

Recent U.S. Court Decisions And Developments Affecting Licensing

By John Paul and D. Brian Kacedon*

Mars, Inc. et al. v. TruRX LLC et al.

Subsidiary Has Standing to Join Lawsuit as Implied Exclusive Licensee, but Parent Cannot Recover Lost Profits of Subsidiary from Patent Infringer

In *Mars, Inc. et al. v. TruRX LLC et al.*, even in the absence of a written patent license agreement, a parent company successfully showed that its subsidiary had an implied exclusive license and therefore had standing to join the parent company as a co-plaintiff in a patent infringement case. According to the decision by a magistrate judge, if a subsidiary company has the right to practice the invention and an express or implied promise that all others will be excluded from practicing the invention, it has standing as a co-plaintiff. The magistrate judge also held, however, that the parent company could not recover the subsidiary's lost profits from the infringer.

Background

Mars, Inc. ("Mars") sued TrueRX, LLC, True Science Holdings, LLC, and Natural Polymer International Corporation (the "Defendants") for infringing two of its patents directed to breath-freshening pet treats. Two years into the suit, Mars amended the complaint to add its wholly-owned subsidiary, Mars Petcare U.S., Inc. ("Petcare"), as a co-plaintiff. Mars did not make or sell products covered by the patents, but Petcare and other subsidiaries did. Mars discovered that Petcare had lost profits due to Defendants' directly competing products and sought Petcare's lost profits from Defendants.

Defendants moved to dismiss Petcare from the litigation, arguing that Petcare did not have standing to be a plaintiff in the case because it was not a licensee, much less an exclusive licensee, of the patents. Defendants also argued that Mars could not show that it lost profits because Mars itself did not make or sell any products. Defendants challenged Mars' ability to recover lost profits on products sold by its subsidiary, Petcare.

Mars responded that as an exclusive licensee, Petcare had standing to be a co-plaintiff in the case. Mars also argued that it should be able to claim lost profits for products sold by its subsidiaries because the lost profits of its subsidiaries "inexorably flowed" to Mars.

The Mars Decision

The magistrate judge first addressed the issue of Petcare's standing as a co-plaintiff. The general rule is that only a patentee can bring a suit for patent infringement. However, this general rule has a notable exception—

exclusive licensees have standing to sue as co-plaintiffs with the patentee. Nonexclusive licensees, conversely, do not have standing to join a suit as co-plaintiffs. To be an exclusive licensee, the party must have received: (1) the right to practice the invention and (2) an express or implied promise that others will be excluded from practicing the invention.

Defendants argued that Petcare was not a licensee at all because there was no document showing the grant of a license. And they argued that even if Petcare was a licensee, Mars could not show that Petcare was an exclusive licensee of the patent.

The magistrate judge rejected Defendants' argument that a written license was required since licenses can be either expressly granted in writing, or implied. The magistrate found that Mars gave Petcare an implied license to practice the patent, selling breath-freshening pet treats to a specific market—food, drug, and mass market stores (the "FDM channel"). Even though Petcare did not make royalty payments to Mars, the magistrate found evidence that the implied license was exclusive because no other Mars subsidiary or outside company held a license to sell products covered by the patents in the FDM channel. That, coupled with the corporate relationship between Mars and its subsidiaries and Mars' marketing and sales strategy, was sufficient to show that Petcare was an exclusive licensee with an implied right to exclude others from selling products that practiced Mars' patents in the FDM channel.

On the issue of lost profits, the magistrate judge found that Mars could not recover lost profits from an infringer based on the lost sales of its subsidiaries due to patent infringement because Mars itself did not sell those products. Despite Mars' arguments otherwise, the magistrate noted that the so-called "inexorable flow" test of a subsidiary's profits flowing to a parent company was not the Federal Circuit's settled standard for determining whether a parent company patent owner could obtain lost profits for its subsidiary's lost sales, and that no matter how profits flow between related companies, a parent company cannot recover lost profits for products that it does not itself sell.

Strategy and Conclusion

This case provides several insights in establishing and documenting legal relationships between a licensor and licensee and the effect of these relationships on the ability to recover lost profits for infringement, particularly in licensing situations between parent and

subsidiary companies, where the relationships may tend to be more informal.

An exclusive licensee can establish standing as a co-plaintiff whether the patent license in question is express or implied. In a parent-subsidiary situation and in the absence of an express license, the court will look for evidence that the relationship between the parent and subsidiary, the market, and the corporate strategy to determine whether the license is exclusive.

Even though standing does not require preparing written license agreements between a parent company and its subsidiaries, a written license agreement avoids the issue and uncertainty of proving that an implied license exists.

No matter how the profits flow between parent and subsidiary companies, parent companies may not be able to recover lost profits on sales of patented products lost by a subsidiary due to infringement by a competitor if the parent company does not itself sell the patented products.

So, a parent company that does not sell any of the patented products itself should consider having an exclusive license agreement with its subsidiary in writing so that the subsidiary would have standing to bring suit on its own behalf without joining the parent so the subsidiary could attempt to recover its own lost profits.

Further Information

For the *Mars* decision go to <http://tinyurl.com/h79k3k7>.

Texas Advanced Optoelectronic Solutions, Inc. v. Intersil Corp.

Seeking Only a Reasonable Royalty for Past Infringement May Be a Factor that Prevents Injunctive Relief

To obtain a permanent injunction against infringers, patent owners must show that a mere payment of money damages would not adequately compensate their injury from infringement, that the “balance of hardships” between the parties warrant an injunction, and that an injunction would not disserve the public interest. In *Texas Advanced Optoelectronic Solutions, Inc. v. Intersil Corp.*, a Texas court denied a patent owner’s request for a permanent injunction, finding that monetary damages would be adequate to compensate the patent owner for the defendant’s continued infringement. The court noted that because the patent owner viewed a reasonable royalty as sufficient compensation for past infringement, it could be adequately compensated in a similar way for the defendant’s future infringement. In denying the permanent injunction, the court ordered the parties to negotiate an ongoing reasonable royalty for continued patent infringement.

Background

The case originated from a prospective business relationship between Intersil and Texas Advanced Optoelectronic Solutions (“TAOS”) in 2004, when the parties had entered into a “Confidentiality Agreement” to negotiate Intersil’s potential acquisition of TAOS. Though the negotiations ultimately failed, confidential business information was shared between the parties. TAOS later alleged that Intersil had used that information to manufacture and sell digital light sensors that competed with TAOS’s product line and infringed on TAOS’s patents and misappropriated its trade secrets. According to TAOS, Intersil competed with it for Apple’s business, gaining market share at TAOS’s expense. After succeeding on these claims in a jury trial, TAOS moved for a permanent injunction to prevent Intersil from continuing to sell products that incorporate TAOS’s trade secrets and/or patented technology.

Specifically, TAOS argued that Intersil copied its ambient light sensors in order to become a direct competitor in the relevant market where, according to TAOS, Intersil was able to win contracts with Apple, nearly forcing it out of business. TAOS contended that it would be injured irreparably if it is forced to compete again with Intersil’s products that incorporate TAOS’s trade secrets and patented technology.

Intersil countered, first arguing that TAOS’s trade secrets are no longer secret as evidenced by TAOS’s release of its product. According to Intersil, the trade secrets were publicly available through reverse engineering once TAOS released its product. Further, Intersil argued that TAOS had shown no evidence that its business was presently at risk, pointing out that while Intersil may have won Apple’s business over TAOS in 2007, TAOS had secured Apple’s business for each of the last four generations of iPhones over the past six years.

The TAOS Decision

The court refused to award a permanent injunction on TAOS’s misappropriation of trade secrets claim and agreed with Intersil that once TAOS’s products were on the market, Intersil was permitted to reverse engineer those products. According to the court, the threat of any future harm to Intersil’s trade secrets had “long passed.” The court also pointed out that trade secret misappropriation is not a continuing tort under Texas law, such that the jury’s award to TAOS of a single disgorgement

■ John C. Paul,
Finnegan, Henderson, Farabow,
Garrett & Dunner, LLP,
Attorney,
Washington, D.C., USA
E-mail: john.paul@finnegan.com

■ D. Brian Kacedon,
Finnegan, Henderson, Farabow,
Garrett & Dunner, LLP,
Partner,
Washington, D.C., USA
E-mail: brian.kacedon@finnegan.com

of profits could be viewed as TAOS's full compensation.

In contrast to its analysis of the trade secret claim, the court reasoned that a patent infringer commits a new tort each time it makes, uses, or sells the patented product. Thus, the court turned its attention to whether TAOS was entitled to a permanent injunction based on its patent-infringement claims.

First, the court considered the jury's verdict. At trial, the jury was instructed that if it found Intersil liable for patent infringement, TAOS would be entitled to at least a reasonable royalty to compensate it for the infringement. Of particular relevance to the court was that TAOS *only* sought to recover a reasonable royalty. Because of this, the court concluded that TAOS had viewed a reasonable royalty as sufficient compensation for past infringement, and as a result, TAOS could be similarly compensated by money for the any future infringement by Intersil. The court therefore concluded that TAOS would not be irreparably harmed absent an injunction and that monetary damages would be adequate to compensate TAOS for any continued infringement.

Second, the court looked to the balance of hardships between the parties. TAOS argued that Intersil's net worth was approximately \$957 million, and that the infringing sales made up only 1.3 percent of its total revenue between 2006 and 2013. An injunction, TAOS argued, would harm Intersil very little—but would benefit TAOS a great deal. The court summarily rejected this argument, pointing to TAOS's inability to establish it would suffer an irreparable harm absent an injunction.

Third, the court rejected TAOS's argument that a permanent injunction would be in the public's interest. Though TAOS argued that a permanent injunction was necessary to prevent Intersil from continuing to misuse TAOS's intellectual property, the court ruled that TAOS did not address how the public would be protected from the injunction's adverse effects, finding this factor weighed against the issuance of an injunction.

In denying the permanent injunction, the court ordered the parties to negotiate an ongoing reasonable royalty for continued patent infringement, but not for trade secret misappropriation. The court also noted that if the parties cannot reach an agreement, TAOS could move the court to impose an ongoing royalty rate.

Strategy and Conclusion

This case shows how a court may be reluctant to permanently enjoin future infringement where the patent owner seeks only reasonable royalty damages for past infringement and indicates at trial that such reasonable royalty damages are sufficient compensation.

Further Information

For the *TAOS* decision go to:
<http://tinyurl.com/jxdvwwl>.

Mankes v. Vivid Seats Ltd.

Recent Federal Circuit Decision Broadening the Attribution Standard for Divided Infringement Results in Reinstatement of Infringement Claims

In *Mankes v. Vivid Seats Ltd.*, the Federal Circuit considered the impact of the Akamai-Limelight cases on liability for “divided infringement”—a situation that occurs when the steps of a patented method claim are performed by two or more parties, and that raises the question of whether the acts of one entity can be attributed to another and give rise to liability for infringement. Applying the broadened attribution standards of Akami IV, the Federal Circuit in *Mankes v. Vivid Seats Ltd.* reinstated the divided infringement claims and remanded to allow the plaintiffs to present additional facts related to attribution.

Background

The claimed method in *Mankes* involves a series of steps for controlling goods sold both on the Internet and at local site where the local site maintains the total inventory of available goods and communicates information about the inventory to the Internet site. In separate cases, the plaintiff Robert Mankes accused both Fandango and Vivid Seats of infringement by their operation of Internet-based reservation systems for reserving, buying, and selling tickets to various events. Mankes did not allege that Vivid Seats and Fandango themselves performed every step of the claimed method, but argued divided infringement on the ground that local entertainment venues perform the remaining steps.

Mankes's cases came at a time when the law of divided-infringement was in a state of flux due to a series of Federal Circuit and Supreme Court decisions in a case between Akamai and Limelight (“Akamai-Limelight”). Mankes's cases against Fandango and Vivid Seats were filed after an *en banc* Federal Circuit ruled in “*Akamai II*” that while Limelight could not be held liable for direct patent infringement under existing standards, induced patent infringement may be established even if no one party could be held liable for direct patent infringement. When the Supreme Court granted certiorari from that *en banc* decision, Mankes's district court cases were stayed pending the outcome of the Supreme Court's decision. The Supreme Court ultimately ruled that induced infringement did not exist in cases of divided infringement, but that the Federal Circuit could revisit the standards for showing direct infringement in cases of divided infringement.

The *Mankes* Decision

On remand, the Federal Circuit took the Akamai-Limelight case back up at the panel level. At that point, Mankes's cases resumed, and the defendants, Vivid Seats and Fandango, moved for judgment on the pleadings. Although there was no dispute that Fandango or

Vivid Seats together with the local venues performed all the claim steps, the district court found that they could not be held liable under the current direct infringement standard because Mankes failed to allege sufficient facts showing that the defendants “direct or control” the local venues or their actions. Specifically, the district court found that Mankes did not allege that the local venues were either agents of the defendants’, or that the defendants required them to take the particular actions that constitute performance of the claim steps. Accordingly, judgment on the pleadings was entered for the defendants in each case and Mankes appealed to the Federal Circuit. The separate cases against Fandango and Vivid Seats were combined for the purposes of the appeal.

During the pendency of Mankes’s appeal, a panel of the Federal Circuit rejected direct-infringement liability for Limelight in “*Akamai III*.” Three months later, an *en banc* panel of the Federal Circuit in “*Akamai IV*” took up the Supreme Court’s invitation to revisit direct infringement under § 271(a) in cases of divided infringement. The *en banc* court addressed the circumstances in which others’ acts may be attributed to an accused infringer to support direct-infringement liability for divided infringement, ruling that attribution is proper in a joint-enterprise setting, and “when an alleged infringer conditions participation in an activity or receipt of a benefit upon performance of a step or steps of a patented method and establishes the manner or timing of that performance.” The court also noted that “[i]n the future, other factual scenarios may arise which warrant attributing others’ performance of method steps to a single actor.” For the first time, judgment was entered against Limelight and for Akamai.

Considering the standard stated in *Akamai IV*, the Federal Circuit in *Mankes* vacated the district court’s judgments for Fandango and Vivid Seats. The Federal Circuit reasoned that under the new standard, it was no longer sufficient that the local venues are not agents of the defendants and are not required by the defendants to take the claim steps that they perform. The court noted that this change in standards was significant enough to change Akamai’s loss into a win on direct infringement. The court also noted the *Akamai IV* court’s guidance that “other factual scenarios may arise which warrant attributing others’ performance of method steps to a single actor.” The Federal Circuit left it to the district court to consider the facts regarding attribution on remand, but discussed Mankes’s allegations regarding the commercial arrangements between Vivid Seats or Fandango and local venues, including that local venues are offered financial incentives to perform the steps of the claimed invention, and the possibility that Vivid Seats and Fandango establish rules for the necessary coordination with the local venues. The Federal Circuit determined that Mankes should

be given an opportunity to allege additional facts with the broadened liability standard of *Akamai IV* in mind.

Strategy and Conclusion

Mankes v. Vivid Seats is an early example of how *Akamai IV* has changed the law of divided infringement by broadening the circumstances that will support a finding of direct infringement by attributing the acts of others to the accused infringer. Patent owners no longer need to show that an accused infringer directs or controls another’s actions. Instead, a broader range of circumstances now warrant attributing others’ performance of method steps to a single actor. As noted in *Akamai IV*, the various scenarios that warrant such attribution may continue to develop in future cases.

Further Information

For the Federal Circuit decision go to:
<http://tinyurl.com/h5t3w6n>.

Arctic Cat Inc. v. Bombardier Recreational Products

Infringers Seeking to Establish a Patent Marking Defense May Bear the Burden of Showing Unmarked Products are Covered by the Asserted Patents

In *Arctic Cat Inc. v. Bombardier Recreational Products, Inc.*, a California court denied Bombardier’s motion for summary judgment, refusing to conclude that plaintiff Arctic Cat’s damages should be limited because of a failure of its licensee, Honda, to mark its products. The court held that the burden lay with the defendant, Bombardier, to show a failure to comply with the marking statute, and consequently, the court found that Bombardier failed to sufficiently demonstrate that Arctic Cat’s damages should be limited for a failure to mark.

Background

Under 35 U.S.C. § 287(a) of the U.S. patent statute, patent owners must mark their patented products with the patent number to be able to collect damages for the time period prior to the filing of a complaint. This obligation also extends to licensees or other entities authorized by the patent owner. When such authorized parties fail to mark patented products, courts consider whether the patent owner made reasonable efforts to ensure compliance with the marking statute.

Arctic Cat filed a lawsuit against Bombardier, alleging infringement of multiple patents directed to thrust mechanisms for personal watercraft. Before the patents issued, Arctic Cat exited the personal watercraft market, but granted Honda a license to the patents. Bombardier moved for summary judgment, arguing Arctic Cat could not recover for any pre-complaint sales because Honda, its licensee, made products practicing those patents without satisfying the marking requirements of § 287(a).

The Arctic Cat Decision

The court denied Bombardier's motion for summary judgment, holding that it could not conclude that Arctic Cat's damages should be limited for failure to mark. According to the court, because Arctic Cat stopped manufacturing and selling personal watercraft before the patents issued, any noncompliance with the marking statute would have resulted from the activities of Arctic Cat's sole licensee, Honda. If Honda's products implicated Arctic Cat's patents, the court could consider whether Arctic Cat undertook reasonable efforts to ensure that Honda complied with the marking statute. Noting a split in the courts on which party bears the burden of proving compliance/non-compliance with the marking statute, the court then adopted the view that the burden of producing evidence of compliance/non-compliance fell on the accused infringer, in this case Bombardier.

Despite Bombardier's arguments that Honda products were covered by the patents—one step in showing Arctic Cat's noncompliance with the marking statute—the court found that Bombardier's arguments lacked sufficient analysis to prove that Honda's products were subject to the marking statute by implicating any claims of the patents-in-suit. The court even noted that evidence from the drafting of the license agreement between Arctic Cat and Honda supported the notion that Arctic Cat believed that the patents were implicated by Honda products at the time that the licensing agreement was drafted. Nonetheless, the court held that Bombardier failed to sufficiently demonstrate that Honda products were covered by any of the patent claims and thus subject to the marking statute. As a result, the court was unable to determine whether Arctic Cat should have taken reasonable efforts to ensure that Honda complied with the marking requirements of the statute, and the court could not conclude that Arctic Cat's damages should be limited for failure to mark.

Strategy and Conclusion

This case shows that infringers attempting to use the patent marking statute to limit the recovery of damages may have the burden of analyzing and presenting evidence that products of a patent owner or its licensees are covered by the asserted patents.

Further Information

For the *Arctic Cat* decision go to:
<http://tinyurl.com/gmc9op7>.

Fujifilm Corp. v. Motorola Mobility LLC

Subsequent Clarifying Provision Does Not Cause Plain Language of License to Be Redundant Or Permit It To Be Ignored

In *Fujifilm Corp. v. Motorola Mobility LLC*, a California

court overturned a jury's finding that Motorola was licensed under a Bluetooth Patent/Copyright License Agreement ("BPLA") as to certain patent claims asserted in an infringement action. The court was not persuaded that a sentence defining the scope of the agreement could be ignored as redundant in view of a subsequent clarifying provision. The court held that the plain language of the agreement did not grant Motorola a license to the patent claims.

Background

Fujifilm accused Motorola of infringing four patents related to digital cameras, cellular telephones, and wireless data transmission. For three asserted claims related to wireless data transmission, Motorola argued that it was licensed under the Bluetooth Patent/Copyright License Agreement ("BPLA"). After a trial, the jury found that Motorola was licensed as to two of the asserted claims, and judgment was entered accordingly. Among several post-judgment motions by the parties, Fujifilm moved for judgment as a matter of law that Motorola was not licensed.

There was no dispute that Motorola and Fujifilm were parties to the BPLA or that the Bluetooth technology at-issue was within the defined "Scope" of the BPLA. Motorola's licensing defense turned on the BPLA's two-sentence definition of "Necessary Claims" to which a license is granted under the BPLA. The first sentence requires that "Necessary Claims" be "necessarily infringed by implementing those portions of the Bluetooth Specification and/or Foundation Specification within the bounds of the Scope." The second sentence provides, among other things, that "Necessary Claims do not include any claims... that read solely on any implementations of any portion of the Bluetooth Specification or Foundation Specification that are not within the bounds of the Scope." Motorola argued that certain of Fujifilm's asserted claims were Necessary Claims based on implementations of three Bluetooth specifications falling under the BPLA's defined Scope. Motorola, however, did not contend that the claims were "necessarily infringed" by implementing the Bluetooth specifications, as required by the first sentence of the definition of "Necessary Claims." Motorola's expert testified that the specifications could be implemented without infringing. Nonetheless, Motorola argued that the claims were Necessary Claims because they recite both (1) in-Scope technology, and (2) "enabling technologies, such as wireless telephones, that are reasonably necessary to implement those technologies."

The Fujifilm Decision

According to the court, Motorola's interpretation was based solely on the second sentence of the BPLA's definition of "Necessary Claims" and disregarded the "necessarily infringed" requirement of the first sentence. Motorola's argument was that the second sentence of

the definition, which allegedly overlapped and rendered the first sentence redundant, would have been “wholly unnecessary” if the first sentence were given its plain meaning. While the court acknowledged the general legal principle that contract provisions should be read so as to avoid being overlapping or redundant with other provisions, it held that Motorola took that principle too far by attempting to read out an entire sentence of the license. The court found that the second sentence could only be reasonably read as clarifying the first sentence. The court was also not convinced by Motorola’s argument that its interpretation was supported by the BPLA’s purported purpose of facilitating sharing of intellectual property among Bluetooth SIG members and avoiding intellectual property disputes. The court pointed out that Motorola provided no support for its statement.

Because the court held that the “necessarily infringed” clause was an effective requirement of the definition of “Necessary Claims” under the BPLA, and because Motorola did not show that its technology necessarily infringed the asserted patents, the court concluded that the asserted claims were not licensed to Motorola.

Strategy and Conclusion

This case illustrates how contractual terms may be legally effective even when they are overlapping or redundant, and that in such situations, it is not appropriate to ignore the plain meaning of a contract clause merely because it overlaps with another clause.

Further Information

For the Fujifilm decision go to:
<http://tinyurl.com/j9155ny>.

Blackbird v. Service Lighting and Electrical Supplies, Inc. et al.

Company Principals Who Act as Litigation Counsel May Be Barred from Reviewing Confidential Information and From Prosecuting Patents

In *Blackbird v. Service Lighting and Electrical Supplies, Inc. et al.*, a Delaware court barred a patent assertion entity’s principals, who also acted as litigation counsel, from having access to an accused infringer’s confidential information and from prosecuting patents for related technology.

Background

The accused infringers attempted to prevent in-house attorneys of a patent assertion entity from having access to their confidential research, development, or commercial information, and attempted to preclude the in-house attorneys of the patent assertion entity from prosecuting patents related to the technology at issue in the litigations by filing a motion for a protective order and prosecution bar. While such motions are not uncommon in patent litigation, companies that primarily exist

to monetize and litigate intellectual property could be hobbled in carrying out their daily operations when their principals are also the attorneys who evaluate, negotiate, or litigate cases against potential licensees, or prosecute the patents that are being licensed and enforced.

Courts may grant prosecution bars and protective orders to restrict an individual attorney’s access to trade secret or other confidential information when there is an unacceptable risk for inadvertent disclosure. To warrant a protective order or prosecution bar, the party requesting the protective order or prosecution bar must show, for each individual attorney, that the risk of inadvertent disclosure outweighs the detriment to the other party if that attorney cannot access the materials. Courts grant such motions where in-house counsel are involved in competitive decision-making activities such as pricing, product design, and patent prosecution.

In this case, the accused infringers moved for a protective order and prosecution bar against each of the three patent assertion entity in-house lawyers who entered appearances in the litigation: the company’s President and CEO, its Vice President and Head of Litigation, and its Senior Litigation Counsel. The accused infringers argued that there was an unacceptably high risk that the patent assertion entity’s in-house lawyers might inadvertently disclose or improperly use their trade secrets and confidential research, development, and commercial information. They also argued that disclosing their confidential information to the patent assertion entity’s in-house attorneys would allow the patent assertion entity to tailor its patent assertion business model to target the accused infringers in future actions.

The patent assertion entity, Blackbird Technologies, monetizes intellectual property by acquiring patents and litigating on its own behalf, rather than engaging outside counsel. Blackbird admitted that its CEO and its Vice President are both involved in the litigations as well as company management and strategy, analyzing patents for acquisition and assertion, working with outside counsel to prosecute ongoing patent applications, and negotiating the terms of a settlement and license agreements. While not involved in patent acquisition or prosecution, Blackbird’s Senior Litigation Counsel handles all aspects of Blackbird’s patent litigations, from pre-suit analysis through trial, appeal, and settlement or license agreements.

Blackbird argued that if its in-house lawyers were prevented from accessing the accused infringers’ highly confidential information, Blackbird would be prevented from pursuing cases within its low-cost litigation business model, making continued litigation of the cases extremely difficult. Blackbird also argued that it does not compete with the accused infringers, so any risk of inadvertent disclosure was far outweighed by the harm it would incur if the court entered a protective order.

In addition to seeking a protective order barring Blackbird's attorneys from accessing their confidential information, the accused infringers sought a prosecution bar to prevent Blackbird attorneys who reviewed their confidential information from participating in both patent prosecution, and acquisition of a patent or patent application, reflecting their concerns with Blackbird's acquisition-based business model. Blackbird did not oppose a prosecution bar, but argued that the bar should be limited to prosecution activities, arguing that patent acquisition was not an issue.

The Blackbird Decision

Weighing the risk of inadvertent disclosure and misuse of the accused infringers' confidential information against the harm Blackbird would suffer from being unable to use its counsel of choice in the cases, the court agreed that all three of Blackbird's in-house attorneys were competitive decision-makers in a business whose main practice is acquiring patents and asserting them in litigation. And contrary to Blackbird's argument that it did not compete with the accused infringers, the court found that Blackbird's decision to bring a patent infringement action was essentially a declaration by Blackbird that the accused infringers were improperly competing with it in contravention of Blackbird's patent monopoly.

The court held that because Blackbird's attorneys were involved in patent acquisition, prosecution, and litigation, they would likely have a difficult time compartmentalizing and not using their knowledge of the accused infringers' financial and technical information when making decisions on what patents to acquire and assert. To give Blackbird's in-house attorneys access to the accused infringers' confidential technical and financial information would raise the specter that they would prosecute or acquire patents that read on the accused infringers' products.

While noting that the problem was one of Blackbird's own creation, the court nonetheless agreed that preventing Blackbird's in-house attorneys from participating in the cases would harm Blackbird by essentially forcing it to shut down the litigations. The court noted that the only competitive harm Blackbird posed to any of the accused infringers arises out of litigation, and that the harm to the accused infringers could be minimized by eliminating the threat of such future litigation.

While allowing Blackbird to use its in-house lawyers in the patent enforcement litigation against the accused infringers, the court ordered a prosecution bar preventing Blackbird's in-house attorneys from being involved in any patent prosecution activity (including directing outside patent counsel) related to lighting technology during the litigations and for one year after their conclusion. The court also imposed on Blackbird a covenant not to sue the accused infringers on lighting industry

patents that Blackbird acquired at any time between the entry of the protective order and one year after the conclusion of the current litigation.

Strategy and Conclusion

This case illustrates complexities that may arise when attorneys serve in several roles at the same time—making business decisions, prosecuting and acquiring patents, and enforcing those patents. It also illustrates the potential consequences of protective orders and prosecution bars that may arise from those complexities, particularly when the attorneys represent a patent assertion entity.

Further Information

For the *Blackbird* decision go to: <http://tinyurl.com/hveg5fh>.

Visual Memory v. Nvidia Corp.

Patent Eligibility Requires Claims To Specific Improvement of Computer Functionality: Patent Eligibility of Categorical Data Storage Claims Not Saved by Federal Circuit's *Enfish* Decision

In *Visual Memory v. Nvidia Corp.*, a district court analyzed the Federal Circuit's recent *Enfish* opinion on patent-eligibility, and concluded that claims directed to categorical data storage, which generically purported to improve computer functionality, failed to meet the threshold requirement for patent-eligibility.

Background

Visual Memory sued Nvidia, alleging infringement of U.S. Patent No. 5,953,740. The '740 patent is generally directed to a computer system having a three-tiered memory hierarchy: (1) slow, low-cost memory for bulk storage, (2) medium-speed memory as the main memory, and (3) a high-speed processor cache memory. Data is transferred between the three memories to facilitate quicker access. The '740 patent claims a computer memory system having "programmable operational characteristics" specifying the type of data in the memory. After Visual Memory filed suit, Nvidia filed a motion to dismiss for failure to state a claim, arguing that the '740 patent was not directed to subject matter eligible for patent protection.

The Federal Circuit's *Enfish* Decision

The Federal Circuit's recent decision in *Enfish, LLC v. Microsoft Corp.* held that patent claims directed to a "self-referential table for a computer database" were eligible for patent protection because they described a "specific type of data structure designed to improve the way a computer stores and retrieves data in memory." The Federal Circuit reversed the district court's finding that the claims were directed to the abstract idea of "storing, organizing, and retrieving memory in a logical table." In reaching this conclusion, the Federal Circuit

noted that the first step of *Alice* is a “meaningful one” and cautioned against district courts oversimplifying the abstract idea inquiry to describe the claims at “a high level of abstraction and untethered from the language of the claims.” The Federal Circuit also directed that *Alice* should not be read to broadly hold that all improvements in computer-related technology or claims directed to software are inherently abstract. Because the subject claims were directed to a specific improvement in computer technology, the Federal Circuit found that they were not directed to an abstract idea under *Alice* and were therefore eligible for patent protection.

The District Court’s Decision

Applying the first step of the *Alice* test, the district court found that the ’740 patent’s claims are directed to the abstract idea of “categorical data storage.” The court rejected Visual Memory’s *Enfish*-based argument that the claims are patent-eligible because they “improve the functioning of a computer itself.” The court explained that merely improving the way a computer works is not, by itself, determinative. Rather, the court explained that the “central question” under *Enfish* is whether the claims focus “on the specific asserted improvement in computer capabilities” or whether they recite an abstract idea “for which computers are invoked merely as a tool.”

According to the district court, although *Enfish* cautions against oversimplification of the first step of the *Alice* test, it does not exempt all patents that purport to improve the functioning of a computer from the § 101 analysis. Comparing the claims of the ’740 patent to those found patent-eligible in *Enfish*, the court concluded that the ’740 patent’s claims did not recite a “‘specific’ or ‘concrete’ improvement in the way software operates” and that there was “no analog to the ‘specific type of data structure’” found patent-eligible in *Enfish*. The court then held that the claims are directed to the abstract idea of categorical data storage.

Having found that the claims were drawn to a patent-ineligible abstract idea, the court turned to the second step of the *Alice* test, which asks whether the claims include an “inventive concept.” Again rejecting Visual Memory’s argument that the claims improve the functioning of a computer, the court explained that necessarily tying the claims to a computer does not resolve patent eligibility. Moreover, the court explained that, to be patent-eligible, the claimed solution should “overcome a problem specifically arising in” a particular technological realm. According to the district court, the claims of the ’740 patent recite computer functionality that is “generic and conventional” and the recited hardware components are “generic computer components.”

The district court also found that the claimed “programmable operational characteristic” did not supply an inventive concept because it referred to the generic

concept of “determin[ing] a type of data stored by [a] cache.” The patent did not include an explanation of the mechanism for accomplishing this, and therefore, it did not provide an inventive concept. Accordingly, the district court found the claims to be directed to patent-ineligible subject matter and granted Nvidia’s motion to dismiss.

Strategy and Conclusion

After the Federal Circuit’s *Enfish* decision confirmed that improvements in computer-related technology are not categorically abstract and ineligible for patent protection, lower courts have continued to define the boundaries of inventions eligible for patent protection in the software and electronics fields on a case by case basis, and have not interpreted the *Enfish* decision as a basis for finding all claimed improvements in computer-related technology eligible for patent protection.

In the current case, the court noted that the *Enfish* case found patent eligibility for claims directed to a specific improvement in the functioning of a computer. And it differentiated *Enfish* by noting that the claims in the current case were abstract and not eligible for patent protection because they were categorical data storage claims that did not recite a specific or concrete improvement in the way software operates and had no analog to the specific type of data structure.

Further Information

For the *Visual Memory* opinion go to: <http://tinyurl.com/jebr2tz>.

Luminara Worldwide, LLC v. Liown Electronics Co. Ltd.

Court Finds an Agreement Not-to-Sue is a Patent License Despite Language to the Contrary

In *Luminara Worldwide, LLC v. Liown Electronics Co. Ltd.*, a Minnesota court required a patent owner to turn over documents relating to an agreement regarding the asserted patents and a third party, even though the agreement itself expressly stated that it was not a license. While parties to an agreement may try to characterize a contract as a specific type of agreement, the court determined that it needed to be produced because it was, in fact, a license and within the scope of the written discovery requests.

Background

Luminara Worldwide, LLC brought suit in the District of Minnesota against Liown Electronics Co., Ltd., and other defendants (“Liown”) for infringing patents directed to flameless candles. During discovery, Liown sent Luminara discovery requests seeking any licenses involving the patents-in-suit.

Prior to filing suit against Liown, Luminara took action to prevent third-party, Flipo Group, Ltd., from selling

a flameless candle that allegedly infringed one or more of Luminara's patents. As a result, Flipo agreed to stop selling the accused product, and instead to sell a flameless candle that Luminara agreed did not infringe its patents. But one of Flipo's resellers still had allegedly infringing candles in inventory. Consequently, Flipo and Luminara signed a "Memorandum of Understanding" ("MOU"), that recited Luminara's belief that the accused candles infringed one or more of its patents, and agreed to release both Flipo and its resellers from liability for the sale of candles currently in the reseller's possession. Under the MOU, Luminara retained the right to prevent Flipo from selling or manufacturing accused candles that were not already in its reseller's inventory. The MOU also stated: "This limited waiver does not constitute a license to any of the... intellectual property rights of Luminara."

Luminara and Flipo also negotiated a subsequent "Waiver Agreement." Unlike the MOU, the Waiver Agreement only applied to the Flipo candles that Luminara agreed were non-infringing. Luminara waived its right to enforce its current patents against Flipo. Like the MOU, the Waiver Agreement also stated that it did not constitute a patent license.

Initially, Luminara did not produce any information related to the MOU or the Waiver Agreement in response to Liown's discovery requests. After learning from Flipo's CEO that Flipo had licensed one of Luminara's patents, Liown followed up with Luminara. In response, Luminara produced the MOU and Waiver Agreement, which prompted Liown to request production of all related documents as well. After Luminara refused to produce the additional documents, Liown filed a motion asking the court to compel Luminara to produce all of the documents related to the Flipo agreements. Liown also requested that the court sanction Luminara for withholding the agreements.

Order

The court first considered whether Luminara's agreements with Flipo amounted to licenses. Both the MOU and the Waiver Agreement expressly stated that their "limited waiver [did] not constitute a license." Relying on Federal Circuit precedent holding that "a non-exclusive patent license is equivalent to a covenant not to sue," however, the court found that both the MOU and the Waiver Agreement were, for all intents and purposes, licenses. Specifically, the court pointed to the fact that both the MOU and Waiver Agreement released Flipo from any and all liability for selling certain flameless candles. Thus, the court concluded that both the MOU and Waiver Agreement were agreements by Luminara that it would not sue Flipo for selling potentially infringing products. The court also found that Luminara's failure to characterize them as "licenses" did not alter their purpose.

Having concluded that both the MOU and Waiver Agreement were licenses, the court next considered whether to compel Luminara to produce the requested discovery relating to each of the agreements. With respect to the MOU, the court found that because it applied to products that Luminara claimed infringe the patents-in-suit, and because Luminara explicitly released Flipo from any liability for certain infringing acts, Luminara should have disclosed the MOU in response to the Defendants' discovery requests. Thus, the court ordered Luminara to disclose any relevant and responsive documents relating to the MOU.

As to the Waiver Agreement, however, the court found that because it only applied to candles that Luminara did not claim infringed the patents-in-suit, the Waiver Agreement was not relevant to Defendants' discovery requests. The court therefore declined to compel Luminara to provide any additional discovery relating to the Waiver Agreement.

The court also considered Liown's request that Luminara be sanctioned for withholding the agreements with Flipo. The court denied the Liown's motion for sanctions because Liown received the MOU in sufficient time to address it in expert reports and to use it to challenge the opinions of Luminara's experts at deposition and at trial. But because the Flipo agreements may never have been produced if not for the chance encounter with Flipo's CEO, the court ordered Luminara to reimburse the Liown for their costs and fees associated with investigating and requesting the agreements.

Strategy and Conclusion

This case illustrates that regardless of how parties choose to characterize an agreement, courts may construe it as a license if its purpose is consistent with that of a license. Thus, even if the agreement includes an express disclaimer that it is not a license, if its purpose is to waive liability for acts that allegedly constitute infringement, the agreement may be treated as a license.

Further Information

For the *Luminara* decision go to:
<http://tinyurl.com/gr7kqf4>.

Acceleration Bay LLC Against Electronics Companies

Exclusive Field of Use Licensee Must Join Patent Owner to Sue for Patent Infringement

In a number of cases by Acceleration Bay LLC against electronics companies, a District of Delaware court ruled that as an exclusive licensee, Acceleration Bay lacked standing to sue because the licensor retained a right to sue in its field of use. According to the court, Federal Circuit precedent dictates that holders of field of use licenses do not hold all substantial rights to the patent and therefore lack standing to sue. Accordingly, the

court found that the patent infringement action should be dismissed unless the licensor was added as a plaintiff.

Background

Acceleration Bay LLC (“AB”) sued several electronics companies for allegedly infringing three patents that AB claimed to have acquired from the Boeing Intellectual Property Licensing Company (“Boeing”). The Boeing assignment conveyed “all right, title and interest” in the patents to AB, but there were several limitations. In particular, Boeing retained: (1) a non-exclusive, non-transferable right to practice the patents in any field of use; (2) the exclusive, transferable right to practice the patents in the “Boeing Field of Use” (which included aerospace, military, transportation, solar energy, and surveillance fields), including the sole right to sublicense and enforce the patents in the Boeing Field of Use; and (3) the right to assert the patents in a counterclaim in any action. When the defendants learned of AB’s assignment to Boeing, they moved to dismiss AB’s complaint for lack of subject matter jurisdiction under Fed. R. Civ. P. 12(b)(1).

The *Acceleration Bay* Decision

Generally, a patent infringement plaintiff must have the full legal title to the patent at the time of infringement. And in order to convey the full legal title, the original patent owner must convey the entire patent, an undivided part or share of the entire patent, or all rights under the patent in a specified geographical region. Anything less, and the “conveyance” is really a license. But in some circumstances, a licensee has standing to sue for infringement. Specifically, an exclusive licensee that has “all substantial rights” to the patent may sue in its own name. But an “exclusive” licensee with anything less than “all substantial rights” typically may sue only as a co-plaintiff with the patentee.

Within this framework, the District of Delaware court analyzed the Boeing assignment. As an initial matter, the court found that the Boeing assignment did not convey all rights to AB, so AB was an exclusive licensee of the patents, not an owner. The court then turned to whether the Boeing assignment granted AB “all substantive rights” to the patents, such that AB had standing to assert infringement on its own.

The court found that AB did not hold “all substantial rights” to the patents and therefore could not sue for infringement on its own. Critically, because Boeing retained the right to sue within the “Boeing Field of Use,” AB only had an exclusive license in all other fields of use. Citing Federal Circuit precedent, the court found that holders of field of use licenses, no matter if they cover almost all fields, do not hold *all* substantial rights to the patent and therefore lack standing. Moreover, the court also pointed to the fact that Boeing retained the right to assert the patents in *any* counterclaims.

And since Boeing maintains a right to sue under certain circumstances, the court cautioned that there exists a substantial risk of multiple suits and multiple liabilities against an alleged infringer for a single act of infringement. Accordingly, the court found that AB did not have standing to sue alone, and that it would have to join Boeing to the lawsuit to continue its suit.

Strategy and Conclusion

This case shows that while an exclusive licensee for a field of use may appear to have all rights, including the exclusive right to sue for patent infringement in its field, that it may still need to join the patent owner if the patent owner retains rights in other fields or the right to assert the patents in counterclaims in any field. Accordingly, it can be useful to address these issues in drafting the patent license and include appropriate language in the agreement regarding the obligation of the patent owner to join in suits filed by the licensee.

Further Information

For the *Acceleration Bay* decision go to: <http://tinyurl.com/zl838l4>.

Toyo Tire & Rubber Co. v. Atturo Tire Corp.

Attorney-Client Communications Can Be Privileged and Protected from Production Even When They Contain Discoverable Facts

In *Toyo Tire & Rubber Co. v. Atturo Tire Corp.*, a magistrate judge for the U.S. District Court for the Northern District of Illinois found that emails from Toyo’s outside counsel to a Toyo employee regarding settlement discussions in another litigation were protected by the attorney-client privilege from being produced even though they contained discoverable facts.

Background

Toyo sued 23 respondents for design patent infringement in the International Trade Commission (“the ITC Action”), and ultimately entered settlement agreements with those respondents. Toyo independently sued Atturo Tire for trade dress infringement in district court, and Atturo responded by claiming that Toyo did not have a valid trade dress and that Atturo’s product did not infringe. Atturo also asserted that Toyo’s ITC settlement agreements improperly required the respondents to refrain from manufacturing, selling, distributing, or importing tires from Atturo, even though Atturo was not a respondent and its tire was not the subject of the ITC Action.

In seeking discovery concerning the settlement agreements between Toyo and the respondents, Atturo deposed a Toyo witness with knowledge of the ITC Action, but Atturo was unsatisfied with that witness’ knowledge of the settlement discussions. To understand the settlement discussions and agreements from the

ITC Action, Atturo requested that Toyo produce emails from Toyo's outside counsel to a Toyo employee relating to the settlement discussions. Atturo argued that these emails would include summaries, reports, and memorializations of the oral settlement discussions that occurred between Toyo's counsel and the ITC Action respondents that might explain how settlement agreements resulting from the ITC Action involved Atturo's tire. When Toyo refused to produce the emails based on the attorney-client privilege, Atturo moved to compel their production, arguing that the documents were "underlying facts" not protected by the attorney-client privilege.

The *Toyo* Decision

The magistrate judge first reviewed the requirements for establishing the attorney-client privilege: The general rule is that the privilege applies to confidential communications between attorneys and their clients where legal advice is provided. If the privilege applies, a party may refuse to produce the document to the opposing party during litigation. While the attorney-client privilege provides strong protection, it does have limits. For example, facts themselves are not protected by the privilege, even if they are communicated between an attorney and client. Thus, while the communications between an attorney and client are protected, the underlying facts communicated are discoverable.

The magistrate judge explained the attorney-client privilege rule and the carve-out regarding underlying facts, noting that the underlying facts are not privileged but the *communication of facts* is protected if the communication between the attorney and client is for the purpose of providing legal advice. The relevant inquiries are whether the documents in question are communications, and, if so, whether they were made for the purposes of obtaining legal advice. The magistrate determined that the emails themselves were communications, not facts, and did provide legal advice. Accordingly, the magistrate judge concluded that the emails were protected by the attorney-client privilege and denied Atturo's motion to compel Toyo to produce them.

In rejecting Atturo's arguments, the magistrate judge cautioned against an interpretation of the underlying facts exception that would swallow the attorney-client privilege rule. Most communications between attorneys and clients include a mixture of facts and legal advice. The magistrate noted that it would be impractical to require parties to analyze each communication with its attorneys, determine which portions of each communication contained facts and which portions contained legal opinions, redact the legal opinions, and produce the redacted documents. This would add expense to litigation and would slow discovery to a halt.

Because the communications were privileged, the magistrate emphasized that the correct way to gather

the underlying facts would be through depositions. If Atturo was unsatisfied with the witness' answers in the deposition, Atturo could have sought an order compelling Toyo to produce a more knowledgeable witness. Alternatively, Atturo could have served third-party subpoenas on anyone with knowledge of the ITC Action settlements, including the ITC Action respondents or Toyo's former outside counsel.

Strategy and Conclusion

This case explores the differing treatment of legal advice, which is protected by the attorney-client privilege, and the underlying facts, which are discoverable. In particular, while the attorney-client privilege protects confidential communications seeking and providing legal advice, even if the communications also include facts, parties may use depositions and third-party subpoenas to discover the facts underlying privileged communications, because the facts themselves are not privileged.

Therefore, as demonstrated in this case, it may be more effective to discover details of settlement negotiations by deposing or subpoenaing a witness with knowledge of the negotiations rather than using document production requests to seek production of attorney-client correspondence memorializing the discussions.

Further Information

For the *Toyo Tire v. Atturo Tire* decision go to: <http://tinyurl.com/jrsxb3r>

Kinglite Holdings Inc. Against Multiple Computer Hardware Companies

Court May Separately Consider and Award Attorney Fees in Each Phase of a Litigation

In consolidated cases by Kinglite Holdings Inc. against multiple computer hardware companies, the Central District of California court ruled that each phase of a multi-phase litigation can be treated essentially as a case-within-a-case for purposes of awarding attorney's fees in exceptional cases under 35 U.S.C. § 285.

Background

Kinglite Holdings Inc. sued several computer hardware companies for infringement of thirteen patents. Kinglite's first case was consolidated with a second case against a sole computer hardware company alleging infringement of twenty patents. Early on in the consolidated case, the Central District of California court ordered the parties to meet and confer to identify six patents to be tried in the initial phase of the case. The parties agreed on six patents and seven representative claims to comprise "Phase I" of the litigation.

The parties filed a series of competing motions during the sixteen-month long Phase I of the litigation. Among other motions, Kinglite sought leave to amend its complaint to add claims of indirect infringement for four of

the six asserted patents after the deadline for amending had passed. The court denied Kinglite's request, citing a lack of good cause to warrant the late amendment. The defendants successfully moved to have some of Kinglite's claims invalidated as not being directed to patentable subject matter. After the defendants filed another summary judgment motion challenging the validity of two of the asserted patents, Kinglite agreed to dismiss with prejudice the claims of those two patents. The parties also filed dueling motions to strike portions of expert reports.

Phase I of the litigation eventually concluded when the parties entered a joint motion for entry of consent judgment. The court granted the motion and dismissed with prejudice all causes of action for infringement of the Phase I patents. The court found that the consent judgment order constituted a final judgment disposing of the causes of action for infringement of the Phase I Patents. The defendants then moved for a determination that the case was exceptional under 35 U.S.C. § 285 and sought an award of attorney's fees.

The *Kinglite* Order

In a patent case, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. The main issue in *Kinglite* was whether the defendants' request for fees was premature. Kinglite argued that although the defendants prevailed with respect to the six patents comprising Phase I of the litigation, that success was temporary because of the several other patents that remained to be litigated. Kinglite also argued that Federal Circuit precedent allows for only one prevailing party in a case, and that as a plaintiff, it could be the ultimate prevailing party in a mixed judgment case. The defendants, on the other hand, argued that they were a prevailing party for purposes of § 285 because they obtained a judgment under Rule 54 of the Federal Rules of Civil Procedure, which triggers a requirement to file a timely motion for attorney's fees.

Considering the issue before it to be an open question at the Federal Circuit level, the Central District of California court agreed with the defendants that, in essence, each phase of a multi-phase litigation is a case-within-a-case, and each phase can support an independent determination under 35 U.S.C. § 285. The court found support in the text of Federal Rule of Civil Procedure 54, which provides that a court may, under some circumstances, direct entry of a final judgment of fewer than all claims or parties. The court also reasoned that Rule 54 requires that each motion for attorney's fees must specify "the judgment... entitling the movant to the award" and not multiple judgments in in multi-phase cases. Because the defendants could specify the judgment entitling them to prevailing party status, their request was not premature.

The court believed that its decision "reflects the superior policy position with regard to shifting attorney's fees in a complex, protracted patent case." According to the court, allowing determinations of prevailing party status during each phase is necessary to achieve the purposes of exceptional case determinations under § 285, including "the need in particular circumstances to advance considerations of compensation and deterrence." Citing what it considered a common occurrence of parties litigating in a manner "designed to frustrate opponents and increase the nuisance value of a lawsuit," the court found that exceptional case determinations at the conclusion of each phase could be a potential tool to curb such conduct. In particular, the court found that it could have "the salutary effect of curbing exceptional conduct in future phases," otherwise, "a litigant with many patents and an exceptionally weak substantive litigating position could continually delay the conclusion of a case, thus frustrating the ability of the Court to enter a 35 U.S.C. § 285 determination and impose meaningful sanctions." The court also reasoned that judicial economy was best served by early resolution of the § 285 motion so that any appeal of the § 285 determination could be heard with any appeal on the merits of the adjudication leading to the exceptional case determination.

The court went on to find that Phase I of the litigation was exceptional under § 285, warranting an award of fees. Considering each patent, the court found that Kinglite's claims and litigation conduct as to five of the six asserted patents contributed to this totality-of-the-circumstances finding. In particular, the court cited Kinglite's failure to conduct adequate pre-suit investigations into whether the accused products had the necessary components to support its direct infringement claims, such as processor and memory components. As to three of the patents, the court was "at a loss to explain" why Kinglite initiated and then continued to litigate its direct infringement claims where the accused products could not directly infringe because they lacked at least one necessary component.

Strategy and Conclusion

In complex cases involving many patents, courts may divide the case into several phases. In such cases, courts may consider each phase independently for the purpose of awarding attorney's fees under 35 U.S.C. § 285. This may provide a valuable tool for defendants involved in complex litigations where the circumstances warrant a finding that the case is exceptional.

Further information

For the *Kinglite* order go to:
<http://tinyurl.com/hsdynbm>.

Unified Patents Inc. v. American Vehicular Sciences, LLC

Organization May Challenge Patent Validity at the Patent Office Without Identifying or Binding its Members if it Controls the Challenge Independent from its Members

In *Unified Patents Inc. v. American Vehicular Sciences, LLC*, the U.S. Patent Trial and Appeal Board allowed a member-based organization that challenges the validity of patents through inter partes review (“IPR”) proceedings to challenge the validity of patents without identifying or binding its members as real-parties-in-interest because the member-based organization made all the decisions and paid all the costs in the IPR proceedings without member input.

Background

Unified Patents is an organization that challenges patents owned by non-practicing entities (NPEs) through IPRs and other post-grant patent challenges at the Patent Office. While Unified Patents has various companies as dues-paying members, including companies who are sued for patent infringement by NPEs, it prepares and files petitions for post-grant proceedings without direction from its members.

After *American Vehicular Sciences, Inc. (AVS)* asserted a patent directed to vehicle airbag systems against several well-known car manufacturers, including Hyundai, Nissan, Toyota, and Honda, Unified Patents filed a petition for IPR in the U.S. Patent Office, challenging the validity of that patent and identifying itself as the sole real-party-in-interest in its petition. AVS filed a response asking the Patent Office to deny the IPR Petition, claiming that Unified Patents’ petition was deficient for failing to disclose its members as real-parties-in-interest.

The Unified Patents Decision

AVS argued that all funding for Unified Patents’ IPR activity comes from members who pay Unified Patents to challenge patents at the Patent Office, and as a result, Unified Patents’ members were real-parties-in-interest. AVS further contended that because all of Unified Patents’ revenues come from its members’ fees, the money used to pay for IPR activity necessarily comes from its members. Moreover, according to AVS, Unified Patents’ members at least suggest and identify patents that Unified Patents should challenge at the Patent Office.

Anticipating AVS’s arguments, Unified Patents submitted voluntary interrogatory responses along with its petition, stating that it alone decides whether to contest patents at the Patent Office.

The Patent Office rejected AVS’s argument, and found that Unified Patents’ members were not real-parties-in-interest. The Patent Office reasoned that just because Unified Patents’ members pay Unified Patents does not show that the members funded the IPR. In addition, the evidence, which primarily included Unified Patents’ voluntary interrogatory responses and excerpts from Unified Patents’ website, did not show that member payments obligated Unified Patents to file IPRs on behalf of any member, or that the members had any control on when and how Unified Patents spent revenue received from its members.

Because the evidence showed that Unified Patents made all decisions regarding the instant IPR and paid all costs without member input, there was no evidence that the members were controlling or providing direct financing for the specific IPR. In short, the evidence did not show that the members were real-parties-in-interest. The Patent Office thus granted Unified Patents’ request for IPR, and instituted trial.

Strategy and Conclusion

This case illustrates that a company that merely pays dues or makes a financial contribution to an organization that challenges patent validity may not need to be identified or be bound by the outcome of the IPR patent validity challenge. And it illustrates that patent owners seeking to identify and bind such member companies would need to show a stronger link between a financial contribution to a petitioner and the petitioner’s decision to bring or otherwise conduct an IPR before the Patent Office before the Patent Office would require such member companies to be identified in and be bound by the outcome of the proceedings.

Further Information

For the *Unified Patents* opinion go to:
<http://tinyurl.com/jx38s14>. ■

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