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Federal Circuit Holds That Non-Practicing Entity May Obtain a Preliminary Injunction

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Intellectual Property Update

Trebro Manufacturing, Inc. v. FireFly Equipment, LLC, ___ F.3d ___ , 2014 WL 1377790 (Fed. Cir. 2014)

Brief Summary

The U.S. Court of Appeals for the Federal Circuit held that a patent owner, who had acquired a patent two days before bringing suit, could obtain a preliminary injunction against an allegedly infringing competitor even though the patent owner did not make any products covered by the patent in question.

Complete Summary

Trebro, the machinery manufacturer plaintiff, appealed a district court decision denying a preliminary injunction because:

- there was no substantial likelihood of success on the merits,
- there was a substantial question as to validity of the patent, and
- the plaintiff was not irreparably harmed by the alleged infringement.

The patent at issue is U.S. Patent No. 8,336,638 ("the '638 patent"), which claims a "sod harvester for harvesting a sod piece from a ground surface and stacking said sod piece" and which was issued on December 25, 2012. The '638 patent was acquired by Trebro on March 12, 2013, from the parent company of Brouwer Turf, Inc., a competitor of Trebro, subject to a royalty-free, non-exclusive license to Brouwer Turf. Two days later, Trebro sued FireFly for infringement of the '638 patent and another patent. The next day, Trebro moved for a preliminary injunction. Approximately two months later, the district court denied the preliminary injunction.

The District Court of Montana found that it was likely that claim 1 was not infringed, because the allegedly infringing sod harvester lacked a "horizontal conveyor…moveable in a vertical direction toward said sod carrier" ("movable conveyor feature"). The district court's construction of movable conveyor feature required that the horizontal conveyor be movable in a vertical direction by raising a bed frame. The Federal Circuit reversed this finding in part because the District Court had improperly imported a limitation from the specification of the '638 patent and found that the horizontal conveyor in FireFly's sod harvester did move in a vertical direction even though the conveyor changed shape in doing so.

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The district court found that there was a substantial question of validity because movable conveyor feature was present in sod harvesters that were previously on the market, without making any explicit findings as to whether the other limitations of claim 1 were disclosed in the prior art. The sod harvesters were not on the market until 2006 at the earliest. The '638 patent claims priority to a 2005 priority date, which FireFly did not contest, and so the Federal Circuit found that the marketed sod harvesters were not prior art and reversed the finding of a substantial question of validity.

The Federal Circuit also reversed the finding of no irreparable harm. The district court found that monetary damages of lost profits from lost sales would adequately compensate Trebro and consequently Trebro would not be irreparably harmed. The Federal Circuit did not dispute that lost profits could be calculated, but found that a significant loss of market share and customers was irreparable harm. In particular, it relied on the fact that the market was small, as there were only three companies making sod harvesting machines (plaintiff Trebro, defendant FireFly and licensee Brouwer Turf), and that Trebro would likely have to lay off some of its 18 employees due to the alleged infringement .

The Federal Circuit further found that "the fact that Trebro does not presently practice the patent does not detract" from the likelihood of irreparable harm because Treboro and FireFly are direct competitors.

Because the district court did not consider the balance-of-equities and public interest factors for granting a preliminary injunction, the Federal Circuit vacated the district court decision and remanded to the district court. The Federal Circuit did however make known its observations regarding these two factors. Particularly interesting are the observations that Trebro allegedly acquired the patent from Brouwer Turf because Brouwer Turf was having trouble meeting its financial obligations from a separate royalty agreement with Trebro and subsequently brought suit two days later. The Federal Circuit put these observations in a light favorable for an injunction by stating later in the same paragraph that the patent would "have significantly less value if Trebro cannot use it to exclude an infringing product."

The Federal Circuit also commented on FireFly's allegation that the '638 patent was filed only after the inventors saw FireFly's sod harvester in action in 2012 (and apparently its movable conveyor) by noting that the movable conveyor feature was disclosed in a provisional application filed in 2005 to which the '638 patent claims priority.

Significance of Opinion

After the Supreme Court decided in *eBay Incorporated v. MercExchange LLC.*, 547 U.S. 2008 (2006) that irreparable harm should not be presumed from patent infringement and that permanent injunctions should not therefore automatically issue, many patent practitioners believed that it would be very unlikely that a non-practicing patent owner could obtain injunctions against patent infringers.

While this case is not the first post-*eBay* Federal Circuit decision where a non-practicing patent owner was able to show irreparable harm by a competitor as indicated in the decision, it is the first one involving a preliminary injunction and the first one where the patent owner acquired a patent and asserted it two days later against a competitor. This strongly suggests that patent owner, Trebro, acquired the patent for the purpose of protecting itself from a competitor. Indeed, at the time of the hearing on April 11, 2013, less than two months after the patent was acquired by Trebro, a customer of Trebro had purchased an allegedly infringing sod machine from FireFly, which said that it had "presold" an additional six machines. It remains to be seen whether Trebro's acquisition of the '638 patent from Brouwer Turf due to Brouwer Turf's' difficulty in meeting its financial obligations to Trebro is a significant factor in the Federal Circuit decision going forward.

Business Implications

For companies active in selling products or delivering services, the importance of having blocking patents or portfolios of patents in their business space is apparent, whether developed internally or acquired externally. It has been recognized by Google, among many, that acquiring patents from others can be useful defensively to prevent one from being sued on an acquired patent and for countersuing a competitor-plaintiff. Now, they can be used offensively to block competitors, too.

This case does not suggest that so-called patent trolls, i.e., non-practicing entities whose business model involves acquiring and licensing patents, rather than selling products or delivering services, should be able to obtain injunctive relief.

For further information, please contact Roger M. Masson, Eric H. Weimers, or your regular Hinshaw attorney.

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