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Patents

The authors advocate enactment of pending legislation that would raise the bar for permanent injunctions against patent infringers and allow stays of such relief pending appeal. They say that the high reversal rate of infringement rulings makes those judgments, and the nearly automatic injunctions that are issued against infringers, “false positives” that threaten industry and taint the legal process.

Patent Injunction Reform and the Overlooked Problem of ‘False Positives’

By STEPHEN P. SWINTON AND ADAM A. WELLAND

The intellectual property community is ablaze with commentary concerning the various proposals for reform of the patent laws and, in particular, the recently submitted Patent Reform Act of 2005, H.R. 2795 (70 PTCJ 142, 6/10/05). Among the more controversial of the provisions of the current bill is the proposal to stay permanent injunctive relief at the trial court pending appellate review. Although that proposal represents a significant accommodation from earlier drafts, any deviation from current law is sure to serve as a lightning rod for debate within the business, university and intellectual communities in the country.

For our part, we applaud the proposed change—but for reasons that, thus far, have not been addressed in the debate. As set forth below, we advocate the pro-

posed change for its potential beneficial effects on the dual problems of “false positives” and declining professionalism in patent litigation.

First, the proposal. On June 8, Rep. Lamar S. Smith (R-Texas) introduced H.R. 2795. This legislation represents the efforts of many individuals and groups throughout the country. In many respects, it carries forward provisions introduced in 2004 by Rep. Howard L. Berman (D-Calif.) in H.R. 5299 (68 PTCJ 682, 10/22/04). Although the bill contains a number of sweeping and controversial revisions to U.S. patent law, one of the more controversial proposed changes concerns Section 283 of the Patent Act and current law concerning permanent injunctions.

Currently, Section 283 provides that a court “may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent. . . .” 35 U.S.C. § 283. Despite Congress’s use of the permissive “may” and reference to equitable principles, the Federal Circuit has followed a general rule that permanent injunctions should issue as soon as a trial court has adjudged both infringement and validity. See, e.g., *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47, 9 USPQ2d 1913 (Fed. Cir. 1989) (37

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PTCJ 382, 2/23/89).¹ Indeed, in *MercExchange LLC v. eBay Inc.*, 401 F.3d 1323, 74 USPQ2d 1225 (Fed. Cir. 2005) (69 PTCJ 532, 3/25/05), the Federal Circuit sharply criticized a trial court's failure to enter a permanent injunction following entry of an infringement judgment.

Weakening of Injunctions Opposed. To address a number of perceived problems with current law, early proposals virtually sought to eliminate permanent injunctions as a remedy for infringement. As recently as April 15 the committee print of the legislation proposed that "A court shall not grant an injunction under this section unless it finds that the patentee is likely to suffer irreparable harm that cannot be remedied by the payment of money damages."² However, as introduced, H.R. 2795 would add the following italicized text to Section 283:

The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable. *In determining equity, the court shall consider the fairness of the remedy in light of all the facts and the relevant interests of the parties associated with the invention. Unless the injunction is entered pursuant to a nonappealable judgment of infringement, a court shall stay the injunction pending an appeal upon an affirmative showing that the stay would not result in irreparable harm to the owner of the patent and that the balance of hardships from the stay does not favor the owner of the patent.*

Even with this proposal, many commentators decry the apparent erosion of exclusivity attendant with any modification to current law. Some argue that the proposal to stay trial court injunctions is unnecessary because existing law and procedure already provide that remedy.³

¹ The Federal Circuit has recognized only limited exceptions to this rule, for example, where a significant public safety or medical interest may be affected by the grant of a permanent injunction. See, e.g., *Rite-Hite Corp. v. Kelley Inc.*, 56 F.3d 1538, 1547, 35 USPQ2d 1065 (Fed. Cir. 1995) (50 PTCJ 197, 6/22/95) (Fed. Cir. 1995). In other cases, courts have denied injunctions where the patentee has recovered a damage verdict premised on a paid-up royalty that was inconsistent with the grant of an injunction. See *Odetics Inc. v. Storage Technology Corp.*, 14 F. Supp. 2d 785, 788 (E.D.Va. 1998), *aff'd*, 185 F.3d 1259, 51 USPQ2d 1225 (Fed. Cir. 1999) (58 PTCJ 318, 7/15/99); *Stickle v. Heublein Inc.*, 716 F.2d 1550, 1563 (Fed. Cir. 1983); *Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538, 1549 (Fed. Cir. 1987).

² April 15, 2005 Committee Print of the Patent Reform Act of 2005, Sec. 7 "Injunctions" (69 PTCJ 652, 4/22/05).

³ For example, in his commentary, "Patent Reform Bill: A Troubling Proposal for the U.S. Patent Law System," C. Boyden Gray argues, without citation, that "The district courts regularly stay injunctions pending appeal in accordance with the Federal Circuit's flexible approach to motions for stay of injunctions." (70 PTCJ 121, 6/3/05). While we recognize that many courts have adopted a "flexible approach" to the stay of trial court injunctions, "flexible" should not be confused with "predictable." Indeed, the lack of established precedent and guidance at the trial court or appellate level gives little comfort to defendants facing the imminent prospect of a series of emergency motions for stay. We certainly are not aware of any empirical evidence to support Gray's sweeping assessment of "regularity" in district court practice.

Yet, although well intentioned, we think the proponents for maintaining current law ignore the significant problem of "false positives" that plagues patent litigation today and infects the litigants with a "win-at-all-costs" mentality that has encouraged the deterioration of professionalism in the trial courts. In our view, no matter how imperfect the current proposal may be, its renewed emphasis on equitable principles and the expectation that trial court injunctions shall be stayed pending appeal will go far to help ameliorate these problems.

Inappropriate Injunctions Problematic. So, what is a "false positive?" In technical terminology, a false positive exists when a test incorrectly reports that a particular condition exists. For example, in medicine, a false positive occurs when a blood donor is rejected as a result of an erroneous indication of hepatitis.

In patent litigation, a false positive occurs when a trial court enters a judgment of infringement only to have the judgment reversed by the Federal Circuit.

False positives are a problem in patent litigation. Depending on the analysis employed and period examined, reversal rates for trial court judgments in patent infringement cases range from 30 to more than 60 percent.⁴ While those statistics include both false positives and false negatives,⁵ they reveal a disturbing lack of predictability.

If the Federal Circuit overturned only the occasional trial court infringement judgment, few would be alarmed by the procedural unfairness of mandatory permanent injunctions at the trial court level. Without question, we should continue to work to solve the fundamental problem of the Federal Circuit's high reversal rate. But, until we cure that problem, we must work to ameliorate its effect on otherwise innocent parties.

Indeed, in the public clamor over proposals to amend current law, we believe that the proponents of mandatory injunctions ignore the problem of false positives. While exclusivity remains an important and tangible benefit of patent ownership, improvidently granted exclusivity imposed on undeserving parties turns the district courts into modern day lynch mobs.

⁴ It is difficult to obtain agreement on what should be a relatively straightforward statistical calculation. Oft-cited published empirical studies suggest a reversal rate between 34 and 47.3 percent. Professor Kimberly Moore analyzed the Federal Circuit's reversal rate with respect to claim construction from 1996-2000, and published a reversal rate of 33 percent. Moore, *Are District Court Judges Equipped to Resolve Patent Cases?*, 15 HARV. J.L. & TECH. 1, 2 (2001). Christian Chu, calculated a 47.3 percent reversal rate from 1998 to 2000 with respect to all issues, but excluding summary affirmances. Chu, *Empirical Analysis of the Federal Circuit's Claim Construction Trends*, 16 BERKELEY TECH. L.J. 1075, 1097 (2001). The Federal Circuit has also kept data on its reversal rates. In his 1998 dissent in *Cybor Corp. v. FAS Technologies Inc.*, Judge Rader cited a 1997 reversal rate of 53 percent. 138 F.3d 1448, 1475 n. 15, 46 USPQ2d 1169 (Fed. Cir. 1998) (55 PTCJ 515, 4/2/98). The Federal Circuit's Web site reveals that approximately 34 percent of patent appeals were reversed in 2004. But, other more recent commentators have estimated the recent reversal rate as high as 71 percent. See *The Law, Technology & the Arts Symposium: The Past, Present and Future of the Federal Circuit*, 54 CASE W. RES. L. REV. 671, 680-82 (2004).

⁵ Continuing the analogy, a Federal Circuit reversal of a trial court judgment of noninfringement represents a "false negative."

Unlike preliminary injunctions—where trial courts are required to consider the harm of an injunction upon defendants⁶—current law does not consider the adverse impact a permanent injunction may impose upon a defendant. Similarly, preliminary injunction proceedings under Rule 65 require a trial court to consider measures such as a bond to protect the defendant from the possibility that a preliminary injunction might later be deemed to have been granted improperly.

Yet, nothing protects a defendant from the injury inflicted by a false-positive infringement judgment. Rather, and perhaps paradoxically, it is the infringement defendant that is required to post a bond or security if it wishes to have a legitimate chance at staying the execution of a final judgment pending appeal. See Fed. R. Civ. Proc. 62(c). It is of no consequence for a plaintiff to seek a permanent injunction. Instead, the defendant assumes all of the risk and burden associated with an erroneous judgment.

Difficult to Remedy Erroneous Injunction. This lack of protection for the judgment defendant in the event of a reversal can impose a significant punishment in patent litigation. Even if a trial court infringement judgment is later reversed on appeal, the competitive damage to a defendant often begins to accrue as soon as the trial court enters that judgment. Further proceedings in the trial court and Federal Circuit can often last two years before a reversal is won.

In many industries, this two-year forced exodus from the marketplace can mean the difference between success and failure of individual products and entire technologies. Even if the appellate decision completely exonerates a putative infringer, the extended absence from the market inflicts a huge toll. If the accused product or technology is a new entrant, the market may move inexorably in a different direction. Where the defendant is a smaller entity and the accused technology represents its primary venture, the resulting delay and market consequences can destroy both the product and the company. Further, the collateral damage from an injunction can affect creditors, employees, and whole communities.

Ultimate Penalty Imposed Prematurely. In criminal law, we no longer impose capital punishment on defendants merely based upon trial court judgments of guilt. Given the significant—and often commercially fatal—

implications to infringement defendants, we believe that infringement defendants deserve similar leniency.

H.R. 2795's proposal to stay trial court injunctions pending appeal will help to avoid the significant societal costs imposed by the problem of false positives. We think the proposal merits serious consideration on this basis alone.

But, we think the proposal also provides an unanticipated benefit on trial court professionalism that underscores the need for its adoption. We have just returned from satisfying our required, annual dose of continuing legal education. As usual, our refresher course was replete with the familiar complaints by district judges about the deterioration of civility and professionalism in the “trenches” of patent litigation.

We believe this deterioration can be traced, at least in part, to the win-at-all costs mentality engendered by the prospect of mandatory permanent injunctions. The fact that a prevailing patent owner need not protect a defendant from the injury inflicted by an improvident permanent injunction creates an unseemly incentive for patentees. Indeed, where the parties are competitors, an injunction—even if later vacated on appeal—can benefit the patent owner's competitive position far more than the value of any monetary award.

Unfortunately, the threat of injunctions also encourages defendants to engage in their own retaliatory tactics. With the effective lives of many technologies shorter than the time between a complaint and an appeal, defendants are often willing to risk certain reversal of an infringement judgment in order to avoid an early permanent injunction. Consequently, parallel incentives for winning in the trial court at all cost encourage litigants to ignore their professional obligations and levy a huge burden on the trial courts.

On the other hand, if patentees recognized that misconduct and invited error in the trial court may *not* be rewarded by a permanent injunction—and, to the contrary, could result in reversal or remand and further delay in obtaining an injunction—they and their counsel would be incentivized to avoid those behaviors. At the same time, if defense counsel understood that trial court judgments could be reviewed prior to any consideration of an injunction, their incentive to win at all cost should be correspondingly affected.

While we would be reluctant to promote the current injunction proposal solely on the basis of its anticipated impact at the district court level, we believe that the reform could bring tangible benefits to the front lines of patent litigation. Coupled with the inherent benefit of ameliorating the problem of false positives, we think the time has come to adopt this aspect of the reform legislation.

⁶ See, e.g., *Illinois Tool Works Inc. v. Grip-Pak Inc.*, 906 F.2d 679, 681 15 USPQ2d 1307 (Fed. Cir. 1990) (40 PTCJ 203, 6/28/90).