

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

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ANNOTATED PATENT DIGEST  
PATENT JURY INSTRUCTION HANDBOOK  
*Patent Happenings<sup>TM</sup>*

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## **I. Introduction**

The last decade has seen the prominent emergence of a new breed of patent enforcer – 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, a holding company will have as its sole business function the mission to acquire and then license patents.<sup>2</sup> These “licensing only patent-holding companies” (“LO-PHC”) do not themselves create technology, nor do they commercially produce or sell products using the patented technology. After acquiring a patent from a solo inventor, financially distressed company, or other source, many of these LO-PHCs 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 LO-PHC 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 LO-PHC 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 (“Sub-PHC”) to hold, maintain, and possibly license its own patents.<sup>4</sup> Still in other circumstances, research entities (either commercial or educational) may act as a *de facto* holding company. After obtaining patents covering the technology developed by their researchers, such entities often seek to license the patents, rather than commercially practice the patents, to raise revenues to support further research activities.<sup>5</sup> These three

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<sup>1</sup> See generally, Kevin G. Rivette and David Kline, *Rembrandts in the Attic – Unlocking the Hidden Value of Patents* (2000).

<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 intellectual property including business models that seek “to monetize patents based strategic acquisitions and assertion[.]” See <http://www.ftc.gov/os/2008/11/P093900ipwkspfrn.pdf>.

<sup>3</sup> Courts have noted that while a LO-PHC often may sue to enforce patents, that does not necessarily make litigation “the business” of the LO-PHC. *In re Papst Licensing GMBH & Co. KG Litig.*, \_\_ F. Supp. 2d \_\_, 2008 WL 5179084, \*3 (D.D.C. Dec. 11, 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, 504-13 (Fall 2004) (discussing, *inter alia*, use of patent-holding companies and standing issues regarding manufacturing corporations who own the holding company).

models, and variations thereof, have the common characteristic that the entity holding and enforcing the patent does not commercially practice the patented technology.

The majority of substantive and procedural aspects of enforcing a patent in the federal courts do not differ when a nonpracticing 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 nonpracticing 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 purposes of a declaratory judgment claim challenging the patent. It can also impact the ability to assert a "home" forum for purposes of avoiding a transfer of venue requested by an accused infringer. This paper discusses the current state of the law for each of these topics.

## **II. 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 patent-holding 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> Thus, the Federal Circuit has explained that "[n]ormally, if the patentee is not selling a product, by definition there can be no lost profits."<sup>8</sup> Since patent-holding companies typically do not make or sell a commercial

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<sup>5</sup> *E.g.*, *Commonwealth Scientific and Industrial Research Organisation v. Buffalo Technology Inc.*, 492 F. Supp. 2d 600 (E.D. Tex. June 15, 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), *related appeal*, 542 F.3d 1363, 1386 (Fed. Cir. 2008).

<sup>6</sup> "[U]nlike copyright and trademark infringements, patent infringement carries no remedy of an accounting for an infringer's profits." *Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660, 673, 7 USPQ2d 1097, 1107 (Fed. Cir. 1988). *See generally*, Robert A. Matthews, Jr., 4 *Annotated Patent Digest* § 30:2 Disgorgement of Infringer's Profits is Not the Measure of Damages [*hereinafter* APD].

<sup>7</sup> *See King Instrument Corp. v. Perego*, 65 F.3d 941, 949, 36 USPQ2d 1129, 1135 (Fed. Cir. 1995). *See generally*, APD § 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, 35 USPQ2d 1065, 1071 (Fed. Cir. 1995) (*en banc*). *Accord Hebert v. Lisle Corp.*, 99 F.3d 1109, 1119, 40 USPQ2d 1611, 1618 (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, 16 USPQ2d 1059, 1061 (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 v. American Hoist & Derrick Co.*, 895 F.2d 1403, 1406 n.2, 13 USPQ2d 1871, 1874 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.").

product, the holding company does not have a basis to assert a claim for lost profits based on its 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 sister corporation, or even a licensee. 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 related corporation from a third party's patent infringement do not constitute profits lost by the *patentee*. Explaining this principle in *Poly-America, L.P.*, the Federal Circuit stated that where 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>9</sup> Accordingly, a patent-holding company may not claim as its own the lost profits of a separate corporation merely because the patentee has a relationship with the corporation.

Should the parent or sister corporation, or unrelated licensee, hold an *exclusive* license to the asserted patent, then the parent or sister corporation can join the patent-holding company in an infringement suit based on its *own* rights in the patent via the exclusive license. Thus, the parent or sister corporation may assert a claim for lost-profit damages to the extent the infringement violates the exclusive rights it holds in the patent.<sup>10</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>11</sup> and thus has no right to make any claim for money damages.<sup>12</sup>

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<sup>9</sup> *Poly-America, L.P. v. GSE Lining Tech., Inc.*, 383 F.3d 1303, 1311, 72 USPQ2d 1685, 1690 (Fed. Cir. 2004) (reversing denial of accused infringer's motion for a new trial on the issues of damages because district court erred as a matter of law in determining that patentee was entitled to recover the profits its sister corporation, the manufacturing arm of the corporate family, lost from the alleged infringement, where the sister corporation only held a nonexclusive license to the infringed patent, even though the patentee had contractually agreed with the sister corporation to have the right to recover whatever damages accrued to the sister corporation as a result of infringement). *See also Therasense, Inc. v. Becton, Dickinson and Co.*, 2008 WL 2323856, \*5 (N.D. Cal. May 22, 2008) (granting motion in limine barring evidence of lost-profit damages sustained by manufacturing subsidiary of parent patentee from the alleged infringement).

<sup>10</sup> *See generally*, § 30:65 Exclusive Licensee can Recover its Lost Profits.

<sup>11</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 Pharmaceutical Corp. v. Genetics Institute, Inc.*, 52 F.3d 1026, 1031, 34 USPQ2d 1444, 1447 (Fed. Cir. 1995). *See also* APD § 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 Productions, Inc. v. Mead Corp.*, 134 F.3d 1481, 1485, 45 USPQ2d 1633, 1636 (Fed. Cir. 1998) ("A 'right to sue' provision within a license cannot, of its own force, confer standing on a bare licensee."); *see generally*, APD § 9:67 Right to Sue Clauses Ineffective.

The Federal Circuit's recent opinion in *Mars, Inc. v. Coin Acceptors, Inc.*, reaffirms that patent-holding companies normally may not recover lost-profit damages based on the profits lost by a nonexclusive licensee even where the license is a subsidiary of the patentee.<sup>13</sup> The opinion, however, suggests a *possibility* that a holding company can recover lost profits of an entity it has a commercial relationship with if the holding company can show that the profits the entity would have made but for the infringement would have "flow[ed] inexorably" to the patentee.<sup>14</sup>

In *Mars*, the Federal Circuit affirmed a ruling that denied a patentee damages based on the profits lost by the patentee's subsidiary as a result of the infringement. The subsidiary did not have standing to join the patentee in pursuing a claim for damages because it only held a nonexclusive license.<sup>15</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.

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. It noted that "while lost profits is plainly one way to measure the amount of damages that will 'fully compensate' the patentee under § 284, we have never held that it is the *only* one."<sup>16</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 whether the subsidiary made any profits or suffered losses.<sup>17</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>18</sup>

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<sup>12</sup> *Poly-America*, 383 F.3d at 1311-12, 72 USPQ2d at 1690-91; *see generally*, APD § 30:67 Nonexclusive Licensee Cannot Recover its Lost Profits; *see also A Potential Hidden Cost of a Patent-Holding Company*, 32 AIPLA Q.J. at 528-52.

<sup>13</sup> 527 F.3d 1359, 1366-67, 87 USPQ2d 1076 (Fed. Cir. 2008), *cert. denied*, No. 08-563 (Dec. 1, 2008).

<sup>14</sup> *See id.*, 527 F.3d at 1367.

<sup>15</sup> *Id.* 527 F.3d at 1365-67.

<sup>16</sup> *Id.* 527 F.3d at 1366.

<sup>17</sup> *Id.* 527 F.3d at 1367 (evidence showed only profit the patentee ever received from its subsidiary 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).

<sup>18</sup> *Id.* ("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.").

Post *Mars*, district courts have recognized the theory that a patentee may seek to recover the lost profits of a related corporation if those profits flow inexorably to the patentee.<sup>19</sup> But like the Federal Circuit, these courts have concluded that “[m]ere ownership and control [of the subsidiary] is insufficient to prove that profits flowed inexorably from a subsidiary to a parent.”<sup>20</sup>

While *Mars* discussed the lost-profits issues for related corporations, the court’s rationale to permit recovery of profits that “flow inexorably” to the patentee seems, theoretically, applicable to any entity with whom the patentee may have a commercial relationship, such as an unrelated nonexclusive licensee. 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 flow inexorably to the patentee presents a question beyond the scope of this paper.

## **B. Reasonable Royalty**

Patent law is not blind to the inherent realities created by a parent-subsidary relationship where a Sub-PHC holds the patents. While a parent corporation who does not retain an exclusive license to the patents it assigns to a Sub-PHC may not have standing to pursue its own damages claim for infringement, and its Sub-PHC 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 reasonable-royalty rate recovered by the Sub-PHC. Explaining this principle, the Federal Circuit instructed in *Union Carbide* 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>21</sup>

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<sup>19</sup> *E.g., Kowalski v. Mommy Gina Tuna Resources*, 574 F. Supp. 2d 1160, 1162-63 (D. Hawai’i 2008) (where patentee was the sole owner, president, and CEO of a corporation that sold patented product that competed with the accused infringer, granting accused infringer’s motion for summary judgment to preclude patentee from recovering as damages lost profits sustained by his corporation since patentee failed to present sufficient evidence that the corporation’s 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 that profits lost by a nonexclusive licensee/subsidiary because of infringement directly damaged the patentee, and the patentee could recover those damages. *SEB, S.A. v. Montgomery Ward & Co.*, No. 99 Civ. 9284(SCR), 2006 WL 59524, \*8-\*9 (S.D.N.Y. Jan. 9, 2006) (denying accused infringer’s motion for summary judgment that plaintiff, a patent-holding company, was precluded from recovering lost profits, as a matter of law, because it did not make and sell a product, rather its nonparty manufacturing subsidiary made and sold the patented product, and ruling that the plaintiff patentee was entitled to any damages it could prove that it sustained, and therefore to the extent its manufacturing subsidiary suffered damages from the infringement, which in turn damaged the plaintiff patent-holding company, the plaintiff could recover the damages it sustained).

<sup>20</sup> *Id.* 574 F. Supp. 2d at 1163.

<sup>21</sup> *Union Carbide Chemicals & Plastics Tech. Corp. v. Shell Oil Co.*, 425 F.3d 1366, 1378 (Fed. Cir. 2005) (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 also Gargoyles, Inc. v. United States*, 113 F.3d 1572, 1580, 42 USPQ2d 1760 (Fed Cir. 1997) (affirming use of the profits that would be lost by an entity having a

### III. Injunctive Relief

Instilling in a potential accused infringer a belief 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, an accused infringer 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 potentially infringing 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 *Seagate*,<sup>22</sup> may further embolden some accused infringers to continue with potential infringing activity if it appears that, under the circumstances, the only consequence of an infringement finding will be to pay reasonable royalty damages.<sup>23</sup>

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.

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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>22</sup> *In re Seagate*, 497 F.3d 1360, 1370-71, 83 USPQ2d 1865, 1870-71 (Fed. Cir. 2007) (*en banc*). *But see Minks v. Polaris Indus., Inc.*, 546 F.3d 1364, 1381 (Fed. Cir. 2008) (affirming enhanced damages award and stating that infringer's deliberate copying of the patented product and district court's finding that the "case was not close" could support a finding of objectively reckless conduct under *Seagate*). *See generally*, APD § 31:22 "Objective Recklessness" Standard of *Seagate*.

<sup>23</sup> 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. *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1563, 219 USPQ 377 (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, non-infringers 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 increase in the reasonable royalty determined by the court, is left to its sound discretion."). *See generally*, APD § 30:85 Accounting for Fact that Infringer is Being Ordered by Court to Pay Royalty.

## A. Permanent Injunctions

The Supreme Court rejected the application of broad categorical rules for issuing a permanent injunction in a patent case in *eBay*.<sup>24</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>25</sup> Accordingly, under *eBay*, to obtain a permanent injunction against future infringement a patentee must prove all the elements 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>26</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>27</sup> price erosion,<sup>28</sup> loss of customer good will and harm to

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<sup>24</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392-94, 126 S. Ct. 1837, 1840-41, 164 L. Ed. 2d 641, 78 USPQ2d 1577, 1579-80 (2006).

<sup>25</sup> *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247, 9 USPQ2d 1913, 1929 (Fed. Cir. 1989); *accord W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281, 6 USPQ2d 1277, 1283 (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, 219 USPQ 686, 692-93 (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.").

<sup>26</sup> To obtain a permanent injunction a plaintiff "must satisfy a four-factor test" by demonstrating "(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." *eBay*, 547 U.S. at 578. *See also*, APD § 32:159 Standards for Granting Permanent Injunctions (collecting cases and discussing the standards for a patentee to obtain a permanent injunction).

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)). *But see Amoco Prod. Co. v. Village of Gambell, Alaska*, 480 U.S. 531, 544-45, 107 S. Ct. 1396, 1404, 94 L. Ed. 2d 542 (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.*, No. 2:01cv736, 2007 WL 2172587, at \*8 (E.D. Va. July 27, 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), *aff'd*, 536 F.3d 1311, 1329, 87 USPQ2d 1742 (Fed. Cir. 2008) (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); *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, 1314-15, 85 USPQ2d 1001, 1016-17 (Fed. Cir. 2007) (noting patentee did not appeal the denial of the permanent injunction); *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440, 81 USPQ2d 1737, 1739 (E.D. Tex. 2006), *appeal dismissed*, 219 Fed. Appx. 992 (Fed. Cir. Mar. 12, 2007).

<sup>27</sup> *E.g., TiVo Inc. v. EchoStar Communs. Corp.*, 446 F. Supp. 2d 664, 670 (E.D. Tex. 2006) (Folsom, J.) (granting permanent injunction and denying motion to stay injunction where patentee showed that loss of market share was

its reputation<sup>29</sup> (especially if the infringing product is of an inferior quality compared to the patentee's product).<sup>30</sup> Courts typically find that they cannot accurately quantify the monetary harm from these form of injuries, and therefore these injuries can show that a patentee will suffer irreparable harm without an injunction.<sup>31</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>32</sup> But the trend has its exceptions. Where a patentee fails to show that the continued infringing activity by a direct competitor will irreparably harm the patentee, courts have denied permanent injunctions.<sup>33</sup>

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likely irreparable since customers were “sticky,” i.e., they stayed with manufacturer from whom they first purchased), *granting temporary stay*, No. 2006-1574 (Fed. Cir. Aug. 18, 2006) (granting emergency motion to temporarily stay injunction during pendency of full briefing on motion to stay to preserve the status quo); *see also*, APD § 32:44 Loss of Market Share (discussing and collecting cases addressing irreparable harm from losing market share in the context of preliminary injunctions).

<sup>28</sup> *E.g., Verizon Service Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295, 1310-11, 84 USPQ2d 1609, 1620 (Fed. Cir. 2007) (affirming permanent injunction and finding irreparable harm based on price erosion and lost opportunities to sell other services to customers); *see also*, APD § 32:45 Price Erosion (discussing and collecting cases addressing irreparable harm from price erosion in the context of preliminary injunctions).

<sup>29</sup> *E.g., 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 and finding that “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. . . . the value of defendant’s continued infringement (phases 3, 4, and 5) 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.”); *Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp.*, 106 F. Supp. 2d 696, 703 (D.N.J. 2000) (granting permanent injunction, 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 also* § 32:48 Harm to Patentee’s Reputation (discussing and collecting cases addressing irreparable harm from reputational harm in the context of preliminary injunctions).

<sup>30</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 Intern. Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1558, 31 USPQ2d 1781, 1785 (Fed Cir. 1994).

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

<sup>33</sup> *E.g., Advanced Cardiovascular Sys., Inc. v. Medtronic Vascular, Inc.*, 579 F. Supp. 2d 554, 561 (D. Del. Sept. 26, 2008) (denying patentee’s motion for a permanent injunction seeking to bar infringer from selling bare-metal stent even though infringer competed with the patentee, the court ruling that the patentee failed to prove irreparable harm where it failed to show that it lost any sales due to the infringer’s infringement as the business data showed the

For patentees who have not marketed a product, but only sought to license its patents, the courts appear less willing to find irreparable harm.<sup>34</sup> 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>35,36</sup>

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patentee lost sales due to a bigger competitor, whom the patentee had licensed, also finding that money damages were adequate in view of the patentee's licenses to two other competitors, further finding 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), *on subsequent appeal*, 543 F.3d 1306, 1328 n.18 (Fed. Cir. 2008) (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 the presence of the infringing product was not critical to the survival of the patentee's business and the patentee failed to show how money damages would not be adequate – on appeal, not addressing permanent injunction since issue became moot as parties entered into a hi-lo settlement based on the outcome of the appeal).

<sup>34</sup> *E.g., 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 since the patentee failed to show that the licensee's lost sales were due to the infringement and not other noninfringing product features, also noting that the patentee's willingness to license the patentee showed that money damages could be adequate), *on subsequent proceedings*, 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), *vacated on subsequent appeal*, No. 2008-1068, 2008 WL 5351734 (Fed. Cir. Dec. 24, 2008) (reversing denial of JMOL of invalidity for obviousness); *Voda*, 2006 WL 2570614, at \*5-\*6 (denying patentee's motion for a permanent injunction because the patentee failed to show irreparable harm where patentee, a doctor, did not make and sell the patented medical device, 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); *Paice*, 2006 WL 2385139, at \*5-\*6 (denying permanent injunction since patentee failed to show irreparable harm where patentee did not make a product, expressed a willingness to license patent to infringer, and failed to show how the infringement irreparably 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). *See also* APD § 32:163 Refusing Permanent Injunction or Reversing Grant Thereof. Even pre-*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. Kelly Co.*, 56 F.3d 1538, 1547, 35 USPQ2d 1065, 1071 (Fed. Cir. 1995) (*en banc*).

<sup>35</sup> *See High Tech Medical Instrumentation, Inc. v. New Image Industries, Inc.*, 49 F.3d 1551, 1557, 33 USPQ2d 2005, 2009 (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 Pharmaceuticals USA, Inc.*, 429 F.3d 1364, 1381, 77 USPQ2d 1257, 1268 (Fed. Cir. 2005) (generic manufacturer did not rebut the presumption of irreparable harm where patentee only granted an exclusive license under the patent to a product that did not compete with its commercial drug product); *Polymer Technologies, Inc. v. Bridwell*, 103 F.3d 970, 976, 41 USPQ2d 1185, 1190 (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.”). Although in that scenario one would expect the patentee to join the exclusive licensee in a suit to enforce the patent. *See note 44, infra*.

<sup>36</sup> That a patent holding is not practicing its invention can, in some circumstances, also make it more difficult to resist an accused infringer's request for a stay pending a reexamination since a nonpracticing patentee may not be able to show it will suffer undue prejudice from the delay of the suit. *E.g., Roblor Marketing Group, Inc. v. GPS Industries, Inc.*, No. 08-21496-CIV, 2008 WL 5210946, \*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).

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*, the underlying opinion to *eBay*, the Federal Circuit stated that patentees who choose to license, rather than practice, have an equal right to an adequate remedy to enforce their patent rights as those patentees who choose to practice the patented technology.

The 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>37</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>38</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 natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to

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<sup>37</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339, 74 USPQ2d 1225, 1238 (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 district court's reasons for denying the permanent injunction were not persuasive, which reasons included 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, 393, 126 S. Ct. 1837, 1840-41, 164 L. Ed. 2d 641, 78 USPQ2d 1577, 1579 (2006). *See also Acumed LLC v. Stryker Corp.*, \_\_\_ F.3d \_\_\_, \_\_\_, 2008 WL 5397567, \*3 (Fed. Cir. Dec. 30, 2008) (“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.” – ruling that 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 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).

<sup>38</sup> *eBay*, 547 U.S. at 393, 126 S. Ct. at 1840-41, 78 USPQ2d at 1579.

compete in the marketplace with potential infringers.”<sup>39</sup> The majority opinion from the Supreme Court did not comment on this aspect, but the concurring opinion appeared to take some issue with the Federal Circuit’s view that a patentee’s naked ambition to garner extra leverage in a licensing negotiation has no impact on whether to grant a permanent injunction, at least in cases where the patented component comprises a minor portion of the accused product or process. Four Justices of the Supreme Court cautioned that where the patentee is a LO-PHC, district courts should consider whether the patentee appears to be seeking an injunction as a tool to extort a high licensing fee from an infringer even though money damages would adequately compensate the patentee.

In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.<sup>40</sup>

From a practical view point, the case law shows that since *eBay* (a period of over two years), it appears that no district court, in a published opinion, has granted a permanent injunction to a nonpracticing entity whose business model consisted solely of acquiring and licensing patents, *i.e.*, the LO-PHC.<sup>41</sup> A few 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>42</sup>

Additionally, the Federal Circuit has made it more difficult for a LO-PHC to demonstrate irreparable harm by holding that a patentee cannot rely on the irreparable harm allegedly sustained by its licensees as proof that the patentee will suffer irreparable

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<sup>39</sup> 401 F.3d at 1339, 74 USPQ2d at 1238.

<sup>40</sup> *eBay*, 547 U.S. at 396-97, 126 S. Ct. at 1842, 78 USPQ2d at 1581 (2006) (Kennedy, Stevens, Souter, and Breyer, JJ., *concurring*). *Accord Foster v. American Machine & Foundry Co.*, 492 F.2d 1317, 1324, 182 USPQ 1 (2d Cir. 1974) (affirming denial of a permanent injunction and order of a compulsory license where patentee did not commercially practice the patented invention and stating “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 circumstances of his utter failure to exploit the patent on his own, that seems fair.”).

<sup>41</sup> In contrast, post-*eBay* federal courts have granted over thirty permanent injunctions where the patentee made or sold a product that competed with the infringing product. APD § 32:162 Granting Permanent Injunction or Reversing Denial Thereof (collecting cases).

<sup>42</sup> *E.g.*, *Sundance*, *Voda* and *Paice* as cited in note 34, *supra*.

harm without a permanent injunction. Affirming a denial of a permanent injunction in *Voda*,<sup>43</sup> the Federal Circuit ruled that while the patentee's non-party exclusive licensee may have suffered irreparable harm from the infringement,<sup>44</sup> the patentee failed to prove that it, personally, suffered irreparable harm, and therefore the district court did not abuse its discretion in denying the requested permanent injunction.

In this case, the district court found that *Voda* had not identified any irreparable injury to himself due to *Cordis*'s infringement of his patents and also failed to show that monetary damages are inadequate to compensate for *Cordis*'s infringement. The district court explained that *Voda* had attempted to prove irreparable injury by alleging irreparable harm to his exclusive licensee, rather than himself. . . . We disagree with *Voda* that the denial of a permanent injunction in this 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>45</sup>

Thus, while theoretically LO-PHCs have the right to seek a permanent injunction, the ability of such a company to demonstrate the requisite irreparable harm to obtain an injunction seems remote under the current case law. A LO-PHC cannot rely on the irreparable harm its nonexclusive licensees will suffer from the infringement.<sup>46</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, a LO-PHC can do this by showing that as a result of the continued infringement the holding company's reputation as a legitimate licensor of patents has suffered to such an extent that potential licensees refuse to consider licensing the patent for anything other than nuisance value.<sup>47</sup>

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<sup>43</sup> *Voda v. Cordis Corp.*, 536 F.3d 1311 (Fed. Cir. 2008).

<sup>44</sup> In *Voda* 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. *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1344, 77 USPQ2d 1456, 1461 (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 APD § 9:41 —Exclusive Licensee as Co-Owner (collecting cases and discussing the legal requirement that a patentee join its exclusive licensees when it brings suit to enforce the patent).

<sup>45</sup> *Voda*, 536 F.3d at 1329.

<sup>46</sup> To the extent that a LO-PHC has granted an *exclusive* license to an asserted patent, that exclusive licensee would have standing to join the LO-PHC and assert the irreparable harm to its exclusive rights in the patent to support a permanent injunction.

<sup>47</sup> See *Roper Corp. v. Litton Systems, Inc.*, 757 F.2d 1266, 1273, 225 USPQ 345, 349 (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.").

Potentially creating a further impediment for a LO-PHC to obtain a permanent injunction, the Federal Circuit has instructed that while a patentee has a “cognizable interest in obtaining an injunction to put an end to infringement of its patents . . . it d[oes] not have a cognizable interest in putting [an infringer] out of business.”<sup>48</sup> Consequently, courts recently appear receptive to order an “on-going” royalty in lieu of an injunction<sup>49</sup> or to provide for a “sunset” provision in an injunction order, which gives the accused infringer a set period of time to develop a noninfringing alternative if it would serve the public’s interest.<sup>50</sup> A court conditioned to consider “on-going” royalty rates and “sunset” provisions, may become subconsciously less receptive to awarding permanent injunctive relief to a LO-PHC.<sup>51</sup>

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>52</sup> Accordingly, where the parent company directly competes

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<sup>48</sup> *Verizon Service Corp.*, 503 F.3d at 1311 n.12, 84 USPQ2d at 1620 n.12. 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. *Broadcom Corp.*, 543 F.3d at 704; *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1003 n.12, 228 USPQ 562 (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>49</sup> *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314-15, 85 USPQ2d 1001, 1016-17 (Fed. Cir. 2007); *Boston Scientific Corp. v. Johnson & Johnson*, No. C 02-0790 SI, 2008 WL 5054955, \*3-\*4 (N.D. Cal. Nov. 25, 2008) (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); see generally, APD § 32:161 “Ongoing” Royalty in Lieu of an Injunction.

<sup>50</sup> *Broadcom Corp.*, 543 F.3d at 704.

<sup>51</sup> See, e.g., *Foster*, 492 F.2d at 1324 (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., Ltd.*, 2008 WL 4768028, \*1-\*5 (E.D. Tex. Nov. 3, 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 (E.D. Tex. Jul. 29, 2008) (over patentee’s objection, ruling that the court would instruct the jury to determine, as a separate question, a royalty rate for future infringement damages in addition to a royalty rate for past damages, so that the court could use that rate in assessing whether to grant permanent injunctive relief if infringement were found 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>52</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 does give the parent corporation standing to join with the subsidiary to pursue claims for equitable relief. *Arachnid, Inc. v. Merit Indus., Inc.*, 939 F.2d 1574, 1578-80 (Fed. Cir. 1991); *Pipe Liners, Inc. v. Am. Pipe & Plastics, Inc.*, 893 F. Supp. 704, 706 (S.D. Tex. 1995) (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,

with the infringer, it would seem that the parent company will have the possibility of obtaining a permanent injunction even if the Sub-PHC cannot obtain an injunction.

Research entities that license their patents appear to have a greater chance of demonstrating irreparable harm sufficient to obtain a permanent injunction than a LO-PHC. For example, 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 in *Commonwealth Scientific and Industrial Research Organisation*.<sup>53</sup> Under the particular circumstances of the case, Judge Davis found that the infringement confiscated core technology developed by the patentee and later used as a basis of an industry standard. Further, the court found that permitting continued infringement would harm the patentee's reputation as a research leader and would result in lost research opportunities based on the patentee having to divert money to enforce its patents rights. In the district court's view, this showed irreparable harm that a compulsory license could not remedy.<sup>54</sup>

## **B. Preliminary Injunctions**

Patent-holding companies seeking to nonexclusively license their patents may find they have an even tougher time to show entitlement to the extraordinary relief of a preliminary injunction<sup>55</sup> than they have to show entitlement for a permanent injunction. Indeed, the Federal Circuit has placed its heavy thumb on the denial side of the "preliminary injunction scale" by recently stating 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

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but only the subsidiary had standing for the claims seeking money damages). *See also* APD § 9:76 Parent Corporation and § 9:77 Equitable Owners.

<sup>53</sup> *Commonwealth Scientific and Industrial Research Organisation v. Buffalo Technology Inc.*, 492 F. Supp. 2d 600, 604-07 (E.D. Tex. June 15, 2007) (Davis, J.), *related appeal*, 542 F.3d 1363, 1386 (Fed. Cir. 2008) (on the related appeal, not reaching question of whether entry of permanent injunction was an abuse of discretion since court had vacated summary judgment that claims were not obvious and remanded for district court to conduct further proceedings on the issue of obviousness).

<sup>54</sup> Should a research entity, such as a university, create a subsidiary holding company to maintain and license the university's patents, the rule of *Voda* – patentee must show it personally will suffer irreparable harm – could apply if the university 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>55</sup> "A preliminary injunction is an extraordinary remedy never awarded as of right." *Winter v. Natural Resources Defense Council*, 129 S. Ct. 365, 376 (2008). *See generally*, APD § 32:19 Extraordinary Remedy Not to be Routinely Granted.

the patentee is itself engaged in commerce, as contrasted with a patentee that is seeking to license its patent to others.<sup>56</sup>

The Federal Circuit's position in *Abbott* may have its origins in the jurisprudence that a patentee's choice not to commercially practice the patented invention tends to negate a finding of irreparable harm,<sup>57</sup> as may a patentee's willingness to grant nonexclusive licenses.<sup>58</sup>

*Abbott* also suggests that even if a presumption of irreparable harm has survived post *eBay* (currently an unsettled issue)<sup>59</sup>, the Federal Circuit likely would not approve of applying a presumption of irreparable harm to a LO-PHC.

## IV. Personal Jurisdiction & Venue

### A. Personal Jurisdiction – Imputing Parent'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>60</sup> If an accused infringer asserts a declaratory judgment claim against a Sub-PHC, 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>61</sup> To the extent a subsidiary corporation serves as the alter-ego of a parent corporation, the

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<sup>56</sup> *Abbott Labs v. Sandoz, Inc.*, 544 F.3d 1341, 1362-63 (Fed. Cir. 2008) (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>57</sup> *High Tech Medical Instrumentation*, 49 F.3d at 1556, 33 USPQ2d at 2009 (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, APD § 32:53 Patentee Not Practicing the Invention.

<sup>58</sup> See generally, APD § 32:50 Patentee's Licensing Activity.

<sup>59</sup> See generally APD § 32:64 Questions Regarding Legality of the Presumption (analyzing issue and collecting cases); Latimer, Mayberry & Matthews IP Law, *Patent Happenings*, Nov. 2008 at 1 (analyzing presumption of harm in patent cases in view of *Winter v. Natural Resources Defense Council*, 129 S. Ct. 365 (Nov. 12, 2008) and *Amoco Prod. Co. v. Village of Gambell, Alaska*, 480 U.S. 531, 544-45 (1987)) (available at <http://www.latimerip.com/phpages/novph08.html>). See also, note 26, *supra*.

<sup>60</sup> See generally, APD § 37:15 Post-MedImmune “All Circumstances” Standard for Showing Actual Controversy.

<sup>61</sup> E.g., *Cannon Mfg. Co. v. Cudahy Packing Co.*, 267 U.S. 333, 336-37, 45 S. Ct. 250, 251, 69 L. Ed. 634 (1925) (affirming dismissal of parent 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, APD § 36:81 —Subsidiary or Parent Corporation.

jurisdictional contacts of the two can impute to each other. But in the context of a Sub-PHC, the Federal Circuit has applied a *de facto* alter-ego finding to impute the jurisdictional contacts of the parent corporation to the Sub-PHC. For example, in *Dainippon Screen Mfg. Co.*,<sup>62</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. Explaining that patentees may not create holding companies to thwart the ability of accused infringers to bring declaratory judgment actions, the Federal Circuit stated in *Dainippon Screen*:

We 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 licensed 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>[63]</sup>

Hence, Sub-PHCs 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 and/or unenforceability declaratory judgment claim.

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<sup>62</sup> *Dainippon Screen Mfg. Co., Ltd. v. CFMT, Inc.*, 142 F.3d 1266, 46 USPQ2d 1616 (Fed. Cir. 1998).

<sup>63</sup> *Id.*, 142 F.3d at 1271, 46 USPQ2d at 1621 (internal citations and footnote omitted) (reversing dismissal for lack of personal jurisdiction of accused infringer’s declaratory-judgment complaint). *Accord Alien Technology Corp. v. Intermec, Inc.*, No. 3:06-cv-51, 2007 WL 63989, \*6 (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-\*7 (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.”).

## **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>64</sup> As a result, these companies may encounter greater difficulties in attempting to withstand a 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.<sup>65</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>66</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. In the event the accused infringer files a § 1404(a) transfer motion, the holding company argues 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>67</sup> Additionally, the Federal Circuit's recent

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<sup>64</sup> See *CSI Technology, 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.”).

<sup>65</sup> See generally, *Gulf Oil Corp. v. Gilbert*, 330 U.S. 501, 67 S. Ct. 839, 91 L. Ed. 1055 (1947) (setting forth the relevant factors that should be considered in determining whether the interest of justice warrant a transfer of an action); see also APD § 36:163 General Aspects of Transferring Venue Under 28 U.S.C. § 1404(a) and § 36:165 In General.

<sup>66</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. ‘This is particularly true where the plaintiff resides in the district in which the lawsuit was filed.’”); *Netalog, Inc. v. Tekkon, 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 APD § 36:168 Plaintiff's Choice of Forum.

<sup>67</sup> E.g., *Surfer Internet Broadcasting of Mississippi, LLC v. XM Satellite Radio Inc.*, No. 4:07CV034, 2008 WL 1868426, at \*2-\*4 (N.D. Miss. Apr. 24, 2008) (granting accused infringer's motion to transfer venue to the SDNY, home of the accused infringer, where plaintiff, 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 Mississippi, and did not employ Mississippi residents, therefore Mississippi “has a very limited interest in this matter.”); *Gemini IP Technology, LLC v. Hewlett-Packard Co.*, No. 07-C-205-S, 2007 WL 2050983, at \*1-\*2 (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); *Broadcast Data Retrieval Corp. v. Sirius Satellite Radio Inc.*, 79 USPQ2d 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 had “failed to demonstrate that in those three

suggestion in *In re TS Tech USA Corp.*,<sup>68</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.

Furthermore, some courts appear hostile to venue choices of manufacturer-related patent-holding companies if the judge perceives 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*<sup>69</sup> refused to grant leave to a defendant accused infringer to add counterclaims 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 that the accused infringer had filed against the plaintiff’s parent in another forum. 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. 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

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weeks it engaged in any activity that would give this District a significant connection to this action,” therefore concluding that “Plaintiff’s choice of forum is entitled to minimal deference, especially in light of BDRC’s efforts to forum shop.”).

<sup>68</sup> \_\_\_ F.3d \_\_\_, \_\_\_, 2008 WL 5397522, \*4 (Fed. Cir. Dec. 29, 2008) (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, sold nationwide, were sold in the forum)

<sup>69</sup> *Collaboration Properties, Inc. v. Tandberg ASA*, No. C 05-01940 MHP, 2006 WL 2398763 (N.D. Cal. June 27, 2006).

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>70]</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.

## V. Conclusion

Patent-holding companies now comprise a notable portion of the plaintiffs bringing suits to enforce patent rights. The nonpracticing nature of the holding company, at present, limits the scope of remedies the holding company may successfully pursue specifically in the area of lost profit compensatory damages and injunctive relief. No doubt, as more suits involving holding companies work their way through the courts, judicial refinements in the law as applied to holding companies will follow.

## About the Author

As a patent-lawyer's lawyer, Robert A. Matthews, Jr. provides legal consulting services to corporations and law firms on all aspects of U.S. patent law and patent litigation. He is the sole author of the patent law treatise *Annotated Patent Digest* (APD) and the *Patent Jury Instruction Handbook*. Both works are published by Thomson-Reuters/West. The APD is also available on Westlaw. With over 18,000 pages of patent law case analysis, continuously updated, the APD covers the full spectrum of substantive and procedural issues typically encountered in litigating patent disputes. Many judges and patent lawyers have relied on and cited the APD in addressing patent law issues.<sup>71</sup> Bob is also a frequent speaker on patent law topics at national IP conferences.

Bob helps in-house and outside counsel analyze complex substantive and procedural issues arising in patent litigation in a cost effective and expeditious manner.

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<sup>70</sup> *Id.*, 2006 WL 2398763, at \*3-\*4.

<sup>71</sup> Judges have quoted or cited the APD in the following opinions. *Phillip M. Adams & Associates, LLC v. Dell, Inc.*, No. 1:05-CV-64 TS, 2008 WL 4862510 (D. Utah Nov. 7, 2008); *Phillip M. Adams & Assoc., L.L.C. v. Dell Inc.*, 2008 WL 4569895 (D. Utah Oct. 9, 2008); *Renhcol Inc. v. Don Best Sports*, 548 F. Supp. 2d 356, 361 n.3 (E.D. Tex. April 28, 2008); *Encyclopaedia Britannica, Inc. v. Magellan Navigation, Inc.*, 512 F. Supp. 2d 1169, 1176 (W.D. Wis. Aug. 31, 2007); *Amgen v. F. Hoffman-LaRoche, Ltd.*, 456 F. Supp. 2d 267, 283 (D. Mass. Oct. 20, 2006); *Monsanto Co. v. Bayer Bioscience N.V.*, 2005 WL 5989796, \*16 (E.D. Mo. Oct. 28, 2005). See also *Schreiber Foods, Inc. v. Beatrice Cheese, Inc.*, 305 F. Supp. 2d 939 (E.D. Wis. 2004) (citing Robert A. Matthews, Jr., *A Potential Hidden Cost of a Patent-Holding Company: The Loss of Lost-Profit Damages*, 32 AIPLA Q.J. 503 (Fall 2004)).

His patent litigation and opinion experiences cover a wide variety of technical disciplines. Bob has assisted clients with patent related matters before the U.S. Supreme Court, the Federal Circuit, the ITC, the PTO, and numerous district courts throughout the United States.

Trial counsel find Bob's consulting services beneficial in helping them refine and support arguments in briefs, devise case strategy, and achieve cost savings for their clients on patent-related legal research. In-house counsel rely on Bob to help them understand and address the patent law as it applies to the issues they face, objectively evaluate and strengthen trial counsel's proposed court filings, achieve cost savings on patent related legal research, and to provide opinions of counsel on patent related matters.

A graduate of the University of Virginia School of Law, Bob is a member of the state bars of Virginia, North Carolina, Pennsylvania, and the District of Columbia. He is admitted to the Supreme Court of the United States, the United States Court of Appeals for the Federal, Third, and Fourth Circuits, and several United States district courts. Bob is also a registered patent attorney with the United States Patent and Trademark Office.

Before pursuing his legal career, Bob spent five years working as an engineer in the aerospace and nuclear industries. He holds a Bachelor of Science degree in Mechanical Engineering from Virginia Tech, a Master of Science degree in Mechanical Engineering from the State University of New York at Stony Brook, and attained the status of being a Registered Professional Engineer.