

## INTELLECTUAL PROPERTY

# Is Competition Required for A Patent Injunction?

By Roy H. Wepner

Much ink has been spilled of late regarding the proliferation of patent infringement suits brought by companies that buy up patents for the sole purpose of enforcing them, often referred to as “nonpracticing entities” or NPEs. Companies sued by NPEs have argued that the patents NPEs acquire and enforce are weak if not completely invalid. Such defendants also bemoan the litigation costs incurred in disposing of such suits. And in those cases where the NPEs have prevailed, the defendants most assuredly bemoan the judgment or settlement they end up paying to NPEs.

The one thing that companies sued by NPEs have not lost much sleep over lately is the possibility of an injunction. For several years, the law appeared to be generally settled that prevailing NPEs could not obtain injunctive relief. This was based on the notion that a patentee who does not compete with the defendant in the marketplace cannot suffer “irreparable harm” from an infringement and could not establish that money damages are inadequate.

A recent decision, however, may have put a small hole in the armor that protected defendants from concerns about injunctions being sought by NPEs. Whether that small opening has the ability to change the dynamics of patent litigation involving NPEs remains to be seen.

### The *eBay* Decision

In *eBay v. MercExchange*, 547 U.S. 388 (2006), the Supreme Court rejected what was then the conventional wisdom, as applied by

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the Federal Circuit, that any prevailing patent owner was automatically—or at least presumptively—entitled to an injunction. The Supreme Court held, instead, that an injunction in a patent case, as in any case, should be based upon an analysis of four traditional equitable factors: irreparable injury, adequacy of money damages, balance of hardships and the public interest. The majority opinion made clear that onesizefitsall rules were not appropriate in the equitable analysis that was required in making an injunction decision.

While the majority opinion of Justice Thomas did not single out NPEs, the

concurring opinion of Justice Kennedy clearly had them in mind. He noted that courts should keep in mind “the economic function of the patent holder” in considering the issuance of an injunction. As he noted: “An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.”

### *eBay* as Applied in NPE Cases

Following *eBay*, a broad consensus developed that in most patent cases

brought by NPEs, an injunction was unlikely to be granted. A valuable review of the landscape can be found in *Bianco v. Globus Medical*, No. 2:12cv00147WCB, 2014 U.S. Dist. LEXIS 35256 (E.D. Tex. Mar. 17, 2014). The *Bianco* case could be argued to be somewhat off point, because the issue faced by the court involved an injunction against a defendant found guilty of misappropriating trade secrets, not patent infringement—though the court ultimately concluded that this was not an important distinction in the case before it. On the other hand, the *Bianco* decision deserves perhaps greater consideration because it was authored by Circuit Judge William C. Bryson of the U.S. Court of Appeals for the Federal Circuit (which has appellate jurisdiction over patent infringement cases), sitting by designation.

In surveying the decisions that followed *eBay*, Judge Bryson noted that numerous courts had held that the plaintiff's status as a competitor or noncompetitor of the defendant "weighs heavily in the court's determination whether to grant injunctive relief." He found that, with only a few exceptions, courts had denied injunctive relief in cases where the patentee does not practice the patent and does not compete with the alleged infringer.

Judge Bryson reviewed numerous cases, including a precedential decision from his own appellate court, the Federal Circuit, which had reversed an injunction where the plaintiff and the defendant were not competitors. Judge Bryson also cited numerous cases from several popular patent venues which had found that the absence of competition between the patentee and the accused infringer was a "significant factor" in finding the absence of irreparable harm. He similarly found that judges in the Eastern District of Texas, where he was sitting by designation, had concluded that the question of whether a plaintiff is a direct competitor of the defendant "weighs heavily" in the analysis. Judge Bryson noted that the one exception in that district, where an injunction was granted in favor of a plaintiff that did not compete with the defendant, was a case where the plaintiff was a government research organization that used licensing

revenue to fund research programs, such that a delay in receiving compensation for infringement could delay and injure its projects and its reputation.

This is essentially how the law stood until just recently.

### The *Sealant Systems* Case

Just seven months after *Bianco*, a decision was issued in *Sealant Systems International v. Tek Global*, No. 5:11cv00774PSG, 2014 U.S. Dist. LEXIS 146443 (N.D. Cal. Oct. 13, 2014). In ruling on a motion to stay an injunction pending appeal, Magistrate Judge Paul S. Grewal (sitting as district judge by consent of the parties) noted that the defendant had questioned the significance of the patentee's harm when the patentee did not practice the patent and in fact had purchased the patent only after the litigation was launched. Judge Grewal wrote that such argument takes no account of the fundamental nature of the right at issue, the statutory right to exclude. He concluded that irrespective of the patentee's failure to practice the patent, or the date on which it acquired the patents, the defendant's continuing infringement deprived the patentee of its right to exclude "competitors" from practicing the patent. In support of this conclusion, the court cited one case in which the quoted portion made clear that the parties *were* direct competitors, and a second case in which the same circumstance was made clear, albeit in a portion of the cited opinion *not* quoted by the court. Slip op. at 10 n.48.

To be sure, the statutory right of a patent owner to exclude others had been noted by other courts. These included Judge Bryson in the *Bianco* case, where he noted that this was a difference between the trade secret case he was deciding and the many patent cases which he cited.

In *Sealant Systems*, Judge Grewal reminded readers that "traditional equitable principles do not permit such broad classifications"—presumably urging that a rigid rule precluding NPEs from obtaining injunctions was contrary to *eBay*. As Judge Grewal concluded this portion of his opinion: "Put another way, whether for Thomas Edison and

his light bulb patents or [the patentee] and its offtheshelf purchase, the exclusive rights under 35 U.S.C. § 271 are the same; that period of exclusivity never comes back." *Id.* at 11.

Accordingly, the court in *Sealant Systems* rejected the defendant's pleas against injunctive relief. But as so often occurs, *Sealant Systems* may be viewed as the type of difficult case that makes for confounding precedent.

In particular, the court in *Sealant Systems* had not entered its permanent injunction until 11 months after a jury had found that the defendant infringed multiple valid patent claims. Moreover, the permanent injunction included a ninemonth "sunset period," i.e., the injunction would not become effective until some 20 months after the jury verdict. Still further, the defendant in *Sealant Systems* was not opposing the issuance of an injunction in the first instance; it was seeking a stay of an injunction that had already been issued. And the defendant had previously requested a stay at the time it opposed the initial entry of the injunction, and that request had been rejected.

### The Outlook

It is too soon to tell whether NPEs seeking injunctions in future cases will be able to get mileage out of *Sealant Systems*. What does seem clear is this: Just as *eBay* established that prevailing patent owners are not automatically entitled to injunctions, patent owners that do not compete with defendants are not automatically precluded from obtaining and maintaining injunctions.

Of course, to the extent the absence of competition makes obtaining an injunction difficult, that difficulty is likely to be compounded where the patent owner is an NPE, which does not compete with the defendant—or anyone else—in the marketplace.

Accordingly, the bottom line—at least for now—appears to be that seeking or opposing an injunction in a case of patent infringement requires careful development of a factual record and consideration of the evergrowing body of increasingly nuanced precedent on this issue. ■