

## Corporate Update

## SECURED TRANSACTIONS

## The Zebra Case: Can a Debtor in Default Sue for Patent Infringement?

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**A**s noted in previous columns, the sheer number of finance transactions relying heavily on intellectual property collateral has increased dramatically in recent years due to the growing value and importance of these assets to businesses. Of course, that will also typically mean a rise in the number of lawsuits involving such assets. An example of this is a case brought initially in 2019 in U.S. District Court for the Western District of Texas involving a patent infringement claim asserted against a third party by a debtor who had also pledged such patent as collateral to a lender. The interesting question in this case was whether the patent owner/pledgor had Article III constitutional standing to assert that claim



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given it was in default under its loan facility. On appeal, the United States Federal Circuit Court, in an opinion issued in May of this year, concluded in the affirmative (see *Intellectual Tech LLC v. Zebra Techs Corp.*, 101 F.4th 807 (Fed. Cir. 2024)). In that decision, the Federal Circuit Court held that a patent owner retains an “exclusionary right” in the patent sufficient to satisfy the injury-in-fact requirement for

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constitutional standing, even if certain patent rights have been granted to a third party, such as a lender, and even if that lender has a power of attorney permitting it to, among other things, grant exclusive licenses in the patent.

### **Factual Background**

The facts of the *Zebra* case are as follows.

In 2011, OnAsset Intelligence, Inc. (“OnAsset”) entered into both a loan agreement and patent and trademark security agreement with Main Street Capital Corporation (“Main Street”), the latter of which granted Main Street a security interest in OnAsset’s patented system for employing radio frequency identification tags.

Subsequently, in 2013 OnAsset defaulted

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### **As shown by the Zebra case, a plaintiff’s status as a patent owner or a licensee plays a key role in the evaluation of the plaintiff’s constitutional standing in a patent infringement case.**

under its loan agreement and thereafter entered into a forbearance agreement with Main Street. In 2017, OnAsset formed a wholly-owned subsidiary, Intellectual Tech LLC (“IT”), and assigned its patent to IT. IT then joined the loan agreement between OnAsset and Main Street and also entered into a patent and trademark security agreement with Main Street, granting Main Street a security interest in the patent on terms substantially similar to those granted by OnAsset in 2011. By 2018, IT was also in default in its obligations to Main Street. Both the Onset and IT patent and trademark security agreements permitted Main Street

to “sell, assign, transfer, pledge, encumber or otherwise dispose of [debtor’s] Patents and Trademarks” in the event of a default.

In 2019, IT sued Zebra Technologies Corporation (“Zebra”) in Texas Federal District Court for infringement of its patent. Zebra moved to dismiss that complaint for lack of standing, which the district court denied, concluding that IT “is the rightful owner of the patent, retains the right to enforce the patent, and thus has constitutional [under Article III] and statutory [under 35 U.S.C. § 281] standing to bring a patent infringement suit against Zebra.”

Zebra then again asserted its standing arguments before the district court in a motion for summary judgment, claiming that OnAsset’s default in 2013 caused an immediate transfer of all of its patent rights to Main Street, thereby leaving OnAsset with nothing to assign to IT in 2017. The district court again disagreed with Zebra’s arguments, noting that the default did not “automatically divest OnAsset of title” to the patent. However, the court then nevertheless granted Zebra’s motion as to constitutional standing, holding that the rights Main Street received deprived IT of those “exclusionary rights” critical to constitutional standing, because “Zebra could obtain a license on the patent from Main Street” given IT’s default. The court concluded that “a patent title holder can deprive itself of exclusionary rights by vesting a third party with a right to assign or sublicense the patent (even if the third party never exercises those rights).” The court also rejected IT’s request to cure any

defects in constitutional standing by joining Main Street, holding that the defect existed at the time of filing and therefore could not be subsequently cured.

IT appealed to the United States Court of Appeals for the Federal Circuit—being an appeals court created from the 1982 merger of the United States Court of Customs and Patent Appeals and the appellate division of the United States Court of Claims that has exclusive jurisdiction over all federal cases involving patents.

### Case Analysis

The question before the Federal Circuit Court was whether IT had constitutional standing to assert an infringement claim, which it undertook to consider on a *de novo* basis. According to the court, constitutional standing requires three elements: (1) an injury in fact, (2) traceability, and (3) redressability. The appeals court described the only “meaningful dispute” before it as being the injury-in-fact element, which would require IT to have a “legally protected interest” in the allegedly infringed patent. This would itself require IT to have retained “an exclusionary right—i.e., infringement would amount to an invasion of IT’s legally protected interest.”

Zebra argued that IT lacked exclusionary rights because Main Street had the exclusive ability to license the patent in the event of a default. The Federal Circuit Court rejected this argument, reasoning that the patent and trademark security agreements granted Main Street an *option* to license the patent upon default, but that such rights were not automatic and therefore did not automatically deprive IT of its rights to license the patent.

Zebra continued to argue that even if Main Street’s ability to license was not exclusive, its non-exclusive rights to license the patent divested IT of any exclusive rights to license it. The Circuit Court also rejected this argument, stating that a “patent owner has exclusionary rights sufficient to meet the injury-in-fact requirement even where, without more, it grants another party the ability to license.” In so doing, the court observed an important distinction between a licensee and a patent owner, namely that a patent owner has exclusionary rights “as a baseline matter” unless it transfers *all* such rights. A licensee, on the other hand, although it obtains rights to use a patent, does not necessarily obtain a right to prevent others from using it.

The court then said that in the context of determining a patent owner’s exclusionary rights, the questions about other entities’ ability to license are immaterial. The injury-in-fact element of constitutional standing is satisfied for a patent owner, even if it grants another party the ability to license, unless it has transferred *all* of its rights in respect of the patent. Therefore, Main Street’s and IT’s “shared ability” to license the patent following a default did not divest IT, the patent owner, of all exclusionary rights. Notably, the court stated that in the context of patent co-owners, each co-owner meets the injury-in-fact element of constitutional standing.

Finally, Zebra argued that IT lacked exclusionary rights because of Main Street’s option to “sell, assign, transfer, pledge, encumber or otherwise dispose of [IT’s] Patents and Trademarks” under its patent and trademark security

agreement. The Circuit Court rejected this argument, reasoning that Main Street's unexercised "option" or right to assign or transfer the patent is not equivalent to an actual transfer of rights. The court stated that "[t]he exclusionary rights that IT would have lost upon Main Street's foreclosure or assignment to another party must be evaluated in the same way the court evaluated title—based on the actual state of rights instead of their hypothetical redistribution at some unspecified point in the future."

### **Conclusion**

As shown by the Zebra case, a plaintiff's status as a patent owner or a licensee plays a key role in the evaluation of the plaintiff's constitutional standing in a patent infringement case. According to the Zebra decision, patent owners maintain their rights to sue for infringement even if certain patent rights (including a power of attorney to grant exclusive or non-exclusive licenses in the patent) are granted to a third party, such as a lender. As for licensees, the court may examine questions about other entities' ability to license in determining whether a licensee has an "exclusionary right." Lenders

need to consider this issue carefully in fashioning remedies when taking patents as collateral. The mere contractual right to take control of a patent may not be sufficient to stop the patent owner from itself exercising control. Keep in mind that a patent owner has also not transferred its exclusionary rights with respect to the patent upon granting to a lender a power of attorney to license a patent in connection with a grant of a security interest in that patent. Lenders should consider whether to provide for a clear automatic divestiture of full rights to a patent upon the occurrence of an event of default.

We note that just a few weeks ago Zebra filed with the U.S. Supreme Court a petition for a writ of certiorari requesting review of the Federal Circuit Court's decision in this case. Zebra argued in its petition that the notion of what constitutes "exclusionary rights" is very unclear and that this case "presents an ideal vehicle to address this recurring issue," specifically, "whether IT demonstrated the irreducible constitutional minimum of injury in fact." It will be interesting to see whether the court accepts this issue for adjudication.