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## Patent Injunctions After eBay

*Law360, New York (July 25, 2008)* -- So you're suing for patent infringement and one of your goals is to permanently stop the defendant from making, selling or using the infringing product. A no-brainer, right, so long as you can prove infringement? Not so fast.

Whereas permanent injunctions used to be almost a sure thing once a court found infringement, that is no longer true in light of the Supreme Court's decision in *eBay Inc. v. MercExchange*, 547 U.S. 388 (2006). Now, a patent holder must go through the same four-part analysis that is applied in any other case in order to get a permanent injunction.

This article analyzes the practical implications of the eBay decision – namely, when will district courts impose injunctions under this new emphasis on the traditional four-part test – by taking a detailed look at the Court's decision as well as subsequent appellate and district court decisions.

### *The eBay Decision*

District courts have historically issued permanent injunctions as a matter of course once they have adjudged the patent valid and the defendant's actions infringing. See, e.g., *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989); *MercExchange, LLC v. eBay, Inc., LLC*, 401 F.3d 1323, 1339 (Fed. Cir. 2005).

Indeed, the Court of Appeals for the Federal Circuit has stated that there is a "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." *MercExchange*, 401 F.3d at 1339.

That changed in May of 2006 when the United States Supreme Court overruled the Federal Circuit's eBay decision. The Court rejected the "general rule" of issuing permanent injunctions and held that the determination of whether to issue an injunction is no different in a patent case than in any other case. *eBay*, 547 U.S. at 391.

According to well established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four factor test before a court may grant such relief.

A plaintiff must demonstrate: (1) that it suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and the defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

Id. The Court expressly held that “these familiar principles apply with equal force to disputes arising under the Patent Act.” Id.

So, the standard four-part test applies to a patent case just as it would to any other case, but what are the practical implications of this? In other words, now that the Supreme Court has abolished the “general rule” of issuing permanent injunctions, when will district courts issue such an injunction?

The eBay Court provided some guidance. In a concurring opinion, Chief Justice Roberts suggested that courts should still issue injunctions in cases with traditional fact patterns – for example, an infringer who makes, uses or sells in direct competition with a patentee. Id. at 395 (“like cases should be decided alike”).

Justice Kennedy, in a second concurring opinion, agreed with Justice Roberts and took it a step further by suggesting that there are new categories of cases for which injunctions may not be appropriate. Id. at 396. For example, cases involving patentees who do not make and sell any particular goods but instead use their patents primarily for obtaining licensing fees:

For these firms, an injunction and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.

When the patent invention is but a small component of the product the companies seek to produce and a threat of an injunction is employed simply from due leverage and negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. Id.

### *Application Of The eBay Decision By Appellate And District Courts*

Subsequent appellate and district court decisions provide even more guidance, and some general patterns have emerged.

In analyzing the four factors, courts have primarily focused on the first and second factors – irreparable harm and inadequacy of monetary damages.

When parties are direct competitors, courts are more likely to find irreparable harm and inadequacy of monetary damages, and thus will issue an injunction. See, e.g., *Fresenius Med. Care Holdings Inc. v. Baxter Int'l, Inc.*, No. C 03 1431 SBA, 2008 WL 928496, at \*3 (N.D. Cal. Apr. 4, 2008) (“Courts routinely find irreparable harm, and therefore grant permanent injunctions where, as here, the infringer and the patentee are direct competitors.”).

Conversely, when the parties do not compete, and in particular where the patentee also has a history of licensing the patent, courts generally find that monetary damages are sufficient and thus will not issue an injunction. See, e.g., *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1303 (Fed. Cir. 2007) (affirming denial of permanent injunction because (1) the patent owner “does not actually manufacture any goods, [and therefore] there was no threat that Paice would lose name recognition or market share without an injunction” and (2) “[t]he adequacy of monetary damages was further bolstered, in the [district] court’s opinion, by the fact that Paice had offered a license to Toyota during the post-trial period”).

*Fresenius Medical*, 2008 WL 928496, is a recent example of a court granting an injunction where the patentee and infringer were direct competitors. The court focused on how this direct competition, if not enjoined, would cause irreparable harm that would not be compensable by monetary damages.

In this case, Baxter and Fresenius are head-to-head competitors. ... The law favors Baxter’s right to the full value of its property, particularly the ability to keep it out of its main competitor’s hands. Indeed, the principal value of a patent is the right to exclude arch competitors from making, selling and using an infringing product.

Additionally, the harm to Baxter’s reputation resulting from Fresenius’s wrongful appropriation of Baxter’s technology forms a basis for injunctive relief. It is well-established that harm to reputation as an innovator is an injury not compensable by damages ... Allowing Fresenius to continue to infringe would irreparably harm Baxter’s reputation and goodwill as an innovator, threaten Baxter’s extensive investments in research and development, and potentially encourage other companies to infringe Baxter’s intellectual property. *Id.* at \*3 (internal citations omitted).

The court went on to note that “the loss of goodwill, reputation for innovation, the legal right to exclude, including the right to control the terms of any licensing arrangement, are all forms of irreparable injury that cannot be easily and readily quantified through a simple monetary award. *Id.* at \*4.

Other courts have similarly issued permanent injunctions where direct competition would cause irreparable harm.

See, e.g., *Wald v. Mudhopper Oilfield Servs. Inc.*, No. CIV-04-1693-C, 2006 WL 2128851, at \*5 (W.D. Okla. July 27, 2006) (court found irreparable harm and granted

permanent injunction in large part because lost sales, lost market share, and damage to reputation would be likely if the competitor continued to sell the infringing product);

TiVo Inc. v. EchoStar Commc'n Corp., 446 F. Supp. 2d 664, 669-70 (E.D. Tex. 2006) (“Defendants compete directly with Plaintiff-Defendants ... The availability of the infringing products leads to loss of market share for Plaintiff's products. Loss of market share in this nascent market is a key consideration in finding that Plaintiff suffers irreparable harm...”);

O2 Micro Int'l Ltd. v. Beyond Innovation Tech. Co., No. CIV. A. 204CV32 (TJW), 2007 WL 869576, at \*2 (E.D. Tex. Mar. 21, 2007) (granting permanent injunction based on the “high value of intellectual property when it is asserted against a direct competitor in the plaintiff's market”);

Novozymes A/S v. Genencor Int'l., 474 F. Supp. 2d 592, 613 (D. Del. 2007) (granting permanent injunction and noting that parties “are head-to-head competitors, and [the patentee] has a right, granted by Congress, not to assist its rival with the use of proprietary technology”).[1]

In contrast, several courts have refused to issue permanent injunctions where the parties did not compete and where the plaintiff has a history of licensing the patent.

For example, in z4 Techs. Inc. v. Microsoft Corp., 434 F. Supp. 2d 437, 440-41 (E.D. Tex. 2006), the district court denied a permanent injunction in part because “[t]here is no logical reason that a potential consumer or licensee of z4's technology would have been dissuaded from purchasing or licensing z4's product activation technology for use in its own software due to Microsoft's infringement.”

The court explained that “Microsoft only uses the infringing technology as a small component of its own software, and it is not likely that any consumer of Microsoft's Windows or Office software purchases these products for their product activation functionality.” Id. at 440.

Because of this, the court found no irreparable harm and that z4 could be compensated for any harm by “calculating a reasonable royalty for Microsoft's continued use of the product activation technology.” Id. at 441.

Similarly, in Paice v. Toyota, 504 F.3d at 1303, the Federal Circuit affirmed the district court's denial of a permanent injunction because the patentee “[did] not actually manufacture any goods, [and therefore] there was no threat that Paice would lose name recognition or market share without an injunction.”

Moreover, the court found that “[t]he adequacy of monetary damages was further bolstered, in the [district] court's opinion, by the fact that Paice had offered a license to Toyota during the post-trial period.” Id.[2]

Courts that deny injunctive relief do craft alternative remedies. The most common is an ongoing royalty, i.e., a royalty based on future infringing sales.

See Paice, 504 F.3d at 1314 (“Under some circumstances, awarding an ongoing royalty for patent infringement in lieu of an injunction may be appropriate.”)[3] See also Avid Identification Sys. Inc. v. Phillips Elects. N. Am. Corp., No. 2:04-CV-183, 2008 WL 819962, at \*4 (E.D. Tex. Mar. 25, 2008) (declining to issue permanent injunction because plaintiff had “unclean hands” but allowed plaintiff “the opportunity to show entitlement to future royalties in lieu of an injunction”);

Boston Scientific Corp. v. Johnson & Johnson, No. C 02-00790 SI, 2008 WL 480193, at \*16 (N.D. Cal. Feb. 19, 2008) (declining to issue a permanent injunction at this time but noting that an ongoing royalty or some other equitable remedy will be necessary to remedy the infringement going forward);

cf. Innogenetics, N.V. v. Abbott Labs., 512 F.3d 1363, 1379-80 (Fed. Cir. 2008) (reversing district court’s grant of permanent injunction because the jury award of damages included market entry fee and ongoing royalty payment).

### *Conclusions*

Here is what emerges in light of eBay and its progeny. The most likely cases in which courts will issue injunctions are those where the parties are direct competitors.

In that sense, the landscape really has not changed because as noted by Justice Roberts in his concurring opinion, patent cases traditionally involved direct competitors, courts typically issued injunctions in those cases, and now, even after eBay, courts will probably continue to issue injunctions in most of those cases.

Instead, what has changed is the situations in which patent cases arise. More and more you have patent holders who do not compete with the accused infringer and in fact may not even manufacture any product of their own.

By reemphasizing the four-part test, the Court in eBay has forced district courts to take a hard look at whether an injunction is warranted in those situations.

Often, it will not be warranted because a party who does not compete with an accused infringer, and in particular one with a history of licensing its patent, will not be able to show irreparable harm nor that that remedies available at law, such as monetary damages, are inadequate to compensate for the injury.

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[1] Although courts issue injunctions in the majority of cases in which parties directly compete, it is not automatic. Some courts have found no irreparable harm despite the fact that the patentee and infringer were competitors.

See *MercExchange LLC v. eBay, Inc.*, 500 F. Supp. 2d 556, 577-78 (E.D. Va. 2007) (denying permanent injunction on remand from Supreme Court because the plaintiff failed to show irreparable harm caused by the infringer-competitor and specifically rejecting “the broad classification that direct competitors always suffer irreparable harm from infringement whereas non-competitors never suffer irreparable harm”);

*Praxair Inc. v. ATMI Inc.*, 479 F. Supp. 2d 440, 442-44 (D. Del. 2007) (denying permanent injunction even though the parties were direct competitors because the plaintiff failed to identify “what market share, revenues or customers” it lost to competitor-infringer and also failed to explain why money damages could not suffice);

*Sundance Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 WL 37742, at \*2 (E.D. Mich. Jan. 4, 2007) (denying permanent injunction even though the parties are competitors because the party seeking the injunction did not demonstrate that it was losing sales because of the infringement and therefore failed to demonstrate irreparable harm).

[2] See also *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614, at \*5-6 (W.D. Okla. Sept. 5, 2006), (denying permanent injunction where patentee and infringer were not competitors);

*Sundance*, 2007 WL 37742, at \*2 (denying injunctive relief because “Sundance licenses the ‘109 patent to others, and offered to license it to DeMonte prior to filing suit against it, thus demonstrating that money damages are adequate.”);

*MercExchange LLC*, 500 F. Supp. 2d at 587-88 (denying permanent injunction in part because patentee has “repeatedly chosen to license its patents.”).

[3] The court in *Paice* did note that an ongoing royalty should not be imposed as a “matter of course.” *Id.* at 1315. “[T]he district court may wish to allow the parties to negotiate a license amongst themselves regarding future use of a patented invention before imposing an ongoing royalty.” *Id.*

However, “should the parties fail to come to an agreement, the district court should step in to assess a reasonable royalty in light of the ongoing infringement.” *Id.*