

## OUTSIDE COUNSEL

BY CHRISTOPHER HUGHES AND AVSHALOM YOTAM

### *Post-‘eBay’ Injunctions: The Scoreboard and the Trend*

In its May 2006 decision of *eBay Inc. v. MercExchange LLC*,<sup>1</sup> the U.S. Supreme Court effected a significant shift in the remedies for patent infringement. Coming shortly after the denouement of the NTP/RIM episode and the anxiety of a possible BlackBerry shutdown, the *eBay* decision rolled back what had been called the “automatic” permanent injunction rule in favor of an explicit traditional equity analysis.

Previously, upon a finding of infringement and no invalidity, the “general rule” in patent cases, although there had been some exceptions, was to issue a permanent injunction under 35 U.S.C. §283 in favor of the patent holder. The Court in *eBay*, responding perhaps in part to certain academic and industry criticism, suggested that an automatic injunction rule departed from the traditional notions of equity wherein a four-factor analysis is conducted before granting a permanent injunction, addressing the issues of: (1) irreparable harm; (2) inadequacy of monetary damages; (3) balance of hardships; and (4) public interest.

How has the renewal of equity-based patent injunctions been treated by district courts since *eBay*? When *eBay* was handed down, commentators predicted that, in general, the district courts would grant permanent injunctions only where the patent holder practiced the patented technology and/or was a competitor of the infringer, and, conversely, would deny an injunction where this was not the case.

Our review of decisions rendered during the intervening two years indicates that the expected pattern has indeed become a general trend, but there may be more room for exceptions than originally anticipated.

#### The Score So Far

Since *eBay*, the district courts have been fully empowered and not unwilling to deny requests for permanent injunctions following findings of patent infringement (and no invalidity), but such denials occur in the minority of cases. In our sampling of 38 post-*eBay* patent cases in which district courts have decided motions for permanent injunctions on the merits,<sup>2</sup> we have found 10 denials of injunction (or



Christopher Hughes

Avshalom Yotam

dissolutions of an existing injunction) and 28 grants of injunction. While these raw statistics suggest some trend towards denial of injunctions, the particular facts of several denial decisions indicate that injunctions were likely denied in those cases because of peculiarities that may not have much significance beyond their confines.<sup>3</sup> There has not been a flood of decisions denying requests for injunctions.

Thus far, enough cases have departed from the expected pattern for patentees to take notice. Most denials arise where the patent holder does not practice the technology or compete with the infringer, i.e., the irreparable harm prong of the four-factor analysis cannot be demonstrated.

Conversely, courts most frequently issue injunctions where the patent holder does practice the technology and compete with the infringer. In one case, now counted among the injunction grants, the court reversed its original denial when additional considerations came to light. The court originally denied an injunction (after the liability trial) to a patent holder which licensed its patented technology rather than practiced it, but later (after the damages trial) accepted the patent holder’s claim that the increased risk of the infringer’s insolvency, and therefore its inability to pay, constituted “changed circumstances” which justified an injunction.<sup>4</sup>

Some of the district court injunction determinations since *eBay* have also now been reviewed by the U.S. Court of Appeals for the Federal Circuit. Of those cases, the Federal Circuit has affirmed two injunctions, reversed and remanded one injunction as overly broad, and affirmed the dissolution of one existing injunction.<sup>5</sup>

#### The Pattern

The pattern that has emerged in the district court cases may be interesting in light of comments in the *eBay* decision itself. Justice Clarence Thomas’ opinion for the unanimous Court in *eBay*

admonished against reliance on any categorical rules under which the patent holder’s willingness to license the patents or its lack of commercial activity practicing the patents would be conclusive on any determination of irreparable harm.<sup>6</sup> Justice Anthony Kennedy’s concurring opinion in *eBay* suggested that courts consider “the nature of the patent being enforced and the economic function of the patent holder.”<sup>7</sup> A few cases demonstrate how these comments may have influenced the pattern that is emerging.

The *eBay* case itself, on remand,<sup>8</sup> is a clear example of the injunction decision turning on the activities of the patent holder vis-à-vis the issue of irreparable harm. The district court took great pains to explain the rationale for denying an injunction, particularly that it was not relying on categorical rules of the type described by Justice Thomas. But the relevant facts are unmistakable: the patent holder did not practice the technology; it continued to license the technology; there was no compelling need to protect its position in the marketplace with an injunction; and, it was seeking to maximize compensation for its technology. In addition, one further factor mentioned was that a business method patent was involved, apparently in response to Justice Kennedy’s remarks.

In *z4 Techs. Inc. v. Microsoft Corp.*,<sup>9</sup> decided a few weeks after the Supreme Court’s *eBay* decision, the district court declined to enjoin Microsoft’s continued use of a patent found to have been willfully infringed. The court noted that Microsoft and the plaintiff were not direct competitors and that the plaintiff’s only harm was the nonpayment of royalties. The court emphasized that the technology involved a small component of a larger system: “Microsoft does not produce product activation software that it then individually sells, distributes, or licenses to other software manufacturers or consumers. If it did, then z4 might suffer irreparable harm in that Microsoft would be excluding z4 from selling or licensing its technology to those software manufacturers or consumers.”<sup>10</sup> The plaintiff was awarded more than \$150 million in damages, but did not appeal the denial of the injunction.

By contrast, in cases where injunctions were granted, the courts have regularly noted and emphasized where the parties were direct competitors and have found that the expected loss of market share and reputation established one or more of the four factors. In *TiVo Inc. v. EchoStar Commc’ns Corp.*,<sup>11</sup> for example, the loss of market share was relevant to the irreparable harm determination.

**Christopher Hughes** is a partner and the head of the intellectual property group, and **Avshalom Yotam** is an associate, at *Cadwalader, Wickersham & Taft*. The views expressed are those of the authors and not those of the firm or its clients.

This concern was especially heightened in *TiVo* because the case involved a new market in which customer loyalty was acknowledged to be “sticky,” i.e., customer loyalty was crucial to achieving market position. The court explained: “Plaintiff is losing market share at a critical time in the market’s development, market share that it will not have the same opportunity to capture once the market matures.”<sup>12</sup>

### Patentee Licenses the Patent

A preference for licensing over practicing the technology is usually (although not categorically) seen as weakening the patent holder’s chances for injunctive relief. In *eBay*, the Supreme Court explained that a preference to license should not preclude an injunction because, for example, some patent holders, such as universities and self-made inventors, might prefer a licensing program over the effort and expense of bringing their technology to market.<sup>13</sup> In most instances, however, patent holders asserting irreparable harm to their licensing programs have not succeeded in obtaining injunctive relief. Thus, for example, the district court in *Paice LLC v. Toyota Motor Corp.*<sup>14</sup> considered and rejected such an argument: “As for Plaintiff’s allegations of irreparable harm in the form of a failed licensing program, Plaintiff has not demonstrated Defendants’ infringement is to blame for this failure.”<sup>15</sup> In *Voda v. Cordis Corp.*,<sup>16</sup> the court found that a patent holder which had granted an exclusive license to a third party could not show a harm personal to itself despite its argument that its relationship with the licensee had been damaged.

In some of the cases that have departed from the pattern where the grant or denial of an injunction depends upon whether the patentee practices the technology and competes with the infringer, the courts expressed concern for special licensing situations that was also noted by the Supreme Court in *eBay*.

One such case, *Commonwealth Scientific and Indus. Research Org. (CSIRO) v. Buffalo Tech. Inc.*<sup>17</sup> may exemplify the Supreme Court’s concern for academic institutions preferring to license technology rather than practice it. The district court found that CSIRO, the Australian government’s scientific research body, would suffer irreparable harm in competition with other research organizations for resources, talent, research opportunities and reputation if it could not control the licensing program that was its significant source of revenue. *Johns Hopkins Univ. v. Datascope Corp.*<sup>18</sup> also involved the interests of academic research but was an easier case for granting an injunction: One of the university’s licensees, which was a competitor of the infringer, had joined as complainant.

In another case, *Novozymes A/S v. Genencor Int’l Inc.*,<sup>19</sup> the court granted an injunction to a patent holder that had licensed its separately incorporated U.S. subsidiary (which marketed a product in competition with the infringer). The

court reasoned that the patent holder risked irreparable harm because it had licensed its U.S. subsidiary with the expectation that the value of the subsidiary would increase with successful marketing of the technology.<sup>20</sup>

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*‘eBay’ admonished against reliance on any rules under which a patent holder’s willingness to license patents or its lack of commercial activity with the patents would be conclusive in determining irreparable harm.*

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### Ongoing Royalty

Some pre-*eBay* critics complained that “automatic” injunctions were often imposed when an alternative, less-disruptive, equitable remedy was available, such as the imposition of some type of compensation for continued infringement. Defenders of the existing injunction rule responded that such an approach would convert the United States into a “compulsory license jurisdiction” and violate the status in American patent law of patents as property.

There are now cases in which the concept of an ongoing royalty has been endorsed as an alternative to an injunction. In *Paice v. Toyota*, for example, the district court denied an injunction but ordered an ongoing royalty for which it had also determined a royalty rate.

In its cross-appeal, the patent holder did not challenge the refusal to enjoin Toyota but did challenge the ongoing royalty order as unauthorized by statute. The Federal Circuit affirmed on this point, although it remanded to allow the district court to reevaluate and explain the royalty rate. The Federal Circuit found that this alternative equitable relief was authorized under §283 of the patent statute. In a footnote, the Federal Circuit also defended the award of an ongoing royalty as not being a “compulsory license,” which it interpreted as making a license available to all members of a certain class rather than to a specific set of defendants.<sup>21</sup>

Relying on *Paice v. Toyota*, the district court in *Boston Scientific Corp. v. Johnson & Johnson*,<sup>22</sup> held that it could award prospective equitable relief in the form of either injunction or an ongoing royalty. The court allotted the parties 60 days first to negotiate a license or submit the evidence relevant to a determination of the equitable remedy.<sup>23</sup>

### Where Will ‘eBay’ Take Us?

While it is still too early to predict with certainty where the trend in post-*eBay* injunction determinations will settle out, it seems clear for now that the injunction analysis under the four equity factors will continue to provide room for interesting exceptions to the general trend that was expected after *eBay* was decided.

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1. 547 U.S. 388 (May 15, 2006).

2. We have excluded from our count cases in which an injunction followed a default judgment, the request for an injunction was not contested, or the request was otherwise not decided on the merits.

3. *Praxair Inc. v. ATMI Inc.*, 479 F.Supp.2d 440 (D. Del. March 27, 2007) (broad scope of requested injunction not supported by patent holder’s showing but motion could be renewed); *Respironics Inc. v. Invacare Corp.*, 2008 WL 111983 (W.D. Pa. Jan. 8, 2008) (infringement limited to a prototype device displayed at a trade show and not commercialized); *Nichia Corp. v. Seoul Semiconductor, Ltd.*, 2008 WL 346416 (N.D. Cal. Feb. 7, 2008) (only two infringing sales made in the United States and possibility of future irreparable injury precluded).

4. *Sundance Inc. v. DeMonte Fabricating Ltd.*, 2007 WL 3053662 (E.D. Mich. Oct. 19, 2007), modifying 2007 WL 37742 (E.D. Mich. Jan. 4, 2007).

5. *MPT Inc. v. Marathon Labels Inc.*, 2007 WL 4351745 (Fed. Cir. Dec. 12, 2007) (injunction reversed as overly broad); *Verizon Servs. Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295 (Fed. Cir. Sept. 26, 2007) (injunction not an abuse of discretion); *Amado v. Microsoft Corp.*, 517 F.3d 1353 (Fed. Cir. Feb. 26, 2008) (dissolution of injunction not an abuse of discretion); *Ortho-McNeil Pharm. Inc. v. Mylan Labs. Inc.*, 2008 WL 834402 (Fed. Cir. March 31, 2008) (injunction affirmed without comment). In addition, the Federal Circuit has affirmed in three cases in which it seems that the injunction determination was not challenged and reversed in three cases on substantive grounds unrelated to the injunction.

6. 547 U.S. at 393.

7. 547 U.S. at 396.

8. *MercExchange, L.L.C. v. eBay Inc.*, 500 F.Supp.2d 556 (E.D. Va. Aug. 1, 2007).

9. 434 F.Supp.2d 437 (E.D. Tex. June 14, 2006), aff’d, 507 F.3d 1340 (Fed. Cir. Nov. 16, 2007).

10. 434 F.Supp.2d at 440.

11. 446 F.Supp.2d 664 (E.D. Tex. Aug. 17, 2006), aff’d in part and rev’d in part, 516 F.3d 1290 (Fed. Cir. Jan. 31, 2008).

12. 446 F.Supp.2d at 669-70.

13. 547 U.S. at 393.

14. 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006), aff’d in part and vacated in part, 504 F.3d 1293 (Fed. Cir. Oct. 18, 2007).

15. 2006 WL 2385139, at \*5.

16. 2006 WL 2570614 (W.D. Okla. Sept. 5, 2006).

17. 492 F.Supp.2d 600 (E.D. Tex. June 15, 2007).

18. 513 F.Supp.2d 578 (D. Md. Aug. 9, 2007).

19. 474 F.Supp.2d 592 (D. Del. Feb. 16, 2007).

20. *Avid Identification Sys. Inc. v. Phillips Elecs. N. America Corp.*, 2008 WL 819962, at \*4 (E.D. Texas March 25, 2008), is an example of an injunction denial, rather than grant, that departs from the usual pattern. The patent holder practiced the patent and was a competitor of the infringer but was denied an injunction under §283 (but granted one under the Lanham Act) because it came with “unclean hands” following its inequitable conduct before the PTO.

21. 504 F.3d at 1314-15.

22. 2008 WL 480193 (N.D. Cal. Feb. 19, 2008).

23. Another interesting use of equitable powers in a patent case is suggested in *Verizon Services*, 503 F.3d at 1311 n. 12, where the Federal Circuit discussed a remedy not requested by the infringer in the case: allowing the infringer a time to implement a non-infringing workaround.