

Keywords: standing; capacity to sue; incarcerated patentee rights.

General: The U.S. Court of Appeals for the Federal Circuit affirms the District Court decision that Mr. Tormasi, an inmate in the New Jersey State Prison, lacks capacity to sue.

Walter A. Tormasi v Western Digital Corporation

U.S. Court of Appeals for the Federal Circuit

No. 2020-1561

Decided August 20, 2020

I. Facts

Mr. Tormasi is an inmate in the New Jersey State Prison (“NJSP”), and is a self-described “innovator and entrepreneur.” The NJSP maintains a “no-business” rule, which prohibits inmates from commencing or operating a business without prior approval from the Administrator. While imprisoned, and without the Administrator’s prior approval, Mr. Tormasi formed an intellectual-property holding company, Advanced Data Solutions Corporation (“ADS”) and appointed himself as director, CEO, President, and CTO.

In January 2005, Mr. Tormasi filed U.S. Patent Application No. 11/031,878 (“the ’878 application”), which ultimately issued in January 2008, as U.S. Patent No. 7,324,301 (the ’301 patent). In early 2004, Mr. Tormasi, in his capacity as ADS Director, adopted resolutions that transferred Mr. Tormasi’s rights in the ’878 application to ADS in exchange for shares of ADS stock. However, Mr. Tormasi also asserted that in February 2005, he contingently assigned his complete right, title, and interest in the ’878 application to ADS.

In May 2007, NJSP intercepted documents from Mr. Tormasi related to ADS, and determined that he had circumvented the procedural safeguards against inmates operating a business without prior approval. Mr. Tormasi was formally warned that continued involvement with ADS would subject him to further disciplinary action. Despite this warning, Mr. Tormasi persisted and continued his involvement with ADS, eventually executing a corporate resolution that contingently transferred the ’878 application from ADS to himself in June 2007. Mr. Tormasi explained that the purpose of the contingent transfer was “to ensure that [his] intellectual property remained enforceable, licensable, and sellable to the fullest extent possible.”

On March 1, 2008, unbenounced to Mr. Tormasi, ADS entered an “inoperative and void” status, for non-payment of taxes. In late 2009, a still-incarcerated Mr. Tormasi suspected Western Digital Corporation (WDC) of infringing the ’301 patent after reading an article examining WDC hard drives. Having been barred from filing suit on behalf of ADS by the District of New Jersey, Mr. Tormasi, directed ADS to adopt a corporate resolution to assign and transfer “all right, title, and interest” in the ’301

patent to himself in December 2009. Mr. Tormasi asserted that the purpose of the transfer in ownership was to permit Mr. Tormasi to “personally pursue, and to personally benefit from, an infringement action against [WDC] and others.” In January 2019, at the direction of Mr. Tormasi, ADS again assigned to Mr. Tormasi “all right, title, and interest” in the ’301 patent, as well as the authority “to pursue all causes of action and legal remedies arising during the entire term” of the ’301 patent.

In February 2019, Mr. Tormasi sued WDC for \$5 billion in damages alleging infringement of the ’301 patent. In April 2019, WDC moved to dismiss Mr. Tormasi’s suit for lack of standing and capacity to sue. The district court noted that an individual’s capacity to sue is determined by “the law of the individual’s domicile.” FED. R. CIV. P. 17(b)(1). In New Jersey, “[e]very person who has reached the age of majority...and has the mental capacity may prosecute or defend any action in any court.” N.J. STAT. ANN. § 2A:15-1 (2013). However, the district court also noted that New Jersey inmates are further governed by New Jersey Administrative Code Title 10A, which sets forth regulations governing adult inmates in New Jersey’s prisons. Under the “no business” rule of this title, “commencing or operating a business or group for profit...without the approval of the Administrator” is a prohibited act. Accordingly, in November 2019, the district court issued its Order, finding that Mr. Tormasi lacked capacity to sue, but did not “reach the standing issue.” Mr. Tormasi appealed the decision to the Fed. Circuit.

II. Issues

- 1) Did the district court err in determining that Mr. Tormasi lacked capacity to sue?
- 2) Did the district court err in determining that Mr. Tormasi had violated the “no business” rule?

III. Discussion

1) No. The district court concluded that “because New Jersey law prevents inmates from ‘commencing or operating a business or group for profit . . . without the approval of the Administrator,’” Mr. Tormasi lacked capacity to sue for patent infringement. In the Appeal, Mr. Tormasi argued that the district court erred by relying on the “no-business rule” since his lawsuit “cannot be construed as an unpermitted business activity” because it sought “to enforce his personal intellectual-property rights.”

Reviewing the question *de novo*, the Fed. Circuit determined that Mr. Tormasi’s attempt to file the lawsuit as a personal action “merely repackage[ed] his previous business objectives as personal activities so he [might] sidestep the ‘no business’ regulation.” The court found that, because these actions were “a mere continuation of his prior business activities,” Mr. Tormasi’s characterization of his suit as personal, as

opposed to related to business, was without merit. Because of Mr. Tormasi's status as an inmate, the court found that the "no business" rule lawfully limited Mr. Tormasi's privileges and rights, including his capacity to sue in this case.

2) No. The Fed. Circuit determined that Mr. Tormasi's lawsuit was in furtherance of his intellectual property business by "taking certain business actions purely to preserve the commercial value of his intellectual property." As evidence, the court considered Mr. Tormasi's statements that the transfers in ownership of the patent rights were "to ensure that [his] intellectual property remained enforceable, licensable, and sellable to the fullest extent possible" and "to permit [himself] to...personally benefit from, an infringement action against WDC and other entities." The court also cited a previous Third Circuit decision (*Tormasi v. Hayman* 443 F. App'x 742 (3d Cir. 2011)). In that case, Mr. Tormasi asserted that his constitutional rights were violated when prison officials confiscated his unfiled patent application under the "no business" rule. Rejecting Mr. Tormasi's argument that the "no business" rule did not apply to patent applications, the Third Circuit concluded that confiscation was a permissible punishment because Mr. Tormasi's intent to assign the patent application to his own corporate entity for selling or licensing purposes qualified as a violation of the "no business" rule. Accordingly, the Fed. Circuit determined that Mr. Tormasi's patent infringement suit was in furtherance of operating an intellectual property business for profit, and, therefore, prohibited under the "no business" rule.

IV. Conclusion

Whenever incarcerated in New Jersey, avoid operating an intellectually property business. The Fed. Circuit did note that, "[i]t is conceivable that Mr. Tormasi might, in the future, attain capacity to sue, but under the circumstances of this case, the District Court did not err in concluding that he does not presently possess that capacity."

V. Dissent (Judge Stoll)

The Fed. Circuit determined that, during the district court case, Mr. Tormasi did not sufficiently argue that the "no business" rule cannot generally limit the scope of an inmate's capacity to sue. As such, the majority of the Fed. Circuit determined that this argument was waived, and Mr. Tormasi therefore had conceded that the "no business" rule may limit his capacity to sue.

In the dissent, Judge Stoll argued that the court should have determined that Mr. Tormasi had preserved his argument by asserting that the "no business" rule "was never intended to supersede [his] right to file civil lawsuits in his personal capacity." Mr. Tormasi further explained that his capacity to sue is governed by N.J. STAT. ANN. § 2A:15-1, which requires only that he has "reached the age of majority" and

possesses “mental capacity.” Mr. Tormasi argued that his “imprisonment status or prison behavior is irrelevant to the capacity-to-sue standard.” The dissent contended that these assertions fairly preserved Mr. Tormasi’s legal argument that the “no business” rule cannot generally limit the scope of an inmate’s capacity to sue, especially in view of the fact that he was a *pro se* litigant. The dissent noted that, on its face, the “no business” rule does not include the loss of the capacity to sue as a prescribed punishment. And, as Mr. Tormasi further noted in his briefing to the district court, limiting the capacity to sue statute based on the “no business” rule is inconsistent with another section of the same administrative code, which expressly provides that “[i]nmates have [the] constitutional right of access to the courts.” The dissent contended that these arguments were not sufficiently considered and addressed.

The dissent also contended that the majority relied too heavily on the Third Circuit’s decision in *Tormasi v. Hayman*. It was the position of the majority of the court that the Third Circuit’s decision was not cited for the conclusion that Mr. Tormasi lacks capacity to sue, but rather it was cited to demonstrate that Mr. Tormasi’s lawsuit is was in furtherance of his intellectual property business and that business violates the “no business” rule. The dissent argued that that the majority’s extension of the Third Circuit’s reasoning to affirm the district court’s holding that Mr. Tormasi lacked capacity to sue in this case was inappropriate given the facts of this case. (For example, in this case, prison officials never enforced any disciplinary action or sanction under the “no business” rule against Mr. Tormasi; nor did Mr. Tormasi challenge any such action.) Because the present lawsuit involves only Mr. Tormasi’s claim for alleged patent infringement, the dissent contended that the Third Circuit’s decision in *Tormasi v Hayman*, and the “no business” rule should not be at issue at all in this case.