaintiff if no party objects?

Now imagine the following: A non-exclusive licensee wishing to escape its licence sues a competitor (who, perhaps, also wants to escape any liability under the patent). The parties agree to settle the case immediately after service, perhaps with a consent judgment of a claim construction and invalidity. Does that final judgment bind the patent holder?

Perhaps that example is too extreme, as a patent holder might attempt to unwind the judgment on the basis of some fraud. But consider this example: A non-exclusive licensee with a power to grant sublicences sues a defendant in a truly adversarial action. The non-exclusive licensee quickly accepts an offer to settle for by granting a paid-up licence, and the defendant, happy to pay for a licence, never contests the failure to join the patent owner. The case is not pending long enough for the patent holder to notice. Is the patent holder allowed to sue again and void the licence?

Ironically, the rule requiring patent holders to join a suit was meant to protect "against the possibility that each coowner would subject an accused infringer to a different infringement suit on the same patent."⁹ Yet, post-*AntennaSys*, that no longer works. In one sense, the burden shifts to the accused infringer to raise its objection to the lack of joinder to prevent the case from going forward. Or, should it settle quickly with a judgment that shuts out the other patent owner? What should the other patent holder then do? Should it lie in wait if no objection is made, and sue again in its own name? If it

does, can the infringer join the co-owner it settled with, then move to dismiss under *res judicata* or some collateral estoppel defence? Will that defeat the new suit? The Federal Circuit doesn't say.

At the end of the *AntennaSys* decision, the Federal Circuit notes (ironically) that "bad facts can make bad law".¹⁰ This case is sure evidence of that.

Footnotes

1. *Israel Bio-Eng'g Project v Amgen, Inc*, 475 F.3d 1256, 1264-65 (Fed Cir 2007).
2. *Media Tech Licensing, LLC v The Upper Deck Co*, 334 F.3d 1366, 1370 (Fed Cir 2003).
3. 925 F.3d 1225, 1235 (Fed Cir 2019).
4. *AntennaSys*, 2020 WL 5927398, at *3.
5. *Lone Star*, 925 F.3d at 1239.
6. *AntennaSys*, 2020 WL 5927398, at *5.
7. *Lexmark International, Inc v Static Control Components, Inc*, 572 US 118, 128 n.4 (2014).
8. *Ethicon, Inc v US Surgical Corp*, 135 F.3d 1456, 1467-68 (Fed Cir 1998).
9. *STC.UNM v Intel Corp*, 754 F.3d 940, 947 (Fed Cir 2014).
10. *AntennaSys*, 2020 WL 5927398, at *6.

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