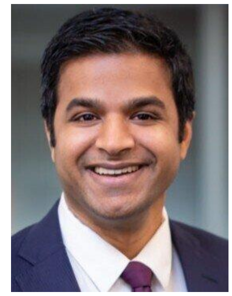
5 IP Licensing Lessons From Fed. Circ. Asphalt Ruling

By **Sasha Rao and Nirav Desai** (August 13, 2026)



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On May 19, the U.S. Court of Appeals for the Federal Circuit issued an important decision providing a patent-licensing road map for constitutional standing.

In A.L.M. Holding Company v. Zydex Industries Private Ltd., the Federal Circuit **reversed** the dismissal of a patent owner's infringement suit for lack of constitutional standing.[1]

The Federal Circuit held that patent owners who had granted an extensive exclusive license to a licensee nevertheless retained sufficient rights to establish Article III standing.[2]

More importantly for practitioners, the decision provides a practical road map for structuring license agreements that preserve a patent owner's ability to sue. For the licensing professional, this opinion is a valuable resource to protect the exclusionary rights of a patent owner or licensor.

The case is significant because standing disputes frequently arise years after a license is negotiated, often when the parties' original drafting assumptions are being tested in litigation. As the Federal Circuit acknowledged, its own standing jurisprudence has not always been clear, particularly regarding the relationship between constitutional standing and the transfer of patent rights through licensing.[3]

Two Courts, Two Very Different Views

The dispute centered on whether the patent owners, A.L.M. Holding Company and Ergon Asphalt & Emulsions Inc., owners of six asphalt-related patents, retained standing to assert infringement of their patents after granting an exclusive license to a third-party licensee.

The accused infringers, Zydex Industries Private Ltd. and Zydex Inc., argued that the patent owners had transferred so many rights under the exclusive license agreement that they no longer possessed the exclusionary interest necessary to establish Article III standing.[4] On that basis, Zydex moved to dismiss the infringement suit. In response, A.L.M. referred to eight retained rights as evidence of retained exclusionary interest sufficient to confer standing.

Resolving the motion required the U.S. District Court for the District of Delaware — and the Federal Circuit on appeal — to examine the specific terms of the license agreement.

Exclusivity

The grant clause provided an "exclusive ... royalty-bearing, worldwide license ... [to] manufacture, have manufactured, import, use, sell, offer to sell and otherwise commercialize Licensed Products." But if the exclusive licensee failed to pay the plaintiff guaranteed minimum annual royalty amounts, then the license would become nonexclusive.

Shared Control of any Infringement Suit

Under the agreement, if a third party practiced the patents without authorization, the plaintiffs and the exclusive licensee "shall mutually determine whether to pursue such infringement" and evenly split both the costs and damages recovered if jointly commenced. When a single party prosecutes infringement, that party "will control the conduct of the legal action and will retain for itself any damages recovered or obtained in the legal action."

Sublicensing

The exclusive licensee may sublicense the patent rights only upon the plaintiffs' review and approval, "not to be unreasonably withheld," according to the agreement. "Sales made by a sublicensee shall be reported and royalty paid to [Plaintiffs] as if [the exclusive licensee] had made such sale" and the agreement's obligations "shall be binding on any sublicensee as if it were a Party hereto."

Prosecution and Termination

The plaintiffs maintained control of any continuing patent prosecution, assumed the obligation to pay maintenance fees on the patents, and could terminate the agreement based on any material breach, subject to notice and time to cure.

Plaintiffs' Retained Rights

The plaintiffs retained the royalty-free rights to practice the patents (1) for research and development purposes; (2) to make, import, use, sell and offer to sell paving mixtures containing licensed products purchased from the exclusive licensee; and (3) to sublicense to their retained rights to affiliates.[5]

To determine whether the patent owners had retained sufficient exclusionary rights to maintain standing, the District of Delaware viewed those retained rights through a compartmentalized lens, stepping through each retained right in turn. It concluded that the patent owners' and licensors' retained rights were each insufficient to constitute an exclusionary right.

Most significantly, the court held that "the ability to bring or participate in infringement litigation is not an exclusionary right which confers on Plaintiffs constitutional standing."[6] Relying heavily on the Federal Circuit's 2007 decision in Morrow v. Microsoft Corp., the court ultimately dismissed the case for lack of Article III standing.

On appeal, the Federal Circuit — after first acknowledging that its "standing jurisprudence has not always been clear, thereby creating a challenge for district courts applying our precedent,"[7] — took a markedly different approach than the district court.

Rather than asking whether each retained right independently qualified as an exclusionary right, the court considered whether the retained rights collectively demonstrated a continuing exclusionary interest.[8]

The answer, according to the Federal Circuit, was yes and warranted reversal. The licensors' "retained rights as patent owner — including the right to sue, sublicensing control, and royalty interests — are collectively sufficient to establish that they retained an exclusionary right required for Article III standing."[9]

Five License Drafting Lessons

The Federal Circuit's efforts in A.L.M. to clarify what licensing terms would be considered sufficiently exclusionary for constitutional standing provide helpful guidance to ensure the enforceability of a licensor's patent rights.

1. Beware the illusory right to sue.

For transactional lawyers, one consequential aspect of the decision may be the Federal

Circuit's focus on whether a retained enforcement right is genuine or merely illusory.

The court observed that a "patent owner's retained right to sue is a strong indicator of an exclusionary right."[10] But it also cautioned that not every contractual right to sue will suffice. A bare right to sue, severed from ownership and divorced from other meaningful patent interests, may not confer standing.[11]

That was the problem in Morrow, where the plaintiff possessed little more than a contractual enforcement right separated from patent ownership and all other underlying patent rights, which were held by a different party.[12]

Equally important, a nominal right to sue may become illusory if other provisions allow the licensee to defeat it in practice. The Federal Circuit emphasized that a retained enforcement right would be illusory where, for example, a licensee could "effectively extinguish it unilaterally by granting a royalty-free sublicense to an accused infringer, without needing the patent owner's consent."[13]

The lesson for drafters is straightforward: Retaining a right to sue is not enough. The surrounding provisions must ensure that the licensee cannot neutralize that right.

But sharing the right to sue with the licensee does not necessarily weaken this indicator.[14] Here, the plaintiffs "retain[ed] the right to join in any litigation at the outset, and thereby continue[] to exercise meaningful control over the enforcement mechanism.[15]

Further, the plaintiffs retained "a meaningful ability to settle the lawsuits they initiate," whether by license or "through monetary payment and an agreement by an accused infringer to cease practicing the patents."[16]

The agreement preserved the licensors' ability to participate in enforcement decisions, initiate litigation, control lawsuits they brought and settle those lawsuits. The Federal Circuit repeatedly relied on those retained enforcement rights in finding standing.

2. Preserve meaningful control over sublicensing.

The Federal Circuit sharply disagreed with the district court's treatment of the sublicense approval provision.

The district court discounted the plaintiffs' approval right over sublicenses because approval could not be unreasonably withheld.[17] The Federal Circuit, in contrast, found that a "patent owner's sublicensing veto rights, even if not to be unreasonably withheld, reflect 'substantial ongoing control' such that the licensee cannot sublicense free of the owner's interests."[18]

This sublicensing consent right "helps preserve Plaintiff's exclusionary interest because it prevents the licensee from unilaterally authorizing an accused infringer's practice of the patents without Plaintiff's approval and royalty interests."[19]

It is important to keep in mind though that this consent right was not itself an exclusionary right. Rather, this right, together with the right to sue and royalty interests, confirms that the plaintiffs held an exclusionary right.[20]

3. Use pass-through royalty provisions.

Another useful drafting lesson from the opinion concerns pass-through royalties. Under the agreement, sales by sublicensees were reported and royalties paid to the licensors as if the licensee itself had made the sale. A licensee's right to sublicense does "not extinguish the patent owner's right to sue" when there is a requirement that "any sublicense grants must pay 'specified pass-through royalties' to the patent owner."[21]

The Federal Circuit viewed this structure as important because — together with the sublicensing veto — it meant the licensee could not "sublicense the patent free from Plaintiff[s'] consent and royalty interests,"[22] so the plaintiffs' retained right to sue was not illusory.

A pass-through royalty backstop may also be effective in indicating exclusionary rights. Here, the licensing agreement provided that "if Ingevity fails to pay the pass-through royalties, then Plaintiff may terminate the Agreement and any sublicenses."[23]

4. Pair royalty rights with exclusionary rights.

The Federal Circuit made clear that a "right to royalties, while not itself an exclusionary right, can further evidence an exclusionary right" when combined with provisions that preserve the ability to exclude others.[24]

The court specifically noted that infringement harmed the licensors because it "amount[s] to an invasion of [plaintiff's] legally protected interest" in the patents by depriving it of royalties to which it is entitled as a patent owner.[25]

5. Arrange your corporate structure with care.

The Federal Circuit's decision also carries implications for companies that assign their patents to one corporate entity while a sister entity practices them. The enforcing entity must hold more than a bare right to sue severed from ownership. Whether the enforcing corporate entity received an exclusionary right from the patent-holding entity "do[es] not provide a reasonable proxy for understanding whether a patent owner retains at least one exclusionary right."[26]

What Did Not Matter

The opinion is also useful for what it did not emphasize.

The district court rejected reliance on retained research and development rights, rights to use licensed products purchased from the licensee, affiliate sublicensing rights, litigation recovery rights, and termination rights.

The Federal Circuit reversed without relying on those provisions. Similarly, the licensors' control over patent prosecution and responsibility for maintenance fees appeared only in the background sections of the opinion and played no meaningful role in the standing analysis.

These provisions remain commercially important, but they should not be relied upon as the primary basis for preserving standing.

Conclusion

For practitioners, the most important takeaway from A.L.M. is that standing must be engineered into the license agreement.

The Federal Circuit's decision teaches that a patent owner's retained right to sue will carry meaningful weight only if other provisions prevent that right from becoming illusory.

Sublicense approval rights, pass-through royalty provisions and continuing economic interests all helped preserve standing because they ensured that the licensee could not authorize others to practice the patents free of the licensors' control.

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[1] A.L.M. Holding Company v. Zydex Industries Private Ltd. , 176 F.4th 1326 (Fed. Cir. May 19, 2026).

[2] Id. at 1336.

[3] Id. at 1332.

[4] A.L.M. Holding Co. v. Zydex Indus. Priv. Ltd. , No. 24-363, 2024 WL 5276676, at *1-2 (D. Del. Nov. 25, 2024).

[5] Id. at *3; A.L.M., 176 F.4th at 1330-31.

[6] A.L.M., 2024 WL 5276676, at *6.

[7] A.L.M., 176 F.4th at 1332

[8] Id. at 1333-34.

[9] Id. at 1332-34.

[10] Id. at 1334.

[11] Id. at 1335.

[12] Id.

[13] Id. at 1333 n.3.

[14] Id. at 1335 n.7.

[15] Id. at 1334 n.5.

[16] Id. at 1336.

[17] A.L.M., 2024 WL 5276676, at *4–5.

[18] A.L.M., 176 F.4th at 1334 (quoting Propat Int'l Corp. v. Rpost Inc. , 473 F.3d 1187, 1191 (Fed. Cir. 2007).

[19] Id. at 1334.

[20] Id.

[21] Id. at 1335–36 (citing Mann 604 F.3d at 1362).

[22] Id. at 1336.

[23] Id. at 1336 n.8.

[24] Id. at 1334 (quoting Lone Star Silicon Innovations LLC v. Nanya Tech. Corp. , 925 F.3d 1225, 1234 (Fed. Cir. 2019)).

[25] Id. (quoting Zebra Techs., 101 F.4th at 813).

[26] Id. at 1335 n.7 (citing Zebra Techs., 101 F.4th at 816.).