UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

EON CORP. IP HOLDINGS, LLC,	§	
Plaintiff,	§	
	§	
	§	
v.	§	**Civil Action No. 6:11-cv-00317-LED-JDL**
	§	
	§	**JURY TRIAL REQUESTED**
LANDIS+GYR INC., et al.,	§	
Defendants.	§	
	§	

REPORT AND RECOMMENDATION OF
UNITED STATES MAGISTRATE JUDGE

Before the Court is Plaintiff Eon Corp. IP Holdings, LLC's ("Eon") Motion to Dismiss Silver Spring Networks' ("SSN") Patent Misuse Affirmative Defense and Counterclaim (Doc. Nos. 421) ("MOTION"). Defendant SSN has filed a Response (Doc. No. 429) ("RESPONSE"). Upon consideration, the Court **RECOMMENDS GRANTING** Eon's Motion to Dismiss SSN's Patent Misuse Affirmative Defense and Counterclaim (Doc. No. 421).

BACKGROUND

On June 17, 2011, Eon filed the instant action, alleging Defendant Silver Spring Networks, Inc. ("SSN") infringes certain claims of U.S. Patent Nos. 5,388,101 ("the '101 Patent"), 5,481,546 ("the '546 Patent"), and 5,592,491 ("the '491 patent"). On November 16, 2012, SSN filed its Answer and Counterclaim to Eon's Third Amended Complaint. ("ANSWER") (Doc. No. 241). Thereafter, Eon filed a Motion to Dismiss SSN's Patent Misuse Twelfth Affirmative Defense and Counterclaim set out in SSN's Third Amended Answer (Doc. No. 258). On May 17, 2013, this Court issued its Report and Recommendation recommending that Eon's Motion to Dismiss be granted (Doc. No. 371) ("R & R"). On July 24, 2013, this Court issued an

Order clarifying that its Report and Recommendation did not apply to SSN's eleventh affirmative defense and counterclaim, and granting Eon leave to file a motion as to SSN's eleventh affirmative defense (Doc. No. 416). Thereafter, on July 30, 2013, Judge Leonard Davis issued an Order Adopting the Court's Report and Recommendation (Doc. No. 420), and Eon filed the instant Motion to Dismiss SSN's Eleventh Affirmative Defense and Counterclaim (Doc. No. 421).

DISCUSSION

I. Motion to Dismiss

Motions to dismiss for failure to state a claim are governed by regional circuit law. *In re Bill of Lading Transmission and Processing System Patent Litigation*, 681 F.3d 1323, 1331 (Fed. Cir. 2012) (citing *McZeal v. Sprint Nextel Corp.*, 501 F.3d 1354, 1355-56 (Fed. Cir. 2007). "The central issue is whether, in the light most favorable to the plaintiff, the complaint states a valid claim for relief." *McZeal*, 501 F.3d at 1356 (internal quotations omitted); *Hershey v. Energy Transfer Partners, L.P.*, 610 F.3d 239, 243 (5th Cir. 2010). Under Federal Rule of Civil Procedure 8 ("Rule 8"), a complaint must contain "a short and plain statement of the claim showing that the pleader is entitled to relief, in order to give the defendant fair notice of what the . . . claim is and the grounds upon which it rests." *Bell Atl. Corp. v. Twombly*, 550 U.S 544, 545 (2007) (interpreting Rule 8); *see also Ashcroft v. Iqbal*, 556 U.S. 662, 684–85 (2009) (applying *Twombly* generally to civil actions pleaded under Rule 8). "[D]etailed factual allegations" are not required. *Iqbal*, 556 U.S. 662 at 678 (quoting *Twombly*, 550 U.S. at 555). Nevertheless, a complaint must allege "sufficient factual matter, accepted as true, to 'state a claim that is plausible on its face.'" *Id.* (quoting *Twombly*, 550 U.S. at 570). "A claim has facial plausibility when the pleaded factual content allows the court to draw the reasonable inference that the

defendant is liable for the misconduct alleged." *Id.* (citing *Twombly*, 550 U.S. at 556). This determination is a "context-specific task that requires the reviewing court to draw on its judicial experience and common sense." *Id.* at 679.

II. Patent Misuse

"The defense of patent misuse arises from the equitable doctrine of unclean hands, and relates generally to the use of patent rights to obtain or to coerce an unfair commercial advantage. Patent misuse relates primarily to a patentee's actions that affect competition in unpatented goods or that otherwise extend the economic effect beyond the scope of the patent grant." *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340, 1372 (Fed. Cir. 1998), *cert. denied*, 526 U.S. 1130 (1999); *see Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 703–04 (Fed. Cir. 1992) ("[t]he concept of patent misuse arose to restrain practices that did not in themselves violate any law, but that draw anticompetitive strength from the patent right, and thus were deemed to be contrary to public policy").

Courts have identified certain practices, such as tying arrangements and post-expiration royalties, as *per se* patent misuse. *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997). Other situations, carved out by Congress, do not support a finding of patent misuse. *See* 35 U.S.C. § 271(d). Where there is no *per se* patent misuse, and the practice alleged is not specifically excluded by § 271(d), patent misuse can be found where the patentee's conduct has the effect of expanding the patent's statutory rights with an anti-competitive effect. *Virginia Panel*, 133 F.3d at 869. Here, there is no dispute that Eon's alleged activities do not amount to *per se* patent misuse, and are not excluded by § 271(d). Thus, to sufficiently allege patent misuse, SSN must plead sufficient facts to infer that Eon "has impermissibly broadened the 'physical or temporal scope' of [its] patent grant with anticompetitive effect." *Id.* at 868.

A. Parties' Contentions

In its Answer and Counterclaim, SSN goes through 20 pages of facts relating to, among other things, Eon's Petition for Rulemaking to the FCC, its duty of candor owed to the FCC, and the anticompetitive effects resulting from alleged omissions. ANSWER at 9–29. SSN ultimately incorporates these facts into its eleventh affirmative defense and third counterclaim for patent misuse.

In its motion, Eon argues that SSN's assertions that Eon failed to disclose its pending patent applications in its Petition for Rulemaking to the FCC do not amount to patent misuse. MOTION at 6. Further, Eon argues that its actions do not amount to patent misuse because the alleged conduct occurred when Eon only had patent applications pending. *Id.* Finally, Eon argues that SSN has not stated any facts to support an anticompetitive effect resulting from the broadening of patent rights under the patent misuse doctrine. *Id.* at 7.

SSN argues that it has alleged sufficient facts to show that Eon deceived the FCC in its Petition for Rulemaking, thereby exceeding the scope of its patent rights. RESPONSE at 6. Particularly, SSN alleges that Eon had a duty to inform the FCC of its pending patent applications and breached that duty by failing to disclose those pending patent applications in its Petition for Rulemaking. *Id.* SSN alleges that Eon's omission to the FCC resulted in Eon's wrongful capture of the mobile IVDS market through the enforcement of its now-issued patents. *Id.* at 10.

B. Analysis

As discussed in the Court's prior Report and Recommendation, an allegation of patent misuse is properly framed as an affirmative defense as opposed to a counterclaim. *See* R & R at 5, citing *Communcations Corp. v. Jaxon Engineering & Maintenance Inc.*, No. 10–cv–02868

2013 WL 1231875, at *5 (D. Colo. Mar. 27, 2013) ("Because [Defendant] states only a counterclaim for declaratory relief sounding in patent misuse, but does not allege any further substantive counterclaim that would entitle it to damages…it is unclear to this Court how [Defendant's] counterclaim will operate any differently than a simple assertion of patent misuse as an affirmative defense."); *Virginia Panel Corp*., 133 F.3d at 868 ("[p]atent misuse is an affirmative defense to an accusation of patent infringement"). Accordingly, the Court will consider the sufficiency of SSN's patent misuse allegations as it relates to its eleventh affirmative defense herein.[1]

While the Court accepts as true SSN's allegations regarding Eon's conduct towards the FCC for pleading purposes, SSN has failed to allege any facts that demonstrate Eon has exceeded the scope of its patent rights. SSN's allegations suggest that Eon has breached a duty of candor to the FCC and thereby exceeded the scope of its patent rights. Such an allegation does not amount to patent misuse because it does not allege any facts to demonstrate, or allow the Court to infer, that Eon impermissibly broadened the 'physical or temporal scope' of its patent grant, particularly when Eon only had a pending patent application at the time the alleged breaching conduct occurred. *See Delano Farms Co. v. California Table Grape Comm'n*, 623 F. Supp. 2d 1144, 1179 ("[p]re-issuance, there is no patent right to impermissibly broaden." (citing *Aronson v. Quick Point Pencil Co*., 440 U.S. 257, 264–65 (1979)); *see also Technology Licensing Corp. v. Gennum Corp.*, No. 01-04204, 2007 WL 1319528, at *23 (N.D. Cal. May 4, 2007) ("it is a peculiar notion that a party could 'misuse' a patent that is not in existence."). Rather, the allegations demonstrate SSN's belief that Eon acted improperly when filing a Petition for Rulemaking with the FCC that resulted in an anticompetitive effect. While the Court finds

[1] Even if SSN's patent misuse counterclaim was proper, for the reasons discussed herein, the Court also finds SSN's counterclaim should be dismissed for failure to state a claim.

that SSN's allegations are not sufficient to infer patent misuse, the facts asserted in the paragraphs associated with its eleventh affirmative defense may be relevant to SSN's antitrust counterclaim. Accordingly, the Court finds that SSN has failed to allege sufficient facts to support a defense of patent misuse, and therefore **RECOMMENDS GRANTING** Eon's Motion to Dismiss SSN's Patent Misuse Eleventh Affirmative Defense (Doc. No. 421).

CONCLUSION

For the foregoing reasons, the Court **RECOMMENDS GRANTING** Eon's Motion to Dismiss SSN's Patent Misuse Eleventh Affirmative Defense and Counterclaim (Doc. No. 421).

Within fourteen (14) days after receipt of the Magistrate Judge's Report, any party may serve and file written objections to the findings and recommendations contained in the Report. A party's failure to file written objections to the findings, conclusions and recommendations contained in this Report within fourteen (14) days after being served with a copy shall bar that party from *de novo* review by the district judge of those findings, conclusions and recommendations and, except on grounds of plain error, from appellate review of unobjected-to factual findings and legal conclusions accepted and adopted by the district court. *Douglass v. United States Auto. Ass'n*, 79 F.3d 1415, 1430 (5th Cir. 1996).

So ORDERED and SIGNED this 13th day of August, 2013.

JOHN D. LOVE
UNITED STATES MAGISTRATE JUDGE