

1 UNITED STATES DISTRICT COURT
2 CENTRAL DISTRICT OF CALIFORNIA
3 WESTERN DIVISION

4
5 DIAMOND COATING
6 TECHNOLOGIES, LLC,

7 Plaintiff,

8 v.

9 HYUNDAI MOTOR AMERICA,
10 HYUNDAI MOTOR COMPANY,
11 KIA MOTORS AMERICA, INC., and
12 KIA MOTORS COMPANY

13 Defendants.

Case No. 8:13-cv-01480-MRP

**ORDER RE: DEFENDANTS'
MOTION TO DISMISS FOR
LACK OF STANDING**

14
15 DIAMOND COATING
16 TECHNOLOGIES, LLC,

17 Plaintiff,

18 v.

19 NISSAN NORTH AMERICA, INC.
20 and NISSAN MOTOR CO., LTD.,

21 Defendants and Third-Party
22 Plaintiffs,

23
24 and,

25 FEDERAL-MOGUL CORP. and
26 KS KOLBENSCHMIDT US, INC.,

27 Third-Party Defendants.
28

Case No. 8:13-cv-01481-MRP(DFM)

1 **I. Introduction**

2 Plaintiff Diamond Coating Technologies, LLC (“DCT”) has asserted U.S.
3 Patent No. 6,354,008 (“the ’008 patent”) against Hyundai Motor America,
4 Hyundai Motor Company, Kia Motors America, Inc., and Kia Motors Company
5 (collectively, “Hyundai”). DCT has asserted the aforementioned patent, as well as
6 U.S. Patent No. 6,066,399 (“the ’399 patent”), against Nissan Motor Co., Ltd. and
7 Nissan North America, Inc. (collectively, “Nissan,” and with Hyundai,
8 “Defendants”). DCT is the present assignee of the patents-in-suit, having been
9 assigned the patents by the original assignee Sanyo Electric Co, Ltd. (“Sanyo”).
10 Sanyo, a corporation organized and operating in Japan, is not currently a party to
11 this litigation. Defendants have asserted that DCT lacks constitutional and
12 prudential standing to bring suit because: (1) the transfer of the patents from Sanyo
13 to DCT is void as champertous and; (2) Sanyo retained substantial rights over the
14 patents-in-suit. Defendants have requested that this Court dismiss DCT’s
15 complaint or, in the alternative, join Sanyo as a necessary party. This Court finds
16 Defendants’ champerty argument unpersuasive. However, this Court agrees that
17 DCT lacks prudential standing. Accordingly, this Court will grant Defendants’
18 motion to dismiss unless DCT voluntarily joins Sanyo to this action.

19 **II. Background**

20 The patents-in-suit are directed to methods and apparatuses relating to hard
21 carbon coatings that reduce wear on sliding surfaces. Hard carbon films consist
22 primarily of sp^3 -hybridized carbon, which has a tetrahedral structure and is present
23 in diamonds. In contrast, graphite consists primarily of sp^2 -hybridized carbon,
24 which has a planar structure. Stress and adhesion issues can afflict hard carbon
25 films. Hard carbon films are significantly different from the metals to which they
26 are applied. Therefore, the attraction between the film and metal is low. If stress
27 to the film is greater than its adhesion to the metal, the film will crack and lose its
28 beneficial properties. Stress may be caused by the process of depositing the film

1 onto the metal or caused by the greater thermal expansion of the underlying metal
2 relative to the hard carbon film. The patents-in-suit aim to reduce stress and
3 improve adhesion of hard carbon films.

4 The inventors of the patents-in-suit, prior to issuance, assigned the patents to
5 their employer, Sanyo. On October 18, 2007, Sanyo entered into a Patent
6 Commercialization Agreement with IPValue Management, Inc. (“IPValue”),
7 making IPValue Sanyo’s exclusive agent to market and to negotiate the sale of
8 Sanyo’s patents. In an effort to entice buyers, IPValue created “target lists” of
9 likely infringers ripe for possible suit. Defendants were identified as likely
10 infringers in early 2008. While IPValue’s pitch included claim charts and other
11 evidence that suggested buyers could quickly assert the patents against infringers,
12 IPValue did not find a suitable buyer. Instead IPValue and Sanyo entered into a
13 series of agreements that resulted in the formation of DCT and gave DCT the
14 patents-in-suit. The relevant agreements for this Court’s analysis are the Patent
15 Assignment and Transfer Agreement (“PATA”) and an Ancillary Agreement
16 (collectively, “the Agreements”).

17 Sanyo’s absence from this litigation has been a concern, especially in light of
18 the difficulty of gathering evidence from international non-parties. Defendants
19 indicated in February 2014 that they intended to take discovery of Sanyo. Fact
20 discovery in this case began August 25, 2014. Defendants sought to obtain
21 voluntary depositions with the aid of Plaintiffs. Discussions between the parties on
22 this matter started in November and continued through December. In January
23 2015, it became clear that voluntary depositions would not be forthcoming. On
24 January 28, 2015, the parties discussed Defendants’ intention to pursue formal
25 international discovery and to file a motion to dismiss based on Sanyo’s refusal to
26 provide discovery.

27
28

1 **III. Legal Standards**

2 **A. Motion to Dismiss**

3 As an initial matter, the parties dispute whether Defendants’ motion, which
4 relies on materials outside the pleadings, is properly considered as a motion to
5 dismiss under Rule 12 or if this Court should convert the motion to one for
6 summary judgment. This is easily resolved. Defendants are mounting a factual
7 attack on this Court’s jurisdiction over this dispute. It is well settled that “[i]n
8 resolving a factual attack on jurisdiction, the district court may review evidence
9 beyond the complaint without converting the motion to dismiss into a motion for
10 summary judgment.” *Safe Air for Everyone v. Meyer*, 373 F.3d 1035, 1039 (9th
11 Cir. 2004) (citing *Savage v. Glendale Union High Sch.*, 343 F.3d 1036, 1039 n.2
12 (9th Cir. 2003)). Accordingly, this Court will consider Defendants’ motion as a
13 motion to dismiss.

14 **B. Standing**

15 A plaintiff must establish that it has both constitutional and prudential standing
16 to maintain its suit. *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560 (1992).
17 Constitutional standing arises from the “case-or-controversy requirement of Article
18 III,” *id.*, and is met if (1) the defendant’s alleged infringement causes the plaintiff
19 an injury in fact; (2) the injury is fairly traceable to an alleged misconduct of the
20 defendant; and (3) a favorable decision is likely to redress the injury. *See, e.g.*,
21 *VirnetX, Inc. v. Microsoft Corp.*, No. 6:07 CV 80, 2008 WL 8894682, at *3 (E.D.
22 Tex. June 4, 2008).

23 Prudential standing, in the context of a patent suit, requires that the plaintiff
24 possess all substantial rights in the patent-in-suit. Prudential standing reflects a
25 pragmatic approach toward efficient litigation and legal finality. It further
26 represents the general prohibition of a litigant raising another person’s legal rights.
27 A party lacking prudential standing generally will sue as a co-plaintiff with other
28 injured parties possessing rights to the patent-in-suit. To determine whether an

1 assignee has satisfied the requirements of prudential standing, courts examine the
2 substance of the rights transferred and the intent of the parties. *See, e.g., Vaupel*
3 *Textilmaschinen KG v. Meccanica Euro Italia SPA*, 944 F.2d 870, 875 (Fed. Cir.
4 1991); *Toshiba Corp. v. Wistron Corp.*, 270 F.R.D. 538, 542 (C.D. Cal. 2010).

5 **IV. Analysis**

6 **A. Champerty**

7 Defendants argue that the PATA is void as champertous under New York law
8 and thus Plaintiff lacks constitutional standing. Plaintiff counters that: (1) New
9 York law does not apply to the PATA as to a champerty determination; and (2) the
10 PATA is not champertous in any event. The Court need not comment on the
11 choice of law governing this determination as the PATA is clearly not
12 champertous.

13 Champerty is a defense designed to prevent the purchase of legal claims with the
14 intent to profit from suit. New York Judiciary Law § 489(1) bars champertous
15 agreements: “No person shall solicit, buy or take an assignment of . . . any . . .
16 thing in action, or any claim or demand, with the intent and for the purpose of
17 bringing an action or proceeding thereon.” Any “assignment made in violation of
18 the statute is void and may not be sued upon.” *Semi-Tech Litig., L.L.C. v. Bankers*
19 *Trust Co.*, 272 F. Supp. 2d 319, 331 (S.D.N.Y. 2003). However, courts interpret
20 champerty quite narrowly; the acquisition must be made for the very purpose of
21 bringing suit. *Trust For the Certificate Holders of Merrill Lynch Mortgage*
22 *Investors, Inc. v. Love Funding Corp.*, 13 N.Y.3d 190, 199 (2009) (noting “narrow
23 scope” of champerty in light of “the difference between one who acquires a right in
24 order to make money from litigating it and one who acquires a right in order to
25 enforce it”); *Bluebird Partners, L.P. v. First Fid. Bank, N.A.*, 94 N.Y.2d 726, 736
26 (2000) (noting that “Judiciary Law § 489 requires that the acquisition be made with
27 the intent and for *the* purpose (as contrasted to *a* purpose) of bringing an action or
28

1 proceeding”); *Del Webb Communities, Inc. v. Partington*, 652 F.3d 1145, 1156
2 (9th Cir. 2011) (noting general trend towards limiting scope of champerty).

3 This Court concludes that the PATA is not champertous because the present
4 record does not show that litigation was the sole, or even dominant, purpose for the
5 acquisition. DCT acquired the patents-in-suit *in order to generate revenue*, be it
6 through litigation or through licensure. Here, there is no dispute that the PATA
7 allows DCT to license the patents. Moreover, DCT pursued a strategy of licensing,
8 not litigating, with respect to early negotiations with Defendants. This fact is
9 reflected in the timing of this suit. DCT did not immediately sue Defendants but
10 instead negotiated with Defendants with an eye towards avoiding litigation.

11 Defendants counter that DCT’s overtures were insincere, and that the offer to
12 license does not change the purpose of acquisition. The present record does not
13 support such an interpretation. DCT obviously acquired the patents with an eye
14 towards their enforcement. However, this Court is unwilling to strictly equate the
15 desire to enforce a patent with a desire to litigate on the basis of that patent. *See*
16 *Merrill Lynch*, 13 N.Y.3d at 199 (noting “the difference between one who
17 acquires a right in order to make money from litigating it and one who acquires a
18 right in order to enforce it”). The PATA is not void as champertous. Accordingly,
19 this Court rejects Defendants’ argument that DCT lacks constitutional standing to
20 sue on the patents-in-suit.

21 **B. Prudential Standing**

22 Defendants contend that even if DCT has constitutional standing, DCT lacks
23 prudential standing due to Sanyo’s retention of significant rights in the patents-in-
24 suit and DCT’s failure to join Sanyo to the present suit. DCT argues that it has
25 legal title to the patents-in-suit and sufficient substantial rights to satisfy prudential
26 standing. This Court finds Defendants’ arguments to be persuasive.

27 Prudential standing depends on the substance of the rights transferred and the
28 intent of the parties. In general, courts consider a litany of factors in determining if

1 an assignor has retained substantial rights, including the retention of: control over
2 the assignee’s ability to further assign the patent; an economic interest in the
3 patent; the right to make, use, or sell products under the patent; responsibility for
4 patent maintenance; the right to terminate the agreement; and perhaps most
5 importantly, control over the assignee’s enforcement activities. *See Azure*
6 *Networks, LLC v. CSR PLC*, 771 F.3d 1336, 1343 (Fed. Cir. 2014) (“Retaining
7 control of [enforcement] activities is also critical to demonstrating that the patent
8 has not been effectively assigned to the licensee.”); *Alfred E. Mann Found. for Sci.*
9 *Research v. Cochlear Corp.*, 604 F.3d 1354, 1360–61 (Fed. Cir. 2010) (stating that
10 transferring exclusive right to make, sell, or use products under the patents is
11 vitally important, transferring the right to enforce the patents is frequently “most
12 important,” and acknowledging the importance of transferring the right to recover
13 licensing royalties, control over activities, limits on the duration of the rights, and
14 limits on assigning the patents); *AsymmetRx, Inc. v. Biocare Med., LLC*, 582 F.3d
15 1314, 1321 (Fed. Cir. 2009) (requiring joinder of licensor where licensor retained
16 right to make and use invention for limited purposes, required licensee to consider
17 public interest in granting sub-licenses, imposed restrictions on sale of invention,
18 and retained share of royalties from sub-licenses); *Propat Int’l Corp. v. Rpost, Inc.*,
19 473 F.3d 1187, 1190–91 (Fed. Cir. 2007) (requiring joinder of co-owner because
20 co-owner retained implicit right to use invention, right to proceeds from litigation
21 and licensing, ability to reasonably veto licensing and litigation decisions, and to
22 limit assignment of rights); *Abbott Labs. v. Diamedix Corp.*, 47 F.3d 1128, 1132
23 (Fed. Cir. 1995) (requiring joinder of co-owner because the co-owner retained a
24 limited right to make, use or sell the invention, to bring suit if the licensee refused,
25 and to limit assignment to only successors in business); *Toshiba Corp. v. Wistron*
26 *Corp.*, 270 F.R.D. 538, 542 (C.D. Cal. 2010) (collecting cases). The parties debate
27 how many of these factors need be present to signal a lack of prudential standing.
28 Plaintiffs repeatedly object that no one factor is dispositive. While this Court

1 agrees, it finds this binary argument unhelpful.¹ Defendants do not clarify what
2 combination of factors is necessary. However, it is clear that a multitude of factors
3 support a finding that DCT lacks prudential standing in this case.

4 *DCT Lacks Right to Assign* – “The right to dispose of an asset is an important
5 incident of ownership, and such a restriction on that right is a strong indicator that
6 the agreement does not grant [the assignee] all substantial rights under the patent.”
7 *Propat*, 473 F.3d at 1191. Section 9.6 of the PATA prevents DCT from assigning
8 the agreement itself without Sanyo’s consent. Section 5.1 sets out the business
9 DCT is to conduct with respect to the patents, namely prosecution, maintenance,
10 licensing, litigation, enforcement and exploitation, but makes no mention of selling
11 the patents. Defendants convincingly argue that this omission prevents DCT from
12 selling or assigning rights in the patents. Similarly, § 5.2.2 bars DCT from putting
13 any of the patents into any pool without Sanyo’s consent. It is clear that DCT’s
14 ability to dispose of the patents is hardly unfettered. This factor supports a finding
15 of lack of prudential standing.

16 *Sanyo’s Economic Interest* – An assignor’s retention of substantial portions of
17 proceeds from assigned patents is “consistent with a retained ownership interest”
18 of those patents. *VirnetX, Inc. v. Microsoft Corp.*, No. 6:07 CV 80, 2008 WL
19 8894682, at *5 (E.D. Tex. June 4, 2008); *see also Propat*, 473 F.3d at 1191. This
20 is especially true when the only consideration tendered for the assignment is a
21 percentage of future proceeds. Here, Sanyo retains a 50% interest in the outcome
22 of this litigation. The Court has no difficulty concluding that this portion of the
23 proceeds is substantial. *See VirnetX*, 2008 WL 8894682, at *5 (finding a 35%
24 equity interest to be substantial). Additionally, Sanyo received no other additional
25
26

27 ¹ Plaintiff also argues that it is undisputed that DCT acquired “all of Sanyo’s right,
28 title and interest” to the patents-in-suit and thus DCT has standing. This Court
cannot agree, as Sanyo retains substantial rights to the patents.

1 consideration in the Agreements. This factor supports a finding of lack of
2 prudential standing.

3 *Sanyo's Retention of Use* – An assignor's retention of the right to make, use,
4 and sell products covered by the patent indicates that an assignee or licensee does
5 not possess all substantial rights to that patent. *Alfred E. Mann Found. for Sci.*
6 *Research v. Cochlear Corp.*, 604 F.3d 1354, 1360–61 (Fed. Cir. 2010) (stating that
7 transferring “exclusive right to make, sell, or use products under the patent is
8 vitally important”). Sanyo retains a “license to make, use, and sell products
9 covered by the patents-in-suit” and “foundry or contract manufacturing rights”
10 under § 2.4 of the PATA. This factor supports a finding of lack of prudential
11 standing.

12 *Sanyo's Influence Over Enforcement of Patents* – An assignor's retention of
13 influence over patent enforcement decisions by an assignee is a critical factor
14 demonstrating the assignee's insufficient rights to the patents-in-suit. *Aspex*
15 *Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1342 (Fed. Cir. 2006);
16 *Propat*, 473 F.3d at 1191; *VirnetX*, 2008 WL 8894682, at *5. In this case, Sanyo
17 retains significant control over the decision to enforce the patents. Section 5.1.4 of
18 the PATA restricts DCT's discretion to enforce the patents, conditioning
19 enforcement on consideration of the best interests of DCT and Sanyo.

20 Plaintiff argues that § 5.4 of the PATA, which reads “Sanyo acknowledges that
21 DCT shall have reasonable sole discretion to determine which Persons to pursue,”
22 demonstrates that Sanyo has no control over DCT's enforcement activities. The
23 Court finds this unpersuasive for two reasons. Firstly, the “reasonable” discretion
24 that DCT exercises must be read in the context of the agreement, which mandates
25 that DCT consider Sanyo's best interest. Secondly, the agreement's Schedule H
26 specifically provides a list of companies which DCT “reserves the right not to
27 assert the Assets against.” Sanyo “acknowledges and agrees” that DCT's decision
28 not to seek enforcement against these companies “shall not form a basis for

1 alleging that DCT breached any obligation under [the PATA].” Furthermore, DCT
2 may not add companies to Schedule H “in bad faith or in a manner that would
3 reasonably be viewed as circumvention of the business objectives” of the
4 Agreements. Ancillary Agreement at § 5. Defendants correctly point out that if
5 DCT had unfettered discretion on enforcement, then Schedule H would be
6 superfluous.

7 Similarly, the Agreements comprise a designated target “list [of] companies that
8 Sanyo reasonably believes represent licensing opportunities.” *Id.* The Ancillary
9 Agreement restricts IPValue’s ability to remove companies from that list. Various
10 provisions of the Agreements insist, on pain of default, that DCT take timely action
11 to maximize commercialization of the patents. It is not difficult to conclude that
12 Sanyo retained influence on identification of targets of enforcement, while the
13 threat of default spurred DCT to quickly act against such targets.

14 This Court concludes that due to Sanyo’s retention of substantial rights to the
15 patents-in-suit, including the vital power to influence DCT’s selection of parties to
16 target for enforcement, DCT lacks prudential standing.

17 **V. Conclusion**

18 This Court concludes that DCT lacks prudential standing. However, this Court
19 is inclined to allow DCT the opportunity to correct this deficiency. This Court will
20 enter a dismissal without prejudice in 14 days should DCT fail to voluntarily join
21 Sanyo.

22
23 **IT IS SO ORDERED.**

24
25
26 DATED: April 1, 2015



27
28

Hon. Mariana R. Pfaelzer
United States District Judge