

# Archetype IP<sup>SM</sup>

## Federal Circuit Friday

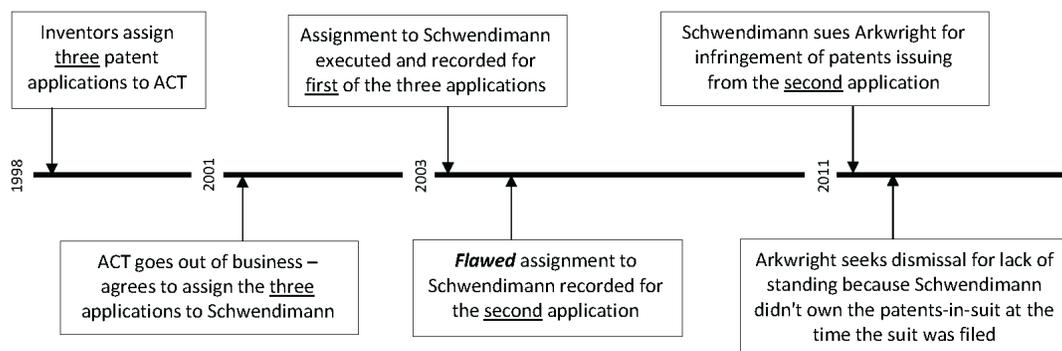
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In *Schwendimann v. Arkwright Advanced Coatings* (May 13) the Federal Circuit clarified the distinction between Constitutional standing and the statutory prerequisite that only a "patentee" can be a patent infringement plaintiff, and held that the retroactive effect of contract reformation under state law can be sufficient to meet the statutory prerequisite and avoid dismissal.

### **Background: Facts & The Issue**

The background facts are a bit convoluted, but the relevant points can be summarized on a timeline:



The fax and recordation cover sheets for the flawed assignment of the second application cite the correct patent application, but the assignment submitted to the PTO was the previously recorded one for the first application. The submitted copy of that assignment did, however, have an attorney file code hand-written on it that corresponded to the second patent application.

The district court declined to dismiss for lack of standing, finding that ACT and Schwendimann had a valid agreement to assign the second application to Schwendimann but had, by mutual mistake, not accurately stated their agreement in the "hand-altered" copy of the assignment. The district court reformed the "hand-altered" copy of the assignment under Minnesota law, using the attorney file code to render it a written assignment for the second application, *nunc pro tunc*.

Arkwright appealed.

### **Background: Relevant Black Letter Law**

1. Constitutional Limitation on Patent Infringement Plaintiffs – Article III Standing:
  - a. To have Art. III standing to sue in Federal Court, a plaintiff must . . .
    - i. "have suffered or be imminently threatened with
    - ii. a concrete and particularized 'injury in fact'
    - iii. that is fairly traceable to the challenged action of the defendant and
    - iv. likely to be redressed by a favorable judicial decision."<sup>1</sup>

<sup>1</sup> *Lujan v. Defenders of Wildlife*, 504 U. S. 555, 560 (1992).

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- b. Lack of standing can be raised at any time, requires dismissal of the suit, and cannot be cured after a suit commences.
2. Statutory Limitation on Patent Infringement Plaintiffs.
  - a. In addition to meeting Art. III requirements, the party plaintiff must be a "patentee."<sup>2</sup>
  - b. "Patentee": Person or entity that owns legal title to the patent, and includes "not only the patentee to whom the patent was issued but also the successors in title to the patentee."<sup>3</sup>
  - c. A "patentee" generally will have Art. III standing because infringement of its exclusive rights is an injury-in-fact.<sup>4</sup>
3. Successors in Title – Assignment of Patent Rights.
  - a. Federal law: Need written assignment.<sup>5</sup>
  - b. State law: Determines who has legal title to a patent.<sup>6</sup>

### **What Schwendimann Adds:**

The Federal Circuit affirmed, determining first that there was no Constitutional "standing" issue to resolve, and, second, that Schwendimann was a "patentee" by assignment as to the patents-in-suit at the time she filed her suit. The key addition to the law was the treatment of the reformed "hand-altered" assignment as effective retroactively to the date it was submitted to the PTO – a date prior to the commencement of the suit – thereby affording Schwendimann "patentee" status under § 281 when she filed the infringement suit.

### **No "standing" issue**

- The Federal Circuit reiterated its 2019 clarification that "whether one qualifies as a patentee under 35 U.S.C. § 281 is a statutory prerequisite to the right to relief in a patent infringement action, but does not implicate the district court's subject matter jurisdiction"<sup>7</sup> and that therefore Article III "standing" was not at issue here.
- The distinction is between Constitutional limits on a federal court's subject matter jurisdiction (relating to the court's power to hear and decide a case under Art. III) and the characteristics of a proper plaintiff under a statute (relating to statutory interpretation).
  - An example for illustration: An exclusive licensee might have Art. III standing to sue in federal court for invasion of its exclusive rights (as injury-in-fact), but it is not a "patentee" under § 281 unless it has "all substantial rights" in the patent.<sup>8</sup>
- This is an important point because it relieved the Federal Circuit from analyzing the flawed assignment and its reformation under state law as jurisdictional issues under Art. III, giving it more leeway to decide the case by interpreting a statute.

### **Swendimann's status as "patentee" by written assignment**

- The Federal Circuit found no "serious" dispute that ACT intended to assign the second application to Schwendimann and that there was an agreement to assign.

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<sup>2</sup> 35 USC § 281 ("A patentee shall have remedy by civil action for infringement of his patent."). See also *Alps South v. Ohio Willow Wood*, 787 F.3d 1379, 1382 (Fed. Cir. 2015)(discussing § 281 and the degree of interest in a patent that confers "patentee" status).

<sup>3</sup> 35 USC § 100(d); see also *Azure Networks v. CSR*, 771 F.3d 1336, 1342 (Fed. Cir. 2014)("A party is a patentee if it holds legal title to the patent, either by issuance or assignment.")

<sup>4</sup> *Morrow v. Microsoft Corp.*, 499 F.3d 1332, 1339 (Fed. Cir. 2007)("[t]he party holding the exclusionary rights to the patent suffers legal injury in fact under the statute.")

<sup>5</sup> 35 USC § 261 ("Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing.")

<sup>6</sup> E.g., *Enovsys LLC v. Nextel Commc'ns Inc.*, 614 F.3d 1333, 1342 (Fed. Cir. 2010) ("Who has legal title to a patent is a question of state law").

<sup>7</sup> Citing *Lone Star Silicon Innovations LLC v. Nanya Tech. Corp.*, 925 F.3d 1225, 1299 (Fed. Cir. 2019).

<sup>8</sup> This is why exclusive licensees usually can be part of an infringement case, but cannot sue on their own and must join the patent owner.

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- The Federal Circuit then found nothing in § 261 or its own caselaw that "specifies the type of writing that is necessary to convey an assignment of patent rights" and no reason why "state law contract principles, including those pertaining to reformation, would not apply with equal force to such writings."
- Because reformation "simply assures that the written instrument properly reflects the parties' agreement," the assignment of the second application was effective when originally made, rather than as of the date of the reformation.
- Thus, Schwendimann retroactively became a "patentee" as of the date of originally-flawed assignment date and was therefore a "patentee" when she filed her infringement suit.

### Dissent

The dissent (Reyna) argued that there was an Article III standing issue and that Schwendimann lacked standing when she filed suit.

- Judge Reyna explained that separate from and in addition to the statutory question of whether Schwendimann was a "patentee" under § 281, there remained a legitimate Constitutional question "whether Ms. Schwendimann had any requisite 'exclusionary rights' in the patents-in-suit at the time of filing her infringement suit to establish Article III standing."
- Because the hand-altered assignment had not yet been reformed, Judge Reyna argued that Schwendimann "had no enforceable, exclusionary rights in the patents-in-suit" *at the time she filed suit* and therefore she lacked Art. III standing.
- Judge Reyna saw no reason to treat contract reformation any differently than other attempts to retroactively gain Constitutional standing, where the Federal Circuit has consistently required that Constitutional standing "be present at the time of filing, even in the face of subsequent legal events that purport to have retroactive effect."<sup>9</sup>

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A couple closing thoughts:

- *Judge Reyna is correct.* At the time she filed suit, Schwendimann had no exclusionary rights in the patents-in-suit and therefore likely lacked Art. III standing – *e.g.*, what patent-related injury-in-fact did she have at that moment in time? So there was a real issue whether contract reformation can retroactively confer Art. III standing, especially in light of the general ban on retroactive cures for lack of Art. III standing.
- *Subtext matters.* Schwendimann had already gone through years of litigation and a jury trial and won about \$2.6 million and a finding of willfulness. The majority was likely mindful of the wastefulness of sending Schwendimann back to the starting gate, especially where they could affirm the jury verdict by simply interpreting a patent statute rather than by resolving a Constitutional question of first impression.

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<sup>9</sup> *E.g., Enzo APA & Son, Inc. v. Geapag A.G.*, 134 F.3d 1090, 1093 (Fed. Cir. 1998) (“[N]unc pro tunc assignments are not sufficient to confer retroactive standing.”), *Paradise Creations, Inc. v. UV Sales, Inc.*, 315 F.3d 1304, 1310 (Fed. Cir. 2003)(cannot rely on the Florida corporate revival statute “to retroactively claim enforceable patent rights on the day it filed its complaint, in order to assert standing”).