



District Court Must Consider Joining Patent Owner Prior to Dismissal Where Licensee Lacks Substantial Rights to Bring Suit, but Possesses Article III Standing

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The licensee in this case, Lone Star Innovations LLC (“Lone Star”), sued multiple parties for infringement of various patents. After Lone Star produced its license agreement for the asserted patents, the accused infringers moved to dismiss the complaint on the ground that Lone Star did not own the patents, and therefore could not bring suit as a patentee under Section 281. The district court agreed, dismissing the cases for lack of subject matter jurisdiction. Because Lone Star asserted it was the sole owner of the asserted patents, the district court only considered whether Advanced Micro Devices, Inc. (AMD), the original assignee of the asserted patents, transferred “all substantial rights” to the asserted patents to Lone Star.

On appeal, the Federal Circuit noted that three types of plaintiffs exist in infringement cases: (1) a patentee with “all rights or all substantial rights” in a patent, who may sue in its own name; (2) a licensee with “exclusionary rights,” who can sue along with the patentee; and (3) a licensee with no exclusionary rights, who has no authority to assert a patent, even with the patentee. The Federal Circuit then held the district court correctly found that Lone Star could not maintain an infringement suit alone because it did not hold “all substantial rights” in the patents. In reviewing the district court’s decision, the court looked at the totality of the agreement and focused on two salient rights: enforcement and alienation. The Federal Circuit found that Lone Star’s reliance on a provision conveying “all right, title and interest” to the asserted patents was not sufficient to show all substantial rights were transferred. Instead, and despite the broad transfer language, it found that other provisions demonstrated that AMD retained certain rights in the patents. In particular, the agreement identified several parties

Lone Star could freely sue, but required Lone Star to obtain AMD's consent to file suit against any party not specifically identified in the agreement. Additionally, the agreement restricted Lone Star's ability to transfer the asserted patents by requiring AMD's consent for any sale. AMD also secured a share of Lone Star's "monetization" efforts related to the asserted patents. Thus, AMD maintained control on both alienation and enforcement of the asserted patents.

Although the Federal Circuit agreed with the district court's analysis that Lone Star lacked "all substantial rights" in the patent, it disagreed with the district court's conclusion that Lone Star lacked subject matter jurisdiction. More specifically, the Federal Circuit held that Lone Star had Article III standing because it possessed exclusionary rights and had alleged that those rights were infringed. In addition, challenges to Lone Star's right to seek relief under the patent laws pursuant to Section 281 did not raise a question of subject matter jurisdiction. The Supreme Court recently clarified that defects in "statutory standing" do not implicate subject-matter jurisdiction. *See Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 572 U.S. 118, 128, n. 4 (2014) ("the absence of a valid (as opposed to arguable) cause of action does not implicate subject-matter jurisdiction, i.e., the court's statutory or constitutional power to adjudicate the case"). Acknowledging that *Lexmark* conflicted with its prior decisions, the Federal Circuit clarified that "whether a party possesses all substantial rights in a patent does not implicate standing or subject matter jurisdiction."

Because Lone Star pleaded sufficient facts to establish Article III standing, the Federal Circuit held that the district court was required to consider whether AMD could have been or needed to be joined before dismissing the cases under Federal Rule of Civil Procedure 19. As the court explained, Rule 19 provides a clear command that a necessary party who is subject to service and whose joinder will not otherwise destroy a court's subject matter jurisdiction "must be joined." Therefore, the district court could not dismiss Lone Star's complaint without, at a minimum, considering whether AMD could be feasibly joined and if not, whether the case should proceed anyway or be dismissed because AMD is indispensable. The Federal Circuit remanded with an instruction to consider whether AMD must be joined here.

Practice Tip: When drafting patent license agreements that are intended to transfer all rights in the patents, including the right to sue, take a holistic approach, as opposed to relying on specific phrases or provisions that might be undermined by other provisions in the agreement.

Lone Star Silicon Innovations v. Nanya Tech. Corp., Nos. 2018-1581, 2018-1582 (Fed. Cir. May 30, 2019)

Categories

Federal Circuit

Northern District of California

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