Who Really Owns Your Patent? You or Your Bank?

Intell. Tech LLC v. Zebra Techs. Corp., No. 2022-2207 (Fed. Cir. May 1, 2024)

Authors: Joe Marinelli & Suet Lee | Editor: Jason Keener | June 4, 2024

On May 1, the Federal Circuit reversed a district court's dismissal of Intellectual Tech's ("IT's") patent infringement claims against Zebra Technologies ("Zebra") for lack of constitutional standing. The Federal Circuit found that even though IT defaulted on a loan, which gave their bank rights to the patents used as loan security, IT still had standing to sue, and the default did not automatically strip IT of its rights to the patents. When using patents as loan security, patent owners should be weary of provisions that automatically assign the patents to the bank in the event of default as doing so may jeopardize their standing to enforce the patents.

In this case, IT entered into a loan agreement that gave the lending bank a security interest in IT's patents. The loan agreement provided that if IT defaulted, the bank may "at its option" sell, assign, transfer, pledge, encumber, dispose of, enforce, and license the patents to any third party. IT defaulted on the loan, but the bank never exercised any of its options to the patents.

IT asserted the patents against Zebra in the Western District of Texas. Zebra moved to dismiss IT's claims for lack of constitutional standing. Constitutional standing requires (1) an injury in fact, (2) traceability, and (3) redressability. Here, injury in fact was the only disputed factor. The district court granted Zebra's motion because in its view the fact that Zebra could have obtained a license to the patent from the bank deprived IT of its exclusionary rights.

The Federal Circuit reversed, explaining that IT only needed to show that it retained at least one exclusionary right to satisfy the injury in fact requirement by showing an invasion of a legally protected interest. The Federal Circuit further explained that the district court incorrectly concluded that the bank's *option* to assign the patents divested IT of its legal interest in the patents. In fact, nothing in the loan agreement indicated that the mere triggering of the bank's optional rights automatically deprived IT of all rights to the patents. Even though the bank had the non-exclusive ability to license the patents, IT still retained the exclusionary right to sue unlicensed infringers, and thus satisfied the injury in fact requirement for constitutional standing despite defaulting.

Presumably, if the bank had exercised any of its optional rights, then IT may have lost its standing to sue. Moreover, Zebra could have attempted to avoid infringement by asking the bank to exercise its optional rights to grant it a license or assignment. Ultimately, default provisions that require the bank to proactively exercise an option to possess the patent are more beneficial to the patent owner. However, even optional provisions open the door for an accused infringer to avoid liability by approaching the bank for a license or assignment if the patent owner defaults. Thus, patent owners should be cautious when using patents as loan security and be aware of default provisions that may affect their standing to enforce the patents. Patent owners may also consider granting lenders rights to litigation or licensing proceeds generated by the patents as loan security, instead of ownership rights, to avoid the potential constitutional standing issue.