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# The Restricted Scope of Patent Infringement Remedies Available to "Non-Practicing" Patent Owners

By

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## I. Introduction

"Non-practicing" patent owners, as the name implies, do not commercially practice the patented technology they own. These entities come in many forms and sizes. The most notorious form of a non-practicing entity, the licensing-only patent holding company (pejoratively denominated the "patent troll"), does not commercially practice or create *any* technology. Instead, it has as its primary, if not sole, business function the mission to acquire patents that the company can assert against established businesses as a means of generating licensing revenues. Other common forms of non-practicing entities include 1) patent-holding companies created as a part of commercial manufacturing entity's corporate family; and 2) commercial or educational research entities. Affiliate patent-holding companies generally maintain and may license the patents the manufacturing entity obtained as a result of product development efforts. Commercial or educational research entities often patent new technology created through the entity's research and development efforts. These entities may license their patents as a means to fund further research.

The scope of compensatory and injunctive remedies available to a patent holder for patent infringement can depend on whether the patent holder commercially practices the patented technology or a technology that at least competes with the patented technology. This article discusses the scope of remedies available to these three forms of non-practicing entities and how under the current state of the law these entities generally may not recover the full scope of remedies available to patent holders who practice their patented technology.

## II. Lost Profit Compensatory Damages

With the enactment of the 1952 Patent Act, patent law switched from awarding the patentee a disgorgement of the accused infringer's profits, a remedy based in equity, to awarding the patentee "damages adequate to compensate for the infringement," a remedy based at law. 35 U.S.C. § 284. Typically, patentees assert that the profits they lost due to the infringement serve as the proper measure of damages necessary to adequately compensate them for infringement. To the extent a patentee cannot prove entitlement to lost profits,[1] it normally seeks a recovery based on a reasonable royalty.

Under well-settled law, a patentee must make or sell a product or service that competes with the infringed patented technology to recover lost-profit damages.[2]

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[1] *See generally*, Robert A. Matthews, Jr., ANNOTATED PATENT DIGEST § 30:22 Standards for Proving Lost Profits – the "But For" Test and the *Panduit* Factors [hereinafter APD].

[2] *See generally*, APD § 30:25 Patentee Must Actually Market a Product, Not Necessarily the Patented Product.

Thus, the Federal Circuit has explained that "[n]ormally, if the patentee is not selling a product, by definition there can be no lost profits."[3] Since non-practicing entities do not make or sell a commercial product, these entities do not have a basis to assert a claim for lost profits based on their own activities, and therefore, typically, must settle for reasonable royalty damages.

Attempting to avoid the loss of lost-profit damages, a non-practicing entity may contend that the profits lost by an entity with whom the patentee has some form of a relationship are recoverable to the patentee. For example, in the case of a patent-holding company created as an affiliate of a commercial manufacturing entity, the holding company may argue that it can recover the profits its manufacturing parent or a sister corporation lost due to the infringement. So far the case law rejects this approach since the theory of recovery violates principles of corporate separateness and standing to pursue patent infringement claims. Illustrating this, the Federal Circuit held in *Poly-America, L.P. v. GSE Lining Tech., Inc.*, that profits lost by a manufacturing corporation, which is a sister corporation to the patentee, from a third party's patent infringement do not constitute profits lost by the *patentee*.[4] Applying traditional corporate law, the Federal Circuit explained that where a business has set up related corporations as separate legal entities the business "must take the benefits with the burdens." Consequently, the corporations "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."[5] *Poly-America* makes clear that a patent-holding company may not assert as its own the lost profits of a separate corporation merely because the patentee has a relationship with that corporation.

Should the parent or sister corporation, or even an unrelated licensee, hold an *exclusive* license to the asserted patent, that entity may join the patent-holding company in the infringement suit, and assert a claim for lost profits based on its *own* rights in the patent via the exclusive license.[6] Indeed, Federal Circuit law holds that all exclusive licensees normally must join the patentee in an infringement suit.[7] But if the parent or sister corporation, or licensee, only holds a *nonexclusive* license, it will *not* have standing to join the patent-holding company in an infringement suit,[8] and thus it will have no right to make any claim for money damages no matter how greatly the infringement caused it to suffer economic losses.[9]

The Federal Circuit reaffirmed in *Mars, Inc. v. Coin Acceptors, Inc.*, that patent-holding companies normally may not recover lost-profit damages based on the profits lost by a nonexclusive licensee even if the licensee is a subsidiary of the patentee.[10] But the Federal Circuit also made some interesting comments regarding an alternate theoretical possibility that would permit a patentee to recover damages equal to the profits lost by a nonexclusive licensee. The Federal Circuit noted that the Patent Act's

[3] *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1548 (Fed. Cir. 1995) (*en banc*).

[4] 383 F.3d 1303, 1311 (Fed. Cir. 2004).

[5] *Id.*

[6] *See generally*, APD § 30:65 Exclusive Licensee can Recover its Lost Profits.

[7] *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1344 (Fed. Cir. 2006); *see generally*, APD § 9:41 —Exclusive Licensee as Co-Owner.

[8] *See generally*, APD § 9:66 Bare Licensees Have No Standing to Sue.

[9] *Poly-America*, 383 F.3d at 1311-12; *see generally*, APD § 30:67 Nonexclusive Licensee Cannot Recover its Lost Profits; see also Robert A. Matthews, Jr., *A Potential Hidden Cost of a Patent-Holding Company*, 32 AIPLA Q.J. 503, 528-52 (2004).

[10] 527 F.3d 1359, 1366-67 (Fed. Cir. 2008), *cert. denied*, No. 08-563 (Dec. 1, 2008).

provision that a patentee is entitled to "damages adequate to compensate" it for infringement is not necessarily limited to the traditional lost profits or reasonable royalty measure of damages.[11] Thus, the Federal Circuit noted the *possibility* that a patent holding company could recover damages measured by the profits lost by an entity the holding company has a relationship with if the holding company can show that the profits the entity lost due to the infringement would have "flow[ed] inexorably" to the patentee.[12] Under the factual circumstances, however, the Federal Circuit found that the patentee failed to prove that the profits of its subsidiary/nonexclusive licensee inexorably flowed to it because the subsidiary paid the patentee the same royalty rate regardless whether the subsidiary made any profits or suffered losses.[13] Consequently, the Federal Circuit concluded that it did not have to decide conclusively whether patent law permits a patentee to recover its nonexclusive licensee's lost profits where those profits inexorably flow to the patentee.[14]

Post *Mars*, district courts have recognized the theory that a patentee may seek to recover the lost profits of a related corporation if those profits flow inexorably to the patentee.[15] But like the Federal Circuit, these courts have concluded that "[m]ere ownership and control [of the subsidiary] is insufficient to prove that profits flowed inexorably from a subsidiary to a parent."[16]

While *Mars* discussed the lost-profits issues for related corporations, the court's rationale to permit recovery of profits that "flow inexorably" to the patentee seems, theoretically, applicable to any entity with whom the patentee may have a commercial relationship, such as an unrelated nonexclusive licensee and a LO-PHC.

In view of *Mars*, "lost royalties" may also be another theory a patent holding company may argue as a means to recover damages greater than a reasonable royalty in some special circumstances. To the extent that a patentee can show that but for the infringement its nonexclusive licensee would have made the sales made by the infringer, and the nonexclusive licensee would have paid the patentee a specific royalty on those sales, the patentee should be entitled to recover that "lost royalty."[17] The patentee should be entitled to the lost royalty recovery even if the effective royalty rate of the lost royalties would not legally qualify as an established royalty rate and would be higher than a rate determined under the hypothetical negotiation approach. It is also possible that a "market share" approach, typically applied in determining lost profits,[18] can apply to assessing lost royalties where the nonexclusive licensee would only have made a portion of the infringer's sales.

## III. Injunctive Relief

Under the current case law, non-practicing entities have a more difficult time

[11] *Id.*, 527 F.3d at 1366.

[12] *See id.*, 527 F.3d at 1367.

[13] *Id.*, 527 F.3d at 1367.

[14] *Id.*

[15] *E.g.*, *Kowalski v. Mommy Gina Tuna Resources*, 574 F. Supp. 2d 1160, 1162-63 (D. Hawai'i 2008). Even before *Mars* at least one district court reached the conclusion that a patentee should have a chance to prove that profits lost by a nonexclusive licensee/subsidiary because of infringement directly damaged the patentee, and the patentee could recover those damages. *SEB, S.A. v. Montgomery Ward & Co.*, No. 99 Civ. 9284(SCR), 2006 WL 59524, *8-*9 (S.D.N.Y. Jan. 9, 2006).

[16] *Kowalski*, 574 F. Supp. 2d at 1163.

[17] *BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc.*, 1 F.3d 1214, 1219 (Fed. Cir. 1993) ("With regard to royalties, Windsurfing is entitled to receive lost royalties (on amounts Windsurfing's licensees would have paid 'but for' the infringement) and reasonable royalties (on amounts of any other BIC use, if any, of the patented invention).");

[18] *See generally*, APD § 30:43 —Market Share Approach.

in proving entitlement to an injunction than a patentee who makes and sells a product that directly competes with the accused infringer's product. As shown below, the increased difficulty applies to both permanent and preliminary injunctions.

### A. No Automatic Grant of Permanent Injunctive Relief

In *eBay, Inc. v. MercExchange, L.L.C.*, the Supreme Court rejected the application of broad categorical rules for issuing a permanent injunction in a patent case.[19] It thus rejected the Federal Circuit's view that as a "general rule … an injunction will issue when infringement has been adjudged, absent a sound reason for denying it."[20] Accordingly, under *eBay*, to obtain a permanent injunction against future infringement a patentee must prove entitlement to the injunction by satisfying the traditional four-factor test[21]; including showing that it will suffer irreparable harm if the court does not grant the requested permanent injunction. – the "Achilles Heel" for may non-practicing entities efforts to obtain injunctive relief.

### B. Death of the Presumption of Irreparable Harm

Non-practicing entities may be tempted to argue that a presumption of irreparable harm still applies in view of some panels of the Federal Circuit stating that "[i]t remains an open question 'whether there remains a rebuttable presumption of irreparable harm following *eBay*[.]'"[22] While it is true that *eBay* did not expressly address whether a presumption of irreparable harm could apply, other cases from the Supreme Court cast serious doubt on the ability to apply a presumption of irreparable harm to meet a plaintiff's proof burden for injunctive relief.[23] For example, in *Amoco Prod. Co. v. Village of Gambell, Alaska*, one of the Supreme Court opinions relied on by the *eBay* Court to identify the traditional principles for issuing an injunction,[24] the Court held that presumptions of irreparable harm are "contrary to traditional equitable principles."[25] Although *Amoco* issued in 1987, the Federal Circuit has yet to substantively address its impact on the question of whether a court may ever presume irreparable harm.

Other recent cases from the Supreme Court cast further doubt on the ability to presume irreparable harm. For example in *Winter v. Natural Resources Defense Council*,[26] the Court rejected the contention that a strong showing of likelihood of success on the merits permitted a district or appellate court to grant a preliminary injunction based on a showing of a mere "possibility" of irreparable harm. The Court held that the "'possibility' standard is too lenient."[27] In his concurring opinion handed down in April of this year, Justice Kennedy stated in *Nken v. Holder*, that "[w]hen 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."[28] In *Shinseki v. Sanders*, a non-patent and non-injunction case, but one yet again reversing the Federal Circuit, the Court stated that it

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[19] 547 U.S. 388, 392-94 (2006).

[20] *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989).

[21] *eBay*, 547 U.S. at 391-92. *See generally*, APD § 32:159 Standards for Granting Permanent Injunctions.

[22] *Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683, 702 (Fed. Cir. 2008) (quoting *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1359 n.1 (Fed. Cir. 2008)).

[23] *See generally*, APD § 32:64 Questions Regarding Legality of the Presumption.

[24] *eBay*, 547 U.S. at 391.

[25] 480 U.S. 531, 544-45 (1987).

[26] 129 S. Ct. 365, 375-76 (2008).

[27] *Id.*

[28] 129 S. Ct. 1749, 1763-64 (2009) (making statement in the context of determining whether to grant a stay pending appeal, but not that the stay factors used the same factors for assessing injunctive relief).

disfavored the use of "mandatory presumptions and rigid rules rather than case-specific application of judgment."[29]

Even without the recent cases of *Winter*, *Nken* and *Shinseki*, several district courts have concluded that, after *eBay,* a presumption of irreparable harm no longer applies for permanent injunctions in patent cases.[30] Thus, the ability of a non-practicing patent owner to rely on the presumption of irreparable harm to meet its proof burden for obtaining a permanent injunction seems very remote under the current legal landscape.

### C. Proving Irreparable Harm

A patentee who competes in the market directly with an infringer often can show that if infringement continues, the patentee will suffer injuries in the form of loss of market share, price erosion, loss of customer good will and harm to its reputation (especially if the infringing product is of an inferior quality compared to the patentee's product). Courts typically, but not always, find that they cannot accurately quantify the monetary harm from these forms of injury, and therefore these injuries can show that a patentee will suffer irreparable harm without an injunction. Not surprisingly, therefore, post-*eBay* courts often find irreparable harm sufficient to support a permanent injunction where the patentee directly competes in the market with the infringer.[31] But the trend has its exceptions. Where a patentee fails to show that the continued infringing activity by a direct competitor will irreparably harm the patentee, courts have denied permanent injunctions.[32]

Courts appear less willing to find irreparable harm where a patentee is not competing in the market, but only seeks to license its patents.[33] These courts often rationalize that the patentee's willingness to forego exclusivity given by the patent in exchange for licensing fees shows that money damages can adequately compensate the patentee for any infringement. For example in *Paice LLC v. Toyota Motor Corp.*, the district court denied a non-practicing patent-holding company a permanent injunction since the patentee failed to show irreparable harm where the patentee had expressed a willingness to license its patent to infringer.[34] In *Telcordia Tech., Inc. v. Cisco Sys., Inc.*, the district court denied a commercial research entity's

[29] 129 S. Ct. 1696, 1704-05 (2009) (making statement in the context of overruling a procedural mechanism for determining whether an agency's actions were "harmless error").

[30] *E.g.*, *MercExchange, L.L.C. v. eBay, Inc.*, No. 2:01cv736, 2007 WL 2172587, *8 (E.D. Va. July 27, 2007); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614, *5-*6 (W.D. Okla. 2006), *aff'd*, 536 F.3d 1311, 1329 (Fed. Cir. 2008); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at *4 (E.D. Tex. Aug. 16, 2006), *aff'd in part, vacated in part*, 504 F.3d 1293, 1314-15 (Fed. Cir. 2007); *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440 (E.D. Tex. 2006), *appeal dismissed*, 219 Fed. Appx. 992 (Fed. Cir. Mar. 12, 2007).

[31] *Amgen, Inc. v. F. Hoffman-La Roche Ltd.*, 581 F. Supp. 2d 160, 210-12 (D. Mass. Oct. 2, 2008) (stating the view that *eBay* has little impact on granting permanent injunctions where the patentee and infringer are direct competitors); *see also* APD § 32:162 Granting Permanent Injunction or Reversing Denial Thereof (collecting over forty cases granting permanent injunctions post-e*Bay* where the patentee competed directly with the infringer).

[32] *E.g.*, *Advanced Cardiovascular Sys., Inc. v. Medtronic Vascular, Inc.*, 579 F. Supp. 2d 554, 561 (D. Del. Sept. 26, 2008); *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 443-44 (D. Del. 2007), *on subsequent appeal*, 543 F.3d 1306, 1328 n.18 (Fed. Cir. 2008).

[33] *E.g.*, *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 WL 37742, at *2 (E.D. Mich. Jan. 4, 2007), *on subsequent proceedings*, 2007 WL 3053662, at *1 (E.D. Mich. Oct. 19, 2007), *vacated on subsequent appeal*, No. 2008-1068, 2008 WL 5351734 (Fed. Cir. Dec. 24, 2008); *Voda*, 2006 WL 2570614, at *5-*6. *See also* APD § 32:163 Refusing Permanent Injunction or Reversing Grant Thereof.

[34] No. 2:04-CV-211-DF, 2006 WL 2385139, at *5-*6 (E.D. Tex. Aug. 16, 2006), *aff'd in part, vacated in part*, 504 F.3d 1293, 1314-15 (Fed. Cir. 2007).

request for a permanent injunction since it found that the patentee failed to prove it would suffer irreparable harm where the evidence showed that the patentee had been able to license its patents to two licensees despite the defendant's infringement.[35] The court stating "Telcordia's willingness to forego its patent rights for compensation, while not dispositive, is one factor for the court to consider in its irreparable harm analysis."[36]

Nonetheless, both the Supreme Court and the Federal Circuit have rejected the notion that a patentee's willingness to license its patent must always bar injunctive relief. In *MercExchange, L.L.C. v. eBay, Inc.*, the underlying opinion to the Supreme Court's *eBay* opinion, the Federal Circuit stated that patentees who choose to license, rather than to practice, have an equal right to an adequate remedy to enforce their patent rights as those patentees who choose to practice the patented technology.

> The fact that MercExchange may have expressed willingness to license its patents should not, however, deprive it of the right to an injunction to which it would otherwise be entitled. Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well.[37]

Apparently accepting this view, the Supreme Court instructed in *eBay* that "some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so."[38]

Post-*eBay*, the Federal Circuit held in *Acumed LLC v. Stryker Corp.*, that a patentee's decision to license a first party did not show the patentee would not suffer irreparable harm if a new infringer joined the market since "[a]dding a new competitor to the market may create an irreparable harm that the prior licenses did not."[39] One should note, that in *Acumed*, the patentee commercially practiced the patented technology, and had granted one license to settle a prior infringement suit and granted a second license to an entity who did not compete in the same market as the patentee. Hence, the Federal Circuit's statements regarding the addition of a new competitor to the market affecting irreparable harm should be viewed keeping this context in mind.[40]

In *MercExhange*, the Federal Circuit also stated that in its view "[i]f the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers."[41] The majority opinion from the Supreme Court did not comment on this aspect, but the concurring opinion appeared to take some issue with the Federal Circuit's view that a patentee's naked ambition to garner extra leverage in a licensing negotiation has no impact on whether to grant a permanent injunction, at least in cases

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[35] 592 F. Supp. 2d 727, 747-48 (D. Del. 2009).

[36] *Id.*

[37] 401 F.3d 1323, 1339 (Fed. Cir. 2005), *vacated*, 547 U.S. 388 (2006).

[38] *eBay*, 547 U.S. at 393.

[39] 551 F.3d 1323, 1328-29 (Fed. Cir. 2008).

[40] *Id.* *Accord Transocean Offshore Deepwater Drilling, Inc. v. Globalsantafe Corp.*, No. H-03-2910, 2006 WL 3813778, *5 (S.D. Tex. Dec. 27, 2006) (granting permanent injunction despite patentee's willingness to license where patentee also competed in the market).

[41] *MercExchange*, 401 F.3d at 1339.

where the patented component comprises a minor portion of the accused product or process. Four Justices of the Supreme Court cautioned that where the patentee is a LO-PHC, district courts should consider whether the patentee appears to be seeking an injunction as a tool to extort a high licensing fee from an infringer even though money damages would adequately compensate the patentee.

> In cases now arising, trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. 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.[42]

Applying this reasoning, the district court in *Hynix Semiconductor Inc. v. Rambus Inc.*, denied a research entity's request for a permanent injunction in part because the court had a "firm conviction" that the patentee was seeking the injunction as a "holdup" to enhance its negotiating power with the infringer.[43]

### D. Challenges for a LO-PHC to Show Irreparable Harm

From a practical view point, the case law shows that since *eBay* (a period of over three years at the time of this writing), it appears that no district court, in a published opinion, has granted a permanent injunction to a nonpracticing entity whose business model consisted solely of acquiring and licensing patents, *i.e.*, the LO-PHC. In contrast, post-*eBay* federal courts have granted over forty permanent injunctions where the patentee made or sold a product that competed with the infringing product.[44]

Additionally, the Federal Circuit has made it more difficult for a LO-PHC to demonstrate irreparable harm by holding that a patentee cannot rely on the irreparable harm allegedly sustained by its licensees as proof that the patentee will suffer irreparable harm without a permanent injunction. Affirming a denial of a permanent injunction in *Voda v. Cordis Corp.*,[45] the Federal Circuit ruled that while the patentee's non-party exclusive licensee may have suffered irreparable harm from the infringement, the patentee failed to prove that it, personally, suffered irreparable harm, and therefore the district court did not abuse its discretion in denying the requested permanent injunction.

> In this case, the district court found that Voda had not identified any irreparable injury to himself due to Cordis's infringement of his patents and also failed to show that monetary damages are inadequate to compensate for Cordis's infringement. The district court explained that Voda had attempted to prove irreparable injury by alleging irreparable harm to his exclusive licensee, rather than himself. . . . We disagree with Voda that the denial of a permanent injunction in this

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[42] *eBay,* 547 U.S. at 396-97 (2006) (Kennedy, Stevens, Souter, and Breyer, JJ., *concurring*).

[43] 2009 WL 440473, *29 (N.D. Cal. Feb. 23, 2009).

[44] *See* APD § 32:162 Granting Permanent Injunction or Reversing Denial Thereof (collecting cases).

[45] 536 F.3d 1311 (Fed. Cir. 2008).

> case conflicts with *eBay*. The Supreme Court held only that patent owners that license their patents rather than practice them '*may* be able to satisfy the traditional four-factor test' for a permanent injunction. Nothing in *eBay* eliminates the requirement that the party seeking a permanent injunction must show that '*it* has suffered an irreparable injury.' Moreover, we conclude that the district court did not clearly err in finding that Voda failed to show that Cordis's infringement caused *him* irreparable injury.[46]

While theoretically LO-PHCs have the right to seek a permanent injunction, the ability of such a company to demonstrate the requisite irreparable harm to obtain an injunction seems remote under the current case law. A LO-PHC cannot rely on the irreparable harm its nonexclusive licensees will suffer from the infringement. Instead, the holding company must show that as a result of continued infringement, the holding company's licensing program will suffer irreparable harm. Perhaps a LO-PHC can do this by showing that as a result of the continued infringement the holding company's reputation as a legitimate licensor of patents has suffered to such an extent that potential licensees refuse to consider licensing the patent for anything other than nuisance value.[47] But as shown by *Telcordia* this may not be an easy proof burden to meet.[48]

### E. On-going Royalty and Sunset Provisions

Potentially creating a further impediment for a LO-PHC to obtain a permanent injunction, the Federal Circuit has instructed that while a patentee has a "cognizable interest in obtaining an injunction to put an end to infringement of its patents ... it d[oes] not have a cognizable interest in putting [an infringer] out of business."[49] (Several contrary cases instruct that an infringer who builds its business on an infringing product does so at its own risk that an injunction will shut down and destroy the business.)[50] Consequently, courts appear receptive to ordering an "on-going" royalty, i.e. a future compulsory license, in lieu of an injunction.[51] Indeed, in *Ariba, Inc. v. Emptoris, Inc.*, the district court held that it would instruct the jury to determine, as a separate question, a royalty rate for future infringement damages in addition to a royalty rate for past damages, so that the court could use that rate in assessing whether to grant permanent injunctive relief if infringement were found, to set the amount to be paid into escrow for any stay of an injunction during an appeal, and/or to provide a benchmark for the parties to use in negotiating a post-judgment license.[52] Interestingly, the court in *Ariba* eventually ordered a permanent injunction despite having had the jury determine an on-going royalty rate.

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[46] *Voda*, 536 F.3d at 1329.

[47] *See Roper Corp. v. Litton Systems, Inc.*, 757 F.2d 1266, 1273 (Fed. Cir. 1985) ("A patentee that does not practice, and may never have practiced, his invention may establish irreparable harm . . . by showing that an existing infringement precludes his ability to license his patent or to enter the market.").

[48] *Telcordia Tech*, 592 F. Supp. 2d at 747-48 (patentee's licensing its patent to two licensees showed infringement was not irreparably harming patentee's ability to license its patent).

[49] *Verizon Service Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295, 1311 n.12 (Fed. Cir. 2007).

[50] *E.g.*, *Broadcom Corp.*, 543 F.3d at 704; *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1003 n.12 (Fed. Cir. 1986).

[51] *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314-15 (Fed. Cir. 2007); *Boston Scientific Corp. v. Johnson & Johnson*, No. C 02-0790 SI, 2008 WL 5054955, *3-*4 (N.D. Cal. Nov. 25, 2008); *see generally*, APD § 32:161 "Ongoing" Royalty in Lieu of an Injunction.

[52] 567 F. Supp. 2d 914, 916 (E.D. Tex. 2008). *Accord Cummins-Allison Corp. v. SBM Co., Ltd.*, 584 F. Supp. 2d 916, 917-21 (E.D. Tex. 2008).

Some courts have also been willing to provide for a "sunset" provision in an injunction order, which gives the accused infringer a set period of time to develop a noninfringing alternative if it would serve the public's interest.[53] Thus, in *Fresenius Med. Care Holdings, Inc. v. Baxter Int'l, Inc.,* while granting a permanent injunction, the court gave the infringer an approximate nine month "transition period" before the injunction would take effect to develop a noninfringing redesign and required the infringer to pay a 10% ongoing royalty rate to the patentee during that period.[54]

While no means dispositive, a court conditioned to consider "on-going" royalty rates and "sunset" provisions, may become subconsciously less receptive to awarding full permanent injunctive relief to a LO-PHC.[55]

### F. Special Considerations for a Subsidiary Patent Holding Company

A patent-holding company existing as a wholly owned subsidiary to a *parent* manufacturing entity may have the ability to rely on the irreparable harm sustained by its parent from the infringement by joining its parent to the suit even if the parent does not hold an exclusive license to the patent. In such circumstances, the parent's status as the equitable owner of the patent via its ownership of the subsidiary gives the parent standing to pursue *equitable* claims.[56] Accordingly, where the parent company directly competes with the infringer, it would seem that the parent company will have the possibility of obtaining a permanent injunction even if the Sub-PHC cannot obtain an injunction.

### G. Special Considerations for Research Entities

Research entities that license their patents appear to have a greater chance of demonstrating irreparable harm sufficient to obtain a permanent injunction than a LO-PHC. For example, the district court granted a permanent injunction to a foreign government sponsored research institution in *Commonwealth Scientific and Industrial Research Organisation*.[57] Under the particular circumstances of the case, the court found that the infringement confiscated core technology developed by the patentee and later used as a basis of an industry standard. The court found that permitting continued infringement would harm the patentee's reputation as a research leader and would result in lost research opportunities based on the patentee having to divert money to enforce its patents rights. In the district court's view, this showed irreparable harm that a compulsory license could not remedy.

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[53] *Broadcom Corp.*, 543 F.3d at 704;

[54] No. C 03-1431 SBA, 2008 WL 928496, *6-*7 (N.D. Cal. April 4, 2008)

[55] *See e.g., Hynix Semiconductor*, 2009 WL 440473, *30 (N.D. Cal. Feb. 23, 2009) (denying research entity's request for a permanent injunction, awarding an on-going royalty, and ordering the parties to attempt to negotiate a rate); *Telcordia Tech*, 592 F. Supp. 2d at 748 (denying patentee's motion for a permanent injunction, refusing to order a specific compulsory license, and ordering parties to negotiate an ongoing royalty rate).

[56] A parent company's equitable ownership of a patent through its ownership of the subsidiary patent-holding company does *not* give the parent standing to join its subsidiary in pursuing claims to recover *compensatory damages* for infringement. But the equitable ownership does give the parent corporation standing to join with the subsidiary to pursue claims for equitable relief. *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1578-80 (Fed. Cir. 1991); *Pipe Liners, Inc. v. Am. Pipe & Plastics, Inc.*, 893 F. Supp. 704, 706 (S.D. Tex. 1995). *See also* APD § 9:76 Parent Corporation and § 9:77 Equitable Owners.

[57] *Commonwealth Scientific and Industrial Research Organisation v. Buffalo Technology Inc.*, 492 F. Supp. 2d 600, 604-07 (E.D. Tex. June 15, 2007) (Davis, J.), *related appeal*, 542 F.3d 1363, 1386 (Fed. Cir. 2008).

## H. Preliminary Injunctive Relief

The law has long recognized that "[a] preliminary injunction is an extraordinary remedy never awarded as of right."[58] Consequently, non-practicing patentees seeking to nonexclusively license their patents may find they have an even tougher time to show entitlement to the extraordinary relief of a preliminary injunction than they have to show entitlement for a permanent injunction. Placing its heavy thumb on the denial side of the preliminary injunction scale, the Federal Circuit has stated, albeit in *dictum*, that

> [p]recedent illustrates that when the patentee is simply interested in obtaining licenses, without itself engaging in commerce, equity may add weight to permitting 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.[59]

The Federal Circuit's position in *Abbott* may have its origins in the jurisprudence that a patentee's choice not to commercially practice the patented invention tends to negate a finding of irreparable harm,[60] as may a patentee's willingness to grant nonexclusive licenses.[61]

*Abbott* also suggests that even if a presumption of irreparable harm has survived post *eBay* (an unlikely, but yet unsettled, issue)[62], the Federal Circuit likely would not approve of applying a presumption of irreparable harm to a LO-PHC.

## I. Seeking Relief in the ITC

In the wake of *eBay*, and the increased burdens it imposes on proving irreparable harm, patentees appear to be turning to the United States International Trade Commission (ITC) since the ITC can issue a general or limited exclusion order for a Tariff Act violation without regard to whether the patentee shows irreparable harm.[63] To show a Tariff Act violation and obtain an exclusion order, a patentee must not only show the imported product infringes its patent, it must also show that a domestic industry for the patented technology exists in the United States or is in the process of being established.[64] Under the statute, a patentee can show a domestic industry exists if it can show that "with respect to the articles protected by the patent" there has been in the United States "(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."[65]

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58 *Winter*, 129 S. Ct. at 376. *See generally*, APD § 32:19 Extraordinary Remedy Not to be Routinely Granted.

59 *Abbott Labs v. Sandoz, Inc.*, 544 F.3d 1341, 1362-63 (Fed. Cir. 2008) (affirming preliminary injunction where patentee practiced the invention even though the patentee had licensed two other generic competitors, since the additional market share loss and price erosion the patentee was likely to suffer based on the accused infringer's sales created irreparable harm).

60 *High Tech Medical Instrumentation*, 49 F.3d at 1556 ("Although a patentee's failure to practice an invention does not necessarily defeat the patentee's claim of irreparable harm, the lack of commercial activity by the patentee is a significant factor in the calculus."). *See generally*, APD § 32:53 Patentee Not Practicing the Invention.

61 *See generally*, APD § 32:50 Patentee's Licensing Activity.

62 *See generally* APD § 32:64 Questions Regarding Legality of the Presumption (analyzing issue and collecting cases)

63 *See generally*, APD § 10:123 Exclusion Orders; *see also* APD § 10:120 Prohibited Importation Due to Patent Infringement..

64 19 U.S.C. § 1337(a)(2). *See generally*, APD § 10:121 The Requirement of a Domestic Industry.

65 19 U.S.C. § 1337(a)(3).

The requirement of showing a domestic industry may provide a potential obstacle to a non-practicing patent owner's ability to assert successfully a claim in the ITC proceeding. U.S.-based research entities and patent holding companies having affiliated commercial manufacturing entities likely will be able to show investments in plant and equipment, employment of labor or capital, or research and development efforts, sufficient to show a domestic industry. But a LO-PHC may not have this ability since it usually employs only a handful of employees, if any, and does not significantly invest in working plants or equipment, and does not engage in research and development.

Case law has yet to fully address what circumstances, if any, will permit a LO-PHC to show a domestic industry. A LO-PHC that has a significant number of licensees under the asserted patent may be able to show a domestic industry under the statute's prong of exploiting the patent through licensing. As of the drafting of this paper, however, the Federal Circuit and the ITC have not yet provided definitive guidance to know how many licenses suffice to show a "substantial investment" in licensing as required by the statute. Similarly, the case law has not yet addressed what level of licensing efforts may show that a domestic industry "is in the process of being established" as required by the statute.[66] At least two cases brought by a licensing only patent holding company are currently pending before the ITC, so perhaps the law will soon develop in this area.[67]

# IV. Conclusion

Although the Patent Act does not on its face treat the scope of remedies available for non-practicing patent owners different from practicing patent owners, the fact that a non-practicing owner does not commercially practice a patent can impose substantial challenges on the patent owner's ability to obtain injunctive relief or lost profit damages for patent infringement. Nonetheless, legal practitioners should avoid the temptation to lump all non-practicing entities into a single group and apply categorical rules about the availability or unavailability of injunctive relief or lost profits compensatory damages. Rather, each non-practicing entity needs to be examined individually to ascertain whether the specific facts of the case will permit the non-practicing entity to prove irreparable harm sufficient to sustain an injunction or prove economic circumstances that permit an award of lost profit damages.

## About the Author

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[66] 19 U.S.C. § 1337(a)(2).

[67] *E.g. 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.