

Injunctions After *eBay v. MercExchange*

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More than a year has passed since the U.S. Supreme Court's decision in *eBay, Inc. v. MercExchange, LLC*, 126 S. Ct. 1837 (2006). In *eBay*, a unanimous Court held that successful plaintiffs in patent infringement cases are not automatically entitled to a permanent injunction, and that "well-established principles of equity" require that patent holders satisfy the traditional four-factor test for obtaining an injunction — (i) irreparable injury, (ii) inadequacy of remedies at law, (iii) the balance of hardships favors an injunction, and (iv) the public interest would not be disserved by an injunction. The *eBay* decision rejected the Federal Circuit's long-standing rule that a permanent injunction should issue when a patent owner obtains a judgment of infringement, absent "exceptional circumstances" or, in "rare instances", to protect the public interest.

Predictions regarding the impact of *eBay* have generally forecast dramatic changes in the relief available in patent infringement lawsuits, particularly those brought by patent owners who do not practice the inventions they assert against others. How dramatic have the changes been? So far, the Federal Circuit has decided only two post-*eBay* appeals involving injunctions — both of them preliminary injunctions — providing only limited guidance. In one of these, *Sanofi-Synthelabo v. Apotex, Inc.*, 470 F.3d 1368 (Fed. Cir. 2006), the Court affirmed a preliminary injunction based on irreparable harm arising from "irreversible price erosion, loss of good will, potential lay-offs of [the patent holder's] employees, and the discontinuance of clinical trials" for the patented compound, but conspicuously avoided addressing *eBay* directly. The other case, *Abbott Labs. v. Andrx Pharmaceuticals*, 452 F.3d 1331 (Fed. Cir. 2006), turned on the patent holder's failure to show a likelihood of success.

Although the Federal Circuit has yet to apply the Supreme Court's directive in any post-*eBay* appeal from the grant or denial of a permanent injunction, the efforts of the federal district courts to interpret and apply *eBay* over the past year have yielded some discernible trends. As of July 1, 2007, district courts have considered whether a permanent injunction should issue in 30 publicly reported post-*eBay* cases. In 23 of those cases an injunction issued (including one by consent); in seven cases it did not. Once nearly automatic, permanent injunctions considered in the last year were denied approximately 23 percent of the time.

A critical factor in the district courts' determinations was whether the patent holder practiced its invention and engaged in commercial competition with the infringer. In all but one of the 23 cases in which an injunction issued, the parties were direct competitors. The sole exception, *Commonwealth Scientific & Industrial Research Organisation v. Buffalo Technology, Inc.*, No. 6:06-324, 2007 U.S. Dist. LEXIS 43832 (E.D. Tex. June 15, 2007), is the first — and so far only — example of a permanent injunction issued post-*eBay* in favor of a patent holder that did not practice its own invention.

CSIRO, a scientific research organization of the Australian government, had offered to license its patented wireless LAN technology to a number of companies, including Buffalo, but none accepted its terms. In *eBay*, the Supreme Court suggested that "some patent holders such as university researchers or self-made inventors" might be able to satisfy the four-factor test even though they "might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works

to market themselves.” The district court in *CSIRO* noted this suggestion, and after finding the patent valid and infringed by Buffalo, entered a permanent injunction. The court found irreparable harm arising from the fact that CSIRO’s “reputation as a leading scientific research entity” would be damaged by continued unauthorized sale of infringing products, and further found that it would suffer the “harm of lost opportunities” if its research funds were diverted to support the costs of continued litigation against infringement. The court also found that damages or a compulsory license for future infringement would be inadequate because monetary relief alone could not account for the “negotiated business terms typically used by patent holders to control their inventions.” The fact that CSIRO’s patent covered a core feature of the technology, and not a minor component, also weighed in favor of an injunction.

A patent holder’s commercial competition with the infringer was not, however, a sufficient condition for a permanent injunction. While in five of the seven post-*eBay* cases denying an injunction the patent holder either did not practice the invention or did not compete directly with the infringer (or both), in two of the seven cases, *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440 (D. Del. 2007) and *IMX, Inc. v. LendingTree LLC*, 469 F. Supp. 2d 203 (D. Del. 2007) — both decided by Judge Robinson — the injunction was denied even though the parties competed directly.

The past year’s worth of district court cases make clear that conclusory assertions of irreparable harm and inadequacy of monetary damages will no longer carry the day. The presumption of irreparable harm for a valid and infringed patent, previously enjoyed by patent holders, likely does not survive the *eBay* decision. See, e.g., *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006) (finding the presumption now inconsistent with *eBay*); see also *Sanofi-Synthelabo*, 470 F.3d at 1383 n.9 (pointedly avoiding the issue).

In addition to the patent holder’s practicing of its invention and engaging in commercial competition with the infringer, the following factors were found by the district courts to favor a permanent injunction: (i) no licensing of the invention by the patent holder and evidence of an unwillingness to do so, (ii) broad invention covering core technology, not a small feature of a larger product or process, (iii) infringement giving the defendant a significant advantage in the marketplace over non-infringing competitors, (iv) willful infringement by the defendant, (v) irreversible loss of market share for the patent holder due to infringement, (vi) harm to reputation, goodwill or intangible assets that cannot be readily compensated by money damages, (vii) difficulty of calculating damages for future infringement, frequently the case if the infringement is indirect, (viii) special need to control the invention’s use, especially by means of non-monetary licensing terms, (ix) injunction unlikely to put infringer out of business, for example, because its business does not depend exclusively or primarily on infringing product or process, and (x) no competing public interest that trumps the interest in protecting intellectual property rights.

Conversely, infringers may argue that permanent injunctive relief is unwarranted where any of these factors has not been shown. In addition, district courts have denied an injunction where the infringer is, in fact, very successful in the marketplace, such that requiring a redesign or a recall of the infringing product would be excessively time-consuming and expensive, particularly where the infringing component is a small part of the technology at issue. See, e.g., *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006) (where the infringement involved a component of Windows and Office); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-211, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. 2006) (where the infringement involved a component of hybrid car transmissions).

In the absence of an injunction against continued infringement, the district courts have found that a patent holder may be compensated by a royalty on future infringing sales. Courts have generally assumed that the royalty assessed for past infringement is adequate compensation for future infringement. This royalty rate is typically calculated based on a “hypothetical negotiation” for the right to practice the invention that is assumed to take place between a willing licensor and a willing licensee. None of the post-*eBay* decisions has addressed whether a patent holder should be compensated for post-judgment infringement at a higher rate (or even a different rate), given that the continued infringement is now willful and continues only over the patent holder’s objections.

The first case likely to be decided by the Federal Circuit will be the patent holder’s appeal from the denial of a permanent injunction in *Paice LLC v. Toyota Motor Corp.*, which was argued in May 2007. The case raises a number of issues common to many of the post-*eBay* district court decisions, including the issue of adequate compensation for continued infringement when an injunction is denied.

Like most unsuccessful injunction-seekers, Paice did not practice its own invention and did not compete with Toyota. The invention was only a small component of Toyota’s accused vehicles. Paice also had an active licensing program and had offered a license to Toyota following the jury’s verdict. Because an injunction would not only disrupt Toyota’s business but also that of its dealers and suppliers, the district court found that the balance of hardships weighed in Toyota’s favor. The court acknowledged that an injunction would give Paice “a more impressive bargaining tool” with other potential licensees, but rejected Paice’s claim that its licensing efforts had been or would be irreparably harmed by Toyota’s infringement. Toyota was ordered to pay Paice a royalty of \$25 per vehicle for future infringing sales.

The cases before the Federal Circuit also present an opportunity for the Court to give more general guidance regarding the considerations that should govern application of the four-factor test in patent cases. The concurrences in the Supreme Court’s *eBay* decision suggest possible forms this guidance might take. For example, Chief Justice Roberts’ concurrence placed great importance on the patent holder’s right to exclude others from unauthorized use of an invention, and suggested that historical practice, in which injunctive relief has been granted upon a finding of infringement in the vast majority of cases, should continue to guide decisions regarding appropriate relief. Conversely, Justice Kennedy’s concurrence emphasized that application of the four-factor test should be sensitive to recent trends in which companies use patents “primarily for obtaining license fees” and use the threat of an injunction for “undue leverage in negotiations,” particularly where the patented invention is a small part of the infringing product or process. Until patent holders and accused infringers have clearer guidance, in whichever direction, about the availability of permanent injunctions, litigation and negotiation over patent rights will continue to be influenced by the uncertainty attending this powerful weapon.

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