

United States Court of Appeals for the Federal Circuit

No. 2009-1374

TIVO, INC.,

Plaintiff-Appellee,

v.

EHOSTAR CORPORATION,
EHOSTAR DBS CORPORATION
EHOSTAR TECHNOLOGIES CORPORATION,
EHOSTAR LIMITED LIABILITY COMPANY,
EHOSTAR SATELLITE LLC,
and DISH NETWORK CORPORATION,

Defendants-Appellants.

Appeals from the United States District Court for the
Eastern District of Texas, in No. 2:04-CV-01, Judge David Folsom

**BRIEF FOR VERIZON COMMUNICATIONS INC. AS AMICUS CURIAE
IN SUPPORT OF NEITHER PARTY**

John Thorne
Gail F. Levine
Verizon Communications Inc.
1320 North Court House Rd.
Arlington, VA 22201
(703) 351-3900

Michael K. Kellogg (Attorney of Record)
Aaron M. Panner
Kellogg, Huber, Hansen, Todd,
Evans & Figel, P.L.L.C.
1615 M Street, NW
Suite 400
Washington, DC 20036
(202) 326-7900

Counsel for Verizon Communications Inc.

July 2, 2010

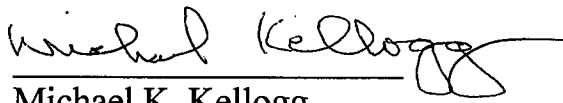
CERTIFICATE OF INTEREST

Counsel for amicus Verizon Communications Inc. certifies the following (use "None" if applicable; use extra sheets if necessary):

1. The full name of every party or amicus represented by me is Verizon Communications Inc.
2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is Verizon Communications Inc.
3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus represented by me are: None
4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

Michael K. Kellogg
Aaron M. Panner
Kellogg, Huber, Hansen, Todd,
Evans & Figel, P.L.L.C.
1615 M Street, NW, Suite 400
Washington, DC 20036
(202) 326-7900

July 2, 2010



Michael K. Kellogg

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**BRIEF OF VERIZON COMMUNICATIONS INC. AS AMICUS CURIAE
IN SUPPORT OF NEITHER PARTY**

INTEREST OF AMICUS CURIAE¹

Amicus is a leading provider of high technology products and services, whose business – like those of many firms in the information-services, communications, and electronic technological fields – depends on systems and devices that incorporate a large number of components and perform a variety of functions. In that capacity, amicus must frequently defend against allegations of patent infringement. Amicus also conducts extensive research and owns many patents. Amicus therefore has a strong interest in a system of patent remedies that protects legitimate property rights while avoiding the harmful effects of over-deterrence.

To ensure that patent law promotes rather than discourages innovation, it must calibrate infringement remedies to reflect the value of patents and the societal interests in continuing innovation and competition. With regard to injunctive relief, the Supreme Court has made clear that “[a]n injunction is a drastic and extraordinary remedy If a less drastic remedy . . . [is] sufficient to redress” a plaintiff’s injury, no injunction should issue in the first place. *Monsanto Co. v.*

¹ Amicus has no interest in the litigation underlying this appeal. Verizon is a defendant in *TiVo Inc. v. Verizon Communications Inc.*, No. 2:09-cv-257-DF (E.D. Tex.), which involves the same patent and patent claims that underlie the injunction that was enforced in the contempt proceeding giving rise to this appeal.

Geertson Seed Farms, No. 09-475, 2010 WL 2471057, at *16 (U.S. June 21, 2010). Courts must ensure that injunctive remedies are imposed only where no legal remedy is adequate and that the public interest – including the interest in continuing innovation – is taken fully into account in crafting any injunctive remedy.

Furthermore, unlike liability rules – which must be categorical to ensure clarity and fair notice to potential infringers – injunctive remedies must be flexible, balancing competing interests at the outset and remaining open to modification as circumstances change. “A continuing decree of injunction directed to events to come is subject always to adaptation as events may shape the need.” *United States v. Swift & Co.*, 286 U.S. 106, 114 (1932). “Due to the equitable nature of injunctive relief, district courts have wide discretion to determine . . . under what circumstances the modification or dissolution of [an] injunction is warranted.” *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1360 (Fed. Cir. 2008). Injunctions that are issued or maintained despite the availability of legal remedies or without adequate consideration of the impact on the public from prohibition of socially beneficial activity – only some small aspect of which has been found to involve infringement – expand the patent monopoly beyond its appropriate scope and impose substantial harms. An injunction that is maintained despite relevant

changes in circumstances can become an “instrument of wrong.” *Swift*, 286 U.S. at 114-15.

This case considers one aspect of the injunctive remedy – *i.e.*, its enforcement through contempt proceedings – and implicates these policies. A district court should not impose or maintain an injunction in the face of evidence – for example, a finding of unpatentability in a reexamination proceeding – that the claims giving rise to the patent holder’s right to injunctive relief are invalid.

ARGUMENT

The Court granted *en banc* review to consider the proper standards governing when a plaintiff should be permitted to challenge new, allegedly infringing activity through a contempt proceeding rather than by initiating a new infringement case. Because the enforcement of an injunction through a contempt proceeding is one aspect of the district court’s equitable power, and because the remedy for contempt may include – as it did here – an expansion of the forward-looking relief granted to the patent holder, the correct answer to the questions presented requires careful attention to the principles governing the propriety of injunctive relief more generally.

The Pendency of a PTO Reexamination Proceeding Weighs Strongly Against Imposition or Continuation of an Injunction

A. In *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), the Supreme Court rejected the notion that the “statutory right to exclude” granted by

Congress under the Patent Act “alone justifies [a] general rule in favor of permanent injunctive relief” following a finding of infringement. *Id.* at 392. In reversing a rule that had provided practically automatic injunctions as a remedy for infringement, the Court noted that “categorical rule[s]” cannot be squared with “the principles of equity adopted by Congress” as the touchstone for injunctive relief. *Id.* at 393.

As the Supreme Court recently held: “An injunction is a drastic and extraordinary remedy, which should not be granted as a matter of a course.” *Monsanto*, 2010 WL 2471057, at *16. “If a less dramatic remedy” is “sufficient to redress” an injury, “no recourse to the additional and extraordinary relief of an injunction [is] warranted.” *Id.* “Where plaintiff and defendant present competing claims of injury, the traditional function of equity has been to arrive at a ‘nice adjustment and reconciliation’ between the competing claims.” *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982) (quoting *Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944)).

B. The need to ensure that equity “mould[s] each decree to the necessities of the particular case,” *Hecht*, 321 U.S. at 329, requires that a district court take into account the possibility that a patent – issued and adjudged to be valid in the context of an infringement trial – is, in fact, invalid. Patents generally (except in cases involving pre-issuance interferences) issue following a

confidential, *ex parte* procedure. Once issued, they enjoy a statutory presumption of validity, *see* 35 U.S.C. § 282, which this Court has implemented through an extra-statutory requirement that a defendant present clear and convincing evidence of invalidity to overcome that presumption.

Nevertheless, as a practical matter, because issuance reflects the outcome of an *ex parte* procedure, and because the resources that the Patent and Trademark Office (“PTO”) can devote to each application are sharply limited, *see generally* Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 Nw. U. L. Rev. 1495 (2001), many patents are of low quality. *See, e.g.*, Arti Rai, Stuart Graham & Mark Doms, *Patent Reform: Unleashing Innovation, Promoting Economic Growth & Producing High-Paying Jobs* 5 (U.S. Dep’t of Commerce Apr. 13, 2010) (“Low-quality patents – that is, patents that are obvious, overly broad, or unclear in the inventive territory that they cover – also hinder innovation.”), *available at* http://2001-2009.commerce.gov/s/groups/public/@doc/@os/@opa/documents/content/prod01_009147.pdf; Joshua D. Sarnoff, *Bilcare, KSR, Presumptions of Validity, Preliminary Relief, and Obviousness in Patent Law*, 25 *Cardozo Arts & Ent. L.J.* 995, 1050-52 (2008) (noting high rate of wrongful grants in U.S. patent system); Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* 5-7 (Oct. 2003), *available at* <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>. Lay jurors may

consider that they lack the technical expertise to question the PTO's decision to grant a patent, vesting that agency's decision with too much authority. And, of course, this Court's clear-and-convincing standard places a thumb on the scale in favor of validity. Such jury determinations then benefit from significant deference on review.

C. In recognition of the potential for unfair and socially harmful results if the outcome of the *ex parte* application process were not subject to subsequent collateral challenge before the agency, Congress has, over the years, created and then expanded reexamination procedures, including by allowing *inter partes* reexamination. *See* Patent and Trademark Office Authorization Act of 2002, Pub. L. No. 107-273, tit. III, subtit. A, §§ 13105-13106, 116 Stat. 1758, 1899, 1900-01 (expanding the scope of reexamination based on substantial new question of patentability); Intellectual Property and High Technology Technical Amendments Act of 2002, Pub. L. No. 107-273, tit. III, subtit. B, § 13202, 116 Stat. 1758, 1901, 1901-02 (same); Optional Inter Partes Reexamination Procedure Act of 1999, Pub. L. No. 106-113, div. B, § 1000(a)(9) [tit. IV, subtit. F], 113 Stat. 1501, 1501A-567, 1501A-567 to 1501A-572 (expanding reexamination by adding *inter partes* reexamination option); Act of Dec. 12, 1980, Pub. L. No. 96-517, § 1, 94 Stat. 3015, 3015-17 (adding 35 U.S.C. §§ 301-307, governing reexamination).

Under PTO rules, when a request for reexamination is filed, a patent examiner “will consider the request and determine whether or not a substantial new question of patentability affecting any claim of the patent is raised by the request and the prior art cited therein.” 37 C.F.R. § 1.515(a). Accordingly, the PTO’s decision to initiate a reexamination, even without more, reveals that the expert agency has already determined that there is a “substantial . . . question of patentability” thus calling into question the merits basis for any injunctive relief.

In this case, there is much more: the PTO has already given a tentative indication that the claims that are the basis for the district court’s injunction are invalid. On June 7, 2010, the PTO patent examiner issued a final rejection of claims 31 and 61 of the ’389 patent. That determination is appealable to the Board of Patent Appeals and Interferences, but final office actions on reexamination are reversed less than 20 percent of the time.² This rate – compared to a reversal rate of nearly 30 percent for appeals to the Board generally – likely reflects both the greater experience of the examiners in the unit and the benefit of adversarial presentation in some cases.³

² See http://www.uspto.gov/ip/boards/bpai/stats/receipts/fy2010_apr_e.jsp.

³ See United States Patent and Trademark Office Press Release, *USPTO Improves Process for Reviewing Patents* (July 29, 2005), available at <http://www.uspto.gov/news/pr/2005/05-38.jsp> (describing Central Reexamination Unit: “Under the new initiative, 20 highly skilled primary examiners who have a full understanding of

D. The existence of the possibility for reexamination before the PTO distinguishes patent litigation from most other private litigation, where the adjudication of a plaintiff’s claim of legal right is the final determination on that question and will not be subject to collateral challenge. Because the creation and extension of the reexamination procedure reflects a congressional judgment that a determination of validity in litigation should *not* foreclose reconsideration of patent validity by the PTO, courts in equity should carefully consider the course of such reexamination proceedings. Specifically, the pendency of a reexamination proceeding and, even more strongly, a negative determination on patentability of claims (even if appealable within the PTO) should weigh heavily against the granting of injunctive relief in a particular case – as courts have begun to recognize. For example, in *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556 (E.D. Va. 2007), after remand from the Supreme Court, the district court held that the pendency of a reexamination proceeding was relevant to the question whether the *defendant* would suffer irreparable harm from an injunction based on a patent that “was never valid.” *Id.* at 585; *see also Bausch & Lomb Inc. v. Alcon Labs., Inc.*, 914 F. Supp. 951, 952-53 (W.D.N.Y. 1996) (staying injunction pending reexamination).

reexamination practice and relevant case law will concentrate solely on reexamination.”).

In the case of the patent holder, the risk of harm from an injunction that is denied or stayed pending reexamination is always mitigated by the availability of damages for any continuing infringement. But the defendant – if a patent is invalidated – has no remedy against the patent holder as a result of losses occasioned by successful (though unjustified) patent enforcement. In this regard, the status of a patent plaintiff as a competitor – which has usually been treated by courts as weighing heavily in favor of injunctive relief, *see, e.g., TruePosition Inc. v. Andrew Corp.*, 568 F. Supp. 2d 500, 531 & n.42 (2008), *amended in part on other grounds*, Civ. No. 05-747-SLR (D. Del. Jan. 27, 2009); 7 Donald S. Chisum, *Chisum on Patents* § 20.04[2][c][iv][A], at 20-833 to 20-835 (2005) – may weigh *against* an injunction where the court has reason to question the validity of the underlying patent, because the defendant’s harm may stem from the plaintiff’s ability to strengthen its relative market position by improperly excluding the defendant from use of non-proprietary technology.

Furthermore, where the PTO has already given tentative indication that a patent may be invalid, the public interest balance tips against the issuance of an injunction. Where the PTO has cast doubt on the validity of an issued patent, enforcement of the patent through an injunction – even more than enforcement through payment of money damages – can deprive the public not only of legitimate competition and the benefits that such competition brings, but also of further

innovation that comes through continued participation in the market. Here, too, the public interest in patent protection can be vindicated through payment of money damages, if the patent is ultimately upheld. And the availability of money damages for any continuing infringement preserves the defendant's incentive to design-around the patent. *See State Indus., Inc. v. A.O. Smith Corp.*, 751 F.2d 1226, 1236 (Fed. Cir. 1985) (“One of the benefits of a patent system is its so-called ‘negative incentive’ to ‘design around’ a competitor’s products, even when they are patented, thus bringing a steady flow of innovations to the marketplace.”).

We do not, of course, suggest that the pendency of a PTO reexamination proceeding, or even an interim or final rejection of claims, justifies a defendant in violating the terms of an issued injunction. It is the obligation of the defendant to appeal terms of an injunction that are not appropriately tailored to the adjudicated infringement or that fail to take proper account of the factors that must, pursuant to the Supreme Court’s decision in *eBay*, guide the district court’s discretion. Likewise, where circumstances change, the defendant can seek modification of an existing injunction pursuant to Federal Rule of Civil Procedure 60(b). *See generally NLRB v. Local 282, Int’l Bhd. of Teamsters*, 428 F.2d 994, 999 (2d Cir. 1970). Nevertheless, where there are grounds to doubt the validity of the patent, an injunction that had been based on the earlier, different premise of the patent’s


validity – and likewise any forward-looking contempt remedy – should be deemed inequitable.

CONCLUSION

Recent Supreme Court precedent has emphasized that district courts should resort to equitable remedies only in those extraordinary circumstances where legal remedies are inadequate and only after taking into account the possibility of harm to both the defendant and to the public interest. Where there is substantial reason to doubt the validity of a patent – as there is when the PTO has determined that substantial new questions of patentability exist, warranting a reexamination – a district court should not grant or maintain injunctive relief.

Respectfully submitted,

John Thorne
Gail F. Levine
Verizon Communications Inc.
1320 North Court House Rd.
Arlington, VA 22201
(703) 351-3900


Michael K. Kellogg (Attorney of Record)
Aaron M. Panner
Kellogg, Huber, Hansen, Todd,
Evans & Figel, P.L.L.C.
1615 M Street, NW
Suite 400
Washington, DC 20036
(202) 326-7900

Counsel for Verizon Communications Inc.

July 2, 2010

CERTIFICATE OF SERVICE

I, Aaron M. Panner, hereby certify that, on July 2, 2010, I caused two copies of the foregoing brief for amicus curiae, Verizon Communications Inc., in support of neither party to be served by first-class mail, postage prepaid, on the following:

Seth P. Waxman
Wilmer Cutler Pickering Hale
& Dorr LLP
1875 Pennsylvania Avenue, N.W.
Washington, D.C. 20006
(202) 663-6000

Morgan Chu
Irell & Manella LLP
1800 Avenue of the Stars
Suite 900
Los Angeles, California 90067-4276
(310) 277-1010

Counsel for Plaintiff-Appellee

Donald R. Dunner
Don O. Burley
Erik R. Puknys
Finnegan, Henderson, Farabow,
Garrett & Dunner, L.L.P.
901 New York Avenue, N.W.
Washington, D.C. 20001-4413
(202) 408-4000

E. Joshua Rosenkranz
Joseph Evall
Alex V. Chachkes
Orrick, Herrington & Sutcliffe LLP
51 West 52nd Street
New York, New York 10019-6142
(212) 506-5000

Rachel Krevans
Jason A. Crotty
Scott F. Llewellyn
Morrison & Foerster LLP
425 Market Street
San Francisco, California 94105-2482
(415) 268-7000

Deanne E. Maynard
Morrison & Foerster LLP
2000 Pennsylvania Avenue, N.W.
Suite 6000
Washington, D.C. 20006-1888
(202) 887-1500

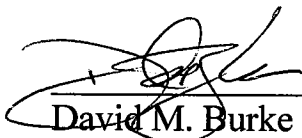
Attorneys for Defendants-Appellants

Robert P. Merges
Wilson Sonsini Goodrich & Rosati
Professor of Law and Technology
University of California at Berkeley
School of Law
215 Boalt Hall
Berkeley, California 94720-7200
(510) 642-1741

Counsel for Amici Curiae Law Professors

Raymond Millien
PCT Law Group, PLLC
818 Connecticut Avenue, N.W.
Suite 700
Washington, DC 20006
(202) 293-3556

Counsel for Amicus Curiae Association for Competitive Technology


David M. Burke

CERTIFICATE OF COMPLIANCE

In accordance with Federal Rule of Appellate Procedure 32(a)(7)(C), the undersigned certifies that this brief complies with the applicable type-volume limitations. Exclusive of the portions exempted by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii) and Federal Circuit Rule 32(b), this brief contains 2,383 words. This certificate was prepared in reliance on the word count of the word-processing system (Microsoft Word 2003) used to prepare the draft.

The undersigned further certifies that this brief, which was prepared in the 14-point Times New Roman font of Microsoft Word 2003, complies with the typeface and type style requirements of Federal Rule of Appellate Procedure 32(a)(5) and (a)(6).


Michael K. Kellogg