The patent wars, at least in areas such as smartphones and flat panels, are well in hand. Corporations are doing all that they can to protect their intellectual property (IP) rights. This trend will only increase as the economy improves. For sophisticated companies, however, the answer to the question of who has standing to sue for patent infringement is often murky. Large corporations increasingly rely on complex arrangements among affiliated entities to hold and practice (use) their patents. Corporations often put patents and other IP into holding subsidiaries to realize tax and other benefits without fully understanding the impact that such arrangements have on the enforceability of the patents within those IP portfolios and the availability of remedies.

For example, a parent company may have one subsidiary own a patent, a second subsidiary manufacture a component of a product in accordance with the patented methods, a third subsidiary assemble the final product, and perhaps a fourth subsidiary take it to market. In this instance, the various entities’ ability to sue for patent infringement may be called into question. Indeed, the U.S. Court of Appeals for the Federal Circuit has in several instances considered whether a party has standing to sue based on the horizontal and vertical relationships between two or more arguably affiliated entities. This issue is important because when a party lacks standing, courts will (and perhaps should) vacate infringement verdicts, often after years of hard fought (and expensive) litigation.

The issue of patent ownership is also vital when assessing whether lost profits are available to a patent-owning but nonpracticing entity that has granted an exclusive license to a practicing affiliate. Although a reasonable royalty is generally the sole available remedy for patentees who do not themselves practice their patents, there may be circumstances in which patent holders can rely on the activities of a related entity licensed under the patent to obtain lost profits.

This article addresses the concerns relating to standing and the availability of lost profits after a finding of infringement. In doing so, it aspires to provide insight on how to manage a corporation’s operations and structure its IP portfolio to ensure that the corporation’s subsidiaries and affiliated entities are not barred from bringing suit or collecting lost profits.

Transfer of Rights and Standing to Sue

Standing to sue is a threshold issue in any lawsuit. Courts may address it on their own initiative and at any time, including late in a litigation or even on appeal. The Patent Act provides that “[a] patentee shall have remedy by civil action for infringement of his patent.” The term “patentee” refers not only to the inventor to whom the patent issues, but also any “successors in title.” Thus, to have standing, a party must show that, by way of assignment...
or license, it is has some proprietary interest in the patent. The nuances of assignments and licenses are complex, however, and worth a brief explanation at the outset.

When a party assigns title to a patent to another party, the assignor is said to "transfer[] all substantial rights" in the patent, including the right to sue for infringement. A license, by contrast, transfers less than all substantial rights and does not permit the licensee to sue others for infringement on its own. There are exclusive and nonexclusive licenses. In an exclusive license, the licensee receives the sole right to exclude others from practicing the patented invention. An exclusive licensee has standing to sue others for patent infringement but must join the patent owner in any suit. In a nonexclusive license, the licensor retains the right to grant licenses to third parties. Nonexclusive licensees do not have standing to sue others for patent infringement.

Assignments must be in writing, whereas licenses can be written, oral, or implied-in-fact. Whether a written instrument transferring rights characterizes the transfer as an assignment or license is not determinative. Rather, the critical inquiry asks whether at least all substantial rights were transferred. The consequences of assignment and licensing arrangements (or the lack thereof) and the failure to properly join the patent owner as a co-plaintiff when suing under an exclusive license agreement are readily seen in the case law.

In Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc., a nonpracticing patent-holding subsidiary argued that both its parent corporation (that did not practice or license the patent) and its sister company (that practiced the patent but was not licensed) had standing to sue for infringement. The Federal Circuit found that neither affiliate could join the patentee as a co-plaintiff, meaning lost profit damages were unavailable. As to the parent corporation, the court found that there was no evidence that the parent corporation was an exclusive licensee or owner of the patent, and it therefore did not have standing to sue. As to the practicing sister company, the patentee argued that an "understanding" existed between the two entities "based on the way [the corporate family] is organized and operates" such that the sister company was an implied exclusive licensee of the patent. The court rejected this fact-based argument, refusing to find the sister company’s status as the only entity practicing the patent as equivalent to an implied exclusive license from the patentee. The court held that to find standing on those facts "would mean that any company related to a patent owner could be treated as an exclusive licensee, so long as the patent owner allows only that company to practice the patent, regardless of any actual agreement as to exclusivity.

Spine Solutions demonstrates that the requirements of patent ownership as they relate to standing can be rigid and impose real consequences. Corporations should ensure that a practicing subsidiary is either the patent owner itself or should paper-up a proper exclusive license. Otherwise, practicing affiliates may be unable to join the suit as plaintiffs, thereby ruling out lost profit damages for the patent owner (and/or exclusive licensee) and, as discussed below, reducing the potential availability of an injunction.

Notwithstanding the decision in Spine Solutions, it may still be possible for an unlicensed parent entity that practices a patent owned by a subsidiary to obtain injunctive relief under a theory of equitable ownership. In Arachnid, Inc. v. Merit Industries, Inc., the Federal Circuit held that a company did not have standing to seek monetary damages for past infringement where it did not hold legal title to the patent during the relevant period of past infringement. The plaintiff in Arachnid had an agreement with a third party stating that all inventions developed by the third party during the period that the agreement was in effect "will be assigned" to the plaintiff. The court found the agreement was an agreement to assign patent rights, but that it did not constitute an actual assignment itself. Accordingly, the court found that the plaintiff lacked standing to recover monetary damages because it did not have legal title to the patent. The court nevertheless recognized that, as a threshold matter, the plaintiff did not lack standing to sue for equitable relief: "[A] federal district court has jurisdiction to determine a 'claim for infringement,' asserted by an adjudged equitable title holder, as a prerequisite to awarding equitable relief for that infringement." Applying this holding to the situation where an unlicensed parent practices a patent held by its wholly owned subsidiary, courts may find that the parent has equitable ownership of the patent based on its sole ownership of the subsidiary and all its assets, thus providing the parent standing to sue for injunctive relief.

Beyond the standing woes that accompany a party’s failure to enact a licensing agreement, misclassifying an agreement can also be problematic. In AsymmetRx, Inc. v. Biocare Medical, LLC, the Federal Circuit vacated a grant of summary judgment based on the plaintiff’s failure to join the patent holder. In that case, the plaintiff entered into an exclusive license agreement with the patent holder that contained a “right to sue” clause, in which the patent holder granted the plaintiff “the right to prosecute in its own name and at its own expense any infringement.” But the patent holder retained the right to, among other things, bring an infringement action and the right to render the plaintiff’s license nonexclusive if the plaintiff “did not meet certain benchmarks in terms of commercial use and availability to the public within three years.” When the plaintiff sued without joining the patent holder, the Federal Circuit found that the patent holder retained “substantial rights” to the patents, and therefore because the agreement between the plaintiff and patent holder was an exclusive license—as opposed to an assignment—the plaintiff lacked standing to enforce the patent on its own.

AsymmetRx illustrates that the substance of the agreement—not merely the form or label attached by the parties—is what courts rely on to determine whether a plaintiff has standing to sue. Although transfer of the right to sue can be “particularly dispositive” when determining whether the patent owner must be joined in an infringement action, that is not always dispositive, such as where the patent owner has contractually retained other “substantial rights.” Corporations should therefore pay careful attention to each term in a licensing agreement so as licensors they do not convey more rights than they intended to transfer, and as licensees they know whether they are required to join the patent owner as a plaintiff.
Corporate Relationships and Lost Profits

Important issues regarding patent ownership and the corporate structure also arise in the context of what type remedies are available upon a finding of infringement. For nonpracticing patent-holding affiliates that do not sell articles covered by their patents, the typical available remedy is a reasonable royalty. For example, in *Poly-America, L.P. v. GSE Lining Technology, Inc.* the Federal Circuit found that a nonpracticing patent owner was not entitled to claim the lost profits of its sister corporation that practiced the patent. The court held that “[e]ven though the [nonpracticing patent holder] and [its practicing sister corporation] share interests as two entities collaborating in the manufacture and sale of textured landfill liners, that relationship is by itself not sufficient to permit [the patent holder] to claim [the sister corporation’s] lost profits.” Thus, even where a plaintiff has standing to sue by virtue of patent ownership, it may not be able to recover lost profit damages even when its own affiliate was the entity that lost sales to infringement. As discussed below, however, the theory of inherent harm may provide a way by which a nonpracticing patent-holding subsidiary, or a nonexclusively licensed parent corporation, can obtain lost profits.

Similar to the way that an unlicensed parent corporation might be granted standing to sue for equitable relief vis-à-vis its ownership of a patent-holding subsidiary, a nonpracticing patent owner may be able to obtain lost profits damages based on the lost sales of a wholly owned practicing subsidiary. In *Mars, Inc. v. Coin Acceptors, Inc.*, the parent corporation and patent owner argued that it should be entitled to recover the lost profits of its wholly owned subsidiary that practiced the patent. The patentee argued that, because of the parent-subsidiary relationship, all of the subsidiary’s profits were “inherently” lost profits of the parent. The court held that the parent may be able to prove entitlement to lost profits of the subsidiary if it could demonstrate that the profits “flowed inexorably” from the subsidiary to the parent. Thus, for corporations who structure their IP rights such that the nonpracticing parent owns the patent and one or more wholly owned subsidiaries practices the patent, the parent corporation might be entitled to recover the lost profits of its subsidiaries if it can show that the profits of the subsidiaries “flowed inexorably” to the parent.

There is a different corporate arrangement in which a nonpracticing patentee may be able to obtain lost profits—or the equivalent of lost profits through a reasonable royalty measure of damages. In this different arrangement, a subsidiary owns a patent and the subsidiary’s parent practices the patented invention under a nonexclusive license. In *Union Carbine Chemicals & Plastics Technology Corp. v. Shell Oil Co.*, the Federal Circuit held that the district court properly considered evidence regarding the impact of infringing sales on the patent corporation of a subsidiary that held title to the asserted patent. The defendant alleged that the patent was merely a nonexclusive licensee and argued that allowing evidence regarding the parent’s lost profits “effectively allowed the [nonpracticing] holding company to seek damages for [the parent’s] lost profit.” The court disagreed and found that the parent was not merely a nonexclusive licensee, distinguishing prior case law, and explaining that “Union Carbide Corporation wholly owns Union Carbine Chemicals & Plastics Technology Corporation. Their relationship thus goes far beyond a licensor/licensee arrangement.” The court found that “the holding company would not enter any negotiation without considering the competitive position of its corporate parent,” and that “any hypothetical negotiation [between] the holding company [and third parties] must necessarily include the reality that the economic impact on the [the parent corporation] would weigh heavily in all decisions.” The Federal Circuit affirmed the district court’s damages award and held that the district court did not abuse its discretion by admitting the evidence “for purposes of calculating a reasonable royalty.”

As a word of caution, however, companies should be careful when demonstrating the extent of their relationships with affiliated entities. While proving that two entities are “simply divisions of a single corporation” might help overcome standing issues or provide for recovery of lost profits, such positions can have serious business and tax implications outside the realm of patent law, including establishing an agency relationship or other theories of vicarious liability (e.g., “piercing of the corporate veil”). Although showing the extent of a corporate relationship between parent companies and their subsidiaries can help in one litigation, it may hurt in other contexts or at future dates. Either way, asserting such arguments should be done after carefully analyzing and weighing the risks and benefits.

Conclusion

As sophisticated companies continue to strengthen their IP portfolios and distribute their IP rights among one or more related entities, they should do so with the understanding that patent ownership ought to be an important consideration. Where a plaintiff cannot show ownership of a patent or that was it was granted an exclusive license to practice the patent, the plaintiff may face difficulties establishing standing to sue. Where standing can be established, nonpracticing patent owners may face difficulties recovering lost profits if they cannot demonstrate a sufficiently strong relationship with the practicing entity to which the patent is exclusively licensed. To avoid these hurdles in protecting IP rights, the best practice is to memorialize any transfer of rights—both assignments of title and licenses—in writing, and to structure a corporation’s affiliates in a way that maximizes the number of available remedies. Although the Federal Circuit has shown in certain cases that the law is not unbendingly rigid, depending on the facts, it is best to get a company’s house in order prior to filing suit.

The web of parent corporations, subsidiaries, and horizontally related entities is indeed a tangled one, but one that is avoidable—or at least navigable—if the correct steps are taken to ensure that IP rights are allocated to the appropriate parties.

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1 See AsymmetRx, Inc. v. Biocare Med., LLC, 582 F.3d 1314, 1319 (Fed. Cir. 2009) (citation and internal quotation marks omitted). Some confusion arises from the failure to distinguish between assignments of title and assignments of license rights. The case law sometimes refers to both as assignments, when the key issue is often ownership of title. See, e.g., Væapel Textilmaschinen KG v. Meccanica Euro Italia S.P.A., 944 F.2d 870, 875 (Fed. Cir. 1991) ("[T]he term 'assignment' has a particular meaning in patent law, implying a formal transfer of title.")


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

4 Id.

5 Id.

6 Id.

7 Id.

8 Id.


10 See Væapel, 944 F.2d at 875 ("Al though not constituting a formal assignment of the U.S. patent, [the subject agreements] were a grant of all substantial rights and . . . permitted [the licensee] to sue without joining [the patent owner]"). In Enzo APA & Son, Inc. v. Geapag A.G., the Federal Circuit held that such so-called "virtual assignments" need to be in writing. 134 F.3d 1090, 1093 (Fed. Cir. 1998) ("While we acknowledge that a license may be written, verbal, or implied, if the license is to be considered a virtual assignment to assert standing, it must be in writing").

11 620 F.3d 1305, 1317–19 (Fed. Cir. 2010).

12 Id. at 1318 (internal quotation marks omitted).

13 Id.


15 Id. at 1580–81.

16 Id. at 1580 (emphasis added) (citation omitted).

17 582 F.3d 1314, 1323 (Fed. Cir. 2009).

18 Id. at 1317.

19 Id. at 1316.

20 See Spine Solutions, 620 F.3d at 1319.


22 Id. at 1311.

23 527 F.3d 1359, 1365–67 (Fed. Cir. 2008).

24 Id. at 1367. Ultimately, however, the court left this question unresolved because the patent-holding subsidiary could not demonstrate that its profits flowed inexorably to the parent corporation. Id.


26 Id. at 1377.

27 Id. at 1377–78.

28 Id. at 1378; see also MPT, Inc. v. Marathon Labels, Inc., 2006 BL 20660, at *11 (N.D. Ohio Feb. 9, 2006) ("[C]ourts may consider the relationship between the patent holder and a related company in patent cases and on issues of damages.").

29 Union Carbide, 425 F.3d at 1378.

30 Poly-Ain., 383 F.3d at 1311.