

Jeffrey H. Howard, Dr. Werner Berg, David Schnorrenberg,
Partners Crowell & Moring LLP, Washington, D.C., Brüssel

Will German Products Which Infringe U.S. Patents Be Barred From Continued Sales In The U.S.?

For nearly 100 years, U.S. law provided that „the general rule is that a permanent injunction will issue once [patent] infringement and validity have been adjudicated.“ As a result, patent infringers have usually been enjoined from selling the infringing product in the U.S. On May 15, 2006, in *eBay v. MercExchange*,¹ the U.S. Supreme Court overturned this general rule, holding instead that „the decision whether to grant or deny injunctive relief rests within the equitable discretion“ of the trial court, taking into account the usual four equitable factors - irreparable injury to the patentee; the adequacy of money damages; the balance of the hardships; and the public interest.

Since then, the courts have applied this new rule to deny a permanent injunction against future patent infringement in seven cases. Two cases denied the injunction based on the fact that the patentee and infringer did not compete in the technology market embodying the patented invention, nor in any downstream product market. As a result, the courts found that the patentee lost no sales, goodwill or market share. The other five cases denied the injunction due to the alleged failure of the patentee to prove it was entitled to injunctive relief under the four equitable factors. This newly emerging pattern raises the potential that fewer injunctions against continued infringement will be issued and that the U.S. courts may, in certain circumstances, be moving in the direction of a compulsory licensing approach to continued infringement. This change presents significant risks and opportunities for German companies selling goods in the U.S. This article briefs these cases and explains the new risks and opportunities.

In *eBay*, the patentee had obtained a business method patent on a method for selling goods online. It sued eBay for infringement of the patent by means of its online „Buy-Now“ feature. The jury found the patents valid and infringed.

The trial court then awarded damages of \$29.5 million, but denied the patentee's motion for a permanent injunction. Under the traditional criteria for an injunction (irreparable injury, inadequate remedy at law, balance of the equities, and the public interest), the court found there was no irreparable injury and the patentee had an adequate remedy at law. The Court of Appeals for the Federal Circuit reversed holding that because the essence of a patent is the right to exclude, „the general rule is that a permanent injunction will issue.“

The Supreme Court reversed and remanded to the trial court to consider, in the first instance, whether an injunction was warranted under the traditional four-factor test. The decision was unanimous with Chief Justice Roberts writing a brief concurring opinion (joined by Justices Scalia and Ginsburg) noting that traditionally the courts have issued such injunctions in the vast majority of patent cases and observing that „a page of history is worth a

volume of logic.“

However, four other Justices (Kennedy, Stevens, Souter and Breyer) joined in another concurring opinion noting that the historical practice of granting injunctions against patent infringement is only relevant in cases like those the courts have confronted before. These four Justices then pointed out that in recent years, three circumstances have arisen which may make the issuance of an injunction less desirable than before:

First, so-called „Patent Trolls“ have emerged who do not produce or sell goods but use their patents primarily to exact license fees (citing the Federal Trade Commission Report: „To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy,“ October 2003). Patent Trolls may be less sympathetic candidates for an injunction because they merely seek to use the threat of an injunction „as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.“

Second, some times the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is used merely for „undue leverage in negotiations.“ In this case, „legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.“

Finally, the concurring opinion points out that injunctions may be more difficult in the case of patents over business methods because the „potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.“

Since then, the lower courts have been confronted with the question of how to apply this new rule to patent infringement cases. The U.S. Court of Appeals for the Federal Circuit has routinely reversed and remanded injunctions against future infringement which were issued before the Supreme Court ruling in *eBay* for further consideration in light of that opinion.²

In addition, several courts have considered whether to issue an injunction under the standards announced in *eBay*. For example, in *Abbott Laboratories v. Andrx Pharmaceuticals, Inc.*,³ the court of appeals reversed a preliminary injunction against continued infringement on the merits. The trial court had found that Abbott was likely to succeed in enforcing its patents, that there was a presumption in such cases of irreparable injury, that the balance of the hardships and the public interest favor enforcing the

² See, e.g., *International Rectifier Corp. v. IXYS Corp.*, 2006 U.S. App. LEXIS 18693 (July 14, 2006); *Monsanto Co. v. Scruggs*, 2006 U.S. App. LEXIS 20914 (August 16, 2006).

³ 452 F.3d 1331 (June 22, 2006).

¹ 126 S. Ct. 1837.

patent. The court of appeals reversed, finding, first, that Abbott was not likely to prevail on the merits due to substantial questions about validity and, second, that the public interest does not support issuance of the injunction as a result.

In *z4 Technologies v. Microsoft*,⁴ the jury found Microsoft to have infringed z4's patent on a product activation software and awarded \$115 million in damages. Applying the *eBay* decision, the trial court rejected z4's motion for a permanent injunction, holding that there is no longer any presumption in favor of an injunction and that z4 was not entitled to an injunction under the traditional four-factor test. Since Microsoft does not produce any competing product activation software and its use of the infringing software is only a small portion of its much larger Windows software, the court concluded that z4 suffers no irreparable injury. z4 does not compete with Microsoft in the sale of product activation software or computer operating software. As a result, Microsoft's continued infringement is unlikely to cause z4 to lose any sales, licensing revenue, market share or brand recognition relating to its patented activation technology. Its only injury would be the loss of licensing fees from Microsoft, which the court could readily calculate. Thus, z4 has an adequate remedy at law.

The court also expressly relied upon Justice Kennedy's concurring opinion in *eBay* with respect to the infringement representing only a very small portion of the Microsoft's ultimate product. As the court pointed out, Justice Kennedy's „comments support the conclusion that monetary damages would be sufficient for any future infringement by Microsoft.“ Further, the court found that the balance of the hardships favors Microsoft since redesigning Windows and Office software products would likely be an enormous task and risk flooding the market with pirated copies. This too showed that the public interest supports denial of the permanent injunction.

In *Paice LLC v. Toyota Motor Co.*,⁵ the jury returned a verdict that the transmissions in three of Toyota's hybrid vehicles had infringed one of plaintiff's patents. The jury found that the infringement was not willful and awarded plaintiff damages based on a reasonable royalty for the past infringement of \$25 per vehicle. The trial court then denied plaintiff's motion for a permanent injunction. The court reasoned that there was no longer any general rule in favor of such injunctions and that, based on Justice Kennedy's concurrence in the *eBay* case, „the existence of a right to exclude does not dictate the remedy for a violation of that right.“

Here, the court held plaintiff failed to show that it would be unable to license its technology absent an injunction and thus there was no irreparable injury. „Plaintiff does not compete for market share with the accused vehicles, concerns regarding loss of brand name recognition and market share similarly are not implicated.“ As a result, monetary damages are sufficient to vindicate plaintiff's patent rights even if it lost license fees. Further, the infringed claims relate to a very small part of the overall vehicles

and thus the balance of the hardships posed by an injunction favors Toyota. Finally, the court concluded that the public interest supports neither party. For these reasons, the injunction was denied.

In *Voda v. Cordis Corp.*,⁶ the jury found that the defendant had infringed plaintiff's patents relating to an angioplasty guide catheter, that the patents were valid, and that the infringement was willful. The jury awarded a reasonable royalty of 7.5% of gross sales of the infringing catheters. The trial court, however, denied plaintiff's request for a permanent injunction. The court reasoned that following the *eBay* decision, „permanent injunctions in patent cases should not automatically follow a finding of infringement.“ Here, the court found, plaintiff relied exclusively on harm to its licensee who chose not to sue for infringement. The court concluded that „plaintiff identifies no harm to himself; rather, he relies on alleged harm to a non-party.“

In *Sundance, Inc. v. Merlot Tarpaulin and Sidekit Manufacturing Co., Inc.*,⁷ patentee's failure to prove lost sales due to the infringement and evidence that it had licensed the patent to others and offered to license it to the infringer was enough to defeat the claim for a permanent injunction. In *IMX, Inc. v. Lendingtree, L.L.C.*,⁸ the court denied a permanent injunction due the patentee's failure to prove irreparable injury, but permitted the patentee to refile and submit additional evidence.

In *KEG Technologies, Inc. v. Laimer*,⁹ the trial court entered judgment for the patentee on infringement, but reserved ruling on the motion for a permanent injunction until further briefing and a conference among the parties. The court reasoned that before the decision in *eBay*, „under the traditional rule of the Federal Circuit that infringement typically mandates an injunction in all but the most extraordinary case, this Court would be inclined to enjoin Defendants“ from further sales of the infringing products.¹⁰ But now, under the four-factor test reiterated in *eBay*, the court would reserve ruling on the injunction until further proceedings. The court also pointed out that in addition to an injunction, there may be „more equitable alternatives (e.g., a compulsory license)“ which it may wish to consider.¹¹

In *Finisar Corp v. The DirecTV Group, Inc.*,¹² the court denied the patentee's request for a permanent injunction and instead „granted a compulsory license“ of \$1.60 per set infringing set top box to be paid quarterly, subject to periodic audit and interest on late payments. These cases suggest a greater hesitation on the part of trial courts to enter injunctions and of the Court of Appeals to affirm them. While there have been several cases in which trial courts have either issued an injunction¹³ or, following the decision in *eBay*, refused to reconsider their

⁴ 434 F. Supp.2d 437 (E.D. Texas; June 14, 2006).

⁵ 2006 U.S. Dist. LEXIS 61600 (E.D. Texas August 16, 2006).

⁶ 2006 U.S. Dist. LEXIS 63623 (W.D. Okla. September 5, 2006).

⁷ 2007 U.S. Dist. LEXIS 158 (E.D. Mich. 2007).

⁸ 2007 U.S. Dist. LEXIS 1972 (D. Del. 2007).

⁹ 2006 U.S. Dist. LEXIS 37726 (N.D. Ga. June 8, 2006).

¹⁰ 2006 U.S. Dist. LEXIS 37726 at *4.

¹¹ *Id.*

¹² 2006 U.S. Dist. LEXIS 76380 (E.D. Tex. 2006).

¹³ *Litecubes, LLC v. Northern Light Products, Inc.*, 2006 U.S. Dist. LEXIS 60575 (E.D. Mo. August 25, 2006); *TIVO Inc. v. Echostar Communications Co.*, 2006 U.S.

prior issuance of an injunction,¹⁴ the newly emerging pattern suggests that a patent infringer may have new opportunities to avoid a permanent injunction.¹⁵

The concurring opinion by Justice Kennedy in *eBay* and the reasoning of the trial courts in the *z4* and *Paice* cases, for example, provide guidance on factors that may deter a court from issuing an injunction against alleged infringement by German companies selling goods in the U.S.

First, if the patentee is not in competition with the infringer

Dist. LEXIS 64290 (E.D. Tex. August 17, 2006) (Crowell & Moring represented the patentee); *Telequip Corp. v. The Change Exchange*, 2006 U.S. Dist. LEXIS 61469 (N.D. NY. August 15, 2006); *Wald v. Mudhopper Oilfield Services, Inc.*, 2006 U.S. Dist. LEXIS 51669 (W.D. Ok. July 27, 2006); *Black & Decker Inc. v. Robert Bosch Tool Corp.*, 2006 U.S. Dist. LEXIS 86990 (N.D. Ill. 2006); *Innogenetics, N.V. v. Abbott Labs.*, 2007 U.S. Dist. LEXIS 3148 (W.D. Wisc. 2007); *Transocean Offshore Deepwater Drilling, Inc. v. Globalsantafe Corp.*, 2006 U.S. Dist. LEXIS 93408 (S.D. Tex. 2006); *Visto Corp. v. Seven Networks, Inc.*, 2006 U.S. Dist. LEXIS 91453 (E.D. Tex. 2006); *Audi AG v. D'Amato*, 469 F.3d 534 (6th Cir. 2006); *MPT, Inc. v. Marathon Labels, Inc.*, 2007 U.S. Dist. LEXIS 3992 (N. Ohio 2007).

¹⁴ *Christiana Indus. Inc. v. Empire Electronics, Inc.*, 2006 U.S. Dist. LEXIS 54210 (E.D. Mich. August 4, 2006); *3M Innovative Properties Co. v. Minnesota Mining and Manufacturing Co.*, 2006 U.S. Dist. LEXIS 70263 (D. Minn. 2006).

¹⁵ One lower court drew upon the *eBay* factors and preliminarily enjoined the patentee from issuing threatening letters to the trade pending trial of the alleged infringer's action for declaratory judgment of invalidity and non-infringement. *GP Industries, Inc. v. Bachman*, 2006 U.S. Dist. LEXIS 83450 (D. Neb. 2006).

in the downstream product market which incorporates the invention, then there may be an opportunity to avoid permanent injunctive relief. The courts in *z4* and *Paice* relied on this factor in denying the injunction because it demonstrated that continued infringing sales by the defendant would not displace sales or licensing revenue by the patentee.

Second, where the patented invention is but a small component of the infringing product, as Justice Kennedy said, and the *z4* and *Paice* courts also found persuasive, „legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.“¹⁶

Third, where the patentee is merely a so-called „Patent Troll“ with no interest in producing or selling goods, an injunction may not be required to compensate the patentee and may be contrary to the public interest in any event.¹⁷

Finally, where the patent relates to a business method, „[t]he potential vagueness and suspect validity of some of these patents may [also] affect the calculus under the four-factor test.“¹⁸

The lesson is that European companies selling goods in the U.S. who become entangled in patent infringement litigation should carefully watch these on-going developments. If a German company, for example, holds a U.S. patent, it now appears there may be circumstances in which enforcing the patent through a permanent injunction may be more difficult to achieve. On the other hand, for German companies accused of patent infringement in U.S. courts, there may be an emerging ground on which to avoid a permanent injunction all together.

¹⁶ 126 S. Ct. at 1842.

¹⁷ *Id.*

¹⁸ *Id.*