

# To Enjoin or Not To Enjoin

## What's Come of the Test Since eBay?

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It has been six years since the Supreme Court's opinion in *eBay Inc. v. MercExchange, LLC*<sup>1</sup> altered the analysis for awarding injunctions in patent litigation. Before *eBay*, patent holders who succeeded in proving liability enjoyed presumptive entitlement to injunctive relief, and that presumption had translated into many district courts categorically issuing injunctions. In fact, before reversal by the Supreme Court, the Federal Circuit articulated this "general rule" in its own *eBay* opinion. There, the Federal Circuit explained that "permanent injunction[s] will issue once infringement and validity have been adjudged," and a permanent injunction should be denied only in "exceptional circumstances."<sup>2</sup>

However, the Supreme Court's decision in *eBay* changed the rules for patent-related injunctive relief. The *eBay* Court held that, going forward, patent holders have to satisfy the same four-factor test used to assess nonpatent requests for an injunction—namely, the patent holder must show that: (1) it has suffered an irreparable injury; (2) legal remedies (e.g., monetary damages) are inadequate to compensate for that injury; (3) after balancing the hardships, an equitable remedy is warranted; and (4) a permanent injunction would not disserve the public interest.<sup>3</sup> This change has led to some unpredictability for both patent holders and accused infringers in assessing the likelihood of success in prevailing or defeating a request for injunctive relief. Yet despite the inconsistency in outcomes, notable post-*eBay* trends have begun to emerge. Viewed collectively, these trends provide patent holders and accused infringers with actionable guidance on how courts will decide whether a patent holder has satisfied its burden of showing irreparable harm when seeking an injunction for patent infringement.

### Facts Relevant after eBay

Since *eBay*, much of the district courts' focus has been on the first factor of the four-part test—i.e., whether the patent holder will suffer irreparable harm. Specifically, relevant facts that district courts have typically considered in assessing irreparable harm include:

- Market data showing impact of the infringement,
- Causal nexus between market data and the patented feature,
- Amount of competition in the market,
- Practice of the invention by the patent holder,
- Business importance of the invention to the patent holder, and
- Willingness to license the patented technology.

The impact of each of these relevant facts is discussed below.

### Market Data

District courts have found irreparable harm where the effects of the accused infringer's infringement are readily apparent from market data. Courts have relied on a variety of market data to establish irreparable harm, such as whether the patent holder lost sales; whether the patent holder suffered losses to market share, profits, price erosion, royalty rates, qualified employees, goodwill, or reputation; whether the patent holder's harm is unquantifiable; and whether the patent holder suffered lost opportunities, including research, development, and sales of other services to lost customers.<sup>4</sup>

Patent holders should be aware, however, that lost sales alone may be insufficient to prove irreparable harm, because in some cases lost sales have been presumed compensable through money damages. Rather, patent holders who can supply the district court with evidence of a range of market data of the kind mentioned above are more likely to prove irreparable harm.

### Causal Nexus

Consistent with district courts' consideration of market data, the Federal Circuit recently provided some additional guidance specific to assessing irreparable harm. In *Apple Inc. v. Samsung Electronics Co. (Apple III)*, the Federal Circuit discussed the potential need for the patent holder to establish a "causal nexus" between market data and the patented feature.<sup>5</sup> In *Apple III*, the Federal Circuit reversed a California district court's award of an injunction against Samsung that prohibited Samsung from selling its Galaxy Nexus product. The Federal Circuit noted that "[t]o show irreparable harm, it is necessary to show that the [alleged] infringement caused harm in the first place. Sales lost to an infringing product cannot irreparably harm a patentee if consumers buy that product for reasons other than the patented feature."<sup>6</sup> In other words, proving a causal nexus between the alleged infringement and irreparable harm entails showing "to what extent the harm resulting from selling the accused product can be ascribed to the infringement."<sup>7</sup> According to the court, patent holders must show that "the infringing feature drives consumer demand for the accused product."<sup>8</sup> Because Apple's evidence of a causal nexus was "limited," the Federal Circuit overturned the preliminary injunction.

In another case against Samsung, a California district court denied Apple's motion for a permanent injunction for similar reasons, noting that irreparable harm requires a "showing that consumers buy the infringing product 'because it is equipped with the apparatus claimed in the . . . patent,' and not merely because it includes a feature of the type covered by the patent."<sup>9</sup> The court concluded that Apple had proven injury, but

that Apple had failed to prove the causal nexus between the particular adjudged infringing acts and the irreparable harm. The court explained:

Many factors go into making a product easy to use, but the features for which Apple is asserting patent protection are very specific. A consumer may want a phone that is easy to use, but this does not establish that a tap-to-zoom feature, for example, or any given type of gesture, is a driver of consumer demand. Thus, Apple's evidence of a survey showing the importance of ease of use as a general matter . . . does not establish that infringement of any of Apple's *patents* caused any harm that Apple has experienced. To establish the required nexus, Apple must make a showing specific to each patented feature. This, Apple has not done.<sup>10</sup>

### ***Two-Player Market and Direct Competition***

A patent holder attempting to establish irreparable harm also can strengthen its case for an injunction by providing evidence of the existence of a two-player market in which the patent holder is a direct market competitor of the accused infringer. Evidence of this kind usually serves as significant proof of irreparable harm because "it creates an inference that an infringing sale [by the accused infringer] amounts to a lost sale for the patentee."<sup>11</sup> Moreover, that kind of evidence usually alleviates concerns that money damages will be sufficient to compensate the patent holder because the infringement causes a direct, measurable loss of market share as well as lost sales.

Some district courts following this line of reasoning have required a patent holder to establish that it is in direct competition with the accused infringer before granting an injunction. For example, in *Cordance Corp. v. Amazon.com, Inc.*, the patent holder attempted to demonstrate irreparable harm by arguing, among other things, that it and the accused infringer were the only two competitors in the relevant market.<sup>12</sup> However, the Delaware district court was "not convinced that Cordance [would] suffer irreparable harm," partly because it was not "persuaded . . . that Cordance and Amazon [were indeed] direct competitors in a market."<sup>13</sup> Amazon argued that the relevant market was "complex and growing" with "many players," and not one player dominated the market.<sup>14</sup> The court concluded that Cordance offered no evidence to rebut Amazon's assertions of there being other players in the market or to explain why the other players were not the cause of Cordance's failure to gain market share. As a result, the court went on to conclude that Cordance failed to satisfy the irreparable harm factor. The court reasoned that Cordance

"failed to establish . . . a direct link . . . between Amazon's infringing use of one-click technology . . . and either Cordance's inability to establish itself in the digital identity market, a loss of goodwill . . . , or a change in the digital identity market's landscape."<sup>15</sup>

In contrast, a California district court granted an injunction where a patent holder demonstrated the existence of a two-player market. In *Apple Inc. v. Samsung Electronics Co. (Apple I)*, the Northern District of California stated: "[T]he existence of a two-player market may well serve as a substantial ground for *granting* an injunction' because 'it creates an inference that an infringing sale amounts to a lost sale for the patentee.'"<sup>16</sup> Apple put forth evidence that it lost 20 percent of its market share at the same time that Samsung's market share increased approximately 17 percent. That evidence, combined with data regarding the market's continued growth and the fact that there were few players in the market, led the court to conclude that it was more likely that market share lost by Apple would be lost to Samsung.

But not all district courts appear to require a patent holder to establish direct competition to satisfy the irreparable harm factor. Indeed, in *Metso Minerals, Inc. v. Powerscreen International Distribution Ltd.*, for example, the accused infringers argued that the patent holder could not establish irreparable harm because there were several other competitors in the relevant market.<sup>17</sup> A New York district court disagreed with the accused infringers and concluded that there is no authority from the Federal Circuit "stating that irreparable harm will exist only when a patent holder competes in a two-competitor market."<sup>18</sup> The court noted that "Federal Circuit authority in the preliminary injunction context suggests that [a two-competitor market] is not a requirement to show irreparable harm—particularly when . . . there is some indication that other market competitors may also be infringers."<sup>19</sup>

Similarly, in *ActiveVideo Networks, Inc. v. Verizon Communications, Inc.*, the accused infringer argued that it was not in direct competition with the patent holder in the relevant market.<sup>20</sup> Patent holder ActiveVideo permitted a third party, Cablevision, to use its CloudTV platform to provide interactive television services. ActiveVideo agreed that it was not a direct competitor to Verizon, but rather argued that its licensee Cablevision was a direct competitor of Verizon. This made ActiveVideo an indirect competitor of Verizon, hinging on ActiveVideo's agreement with Cablevision. Thus, according to ActiveVideo, Verizon's infringement still irreparably harmed ActiveVideo because it caused direct harm to Cablevision's market share and subscriber base. ActiveVideo was hampered from introducing its patented technology to a portion of the market controlled by Verizon. The Virginia district court explained that "direct competition is not a prerequisite to a court's decision to grant a motion for permanent injunction," and although direct competition can be a factor in the analysis, "it is not dispositive."<sup>21</sup> The court reasoned that ActiveVideo could still prove irreparable harm in the absence of direct competition through adverse business effects resulting from Verizon's infringement.

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### **Practicing the Invention**

The required demonstration of irreparable harm may be satisfied where the patent holder “practices its invention [covered by the patent(s) at issue].”<sup>22</sup> Courts tend to be critical of issuing an injunction when it is clearly being “employed as a bargaining tool to charge . . . fees to companies that seek to buy licenses to practice the patent.”<sup>23</sup> Specifically, where “firms [are using] patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees,” some district courts have concluded that an injunction should not be granted.<sup>24</sup>

This said, “it is possible for a nonpracticing entity to satisfy the four-factor test [for an injunction to issue].”<sup>25</sup> “A patentee who does not practice the claimed invention can still obtain an injunction, provided the . . . four-factor test is satisfied.”<sup>26</sup> A nonpracticing entity that might possibly practice the invention in the future is the most likely to succeed in obtaining an injunction.<sup>27</sup> Similarly, district courts have concluded that “some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves.”<sup>28</sup>

### **Business Importance of the Invention**

District courts have concluded that a patent holder has satisfied the irreparable harm factor where a patent holder’s patented technology is at the core of its business or where the market for the patented technology is still developing. For example, in *Conceptus, Inc. v. Hologic, Inc.*, the patent holder sought a permanent injunction against the accused infringer and put forth evidence that the patent holder and the accused infringer competed in a two-supplier market.<sup>29</sup> The patent holder also demonstrated that the patent holder’s product was the core of its business because it was the company’s sole product. The California district court concluded that this evidence weighed in favor of the patent holder on the irreparable harm factor. The court stated that if an injunction would favor patent holders whose patents are “a small component of the product the [accused infringer] seek[s] to produce,” legal damages may be sufficient to compensate for the infringement.<sup>30</sup> “Harm to the core of a patentee’s business[, however,] supports a finding of irreparable harm.”<sup>31</sup> Harm to the core of a patent holder’s business presents a decreased risk that the “threat of an injunction is employed simply for undue leverage in negotiations.”<sup>32</sup>

### **Willingness to License Patented Technology**

Patent holders and accused infringers should also be aware of facts that tend to weigh against a finding of irreparable harm. A patent holder’s “willingness to forego its patent rights for compensation [will] support[] the court’s conclusion” that the patent holder will not suffer irreparable harm absent an injunction.<sup>33</sup> For example, the patent holder in *Advanced Cardiovascular Systems, Inc. v. Medtronic Vascular, Inc.*, had granted two licenses to the patents at issue, but argued that the licenses were “in exchange for cross-licenses and to settle litigations.”<sup>34</sup> The Delaware district court ultimately concluded that licensing of the patents at issue undermined any

purported irreparable harm because the patent holder “was willing, ultimately, to forego its exclusive rights for some manner of compensation.”<sup>35</sup> The court concluded that “[m]oney damages are rarely inadequate in these circumstances” and that an injunction is more appropriate in scenarios where the “patentee has demonstrated an unwillingness to part with the exclusive right.”<sup>36</sup>

### **And Then There’s Venue . . .**

While not one of the factors explicitly discussed by courts considering requests for injunctive relief, the venue of a matter can also play an important part in the success of a post-*eBay* injunction motion. District courts in certain jurisdictions tend to be friendlier to patent holders, and others show a preference toward accused infringers. When becoming familiar with success rates and other factors relevant to patent litigation in any venue, patent holders should now also pay close attention to how the particular district court handles successful patent holders’ requests for injunctive relief. These same considerations apply to copyright and trademark infringement cases, as many district and circuit courts have extended *eBay* to such cases.

### **Managing Expectations**

District courts have clearly struggled with deciding when to issue injunctions in the six years that have passed since the *eBay* cases. Understanding the facts of a case and the implications they will have on the four-factor test of *eBay*—particularly, the irreparable harm factor—will better set expectations for probable relief at the outset of litigation, rather than presenting unwelcome surprises when making or challenging a request for an injunction, especially when the case in chief is founded on infringement of a patent. ■

### **Endnotes**

1. 547 U.S. 388 (2006).
2. *MercExchange, LLC v. eBay Inc.*, 401 F.3d 1323, 1338–39 (Fed. Cir. 2005).
3. *eBay*, 547 U.S. at 391.
4. *See, e.g.*, *Research Found. of State Univ. of N.Y. v. Mylan Pharm. Inc.*, No. 1:10-cv-00892-LPS, 2012 U.S. Dist. LEXIS 80737, at \*7 (D. Del. May 25, 2012) (loss of qualified employees and reduced research and development opportunities); *Conceptus, Inc. v. Hologic, Inc.*, No. C 09-02280, 2012 U.S. Dist. LEXIS 2239, at \*4 (N.D. Cal. Jan. 9, 2012) (loss of access to potential customers); *ActiveVideo Networks, Inc. v. Verizon Commc’ns, Inc.*, 827 F. Supp. 2d 641, 645 (E.D. Va. 2011) (lost profits that are difficult to quantify); *Sanofi-Aventis Deutschland GmbH v. Glenmark Pharm. Inc.*, 821 F. Supp. 2d 681, 693 (D.N.J. 2011) (harm to revenues, brand recognition, and price erosion); *Metso Minerals, Inc. v. Powerscreen Int’l Distribution Ltd.*, 788 F. Supp. 2d 71, 75–76 (E.D.N.Y. 2011) (loss of goodwill or reputation); *Cordance Corp. v. Amazon.com, Inc.*, 730 F. Supp. 2d 333, 338 (D. Del. 2010) (reduced market share).
5. 695 F.3d 1370 (Fed. Cir. 2012).
6. *Id.* at 1374 (quoting *Apple Inc. v. Samsung Elecs. Co. (Apple II)*, 678 F.3d 1314, 1324 (Fed. Cir. 2012)).
7. *Id.* at 1375.

8. *Id.*
9. *Apple Inc. v. Samsung Elecs. Co.*, 909 F. Supp. 2d 1147, 1150 (N.D. Cal. 2012).
10. *Id.* at 1155 (citation omitted).
11. *Apple II*, 678 F.3d at 1336 (quoting *Robert Bosch LLC v. Pylon Mfg. Corp.*, 659 F.3d 1142, 1151 (Fed. Cir. 2011)).
12. 730 F. Supp. 2d 333, 338–39 (D. Del. 2010).
13. *Id.* at 339.
14. *Id.* at 340.
15. *Id.* at 340–41.
16. No. 11-CV-01846-LHK, 2011 U.S. Dist. LEXIS 139049, at \*93 (N.D. Cal. Dec. 2, 2011), *upheld on remand*, No. 11-CV-01846-LHK, slip op. at 5 (N.D. Cal. June 26, 2012) (alteration in original) (quoting *Robert Bosch LLC v. Pylon Mfg. Corp.*, 659 F.3d 1142, 1151 (Fed. Cir. 2011)).
17. 788 F. Supp. 2d 71, 75 (E.D.N.Y. 2011).
18. *Id.*
19. *Id.*
20. 827 F. Supp. 2d 641, 646 (E.D. Va. 2011).
21. *Id.*
22. *Cordance Corp. v. Amazon.com, Inc.*, 730 F. Supp. 2d 333, 338 (D. Del. 2010); *Advanced Cardiovascular Sys., Inc. v. Medtronic Vascular, Inc.*, 579 F. Supp. 2d 554, 558 (D. Del. 2008).
23. *Metso Minerals*, 788 F. Supp. 2d at 74.
24. *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 396 (2006); *see also Metso Minerals*, 788 F. Supp. 2d at 74; *Ricoh Co. v. Quanta Computer, Inc.*, No. 06-cv-462-bbc, 2010 U.S. Dist. LEXIS 38220, at \*6 (W.D. Wis. Apr. 19, 2010).
25. *Ricoh*, 2010 U.S. Dist. LEXIS 38220, at \*4.
26. *Presidio Components, Inc. v. Am. Technical Ceramics Corp.*, 723 F. Supp. 2d 1284, 1335 (S.D. Cal. 2010).
27. *See, e.g., Tyco Healthcare Grp. LP v. Applied Med. Res. Corp.*, No. 9:09-CV-176, 2010 U.S. Dist. LEXIS 144470, at \*10 (E.D. Tex. 2010).
28. *eBay*, 547 U.S. at 393.
29. No. C 09-02280, 2012 U.S. Dist. LEXIS 2239, at \*4–6 (N.D. Cal. Jan. 9, 2012).
30. *Metso Minerals, Inc. v. Powerscreen Int’l Distribution Ltd.*, 788 F. Supp. 2d 71, 74 (E.D.N.Y. 2011).
31. *Conceptus*, 2012 U.S. Dist. LEXIS 2239, at \*5.
32. *Metso Minerals*, 788 F. Supp. 2d at 74.
33. *Advanced Cardiovascular Sys., Inc. v. Medtronic Vascular, Inc.*, 579 F. Supp. 2d 554, 560 (D. Del. 2008); *see also ActiveVideo Networks, Inc. v. Verizon Commc’ns, Inc.*, 827 F. Supp. 2d 641, 647–48 (E.D. Va. 2011).
34. 579 F. Supp. 2d at 560.
35. *Id.*
36. *Id.*