

United States Court of Appeals
for the
Federal Circuit

FINISAR CORPORATION,

Plaintiff-Cross-Appellant,

— v. —

THE DIRECTV GROUP, INC., DIRECTV HOLDINGS LLC,
DIRECTV ENTERPRISES, LLC, DIRECTV OPERATIONS LLC,
HUGHES NETWORK SYSTEMS, INC., and DIRECTV, INC.,

Defendant-Appellants.

APPEALS FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN
DISTRICT OF TEXAS IN CASE NO. 1:05-CV-00264, JUDGE RON CLARK

**REPLY BRIEF OF *AMICUS CURIAE* NEW YORK
INTELLECTUAL PROPERTY LAW ASSOCIATION IN
SUPPORT OF NEITHER PARTY ON CROSS-APPEAL**

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2. The party represented by me as amicus curiae is the real party in interest.

3. The parent companies, subsidiaries (except wholly owned subsidiaries), and affiliates that have issued shares to the public, of the party or amicus represented by me are: None.

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Introduction

The New York Intellectual Property Law Association (the “NYIPLA” or the “Association”) submits this reply brief *amicus curiae* in support of neither party on the cross-appeal in the belief that it will assist the Court in addressing certain of the newly raised issues as follows:

1. This Court’s consideration of the propriety of the district court’s entry of a permanent “compulsory license” in this action is not foreclosed by the panel’s recent transitional disposition of the “ongoing royalty” issue in *Paice*¹;
2. The inapposite precedents newly cited by appellants (individually and collectively “DirecTV”) in the Non-Confidential Response And Reply Brief of Defendants-Appellants (“DTV Reply”) are insufficient to overcome the Supreme Court’s rejection of permanent compulsory licensing in *Paper Bag*,² whose continued vitality was confirmed in last year’s *eBay* decision;³

¹ *Paice L.L.C. v. Toyota Motor Corp.*, Nos. 2006-1610 and 2006-1631 (Fed. Cir. Oct. 18, 2007)(Slip Op.) (“*Paice*”).

² *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908) (“*Paper Bag*”).

³ *eBay Inc. v. MercExchange, L.L.C.*, ___ U.S. ___, 126 S.Ct. 1837 (2006) (“*eBay*”).

3. DirecTV also failed to address the Supreme Court and Federal Circuit patent decisions governing application of the four-factor test – which *eBay* did nothing to alter and, in the case of the holding regarding non-practicing entities (“NPEs”) in *Paper Bag*, actually endorsed. Instead, DirecTV cites case law involving common law and federal statutes involving neither patents nor the Constitutional predicate for the enactment of Title 35 which appears in the Patent Clause;⁴ and,

4. Although the judgment of the district court must be vacated, this Court’s decisions support temporary rather than permanent suspensions of the patentee’s Constitutional right to exclusivity. Although the NYIPLA submits that DirecTV has not established that the balance of hardships or other equities justify any delay in this case, this Court should explain the factual issues which should be addressed and the legal principles which should be applied on remand, so that the district court can determine whether permanent injunctive relief to cross-appellant Finisar Corporation (“Finisar”) should be delayed any further.

⁴ U.S. CONST., Art. I, § 8, cl. 8 (the “Patent Clause”).

ARGUMENT

A. This Court's Consideration Of The Propriety Of The "Compulsory License" In This Action Is Not Foreclosed By The Panel's Recent Transitional Disposition Of The "Ongoing Royalty" Issue In *Paice*

When the original NYIPLA Brief was filed on June 20, 2007, there were at least three pending appeals before this Court involving a district court's denial of permanent injunctive relief to an NPE after a final judgment of infringement. This action was selected as the most appropriate vehicle for this Court to decide the related questions of (a) whether a district court legitimately can take into account the patentee's status as an NPE in applying the four-part test for a permanent injunction under *eBay*; and, (b) whether a district court possesses the discretionary power to impose a permanent "compulsory license" on terms unacceptable to the patentee.⁵ The Association respectfully submits that the *Paice* decision does not affect this Court's power to rule definitively on those two important post-*eBay* issues.

Here, the district court explicitly bootstrapped entry of the permanent "compulsory royalty" it purported to fix into denial of permanent injunctive relief,

⁵ The NYIPLA also was asked to submit a brief *amicus curiae* by the NPE patentee in *Voda v. Cordis Corp.*, No. 2007-1297, but concluded that the terms of the patentee's contracts with its third party licensee in that case had complicated the district court's application of the *eBay* test and did not represent an appropriate vehicle for *amicus curiae* support.

and Finisar has challenged both determinations as abuses of discretion. In the *Paice* appeal, the patentee challenged the district court's entry of an "ongoing royalty",⁶ but failed to raise the denial of a permanent injunction on the cross-appeal (Court Op. at 14, n.7).⁷

The *Paice* panel found it necessary to remand because it was "unable to determine whether the district court abused its discretion" in fixing the level of the "ongoing royalty" (*Id.* at 30-31). Although the opinion went on to discuss and initially reject the patentee's assertion that the "ongoing royalty" was neither authorized by statute nor consistent with its Seventh Amendment right to a jury determination (*Id.* at 33-37), the district court was instructed to "take the opportunity on remand to consider the concerns *Paice* raises about the terms of Toyota's permissive continuing use" (*Id.* at 36).

The *Paice* panel's discussion of the "ongoing royalty" considered neither the Supreme Court's authoritative rejections of permanent compulsory licenses nor the Court's repeated pronouncements regarding the public's guarantee

⁶ The *Paice* opinion for the Court used the district court's term ("ongoing royalty") to characterize the payments of \$25.00 per vehicle and explicitly reserved the term "compulsory license" for those licenses available to anyone under such congressional authorizations as those set forth in Section 115 of the Copyright Act (Court Op. at 33, n.13).

⁷ For that reason, the *Paice* opinion's discussion of *eBay* must be regarded as *obiter dicta*.

of exclusivity to the patentee arising from the Patent Clause.⁸ There is no final judgment incorporating the initial rulings of the *Paice* panel and no rule of law that would prevent that panel from reconsidering its tentative conclusions on any subsequent appeal.

Accordingly, this Court is not bound by the preliminary decision of the *Paice* panel.

B. DirecTV's Reply Brief Ignored The Controlling Supreme Court Precedents Rejecting Judicially-Imposed Compulsory Patent Licensing

The original NYIPLA brief pointed out that *Foster*,⁹ the only case upon which the district court purported to predicate its grant of the permanent "compulsory license", carries no weight as precedent because it failed to discuss either *Paper Bag* or *Special Equipment*,¹⁰ and because the Supreme Court reaffirmed *Paper Bag* in *eBay* (NYIPLA Br. 17). Although DirecTV purports to place continued reliance upon *Foster* (DTV Reply Br. 47, 55), it has failed to address either *Special Equipment* or *Paper Bag*.

⁸ As discussed previously (NYIPLA Br. 27), "the public faith is forever pledged" to the "exclusive enjoyment" by the patentee of the right to enjoin infringement during the period of exclusivity fixed by Congress. *Grant v. Raymond*, 31 U.S. 218, 242 (1832).

⁹ *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974 ("Foster").

¹⁰ *Special Equipment Co. v. Coe*, 324 U.S. 370 (1945) ("*Special Equipment*").

DirecTV also failed to adequately address the Supreme Court's consistently repeated pronouncements that, with the exception of relief for antitrust violations, courts are not free to authorize permanent compulsory licensing of patents after final judgments of infringement.¹¹

Instead, citing two antitrust relief cases,¹² DirecTV asserts broadly that compulsory licensing on "reasonable" terms "is a well-established equitable remedy" (DTV Reply Br. 49). Of the thirteen decisions cited by DirecTV at various points in its brief as alleged support for this proposition, however, only *Foster* presented a situation in which a permanent compulsory license was entered despite objections by a patentee after a full trial resulting in a patent infringement determination.

In *Shatterproof Glass* (DTV Reply Br. 57),¹³ this Court rejected an infringer's challenge to a court-ordered 5% royalty for continuing operations. Although the patentee was satisfied with this continuing royalty and did not cross-appeal the issue, this Court's opinion characterized the arrangement as a

¹¹ DirecTV's attempts to explain *Hartford-Empire Co. v. United States*, 329 U.S. 386 (1945) ("*Hartford-Empire*") and *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980) ("*Dawson*") fall short of the mark (DTV Br. 58).

¹² *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 64 (1973) ("*Glaxo*"); *United States v. National Lead Co.*, 332 U.S. 319, 348-51 (1947) ("*National Lead*").

¹³ *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613 (Fed. Cir. 1985) ("*Shatterproof Glass*").

“compulsory license” (758 F.2d at 616). If a patentee consents to an ongoing royalty, however, the license should not be characterized as “compulsory”.

The three additional infringement cases cited by DirecTV involved either the denial of preliminary injunctive relief or the denial of injunctive relief during the pendency of an appeal.¹⁴ The standards governing injunctive relief in such cases are far different from those governing permanent injunctive relief. Where contested issues of validity and infringement are not finally determined, it is not surprising that a desire to preserve the *status quo* will sometimes lead the district court to delay entry of injunctive relief.

Accordingly, DirecTV can take no comfort in the fact that this Court sometimes has endorsed imposition by district courts of monetary payments as an alternative to preliminary injunctive relief or during the pendency of an appeal – even over the objections of the patentee. Such temporary suspensions of the

¹⁴ *On Demand Machine Corp. v. Ingram Industries*, 442 F.3d 1331 (Fed. Cir. 2006) (DTV Reply Br. 15, 51, 57); *High Tech Medical Instrumentation, Inc. v. New Image Industries*, 49 F.3d 1551 (Fed. Cir. 1995) (DTV Reply Br. 42); *American Cyanamid Co. v. United States Surgical Corp.*, 833 F. Supp. 92 (D. Conn. 1992) (DTV Reply Br. 48).

patentee's right to an injunction seem well within the district court's equitable discretion.¹⁵

Three of the cited cases involved antitrust relief rather than patent infringement.¹⁶ As *Hartford-Empire* establishes, however, it has long been settled that compulsory licenses on reasonable terms can be included within judgments designed to dissipate the effects of antitrust violations.

Of the remaining five cited cases, one involved a contract governing lease of a stadium,¹⁷ and four arose under federal statutes having nothing to do with patents.¹⁸ The Constitution contains no language empowering Congress to grant exclusive rights on such subject matter as stadium leases, controlled substances, Medicaid, Title VII employment rights, or price control measures

¹⁵ Arguably, the permissive "may" language was employed in Section 283 because the statute governs both permanent and temporary injunctions, and because "the principles of equity" can sometimes bar its application.

¹⁶ *Glaxo* (DTV Reply Br. 49, 56); *National Lead* (DTV Reply Br. 49, 56); and, *International Salt Co. v. United States*, 332 U.S. 392 (1947) ("*International Salt*") (DTV Reply Br. 51, 55, 56).

¹⁷ *Florida Panthers Hockey Club, Ltd. v. Miami Sports & Exhibition Authority*, 939 F. Supp. 855 (S.D. Fla. 1996) ("*Florida Panthers*") (DTV Reply Br. 48).

¹⁸ *Porter v. Warner Holding Co.*, 328 U.S. 395 (1946) (Emergency Price Control Act) (DTV Reply Br. 49, 55, 58); *Bowen v. Massachusetts*, 487 U.S. 879 (1988) (Medicaid) (DTV Reply Br. 50); *Pollard v. E.I. duPont de Nemours & Co.*, 532 U.S. 843 (2001) (Title VII) (DTV Reply Br. 50, 56); *United States v. Oakland Cannabis Buyers' Coop.*, 532 U.S. 483 (2001) (Controlled Substances Act) (DTV Reply Br. 55).

during wartime. As to patents, however, the Constitution explicitly contemplates exclusivity for the patentee as an incentive to promote the “progress of science and the useful arts”.

C. DirectTV’s Reply Brief Totally Ignored The Substantial Body Of Existing Supreme Court And Federal Circuit Patent Decisions Which Already Have Interpreted The Four Elements Of The *eBay* Test

The *eBay* decision announced that the “four-factor test historically employed by courts of equity” must govern a district court’s determination of whether a patentee should be granted permanent injunctive relief under 35 U.S.C. § 283. In *eBay*, however, the Supreme Court did not undermine either its own prior decisions or those of this Court which already authoritatively have interpreted those equitable factors. Indeed, the opinion of the Court stated explicitly that “we take no position on whether permanent injunctive relief should or should not issue in this particular case, or indeed in any other disputes arising under the Patent Act”.

Factors 1 And 2:
Irreparable Injury And Inadequacy Of Monetary Damages

The decisions of both the Supreme Court and this Court reflect that the first two factors of the *eBay* test both are governed by the Patent Clause and should be dealt with *in pari materia*. As the Chief Justice indicated in *eBay*, in view of “the difficulty of protecting a right to exclude through monetary remedies”

(“a difficulty that often implicates the first two factors of the traditional four-factor test”), it “is not surprising” that “courts have granted [permanent] injunctive relief upon a finding of infringement in the vast majority of cases” for almost two hundred years.

As explained in the original NYIPLA Brief, the district court’s central conclusion - that irreparable injury and inadequacy of monetary damages were negated by its finding that Finisar “never sold the rights to the patent, never made the slightest effort to ever use the patent” (A 017940) - was clearly erroneous as a matter of law (NYIPLA Br. 23-24). This conclusion arises not only from the Court’s endorsement of *Paper Bag* in *eBay*, but also from the Patent Clause of the Constitution and almost two hundred years of Supreme Court analysis of the patentee’s bargain with the public (NYIPLA Br. 26-29).¹⁹ Exclusivity remains the touchstone of the patent right, and permanent injunctive relief remains the “preferred remedy”.²⁰

The Supreme Court’s *eBay* decision likewise did not undermine the presumptions articulated in *Smith International*,²¹ and subsequently applied

¹⁹ Additionally, DirecTV failed to adequately address the Association’s argument under Section 271(d)(4) (NYIPLA Br. 9 n.6, 26).

²⁰ *Paice* (Rader Op. at 2).

²¹ *Smith International, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983) (“*Smith International*”). Indeed, the presumptions articulated in

consistently by this Court for almost 25 years.²² Subject to some factual rebuttal which DirecTV did not present here, irreparable harm and the inadequacy of monetary damages must be presumed. The right to permanent injunctive relief in patent cases is not amenable to the same constrictions as may be appropriate under other federal statutes which are not based on a right to exclusivity set forth explicitly in the Constitution.

This does not mean, as DirecTV asserts, that proper interpretation of the first two factors of the *eBay* test leaves “no room in any case for denying an injunction” (DTV Reply Br. 38). The right to exclusivity can be contracted away to the point where the patentee may lack standing to assert that it has suffered irreparable injury.²³ Moreover, a patentee’s implementation of a broadly successful industry licensing program may foreclose its ability to argue that monetary damages are inadequate.²⁴

(con’t.)

Smith International are predicated upon the same Supreme Court precedents, including *Paper Bag* (Id. at 1577-79).

²² Indeed, in a recent post-*eBay* case, *Abbott Laboratories v. Andrx Pharmaceuticals, Inc.*, 452 F.3d 1331, 1348 (Fed. Cir. 2006), the Court held that the patentee was “no longer entitled to a presumption of irreparable harm” only because it “had not established a likelihood of success on the merits”.

²³ This principle apparently was applied by the district court and is argued by defendant-appellee in *Voda v. Cordis Corp.*, No. 2007-1297.

²⁴ The existence of such a licensing program would not mean, however, that the “established royalty” is not subject to enhancement. *See Finisar’s*

There has been no factual showing here, however, which would in any way attenuate the presumptions arising from the Patent Clause.

Factor 3:
Balance Of Hardships

If an infringer has been able to enter or compete more effectively in any business through willful misappropriation of the patent rights of another (as the jury found below), that infringer should be denied standing to assert that its customers will suffer hardship if it is permanently enjoined. Here, moreover, DirecTV admittedly has access to a “non-infringing” albeit “less-effective” workaroud (Finisar Reply Br. 10-11).

Moreover, an NPE has no obligation to make its improvement invention available for “use” during the period of exclusivity. The necessary corollary of the right to exclude is the patentee’s freedom to decide whether, when, to whom, and for how much it will license. The district court here wrongly

(con’t.)

discussion of Chief Judge Markey’s decision in *Panduit Corp. v. Stahl Bros. Fibre Works*, 575 F.2d 1152 (6th Cir. 1978) (Finisar Reply Br. 30). *See also*, *Paice* (“pre-suit and post-judgment acts of infringement are distinct and may warrant different royalty rates”) (Rader Op. at 2). This principle seems likely to become more important in the wake of the Supreme Court’s ruling in *Medimmune, Inc. v. Genentech, Inc.*, 127S.Ct. 764 (2006). Since licensees are now free to challenge licensed patents without risk of a permanent injunction, unless patentees are able to recoup enhanced post-judgment royalties, district court dockets could be subjected to a flood of new litigation.

perceived some inchoate right of the public to “use” a patented invention during the patentee’s term of exclusivity. The Supreme Court has made clear, however, that the patentee’s bargain with the public is fully discharged by complete disclosure (NYIPLA Br. 26-29).

If someone wishes to employ a patented invention before expiration of the period of exclusivity, he usually must pay what the patentee asks. The only alternative is development of some non-infringing workaround. If it turns out to be cheaper to pay what the patentee asks than to develop such a workaround, then by definition the royalty sought by the patentee is not “exorbitant”.

As Judge Rader recently observed, moreover, because “licenses are driven largely by business objectives, the parties to a license are better situated than the courts to arrive at fair and efficient terms”. *Paice* (Rader Op. at 2). See also, the NYIPLA’s previous discussion of Judge Easterbrook’s decision in *Mahurkar* (NYIPLA Br. 29-30).²⁵

Section 283 must be applied, of course, “in accordance with the principles of equity”. The equitable defenses to an infringement claim include inequitable prosecution conduct, patent misuse, laches and equitable estoppel. The

²⁵ *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litigation*, 831 F. Supp. 1354 (N.D. Ill. 1993), *aff’d*, 71 F.3d 1573 (Fed. Cir. 1995) (“*Mahurkar*”).

mandate of *eBay* also seems sufficiently broad to justify adding additional defenses based upon such current topics of discussion as abuse of continuation practice and bad faith conduct in connection with standard setting. However, Finisar is not charged with any such conduct, and its status as an NPE does not, as a matter of law, affect the balance of hardships.

Factor 4:
No Cognizable Public Interest

As explained in the original NYIPLA Brief, the district court erroneously failed to consider the strong public interest in maintaining the integrity of the patent system (NYIPLA Br. 25). Nor does DirecTV even attempt to address this Court's statements in *Rite-Hite*,²⁶ which the Association also discussed previously (NYIPLA Br. 25).

D. Although The Judgment Must Be Vacated, The District Court Nevertheless Should Be Instructed To Determine On Remand Whether DirecTV Has Established Facts Which Might Justify Any Further Delay In The Entry Of Permanent Injunctive Relief

The final judgment of the district court must be vacated because its entry of the permanent "compulsory license" and its denial of the permanent injunction under Section 283 were both clearly erroneous. This Court's decisions establish, however, that both preliminary and permanent injunctive relief can be

²⁶ *Rite-Hite Corp. v. Kelley Co.*, 53 F.3d 1538, 1547 (Fed. Cir. 1995) ("*Rite-Hite*").

deferred until after an unappealable final judgment has been entered.²⁷

Additionally, as this Court suggested in *Verizon v. Vonage*,²⁸ the balance of hardships may justify deferring entry of a permanent injunction until the infringer has been afforded an opportunity to implement a workaround. (Court Op. at 25, n.12).²⁹

The NYIPLA respectfully submits that DirecTV has not established that the equities favor any delay in this case. Nevertheless, this Court should explain the factual issues which should be determined and the legal principles which should be applied on remand, to aid the district court in its determination of whether permanent injunctive relief to Finisar should be delayed any further and, if so, on what terms.

²⁷ See the discussion *supra* pp. 7-8.

²⁸ *Verizon Services Corp. v. Vonage Holdings Corp.*, 2007 U.S. App. LEXIS 22734 (Fed. Cir. 2007) ("*Verizon v. Vonage*").

²⁹ Recent reports in the financial press (involving Blackberry and Vonage among others) suggest that, when an imminent permanent injunction forces a choice between a workaround and paying something the patentee will agree to, the decision usually involves some agreed payment.

CONCLUSION

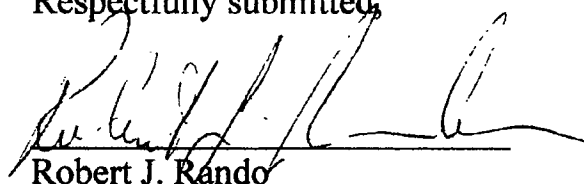
For all the foregoing reasons, the judgment of the district court should be vacated and this action should be remanded for a determination by the district court of whether the balance of hardships requires that entry of the permanent injunction sought by Finisar should be delayed any further.

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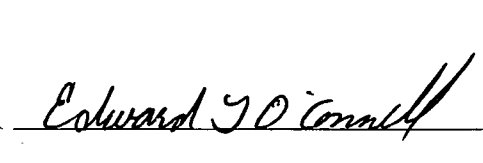
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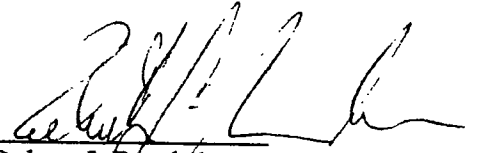
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