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INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Injunction Practice After 'eBay'; Google Books; Cybersquatting Liability

By **Lewis R. Clayton**

Nine years ago, the U.S. Court of Appeals for the Federal Circuit could write confidently that "[b]ecause the 'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged." *MercExchange v. eBay*, 401 F.3d 1323, 1338 (Fed. Cir. 2005). For that reason, injunctions were denied to successful plaintiffs in patent litigation only in "exceptional" cases.

All of that changed in 2006, when the Supreme Court reversed the Federal Circuit's *eBay* decision. 547 U.S. 388 (2006). The Supreme Court held that an injunction is a "drastic and extraordinary remedy" that may be granted—even in a patent case—only when the plaintiff satisfies a traditional test, requiring a showing of irreparable injury, that legal remedies are inadequate and that the balance of hardships and the public interest favor equitable relief. Recent rulings of the Federal Circuit in Apple's long-running battle with Samsung and of the U.S. Court of Appeals for the Ninth Circuit in a trademark case illustrate how much the landscape of injunctive relief in intellectual property cases has changed over the past seven years.

In *Apple v. Samsung Electronics*, 735 F.3d 1352 (Fed. Cir. 2013), the Federal Circuit reviewed the decision of a California district court to deny Apple any injunctive relief, although a jury found that Samsung smartphones infringed several Apple design and utility patents and infringed Apple's iPhone trade dress. Apple contended that, because it sought a permanent injunction after trial, rather than a preliminary injunction on a limited record, it did not have to show a "causal nexus" between Samsung's infringement and Apple's alleged irreparable harm.

Rejecting that argument, the Federal Circuit emphasized that the "causal nexus requirement is simply a way of distinguishing between irreparable harm caused by patent infringement and irreparable harm caused by otherwise lawful competition." While the requirement may be easy to meet for "relatively 'simple' products"—for example, products built around a small number of key attributes—it likely demands detailed proof for complex products that may include hundreds of patentable features.

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On the other hand, the Federal Circuit agreed with Apple that the district court was wrong in requiring that Apple show that its inventions or trade dress were the "sole reason" consumers bought Samsung products. While a plaintiff must show that "the infringing feature drives consumer demand for the accused product," that feature may be among a group of reasons for purchase. Evidence that a feature makes a product "significantly more desirable"—or that its absence makes the product significantly less attractive—may suffice.

Applying these principles, the Federal Circuit affirmed the denial of injunctive relief for infringement of Apple's design patents and trade dress. It reversed and remanded, however, the district court's denial of an injunction prohibiting infringement of Apple's utility patents. These patents claim a "bounce-back" feature that animates movement of screen features as a user scrolls, a "multi-touch display" that allows a range of action when a user taps a screen with two fingers, and a "double-tap-to-zoom" feature that enlarges and centers a document when a user taps an icon.

Apple attempted to show irreparable injury through evidence that smartphone consumers value ease of use and that Samsung had deliberately copied the patented features, and through a consumer survey that concluded that consumers would pay up to $100 more for a phone including all of Apple's inventions. The district court was directed to weigh this evidence on remand.

The Ninth Circuit considered the impact of *eBay* in *Herb Reed Enterprises v. Florida Entertainment Management*, 736 F.3d 1239 (9th Cir. 2013), one of a series of cases concerning trademark rights to the name of the legendary 1950s vocal group The Platters. Deciding an issue of first impression in the circuit, the court held that what it called the "eBay principle—that a plaintiff must establish irreparable harm—applies to a preliminary injunction in a trademark infringement case." It therefore disclaimed pre-eBay precedent holding that irreparable injury may be presumed where a plaintiff shows a likelihood of success on the merits of a trademark infringement claim.

On that basis, the Ninth Circuit reversed an injunction issued in favor of Herb Reed, one of the original Platters, preventing a rival group from performing under the name. Reed's only evidence of injury, the court found, showed "customer confusion" but not irreparable harm.

As these cases demonstrate, after *eBay*, federal courts will look closely at every request for injunctive relief in an intellectual property case, weighing evidence concerning the drivers of consumer demand and irreparable injury, requiring a showing that money damages are insufficient and narrowly tailoring injunctions. That development is not a devaluation of intellectual property rights. Instead, it reflects the increasing value of intellectual property as trademarks, copyrights and patents are embedded in products and services throughout the marketplace, dramatically increasing the stakes when courts decide whether to issue or withhold preliminary or permanent injunctions.

Patents

Discussion in the media and Congress about what some observers regard as abusive patent

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litigation has focused attention on the standards governing the award of sanctions in patent cases. In *Kilopass Technology v. Sidense*, 2013 WL 6800885 (Fed. Cir. Dec. 26, 2013) the Federal Circuit vacated and remanded for reconsideration a district court's denial of a fee award to a successful defendant. The Federal Circuit has confirmed that a case is "exceptional" warranting an award of fees under 35 U.S.C. §285 if the litigation is brought in subjective bad faith and is objectively baseless.

The court then held that: (1) subjective bad faith is evaluated under a known or should have known standard, and does not require actual knowledge of baselessness; (2) determinations of subjective bad faith require analysis of the objective merits of the claims and other objective indicia, such as failure to conduct a pre-suit investigation, vexatious or unduly burdensome litigation tactics or an oppressive purpose; and (3) objective baselessness alone can create a sufficient inference of bad faith, unless the circumstances show the patentee did not act recklessly. Chief Judge Randall Rader's concurrence stated his view that courts are empowered to shift fees in their discretion in a variety of contexts even without finding bad faith.

In a ruling that may significantly limit the power of the International Trade Commission (ITC), a split Federal Circuit panel ruled as a matter of first impression that the ITC lacks authority to issue exclusion orders banning the importation of goods "predicated on a theory of induced infringement under 35 U.S.C. §271(b) where direct infringement does not occur until after importation." *Suprema v. International Trade Commission*, 2013 WL 6510929 (Fed. Cir. Dec. 13, 2013).

The panel majority concluded that the governing statute, 19 U.S.C. §1337, is limited to "articles that infringe"—in other words, articles that are infringing at the time of importation. Judge Jimmie Reyna, who practiced as an international trade attorney before taking the bench, dissented on the basis that the statute is designed to remedy acts of unfair trade, including acts that lead to the importation of articles that will be used to harm a domestic industry. Reyna was concerned that the majority's holding could invite would-be infringers to avoid an exclusion order by importing disassembled components of a patented machine or importing an article capable of performing almost all of the steps of the patented method, but reserving final assembly or the performance of the last step for an end-user in the United States.

Trademarks

Kraft Foods Group Brands v. Cracker Barrel Old Country Store, 735 F.3d 735 (7th Cir. 2013), affirmed a preliminary injunction prohibiting Cracker Barrel from selling its food products in grocery stores to prevent confusion with Kraft's Cracker Barrel cheese brand. The opinion is most notable for the comments about consumer surveys in trademark cases made by Judge Richard Posner "mainly for future reference." Declining to give significant weight to an Internet survey proffered by Kraft, Posner complained that "consumer surveys conducted by party-hired expert witnesses are prone to bias," particularly because there is a "wide choice of survey designs" on matters such as sample selection and size, the presentation of the parties' products to consumers and phrasing of questions. Moreover, surveys place consumers in an environment very different from a typical shopping experience.

It is questionable, however, whether the two alternatives to survey evidence suggested by the court—sales data and expert testimony about buying habits and consumer behavior—are superior. As the court acknowledged, reliable sales data are seldom available, particularly in preliminary injunction hearings. And the testimony of consumer experts may be no less prone to bias than that of a survey expert. One answer may be to develop and enforce tighter standards for trademark survey design, similar to a body of case law that has developed in false advertising litigation.

> In a case of first impression, 'Petroliam Nasional Berhad,' the Ninth Circuit concluded that the Anticybersquatting Consumer Protection Act does not create a cause of action for so-called contributory cybersquatting, a doctrine that would extend liability to neutral domain name registrars.

The Ninth Circuit considered what it called a "classic gray-market case," concerning goods that are legitimately sold abroad with a valid U.S. trademark and then imported for sale without the consent of the U.S. trademark holder. *Hokto Kinoko Company v. Concord Farms*, 2013 WL 6768135 (9th Cir. Dec. 23, 2013), affirmed a trademark injunction forbidding Concord Farms from importing and selling mushrooms bearing Hokto U.S.A.'s trademarks. The court found that the importer, Concord Farms, would not be liable for trademark infringement if the mushrooms were considered "genuine goods"—that is, if there were no material differences between Concord's imported mushrooms and those sold in the United States by Hokto. The "threshold for determining a material difference is low" and the "key question is whether a consumer is likely to consider a difference relevant when purchasing the product." The court found material differences, including whether the mushrooms were organic, whether the packaging and labels were in English and what quality control standards were used.

Copyright

In a highly anticipated decision, *Authors Guild v. Google*, 2013 WL 6017130 (S.D.N.Y. Nov. 14, 2013), held on summary judgment that Google's digitization of copyrighted books is fair use. Since 2004, Google has scanned more than 20 million books to create a searchable database on the Google Books website that allows users to see snippets, but not full versions, of scanned works. In 2005, a class of authors sued for copyright infringement and the parties ultimately agreed on a settlement. In 2011, however, the district court rejected the settlement, finding that it was not fair and adequate, setting the stage for a ruling on the merits.

Applying the four-factor test of section 107 of the Copyright Act, the court reasoned that: Google Books is transformative because it helps readers find books and has become "an essential research tool" for scholars; the nature of the copyrighted works weighs in favor of fair use because the vast majority of the scanned works (estimated at 93 percent) are non-fiction, which is entitled to less copyright protection than fictional works; and the effect on the potential market for the copyrighted works weighs strongly in favor of fair use, because the database improves book sales. "Google Books provides a way for authors' works to become noticed, much like traditional in-store book displays." The database also provides benefits to the public, preserving out-of-print and old books and facilitating access for print-disabled and remote or underserved populations.

In a case of first impression, *Petroliam Nasional Berhad (Petronas) v. GoDaddy.com*, 737 F.3d 546 (9th Cir. 2013), the Ninth Circuit concluded that the Anticybersquatting Consumer Protection Act (ACPA) does not create a cause of action for so-called contributory cybersquatting, a doctrine that would extend liability to neutral domain name registrars. Cybersquatting, as the court defined it, refers to "registering a domain name associated with a protected trademark either to ransom the domain name to the mark holder or to divert business from the trademark holder."

The owner of the trademark "PETRONAS" discovered that a third party had registered the domain names Petronastower.net and Petronastowers.net, and was using GoDaddy's domain name forwarding service to redirect traffic from those sites to an adult content website. When GoDaddy declined to take action against the cybersquatters, Petronas sued, alleging that GoDaddy had contributory liability for the cybersquatting.

Affirming summary judgment dismissing that claim and rejecting several district court opinions that have recognized contributory liability, the Ninth Circuit concluded that claims for contributory cybersquatting are not authorized by the plain text of ACPA and would not further the statute's goals. The court noted that, because direct cybersquatting requires subjective bad faith, rejecting contributory liability spares neutral third-party service providers such as GoDaddy from having to "divine the intent of their customers."