

Legal Nuances When a Patent-Holding Company Seeks to Enforce a U.S. Patent

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ANNOTATED PATENT DIGEST
PATENT JURY INSTRUCTION HANDBOOK

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What Makes a PHC Different?

- ▣ PHCs do 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

Three General Forms of PHCs

■ Licensing Only PHC (LO-PHC)

- Acquires patents for licensing, usually does not create the patented technology

■ Corporate Related PHC (Sub-PHC)

- Administratively maintains, enforces and licenses patents covering technology developed by a related corporation (usually a manufacturer/seller)

■ Research Entity (RE-PHC)

- Commercial or educational R&D entity that patents the results of its R&D and uses the licensing revenues to fund further R&D

Lost Profit Damages

- A patentee or exclusive licensee that sells a product may suffer lost profits from diverted sales caused by the infringement
- Because a PHC does not make or sell a product it does not *personally* suffer lost profits from infringement
 - *Rite-Hite* – where patentee does not sell a product, “by definition” it does not suffer lost profits
- A PHC who has licensed its patent may suffer lost royalties
 - Lost royalties may be an alternative damages theory to a traditional reasonable royalty award

Can a Sub-PHC recover as its own the profits lost by a related manufacturing corporation?

■ *Poly-America*

- 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.”

■ Thus, a Sub-PHC normally cannot claim as its own the profits lost by a related corporation

May the PHC join the related manufacturing corporation?

- Related corporation holds **exclusive** rights in the patent it can and usually **must** join the PHC in prosecuting the suit
 - *Aspex Eyewear* – patentee must join all exclusive licensees
- Related corporation holds only nonexclusive rights it may not join
 - *Ortho Pharm* – A nonexclusive license has no standing to recover damages for any economic harm caused by infringement

What's the bottom line where the related corporation only holds a nonexclusive license?

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

Can a LO-PHC recover the profits lost by any of its nonexclusive licensees?

- Under *Poly-America*, a PHC may not claim as its own the profits lost by its nonexclusive licensee
- Under *Ortho Pharm*, a nonexclusive licensee can't join the PHC
- Thus, as a general matter, a LO-PHC may not recover profits lost by its nonexclusive licensees

Any exceptions?

- *Mars v. Coin Acceptors* – Noting a possibility that if profits of a nonexclusive licensee “**inexorably flow**” to a PHC, the PHC may be able recover those lost profits
 - 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
 - If the PHC is the parent of the licensee, the parent/subsidiary relationship does not prove the licensee’s profits “inexorably flow” to the PCH
 - To date, no reported cases awarding lost profits under this theory

Permanent Injunctions

- *eBay* – Patentee must prove four factors to obtain a permanent injunction including:
 - It will suffer irreparable harm w/o injunction
 - Money damages are inadequate to make it whole
- 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 30 reported cases granting permanent injunctions where the patentee directly competed with the infringer
- PHCs do not compete in the market with infringers and normally want to nonexclusively license; this makes it difficult for a PHC to prove irreparable harm

Ways to Show Irreparable Harm

- Inability to establish a licensing program due to infringement can show irreparable harm – *Roper*
 - *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* (E.D. Tex) (granting injunction since infringement confiscated “core technology,” harmed patentee’s reputation as a technology leader, caused lost research opportunities)
- PHC must personally suffer irreparable harm; can’t rely on harm suffered by non-joined licensees – *Voda*
- 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 – *Arachnid*

Willingness to License

- Willingness to license *may* show that money damages are adequate – *High Tech*
- No categorical rule that willingness to license always defeats ability to show irreparable harm
 - *eBay* - 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 v. Stryker* (Fed. Cir. Dec. 30, 2008) - “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)
- But, in the 2½ years since *eBay*, there appear to be no reported opinions granting a permanent injunction to a LO-PHC

Leverage for Licensing Talks

- ▣ Courts may be hostile to a PHC'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:
 - ▣ 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 ... can be **employed as a bargaining tool to charge exorbitant fees** ... 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**.

Ongoing Royalty in Lieu of a Permanent Injunction

- “Ongoing royalty for patent infringement in lieu of an injunction may be appropriate” - *Paice*
 - *Ariba and Cummins* (E.D. Tex) - requiring jury to determine a royalty rate for future infringement before the court ruled on whether it would grant or deny a permanent injunction
- “Sunset” provision whereby infringer given a period of time to develop a noninfringing redesign before a permanent injunction takes effect - *Broadcom*
- PHCs may lose negotiating leverage if 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
 - *Telcordia Tech*, 2009 WL 32717, *15 (ordering parties to negotiate ongoing royalty rate)

Preliminary Injunctions

- Challenges for a PHC to show irreparable harm for a permanent injunction apply to obtaining a preliminary injunction
- 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.

Can a PHC Seek an 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)
- A U.S. Sub-PHC or RE-PHC may be able show a domestic industry
- A developing issue for LO-PHCs

Stay Pending Reexamination

- Stay may be denied if delaying the trial would unduly prejudice the nonmovant
- A patentee that directly competes with the accused infringer can show undue prejudice from a stay if it can show it's losing market share or other harm from the continued alleged infringement
- For PHCs, courts may find that an award of money damages and prejudgment interest will make the PHC whole, so no undue prejudice
 - *Yodlee v. Ablaise*, 2009 WL 112857 (N.D. Cal. Jan. 16, 2009) (granting stay – patentee only sought money damages)
 - *Roblor Mktg. Gp. v. GPS Indus.*, 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)
- If PHC 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)

Transfer of Venue

- Bringing suit in “home” forum has significant weight in resisting a transfer of venue under § 1404(a)
- If PHC formed to forum shop, courts may give little, if any, weight to the alleged “home” forum status
 - *Surfer Internet Broadcasting* (D. Miss.) (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.* (W.D. Wis.) [the new “patent magnet” due to docket speed] (transferring where the PHC was established in the forum to manufacture venue)
 - *Broadcast Data Retrieval* (C.D. Cal.) (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)
- Courts hostile if Sub-PHC formed to force accused infringer to have to file its infringement counterclaim in a different forum - *Collaboration Prop.* (N.D. Cal.)

Impact of *TS Tech*

- In *TS Tech* Fed. Cir. found that the E.D. Tex. “clearly abused its discretion in denying transfer for a venue with **no meaningful ties** to the case”
 - Too soon to know how the standard of “meaningful ties” to the forum will be evaluated for PHCs
 - If PHC only has a minimal physical presence in forum, perhaps it lacks “meaningful ties” with the forum
- 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)

Conclusions

- By not practicing the patented technology, a PHC 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 PHC has with its licensees or family related corporations

Questions?

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