

## LEGAL NUANCES WHEN A PATENT-HOLDING COMPANY SEEKS TO ENFORCE A U.S. PATENT

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### ABSTRACT

Patent-holding companies now comprise a notable portion of the plaintiffs bringing suits to enforce patent rights. Yet the patent-holding company faces challenges in enforcing its patents not faced by traditional patent owners. The non-practicing nature of the holding company can limit the scope of remedies the holding company may successfully pursue, specifically in the area of lost-profit compensatory damages and injunctive relief. It also impacts various procedural aspects of a case, including personal jurisdiction for purposes of a declaratory judgment, the ability to assert a “home” forum to avoid a transfer of venue and the patent-holding company’s ability to resist a motion to stay infringement litigation pending a reexamination proceeding. The facts relating to each holding company’s use of its patents, including the specifics of the relationships it has with licensees or related corporate entities, must be individually considered for their impact on the particular legal issue at hand.

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INTRODUCTION

A new breed of patent enforcer has prominently emerged in the last decade: the patent-holding company. Typically, a patent-holding company does not commercially practice the patented technology it owns. Instead, the company seeks to generate substantial financial revenues from licensing its patents.<sup>1</sup>

Patent-holding companies may take various forms. At one end of the spectrum are licensing-only patent-holding companies, which acquire and then license patents as their sole business function.<sup>2</sup> Licensing-only patent-holding companies do not themselves create technology, nor do they commercially produce or sell products protected by using the patented technology. After acquiring a patent from a solo inventor, financially distressed company or other source, many licensing-only patent-holding companies search the market for successful companies that present potentially vulnerable and lucrative licensing targets based on the companies' already established practices and technology. By not commercially making or selling a product, the licensing-only patent-

<sup>1</sup> See generally KEVIN G. RIVETTE & DAVID KLINE, *REMBRANDTS IN THE ATTIC: UNLOCKING THE HIDDEN VALUE OF PATENTS* (Harvard Business School Press 2000) (discussing the realization of the economic value of licensing patents, success stories from some notable patent licensors, such as IBM and Texas Instruments, and aspects of business strategies of companies established for the sole purpose of licensing patents).

<sup>2</sup> The Federal Trade Commission has recently begun conducting hearings to study new and emerging business models involving the "buying, selling and licensing [of] IP" including business models that "seek to monetize patents based on strategic acquisitions and assertion." FTC Notice of Public Hearings Concerning the Evolving Intellectual Property Marketplace, 73 Fed. Reg. 70645, 70645, 70647 (Nov. 21, 2008).

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holding company has little fear of facing an infringement counterclaim should it choose to sue a licensing target for patent infringement. Hence, where licensing negotiations fail to produce a license with these targets, the licensing-only patent-holding company often sues quickly to enforce the patents.<sup>3</sup> At the other end of the spectrum, a manufacturing entity may—for reasons of administrative convenience or tax purposes—create a wholly-owned subsidiary patent-holding company to hold, maintain and possibly license its own patents.<sup>4</sup> In other circumstances, research entities, either commercial or educational, may act as *de facto* patent-holding companies. After obtaining patents covering the technology developed by their researchers, such research entities often seek to license rather than commercially practice the patents to raise revenues to support further research activities.<sup>5</sup> These three models, and variations thereof, share one common characteristic: the entity holding and enforcing the patent does not commercially practice the patented technology.

Most substantive and procedural aspects of enforcing a patent in federal court do not differ when a non-practicing entity, *i.e.*, a patent-holding company, seeks to enforce a patent compared to when a practicing entity seeks to enforce the patent. But, in a few areas of the law, a patentee's status as a non-practicing entity can impact the enforcement of the patent. Substantively, the scope of remedies available to a patentee can depend on whether the patentee practices the patented technology. Procedurally, the fact that a patentee does not practice the patent can, in some limited circumstances, impact personal jurisdiction for

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<sup>3</sup> One district court has noted that while a licensing-only patent-holding company may often sue to enforce its patents, that does not necessarily make litigation “the business” of the company. *See, e.g., In re Papst Licensing GMBH & Co. KG Litig.*, 590 F. Supp. 2d 94, 99 (D.D.C. 2008) (“KMPI exaggerates when it asserts that Papst’s real business is litigation. Papst’s business is patent licensing—acquiring patents and negotiating licensing agreements. As part of this business, Papst sues to enforce its patents or license agreements or is sued in declaratory actions. Nonetheless, as Papst avers: ‘Litigation is not an objective but rather is something to be avoided if possible. Litigation is either imposed on one by someone else, or is an expensive last resort when other attempts to protect one’s property have been unsuccessful.’”).

<sup>4</sup> *See generally* Robert A. Matthews, Jr., *A Potential Hidden Cost of a Patent-Holding Company: The Loss of Lost-Profit Damages*, 32 AIPLA Q.J. 503, 504–28 (2004) (discussing, *inter alia*, the tax benefits created by use of a manufacturer-owned patent-holding company and standing issues raised by such ownership).

<sup>5</sup> *E.g., Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 601–02, 604, 607–08 (E.D. Tex. 2007) (granting patentee, a foreign government-sponsored research institution, a permanent injunction where patentee only licensed the technology it created and used its licensing revenues to fund other research projects), *aff’d in part and vacated in part on other grounds in related appeal*, 542 F.3d 1363 (Fed. Cir. 2008), *reh’g denied*, 542 F.3d 1363 (Fed. Cir. 2008).

purposes of a declaratory judgment claim challenging the patent. Failure to practice the patented technology can also jeopardize the patentee's ability to assert a "home" forum for purposes of avoiding a transfer of venue requested by an accused infringer or to show sufficient prejudice to resist a motion to stay an infringement litigation pending a reexamination proceeding in the U.S. Patent and Trademark Office ("PTO"). This Article discusses the current state of the law for each of these topics.

## I. COMPENSATORY DAMAGES

### A. *Lost Profits*

Perhaps the most notable legal nuance when a patent-holding company enforces a patent lies in the area of the company's ability, or lack thereof, to recover lost profits as compensatory damages for any infringement.<sup>6</sup> 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.<sup>7</sup> As the Federal Circuit has explained, "[n]ormally, if the patentee is not selling a product, by definition there can be no lost profits."<sup>8</sup> Since patent-holding companies typically do not make or sell a commercial product, they do not have a basis to assert a claim for lost profits based on their activities and, therefore, typically, must settle for reasonable royalty damages.

Attempting to avoid the loss of lost-profit damages, a patent-holding company may argue that it can recover the profits lost by an entity with which the patentee has a commercial relationship, such as a manufacturing parent or a

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<sup>6</sup> *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 673 (Fed. Cir. 1988) (indicating the proper measure for damages is lost profits rather than disgorgement of infringer's profits as "patent infringement carries no remedy of an accounting for an infringer's profits"). *See generally* 4 ROBERT A. MATTHEWS, JR., ANNOTATED PATENT DIGEST § 30:2 (2008) [hereinafter APD].

<sup>7</sup> *See Poly-King Instruments Corp. v. Perego*, 65 F.3d 941, 947–49, 953 (Fed. Cir. 1995). *See generally* 4 APD, *supra* note 6, § 30:25 ("Patentee must actually market a product, not necessarily the patented product.").

<sup>8</sup> *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1548 (Fed. Cir. 1995) (en banc); *accord* *Hebert v. Lisle Corp.*, 99 F.3d 1109, 1119 (Fed. Cir. 1996) ("When the patentee does not seek to make and sell the invention, lost profits are not an appropriate measure of damages."); *Trell v. Marlee Elecs. Corp.*, 912 F.2d 1443, 1445 (Fed. Cir. 1990) ("Because Trell did not sell its invention in the United States, he could not seek damages on the basis of lost profits."); *Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co.*, 895 F.2d 1403, 1406 n.2 (Fed. Cir. 1990) ("Because Lindemann did not compete in the sale of its invention in the United States, it did not, as it could not, seek damages on the basis of lost profits.").

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sister corporation or even a licensee. As shown below, to date, this type of argument has not had success in the courts.

Regarding the scenario of a separate parent or sister manufacturing corporation, the Federal Circuit has held that profits lost by a patentee's related corporation from a third party's patent infringement do not constitute profits lost by the patentee. As the Federal Circuit explained in *Poly-America, L.P. v. GSE Lining Technology, Inc.*,<sup>9</sup> when businesses have set up related corporations as separate legal entities they "must take the benefits with the burdens," and therefore 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."<sup>10</sup> Accordingly, a patent-holding company may not claim the lost profits of a separate corporation as its own merely because the patentee has a relationship with the corporation.

Should the parent or sister corporation, or an unrelated licensee, hold an *exclusive* license to the asserted patent, then such a corporation can join the patent-holding company in an infringement suit based on its *own* rights in the patent via the exclusive license.<sup>11</sup> Thus, the parent or sister corporation may assert

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<sup>9</sup> 383 F.3d 1303 (Fed. Cir. 2004).

<sup>10</sup> *Id.* at 1311; *see* *Therasense, Inc. v. Becton, Dickinson & Co.*, Nos. C 04-02123 WHA, C 04-03327 WHA, C 04-03732 WHA, C 05-03117 WHA, 2008 WL 2323856, at \*5 (N.D. Cal. May 22, 2008) (barring evidence of lost-profit damages sustained by manufacturing subsidiary of parent patentee from the alleged infringement).

<sup>11</sup> *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1344 (Fed. Cir. 2006) ("For the same policy reasons that a patentee must be joined in any lawsuit involving his or her patent, there must be joinder of any exclusive licensee."). The Federal Circuit has instructed that "[t]o be an exclusive licensee for standing purposes, a party must have received, not only the right to practice the invention within a given territory, but also the patentee's express or implied promise that others shall be excluded from practicing the invention within that territory as well." *Rite-Hite*, 56 F.3d at 1552. Notwithstanding this exclusivity requirement, an exclusive licensee can be subject to preexisting nonexclusive licenses. *E.g.*, *Abbott Labs. v. Diamedix Corp.*, 47 F.3d 1128, 1132–33 (Fed. Cir. 1995) (holding an allegedly exclusive license subject to eight prior nonexclusive licenses, and that the licensor's retained right to make, use and sell to certain parties the patented product was exclusive); *see also* *Western Elec. Co. v. Patent Reproducer Corp.*, 42 F.2d 116, 119 (2d Cir. 1930) (rejecting argument that "exclusive license" had to be the sole license, and stating an exclusive license merely requires that "the patent owner grants a license to another accompanied by the promise that the grantor will give no further licenses"); *Amgen, Inc. v. Chugai Pharma. Co., Ltd.*, 808 F. Supp. 894, 900 (D. Mass. 1992) ("[I]t should be stressed that the test for exclusivity is *not* whether the license is exclusive *as against the licensor*, but rather whether the licensor has promised explicitly or implicitly not to grant any additional licenses to third parties."), *aff'd sub nom.* *Ortho Pharm. Corp. v. Genetics Inst. Inc.*, 52 F.3d 1026 (Fed. Cir. 1995). *See generally* 4 APD, *supra* note 6, § 9:55 ("'Exclusive' does not necessarily mean 'only.'"). In

a claim for lost-profit damages to the extent the infringement violates the exclusive rights it holds in the patent.<sup>12</sup> 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<sup>13</sup> and thus has no right to make any claim for money damages.<sup>14</sup>

Recently, the Federal Circuit in *Mars, Inc. v. Coin Acceptors, Inc.*<sup>15</sup> reaffirmed that patent-holding companies normally may not recover lost-profit damages based on the profits lost by a nonexclusive licensee even where the licensee is a subsidiary of the patentee.<sup>16</sup> The patentee in *Mars* was denied damages based on the profits lost by the patentee's subsidiary as a result of the in-

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some cases, multiple exclusive licenses can exist where there are multiple fields of use. *E.g.*, *Great Lakes Intellectual Prop. Ltd. v. Sakar Int'l, Inc.*, 516 F. Supp. 2d 880, 890–91 (W.D. Mich. 2007). In rarer cases, a patentee in the same agreement may create multiple exclusive licensees if it promises the licensees it will grant no further licenses. *E.g.*, *Cook Inc. v. Boston Scientific Corp.*, 208 F. Supp. 2d 874, 880 (N.D. Ill. 2002) (noting that patentee's license to two licensees was an exclusive license where it granted both licensees rights and promised that no other licensees would be granted similar rights). *But cf.* *Elite Logistics Servs., Inc. v. ATX Techs., Inc.*, No. G-02-866, 2007 WL 2021755, at \*2 (S.D. Tex. July 9, 2007) (holding plaintiffs, one Elite and the other Pace, in patent infringement suit lacked standing to sue even though an "Assignment of Patent" contract was entered into by Elite and Pace because Pace had "previously transferred his ownership interest to [a third party]" and accordingly was "no longer the owner of the patent"; and further that the assignment was "not an assignment at all" but rather a nonexclusive license at best because the "Assignment of Patent" transferred the patent rights for a period "less than the remaining life of the patent" and Pace had already granted an exclusive license to a different third party than the aforementioned at the relevant time).

<sup>12</sup> See generally 4 APD, *supra* note 6, § 30:65 ("Exclusive licensee can recover its lost profits.").

<sup>13</sup> The Federal Circuit has instructed that "[a] holder of such a nonexclusive license suffers no legal injury from infringement and, thus, has no standing to bring suit or even join in a suit with the patentee. . . . [E]conomic injury alone does not provide standing to sue under the patent statute." *Ortho Pharm. Corp. v. Genetics Inst., Inc.*, 52 F.3d 1026, 1031 (Fed. Cir. 1995); see 1 APD, *supra* note 6, § 9:66 ("Bare Licensees have no standing to sue."). Furthermore, a patentee cannot create standing for its nonexclusive licensees by purportedly granting the licensee a "right to sue." *Textile Prods., Inc. v. Mead Corp.*, 134 F.3d 1481, 1485 (Fed. Cir. 1998) ("A 'right to sue' provision within a license cannot, of its own force, confer standing on a bare licensee."). See generally 1 APD, *supra* note 6, § 9:67 ("Right to sue clauses ineffective").

<sup>14</sup> *Poly-Am.*, 383 F.3d at 1311–12 (citing *Rite-Hite*, 56 F.3d at 1552; *Ortho Pharm.*, 52 F.3d at 1032); see Matthews, *supra* note 4, at 528–52. See generally 4 APD, *supra* note 6, § 30:67 ("Nonexclusive licensee cannot recover its lost profits.").

<sup>15</sup> 527 F.3d 1359 (Fed. Cir. 2008), *cert. denied*, 129 S. Ct. 653 (2008).

<sup>16</sup> *Id.* at 1366.

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fringement.<sup>17</sup> Nor was the patentee's subsidiary able to collect damages, because it lacked standing to join the patentee in the suit since it only held a non-exclusive license.<sup>18</sup> Despite this fact, the patentee argued that, under the circumstances of its parent/subsidiary relationship, any profits made by the subsidiary inherently flowed to the patentee and, therefore, the court should treat any profits lost by the subsidiary as profits lost by the patentee for purposes of awarding lost-profit damages.<sup>19</sup>

The Federal Circuit appeared willing to consider the patentee's contention that if the profits of the subsidiary/nonexclusive licensee "flow inexorably up to the parent," the patentee may recover those profits.<sup>20</sup> The court noted that "while lost profits is plainly one way to measure the amount of damages that will 'fully compensate' the patentee under [35 U.S.C.] § 284, we have never held that it is the *only* one."<sup>21</sup> But the court determined that the patentee failed to prove, as a factual matter, that the profits of its subsidiary/nonexclusive licensee flowed to it, because the subsidiary paid the patentee the same royalty rate regardless of whether the subsidiary made any profits or suffered losses.<sup>22</sup> 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.<sup>23</sup> Thus, *Mars* suggests a *possibility* that a patent-holding company can recover lost profits of an entity it has a commercial relationship with if proof can be provided that the profits the entity would have made but for the infringement would have "flow[ed] inexorably up to [the patent-holding company]."<sup>24</sup>

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<sup>17</sup> *Id.*

<sup>18</sup> *Id.* at 1367–68.

<sup>19</sup> *Id.* at 1367.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.* at 1366.

<sup>22</sup> *Id.* at 1367. The only profit the patentee made was payments made pursuant to a "traditional royalty-bearing license agreement" that obligated the subsidiary to make royalty payments to the patentee whether or not the subsidiary made a profit from its sales. *Id.*

<sup>23</sup> *Id.* The Federal Circuit specifically stated:

Because we conclude that MEI's profits did not—as Mars argued—flow inexorably to Mars, we, like the *Poly-America* court, need not decide whether a parent company can recover on a lost profits theory when profits of a subsidiary actually *do* flow inexorably up to the parent. We hold simply that the facts of this case cannot support recovery under a lost profits theory.

*Id.*

<sup>24</sup> *Id.*

After *Mars*, district courts have recognized that theory.<sup>25</sup> But like the Federal Circuit,<sup>26</sup> they have concluded that “[m]ere ownership and control is insufficient to prove that profits flowed inexorably from a subsidiary to a parent.”<sup>27</sup>

While the *Mars* court 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. Whether practical realities of the business world will permit a patentee to structure an arrangement with an unrelated nonexclusive licensee—that has a measure of the licensee’s profits that flow inexorably to the patentee—presents a question beyond the scope of this Article.

### ***B. Reasonable Royalty***

Patent law is not blind to the inherent realities created by a parent/subsidiary relationship where a subsidiary patent-holding company holds the patents. While a parent corporation who does not retain an exclusive license to the patents it assigns to a subsidiary patent-holding company may not have standing to pursue its own damages claim for infringement and its subsidiary may not pursue directly the profits the parent lost as a result of infringement, the economic impact of the infringement on the parent can factor into the reasona-

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<sup>25</sup> *E.g.*, *Kowalski v. Mommy Gina Tuna Res.*, 574 F. Supp. 2d 1160, 1162–63 (D. Haw. 2008) (holding that patentee failed to present sufficient evidence that the profits inexorably flowed to the patentee). Even before *Mars*, at least one district court reached the conclusion that a patentee should have a chance to prove and recover damages resulting from infringement affecting the profits, *e.g.*, lost profits, of the patentee’s nonexclusive licensee/subsidiary. *SEB, S.A. v. Montgomery Ward & Co.*, 412 F. Supp. 2d 336, 346–48 (S.D.N.Y. 2006) (denying accused infringer’s motion for summary judgment, which asserted that the patent-holding company plaintiff was precluded from recovering lost profits as a matter of law, because it did not “manufacture or sell the [patented product],” rather its non-party manufacturing subsidiary made and sold the patented product; and ruling that the patent-holding company plaintiff “should be allowed to present evidence that it lost money because of [accused infringer’s] actions”). However, the court noted more than just mere ownership must be proven, because “the existence of a relationship between two companies is not enough to establish damages because separate corporate entities must endure both the benefits and burdens of their chosen corporate form.” *Id.* at 347 (citing *Poly-Am., L.P. v. GSE Lining Tech., Inc.*, 383 F.3d 1303, 1311 (Fed. Cir. 2004)).

<sup>26</sup> *Mars*, 527 F.3d at 1367 (concluding that profits did not inexorably flow from MEI to Mars, MEI being a subsidiary entirely owned by Mars, notwithstanding the 100% ownership and their consolidated financial statements).

<sup>27</sup> *Kowalski*, 574 F. Supp. 2d at 1163 (citing *Mars*, 527 F.3d at 1367).



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ble royalty rate recovered by the subsidiary.<sup>28</sup> Explaining this principle, the Federal Circuit instructed in *Union Carbide Chemicals & Plastics Tech Corp. v. Shell Oil Corp.*<sup>29</sup> that because the parent/subsidiary arrangement “goes far beyond a licensor/licensee arrangement. . . . any hypothetical negotiation with the holding company must necessarily include the reality that the economic impact on the [parent corporation] would weigh heavily in all decisions.”<sup>30</sup>

## II. INJUNCTIVE RELIEF

Instilling the belief in a potential accused infringer that the patentee has a legitimate chance of obtaining preliminary and/or permanent injunctive relief can strengthen a patentee’s ability to license its patent rights without having to resort to litigation. Where an accused infringer holds the view that any possibility of an injunction enjoining some of its manufacturing and sales activities presents too great a risk to its business, it may have strong incentive to license the patent without forcing the patentee to litigate. But where potential infringing activity yields great and immediate economic rewards, an accused infringer who has little fear of an injunction may opt not to take a license and continue with the activity until stopped by judicial means. In such circumstances, the accused infringer may conclude that paying damages at a later date presents an acceptable business risk in view of the profits and other benefits it will enjoy in the immediate term. The new “objectively reckless” standard for willful infringement imposed by *In re Seagate Technology, LLC*,<sup>31</sup> may further embolden some accused infringers to continue with potentially infringing activity if it appears that, under the circumstances, the only consequence of an infringement finding will be to pay reasonable royalty damages.<sup>32</sup>

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<sup>28</sup> *Id.*

<sup>29</sup> 425 F.3d 1366 (Fed. Cir. 2005).

<sup>30</sup> *Id.* at 1378 (ruling that where a wholly-owned subsidiary patent-holding company held the asserted patent, the district court did not err in permitting the jury to consider the impact of the accused infringing activity on the parent corporation when considering the issue of the amount of the reasonable royalty); see *Gargoyles, Inc. v. United States*, 113 F.3d 1572, 1580 (Fed. Cir. 1997) (affirming use of the profits that would be lost by an entity having a commercial relationship with the patentee as evidence that the patentee would have sought a high royalty rate in a hypothetical negotiation of a reasonable royalty rate; the court stating that “[b]ased on the nature of the relationship between the entity and Gargoyles, it would be reasonable for Gargoyles to put a high value on a license if it realized licensing would force the other entity to lose profits”).

<sup>31</sup> 497 F.3d 1360 (Fed. Cir. 2007) (en banc).

<sup>32</sup> *Id.* at 1370–71; see *Minks v. Polaris Indus., Inc.*, 546 F.3d 1364, 1380–81 (Fed. Cir. 2008) (affirming enhanced damages award notwithstanding the fact that the jury was instructed “to

The availability of injunctive relief presents special concerns to a patent-holding company seeking to enforce a patent. Generally, patent-holding companies do not themselves market a patented product that directly competes with an accused infringer's product. In view of this fact and the current case law on obtaining an injunctive remedy for patent infringement, patent-holding companies may have a more difficult time 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. *Permanent Injunctions*

The Supreme Court in *eBay Inc. v. MercExchange, L.L.C.*<sup>33</sup> rejected the application of broad categorical rules for issuing a permanent injunction in patent cases.<sup>34</sup> 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."<sup>35</sup> Consequently, after *eBay*, to obtain a permanent injunction against future infringement a patentee must prove all the elements

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consider "whether Polaris exercised due care to avoid infringing the patent" because the "case was not close" regarding Polaris's deliberate copying of the patented product). See generally 5 APD, *supra* note 6, § 31:22 (2008) ("Objective recklessness" standard of *Seagate*"). Some case law suggests that in setting a reasonable royalty rate, courts may account for the reality that an infringer chose to infringe rather than license. *E.g.*, *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1563 (Fed. Cir. 1983) ("[T]he trial court may award an amount of damages greater than a reasonable royalty so that the award is 'adequate to compensate for the infringement.' . . . 'The infringer would have nothing to lose, and everything to gain if he could count on paying only the normal, routine royalty noninfringers might have paid.' . . . Such an increase, which may be stated by the trial court either as a reasonable royalty for an infringer (as in *Panduit*) or as an increase in the reasonable royalty determined by the court, is left to its sound discretion."). See generally 4 APD, *supra* note 6, § 30:85 ("Accounting for fact that infringer is being ordered by court to pay royalty").

<sup>33</sup> 547 U.S. 388 (2006).

<sup>34</sup> *Id.* at 391–94.

<sup>35</sup> *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989); accord *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) ("Although [a] district court's grant or denial of an injunction is discretionary depending on the facts of the case, injunctive relief against an adjudged infringer is usually granted. This court has indicated that an injunction should issue once infringement has been established unless there is a sufficient reason for denying it."); *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983) ("[W]here validity and continuing infringement have been clearly established, as in this case, immediate irreparable harm is presumed. To hold otherwise would be contrary to the public policy underlying the patent laws.").

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necessary to obtain permanent injunctive relief including the element that it will suffer irreparable harm if the court does not grant the requested permanent injunction.<sup>36</sup>

Where a patentee competes in the market directly with the accused infringer, a patentee often can show that if infringement continues, the patentee will suffer injuries in the form of loss of market share,<sup>37</sup> price erosion<sup>38</sup> or loss of

<sup>36</sup> *eBay*, 547 U.S. at 391. In detail, the Court stated:

According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

*Id.*; accord 5 APD, *supra* note 6, § 32:159 (“Standards for granting permanent injunctions”). Some panels of the Federal Circuit have noted that “[i]t remains an open question ‘whether there remains a rebuttable presumption of irreparable harm following *eBay*.’” *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)). *Contra Amoco Prod. Co. v. Vill. of Gambell*, 480 U.S. 531, 544–45 (1987) (stating that presumptions of irreparable harm are “contrary to traditional equitable principles”). Several district courts have concluded that *eBay* has eliminated a presumption of irreparable harm for permanent injunctions. *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 568 (E.D. Va. 2007) (ruling that no presumption of irreparable harm applies to a permanent injunction); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614, at \*5–6 (W.D. Okla. 2006) (denying patentee’s motion for a permanent injunction because the patentee failed to show irreparable harm and rejecting patentee’s argument that irreparable harm could be presumed despite finding willful infringement and that the accused infringer stated that it intended to continue selling the infringing product after the suit without alteration), *aff’d*, 536 F.3d 1311 (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) (“Plaintiff fails to establish that it will be irreparably harmed absent an injunction. The *eBay* decision demonstrates that no presumption of irreparable harm should automatically follow from a finding of infringement.”), *aff’d in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007) (denial of permanent injunction not appealed); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440 (E.D. Tex. 2006).

<sup>37</sup> *E.g.*, *TiVo Inc. v. EchoStar Commc’ns Corp.*, 446 F. Supp. 2d 664, 669–70 (E.D. Tex. 2006) (granting permanent injunction and denying motion to stay injunction where patentee showed that loss of market share was likely irreparable since customers were “sticky,” *i.e.*, they stayed with company from whom they first purchased), *aff’d in part, rev’d in part on different grounds*, 516 F.3d 1920 (Fed. Cir. 2008), *cert. denied*, 129 S. Ct. 306 (2008); *see* 5 APD, *supra* note 6, § 32:44 (discussing and collecting cases addressing irreparable harm from losing market share in the context of preliminary injunctions).

<sup>38</sup> *E.g.*, *Verizon Servs. Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295, 1310–11 (Fed. Cir. 2007) (affirming permanent injunction and finding irreparable harm based on “price erosion

customer good will and harm to its reputation;<sup>39</sup> the latter is especially true if the infringing product is of an inferior quality compared to the patentee's product.<sup>40</sup> Courts typically find that they cannot accurately quantify the monetary harm from these forms of injuries, and therefore these injuries can show that a patentee will suffer irreparable harm without an injunction.<sup>41</sup> 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.<sup>42</sup> But the trend has its exceptions. For example, courts have denied

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as well as lost opportunities to sell other services to the lost customers"); see 5 APD, *supra* note 6, § 32:45 (discussing and collecting cases addressing irreparable harm from price erosion in the context of preliminary injunctions).

<sup>39</sup> See *TruePosition Inc. v. Andrew Corp.*, 568 F. Supp. 2d 500, 532 (D. Del. 2008) (ordering a permanent injunction where patentee and infringer were the only two competitors worldwide for the infringing product). In so holding, the court found:

Defendant's infringement, therefore, has necessarily affected its goodwill and its reputation as the first company to provide UTDOA/SDCCH outside the U.S. . . .

Legal remedies are not adequate to compensate plaintiff for the infringement of its patent. . . . [T]he value of defendant's continued infringement . . . is unknown. Defendant has taken from plaintiff not only this important business, but the recognition of being a technology innovator and the first global supplier of the patented technology, and an unquantifiable amount of business opportunities flowing therefrom. Such harms are not compensable in damages.

*Id.* (internal footnote omitted); *Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp.*, 106 F. Supp. 2d 696, 703, 708–10 (D.N.J. 2000) (granting permanent injunction, denying stay and ordering recall of infringing vaccine, where, *inter alia*, patentee would suffer irreparable harm to its reputation if the injunction were not granted or was stayed since it would "be perceived as a company which is unable to enforce the exclusivity of its patent rights despite having proven liability and validity"); see 5 APD, *supra* note 6, § 32:48 (discussing and collecting cases addressing irreparable harm from reputational harm in the context of preliminary injunctions).

<sup>40</sup> The Federal Circuit has instructed that "[h]arm to reputation resulting from confusion between an inferior accused product and a patentee's superior product is a type of harm that is often not fully compensable by money because the damages caused are speculative and difficult to measure." *Reebok Int'l Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1558 (Fed Cir. 1994).

<sup>41</sup> *E.g.*, *Emory Univ. v. Nova Biogenetics, Inc.*, No. 1:06-CV-0141-TWT, 2008 WL 2945476, at \*4–5 (N.D. Ga. July 25, 2008) (granting permanent injunction where it found that "the negative effects of the Plaintiffs' potential loss in goodwill, market share and prestige are real, and would be difficult to quantify solely through monetary damages").

<sup>42</sup> *Amgen, Inc. v. F. Hoffman-La Roche Ltd.*, 581 F. Supp. 2d 160, 210–12 (D. Mass. 2008) (stating the view that *eBay* has little impact on granting permanent injunctions where the patentee and infringer are direct competitors); see 5 APD, *supra* note 6, § 32:162 (discussing

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permanent injunctions where a patentee fails to show that the continued infringing activity by a direct competitor will irreparably harm the patentee.<sup>43</sup>

For patentees who have not marketed a product, but only sought to license their patents, the courts appear less willing to find irreparable harm.<sup>44</sup>

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and collecting over thirty cases granting permanent injunctions post-*eBay* where the patentee competed directly with the infringer).

<sup>43</sup> See *Advanced Cardiovascular Sys., Inc. v. Medtronic Vascular, Inc.*, 579 F. Supp. 2d 554, 558–61 (D. Del. 2008) (denying patentee’s motion for a permanent injunction seeking to bar infringer from selling bare-metal stents even though infringer directly competed with the patentee and finding that the patentee failed to prove irreparable harm where it “ha[d] not identified any specific customers it ha[d] lost, or st[ood] to lose, directly as a result of [infringer’s] continued sales” as business data showed the patentee lost sales due to a bigger competitor, whom the patentee had licensed, and “admit[ted] that it ha[d] recaptured nearly all of the market share lost to [infringer]”; also ruling that money damages were adequate in view of the patentee’s licenses to two other competitors; and further ruling that the public interest supported denying the injunction where evidence showed some physicians wanted the infringing product for their patients); *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 443–44 (D. Del. 2007) (denying patentee’s motion for a permanent injunction even though the parties were direct competitors in a two-supplier market because that patentee failed to demonstrate irreparable harm where it had not “identified precisely what market share, revenues, and customers [it] ha[d] lost to [infringer]” and the patentee failed to show how money damages would not be adequate, noting the presence of the infringing product was not critical to the survival of the patentee’s business).

<sup>44</sup> See *Telcordia Techs., Inc. v. Cisco Sys., Inc.*, No. 04-876-GMS, 2009 WL 32717, at \*14–15 (D. Del. Jan. 6, 2009) (denying patentee’s motion for a permanent injunction because patentee, effectively a commercial research entity, failed to prove it would suffer irreparable harm since it had been able to license its patents and was not directly competing with the infringer); *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 WL 37742, at \*2 (E.D. Mich. Jan. 4, 2007) (denying patentee’s motion for a permanent injunction because patentee failed to show irreparable harm to it or its licensing program because the evidence failed to show that the licensee’s lost sales were due to the infringement and not other non-infringing product features; also noting that the patentee’s willingness to license the patent showed that money damages could be adequate), *on subsequent proceedings*, No. 02-73543, 2007 WL 3053662, at \*1 (E.D. Mich. Oct. 19, 2007) (ruling that changed circumstances, including evidence that the infringer may be insolvent, and therefore could not pay a money judgment, warranted granting a permanent injunction); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614, at \*2–3, \*5–6 (W.D. Okla. Sept. 5, 2006) (denying patentee’s motion for a permanent injunction because the patentee failed to show irreparable harm where patentee could only show harm to his non-party exclusive licensee which was deemed irrelevant and rejecting patentee’s argument that irreparable harm could be presumed despite finding willful infringement and that the accused infringer stated that it intended to continue selling the infringing product after the suit without alteration), *aff’d in part, rev’d in part, vacated in part*, 536 F.3d 1311 (Fed. Cir. 2008); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*4–5 (E.D. Tex. Aug. 16, 2006) (denying permanent injunction since patentee failed to show irreparable harm where patentee did not make a product, expressed willingness to license the patent to the infringer and failed to show how the infringement ir-

These courts often rationalize that the patentee's willingness to forego exclusivity in exchange for licensing fees shows that money damages can adequately compensate the patentee for any infringement.<sup>45</sup>

Nevertheless, both the Supreme Court and the Federal Circuit have rejected the notion that a patentee's willingness to license its patent always requires denying injunctive relief. In *MercExchange, L.L.C. v. eBay, Inc.*,<sup>46</sup> the underlying opinion to the Supreme Court's *eBay* decision, the Federal Circuit stated that patentees who choose to license, rather than practice, their patents have an equal right to an adequate remedy to enforce their patent rights as those

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reparably harmed its licensing program where there were other factors that may have explained the patentee's lack of success in licensing the patents to others and patentee failed to show that money damages would not be adequate), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007); *see also* 5 APD, *supra* note 6, § 32:163 ("Refusing permanent injunction or reversing grant thereof"). Even before *eBay*, the Federal Circuit instructed that "[i]f a patentee's failure to practice a patented invention frustrates an important public need for the invention, a court need not enjoin infringement of the patent." *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995) (en banc).

<sup>45</sup> *See, e.g.*, *High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1557 (Fed. Cir. 1995) (stating the rationale in the context of a preliminary injunction). The rationale may not apply where the patentee has only granted an exclusive license to its patent. *See Pfizer, Inc. v. Teva Pharms. USA, Inc.*, 429 F.3d 1364, 1381 (Fed. Cir. 2005) (granting an exclusive license does not preclude a finding of irreparable harm); *Polymer Techs., Inc. v. Bridwell*, 103 F.3d 970, 976 (Fed. Cir. 1996) ("By entering into an exclusive license agreement, Polymer has manifested a strong interest in maintaining an exclusive position in the relevant market."). *But see Voda*, 536 F.3d at 1329 (finding patentee failed to prove monetary damages were inadequate to compensate him notwithstanding patentee's grant of an exclusive license to a non-party). One would expect the patentee to bring the exclusive licensee in a suit to enforce the patent. *See Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1344 (Fed. Cir. 2006) ("For the same policy reasons that a patentee must be joined in any lawsuit involving his or her patent, there must be joinder of any exclusive licensee."); *see also* 1 APD, *supra* note 6, § 9:41 (collecting cases and discussing the legal requirement that a patentee join its exclusive licensees when it brings suit to enforce the patent).

<sup>46</sup> 401 F.3d 1323 (Fed. Cir. 2005) (reversing district court's denial of a permanent injunction after a finding that a business method patent had been infringed and ruling that the following reasons set forth by the district court for denying the permanent injunction were not persuasive: the public's concern over the validity of business method patents, the patentee's expressed willingness to license its patent, the concern of future contempt proceedings based on redesigns and the patentee's failure to move for a preliminary injunction), *vacated*, 547 U.S. 388 (2006) (vacating the judgment of the Federal Circuit because "neither court below correctly applied the traditional four-factor framework that governs the award of injunctive relief" and expressing no opinion on whether a permanent injunction should issue under the four-factor framework).

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patentees who choose to practice the patented technology.<sup>47</sup> As the Federal Circuit stated:

The trial court also noted that MercExchange had made public statements regarding its willingness to license its patents, and the court justified its denial of a permanent injunction based in part on those statements. 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.<sup>48</sup>

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.<sup>49</sup>

In *MercExchange*, the Federal Circuit also stated that in its view “[i]f the injunction gives the patentee additional leverage in licensing, that is a natu-

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<sup>47</sup> *Id.* at 1339.

<sup>48</sup> *Id.*; see *Acumed LLC v. Stryker Corp.*, 551 F.3d 1323, 1327–29 (Fed. Cir. 2008) (ruling that the district court did not abuse its discretion in granting patentee a permanent injunction even though the patentee had previously licensed its patent to settle one infringement action and had also licensed its patent to an entity who was not a direct competitor; the court noting that since the jury awarded lost profits, this supported a finding that the patentee was losing market share due to the infringement, and therefore it was not an abuse of discretion to find under the circumstances that the prior licenses did not defeat a finding of irreparable harm). In detail, the court stated:

The fact of the grant of previous licenses, the identity of the past licensees, the experience in the market since the licenses were granted, and the identity of the new infringer all may affect the district court’s discretionary decision concerning whether a reasonable royalty from an infringer constitutes damages adequate to compensate for the infringement. . . .

. . . Absent clear error of judgment, which is not evident here, the weight accorded to the prior licenses falls squarely within the discretion of the court. A plaintiff’s past willingness to license its patent is not sufficient per se to establish lack of irreparable harm if a new infringer were licensed. . . . Adding a new competitor to the market may create an irreparable harm that the prior licenses did not.

*Acumed*, 551 F.3d at 1328–29 (internal citation omitted).

<sup>49</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393 (2006).

ral 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.”<sup>50</sup> Although the Supreme Court’s majority opinion in *eBay* did not comment on this aspect, the four concurring Justices appeared to take 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 where the patented component comprises a minor portion of the accused product or process.<sup>51</sup> Justice Kennedy, in writing the concurring opinion, cautioned that where the patentee is a licensing-only patent-holding company, 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.<sup>52</sup> Justice Kennedy instructed that

[i]n 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.<sup>53</sup>

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<sup>50</sup> *MercExchange*, 401 F.3d at 1339.

<sup>51</sup> *eBay*, 547 U.S. at 396–97 (Kennedy, Stevens, Souter & Breyer, JJ., concurring) (internal citations omitted).

<sup>52</sup> *Id.*

<sup>53</sup> *Id.* (internal citations omitted); accord *Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (affirming denial of a permanent injunction and order of a compulsory license where patentee did not commercially practice the patented invention). The court stated:

An injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances. It is not intended as a club to be wielded by a patentee to enhance his negotiating stance. . . .

. . . Here the compulsory license is a benefit to the patentee who has been unable to prevail in his quest for injunctive relief. To grant him a compulsory royalty is to give him half a loaf. In the circumstance of his utter failure to exploit the patent on his own, that seems fair.



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It appears that in the first three years after *eBay*, no district court, in a published opinion, granted a permanent injunction to a non-practicing entity whose business model consisted solely of acquiring and licensing patents, *i.e.*, the licensing-only patent-holding company.<sup>54</sup> A few district courts have denied permanent injunctions after finding that the patentee failed to show that the refusal of an injunction would irreparably harm the patentee's licensing program.<sup>55</sup>

Additionally, the Federal Circuit has made it more difficult for a licensing-only patent-holding company 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 the district court's denial of a permanent injunction in *Voda v. Cordis Corp.*,<sup>56</sup> the Federal Circuit ruled that while the patentee's non-party exclusive licensee may have suffered irreparable harm from the infringement,<sup>57</sup> the patentee failed to prove that it, personally, suffered irreparable harm.<sup>58</sup> Therefore, the district court did not abuse its discretion in denying the requested permanent injunction.<sup>59</sup> In distinguishing *eBay*, the Federal Circuit stated that

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*Foster*, 492 F.2d at 1324 (internal citations omitted). *E.g.*, *Hynix Semiconductor Inc. v. Rambus Inc.*, No. C-00-20905 RMW, 2009 WL 440473, at \*29 (N.D. Cal. Feb. 23, 2009) (denying 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).

<sup>54</sup> In contrast, post-*eBay* federal courts have granted over thirty-five permanent injunctions where the patentee made or sold a product that competed with the infringing product. *See generally* 5 APD, *supra* note 6, § 32:162 ("Granting permanent injunction or reversing denial thereof").

<sup>55</sup> *E.g.*, *Telcordia Techs., Inc. v. Cisco Sys., Inc.*, 592 F. Supp. 2d 727, 747–48 (D. Del. 2009); *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 WL 37742, at \*2 (E.D. Mich. Jan. 4, 2007); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614, at \*5–6 (W.D. Okla. Sept. 5, 2006), *aff'd in part, rev'd in part, vacated in part*, 536 F.3d 1311 (Fed. Cir. 2008); *Paice LLC v. Toyota Motor Corp.*, 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 (Fed. Cir. 2007).

<sup>56</sup> 536 F.3d 1311 (Fed. Cir. 2008).

<sup>57</sup> *Id.* at 1329. The exclusive licensee should have had standing to seek injunctive relief itself. Indeed, absent an agreement to be bound by any judgment in the patentee's suit, the exclusive licensee likely was a necessary party to the infringement suit. *See Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1344 (Fed. Cir. 2006) ("For the same policy reasons that a patentee must be joined in any lawsuit involving his or her patent, there must be joinder of any exclusive licensee.").

<sup>58</sup> *Voda*, 536 F.3d at 1329.

<sup>59</sup> *Id.*

[i]n 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 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.<sup>60</sup>

Thus, while theoretically licensing-only patent-holding companies 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 licensing-only patent-holding company cannot rely on the irreparable harm its nonexclusive licensees will suffer from the infringement.<sup>61</sup> Instead, the holding company must show that as a result of continued infringement, the holding company's licensing program will suffer irreparable harm. Perhaps, it could do this by showing that as a result of the continued infringement its 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.<sup>62</sup>

Potentially creating a further impediment for a licensing-only patent-holding company to obtain a permanent injunction, the Federal Circuit has instructed that while a patentee “ha[s] 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.”<sup>63</sup> Consequently, courts recent-

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<sup>60</sup> *Id.* (internal citations omitted).

<sup>61</sup> To the extent that a licensing-only patent-holding company has granted an *exclusive* license to an asserted patent, that exclusive licensee would have standing to join the licensing-only patent-holding company and assert the irreparable harm to its exclusive rights in the patent to support a permanent injunction.

<sup>62</sup> See *Roper Corp. v. Litton Sys., 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.”).

<sup>63</sup> *Verizon Servs. Corp. v. Vonage Holding Corp.*, 503 F.3d 1925, 1311 n.12 (Fed. Cir. 2007). 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.

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ly appear receptive to ordering an “on-going” royalty in lieu of an injunction<sup>64</sup> or to including 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.<sup>65</sup> A court inclined to consider “on-going” royalty rates and “sunset” provisions may become subconsciously less receptive to awarding permanent injunctive relief to a licensing-only patent-holding company.<sup>66</sup>

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Broadcom Corp. v. Qualcomm, Inc., 543 F.3d 683, 704 (Fed. Cir. 2008); *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1003 n.12 (Fed. Cir. 1986) (“One who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against continuing infringement destroys the business so elected.”).

<sup>64</sup> *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314–15 (Fed. Cir. 2007), *on subsequent proceedings*, No. 2:04-CV-211, 2009 WL 1035218, at \*3–9 (E.D. Tex. Apr. 17, 2009) (after holding an evidentiary hearing, since the parties could not agree on a post-judgment royalty rate, setting a royalty rate by accounting for the fact that the infringer would be voluntarily committing willful infringement, thereby accepting patentee’s proposed application of 25% of the infringer’s profits downwardly adjusted to account for the low amount of damages awarded by the jury and to limit the components of the automobile for which the profits were attributable); *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, No. CV-03-0597-PHX-MHM, 2009 WL 920300, at \*5 (D. Ariz. Mar. 31, 2009) (denying permanent injunction because it was “satisfied that a fair and full amount of compensatory money damages, when combined with a progressive compulsory license, will *adequately* compensate Plaintiffs’ injuries, such that the harsh and extraordinary remedy of injunction—with its potentially devastating public health consequences—can be avoided”); *Hynix Semiconductor Inc. v. Rambus Inc.*, No. C-00-20905 RMW, 2009 WL 440473, at \*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); *Boston Scientific Corp. v. Johnson & Johnson*, No. C 02-0790 SI, 2008 WL 5054955, at \*3–4 (N.D. Cal. Nov. 25, 2008) (ruling that it could award defendant an on-going royalty rate for the plaintiff’s infringement of the defendant’s patent in lieu of a permanent injunction even though the defendant failed to put on any evidence of a royalty rate for past infringement during the trial, and could do so without violating the plaintiff’s right to a jury trial since the court was awarding equitable relief by issuance of the on-going royalty), *on subsequent proceedings*, 2009 WL 975424, at \*3 (N.D. Cal. Apr. 9, 2009) (awarding a post-judgment on-going royalty rate of 5.1%). *See generally* 5 APD, *supra* note 6, § 32:161 (“‘Ongoing’ royalty in lieu of an injunction”).

<sup>65</sup> *Broadcom Corp.*, 543 F.3d at 704.

<sup>66</sup> *See, e.g., Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (affirming denial of a permanent injunction and order of a compulsory license where patentee did not commercially practice the patented invention); *cf. Cummins-Allison Corp. v. SBM Co.*, 584 F. Supp. 2d 916, 917–21 (E.D. Tex. 2008) (ruling that it would submit to the jury the question of calculating a royalty rate for future infringement and rejecting patentee’s argument that asking the jury to make this determination would be wasteful and would unfairly jeopardize the patentee’s ability to seek a permanent injunction); *Ariba, Inc. v. Emptoris, Inc.*, 567 F. Supp. 2d 914, 916–18 (E.D. Tex. 2008) (ruling that the court would instruct the jury to determine, as a separate question, a royalty rate for future infringement damages in

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.<sup>67</sup> 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 subsidiary patent-holding company cannot obtain an injunction.

Research entities that license their patents appear to have a greater chance of demonstrating irreparable harm sufficient to obtain a permanent injunction than a licensing-only patent-holding company. For example, in *Commonwealth Scientific & Industrial Research Organisation v. Buffalo Technology Inc.*,<sup>68</sup> Judge Davis of the United States District Court for the Eastern District of Texas granted a permanent injunction to a foreign government-sponsored research institution.<sup>69</sup> Under the circumstances of the case, Judge Davis found that the infringement affected core technology developed by the patentee and later used as a basis of an industry standard.<sup>70</sup> Further, the court found that permitting continued infringement would harm the patentee's reputation as a research lead-

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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 or to set the amount to be paid into escrow for any stay of an injunction during an appeal or provide a benchmark for the parties to use in negotiating a license).

<sup>67</sup> 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 might 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, 706–07 (S.D. Tex. 1995) (denying motion to dismiss parent corporation of patentee subsidiary corporation in suit because parent had an equitable title to the patent via its ownership of the subsidiary and therefore could pursue with the subsidiary claims for injunctive relief, but only the subsidiary had standing for the claims seeking money damages); see 1 APD, *supra* note 6, § 9:76 (discussing “parent corporation”). See generally 1 APD, *supra* note 6, § 9:77 (discussing “equitable owners”).

<sup>68</sup> 492 F. Supp. 2d 600 (E.D. Tex. 2007), *aff'd in part*, 542 F.3d 1363 (Fed. Cir. 2008) (delaying the question of whether entry of a permanent injunction was an abuse of discretion since court vacated summary judgment because claims were not obvious and remanded for district court to conduct further proceedings on the issue of obviousness).

<sup>69</sup> *Id.* at 607–08.

<sup>70</sup> *Id.* at 606.

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er and would result in lost research opportunities based on the patentee having to divert money to enforce its patents rights.<sup>71</sup> In the district court's view, this showed irreparable harm that a compulsory license could not remedy.<sup>72</sup>

Where the accused product is made abroad and then imported into the United States and sold, a patent-holding company may attempt to seek a general or limited exclusion order at the U.S. International Trade Commission ("ITC").<sup>73</sup> Where a patentee can show a Tariff Act violation,<sup>74</sup> an exclusion order is generally a mandatory remedy without regard to whether the patentee can show entitlement to a permanent injunction under *eBay*.<sup>75</sup>

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<sup>71</sup> *Id.* at 604.

<sup>72</sup> *Id.* at 606. Should a research entity, such as a university, create a subsidiary holding company to maintain and license the university's patents, the *Voda* ruling—that a patentee must show it personally will suffer irreparable harm—could apply when the research entity assigns the patents to the holding company. In that scenario, if the university, for purposes of injunctive relief only, does not join the holding company in the suit to enforce the patent, an infringer could conceivably argue that any injury to the university's reputation as an innovator does not impute to the holding company to support an injunction.

<sup>73</sup> *See Yingbin-Nature (Guangdong) Wood Indus. Co. v. Int'l Trade Comm'n*, 535 F.3d 1322, 1330 (Fed. Cir. 2008) ("When the Commission determines that there has been a violation of [§] 337 [of the Tariff Act], it may issue one of two types of exclusion orders: a limited exclusion order or a general exclusion order. Both orders direct U.S. Customs and Border Protection ('Customs') to bar infringing products from entering the country. A limited exclusion order is 'limited' in that it only applies to the specific parties before the Commission in the investigation. In contrast, a general exclusion order bars the importation of infringing products by everyone, regardless of whether they were respondents in the Commission's investigation. A general exclusion order may only be issued if (1) [it is necessary to prevent circumvention of an exclusion order limited to products of named persons], or (2) 'there is a pattern of violation of [19 U.S.C § 1337] and it is difficult to identify the source of infringing products.'"). *See generally* 2 APD, *supra* note 6, § 10:123 discussing "exclusion orders".

<sup>74</sup> "To show a violation of [§] 337(a)(1)(B) or [§] 337(a)(2), a complainant can prove three elements: (1) the importation of goods into the United States or sales of imported goods within the United States; (2) infringement by those goods or sales of a valid and enforceable United States patent; and (3) an industry in the United States marketing the patented articles." *Alloc, Inc. v. Int'l Trade Comm'n*, 342 F.3d 1361, 1365 (Fed. Cir. 2003) (citing 19 U.S.C. §§ 1337(a)(1)(B), 1337(a)(2) (2000)). *See generally* 2 APD, *supra* note 6, § 10:120 (discussing "prohibited importation due to patent infringement").

<sup>75</sup> 19 U.S.C. § 1337(d)(1) ("If the Commission determines, as a result of an investigation under this section, that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry.").

To obtain an exclusion order, a patentee must not only show that the imported product infringes its patent but also show that a domestic industry for the patented technology exists in the United States or is in the process of being established.<sup>76</sup> Under 19 U.S.C. § 1337(a)(3), 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.”<sup>77</sup>

The requirement of showing a domestic industry may provide a potential obstacle to a patent-holding company’s ability to successfully assert a claim in the ITC proceeding. U.S.-based research entities and subsidiary patent-holding companies 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 licensing-only patent-holding company likely will not have this ability since it usually employs only a handful of employees, if any, 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 licensing-only patent-holding company to show a domestic industry. One that has a significant number of licensees under the asserted patent may be able to show a domestic industry with evidence of “substantial investment” of exploiting the patent through licensing. As of now, however, the Federal Circuit and the ITC have not 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.”<sup>78</sup>

### ***B. Preliminary Injunctions***

Patent-holding companies seeking to nonexclusively license their patents may find they face an even tougher time showing entitlement to the ex-

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<sup>76</sup> *Id.* § 1337(a)(2). See generally 2 APD, *supra* note 6, § 10:121 (discussing the “requirement of a domestic industry”).

<sup>77</sup> 19 U.S.C. § 1337(a)(3).

<sup>78</sup> Currently, there are a few cases pending in the ITC brought by licensing only patent-holding companies, although these cases have yet to reach the Federal Circuit. See Joe Mullin, *Will the ITC Become the New Troll Hangout?*, THE AMLAW DAILY, Jan. 13, 2009, <http://amlawdaily.typepad.com/amlawdaily/2009/01/a-new-troll-hangout.html> (last visited May 4, 2009).

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traordinary relief of a preliminary injunction<sup>79</sup> than they face showing entitlement for a permanent injunction. Indeed, the Federal Circuit has placed its heavy thumb on the denial side of the “preliminary injunction scale” by stating in *Abbott Laboratories v. Sandoz, Inc.*<sup>80</sup> 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.<sup>81</sup>

The Federal Circuit’s position in *Abbott* may have its origins in the jurisprudence that holds that a patentee’s choice not to commercially practice the patented invention tends to negate a finding of irreparable harm,<sup>82</sup> as may a patentee’s willingness to grant nonexclusive licenses.<sup>83</sup>

*Abbott* also suggests that even if a presumption of irreparable harm has survived after *eBay* (currently an unsettled issue),<sup>84</sup> the Federal Circuit likely would not approve of applying a presumption of irreparable harm to a licensing-only patent-holding company.

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<sup>79</sup> *Winter v. Natural Res. Def. Council*, 129 S. Ct. 365, 376 (2008) (“A preliminary injunction is an extraordinary remedy never awarded as of right.”). See generally 5 APD, *supra* note 6, § 32:19 (discussing “extraordinary remedy not to be routinely granted”).

<sup>80</sup> 544 F.3d 1341 (Fed. Cir. 2008).

<sup>81</sup> *Id.* at 1362–63 (affirming preliminary injunction enjoining infringement and finding that even though the patentee had licensed two other generic competitors, the additional market share loss and price erosion it was likely to suffer based on the accused infringer’s sales created irreparable harm).

<sup>82</sup> See, e.g., *High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1556 (Fed. Cir. 1995) (“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 5 APD, *supra* note 6, § 32:53 (discussing “patentee not practicing the invention”).

<sup>83</sup> See generally 5 APD, *supra* note 6, § 32:50 (discussing “patentee’s licensing activity”).

<sup>84</sup> Latimer, Mayberry & Matthews IP Law, Patent Happenings, Nov. 2008, <http://www.latimerip.com/phpages/novph08.html> (analyzing presumption of harm in patent cases in view of *Winter v. Natural Resources Defense Council*, 129 S. Ct. 365 (2008) and *Amoco Production Co. v. Village of Gambell*, 480 U.S. 531 (1987)); see *supra* note 36 and accompanying text. See generally 5 APD, *supra* note 6, § 32:64 (discussing “questions regarding legality of the presumption”).

### III. PERSONAL JURISDICTION AND VENUE

#### A. *Personal Jurisdiction: Imputing a Parent Company's Jurisdictional Contacts*

Where a patent-holding company seeks to enforce patent rights without litigation, the company's enforcement activities may create a sufficient controversy with an accused infringer to support a declaratory judgment claim.<sup>85</sup> If an accused infringer asserts a declaratory judgment claim against a subsidiary patent-holding company, legal issues relating to the scope of jurisdictional contacts for the holding company can arise.

Normally, subsidiary and parent corporations have separate legal identities, and therefore the jurisdictional contacts of one do not routinely impute to the other.<sup>86</sup> To the extent a subsidiary corporation serves as the alter-ego of a parent corporation, the jurisdictional contacts of the two can impute to each other. In the context of a subsidiary patent-holding company, the Federal Circuit has applied a *de facto* alter-ego finding to impute the jurisdictional contacts of the parent corporation to the holding company. For example, in *Dainippon Screen Manufacturing Co. v. CFMT, Inc.*,<sup>87</sup> the court held that, in the context of due process concerns for exercising personal jurisdiction, fairness considerations do not prohibit using the jurisdictional contacts of a parent corporation to support the exercise of personal jurisdiction over the subsidiary.<sup>88</sup> Explaining that patentees may not create holding companies to thwart the ability of accused infringers to bring declaratory judgment actions, the Federal Circuit stated that

[w]e also agree with Dainippon that the parent-subsidiary relationship between CFM [the parent company] and CFMT [the subsidiary holding company] leads to the conclusion that the imposition of personal jurisdiction over CFMT is "reasonable and fair" . . . . Stripped to its essentials, CFM contends that a parent company can incorporate a holding company in another state, transfer its patents to the holding company, arrange to have those patents li-

<sup>85</sup> See generally 5 APD, *supra* note 6, § 37:15 (discussing the "post-*MedImmune* 'all circumstances' standard for showing actual controversy").

<sup>86</sup> E.g., *Cannon Mfg. Co. v. Cudahy Packing Co.*, 267 U.S. 333, 336–37 (1925) (affirming dismissal of parent corporation for lack of personal jurisdiction and ruling that the court's ability to exercise personal jurisdiction over the wholly-owned subsidiary did not mean that it could exercise jurisdiction over the parent corporation, where the parent did not transact business in the forum and even though the parent and subsidiary had the same corporate officers, both corporations maintained the formal distinctions between the two). See generally 5 APD, *supra* note 6, § 36:81.

<sup>87</sup> 142 F.3d 1266 (Fed. Cir. 1998).

<sup>88</sup> *Id.* at 1271.



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censed back to itself by virtue of its complete control over the holding company, and threaten its competitors with infringement without fear of being a declaratory judgment defendant, save perhaps in the state of incorporation of the holding company. This argument qualifies for one of our “chutzpah” awards. (. . . “chutzpah” describes “the behavior of a person who kills his parents and pleads for the court’s mercy on the ground of being an orphan”). While a patent holding subsidiary is a legitimate creature and may provide certain business advantages, it cannot fairly be used to insulate patent owners from defending declaratory judgment actions in those fora where its parent company operates under the patent and engages in activities sufficient to create personal jurisdiction and declaratory judgment jurisdiction.<sup>89</sup>

Hence, subsidiary patent-holding companies may find that they must account for the jurisdictional contacts of their corporate parents when assessing the likelihood of a particular district court having personal jurisdiction over the holding company for purposes of a noninfringement, invalidity or unenforceability declaratory judgment claim.

### ***B. Venue: Giving Less Weight to “Home” Forum Status***

Patent-holding companies often do not have a significant operational presence in the forum in which they reside.<sup>90</sup> As a result, these companies may encounter greater difficulties in attempting to withstand the opposing party’s

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<sup>89</sup> *Id.* (internal citations omitted) (reversing dismissal for lack of personal jurisdiction of accused infringer’s declaratory judgment complaint); *accord* Alien Tech. Corp. v. Intermec, Inc., No. 3:06-cv-51, 2007 WL 63989, at \*6–8 (D.N.D. Jan. 4, 2007) (denying motion to dismiss patent-holding company for lack of personal jurisdiction where court could exercise general jurisdiction over the parent of the holding company and imputing the general jurisdictional contacts of the manufacturer to the patent-holding company and overall parent company). *But cf.* PrimeSource Bldg. Prods., Inc. v. Phillips Screw Co., No. 3-07-CV-0303-M, 2008 WL 779906, at \*6–9 (N.D. Tex. Mar. 25, 2008) (rejecting argument that jurisdictional contacts of patentee’s subsidiary corporation, which acted as a national distributor of products, should impute to the patentee to support personal jurisdiction for a declaratory judgment claim where there was no evidence that the subsidiary “was formed to insulate Phillips from defending declaratory judgment actions in distant forums”).

<sup>90</sup> *See* CSI Tech., Inc. v. Commtest Instruments Ltd., No. 08-450 (RHK/JJK), 2008 WL 4057546, at \*5–8 (D. Minn. Aug. 26, 2008) (granting accused infringer’s motion to transfer patentee’s first-filed suit regarding one patent to the accused infringer’s home forum where the accused infringer had a second-filed declaratory judgment action challenging three patents, where the patentee was a Delaware patent-holding company, with no offices in the forum, the court ruling that the convenience factors favored transfer and noting that “[n]o CSI employees have been identified as potential witnesses in this case, likely because CSI is a mere intellectual-property holding company”).

motion to transfer venue for convenience under 28 U.S.C. § 1404(a) than a practicing patentee who brings suit in the forum in which it resides and operates.<sup>91</sup>

For § 1404(a) transfer motions, courts generally give extra weight to a plaintiff's choice of forum if the plaintiff brought suit in its "home" forum.<sup>92</sup> Seeking to take advantage of this principle, some patentees, shortly before commencing an infringement suit, will form a patent-holding company in a specific forum deemed strategically advantageous for purposes of the infringement suit.<sup>93</sup> In the event the accused infringer files a § 1404(a) transfer motion, the holding company may argue that its choice of forum should have extra weight since the holding company brought suit in its home forum. Where the facts may suggest that the business formed the holding company in the forum primarily as a means of forum shopping, the courts give little credence to the holding company's "home" forum argument.<sup>94</sup> Additionally, the Federal Circuit's recent

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<sup>91</sup> See *Gulf Oil Corp. v. Gilbert*, 330 U.S. 501, 507–12 (1947) (setting forth the relevant factors that should be considered in determining whether the interest of justice warrant a transfer of an action). See generally 5 APD, *supra* note 6, §§ 36:163 (discussing "general aspects of transferring venue under 28 U.S.C. § 1404(a)"), § 36:165.

<sup>92</sup> E.g., *Travel Tags, Inc. v. Performance Printing Corp.*, No. 06-2970 (DWF/SRN), 2007 WL 2122662, at \*2–3 (D. Minn. July 19, 2007) (refusing to apply center-of-gravity rule to transfer infringement action to accused infringer's home forum since the patentee had filed suit in its home forum and stating "[a] presumption in favor of a plaintiff's choice of forum exists . . . [t]his is particularly true where the plaintiff resides in the district in which the lawsuit was filed" (internal quotation omitted)); *Netalog, Inc. v. Tekkeon, Inc.*, No. 1:05CV00980, 2007 WL 534551, at \*5–6 (M.D.N.C. Feb. 15, 2007) ("[W]here a plaintiff chooses to bring suit in its home state and the cause of action arises out of the defendant's contacts with that state, plaintiff's choice of forum is entitled to greater deference."); see also 5 APD, *supra* note 6, § 36:168 (discussing "plaintiff's choice of forum").

<sup>93</sup> E.g., *Surfer Internet Broad. of Miss., LLC v. XM Satellite Radio Inc.*, No. 4:07CV034, 2008 WL 1868426, at \*1 (N.D. Miss. Apr. 24, 2008).

<sup>94</sup> E.g., *id.* at \*2–4 (granting accused infringer's motion to transfer venue to the Southern District of New York, home of the accused infringer, and rejecting as being "unconvincing" the plaintiff's arguments that Mississippi had a significant interest because the plaintiff was a Mississippi corporation; the court noting that the plaintiff holding company only came into existence seven days before the institution of this lawsuit, did not appear to do substantial business in the state and did not employ state residents; therefore the state "ha[d] a very limited interest in this matter"); *Gemini IP Tech., LLC v. Hewlett-Packard Co.*, No. 07-C-205-S, 2007 WL 2050983, at \*1–3 (W.D. Wis. July 16, 2007) (granting accused infringer's motion to transfer infringement action to its home forum, where the patent-holding company was established in the forum only for the purpose of manufacturing venue in the forum); *Broad. Data Retrieval Corp. v. Sirius Satellite Radio Inc.*, 79 U.S.P.Q.2d (BNA) 1603, 1605–06 (C.D. Cal. 2006) (granting accused infringer's motion to transfer infringement action and giving little weight to argument that the patentee, a holding company, had brought suit in its home forum where the company had only been formed three weeks before filing suit, and the plaintiff "ha[d] failed to demonstrate that in those three weeks it engaged in any

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suggestion in *In re TS Tech USA Corp.*,<sup>95</sup> that the venue of a patent infringement action should have some “meaningful tie” with the infringement case, may present a further hurdle to patent-holding companies seeking to avoid a § 1404(a) transfer.<sup>96</sup>

Furthermore, some courts appear hostile to venue choices of manufacturer-related patent-holding companies if the judge perceives that the manufacturer established the holding company as a way of limiting an accused infringer to filing a separate infringement suit in another forum to pursue infringement counterclaims against the manufacturer. Noting its disapproval on how this possible “gamesmanship” thwarts the efficient administration of justice, the district court in *Collaboration Properties, Inc. v. Tandberg ASA*<sup>97</sup> refused to grant leave to a defendant accused infringer to add a counterclaim or a defense against the patentee’s parent because the accused infringer refused to accept the court’s condition of effectively transferring venue of a patent infringement action, which the accused infringer’s patent-holding company had filed against the plaintiff’s manufacturing parent in another forum.<sup>98</sup> Addressing its desire to curb what it labeled “abusive litigation tactics” arising from the use of patent-holding companies to force suits in separate forums, the district court explained:

The condition imposed in this case—transfer to a venue where the very same attorneys are already employed—is less severe than monetary sanctions or elimination of the jury trial right. The condition imposed, moreover, is a reasonable prophylactic against abusive litigation tactics. This court is not alone in its concern over gamesmanship in the selection of forum for patent litigation. . . .

. . . .

Another phenomenon resulting in the unnecessary multiplication of litigation is the creation of patent holding subsidiaries by parent companies. This is the situation here. The action brought in this court is brought by the patent holding company of Avistar; the action in the Eastern District of Texas is brought by the patent holding company of the defendant in this action, Tandberg ASA.

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activity that would give this District a significant connection to this action,” therefore concluding that “[p]laintiff’s choice of forum is entitled to minimal deference, especially in light of [plaintiff’s] efforts to forum shop”).

<sup>95</sup> 551 F.3d 1315 (Fed. Cir. 2008).

<sup>96</sup> *Id.* at 1321 (granting mandamus petition and reversing district court’s denial of accused infringer’s motion to transfer infringement action to Ohio, the accused infringer’s home forum, where neither the patentee nor accused infringer had any offices in the forum, and the only tie to the forum was that the some of the accused products, which were sold nationwide, were sold in the forum).

<sup>97</sup> No. C 05-01940 MHP, 2006 WL 2398763 (N.D. Cal. June 27, 2006).

<sup>98</sup> *Id.* at \*4.

In this configuration the holding company holds the patent rights and is free to sue for infringement without fear of infringement counterclaims by the competitor it is suing. The competitor via its holding company then brings an action in another jurisdiction, suing the parent or other infringing member of the competitor's family of companies. Conveniently, the holding company is organized and has its principal place of business in a jurisdiction or jurisdictions different from the parent or other infringing family member and cannot be subject to personal jurisdiction in the same jurisdiction as the alleged infringer. Predictably, this results in multiple lawsuits which essentially are between the same parties. Thus, the ability to conduct litigation in an efficient, economical manner consistent with Rule 1 of the Federal Rules of Civil Procedure is thwarted.

... Based on the concerns stated by these commentators, as well as the evidence of gamesmanship in this case, the court finds its condition on amendment to be manifestly reasonable.<sup>99</sup>

To date, no other court has followed *Collaboration Properties* in a published opinion, but the opinion stands as a warning that the judiciary may not act kindly to acts it views as attempting to use patent-holding companies to obtain unfair procedural advantages in litigation.

#### IV. RESISTING A STAY PENDING REEXAMINATION

A litigation tactic that has gained in popularity over the last several years involves an accused infringer—after being served with an infringement complaint—seeking an *ex parte* or *inter partes* reexamination in the PTO<sup>100</sup> and then requesting that the district court stay the infringement litigation pending the outcome of the reexamination proceeding.<sup>101</sup>

A patent-holding company's failure to practice the patented invention can, in some circumstances, make it more difficult to resist an accused infringer's request for a stay pending a reexamination. In general, when

ruling on a motion to stay, courts consider whether a stay would unduly prejudice or present a clear tactical disadvantage to the non-moving party, whether a stay will simplify the issues in question and trial of the case, whether discovery is completed, and whether a trial date has been set.<sup>102</sup>

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<sup>99</sup> *Id.* at \*3–4.

<sup>100</sup> See 35 U.S.C. §§ 302–318 (2006). See generally 4 APD, *supra* note 6, § 25:97 (discussing “statutory authority to reexamine patent in PTO”).

<sup>101</sup> See generally 4 APD, *supra* note 6, §§ 25:121 (discussing “reasons often cited to grant stay”), 25:123 (discussing “reasons often cited for denying a stay”).

<sup>102</sup> *Guthy-Renker Fitness L.L.C. v. Icon Health & Fitness Inc.*, 48 U.S.P.Q.2d (BNA) 1058, 1060 (C.D. Cal. 1998).

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The factor of “undue prejudice” if a stay is granted generally has weight in the analysis of whether to grant a stay.<sup>103</sup> Because patent-holding companies do not practice the patented technology, courts may find that the holding company will not suffer undue prejudice from a delay of an infringement suit and can be made whole by an award of money damages and prejudgment interest.<sup>104</sup>

The Federal Circuit’s recent opinion in *Procter & Gamble Co. v. Kraft Foods Global, Inc.*,<sup>105</sup> may level the playing field for holding companies. In *Procter & Gamble*, the Federal Circuit instructed that “a stay should ordinarily not be granted unless there is a *substantial patentability issue raised in the inter partes* reexamination proceeding.”<sup>106</sup> The court further instructed that that if it appears that the patentability question at issue in the reexamination has become “insubstantial” as the reexamination proceeds, the district court may lift a pre-

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<sup>103</sup> *E.g.*, *O2 Micro Int’l Ltd. v. Beyond Innovation Tech. Co.*, No. 2-04-CV-32 (TJW), 2008 WL 4809093, at \*2–3 (E.D. Tex. Oct. 29, 2008) (denying accused infringer’s motion to stay litigation pending a reexamination of the three asserted patents by a third party because the patentee would suffer undue prejudice since the patentee was a direct competitor with the accused infringer); *Output Tech. Corp. v. Dataproducts Corp.*, 22 U.S.P.Q.2d (BNA) 1072, 1074 (W.D. Wash. 1991) (denying accused infringer’s motion to stay infringement suit pending reexamination in part because the accused infringer had not made out a case of hardship if the stay were not granted and the patentee argued that as a small company it would be harmed if the accused infringer continued to infringe during the stay).

<sup>104</sup> *E.g.*, *Implicit Networks, Inc. v. Advanced Micro Devices, Inc.*, No. C08-184JLR, 2009 WL 357902, at \*3–4 (W.D. Wash. Feb. 9, 2009) (granting accused infringer’s motion to stay case pending *ex parte* reexamination and ruling that since the patentee was a holding company it would not be prejudiced by the stay and rejecting argument that patentee’s licensing ability would be irreparably impacted); *Roblor Mktg. Group, Inc. v. GPS Indus., Inc.*, No. 08-21496-CIV, 2008 WL 5210946, at \*5 (S.D. Fla. Dec. 11, 2008) (granting a limited stay pending a reexamination and finding that because the patentee was a patent-holding company that did not make a product it would not be harmed by the limited stay); *Cross Atlantic Capital Partners, Inc. v. Facebook, Inc.*, No. 07-2768, 2008 WL 3889539, at \*1–2 (E.D. Pa. Aug. 18, 2008) (granting accused infringer’s motion to stay case during PTO’s consideration of whether it would grant an *inter partes* reexamination, even though trial was set to begin in three months, discovery had been completed and dispositive motions filed; the court finding that the patentee, who was not selling any product or services covered by the patent would not be prejudiced from the stay). *But see* *BarTex Research, LLC v. FedEx Corp.*, No. 6:07-CV-385, 2009 WL 1164567, at \*4 (E.D. Tex. Apr. 20, 2009) (denying accused infringer’s request for a stay pending an *inter partes* reexamination and finding that the patent-holding company that did not practice the invention could still suffer undue prejudice and irreparable harm from the stay based on statistics suggesting that it could take almost six and half years to complete the reexamination; “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.”)

<sup>105</sup> 549 F.3d 842 (Fed. Cir. 2008).

<sup>106</sup> *Id.* at 849 (emphasis added).

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viously granted stay.<sup>107</sup> Thus, under *Procter & Gamble*, district courts appear to have the authority to evaluate for themselves the substantiality of the merits of the reexamination as part of deciding whether to stay a case pending the reexamination. A conclusion that the prior art before the PTO in a reexamination proceeding does not raise a “substantial question of patentability” at the time the accused infringer has moved for a stay may overcome an inability to show undue prejudice should the court grant the stay.

**V. CONCLUSION**

Patent-holding companies now comprise a notable portion of the plaintiffs bringing suits to enforce patent rights. The non-practicing nature of the holding company, at present, can limit the scope of remedies the holding company may successfully pursue, specifically in the area of lost-profit compensatory damages and injunctive relief. It may also impact various procedural aspects of a case. As more suits involving patent-holding companies work their way through the courts, judicial refinements in the law as applied to holding companies will follow.

In the meantime, when analyzing situations involving patent-holding companies, practitioners should avoid applying categorical and generalized rules. Rather the facts relating to each holding company’s use of its patents, including the specifics of the relationships it has with licensees or related corporate entities, must be individually considered for their impact on the particular legal issue at hand.

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<sup>107</sup> *Id.* at 849 n.2.