

## THE UNITED STATES SUPREME COURT'S DECISION IN *EBAY V. MERCEXCHANGE*: HOW IRREPARABLE THE INJURY TO PATENT INJUNCTIONS?

RICHARD B. KLAR\*

### I. INTRODUCTION

The United States Supreme Court's decision in *eBay, Inc. v. MercExchange, L.L.C.*<sup>1</sup> will have a considerable impact on the grant of patent injunctions by the United States district courts. The decision effectively erases the presumption of irreparable injury in patent infringement actions<sup>2</sup> in favor of applying the traditional four-factor test for granting an injunction.<sup>3</sup> The decision also appears to overrule the Federal Circuit's holding in *Smith International, Inc. v. Hughes Tool Co.*<sup>4</sup> and over twenty years of *stare decisis* based on *Smith*.<sup>5</sup>

While the Court acknowledged that the trial judge has a great deal of discretion in deciding whether to issue an injunction in a patent litigation, the Court did not offer comprehensive guidance for the exercise of this discretion. The district courts will now have to decide when to issue injunctions. Justice Thomas's majority opinion and the two concurring opinions, by Chief Justice Roberts and Justice Kennedy respectively, appear to raise confusion rather than provide answers as to how the "irreparable injury" and the "no adequate remedy at law" factors of the traditional test for granting an injunction will be applied by the district court judges.

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\* J.D., B.E.E.. Law Office of Richard B. Klar, Mineola, NY (RichardKlar@msn.com). The opinions in this article are solely those of the author and are not attributable to clients of this law firm.

1. *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

2. *Id.* at 391-93. The presumption of irreparable injury is a presumption requiring only a finding that the patent in suit is valid and is continuing to be infringed. *Id.* at 393-94.

3. *Id.* at 391-94.

4. *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983) ("We hold that where validity and continuing infringement have been clearly established . . . immediate irreparable harm is presumed.").

5. The majority opinion in *eBay* stated that in reversing the district court, the court of appeals departed from the four-factor test. *eBay*, 547 U.S. at 393. The Federal Circuit had "articulated a 'general rule,' unique to patent disputes, 'that a permanent injunction will issue once infringement and validity have been adjudged.'" *Id.* (quoting *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005)). The Court further stated that the Federal Circuit erred in its statement that injunctions should be denied only in the "unusual" case, under "exceptional circumstances" and "in rare instances . . . to protect the public health." *Id.* at 394 (quoting *MercExchange*, 401 F.3d at 1338-39).

## II. THE UNITED STATES SUPREME COURT'S DECISION

A. *The Majority Opinion*

The majority opinion found that both the Court of Appeals for the Federal Circuit and the district court erred in applying the traditional four-factor test for a patent injunction. The Supreme Court stated:

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 has 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 defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.<sup>6</sup>

The Court explained that “[t]his approach is consistent with our treatment of injunctions under the Copyright Act.”<sup>7</sup> The Court then compared the Patent Act with the Copyright Act for injunctive relief purposes.<sup>8</sup> The Court found that the Federal Circuit’s “general rule” of issuing a permanent injunction was an erroneous categorical grant of injunctive relief.<sup>9</sup> Under the general rule applied by the Federal Circuit, a court would issue an injunction when there had been an adjudication of infringement and validity in patent disputes, and would deny injunctions only in “unusual cases,” “exceptional circumstances” or “rare instances.”<sup>10</sup>

The Court also found that the district court “adopted a categorical rule” for denying injunctive relief “in a broad swath of cases,”<sup>11</sup> by denying relief based on MercExchange’s “willingness to license patents” and “its lack of commercial activity in practicing the patents.”<sup>12</sup> The Court found that the district court’s ruling on a categorical basis was “in tension”<sup>13</sup> with the Court’s decision in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*<sup>14</sup>

The Court concluded that neither the Federal Circuit nor the district court appropriately applied the four-factor test for injunctive relief under the

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6. *eBay*, 547 U.S. at 391.

7. *Id.* at 392.

8. *Id.* at 392-93.

9. *Id.* at 393-94.

10. *Id.*

11. *Id.* at 393.

12. *eBay*, 547 U.S. at 393 (quoting *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 712 (E.D. Va. 2003)).

13. *Id.*

14. *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 422-30 (1908) (holding a patent that is not practiced is still entitled to enforcement).

traditional principles of equity in deciding whether to issue an injunction.<sup>15</sup> Justice Thomas's majority opinion held that the decision to grant an injunction resides within "the equitable discretion of the district courts," and that this standard for injunctive relief in patent actions is the same as for "other cases governed by such standards."<sup>16</sup> However, how such discretion should be exercised appropriately is uncertain and was left unexplained by the Court's majority opinion. The confusion regarding how to interpret the majority opinion is evident from the two differing concurrent opinions discussed below.

### *B. Chief Justice Roberts's Concurring Opinion*

Chief Justice Roberts's concurring opinion<sup>17</sup> agreed with the Court's decision that the district court's exercise of its discretion to grant injunctive relief falls within the "traditional principles of equity in patent disputes no less than in other cases governed by such standards."<sup>18</sup> The Chief Justice's concurring opinion noted the difficulty in protecting the right to exclude<sup>19</sup> through monetary remedies, especially under the first two factors of the traditional four-factor test, irreparable harm and lack of an adequate remedy at law.<sup>20</sup> The opinion also stated that "[d]iscretion is not whim"<sup>21</sup> and that in exercising that discretion "a page of history is worth a volume of logic."<sup>22</sup> Thus, Roberts's opinion appears to direct the district courts to a body of case law that has decided the grant of injunctive relief under the traditional four-factor test, rather than making arbitrary or radical departures from the existing body of law. This idea is supported by Chief Justice Roberts's statement that a court's direct equitable discretion should be exercised according to "the established four-factor test and [not by] writing on an entirely clean slate."<sup>23</sup>

The Roberts opinion, however, did not explain how district courts should resolve the difficulty in equitably protecting the right to exclude. It merely warned against injunctive relief decisions in patent cases that are not well grounded in the principles of equity.

### *C. Justice Kennedy's Concurring Opinion*

Justice Kennedy's concurring opinion<sup>24</sup> agreed with the majority opinion that courts should rely upon the traditional four-factor test to determine

15. *eBay*, 547 U.S. at 394.

16. *Id.*

17. *Id.* at 394 (Roberts, C.J., concurring).

18. *Id.* at 394-95.

19. The Patent Act provides for a right to exclude all others from making, using, and selling the patented invention. *See* 35 U.S.C. § 154(a) (2000).

20. *eBay*, 547 U.S. at 395.

21. *Id.* (quoting *Martin v. Franklin Capital Corp.*, 546 U.S. 132, 139 (2005)).

22. *Id.* (quoting *New York Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921)).

23. *Id.*

24. *Id.* (Kennedy, J., concurring).

whether to grant an injunction in a patent case (without resorting to categorical rules). However, Kennedy took issue with Chief Justice Roberts's concurring opinion. Kennedy's opinion adopted the position that while historical context might be appropriate to determine cases bearing substantially parallel circumstances to prior adjudications, such decisions do not address current situations that have arisen.<sup>25</sup> The opinion stated that an injunctive remedy is not dictated by the violation of the right to exclude under the patent statute.<sup>26</sup> The opinion noted the development of "[a]n industry . . . in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."<sup>27</sup> Kennedy's opinion suggested that the discretion afforded to the district courts under the traditional four-factor test permits the courts to deny injunctive relief given the "potential vagueness and suspect validity"<sup>28</sup> of some of these patents, notably business method patents.

The Kennedy opinion is clear in setting forth a broad approach for exercising discretion under the traditional four-factor test in deciding whether to grant a patent injunction. The opinion suggested that a district court has considerable leeway in reapplying the test for changing technological innovations.<sup>29</sup> By contrast, Roberts's opinion favored more restraint by adhering to the history of past decisions concerning the exercise of the injunctive relief and recognizing the difficulty in protecting the right to exclude by monetary damages.<sup>30</sup> The majority decision is largely silent on the application of the traditional four-factor test, even though it stated the manner in which a trial court's discretion should be exercised in determining the appropriateness of a patent injunction.

### III. THE IMPACT OF EBAY v. MERCEXCHANGE ON PATENT INJUNCTIONS

#### *A. Twenty Years of Silence*

The Court of Appeals for the Federal Circuit came into creation in 1982.<sup>31</sup> Its purpose was to provide a unified body of law for patent cases and to end

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25. *eBay*, 547 U.S. at 395-96 (Kennedy, J., concurring).

26. *Id.* at 396.

27. *Id.* (citing FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 37-39 (2003) available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>).

28. *Id.* at 397.

29. *Id.* 396-97 ("The equitable discretion over injunctions, granted by the Patent Act, is well suited to allow courts to adapt to the rapid technological and legal developments in the patent system.")

30. *Id.* at 394-95 (Roberts, C.J., concurring).

31. Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (codified in scattered sections of 28 U.S.C.) (codified at 28 U.S.C. § 1295 (2006)).

the rampant forum-shopping in patent disputes. Injunctive relief was one of the major concerns during the creation of the court because injunctions were relatively easy to secure in certain circuits and almost impossible to obtain in other circuits.<sup>32</sup>

The Federal Circuit addressed this concern in 1983 with its decision in *Smith*.<sup>33</sup> In *Smith*, the Federal Circuit held that irreparable harm is presumed when there is an adjudication of validity and continued infringement of the patent in suit.<sup>34</sup> The *Smith* decision has been widely followed over the last twenty years by the Federal Circuit.<sup>35</sup> The Supreme Court has now addressed this issue, even though it had declined to do so back in 1983.

Interestingly, the Supreme Court in *eBay* cited to a 1932 copyright decision<sup>36</sup> to support its decision and ignored more than twenty years of patent decisions addressing the standard for the grant of patent injunctions. The *eBay* decision throws district courts into disarray over the specific criteria for granting a patent injunction—a situation that has not happened since the creation of the Federal Circuit over twenty years ago.

### B. Copyright Comparisons

In holding that the standard for granting an injunction in patent litigations—the traditional four-factor test—was the same standard as for all other cases involving injunctive relief, the Supreme Court stated that “[t]his approach is consistent with our treatment of injunctions under the Copyright Act”<sup>37</sup> and that a copyright owner also has “the right to exclude others from using his property.”<sup>38</sup> This comparison to the Copyright Act is somewhat flawed as it fails to recognize the underlying need for each exclusion and the breadth of each of these two separate intellectual property rights when determining whether injunctive relief is appropriate.

First, it is important to note that copyright law protects an expression of an idea, rather than the idea itself as embodied in an invention<sup>39</sup>—the latter being protected by a utility patent. Thus, the scope of protection is broader for patent rights (as they protect the underlying idea). Consequently, the need to exclude is more significant in patent cases because exclusion serves to secure a monopoly on the concept as opposed to protecting a variant (e.g., an expression of an idea with copyright law).

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32. The Federal Circuit has addressed difficulties in several circuits in securing injunctive relief, notably preliminary injunctive relief, in patent actions. *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1578-79 (Fed. Cir. 1983).

33. *See id.*

34. *Id.* at 1581.

35. *But see* *Bio-Tech. Gen. Corp. v. Genentech, Inc.*, 80 F.3d 1553 (Fed. Cir. 1996).

36. *See eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006) (citing *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932)).

37. *Id.*

38. *Id.* (quoting *Fox Film Corp.*, 286 U.S. at 127).

39. 17 U.S.C. § 102(b) (2006).

Next, copyright law protects against copying the copyrighted work and not against independent creations by others. Patent law protects the invention by providing the right to exclude all others from making, using, or selling the patented invention.<sup>40</sup> Thus, the patent monopoly is broader in protecting the patented invention against all others—both knowing and coincidental imitators. The right to exclude under patent law is a broader exclusion than the right to exclude under copyright law. Therefore, the copyright analogy is far from a perfect fit for determining injunctive relief considerations for patent rights.

#### IV. THE RAMIFICATIONS OF THE *EBAY* DECISION

##### A. *What's a District Court to Do?*

The Supreme Court's majority opinion provided little guidance as to how district courts should apply the traditional four-factor test, other than that the test was to be applied in determining if an injunction should be granted in a patent litigation. Of particular concern, is whether a licensed patent would be treated differently from one that is manufactured by the patent owner. The majority opinion warned against categorically denying injunctive relief to such patent holders and cautioned that such a categorical rule might be in tension with the Court's decision in *Continental Paper*.<sup>41</sup>

The majority decision, however, appears to be in conflict with Justice Kennedy's concurring opinion, which took exception to granting injunctions to firms that "use patents . . . primarily for obtaining licensing fees."<sup>42</sup> This conflict and tension over applying the factors is apparently shared by different factions of the Court, as noted by the two differing concurring opinions. Also, the conflict and tension may have been the reason for the Court's decision to avoid articulating clearer guidelines in applying the traditional four-factor test.

##### B. *What District Courts Have Done*

One of the first cases to be decided after the *eBay* decision was *z4 Technologies, Inc. v. Microsoft Corp.*<sup>43</sup> In *z4 Technologies*, a jury found that claims in two patents belonging to plaintiff z4 were willfully infringed and that the defendants failed to prove that the infringing claims were invalid.<sup>44</sup> The two

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40. 35 U.S.C. § 271(a) (2000). Note, the right to exclude exists whether or not the invention was independently created as long as the patent owner was the first to invent.

41. *eBay*, 547 U.S. at 393; see also *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 422-430 (1908).

42. *eBay*, 547 U.S. at 396 (Kennedy, J., concurring).

43. *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006).

44. *Id.* at 438-39.

z4 patents at issue involved a method of product activation to prevent the unauthorized use of computer software.<sup>45</sup> z4 requested injunctive relief for products sold and planned for release by defendant Microsoft.<sup>46</sup> z4's proposed injunction sought to require Microsoft to redesign and eliminate the infringing technology from its next generation of products prior to the release date.<sup>47</sup> The district court applied the traditional four-factor test, citing *eBay*.<sup>48</sup>

The district court first examined the irreparable harm or injury factor under the four-factor test. The court referred to z4's argument that there is a rebuttable presumption of irreparable harm for a permanent injunction as a "creative" argument, but proceeded to reject it as being unsupported by Supreme Court or Federal Circuit case law.<sup>49</sup> The district court said that z4's argument for a rebuttable presumption of irreparable harm was not "in line" with the *eBay* decision's warning "against the application of categorical rules" when applying the traditional four-factor test.<sup>50</sup>

The district court then addressed z4's argument that it would suffer "irreparable harm" due in part to Microsoft's infringement because z4 had failed to succeed in commercializing its invention.<sup>51</sup> The court rejected z4's argument, stating 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."<sup>52</sup>

This portion of the court's analysis failed to consider the *eBay* majority decision's warning against the broad categorical rules in applying the four-factor test.<sup>53</sup> Just because the infringing product is incorporated as a component in a larger product does not automatically rule out that irreparable harm has occurred.<sup>54</sup> The importance to Microsoft of this product activation feature is apparent in the arguments concerning the balance of hardship when Microsoft stated that it would be difficult to redesign its software without the infringing product activation software.<sup>55</sup> Clearly, this is a significant feature of

45. *z4 Techs.*, 434 F. Supp. 2d at 438.

46. *Id.* at 439.

47. *Id.*

48. *Id.* (citing *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006)).

49. *Id.* at 440.

50. *Id.*

51. *z4 Techs.*, 434 F. Supp. 2d at 440.

52. *Id.*

53. *eBay*, 547 U.S. at 393-94.

54. Justice Kennedy's concurring opinion in *eBay* was particularly concerned with the method of approaching business patents, as opposed to software products for security purposes, because they are less ephemeral in nature. *Id.* at 396-97 (Kennedy, J., concurring). In addition, the majority opinion in *eBay* warned against broad categorical approaches to determining whether an injunction should issue, such as deciding eligibility for injunctive relief based upon the type of a patent and the manner in which it is intended to be commercialized. *Id.* at 393-94. Further, *Continental Paper* was not overruled by the Court in its *eBay* decision; rather, the Court sought to have injunctions decided by the district courts when such determinations would not be "in tension" with *Continental Paper*, which held that injunctions cannot be categorically denied because the patentee refuses to use his patent. *Id.*

55. *z4 Techs.*, 434 F. Supp. 2d at 442-43.

the total product Microsoft sells because it prevents software duplication—a major concern expressed by Microsoft in its arguments.<sup>56</sup> The district court might have been better served in this case had it examined the criticality of the infringing component to the overall product sold by the defendant, and not its size.

The district court then examined the “adequacy of remedies” factor under the four-factor test in equity.<sup>57</sup> The court relied upon Justice Kennedy’s concurring opinion in *eBay* to reject z4’s argument that a violation of the right to exclude can never be remedied through money.<sup>58</sup> The court noted that Justice Kennedy’s concurring opinion advised courts “to be cognizant of the nature of the patent being enforced and the economic function of the patent holder when applying the equitable factors.”<sup>59</sup>

The district court then considered the balance of hardships. z4 had sought a permanent injunction that would enjoin Microsoft from selling Microsoft’s Windows and Office products with the infringing technology. After the injunction, Microsoft would have had a reasonable time to redesign its products without the infringing activation product. In addition, the proposed permanent injunction required Microsoft to deactivate its current product activation servers until they could be restarted without infringing z4’s patents.<sup>60</sup>

Microsoft argued hardship as to both of these proposed injunction requirements. Microsoft argued that the redesign of the product would “require excessive resources and be exceedingly expensive.”<sup>61</sup> Microsoft also argued that deactivating its product activation system would have “incalculable” repercussions and could leave it without a means to deactivate pirated software that has been installed on multiple computers.<sup>62</sup> The district court held that any hardships z4 might suffer from Microsoft’s use of z4’s patented technology were remedied by monetary damages or outweighed by the concerns expressed by Microsoft.<sup>63</sup>

Thus, the district court found the balance of hardships tipped in favor of Microsoft. In doing so, the district court did not address the finding of willful infringement by Microsoft. Microsoft injected itself into a situation in which it would be faced with the hardships of either redesigning its software products or turning off its product activation feature. Microsoft sought to avoid an injunction by pointing out detrimental situations it had brought upon itself. A recent Federal Circuit decision,<sup>64</sup> discussed below, appears to take issue with

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56. *z4 Techs.*, 434 F. Supp. 2d at 443.

57. *Id.* at 441-42.

58. *Id.* at 441.

59. *Id.* (citing *eBay, Inc.*, 547 U.S. at 395-96 (Kennedy, J., concurring)).

60. *Id.* at 442.

61. *Id.*

62. *z4 Techs.*, 434 F. Supp. 2d at 443.

63. *Id.*

64. *Sanofi-Synthelabo v. Apotex, Inc.*, 470 F.3d 1368 (Fed. Cir. 2006).

permitting such arguments as a means of avoiding injunctions where willful infringement has been adjudicated, such that the alleged infringer knowingly placed itself at risk of the claimed hardships.<sup>65</sup>

The district court in *3A* then found that “[a]lthough these negative effects are somewhat speculative, . . . the public interest is likely to be disserved if a permanent injunction were entered against Microsoft.”<sup>66</sup>

In *Paice L.L.C. v. Toyota Motor Corp.*,<sup>67</sup> the district court denied a plaintiff-patentee’s motion for a permanent injunction where a jury found the defendants infringed upon plaintiff’s patents, but that the infringement was not willful.<sup>68</sup> The plaintiff was not commercializing its patented product but was seeking to license it.<sup>69</sup>

In reviewing the irreparable harm factor of the four-factor test, the court stated that the plaintiff had not proven that the absence of an injunction would result in its “inability” to license its patented product.<sup>70</sup> The court stated that there was “evidence in the record, however, that potential licensees may have declined business deals because of Plaintiff’s misrepresentations and improper business tactics.”<sup>71</sup> In looking at the adequacy of the remedy factor, the court noted “that monetary relief could result in lower licensing rates than Plaintiff would desire” and that an injunction would provide the plaintiff with an “impressive bargaining tool.”<sup>72</sup> The court then stated that “[t]his consideration, however, doe[s] not replace the four-factor test that must be satisfied” for an injunction.<sup>73</sup> The district court, however, failed to recognize that this consideration is not intended to replace the four-factor test, but to be injected into the four-factor test when determining whether equitable relief is appropriate. Thus, an impact on licensing rates is a consideration in determining irreparable harm.<sup>74</sup>

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65. *Sanofi*, 470 F.3d at 1383. In addition, in analyzing the irreparable harm factor, the district court in *3A* should have recognized the criticality (as opposed to size) of this patented software product to Microsoft’s sold products (e.g., Microsoft Windows and Office), as these products clearly have a major need for the patented software technology to protect against software piracy. *3A Techs.*, 434 F. Supp. 2d at 443.

66. *3A Techs.*, 434 F. Supp. 2d at 444. The district court in *3A* failed to take into account that the public interest typically tips in favor of the patentee; the public interest in enforcement of valid patents will generally not be outweighed in the absence of countervailing public health and medical considerations. *Acord Hybritech, Inc. v. Abbott Labs.*, 849 F.2d 1446, 1458 (Fed. Cir. 1988).

67. *Paice L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006).

68. *Id.* at \*1.

69. *Id.* at \*4.

70. *Id.*

71. *Id.*

72. *Id.* at \*5 n.3.

73. *Paice*, 2006 WL 2385139, at \*5.

74. Perhaps the court decided that it had adequately considered the lack of showing of irreparable harm by the the plaintiff in light of “evidence in the record . . . that potential licensees may have declined business deals because of Plaintiff’s misrepresentations and improper business tactics.” *Id.* at \*4.

The court then found the balance of hardships favored the defendants.<sup>75</sup> The court rejected the plaintiff's argument that it might go out of business if the defendants were not enjoined because the plaintiff could only have a successful licensing program with such an injunction in place. Instead, the court stated that the defendants' reputation would suffer if they were enjoined and that an injunction would interrupt the sales of defendants and their dealers and suppliers.<sup>76</sup> The court also found that the public interest did not favor either party.<sup>77</sup>

In *O2 Micro International Ltd. v. Beyond Innovation Technology Co.*,<sup>78</sup> the district court granted a permanent injunction to the plaintiff-patentee under the traditional four-factor test announced in the *eBay* decision.<sup>79</sup> This case involved plaintiff O2 Micro International Ltd. asserting infringement claims against Beyond Innovation Technology Co., Ltd. and two other defendants on three of its patents involving electronic circuitry: 6,259,615 ("the 615 patent"), 6,396,722 ("the 722 patent") and 6,804,129 ("the 129 patent").<sup>80</sup> In granting a permanent injunction, each of the four factors in *eBay* was considered by the district court.<sup>81</sup>

The district court first reviewed the defendants' assertion of inequitable conduct as to the procurement of the 129 patent.<sup>82</sup> The defendants alleged that the plaintiff had failed to disclose information and documentation related to the current lawsuit and other litigations involving plaintiff and parent applications of the 129 patent. The district court ruled that the defendants' inequitable conduct argument was flawed, noting that there was no evidence that the plaintiff intended to deceive the Patent Office because the alleged material referenced in the related litigations were disclosures that had already been submitted to the Patent Office.<sup>83</sup>

The district court ruled that because the defendants were direct competitors in the plaintiff's market, they would suffer a loss of market share and thus would be irreparably harmed without injunctive relief.<sup>84</sup> The district court stated that the injuries sustained already by plaintiff as well as those due to future infringement would not be compensable with monetary damages. The court noted that the plaintiff did not seek monetary damages for past infringement and that there was no guarantee that monetary damages could be collected, because the three defendants were foreign corporations. Thus, the

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75. *Paive*, 2006 WL 2385139, at \*6.

76. *Id.*

77. *Id.*

78. *O2 Micro Int'l Ltd. v. Beyond Innovation Tech. Co.*, No. 2-04-CV-32 (TJW), 2007 WL 869576 (E.D. Tex. Mar. 21, 2007).

79. *Id.* at \*3.

80. *Id.* at \*1.

81. *Id.* at \*2-3.

82. *Id.* at \*1.

83. *Id.*

84. *O2 Micro Int'l Ltd.*, 2007 WL 869576, at \*2.

court held that the plaintiff had met the inadequacy of monetary damages factor.<sup>85</sup>

In finding that the balance of hardships favored the plaintiff, the court noted the infringing products would harm plaintiff's ability to sell its patented product.<sup>86</sup> The court referred to the testimony by an officer of one of the defendants that an injunction would have insignificant impact on its entire business.<sup>87</sup> Finally, the court concluded that there was evidence that "the public interest would be disserved by an injunction."<sup>88</sup>

This decision offers a significant illustration of the distinction between applying the standard for a patent injunction when the product is commercialized and in direct competition with the infringing goods, versus applying the standard with a patent that is either being licensed or for which a licensing program is still being developed (as in the *As* decision). Clearly, establishing irreparable harm in the latter case is more difficult for the plaintiff-patentee because there is no track record of economic damages to its product in the marketplace due to the infringing goods. In addition, the inadequacy of monetary compensation might be more difficult to prove since the potential for a long-term effect on economic growth is at least initially less evident, particularly when starting a licensing product for a new patented technology.

The *eBay* majority opinion warned about the dangers of denying injunctive relief "in a broad swath of cases."<sup>89</sup> However, it would appear that a "categorical rule" is developing for determining the irreparable harm for a non-commercialized patent versus one that is commercialized. This split appears to be generating the "tension" with the *Continental Paper* decision that the Court was concerned about in *eBay*.<sup>90</sup> Therefore, it is important to see how these district court decisions will hold up on review.

### *C. What the Federal Circuit Has Done - So Far*

In *Abbott Laboratories v. Andrx Pharmaceuticals, Inc.*,<sup>91</sup> the Federal Circuit reviewed a district court's grant of a preliminary injunction in a patent litigation. The Federal Circuit reviewed the validity of a challenge to claims of two patents in suit for a pharmaceutical product and held that there was a substantial question of patent validity and that plaintiff Abbott Laboratories therefore had not established a likelihood of success on the merits.<sup>92</sup>

The Federal Circuit went on to apply the four factors laid out by the Supreme Court's *eBay* decision. The court held that Abbott Laboratories was not entitled to a presumption of irreparable harm because it could not

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85. *O2 Micro Int'l Ltd.*, 2007 WL 869576, at \*2.

86. *Id.*

87. *Id.*

88. *Id.* at \*3.

89. *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393 (2006).

90. *Id.*

91. *Abbott Labs. v. Andrx Pharm., Inc.*, 452 F.3d 1331 (Fed. Cir. 2006).

92. *Id.* at 1347.

establish a likelihood of success on the merits.<sup>93</sup> The court also was skeptical of Abbott Laboratories' models of expected marketplace reaction to the accused product, calling the models speculative.<sup>94</sup> The Federal Circuit went on to state that

where a patentee has not shown a likelihood of success on the merits, and where the patentee has not clearly established that monetary damages could not suffice but the defendant has not established that monetary damages do suffice, we cannot say that the irreparable harm prong of the analysis favors either party.<sup>95</sup>

In addition, the court found that defendant Teva's failure to appeal the issue of the balance of hardships factor favored Abbott Laboratories.<sup>96</sup> Finally, the court found that because Abbott Laboratories had failed to show likelihood of success, the public interest was "best served by denying the preliminary injunction."<sup>97</sup>

While the Federal Circuit decision did apply the traditional four-factor test laid out in *eBay*, the predominating factor was the existence of a substantial issue as to the validity of the plaintiff's two patents. This made it unlikely that the plaintiff would have established a likelihood of success at trial—a requirement for the grant of a preliminary injunction.<sup>98</sup> Under the formulation in *Smith*, the Federal Circuit would undoubtedly have reached the same result.

In *Sanofi-Synthelabo v. Apotex, Inc.*, the Federal Circuit reviewed a district court's decision granting a preliminary injunction under the traditional four-factor test.<sup>99</sup> *Sanofi* involved a patent infringement lawsuit for a platelet aggregation inhibiting agent, marketed by plaintiff Sanofi, which reduced the risk of heart attacks and strokes.<sup>100</sup> Defendant Apotex had sought U.S. Food and Drug Administration (FDA) approval for its generic inhibiting agent and had filed an Abbreviated New Drug Application as a requisite to seeking FDA approval.<sup>101</sup> The lawsuit was filed in the district court resulting in an automatic thirty day stay of FDA approval under the Federal Food, Drug, and Cosmetic Act.<sup>102</sup> After the expiration of the stay and prior to FDA approval, the parties entered into settlement discussions and reached "a first settlement" that was subject to the Federal Trade Commission's (FTC) approval.<sup>103</sup> The FTC

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93. *Abbott Labs.*, 452 F.3d at 1347.

94. *Id.* at 1348.

95. *Id.*

96. *Id.* at 1348.

97. *Id.*

98. *Id.* at 1347-8.

99. *Sanofi-Synthelabo v. Apotex, Inc.*, 470 F.3d 1368, 1374 (Fed. Cir. 2006).

100. *Id.* at 1372.

101. *Id.* at 1372-73.

102. *Id.* at 1373 (citing Federal Food, Drug, and Cosmetic Act, 21 U.S.C. § 355(j)(5)(B)(iii) (2006)).

103. *Id.*

rejected the settlement, and Sanofi moved for a preliminary injunction a week after Apotex launched its generic product.<sup>104</sup>

In reviewing the lower court's decision granting a preliminary injunction, the Federal Circuit first looked at the challenges to the validity of the patent in suit and affirmed the district court's ruling of validity.<sup>105</sup> The Federal Circuit also addressed and rejected a challenge to the patent in suit based upon a claim of double patent invalidity.<sup>106</sup> Apotex also raised an inequitable conduct argument that material information was not before the U.S. Patent Office during the examination of the application for the patent in suit and that the patent thus should have been held to be unenforceable as being fraudulently procured. The Court again rejected this argument.<sup>107</sup>

The Federal Circuit next applied the traditional four-factor test for determining if the grant of the preliminary injunction was proper.<sup>108</sup> The court examined Sanofi's evidence of irreparable harm, which encompassed claims of "irreversible price erosion, loss of good will, potential lay-offs of Sanofi employees, and the discontinuance of clinical trials that are devoted to other medical uses" of its patented product.<sup>109</sup>

The Federal Circuit also examined Apotex's argument that the settlement agreement "negated any finding of irreparable harm"<sup>110</sup> because the settlement agreement capped damages.<sup>111</sup> The court rejected this argument, finding that Sanofi did not bargain away its right to a preliminary injunction because the agreement addressed damages "up to the date on which Apotex is enjoined" and thus "[spoke] only of damages for past infringement."<sup>112</sup> The Federal Circuit found that the agreement between Sanofi and Apotex supported Sanofi's position for injunctive relief.<sup>113</sup>

The court found Sanofi's evidence of price erosion convincing, noting the testimony of Sanofi's economic expert and a declaration from a Sanofi executive.<sup>114</sup> The court gave consideration to the lower court's finding that because the generic product by Apotex entered the market, Sanofi had to offer discount rates and make price concessions.<sup>115</sup>

The Federal Circuit did not accept Apotex's arguments that price erosion is not a valid basis for finding irreparable harm and that an injunction was not necessary because price erosion had already occurred.<sup>116</sup> The Federal Circuit also stated that Apotex did not establish clear errors in the lower court's decision with regard to the other factors Sanofi presented to establish

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104. *Sanofi*, 470 F.3d at 1373.

105. *Id.* at 1374-80.

106. *Id.* at 1380.

107. *Id.* at 1380-81.

108. *Id.* at 1381.

109. *Id.* at 1381.

110. *Sanofi*, 470 F.3d at 1381.

111. *Id.* 1381-82.

112. *Id.* at 1382.

113. *Id.*

114. *Id.*

115. *Id.*

116. *Sanofi*, 470 F.3d at 1382.

irreparable harm, such as loss of good will, potential reduction of its work force, and discontinuing clinical trials.<sup>117</sup> The Federal Circuit accordingly found no error as to the lower court's finding of irreparable harm.<sup>118</sup>

The Federal Circuit next considered the district court's application of the balancing of hardships factor.<sup>119</sup> The Federal Circuit found that Apotex's "decision to engage in an at-risk launch" of its generic product was preventable, and therefore the balance of hardships favored Sanofi.<sup>120</sup> The Federal Circuit then stated that the public interest favored the grant of the preliminary injunction to encourage the development of blockbuster drugs under the patent system.<sup>121</sup> Finally, the Federal Circuit dismissed Apotex's accusations of unclean hands on the part of Sanofi,<sup>122</sup> stating that the accusations had no relation to anything involved in the lawsuit.<sup>123</sup>

## V. CONCLUSION

The cases following the *eBay* decision clearly show that the playing ground for obtaining an injunction in patent litigation has changed. First, it will be necessary to establish that the patent claims are not only infringed but also that (a) the patent's validity is clear, (b) there is no doubt as to enforceability that would prevent a showing of irreparable harm, and (c) in the case of a preliminary injunction, the plaintiff can show a likelihood of confusion. Further, when the patent is one that is commercialized and the alleged infringer is a direct competitor or a potential direct competitor, a showing of irreparable harm and inadequacy of monetary damages due to loss or potential loss of market share is relatively likely to be established. On the other hand, when the patent is not commercialized and particularly when it does not have a track record for sales or licensing in the marketplace, the showing of irreparable harm and inadequacy of monetary damages will not be as self-

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117. *Sanofi*, 470 F.3d at 1382-83.

118. *Id.* at 1383.

119. *Id.* at 1383. The Federal Circuit referred to this as the third factor and did not specifically mention the second factor—adequacy of monetary damages—but presumably considered it in the context of its review of the irreparable harm factor when evaluating Apotex's argument that the monetary damages cap should negate a finding of irreparable harm. *Id.* at 1382-83.

120. *Id.* at 1383. This finding by the Federal Circuit appears to support an argument that willfulness on the part of an accused infringer tips the balance of hardships in favor of the movant for a patent injunction and therefore seems at least partially inconsistent with the *z4* decision. *See z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006).

121. *Sanofi-Synthelabo*, 470 F.3d at 1383.

122. *Id.* at 1384. Apotex alleged that Sanofi's counsel had concealed oral side-agreements from regulators and falsely asserted that such agreements did not exist. *Id.* The court found that such alleged conduct had no relation to the patent infringement action. *Id.*

123. *Id.* at 1384 (citing *Keystone Driller Co. v. Gen. Excavator Co.*, 290 U.S. 240, 245 (1933)).

evident.<sup>124</sup> Finally, a finding of willful infringement might prove helpful in seeking injunctive relief, as at least the infringement would appear to tilt the balance-of-hardship factor in favor of a movant for the injunction.

The facts of each case will be important in determining how the four factors apply. Unfortunately, however, for those with non-commercialized patents, the type of evidence considered within certain factors appears to favor the grant of an injunction in those situations where the patent is commercialized and faces direct competition, giving rise to a risk that such patents may be treated categorically by district courts deciding injunctive relief.

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124. The cases following *eBay* seem to underscore the majority opinion's concern with regard to licensing, such as it is done by universities, and they also seem to underscore that the decision does not affect the licensor's ability to protect exclusive rights to its patents. *See eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393 (2006).