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COURTS WRITE HISTORY ON PERMANENT INJUNCTIONS IN PATENT ACTIONS

Monday, August 21, 2006 — In *eBay Inc. v. MercExchange L.L.C.*, the Supreme Court, in a unanimous opinion, vacated and remanded the judgment of the Court of Appeals for the Federal Circuit which had held that there was a “general rule” that courts will issue permanent injunctions against patent infringement absent exceptional circumstances. *eBay Inc. v. MercExchange L.L.C.*, 547 U.S. ___, 126 S. Ct. 1837, 1839, 164 L. Ed. 2d 641 (2006).

The Supreme Court held that “the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.” 126 S.Ct. at 1841.

Thus, a plaintiff seeking permanent injunctive relief must demonstrate, and a court must apply, the following traditional four-factor framework that governs the award of injunctive relief: (1) that the plaintiff has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (2) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. *Id.* at 1839.

In *eBay*, Chief Justice Roberts noted in his concurrence that “a page of history is worth a volume of logic.” *Id.* at * 1842 (quoting *New York Trust Co. v. Eisner*, 256 U.S. 345, 349, 41 S. Ct. 506, 65 L. Ed. 963 (1921)). In the past week, several pages of history have been written on the subject.

Since *eBay*, the Federal Circuit has reversed the grant of an injunction in at least two cases for following its old rule and remanded for consideration in light of *eBay*, see, e.g., *Monsanto Co. v. Scruggs*, 04-1532, 05-1120, -1121, 2006 U.S. App. LEXIS 20914 (Fed. Cir. Aug. 16, 2006) (reversing and remanding grant of injunction, holding that the proposition that “courts will issue permanent injunctions against patent infringement absent exceptional circumstances” is no longer the law after *eBay*); and *Int’l Rectifier Corp. v. IXYS Corp.*, Nos. 2006-1296, 2006-1425, 2006 U.S. App. LEXIS 18693 (Fed. Cir. Jul. 14, 2006) (unpublished) (reversing grant of injunction and remanding in light of *eBay* on motion for stay of injunction pending appeal).

Four cases coming out of the Federal District Courts in Texas have confronted the issue of whether to grant a permanent injunction under the traditional four factor test, *z4 Technologies Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. June 14, 2006) (denying injunction and severing z4’s continuing causes of action for monetary damages based on Microsoft’s continuing post-verdict infringement of z4’s patents; new complaint was promptly filed and proceedings are pending); *Finisar Corp. v. The Direct TV Group Inc.*, 1:05-CV-264, Dkt 333 (E.D. Tex. July 7, 2006) (denying injunction request by patentee which made no products and granted no licenses against satellite television company with respect to set top boxes; defendant instead ordered to pay running royalty on set top boxes for remaining life of patent); *Paice LLC v. Toyota Motor Corp.*, 2:04-CV-211-DF, Dkt. 227 (E.D. Tex. Aug. 16, 2006) (denying injunction of Prius automobile, in favor of reasonable royalty); *TiVo Inc. v. Echostar Communications Corp.*, 2:04-CV-1-DF, Dkt. 776 (E.D. Tex. Aug. 17, 2006) (granting injunction in favor of set top box manufacturer against satellite television company, requiring defendant to disable DVR functionality on set top boxes; injunction not stayed pending appeal).

In response to a motion to stay the injunction pending appeal, the Federal Circuit entered an order on August 18, 2006 setting a due date for TiVo's response to the motion and staying the injunction pending appeal.

These pages of history demonstrate that the traditional notions that an injunction should issue only when equity demands it are now in full force and effect in the patent arena. We summarize the following lessons that can be learned on the pages written since eBay:

Irreparable harm

As the Supreme Court found and both Federal Circuit decisions emphasize, the old rule that irreparable harm is presumed in a patent case is no longer the law. All of these decisions start with that proposition.

Thus, each of the cases starts with the requirement that the plaintiff (which has the burden) establishes with evidence and not merely generalized arguments that it will suffer irreparable harm if an injunction is not granted.

A comparison of the facts and results of Finisar and TiVo is very instructive on this point. In both cases, the defendants were satellite television providers found to have infringed patents related to digital video recorder (DVR) functionality in set top boxes provided to their subscribers. Yet, in Finisar, an injunction was denied, while in TiVo, the injunction was granted.

In Finisar, the court found that there was no irreparable harm to plaintiff based on the fact that Finisar never used or licensed the patent in the past. The court rejected as irrelevant Finisar's claim that the right to exclude an infringing defendant was "priceless." Paice also rejected similar arguments regarding the impact the failure to grant an injunction would have on plaintiff's efforts to license its patent; but the court's rejection was based more on the evidence offered than on rejection of the principle in the abstract.

By contrast, in TiVo, the court found that the defendant satellite provider's infringement caused irreparable harm to TiVo, because TiVo had lost market share as a result, and the product in question was a "sticky" one which customers were unlikely to switch away from easily.

z4 Technologies is also instructive on this point. Like TiVo, z4 sold a product which competes with a noncore aspect of the defendant's product line. Echostar's core product line was satellite television services, and the infringing product was the DVR functionality of the set top boxes provided to customers. Microsoft's core product line was Microsoft Office and Windows products, and the infringing functionality relates to product activation. However, as noted above in TiVo, the court recognized that a loss of market share to TiVo resulted from Echostar's infringing sales, while in z4 there was no evidence of an accompanying loss of market share to z4 as a result of Microsoft's infringing sales.

Lesson learned: A plaintiff must establish irreparable harm based on a loss that cannot be compensated by money. Such irreparable harm is no longer presumed in patent cases. Mere allegations of harm are insufficient. Plaintiffs must prove actual harm. When a patentee does not practice or license the patent, or even sell a competing product, an injunction may be difficult to justify.

Whether remedies at law are adequate

Damages were found to be adequate when the patentee did not practice the patent, make a competing product, or would be prevented from licensing the patent as a result of the infringement.

In both z4 and Paice, the courts found significant that the patentee would still license its patent despite the failure of the court to issue an injunction; and mere allegations that the value of the patent would be less or that prospective licensees would refuse to license absent an injunction threat were rejected.

In particular, in Paice the court found other reasons—such as Paice’s negotiation tactics—to be a sufficient enough explanation for its lack of success to reject an argument that damages alone would not be sufficient. The Paice court also rejected as irrelevant (albeit probably true) an argument that Paice would get less money for its licenses if an injunction did not issue against Toyota.

A driving factor for the TiVo court was the loss of market share where customers did not change over easily to competing products. The TiVo court also rejected arguments that TiVo’s delay in bringing suit (because it tried to work out a business deal with defendants) evidenced that damages were an adequate remedy in lieu of an injunction.

Lesson learned: A patentee needs to make at least a competing product to the infringing product, and needs to present evidence of how the continuing sale of the infringing product will hurt the patentee’s business, e.g., loss of market share, loss of future customers, etc. Mere allegations of harm are insufficient. Undemonstrated harm to a licensing program is also insufficient.

Balance of hardships

In z4, the impact of enjoining Microsoft Windows and Office Products on not only Microsoft, but also its distributors, customers, and end users, weighed significantly against issuing an injunction. The fact that the granting of an injunction would not increase z4’s own sales—but would only give it leverage in licensing negotiations—also weighed against z4.

Similarly, in Paice, the impact enjoining Toyota Prius hybrid car sales would have not only on Toyota, but also its dealers and end users was found to outweigh the unsupported assertion that plaintiff would go out of business because no one would license its product unless an injunction issued against Toyota.

Curiously, in TiVo, the court rejected as a consideration the effect on distributors as being merely a consequence of the infringement. This potential conflict may need to be addressed by the Federal Circuit. The TiVo court also found significant that TiVo was losing market share, which could be permanent due to the “sticky” nature of DVR products, to balance the hardships in TiVo’s favor.

Lesson learned: Impact on others, such as distributors, customers and end users may be a relevant factor, but some courts may disregard this factor. A true loss to the plaintiff will outweigh the damage to an infringing defendant if it is adequately established.

Public Interest

Generally, the courts did not consider the public interest factor dispositive. Even in the case of Paice, where Toyota argued that enjoining the Prius would increase the United States dependency on foreign oil, the court found such arguments unpersuasive.

Interestingly, the Finisar court took the view that the public interest in the patent system was in having technology used and improved upon, and granting an injunction in favor of a company that did not practice the patent would cut against such public interest. In z4, the potential lost to the public of the Microsoft Office and Windows products for even a short time, was considered against the public interest.

Lesson learned: Public interest is in the eye of the beholder.

Conclusion

When the eBay case was decided, the authors believed it would have a significant impact on patent law. It has. However, although a few more pages have been filled on the subject, there are still more pages that need to be written before the full impact and proper manner of applying the logic set forth in eBay will be understood.

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