Challenges for Non-Practicing Entities

Robert A. Matthews, Jr.
Matthews Patent-Law Consulting
Counselor on U.S. Patent Law/Litigation
Author: Annotated Patent Digest
Patent Jury Instruction Handbook
What Makes a NPE Different?

• Does not commercially make or sell a product that practices, or competes with, the patented technology

• Not selling a product can have significant impact in the legal analysis of:
  – Ability to recover lost profit damages
  – Ability to obtain injunctive relief
  – Some procedural issues in litigation
    • Resisting a Stay Pending Reexamination
    • Resisting a Motion to Transfer Venue
General Forms of NPEs

- **Licensing-Only Patent-Holding Co.**
  - Acquires patents for licensing, usually does not create the patented technology

- **Corporate Related Patent-Holding Co.**
  - Administratively maintains, enforces and licenses patents covering technology developed by a related corporation (usually a manufacturer/seller)
  - Parent, subsidiary, or sister corporation to manufacturer/seller
General Forms of NPEs (con’t)

• **Research Entity**
  – Commercial or educational R&D entity that patents the results of its R&D and uses the licensing revenues to fund further R&D

• **Manufacturing Entity** (quasi NPE)
  – Entity that holds a patent and
    • Makes a product that competes with the patented technology (therefore treated like a practicing entity)
    • Does not practice the patent, but tries to license it while making other products that do not compete with the patented technology
Lost Profit Damages

• A patentee or exclusive licensee that sells a product may suffer lost profits from diverted sales and/or price erosion.

• Since a NPE does not make or sell a product it does not personally suffer lost profits from infringement.

  • *Rite-Hite* (56 F.3d at 1548) – where patentee does not sell a product, “by definition” it does not suffer lost profits.
Profits Lost by a Corporation Related to the Sub-PHC

• **Poly-America** *(383 F.3d at 1311)*
  – Where there are separate corporations, both corporations must take the benefits of separate existence with its burdens
  – Thus, they “may not enjoy the advantages of their separate corporate structure and, at the same time, avoid the consequential limitations of that structure—in this case, the inability of the patent holder to claim the lost profits of its non-exclusive licensee.”

• Sub-PHC normally cannot claim as its own the profits lost by a related corporation
May the Sub-PHC join the related manufacturing corporation?

• Related corporation holds *exclusive* rights in the patent it can and usually *must* join the Sub-PHC in prosecuting the suit
  – *Aspex Eyewear* (434 F.3d at 1344) – all exclusive licensees, like co-owners, must be joined

• Related corporation holds only nonexclusive rights it may not join
  – *Ortho Pharm* (52 F.3d at 1031) – A nonexclusive license has no standing to recover damages for any economic harm it suffered from infringement
Bottom line for *Nonexclusive Licensees Related to the Sub-PHC*

- If a corporation related to the Sub-PHC only holds a nonexclusive grant-back license, its lost profits are generally not recoverable.
- But, the related corporation’s lost profits may be a factor the Sub-PHC can rely on in proving a reasonable royalty rate.

— *United Carbide Chem.* (425 F.3d at 1366) a hypothetical negotiation must consider that the “economic impact” on parent would “weigh heavily in all decisions.”
LO-PHC & Profits Lost by its Nonexclusive Licensees

• Under *Poly-America*, a LO-PHC may not claim as its own the profits lost by its nonexclusive licensees

• Under *Ortho Pharm*, a nonexclusive licensee can’t join with the LO-PHC

• Thus, as a general matter, a LO-PHC may not recover profits lost by its nonexclusive licensees

• Exclusive licensee may join with LO-PHC to pursue its lost profits
A Theoretical Exception

- **Mars v. Coin Acceptors** *(527 F.3d at 1366-68)*
  - Lost Profits and a Reasonable Royalty are not the only permissible measure of damages.
  - Court recognizes a possibility that if profits of a nonexclusive licensee “inexorably flow” to a PHC, the PHC may be able recover those lost profits as the measure of its own damages.
Difficult to Prove Profits “Inexorably Flow” to NPE

- Even if PHC is the parent of the licensee, the parent/subsidiary relationship does not prove the licensee’s profits “inexorably flow” to the PHC.

- If PHC receives the same royalty regardless whether the licensee realized gains or suffered losses from its sales, the licensee’s profits do not “inexorably flow” to the PHC.

- To date, no reported cases awarding profits to a NPE under this theory.
Lost Royalties

• NPE who has licensed its patent may suffer lost royalties from infringement
  • Lost royalties may be an alternative damages theory to a traditional reasonable royalty award
  • Patentee will need to show that “but for” the infringement it would have received a certain royalty from its licensee(s)
    – BIC Leisure Prods., 1 F.3d 1214, 1219 (Fed. Cir. 1993)
  • Only practical if Lost Royalty amount > Reasonable Royalty amount
Injunctive Relief & eBay

• Pre-eBay - Federal Circuit followed a “general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.”

• In eBay, SCT rejects the Federal Circuit’s “general rule”
  • A patent’s statutory right to exclude does not mandate an injunction
  • Like copyright, no automatic issuance of an injunction once patent infringement is found
  • Instead, injunctive relief for patent infringement may issue only in accordance with the “traditional principles of equity” in the district court’s exercise of discretion
  • Broad categorical rules or classifications used to deny or grant an injunction are generally improper.
  • While history shows that injunctions were often granted to patent holders, and those examples may still be followed (Roberts concurring), courts must look at today’s cases to see if they match the historical cases (Kennedy concurring)
The Four Injunction Factors

• Patentee seeking a permanent injunction, must show that:

1. It will continue to suffer irreparable harm absent injunctive relief.

2. [alternative] remedies available at law, such as monetary damages, are inadequate to compensate for that injury.

3. Considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted.

4. The public interest will not be disserved by granting a permanent injunction.
Showing Irreparable Harm

- Post *eBay*, irreparable harm often shown where the patentee directly competes with the infringer
  - Loss of market share, price erosion, harm to reputation and loss of customer good will
  - post *eBay* – over 40 reported cases granting permanent injunctions where the patentee directly competes with the infringer (collected at APD § 32:162 Granting Permanent Injunction or Reversing Denial Thereof)
    - PatentStats.org reports overall 80 injunctions granted, 26 denied as of Oct 2, 2009

- NPEs do not compete in the market with infringers and normally want to nonexclusively license; this makes it difficult for a NPE to prove irreparable harm
Can a NPE Rely On a Presumption of Irreparable Harm?

• Federal Circuit: “It remains an open question ‘whether there remains a rebuttable presumption of irreparable harm following eBay.’” *Broadcom*, 543 F.3d 683, 702 (Fed. Cir. 2008) (quoting *Amado*, 517 F.3d 1353, 1359 n.1 (Fed. Cir. 2008))

• But ....
Presumption of Irreparable Harm Arguably Repudiated by the SCT in 1987


• eBay injunctions can only issue “consistent with traditional principles of equity”
Other Recent SCt Opns

• “Possibility” of irreparable harm, when strong likelihood of success shown is “too lenient.” *Winter v. Nat’l Resources Defense Council*, 129 S. Ct. 365, 375-76 (2008) (reversing preliminary injunction, plaintiff must “demonstrate that irreparable injury is likely in the absence of an injunction”) (italics emphasis in original)

• “When considering success on the merits and irreparable harm, courts cannot dispense with the required showing of one simply because there is a strong likelihood of the other.” *Nken v. Holder*, 129 S. Ct. 1749, 1763-64 (2009) (Kennedy, J., concurring) (stay case)

Ways for a NPE to Show Irreparable Harm

• Inability to establish a licensing program due to infringement can show irreparable harm — *Roper*, 757 F.2d at 1273.
  
  – *Telcordia Tech. v. Cisco Sys.*, 2009 WL 32717, *14-*15 (D. Del. Jan. 6, 2009) (denying injunction: RE-PHC failed to prove irreparable harm since it had been able to license its patents and was not directly competing with the infringer)

• RE-PHC may be able to show harm to its reputation
  
  – *CSIRO*, 492 F.Supp.2d 600, 604-07 (E.D. Tex 2007). *related appeal*, 542 F.3d 1363 (Fed. Cir. 2008) (granting injunction since infringement confiscated “core technology,” harmed patentee’s reputation as a technology leader, caused lost research opportunities) But see *Telcordia Tech.* and *Hynix*
Harm Suffered by Others

• NPE must personally suffer irreparable harm; can’t rely on harm suffered by non-joined licensees — *Voda*, 536 F.3d at 1329.

• Sub-PHC with manufacturing parent may be able to join the parent as the equitable owner of the patent (but just for the equitable claims) and rely on parent’s irreparable harm — See *Arachnid*, 939 F.2d at 1580.
Other Circumstances Showing Irreparable Harm

• Insolvency of infringer

• Patentee’s desire to sell, but not license, patent
  – *Joyal Prods.*, 2009 WL 512156, *11* (D.N.J. Feb. 27, 2009) (patentee ceased practicing invention due to the infringement, did not want to license, just wanted to sell the patent)
NPE’s Willingness to License

- Willingness to license *may* show that money damages are adequate — *High Tech*, 49 F.3d at 1557
- No categorical rule that willingness to license always defeats ability to show irreparable harm
  - *eBay*, 547 U.S. at 393 - those who chose to license rather than market, “such as university researchers or self-made inventors,” have the opportunity to try to prove they can “satisfy the traditional four-factor test”
  - *Acumed*, 551 F.3d at 1328 - “A plaintiff’s willingness to license its patent is not sufficient *per se* to establish lack of irreparable harm if a new infringer were licensed.” (note patentee practiced invention)
  - *Kowalski*, 2009 WL 856006, *1 (D. Hawai’i Mar. 30, 2009) (granting injunction to “self-made inventor” to preserve patent’s right to exclude even though individual licensed patents) (individual was also CEO of a competitor to the infringer) (case settled on appeal)
Willingness to License

• 3 ½ years since eBay no reported permanent injunctions to a LO-PHC

  “…BarTex may still be entitled to a permanent injunction, even though it does not practice its patent. . . . The right to exclude, even for a non-practicing entity, may be the only way to fully vindicate the patentee's ownership in the patent.”

Leverage for Licensing Talks

- Courts may be hostile to a NPE’s attempt to secure an injunction to gain undue leverage in licensing negotiations
  - Justice Kennedy’s concurring opinion in eBay singles out LO-PHCs and states:
    - When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. (547 U.S. at 396)
    - E.g. Hynix Semiconductor, 2009 WL 440473, *29 (N.D. Cal. Feb. 23, 2009) (denying injunction where court had a “firm conviction” RE-PHC was seeking the injunction as a “holdup” to enhance its negotiating power with the infringer)
Ongoing Royalty in Lieu of an Injunction

• “Ongoing royalty for patent infringement in lieu of an injunction may be appropriate” – *Paice*, 504 F.3d at 1314-15

• NPEs may lose negotiating leverage if a court sets the ongoing royalty rate in first instance
  – *Paice* (Rader concurring) – parties should have first opportunity to negotiate the ongoing royalty rate before a court sets a rate DCT sets ORR after parties failed to agree, 2009 WL 1035218, *3-*9 (E.D. Tex. Apr. 17, 2009)
Having Jury set the Rate

- Judge Clark in the E.D. Tex. – over parties’ objections had the jury determine an on-going royalty rate (ORR) for future infringement before he ruled on whether he would grant or deny a permanent injunction in

Would a judge be predisposed to deny a permanent injunction if the jury has returned a verdict on a ORR?  
No if its Judge Clark, in both *Ariba* and *Cummins*, Judge Clark entered a permanent injunction.
Preliminary Injunctions

- NPE faces same irreparable harm proof challenges as with permanent injunctions
- Dictum in *Abbott Labs* may further tip the scales against a LO-PHC
  
  - Precedent illustrates that when the patentee is simply interested in obtaining licenses, without itself engaging in commerce, equity may add weight to permit infringing activity to continue during litigation, on the premise that the patentee is readily made whole if infringement is found. . . . At the preliminary injunction stage, the legal and equitable factors may be of different weight when the patentee is itself engaged in commerce, as contrasted with a patentee that is seeking to license its patent to others. (544 F.3d at 1362)
Exclusion Order at the ITC

• Domestic Industry - an industry in the U.S. must exist or “is in the process of being established.” 19 U.S.C. § 1337(a)(2)

• An industry exists where there has been
  – (A) significant investment in plant and equipment;
  – (B) significant employment of labor or capital; or
  – (C) substantial investment in its exploitation, including engineering, research and development, or licensing. 19 U.S.C. § 1337(a)(3)
NPEs in the ITC

• NPE likely can show a domestic industry if its
  – Sub-PHC having a related US manufacturer
  – RE-PHC doing its R & D in the U.S.
  – LO-PHC with an established license base

• A developing issue for LO-PHCs not having a preestablished licensing program
  – *In re Certain Electronic Devices Including Handheld Wireless Communications Devices* (337-TA-667 (Filed Dec. 19, 2008) and 337-TA-673 (filed Feb. 23, 2009)) (the two proceedings consolidated on Apr. 23, 2009 with a target date extended to June 24, 2010)), brought by Saxon Innovations, LLC’s.
Stay Pending Reexamination

• Stay should be denied if delaying the trial would unduly prejudice the nonmovant

• A patentee that directly competes with the accused infringer often can show undue prejudice from a stay if it can show it’s losing market share or other harm from the continued alleged infringement

  – *02 Micro Intern.*, 2008 WL 4809093, *2 (E.D. Tex. Oct. 29, 2008) ("The parties are direct competitors in the market and a denial of timely enforcement of the plaintiff’s patent rights does indeed unduly prejudice the plaintiff.")
Prejudice to NPE from Delay

• Courts may find that an award of money damages and prejudgment interest will make the NPE whole, so no undue prejudice from a stay
  – *Implicit Networks*, 2009 WL 357902, *3-*4 (W.D. Wash. Feb. 9, 2009) (“since Implicit is a technology licensing company, monetary damages can adequately compensate it for any potential infringement”)
  – *Roblor Mktg. Gp.*, 2008 WL 5210946 (S.D. Fla. Dec. 11, 2008) (as a PHC that did not make a product, patentee would not be harmed by a limited stay)
    • See APD § 25:134.50 Granting Stay in Part Because Patentee Did Not Practice the Invention
  – *BarTex Research*, 611 F. Supp. 2d 647, 651-52 (E.D. Tex. Apr. 20, 2009) (denying stay since 6.5 year possible delay in NPE being able to enforce its patent rights was undue prejudice)
Failure to Move for a PI

• Failure to move for a preliminary injunction can be cited as a factor to show lack of undue prejudice
  – (See APD § 25:134.60 Granting Stay and Noting Patentee Had Not Sought, or Had Been Denied, a Preliminary Injunction)

• NPEs inability to show irreparable harm for a preliminary injunction may also hinder its ability to resist a stay
Substantive Merits of Reexam

• If NPE can’t show undue prejudice, perhaps it can attack the substantive merits of the requested stay
  – Should not stay unless there is a “substantial patentability issue” - *Procter & Gamble*, 549 F.3d at 849 (Fed. Cir. 2008)
  – District courts do not appear to be undertaking this analysis for initial stay request
Stay May Depend More on Which Forum than NPE Status

- Stays are left to court’s discretion
- Some courts appear more predisposed to denying or granting a stay than others
  - Matthew Smith study:
    - E.D. Tex. denies 80% of stay requests
    - D. Del. and C.D. Cal. deny 65% of stay requests
    - N.D Ill., S.D. Cal, N.D. Ga. grant 85% of stay requests
  - Note local rules of N.D. Ill. prohibit seeking a stay after Final Invalidity contentions are submitted “absent exceptional circumstances” LPR 3.5
Resisting Venue Transfers

• “Center of Gravity” & “Home” forum

  – “In patent infringement cases the preferred forum is that which is the ‘center of gravity’ of the accused activity”

  – “A transfer of venue for the convenience of the parties normally requires that the court give great weight to the plaintiff’s choice of forum and then weigh the convenience of both parties.” Hollyanne Corp. v. TFT, Inc., 199 F.3d 1304, 1307 n.2 (Fed. Cir. 1999).

NPE Brings Suit in Home Forum

- NPE has employees working in the forum, “home” forum status can have some weight
  - *WiAV Solutions LLC v. Motorola, Inc.*, 2009 WL 3414612, *3-*4 (E.D. Va. Oct. 20, 2009) (that NPE performed its licensing activities from its office in the forum showed the case had “a significant connection to the chosen forum” - denying transfer)
  - *Acceleron, LLC v. Egenera, Inc.*, 634 F. Supp. 2d 758, 768 (E.D. Tex. June 9, 2009) (giving weight to home forum status where NPE had one employee who worked for the company and resided in the forum as one of the reasons for denying transfer)
NPE formed to Forum Shop

- NPE formed in forum just to secure venue, no weight for “home” forum status

  - *Surfer Internet Broadcasting*, 2008 WL 1868426 (D. Miss. 2008) (transferring venue where PHC formed in forum 7 days before filing suit, no employees in forum, forum had limited interest in suit)

  - *Gemini IP Tech.*, 2007 WL 2050983 (W.D. Wis. 2007) [the new “patent magnet” due to docket speed] (transferring where the PHC was established in the forum to manufacture venue)

  - *Broadcast Data Retrieval*, 79 USPQ2d 1603 (C.D. Cal. 2006) (transferring venue and giving “minimal deference” to PHC’s choice of forum since formation of PHC in forum 3 weeks before filing suit appeared to be an attempt to forum shop)

Recent Fed. Cir. Transfer Cases

• *In re TS Tech USA Corp.*, 551 F.3d 1315, 1321 (Fed. Cir. Dec. 29, 2008) (granting mandamus)
  – E.D. Tex. “clearly abused its discretion in refusing to transfer to Ohio, accused infringer’s home forum, where no offices of the parties, sources of proof, or witnesses were located in the forum
  – Therefore, the ED Tex had “no meaningful ties to the case”
  – Accused products sold in forum where infringement is nationwide does not establish a meaningful tie to the forum

• *In re Genentech, Inc.*, 566 F.3d 1338, 1348 (Fed. Cir. 2009) (granting mandamus)
  – E.D. Tex. abused discretion in refusing to transfer to ND. Cal., accused infringer’s home forum, where no offices of the parties, sources of proof, or witnesses were located in the forum, and court misapplied 5th Circuit’s transfer factors
Impact of TS Tech & Genentech

• ED Texas transferring more cases
  – Where case appears to be a regional dispute, i.e., majority of parties located in the same region of the U.S., ED Texas is transferring cases
    • *Orinda Intellectual Properties USA Holding Group, Inc. v. Sony Corp.*, 2009 WL 3261932, *4* (E.D. Tex. Sept. 29, 2009) (transfer to N.D. of Cal., parties had their principal offices in California and Japan, no sources of proof in the forum, the forum had no connection with the suit other than that some infringing activity was done in the forum)
    • *Digital-Vending Services, Intern. LLC v. Univ. of Phoenix, Inc.*, 2009 WL 3161361, *3-*5* (E.D. Tex. Sept. 30, 2009) (granting patentee’s alternative motion to transfer case to the E.D. VA, the patentee’s home forum, since the Texas forum had no ties to the litigation as the accused infringers were in Arizona and Minnesota)
  
• More cases collected at APD § 36:182 Cases Transferring Patent Action
Impact Beyond ED Texas

- Transfer governed by Regional Circuit law, courts outside 5th Circuit treat *TS Tech* as being non-binding.
- W.D. Wis. appears to have effectively dismissed *TS Tech* as being a 5th Cir. case, and instead analyzes the patentee’s need for speed – does a PHC truly need speed?
  - *Wacoh v. Chrysler*, 2009 WL 36666, *4-*5 (W.D. Wis. Jan. 7, 2009) (transferring since PHC would not be harmed by a transfer to a slower docket because it was not practicing the patented invention)
  - *Ledalite Architectural Prods. v. Pinnacle Architectural Lighting*, 2009 WL 54239, *3-*4 (W.D. Wis. Jan. 7, 2009) (denying transfer where patentee directly competed with the accused infringer even though patentee had no ties to the forum since patentee showed need for the forum’s speed)
  - *Deb Worldwide Healthcare*, 2008 WL 2035529, *1-*2 (W.D. Wis. May 9, 2008) (transferring where patentee had no connection with the forum and only chose the forum for its speed)
Judicial Efficiency & Venue

• Multiple suits concerning the same patent
  – “[T]he existence of multiple lawsuits involving the same issues is a paramount consideration when determining whether a transfer is in the interest of justice.” In re Volkswagen of Am., Inc., 566 F.3d 1349, 1351 (Fed. Cir. 2009) (denying mandamus for refusing to transfer)

• Many courts deny transfer where another suit brought by the NPE on the same (or similar) patent is pending in the forum (see APD § 36:172.30 – Cases Finding Judicial Economy Favored Denying Transfer)
Filing Paradigm for NPEs

• Name many different defendants in same suit including defendants that
  – are geographically diverse
  – reside in the forum even if they only have small part in the accused acts (e.g., customer or small distributor)
  – for which likely transferee forum may not have personal jurisdiction

• Raises issue of Rule 21 joinder and severance
    (severing small Texas businesses added to suit by an amended complaint and transferring suit)

• Alternatively, file multiple suits in forum with the strongest case to resist transfer filed first
Overall Conclusions

• By not practicing the patented technology, a NPE may have difficulty:
  – proving entitlement to lost profit damages
  – showing irreparable harm for an injunction
  – showing harm to avoid procedural maneuvers

• Categorical rules should not be applied:
  – Impact of not commercially making or selling should be evaluated on a case-by-case basis taking into account the specifics of the relationships a NPE has with its licensees or family related corporations
Questions

Thank you – I hope you enjoyed the presentation.

ROBERT A. MATTHEWS, JR.
Matthews Patent-Law Consulting
ram@MatthewsPatentLaw.com
434-525-1141