

Federal Circuit Patent Bulletin: *Nichia Corp. v. Everlight Elecs. Co.*

May 2, 2017

"While evidence of licensing activities cannot establish a lack of irreparable harm per se, that evidence can carry weight in the irreparable-harm inquiry."

On April 28, 2017, in *Nichia Corp. v. Everlight Elecs. Co.*, the U.S. Court of Appeals for the Federal Circuit (Reyna, Hughes, Stoll*) affirmed the district court's judgment that Everlight infringed U.S. Patents No. 8,530,250, No. 7,432,589, and No. 7,462,870, which related to package designs and methods of manufacturing LED devices, as well as the denial of Nichia's request for a permanent injunction. The Federal Circuit stated:

"According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief." A party seeking an injunction must demonstrate: "(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction."

Historically, "courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases." That this long history exists "is not surprising" given the nature of patent rights. Patent rights are property rights, and central to those rights is the right to exclude. The Supreme Court often reaffirms this principle—that "the right to exclude others" is "one of the most essential sticks in the bundle of rights that are commonly characterized as property." Our court has similarly observed that "[w]hile a patentee is not entitled to

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an injunction in every case, 'it does not follow that courts should entirely ignore the fundamental nature of patents as property rights granting the owner the right to exclude.'"

But an injunction in patent law must be justified like any other: "the moving party must satisfy the court that relief is needed." The movant must prove that it meets all four equitable factors. And it must do so on the merits of its particular case. . . .

Nichia first argues that the court abused its discretion when it found a lack of "meaningful competition" between the parties. . . . We disagree, not because we question the facts as Nichia presents them, but because the court heard these arguments as the original finder of fact and concluded to the contrary, carefully weighing both parties' evidence. The court found that Nichia is an LED chip manufacturer as well as a packager, "while Everlight is solely an LED packager." The court also found that the two companies generally sell to different parties: "Everlight generally sells to distributors rather than directly to customers, as Nichia does." Moreover, despite the parties' stipulation that they competed in the same market, the court found that Nichia failed to prove that this competition was meaningful. The court explained that Everlight's competition accounted for "the proverbial 'drop in the bucket,'" when compared to Nichia's total sales. Nichia identified 516 sales opportunities, with Everlight as a competitor in only 3. In light of these findings, the court noted that there was "a very small area of possible competition," but it concluded that there was an "absence of actual competition." The court closed its market-competition analysis by observing that the "justification for an injunction is remote indeed."

The court also disagreed with Nichia's contention that it would suffer future irreparable harm because of past lost sales. . . . Nichia did not prove that it had suffered even a single lost sale from Everlight's infringement. Nichia also had alleged that it suffered price erosion because of Everlight's infringement in a sale to General Electric. While Nichia eventually won the GE contract, it sold its products at a price lower than it originally offered. [The court] explained that Nichia's lower-price sale to GE had been required by GE, so "Nichia was going to have to lower its prices, regardless of Everlight's competition." Further, the court found that several licensed competitors had offered products at lower prices, independent of Everlight, which drove down prices. . . . We find no clear error in the court's finding that Nichia failed to establish price erosion from Everlight's infringement. . . .

Nichia argues that the court wrongly found that its licensing activities precluded a finding of irreparable harm. [T]o the extent that the court found that Nichia's prior licenses weighed against a finding of irreparable harm, we countenance that approach. While evidence of licensing activities cannot establish a lack of irreparable harm per se, that evidence can carry weight in the irreparable-harm inquiry. We have previously explained that "[t]he fact of the grant of previous licenses, the identity of the past licensees, the experience in the market since the licenses were granted, and the identity of the new infringer all may affect the district court's discretionary decision concerning whether a reasonable royalty from an infringer constitutes damages adequate to compensate for the infringement." The court's findings on licensing traversed these considerations. The court found that several of Nichia's licenses were to "significant competitors" who posed "major threats" to Nichia's flagship products. And the court found that these licenses changed the market by making available "multiple low-priced non-infringing alternatives." These findings, the court concluded,

supported a finding that “Nichia ha[d] failed to establish it will suffer irreparable harm in the absence of an injunction.” . . . We discern no clear error in the district court’s finding that Nichia failed to prove that it would suffer irreparable harm absent the injunction. On that traditional equitable factor, Nichia did not bear its burden. Because Nichia failed to establish one of the four equitable factors, the court did not abuse its discretion in denying Nichia’s request for an injunction.