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International Trade Commission Clarifies the Intersection Between Litigation Funding Agreements and Standing

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On April 18, 2018, the International Trade Commission ("Commission") **reversed** an Administrative Law Judge's ("ALJ") finding that a litigation funding agreement destroyed standing for a complainant at the ITC. In *Certain Audio Processing Hardware, Software, and Products Containing the Same* , Inv. No. 337-TA-1026 (the "1026 investigation"), the ALJ issued an **initial determination** ("ID") that found that Complainant Andrea did not have standing to assert the 6,363,345 ("the '345 patent") against Respondent Apple without joining litigation funder AND34, with which Andrea entered into a Revenue Sharing and Note Purchase Agreement (the "funding agreement") to fund Andrea's enforcement activities. But on review, the Commission concluded that the ALJ was wrong and reversed the portion of the ID that found that the funding agreement between Andrea and AND34 undermined standing.

At the Commission, as in federal court, a plaintiff must show that it has standing when bringing a patent infringement action. "[C]onstitutional standing in a patent infringement suit depends on whether a party can establish that it has an exclusionary right in a patent that, if violated by another, would cause the party holding the exclusionary right to suffer legal injury." The dispositive issue usually is who owns the patent, but where an exclusive licensee exists, the "decisions on standing concern whether an exclusive licensee under a license agreement has standing to enforce a patent." This analysis must determine if the patent owner transferred "all substantial rights" to the licensee. The "all substantial rights" analysis is guided by a non-exclusive list of factors known as the *Azure* factors. ***Azure Networks, LLC v. CSR PLC***, 771 F.3d 1336, 1343 (Fed. Cir. 2014) (judgment vacated on other grounds).

The ID found that Andrea did not have standing to assert the '345 patent without joining AND34 because Andrea gave up certain "substantial rights" in the '345 patent by way of the the funding agreement. The analysis focused on the perspective of the rights Andrea retained, not on the rights AND34 possessed. To arrive at this conclusion, the ID considered the *Azure* factors and found several weighed against Andrea, such as factor number five?the right to receive a portion of the proceeds from litigating or licensing the patent. According to the ID, several provisions in the funding agreement "significantly diminish[ed] Andrea's exclusive right as a patentee to sue infringers and license the patent." In addition, the ID found the parties' Common Interest Agreement ("CIA") confirmed their relationship was one of a joint venture to monetize the patent, not one between a lender and borrower. The ID found that "constitutional standing was not at issue and the appropriate question here [was] whether Andrea satisfie[d] the criteria for standing by possessing all substantial rights in the patent." Moreover, the ALJ disregarded a previous ruling in Investigation 337-TA-949, finding that the question in that investigation was different and thus did not pertain to the critical standing question in the 1026 investigation.

The Commission reversed and held that Andrea alone had standing to assert the ’345 patent because, by the terms of the funding agreement, AND34 was a non-exclusive licensee—at most. The Commission faulted the ID for disregarding the constitutional standing requirement and jumping right to the “all substantial rights” analysis. In failing to determine if AND34 was an exclusive or nonexclusive licensee, the ID ignored the critical consideration that the *Azure* factors only apply if a non-exclusive license existed. But for completeness, the Commission concluded that even if the *Azure* factors were applied, Andrea retained “all substantial rights” in the patent under the funding agreement. For example, factor one—the nature and scope of the right to bring suit—weighed in Andrea’s favor because it retained control of litigation strategy and was not limited on how to pursue the patent’s monetization efforts. The Commission expressly disagreed with the ID in the consideration of several *Azure* factors, such as the exclusive right to make, use, and sell products or services under the patent. The Commission determined that under the funding agreement, Andrea was not stripped of its exclusive right to make, use, and sell products and services, because AND34 could not grant non-exclusive licenses until a change of control or event of default occurred. The Commission, quoting the Federal Circuit, stated that a “future interest[] in a patent [is] insufficient to find an exclusionary interest exists.” Similarly, for *Azure* factor seven—the ability to supervise or control licensee’s activities—the Commission faulted the ID for basing its conclusion on mere speculation; what may happen if and when an event of default occurs.

In this decision, the Commission provided welcome clarity regarding the effect of a litigation funding agreement on a party’s standing in patent-based suits at the Commission. While it remains to be seen whether this will lead to fewer standing challenges by accused infringers where a litigation funding agreement is in place, the Commission’s guidance in this case is an important signpost for litigants in similar circumstances.

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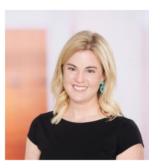

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