

United States Court of Appeals
for the
Federal Circuit

FINISAR CORPORATION,

Plaintiff-Cross-Appellant,

– v. –

THE DIRECTV GROUP, INC., DIRECTV HOLDINGS LLC,
DIRECTV ENTERPRISES, LLC, DIRECTV OPERATIONS LLC,
HUGHES NETWORK SYSTEMS, INC., and DIRECTV, INC.,

Defendant-Appellants.

APPEALS FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN
DISTRICT OF TEXAS IN CASE NO. 1:05-CV-00264, JUDGE RON CLARK

**BRIEF OF *AMICUS CURIAE* NEW YORK INTELLECTUAL
PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER
PARTY ON CROSS-APPEAL**

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1. The full name of every party or amicus represented by me is: New York Intellectual Property Law Association.
2. The party represented by me as amicus curiae is the real party in interest.
3. The parent companies, subsidiaries (except wholly owned subsidiaries), and affiliates that have issued shares to the public, of the party or amicus represented by me are: None.

4. The names of all law firms and partners or associates that appeared for the parties now represented by me in the trial court or agency or are expected to appear in this court are:

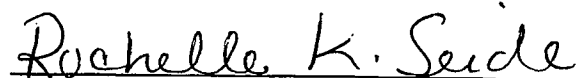
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STATEMENT OF INTEREST OF AMICUS CURIAE

The New York Intellectual Property Law Association (the “NYIPLA” or the “Association”) submits this brief *amicus curiae* in support of neither party and directs it solely to two separate but interrelated issues raised on cross-appeal by the patentee and cross-appellant Finisar Corporation (“Finisar”):

1. Whether the district court’s assumption that it was free to fix a royalty for future damages and enter a “compulsory license” in its final judgment (A 000001), (a) can be justified by either statute or case law, and (b) can be harmonized with the Congressional policy repeatedly and explicitly recognized by the Supreme Court under which, with the exception of a single isolated historical aberration, legislative proposals to sanction such compulsory licenses have been universally rejected; and
2. Whether, the district court’s refusal to enter a permanent injunction after a jury finding of willful infringement of claims which were found neither invalid nor unenforceable, primarily because of Finisar’s status as a

non-practicing entity (“NPE”) that “never sold the rights to the patent, never made the slightest effort to ever use the patent” (A 017940), (a) can be justified under the historical precedents culminating in the Supreme Court’s unanimous opinion in *eBay*,¹ and (b) can be harmonized with the policies reflected in the 200-year history of the Supreme Court’s construction of the terms of the public’s bargain with the patentee under the Patent Clause.²

The NYIPLA respectfully submits that the final judgment must be vacated because the district court abused its discretion both in entering the unauthorized compulsory license and in refusing to enter the permanent injunction based primarily upon a theory explicitly rejected in *eBay*. Because it believes that the entry of the compulsory license was itself *ultra vires*, the NYIPLA takes no position on Finisar’s challenge to the level of future royalties putatively fixed by the district court.

¹ *eBay Inc. v. MercExchange, L.L.C.*, ___ U.S. ___, 126 S. Ct. 1837 (2006) (“*eBay*”).

² U.S. CONST., Art. I, § 8, cl. 8 (the “Patent Clause”).

The Association respectfully submits that the district court's errors were occasioned by an increasingly common misreading of the *eBay* decision which focuses upon the way NPEs are viewed under dicta set forth in the concurring opinion of Justice Kennedy rather than upon the way such NPEs must be treated under the unanimous opinion of the Court authored by Justice Thomas. It is important for this Court to address the two central issues raised by the cross-appeal in order to ameliorate the confusion on such issues which now seems widespread in the federal district courts.

The NYIPLA and its counsel represent that they have authored this brief themselves, and that no person or entity other than the *amicus curiae* and its counsel have made a monetary contribution to the preparation or submission of this brief. The arguments set forth in this brief were approved on June 18, 2007 by an absolute majority of the total number of officers and members of the Board of the NYIPLA (including such officers and Board members who did not vote for any reason including recusal), but do not necessarily reflect the views of a majority of the members of the Association or of the firms with which those members are associated.

The NYIPLA is a professional association of almost 1,600 attorneys whose interests and practices lie in the area of patent, copyright, trademark, trade secret and other intellectual property law.

NYIPLA members include in-house attorneys working for businesses in many industries that own, enforce and challenge patents as well as attorneys in private practice who represent patent owners. Such patent owners range from individual inventors, entrepreneurs and venture capitalists on the one hand to small and large corporations, and industry trade associations and standard setting organizations ("SSOs") on the other. NYIPLA members represent both plaintiffs and defendants in infringement litigation and also regularly participate in proceedings before the United States Patent and Trademark Office ("PTO"), including representation of applicants for patents and parties to interferences.

Since its founding in 1922, the NYIPLA has committed itself to maintaining the integrity of United States patent law, and to the proper application of that law. Nowhere is the rational and considered application of patent law and the principles of equity more important to the economy of the United States than in determining whether and to what extent an NPE can be compelled to license its invention and the extent to which alleged

equitable defenses should preclude issuance of the post-trial permanent injunctions which, as the Supreme Court has recognized for almost 200 years, lie at the very heart of the patent system contemplated by the framers of the Constitution.

A substantial percentage of NYIPLA members participate actively in patent litigation. In order to properly advise their clients, patent litigators must keep themselves fully apprised of the precedents of the Supreme Court, this Court and other federal courts concerning when the public interest and the equitable defenses available to accused infringers can affect the availability of permanent injunctive relief after a patent has been held infringed and not invalid.

The numerous NYIPLA members who counsel clients large and small regarding the filing and prosecution of patents before the PTO likewise must be acutely sensitive to decisions which involve compulsory licenses or otherwise affect the availability of injunctive relief to patent owners. The right to withhold a license and sue for a permanent injunction against infringement facilitates valuation of both exclusive and non-exclusive patent rights in the marketplace rather than in the federal courts

and, accordingly, contributes to judicial efficiency by avoiding the need for repetitive trials on patent damages.

The right to sue for infringement and seek an injunction thus represents an important element of the total value of a patent to its owner — often 100% of that value where the development either is covered by a patent obtained purely for “defensive” purposes or represents a potentially valuable but “blocked” improvement which the innovator is unable to practice in the absence of a license.³

Additionally, a substantial number of NYIPLA members counsel clients regarding transactions under which financing for research and development (“R&D”) is obtained through the transfer of either patent rights or security interests in such rights. In the hands of either the inventor or her direct or indirect assignee, the right to exclude via a permanent injunction always represents a substantial portion of the economic justification for the licensing, mortgage or assignment transaction necessary

³ For a potential entrant, the threat of an injunction often provides the economic justification for a cross-license which enables both parties to practice the improvement. For a non-user who seeks to market a significant improvement, the potential for such an injunction is often the only leverage to guarantee that an entrenched oligopsony will either be forced to pay a fair price for use of the improvement or forego such use for the period established by Congress.

to obtain the financing for such R&D. Absent the continued availability of the right to exclude others via permanent injunction, R&D financing for novel but “blocked” technology often could not be obtained – either from within an innovator’s own corporate structure or from some third party.

Third party R&D financing can originate either from an entity already participating in the industry to which the improvement relates, an entity which wishes to enter that industry, or an entity that is willing to provide development financing but has no intention of commercializing the improvement itself by either entering the industry or integrating vertically.

Some NPEs, like cross-appellant Finisar which employs about 60 Ph.D. engineers and has been awarded some 500 United States patents (A 17028, A 17058-59), internally develop and attempt to license the inventive concepts they own or control, while others merely function as financial middlemen that purchase assignments, licenses or mortgages in the improvement developments of others and plan to recoup their investment by sharing in licensing royalties or assigning or licensing to others the right to use those improvements. Both types of NPEs contribute to the “progress of science and the useful arts” contemplated by the Patent Clause that the framers of the Constitution intended the patent law to promote.

It is also possible to define NPEs more broadly as a much larger genus of all firms which own patents but have elected not to practice the subject matter of some of those patents themselves.⁴ *Paper Bag* and *Special Equipment*,⁵ the seminal pre-*eBay* decisions of the Supreme Court discussing the obligation to issue injunctions despite non-use by the patent owner, involved not NPEs in the narrower sense but firms which were already industry factors but had elected not to practice their improvement inventions.

Contrary to what the district court may have believed, the *eBay* decision actually reaffirmed the rule of *Paper Bag* and *Special Equipment*. The Association respectfully submits that any change in the long-established rule that non-use cannot give rise to a compulsory license or an equitable defense barring injunctive relief necessarily would require an act of

⁴ Under that usage, virtually all of the large high technology firms that annually obtain as many as several thousand United States patents can be characterized as NPEs, since at least some of the patents in their large portfolios are currently neither practiced or licensed. As new technologies develop, however, such unused patents can become important either for purely "defensive" purposes or to provide leverage for use in obtaining operating rights in new technology areas.

⁵ *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908) ("*Paper Bag*"); *Special Equipment Co. v. Coe*, 324 U.S. 370 (1945) ("*Special Equipment*").

Congress.⁶ If permitted to stand, moreover, the district court's determination would generate additional confusion in the courts and substantial economic dislocation.

If the rule were changed, each firm represented by members of the NYIPLA would have to review its own portfolio to determine whether any of its patent assets were threatened with unenforceability for non-use under the new rule. Moreover, all contracts and licenses relating both to the firm's own patent portfolio and to those patents which had been licensed in from others necessarily would have to be reviewed and re-evaluated. In many instances, the security interests which had been designed to guarantee recoupment of R&D financing costs would prove worthless. Under such circumstances, venture capital markets could be severely stressed and might well dry up entirely.

It is possible that Congress ultimately may conclude that injunctive relief in favor of NPEs should be eliminated for some narrow class of patents or even for some industry segment. Indeed, Congress

⁶ Indeed, as discussed in Point II below, the enactment of Section 271(d)(4) by Congress in 1988 arguably represented a legislative determination that the rule of *Paper Bag* and *Special Equipment* should be preserved.

already has endorsed compulsory licensing in certain narrow areas such as under the Clean Air Act.⁷ The NYIPLA respectfully submits, however, that this Court should reject any broader judicial assault on the injunction statute and leave resolution of any alleged problems to Congress.

STATEMENT OF FACTS

Based upon a jury verdict of willful infringement, the district court found that seven claims of Finisar's United States Patent No. 5,404,505 ("the, 505 patent") had been infringed by one or more of the six related appellant firms (individually and collectively "DirecTV"). Despite the complete absence of any showing that these willfully infringed claims of the '505 patent were either invalid or unenforceable, the district court's final judgment of July 7, 2006 (a) "granted a compulsory license" in which it fixed a royalty of \$1.60 per set-top box for all future sales by DirecTV; and (b) refused Finisar's request for entry of a permanent injunction (A 000001-02). The district court stated that these provisions of the final judgment were based upon "the reasons stated at the July 6, 2006 hearing" (A 000001).

⁷ 42 U.S.C. § 7608. *See also*, 35 U.S.C. § 203 (federally-funded inventions).

A. Compulsory License

At page 128 of the July 6, 2006 hearing transcript, the district court predicated its grant of the compulsory license upon its reading of *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2nd Cir. 1974) ("*Foster*") – the same case upon which the district court in *eBay* had placed primary reliance in refusing to enter a permanent injunction (A 017941).

B. Refusal To Enter Permanent Injunction

The entirety of the district court's discussion of the four-part test set forth in *eBay* appears at pages 124, line 15 through 128, line 6 of the July 6, 2006 hearing transcript (A 017940-41).

1. Irreparable Harm & Inadequacy Of Monetary Damages

The district court rejected the notion that Finisar had been irreparably harmed primarily because of its status as an NPE. Although conceding that "the right to exclude everybody else...perhaps could be priceless", the district court refused to consider that value because Finisar "never sold the rights to the patent, never made the slightest effort to ever use the patent" (A 017940). The district court also rejected the notion that its refusal to enjoin DirecTV could interfere with Finisar's efforts to grant

exclusive rights at a premium to some third party entrant because “with no success at all in the past, it’s a little far fetched to say they can sell exclusive rights to competitors who weren’t involved in the suit”. *Id.*⁸ In the district court’s view, therefore, “given the fact that there are damages available and future damages available, it doesn’t seem irreparable” (A 017941).

As to “remedies at law”, based upon the jury verdict the district court ruled concomitantly that “it’s hard to argue” that Finisar has “not been fully compensated for damages to date, and as to future, the court is going to find a compulsory license to adequately compensate Finisar for DirecTV’s use of the inventions, especially since Finisar evidently never had the will nor the means to implement the patent itself”. *Id.*

⁸ It is difficult to determine how the district court’s reference to the antitrust laws, which appears at page 125, line 25 through page 126, line 15 of the July 6, 2006 transcript, can relate to the issue of irreparable injury (A 017940-41). In any event, market exclusivity based upon the exercise of valid patent rights cannot violate the antitrust laws. *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d, 1322, 1325 (Fed. Cir. 2000) (“the antitrust laws do not negate the patentee’s right to exclude others from patent property” and any “commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist”).

2. **Balance Of Hardships**

At page 127 of the July 6, 2006 transcript the district court appeared to recognize that, although “the hardship involved in enjoining DirecTV would be enormous”, under the historical precedents “you can’t really concern yourselves too much about the profits to corporations” (A 017941).⁹ Without even a scintilla of case support, therefore, the district court purported to balance the putative absence of hardship to Finisar based solely upon the monetary damages it would receive for DirecTV’s past and future use of its invention against the hardship a permanent injunction would cause to the 15 million customers of DirecTV. *Id.*

3. **Public Interest**

Finally, at page 128 of the July 6, 2006 hearing transcript – – and again without citation of any authority whatsoever, the district court ruled that:

There’s no public interest in arbitrarily limiting satellite TV to millions of viewers. The whole patent system itself has a public interest in technology being used and improved upon, so the court doesn’t see that there’s – public interest

⁹ The district court probably also recognized that the jury’s finding of willful infringement militated against any success for DirecTV in a balancing of the equities.

would be served by an injunction (emphasis supplied).

As will be developed in the legal argument, however, the patentee's bargain with the public requires only full disclosure and there is no obligation for an NPE to permit use of an invention during the term of exclusivity by anyone, no less by an adjudicated willful infringer.

ARGUMENT

POINT I

THE DISTRICT COURT'S JUDGMENT MUST BE VACATED BECAUSE THERE IS NO STATUTORY, CASE OR POLICY SUPPORT FOR THE AWARD OF FUTURE DAMAGES UNDER A "COMPULSORY LICENSE"

A. Statutes

Neither the district court's final judgment, nor any related document makes reference to or suggests some statutory basis for the court's belief that it was free to enter a "compulsory license" (A 000001), and in fact there is no such statute.

Section 283 of the Patent Code, 35 U.S.C. § 283, which represents the only section of the remedies chapter addressing injunctive relief, is limited by its terms to prohibitory injunctions and provides only that:

The several courts having jurisdiction under this title may grant injunctions in accordance with the principles of equity **to prevent the violation of any right** secured by patent, on such terms and conditions as the court deems reasonable (emphasis supplied).

This language by its terms does not contemplate either a compulsory license or any other species of specific performance.

Moreover, *Paper Bag* itself noted that, with the exception of a single four-year experiment with a working requirement for alien patentees, Congress had never modified an NPE's right to a permanent injunction, and previously had rejected a number of specific compulsory licensing proposals (210 U.S. at 429). In *Hartford-Empire Co. v. United States*, 329 U.S. 386, 433 (1945) ("*Hartford-Empire*"), the Supreme Court noted that, in the intervening 37 years, Congress had rejected no less than twelve separate proposals to alter the *Paper Bag* rule by imposing a forfeiture or compulsory license for a patentee's non-use. After another 35 years had passed, the Supreme Court noted that compulsory licensing had been proposed but not enacted in the 1952 codification of Section 283 and again proposed and

rejected in 1959. *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 n.21 (1980) (“*Dawson Chemical*”).¹⁰

The Patent Clause appears in Article I rather than in Article III of the Constitution. Given the consistent repeated rejections by Congress of proposals for compulsory licensing legislation, the courts should refrain from judicial imposition of changes to the Patent Code that Congress has explicitly rejected.

B. Case Law

As to case law, at page 128 of the transcript of the July 6, 2006 hearing the district court made reference to *Foster*, which, as already noted, is the same case upon which the district court in *eBay* had placed primary reliance in refusing to enter a permanent injunction (A 017941).

In *eBay*, the district court based its finding that MercExchange suffered no irreparable harm on its finding that it “does not practice its inventions and exists merely to license its patented technology to others”.

¹⁰ Indeed, another proposal for a working requirement was proposed in the original version of H.R. 2795 but removed before its formal introduction in 2005. See July 26, 2005 Amendment in the Nature of a Substitute offered by Lamar Smith, available at <http://www.promotetheprogress.com/patentreform/Patentact/2005_IPOcoalitionprint.pdf>.

