

Understanding Constitutional Standing: A Review of a Recent Federal Circuit Decision

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In [Intellectual Tech v. Zebra Technologies 2022-2207 \(Fed. Cir. May 1, 2024\)](#), the Federal Circuit addressed a district court's determination that the patent owner plaintiff lacked constitutional standing because it was divested of all exclusionary rights over the patent at issue upon default.

Background

Plaintiff Intellectual Tech, LLC ("IT") appealed from a decision of the United States District Court for the Western District of Texas dismissing all its claims against Zebra Technologies Corporation ("Zebra") for lack of constitutional standing.

In 2019, IT asserted U.S. Patent No. 7,233,247 ("the '247 patent") against Zebra. Zebra first moved to dismiss the case for lack of standing, and the district court denied the motion. Zebra subsequently moved for summary judgment of no subject-matter jurisdiction. The district court granted the motion and dismissed all claims without prejudice. IT moved for reconsideration, which the court denied. IT appealed.

IT is the wholly owned subsidiary of OnAsset Intelligence, Inc. ("OnAsset"). In 2011, OnAsset granted Main Street a security interest in its patents (including the '247 patent), and gave Main Street certain rights that it could exercise upon OnAsset's default of the loan. In 2013, Main Street notified OnAsset that it was in default. Subsequently, in 2017, OnAsset and Main Street entered into a forbearance agreement. At the same time, IT was formed as OnAsset's subsidiary, and OnAsset assigned the '247 patent to IT. In turn, IT entered into a joinder agreement to the loan agreement between OnAsset and Main Street. IT entered into its own patent and trademark security agreement with Main Street, granting Main Street a security interest in the '247 patent like OnAsset had. By 2018, IT had defaulted as well.

Main Street's default rights at the time the complaint was filed in 2019 were the same whether assessed based on OnAsset's 2013 default (where IT's assignment from OnAsset was subject to these rights) or IT's own 2018 default. For the purpose of appeal, the Federal Circuit followed the parties' and district court's convention of citing the 2011 agreement throughout.

Issue(s)

Whether the district court correctly determined that IT lacked constitutional standing.

Holding

The Federal Circuit found that the district court incorrectly determined that IT could not demonstrate that infringement of the '247 patent amounted to an injury in fact. The Federal Circuit found that IT has constitutional standing, and therefore reversed and remanded.

Reasoning

The Federal Circuit reviews Article III standing determinations and the district court's interpretation of an unambiguous contract de novo. The Federal Circuit found that the only question before it is whether IT demonstrated the irreducible constitutional minimum of an injury in fact, and all that requires is that IT retained an exclusionary right—i.e., infringement would amount to an invasion of IT's legally protected interest.

In its decision, the Federal Circuit first clarified that they need not determine whether IT's legal interest in the '247 patent was sufficient to meet the "patentee" requirement of 35 U.S.C. § 281. As the court noted, in light of the Supreme Court's opinion in *Lexmark International, Inc. v. Static Control Components, Inc.*, 572 U.S. 118 (2014), § 281 is not a jurisdictional requirement. The court further explained that the § 281 inquiry and the injury-in-fact inquiry (for constitutional standing) are distinct. The latter is a jurisdictional requirement, which is incurable if absent at the initiation of suit, while, in contrast, the issue of whether the statutory requirements of § 281 are met is not jurisdictional and a defect is curable by joinder.

The Federal Circuit next turned to the only question on appeal—whether IT had an exclusionary right in the '247 patent when the complaint was filed. Zebra argued that Main Street's ability to license the '247 patent pursuant to the agreement deprived IT of all exclusionary rights. Specifically, Zebra made two arguments related to licensing: (1) Main Street had the exclusive ability to license upon default, which deprived IT of all exclusionary rights; and (2) even if both Main Street and IT had the ability to license upon default, Main Street's non-exclusive ability to do so still divested IT of all exclusionary rights.

The Federal Circuit first rejected Zebra's argument that the agreement granted Main Street exclusive licensing rights upon default. The court found that nothing in the agreement indicates that, without further action by Main Street, the mere triggering of Main Street's options under section 6 of the agreement and mechanisms under another section of the agreement automatically deprived IT of all its rights.

The Federal Circuit concluded that IT retained exclusionary rights even though Main Street had the non-exclusive ability to license the '247 patent. Distinguishing the current case from a decision that Zebra heavily relied on in its briefing, the court noted that the licensee-versus-patentee distinction is critical. As the court explained, a patent owner such as IT has exclusionary rights as a baseline matter unless it has transferred all exclusionary rights away. In contrast, a licensee ordinarily obtains freedom from suit but does not necessarily obtain an interest in preventing others from practicing the patent. As a result, in the licensee context, questions about other entities' ability to license can provide a reasonable proxy for understanding the extent of rights a licensee received as part of the license—i.e., whether the license granted exclusionary rights or mere freedom from suit. Those same questions do not provide a reasonable proxy for understanding whether a patent owner retains at

least one exclusionary right or whether it has transferred all exclusionary rights away. The court found that, here, it is sufficient to conclude that Main Street and IT's shared ability to license while a default existed did not divest IT, the patent owner, of all exclusionary rights.

In addition to its arguments about licensing, Zebra also argued that the clause in section 6 of the agreement that granted Main Street the option to "sell, assign, transfer, pledge, encumber or otherwise dispose of the" divested IT of all exclusionary rights. The court disagreed, noting that Main Street's unexercised option to assign—whether to itself or to others—was not a present divestment of IT's exclusionary rights, and Zebra wrongly treated Main Street's option to assign as equivalent to the ultimate ability to license. The court noted that, whatever role another entity's ability to license has in the Article III inquiry for a patent owner, it is clear that assignment must be evaluated based on the actual transfer of rights, not mere ability. The court found that the district court correctly determined that IT was not automatically divested of title upon default; however, it incorrectly concluded that Main Street's option to assign presently divested IT of all other legal interests in the '247 patent. Because Main Street did not exercise any options under section 6 of the agreement, IT was not presently divested of all exclusionary rights. And because IT has constitutional standing, the court reversed and remanded.

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