

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

ENHANCED SECURITY RESEARCH, LLC,	:	
	:	
Plaintiff,	:	
	:	
v.	:	C.A. No. 09-871-JJF
	:	
JUNIPER NETWORKS, INC.,	:	
	:	
Defendant.	:	

Martin R. Lueck, Esquire; Sara A. Poulos, Esquire; Cole M. Fauver, Esquire; Julia Dayton Klein, Esquire; and Brenda L. Joly, Esquire of ROBINS, KAPLAN, MILLER & CIRESI LLP, Minneapolis, Minnesota.
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Attorneys for Defendant Juniper Networks, Inc.

MEMORANDUM OPINION

July 20, 2010
Wilmington, Delaware


Farnan, District Judge.

Presently before the Court is a Motion To Dismiss For Lack Of Standing (D.I. 19) filed by Defendant Juniper Networks, Inc. For the reasons discussed, the Motion will be granted.

I. Background

Plaintiff Enhanced Security Research, LLC ("Plaintiff") initiated the present patent infringement action against Defendant Juniper Networks, Inc. ("Defendant") in the United States District Court for the Eastern District of Texas, Marshall Division on May 18, 2009. (D.I. 1.) Plaintiff alleges that Defendant directly and contributorily infringed U.S. Patent Nos. 6,119,236 and 6,304,975 BI (collectively, the "patents-in-suit"). (Id. ¶¶ 5, 9.) Plaintiff previously brought a patent infringement action against Defendant in the Eastern District of Texas, but that case was dismissed without prejudice on July 17, 2009 after Plaintiff moved for dismissal pursuant to Rule 41(a)(2) of the Federal Rules of Civil Procedure due to doubts about its standing to sue. (D.I. 19, Evan Decl., Exs. A, B.) Defendant filed the pending Motion To Dismiss in the Eastern District of Texas on July 27, 2009. On October 23, 2009, Defendant's Motion To Transfer Venue (D.I. 18) was granted, and this action was transferred to the District of Delaware. (D.I. 49.)

Peter Shipley ("Mr. Shipley") is the sole named inventor of the patents-in-suit. (D.I. 26, Joly Decl., Exs. A, B.) In 1996,

Mr. Shipley assigned rights to the patents-in-suit to Network Security Associates, a corporation wholly owned and operated by Mr. Shipley. (D.I. 26, at 2; Joly Decl., Ex. C (Shipley Decl. ¶¶ 1-2).) This assignment was apparently never recorded with the U.S. Patent and Trademark Office ("PTO") and, according to Plaintiff, was rescinded through subsequent conduct pursuant to California law. (D.I. 26, at 2; Shipley Decl. ¶ 4.)

In July 2007, Mr. Shipley assigned all rights, title and interest in the patents-in-suit to Plaintiff, a limited liability company he formed. (D.I. 26, at 2; Shipley Decl. ¶ 7.) On October 16, 2008, Altitude Capital Partners, LP, a litigation finance/ investment firm, formed Security Research Holdings LLC ("Security Research Holdings") as a Delaware limited liability company. (D.I. 19, at 4; Evans Decl., Ex. F.) On January 20, 2009, Plaintiff entered into an agreement with Security Research Holdings entitled "Purchase Agreement." (D.I. 55, Ex. A.) In May 2009, because of doubts about whether the 1996 assignment had been rendered inoperable, Network Security Associates and Mr. Shipley executed a confirmatory agreement assigning all rights, title and interest in the patents-in-suit to Plaintiff. (D.I. 26, at 3; Shipley Decl. ¶ 10.) The 2007 and 2009 assignments were recorded with the PTO. (Joly Decl., Exs. E,F.)

II. Parties' Contentions

By its Motion, Defendant contends that Plaintiff sold all

substantial rights to the patents-in-suit to Security Research Holdings, and therefore, Plaintiff lacks standing to sue. (D.I. 19, at 8.) Specifically, Defendant contends that as a result of the Purchase Agreement, Security Research Holdings holds the following substantial rights to the patents-in-suit: (1) the exclusive right to sue; (2) the exclusive right to transfer title or assign the patents-in-suit; and (3) the exclusive right to exclude others from practicing the patents-in-suit. (Id. at 10-11.) Finally, Defendant argues that even if Plaintiff retained legal title to the patents-in-suit, it has not retained any significant rights such that it has the ability to bring suit for patent infringement. (Id. at 13.)

Plaintiff responds that only the patentee, which includes the patentee to whom the patent was issued and successors in interest, have the right to bring a patent infringement action. (D.I. 26, at 6.) Plaintiff contends that legal title to a patent can only be transferred through an assignment, and that title is not transferred through a license, which is a conveyance of less than all rights to a patent. (Id.) Plaintiff maintains that it is the assignee of the patents-in-suit, and that the Purchase Agreement was not an assignment to Security Research Holdings. (Id. at 8-11.) Accordingly, Plaintiff contends that it has standing because the Purchase Agreement did not transfer legal title or all substantial rights to the patents-in-suit. (Id.)

Specifically, Plaintiff contends that the Purchase Agreement did not grant Security Research Holdings the right to freely transfer its rights to the patents-in-suit, and that the entire agreement can be terminated upon the mutual written agreement of Plaintiff and Security Research Holdings. (Id. at 11-12.) Plaintiff argues that, at most, the Purchase Agreement operated as a power of attorney authorizing Security Research Holdings to take certain actions on behalf of Plaintiff. (Id. at 12-14.)

III. Legal Standard

Pursuant to Rule 12(b)(1) of the Federal Rules of Civil Procedure, the Court may dismiss a complaint for lack of subject matter jurisdiction. Fed. R. Civ. P. 12(b)(1). Motions brought under Rule 12(b)(1) may present either a facial challenge or a factual challenge to the Court's subject matter jurisdiction. Gould Elecs. Inc. v. U.S., 220 F.3d 169, 176 (3d Cir. 2000) (citing Mortensen v. First Fed. Sav. and Loan Ass'n, 549 F.2d 884, 891 (3d Cir. 1977)). If the motion presents a factual attack, the Court may consider evidence outside the pleadings, id., including affidavits, depositions, and testimony, to resolve factual issues bearing on jurisdiction. Gotha v. U.S., 115 F.3d 176, 179 (3d Cir. 1997). Moreover, in reviewing a factual challenge to the court's subject matter jurisdiction, the presumption of truthfulness does not attach to the allegations of the complaint. Mortensen, 549 F.2d at 891. If the motion

presents a facial attack, the Court may only consider the allegations of the complaint, and documents referenced therein, in the light most favorable to the plaintiff. Gould Elecs., 220 F.3d at 176. The present Motions To Dismiss will be treated as factual attacks.

IV. Discussion

As in all federal actions, a plaintiff must have standing to sue before a patent infringement claim can be brought. Sicom Sys. Ltd. v. Agilent Techs., Inc., 427 F.3d 971, 975-76 (Fed. Cir. 2005). To establish standing in accordance with Article III of the Constitution, the party bringing the action must demonstrate (1) an injury in fact (an invasion of a legally protected interest which is concrete and particularized and actual or imminent); (2) a causal connection between the defendant's action and the injury (that the injury is fairly traceable to the defendant's alleged unlawful conduct); and (3) redressability (that the injury is likely to be redressed by the relief requested). Lujan v. Defenders of Wildlife, 504 U.S. 555, 560-61 (1992). In the context of patent infringement actions specifically, standing is derived from the Patent Act, which permits a "patentee" to bring a "civil action for infringement of his patent." 35 U.S.C. § 281. A "patentee" includes the patentee to whom a patent is issued and the "successors in title to the patentee." Id. § 100(d). The Patent Act further creates

the legal interest in a patent: the right to exclude others from making, using, selling, or offering to sell the patented invention. Morrow v. Microsoft Corp., 499 F.3d 1332, 1339 (Fed. Cir. 2007) (citing 35 U.S.C. §§ 154, 271). Thus, the party holding the exclusionary rights to a patent suffers the legal injury in fact and has standing to sue. Id.

In turn, the Federal Circuit has identified three general categories of plaintiffs when analyzing the constitutional standing issue in patent infringement actions: (1) those that can sue in their own name; (2) those that can sue as long as the patent owner is also joined in the suit; and (3) those that cannot even participate as a party to an infringement suit. Id. at 1339-41. Patentees and assignees who hold "all substantial rights" to the patent fall into the first category of plaintiffs and have standing to bring a suit for infringement in their own name alone. Id. at 1339-40. The second category of plaintiffs includes parties who hold exclusionary rights and interests created by the patent statutes, but not all substantial rights to the patents. Id. at 1340. The third category of plaintiffs includes those that hold less than all substantial rights to the patents and lack exclusionary rights. Id. at 1340-41. The burden of establishing standing rests on the party bringing suit. Sicom, 427 F.3d at 976.

The issue before the Court is whether Plaintiff falls into the first category and has standing to bring suit on its own, without Security Research Holdings. In order to answer this question, the Court will consider what rights Plaintiff retained and what rights it transferred to Security Research Holdings under the terms of the Purchase Agreement, as well as the intention of the parties as demonstrated by the Purchase Agreement as a whole.¹ See Prima Tek II, L.L.C. v. A-Roo Co., 222 F.3d 1372, 1378 (Fed. Cir. 2000) ("To determine whether a license agreement has conveyed all substantial rights in a patent, and is thus tantamount to an assignment, we must ascertain the intention of the parties and examine the substance of what was granted. In doing so, it is helpful to look at what rights were retained by the grantor.") (internal citations omitted).

The Federal Circuit has addressed the issue of standing to sue for patent infringement numerous times in recent years. See e.g., Propat Int'l Corp. v. Rpost, Inc., 473 F.3d 1187 (Fed. Cir. 2007); Aspex Eyewear, Inc. v. Miracle Optics, Inc., 434 F.3d 1336 (Fed. Cir. 2006); Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc., 248 F.3d 1333 (Fed. Cir. 2001); Speedplay, Inc. v. Bebob, Inc., 211 F.3d 1245 (Fed. Cir. 2000);

¹ It does not appear that Defendant challenges the validity of the 2007 assignment of patent rights from Mr. Shipley to Plaintiff.

Abbott Labs. v. Diamedix Corp., 47 F.3d 1128 (Fed. Cir. 1995); Vaupel Textilmaschinen KG v. Meccanica Euro Italia SPA, 944 F.2d 870 (Fed. Cir. 1991). One of the most important rights in the standing analysis is the exclusive right to sue for patent infringement because this is the means by which a party exercises the right to exclude others from making, using, and selling the claimed invention. Sicom, 427 F.3d at 979 (citing Vaupel, 944 F.2d at 875). Additionally, the Federal Circuit has looked to whether the grantor retains the right to make and use the patented product, Abbott Labs., 47 F.3d at 1132, as well as the ability to freely grant sublicenses to other parties. See Prima Tek II, 222 F.3d at 1380; Textile Prods., Inc. v. Mead Corp., 134 F.3d 1481, 1485 (Fed. Cir. 1998). Whether a party may settle litigation, assign its interests in the patents, and enter into contracts without reservation are also relevant considerations. See Sicom, 427 F.3d at 979-80.

The Court concludes that the Purchase Agreement provided Security Research Holdings with all substantial rights to the patents-in-suit such that Plaintiff lacks constitutional standing to bring this action on its own. Under the terms of the Purchase Agreement, Plaintiff retained title to the patents-in-suit and possessed the "rights to use, exploit, enforce, [the patents-in-suit]." (Joly Decl., Ex. G, Purchase Agreement § 3.12(a),©.) Despite this language, the Purchase Agreement is clear that

control over the exclusionary rights was given to Security Research Holdings. Section 2.3© provides that Security Research Holdings "shall have the *exclusive right to: initiate, maintain, manage, resolve, conclude and settle* all arrangements and activities in connection with *any and all licensing or litigation or enforcement efforts* and/or Proceedings . . . relating to any of [Plaintiff]'s rights in and to any of the Patents." (Id. § 2.3© (emphasis added).) Plaintiff is prohibited from making any decision with respect to the assertion of its patent rights, the conduct of litigation relating to the patents-in-suit, or the settlement or resolution of such litigation without the prior written consent of Security Research Holdings. (Id. § 5.4®, (s).) Plaintiff is also prohibited from contacting any potential infringers without the prior consent of Security Research Holdings. (Id. § 3.18©.) Moreover, Plaintiff "shall take all actions to give effect to [Security Research Holding]'s decisions." (Id. § 2.3©.) To the extent Plaintiff retains certain interests and obligations with regard to the patents-in-suit, they are circumscribed by the Purchase Agreement. While Plaintiff may be obligated for the legal fees and expenses related to enforcing the patents-in-suit (id. § 2.3(a),(b)), Security Research Holdings is the party with the authority to enter into legal fee arrangements and to make all decisions with respect to engaging counsel (id. § 2.3©). In addition, Plaintiff

may receive consideration in connection with enforcement actions and licensing and litigation efforts for the patents-in-suit, but Plaintiff must give notice of such receipts to Security Research Holdings and must compute payments owed to Security Research Holdings. (Id. §§ 5.6, 5.16, 5.17.)

The Court is not persuaded by Plaintiff's contention that Security Research Holdings lacks substantial rights because it cannot freely transfer its rights under the Purchase Agreement. Section 7.7 provides that the Purchase Agreement, and the rights and obligations under the Purchase Agreement, may not be transferred or assigned by either Plaintiff or Security Research Holdings without the prior written consent of the other party. (Id. § 7.7.) However, Plaintiff's transferability rights are more limited than Security Research Holdings'. Whereas Plaintiff cannot assign, transfer, or license its rights to the patents-in-suit without the prior written consent of Security Research Holdings (id. § 5.4(k)), Security Research Holdings may transfer or assign the Purchase Agreement or its rights under the Purchase Agreement to "any of its Affiliates or to a Person that acquires the Gross Proceeds" without the prior consent of Plaintiff (id. § 7.7).

Although Plaintiff appears to have retained legal title to the patents-in-suit, as well as the ability to exploit the patents-in-suit, the Court concludes that the Purchase Agreement

nevertheless transferred "all substantial rights" to Security Research Holdings. Under the Purchase Agreement, Plaintiff lacks authority to make decisions concerning licensing and assignments, whether to initiate enforcement proceedings and/or settlement discussions, how to conduct litigation, and the approval of any settlements. Because Plaintiff lacked the requisite legal interest in the patents-in-suit at the time it brought this action, it has not suffered any cognizable injury and does not have Article III standing.

V. Conclusion

For the reasons discussed, Defendant's Motions To Dismiss will be granted.

An appropriate Order will be entered.