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Fewer patent injunctions issue in wake of 'eBay'

District courts tend to follow Justice Kennedy's flexible approach.

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WITH ALL OF THIS YEAR'S activity in the U.S. Supreme Court on patent law issues, it doesn't take much to be yesterday's news. Today, the hot topics in the patent bar are the court's upcoming decisions in *KSR International v. Teleflex*, 119 Fed. Appx. 282 (Fed. Cir. 2005), cert. granted, 126 S. Ct. 2965 (2006), and *MedImmune v. Genentech*, 427 F.3d 958 (Fed. Cir. 2005), cert. granted, 126 S. Ct. 1329 (2006), which involve the standards for obtaining a patent on one hand (*KSR*), and the jurisdictional rules for challenging a patent on the other (*MedImmune*). Yet just a few months ago, it was *eBay Inc. v. MercExchange LLC*, 126 S. Ct. 1837 (2006), and the requirements for injunctions in patent infringement cases that was all the talk.

In the federal district courts, where hundreds of patent cases are in the throes of litigation, the issues raised, and purportedly addressed, by the Supreme Court in *eBay* remain a subject of contention. The first wave of district court opinions applying *eBay*'s holding that district courts cannot automatically grant injunctions for patent infringement, but must continue to apply the traditional four-factor test, has arrived. The results so far: Injunctions may be much more difficult to obtain.

What is less clear is whether this first wave of cases is the beginning of a whole new regime of remedies for patent infringement, or just a hiccup in the traditional regime. The U.S. Court of Appeals for the Federal Circuit, which hears all appeals in patent cases, should have something to say about that when it takes its turn to apply *eBay*, but it has not yet had an occasion to do so.

The reason that the standards for obtaining

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an injunction are still up in the air is that the Supreme Court did not speak with unanimity on how the core *eBay* holding should be applied. While all of the justices agreed that the decision to grant an injunction rests within the equitable discretion of district courts, they differed over how much difference that discretion would make in actual application.

The different approaches are set forth in two concurring opinions. The first, written by Chief Justice John G.

Roberts Jr. and endorsed by justices Antonin Scalia and Ruth Bader Ginsburg, effectively endorsed the status quo ante. It stated that the Supreme Court by its decision did not intend to part with long-standing decisions in equity, often granting injunctive relief in patent cases "given the difficulty of protecting a patentee's right to exclude through monetary remedies that allow an infringer to use an invention against the patentee's wishes." While this historical practice does not entitle a patentee to an injunction, said Roberts, at the same time there is a difference between exercising discretion pursuant to the four-factor test and "writing on an entirely clean slate."

Another concurring opinion, this one written by Justice Anthony M. Kennedy and endorsed by justices John Paul Stevens, David H. Souter and Stephen G. Breyer, suggested that district courts should have more flexibility to part from the historical norm of granting an injunction. Kennedy's opinion suggested that injunctions might not issue when, for example, the patentee is not a competitor of the infringer, the infringing device is just a small part of a much larger device or system or the patent involves a business method. In these kinds of cases, under Kennedy's view, an injunction may give the patent holder unfair leverage. The implication is that, at least in some cases, some sort of compulsory license, to be determined by the courts, may be a more appropriate remedy.

So far, it is Kennedy's approach that appears to be prevailing in district courts. Picking up on his cues, a number of district courts have refused to issue injunctions, even after findings of willful patent infringement. It bears noting, however, that this first wave of cases applying *eBay*

comes from a small number of courts, primarily in Texas. Other district courts with large patent litigation dockets, such as Delaware, the Northern and Central Districts of California, and the Northern District of Illinois, have yet to speak.

The first wave of post-*eBay* cases merits a closer study. Unless they settle, these are the first cases the Federal Circuit will see. And, while many of them draw from Kennedy's concurrence in denying injunctions, they differ in some important details, such as how courts will go about fashioning a remedy in lieu of an injunction. These cases already may have changed the calculus on a broad range of issues including litigation strategy, settlement and licensing.

Courts find damages can be adequate compensation.

Injunction denied

At press time, courts in at least four cases had denied an injunction to a patent holder following a jury finding of infringement.

The first is *z4 Technologies Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Texas 2006), decided on June 14. Patentee *z4* brought suit against Microsoft for infringing its patent disclosing a computer security feature, which limited the unauthorized use of computer software. The jury found willful infringement by Microsoft. The court enhanced the jury's award of monetary damages, but denied an injunction. The reason: no irreparable harm.

The court noted that *z4* was in the business of licensing its technology. Denying an injunction would not compromise *z4*'s licensing program. As *z4* was not a competitor of Microsoft, money damages would be fair compensation. In addition, the infringing feature was a small component in the Windows system.

It is significant that Microsoft had indicated that it would remove the infringing feature

from the next generation of Windows product, scheduled for release next year. Thus, while the court did not formally issue an injunction, in effect, Microsoft already had agreed to one. The real question was when the injunction would commence: immediately or when the new Windows product is released.

Next is *Finisar Corp. v. DirecTV Group Inc.*, No. 1:05-CV-264, 2006 U.S. Dist. Lexis 76380 (E.D. Texas July 7, 2006). This case proved to be an even greater departure from the pre-*eBay* remedies regime than *z4*. Patentee Finisar brought an infringement suit against DirecTV

Noncompetitor patentees are not obtaining injunctions.

on its patent disclosing a system for delivering information via satellite TV. The jury found willful infringement. The court enhanced damages but denied the injunction, finding no irreparable harm. The court was not persuaded by Finisar's argument that without an injunction, it could not sell an exclusive license. It noted that Finisar and DirecTV were not competitors and focused on the fact that, with enhanced damages, the \$100 million-plus award was adequate compensation.

The third case is *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139 (E.D. Texas Aug. 16, 2006). Patentee Paice sued Toyota for infringing its patent related to transmissions used in Toyota's hybrid vehicles. The jury found infringement but not willful infringement. The court denied an injunction because the patentee was not a competitor of Toyota. Rather, Paice merely licensed its product, and a lack of injunction would not compromise Paice's ability to license further. The fact that Paice's licensing program was a failure was not Toyota's fault. The court also noted that the patent related to "a relatively small part of the overall value of the vehicles."

Each of these cases, *z4*, *Finisar* and *Paice*, seems to fit squarely within the Kennedy concurrence exceptions. The patentees were all in the business of licensing their patented technology, they were not competitors of the defendants, and their inventions were a small component of accused product.

The fourth case, *Voda v. Cordis Corp.*, No. CIV-03-1512-L., 2006 WL 2570614 (W.D. Okla. Sept. 5, 2006), also fits with the Kennedy exceptions, but somewhat less perfectly. Here, like the preceding cases in which injunctions were denied, patentee Jan K. Voda was not a competitor of Cordis. But the invention at suit,

a catheter, was not a small part of a larger system or product—it was the product. Despite a finding of willful infringement, the court declined to enter an injunction, finding no irreparable harm. The court found that Voda could not rely on damage to his relationship with his exclusive licensee, Scimed, because Scimed did not elect to participate in the suit with Cordis. The court did not address the other factors in any depth.

If these four cases are any indication of a trend, it is a shutout in favor of the Kennedy concurrence. So far, not a single noncompetitor patentee has obtained an injunction following a finding of infringement, at least in a published opinion.

Injunction granted

Not every defendant has dodged an injunction after *eBay*. Defendant infringers who compete with the patentee continue to have a tough time convincing district courts not to grant an injunction. *Tivo Inc. v. EchoStar Communications Corp.*, No. 2:04 CV 1 DF, 2006 WL 2398681 (E.D. Texas Aug. 17, 2006) is a case in point. In *Tivo*, the patentee Tivo sued EchoStar for infringing its patent related to digital video recorders (DVRs). The parties were direct competitors in the nascent DVR industry. Following a jury verdict of willful infringement Judge David Folsom—who had denied an injunction only a day earlier in *Paice*—granted Tivo's request for an injunction. The court found irreparable harm from the market share lost to Tivo due to EchoStar's infringement. Moreover, the court found Tivo to be a new company with only one primary product, such that the loss of market share would cause severe injury. In contrast, EchoStar, with its more diverse product line, would not be crippled by an injunction.

While noncompeting patentees so far have not found success obtaining injunctions, expect clever lawyers to learn from the lessons of the first wave of cases. The rationales applied by the district courts, while making it difficult for a noncompetitor to obtain an injunction, stop well short of ruling it out. Imagine, for example, that the noncompeting patentee in *Finisar* had been successful in persuading the court that the failure to grant an injunction would have compromised its ability to exclusively license its patent. Would the court have denied the injunction?

Just as the injunction-denying decisions leave some a glimmer of hope for a noncompeting patentee to prevail based on case specifics, so too may cases like *Tivo* offer the same hope, however slight, to a competing defendant. *Tivo* could be read for the proposition that an injunction might not be appropriate, even for a competitor, if loss of market share would be less severe or would be easier to quantify in

damages. Imagine if Tivo had been a relatively mature company with several products in the market and its own established customer base. In that case, would money damages have been sufficient?

The uncertainties go beyond whether the injunction will issue. We already see that district courts take very different approaches in fashioning an equitable remedy when there is no injunction. In *z4*, Judge Leonard E. Davis decided to sever the causes of action relating to damages for future determination, in effect ordering a separate trial to determine the terms of a compulsory license. In *Finisar*, Judge Ronald H. Clark held an immediate post-trial hearing, complete with expert testimony, to determine what the remedy should be. We don't yet know what path Folsom will take in *Paice*. It is not hard to imagine other alternatives, such as adapting the apparent rationale of the jury's damages finding into the future—assuming the jury finding can be so adapted.

Much depends on how Federal Circuit ultimately rules.

Looking ahead

But an even larger factor looms on the horizon: the Federal Circuit. It has yet to consider whether any district court has abused its discretion in denying a permanent injunction. If the Federal Circuit adopts the Roberts view, district courts and litigants will have little choice but to wait and see how the Supreme Court resolves its disagreement. If, however, the court adopts the Kennedy view, or allows district courts to adopt the Kennedy view, there are many more possibilities. We could see a diversity of approaches in the district courts, a new body of laws and procedures governing what would amount to compulsory licensing when an injunction is not appropriate, *eBay* hearings post-trial and perhaps further impetus for forum shopping.

We may never return to the world before *eBay*, but we still don't know how different the new world will be. **NLJ**

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