NEUMAN, WILLIAMS, ANDERSON & OLSON
ATTORNEYS AND COUNSELORS
77 WEST WASHINGTON STREET
CHICAGO, ILLINOIS 60602

312-346-1200
CABLE JONAD CHICAGO
TELEX 206433

WASHINGTON OFFICE
CRYSTAL PLAZA ONE - SUITE 308
2001 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VIRGINIA 22202
703-892-8787

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DONALD A. PETERSON
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VASILIOS D. DOSSAS
EDWARD W. MURRAY
TODD P. BLAKELY
SUSAN K. BENNETT *
* WISCONSIN BAR ONLY

SIDNEY NEUMAN
FRED T. WILLIAMS
COUNSEL

VAN METRE LUND
ASSOCIATE COUNSEL

January 23, 1984

Thomas A. Briody, Esquire
Corporate Patent Counsel
North American Philips Corporation
580 White Plains Road
Tarrytown, New York 10591

Re: Magnavox v. Activision

Dear Tom:

You have asked that we give you our comments on filing a motion for a preliminary injunction in the pending action against Activision. We will discuss both the merits of such a motion and the effect it may have on the overall timing of the case. We will not discuss in detail the possibility that Magnavox might be liable to Activision for any profits Activision loses as a result of a preliminary injunction if Magnavox should ultimately lose on the merits, but you should be aware that the possibility exists.

As you know, any appeal in this case would be heard by the Court of Appeals for the Federal Circuit. We are aware of only one decision of that court on a preliminary injunction, Smith International, Inc. v. Hughes Tool Company, 718 F.2d 1573, 219 U.S.P.Q. 686 (C.A.F.C. 1983). A copy is enclosed for your convenience. As you will see, the court there briefly reviewed the law of preliminary injunctions in patent cases as it had been previously stated by other courts, and then reversed the denial of a preliminary injunction by the District Court finding that the lower court had abused its discretion and committed a clear error of law in failing to grant a preliminary injunction. However, the facts of the Smith case were so extreme as to provide little guidance in the present situation. In Smith the defendant had admitted infringement and the patent had already been determined to be valid in a decision by the applicable Court of Appeals in the very same action in which the preliminary injunction was being sought.

As you are well aware, there are four factors generally recognized as bearing on a motion for preliminary injunction. Those are:

1. The likelihood of success of the moving party at trial on the merits;

2. The irreparable harm to the moving party if the injunction is not granted;

3. The balance of hardships between the parties; and

4. The public interest.

The different local circuits have stated different formulas for combining these factors in resolving motions for preliminary injunctions. See, for example, the formulations of the Ninth Circuit in Apple Computer, Inc. v. Formula International, Inc., 562 F.Supp. 775 (C.D. Cal. 1983) and the Second Circuit in Wainwright Securities v. Wall Street Transcript Corp., 558 F.2d 91, 194 U.S.P.Q. 401 (2 Cir. 1977). The C.A.F.C. did not state in Smith any specific way in which factors are to be combined, but the four factors are stated relatively clearly. We will discuss each factor in the following.

Likelihood of success: The principal obstacle to the granting of a preliminary injunction in the usual patent case is the inability of the patentee to demonstrate convincingly a likelihood that his patent will be held valid. That obstacle is largely overcome here. The Re. 28,507 patent was held valid by Judge Grady in the Chicago Dynamic Industries case, and validity was not even challenged at trial in the Mattel case. Activision has not identified any prior art or other defenses to the validity of the '507 patent which were not available to the defendants in the prior cases. Further, the successful licensing of that patent has shown that it is widely respected in the television game industry. Thus, a rather convincing showing can be made of likelihood of success on the validity issue.

It will also be necessary to make such a showing on infringement. If the only Activision games sought to be enjoined were Tennis and Hockey, a good showing could also be made on this issue. The Atari VCS 2600 console is in many ways similar to the Mattel Intellivision console, and the Tennis and Hockey games are quite similar to the games found to be covered by the '507 patent in the Mattel case. However, the value of such an injunction would be relatively limited because the Tennis and Hockey games do not appear to be particularly important to the Activision line.

If an attempt were made to enjoin games other than Tennis and Hockey, Activision could argue quite convincingly that the games sought to be enjoined are very different from those of both the CDI and Mattel cases, and are also greatly different from the games disclosed in the '507 patent specification. Magnavox would try to treat all the Activision games together as much as possible. But we believe that the Activision games are so different from each other and the significance of those differences on the infringement issue is so easy to demonstrate that Activision would quite likely be successful in convincing the court that Magnavox could not demonstrate a probability of success on infringement.

Irreparable Harm to Magnavox: The basic definition of irreparable harm for purposes of a preliminary injunction is a harm which cannot be adequately compensated for by the award of damages at the conclusion of trial. At least three factors would make it difficult to establish irreparable harm. One, Magnavox and Philips are no longer active in the U.S. television game market, so Activision's sales do not represent a loss of sales by Magnavox. Two, Magnavox has widely licensed the '507 patent thereby demonstrating that Magnavox is content with receiving a royalty for use of that patent. Three, this action has been on file for almost a year and a half, and Activision's sales of the infringing games were known to Magnavox long prior to the filing of the complaint; if Magnavox were being irreparably injured it would have sought a preliminary injunction long before now. Considerations such as these brought us to the conclusion that no preliminary injunction should be sought when the action was initially filed.

However, it is possible to argue that the situation has sufficiently changed that a preliminary injunction is appropriate now even if it may not have been when the case was filed. Specifically, the fortunes of the television game industry in general and Activision in particular have deteriorated so much recently that Activision may not be able financially to respond in damages after trial.

We have performed a search on the Nexis database for relevant information and have reviewed each of Activision's S.E.C. filings since its initial public offering on June 9, 1983. The most recent S.E.C. filing is a Form 10-Q Quarterly Report for the quarter ending October 1, 1983 and filed on November 15, 1983. A copy is enclosed for your information. The report (p. 5) indicates that Activision's net sales for the three and six month periods ending October 1, 1983 were $13,247,000 and $39,452,000 while the same figures for 1982 were $32,147,000 and $62,703,000. These figures represented a decrease of 59% and 37%

during the three and six month periods of 1983 from 1982. The three and six month income figures were $4,405,000 and $8,756,000 income in 1982 and $4,119,000 and $3,892,000 loss in 1983. On November 13, 1983 it was reported that Activision layed off 90 workers, one-quarter of its work force. On December 12, 1983, Business Wire reported that Activision's net sales for the quarter ending December 31 would be sharply lower than those of the previous year and that Activision expected a loss for that quarter.

These figures would all support an argument that Activision's financial outlook is declining rapidly, and, unless the trend of declining sales and losses is reversed, there is a significant danger that Magnavox will not be able to recover its damages from Activision's infringement after trial. However, it appears that Activision could, if it desired, counter such an argument either by agreeing to pay the amount of royalties which might be found due under the standard Magnavox licensing terms into an escrow account or posting a bond in the same amount.

The Smith case held that when very strong showings of likelihood of success are made on the issues of patent validity and infringement, irreparable harm to the patentee may be presumed. This would give a good basis for arguing that the irreparable harm factor is fulfilled by Magnavox, but the strength of the argument would depend on the number of games sought to be enjoined. The wider the claim scope being asserted, the less persuasive the argument for a presumption of irreparable harm.

The Balance of Hardships: The principal harm suffered by Magnavox from failure to grant a preliminary injunction would be the danger that it could never recover its damages of lost royalties as discussed above. Activision could argue that granting of an injunction would deprive it of the profit it would earn by the sales of the enjoined cartridges, profit which is particularly necessary to it in light of its current troubled performance. Moreover, it could argue that the enjoined games could not be readily replaced because of the relatively long time that is required to program a video game cartridge. If Activision would agree to pay royalties into an escrow account or post a bond as discussed above, it could easily argue that the balance of hardships is strongly in its favor.

Public Interest: We do not see any really strong public interest issues involved here. Magnavox would argue that the public interest in respect for the patent system and the encouragement to technological development such respect would provide favors an injunction, while Activision would argue that

depriving the public of a popular consumer product and possibly the loss of jobs removal of the enjoined cartridges from the market would cause weigh against an injunction.

Effect on Timing: As you know, the court has set May 31, 1984 for the close of discovery and October 8, 1984 for the commencement of trial. Normally, two years from filing the complaint to trial of a patent case is considered quite expeditious. We think that it is in the best interest of Magnavox and Sanders to meet that schedule, and we have every expectation of doing so.

It appears to us quite likely that the filing of a preliminary injunction motion would delay trial. It would probably take approximately two months to have the motion filed, briefed, and argued, and at least another few weeks beyond that for the court to decide. No matter how the motion was decided, it would be subject to an appeal to the C.A.F.C. If Activision lost, it would almost certainly appeal, and it would quite likely succeed in having the injunction stayed pending the appeal. An appeal would probably take at least two to three months to be decided even on some type of expedited basis. All this activity could well extend into the fall of this year. It would also give Activision grounds for arguing that its counsel cannot meet the currently set discovery close and trial dates because of the activity in the case on the preliminary injunction.

In sum, it appears to us that if a motion for preliminary injunction is filed, a motion which will be difficult to win if a broad scope is asserted for the claims, Magnavox could well not have any preliminary injunction in place until next fall, and trial on the merits may be substantially delayed. However, if no motion is filed, Magnavox may well be able to have the case tried by the fall and be able to seek a permanent injunction on the full range of games found to be covered by the patent.

We will be happy to discuss this matter with you further if you would like.

Very truly yours,

NEUMAN, WILLIAMS, ANDERSON & OLSON

By _____
James T. Williams

JTW:sjm
Enc.

CC: Algy Tamoshunas, Esquire/with enc.
Louis Etlinger, Esquire/with enc.
Theodore W. Anderson, Esquire

not of its making, between conflicting claimants. Equity would not be served by an award of prejudgment interest to Zahir in this case.

Moreover, Zahir's claim is not for a liquidated or readily liquidatable sum, as were the claims in *Hodgson* and *Arizona Fuels*. Pre-judgment interest is not appropriate in such a case. *Eastern Airlines, Inc. v. Atlantic Richfield Company*, Em.App.1983, 712 F.2d 1402, 1410. Certainly the trial court did not abuse its discretion in declining to award it here. *See Abell v. Anderson*, 6 Cir., 1945, 148 F.2d 372, 375.

Zahir argues that it was error to dismiss his fifth claim. That claim is a state claim, and the court had only pendent jurisdiction. Under the circumstances, the court did not abuse its discretion. *United Mine Workers of America v. Gibbs*, 1966, 383 U.S. 715, 726–727, 86 S.Ct. 1130, 1139, 16 L.Ed.2d 218.

V. *Saberi's & Sabek, Inc.'s Appeal, No. 9–72.*

[7] We first consider Saberi's appeal from the judgment requiring him to indemnify Shell for the damages claimed by Zahir for Shell's failure to deliver gasoline to Zahir. The court based the judgment on the October 2, 1979 letter of Saberi's counsel, quoted *supra*, pages 4–5. Saberi first argues that Shell never accepted the offer of indemnity. The trial judge correctly held that Shell accepted the offer by acting upon it.

[8] Saberi also argues that the intention of the parties was more limited than the language of the letter regarding indemnity appears to provide. But Saberi offered only a declaration by his lawyer as to what he intended, nothing showing that his intent was communicated to Shell, much less what Shell's intent was. In such a case, the trial court could properly rely on the express language of the letter, as it did. *See Rossmoor Sanitation, Inc. v. Pylon, Inc.*, 1975, 13 Cal.3d 622, 632, 119 Cal.Rptr. 449, 532 P.2d 97; *National Union Fire Ins. Co. v. Argonaut Ins. Co.*, 9 Cir., 1983, 701 F.2d 95, 97. The trial court did not err.

To the extent that, on remand, the damages awarded to Zahir against Shell are reduced, Shell's judgment against Saberi should be correspondingly reduced.

Saberi and Sabek, Inc. argue that it was error to grant summary judgment against them on their counterclaim against Zahir for loss of profits from the station during the period in controversy. The court granted summary judgment on the ground that the judgment in the unlawful detainer action afforded compensation to Saberi and Sabek against Zahir. We note also that the parties to that action also settled their differences and executed a release. It was not error to grant the summary judgment for Zahir.

VI. *Decision.*

In No. 9–70, we vacate the judgment appealed from and remand for further proceedings.

In No. 9–71, we affirm the parts of the judgment appealed from.

In No. 9–72, we vacate the judgment of Shell against Saberi and remand for further proceedings. We affirm the judgment of Zahir against Saberi and Sabek, Inc. on the latter's counterclaim.



SMITH INTERNATIONAL, INC., a California corporation, Plaintiff-Appellee,

v.

HUGHES TOOL COMPANY, a Delaware corporation, Defendant-Appellant.

Appeal No. 83–677.

United States Court of Appeals, Federal Circuit.

Oct. 6, 1983.

Preliminary injunctive relief was sought against continuing infringement of drill bit patent. The United States District Court for the Central District of California

denied motion for preliminary injunctive relief, and patent owner appealed. The Court of Appeals, Skelton, Senior Circuit Judge, held that: (1) where alleged patent infringer never denied that its drill bits infringed claims of competitor's patents, but relied solely on contention that patents were invalid, inclusion of admissions of infringement in pretrial orders amounted to adjudication of infringement, which became final and conclusive, absent appeal as to that issue, and (2) where alleged patent infringer stated its intention to continue infringement, relying solely on invalidity of the patents, but patents were subsequently determined on appeal to be valid, irreparable harm would be presumed from strong showing of validity and infringement, warranting preliminary injunctive relief.

Reversed and remanded with instructions.

See also, 664 F.2d 1373.

1. Patents ⇐1

Grant of patent is grant of right to invoke state's power in order to exclude others from utilizing patentee's discovery without his consent. 35 U.S.C.A. §§ 154, 261, 283; U.S.C.A. Const. Art. 1, § 8, cl. 8.

2. Patents ⇐293

Grant or denial of preliminary injunction in patent case is matter committed to sound discretion of the district court. 35 U.S.C.A. § 283.

3. Injunction ⇐132

Preliminary injunction will normally issue only for purpose of preserving status quo and protecting respective rights of parties pending final disposition of the litigation.

4. Patents ⇐300

In patent case, party seeking preliminary injunctive relief is required to demonstrate that he will suffer immediate irreparable harm if injunction is not granted. 35 U.S.C.A. § 283.

5. Patents ⇐300

In determining whether to issue preliminary injunctive relief in patent case, court should take into account, where relevant, possibility of harm to other interested persons from grant or denial of injunction, together with public interest. 35 U.S.C.A. § 283.

6. Federal Courts ⇐815

One who has been denied preliminary injunctive relief must meet heavy burden of showing on appeal that district court abused its discretion, committed error of law, or seriously misjudged the evidence.

7. Injunction ⇐135

District court's discretion in granting preliminary injunctions is not absolute, and must be measured against standards governing issuance of injunctions. Fed.Rules Civ.Proc.Rule 65(d), 28 U.S.C.A.

8. Injunction ⇐134

Where case for temporary injunction is clearly made out, it is not open to trial court to deny the remedy. Fed.Rules Civ. Proc.Rule 65(d), 28 U.S.C.A.

9. Federal Courts ⇐1137

Court of Appeals of the Federal Circuit has exclusive jurisdiction over appeals from orders granting or denying injunctions in patent cases. 28 U.S.C.A. § 1292(a)(1), (c)(1).

10. Patents ⇐165(2), 226.6

Metes and bounds of patent right are defined by claims of the patent, and, if accused matter falls within the claims, literal infringement is made out; therefore, admission of "claim coverage" is admission of literal infringement.

11. Patents ⇐327(13)

Where alleged patent infringer never denied that its drill bits infringed claims of patent, but relied solely on contention that patents were invalid, inclusion of admissions of infringement in pretrial orders amounted to adjudication of infringement and, those orders having been merged into final declaratory judgment of the district court, adjudication became final and conclusive, absent appeal as to issue of fact of infringement, as opposed to validity of patents. Fed.Rules Civ.Proc.Rules 8(d), 16, 28 U.S.C.A.

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12. Patents ⇐298

Where patent in admitted and adjudic come final and concl tent of infringement to issuance of prelimi determination would accounting proceeding Fed.Rules Civ.Proc.R

13. Patents ⇐300

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14. Patents ⇐300

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Britton A. Davis, C defendant-appellant. were Edward A. Ha Chicago, Ill., Rober Worth, Tex., and Da geles, Cal.

James W. Geriak, gued for plaintiff-a brief were Douglas Weiss, Coe A. Bloom and John W. Schne

Before BENNETT TON, Senior Circuit Circuit Judge.

SKELTON, Senior

This is an appeal United States Distric District of Californi tion of defendant-a Company (Hughes) liminary injunction

12. Patents ⇐298

Where patent infringement had been admitted and adjudication thereof had become final and conclusive, showing of extent of infringement was not prerequisite to issuance of preliminary injunction; such determination would better be left for accounting proceeding. 35 U.S.C.A. § 283; Fed.Rules Civ.Proc.Rule 65(d), 28 U.S.C.A.

13. Patents ⇐300

Where patent validity and continuing infringement have been clearly established, immediate irreparable harm is presumed, for purposes of preliminary injunctive relief. 35 U.S.C.A. § 283; Fed.Rules Civ. Proc.Rule 65(d), 28 U.S.C.A.

14. Patents ⇐300

Where manufacturer of drill bits admitted that bits came within claims of competitor's patents, and stated its intention to continue infringement, relying solely on invalidity of the patents, but patents were subsequently determined on appeal to be valid, irreparable harm would be presumed from strong showing of validity and infringement, warranting preliminary injunctive relief. Fed.Rules Civ.Proc.Rule 65(d), 28 U.S.C.A.; 35 U.S.C.A. § 283.

Britton A. Davis, Chicago, Ill., argued for defendant-appellant. With him on brief were Edward A. Haight, Dorsey L. Baker, Chicago, Ill., Robert A. Felsman, Fort Worth, Tex., and David Brice Toy, Los Angeles, Cal.

James W. Geriak, Los Angeles, Cal., argued for plaintiff-appellee. With him on brief were Douglas E. Olson, Robert C. Weiss, Coe A. Bloomberg, Los Angeles, Cal., and John W. Schneller, Washington, D.C.

Before BENNETT, Circuit Judge, SKELTON, Senior Circuit Judge, and MILLER, Circuit Judge.

SKELTON, Senior Circuit Judge.

This is an appeal from an order of the United States District Court for the Central District of California, which denied a motion of defendant-appellant Hughes Tool Company (Hughes) for the entry of a preliminary injunction against plaintiff-appellee, Smith International, Inc. (Smith) to prevent the further infringement by Smith of two patents owned by Hughes, which the Ninth Circuit Court of Appeals had previously declared valid, and which Smith had admitted it had infringed and was continuing to infringe. For reasons stated below, we reverse the decision of the district court and remand the case with instructions to issue the preliminary injunction.

BACKGROUND

This action has a rather lengthy history, extending over a period of some eleven years. It is necessary to trace this history carefully, because some of the events that transpired during the course of the litigation are persuasive as to the proper disposition of the case. The original complaint was filed by Smith on June 2, 1972, when it brought a declaratory judgment action contesting the validity of Galle Patent No. 3,397,928 (the "928 patent"), issued to Hughes as assignee. Hughes counterclaimed for damages, alleging that Smith had infringed the '928 patent, as well as Galle Patent No. 3,476,195 (the "195 patent"), which was also issued to Hughes as assignee. Smith then asserted the invalidity of both the above patents as an affirmative defense to the counterclaims.

Both of the patents at issue in the declaratory judgment action involve the design of "rock bits", which are earth boring tools used in the rotary drilling of oil and gas wells. The bits were designed by Edward M. Galle, an employee of Hughes, in an effort to extend the lifespan of rock bits exposed to the high temperatures and stresses created in the drilling of oil wells. This goal was achieved by mounting the bit cutting elements on a journal or roller bearings and sealing the bearings with an O-ring compressed by at least ten percent. A one-way pressure relief valve was employed to prevent pressure buildup in the sealed bit. These design changes resulted in a substantial lengthening of the lifespan of the bits. The '928 patent was granted in 1968 and the '195 patent in 1969.

In its "Answer And Counterclaims Including Supplemental Counterclaim" in the declaratory judgment action dated June 9, 1976, Hughes made the following allegation in pertinent part:

"12. Plaintiff has infringed, and still is infringing each of said Letters Patent Nos. 3,397,928, 3,476,195 ... by making, selling and using rock bits, including rock bits identified as plaintiff's 'F' series solid journal bearing bits embodying each of the patented inventions and will continue to do so unless enjoined by this Court."

In "Plaintiff's Answer to Defendant's Counterclaim," dated July 2, 1976, Smith answered the above allegation:

"Answering paragraph 12, plaintiff admits that it has manufactured and sold, and is still manufacturing and selling devices coming within the terms of certain of the claims of said U.S. Patents 3,397,928 and 3,476,195, but denies that it is infringing any of defendant's rights because said patents are invalid and therefore incapable of infringement." Thus, Smith's defense to the counterclaims was based solely upon its contention of invalidity, while it admitted that it manufactured and sold devices coming within the claims of Hughes' patents. This position is further reflected by the following portions of a Pre-Trial Conference Order, dated March 6, 1975:

"The following facts are admitted and require no proof:

* * * * * *

III.

* * * * * *

4. Claims 1, 2 and 7–10 of U.S. Patent 3,397,928, if valid and enforceable, cover rock bits made and sold by Smith.

5. Claims 1, 2, 3 and 11 of U.S. Patent 3,476,195, if valid and enforceable, cover rock bits made and sold by Smith.

IV

The parties have no reservations with respect to the admitted facts specified in paragraph III."

A Supplement to the Pre-Trial Conference Order dated December 1977, contains the following provision:

"3. It having been admitted that some rock bits of plaintiff are within the scope of some claims of U.S. Patent Nos. 3,397,928 and 3,476,195, any other issues relating to the matter of infringement, except as set forth in item 2 herein, are deferred to an accounting proceeding, if such proceeding takes place."

The issues as framed by the pleadings and pre-trial orders included several questions concerning the validity of the subject patents, and the question of whether Smith's infringement was willful and deliberate, but the *fact* of infringement, if the patents were determined to be valid, was not an issue to be tried. However, at trial, some revealing information was proved about the design and construction of the Smith "F series" bit. Smith's Vice President of Research and Development, Lloyd Garner, testified that he was aware of the Hughes patents, and that he instructed a Smith engineer, William Robinson, to design a bit which contained features similar to those of the subject patents. He also testified that he was aware of the possibility of infringing the patents by making these bits. Robinson testified that as a result of those instructions the "F series" bit was designed, which included the same features as the Hughes bit. He stated that Garner told him to design a bit similar to the Hughes bit.

On November 30, 1979, the United States District Court for the Central District of California held that the '928 patent and the '195 patent were invalid and dismissed Hughes' counterclaims. The Court of Appeals for the Ninth Circuit reversed this decision, declaring both patents to be valid, reinstating Hughes' counterclaim for infringement, and remanding the cause for further proceedings on the counterclaim. *Smith International Inc. v. Hughes Tool Company*, 664 F.2d 1373 (9th Cir.), *cert. denied*, 456 U.S. 976, 102 S.Ct. 2242, 72 L.Ed.2d 851 (1982).

Following remand to the district court, Hughes moved for entry of judgment in its favor, contending that Smith had admitted infringement of both patents. Hughes also sought a preliminary injunction to prevent

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further infringement by Smith. The district court declined to enter judgment, but acknowledged Smith's admission of infringement in the following statement in its order of October 6, 1982.

> The Court agrees that the language of these orders [the previous pre-trial orders] indicates that plaintiff has, in fact, conceded liability on the question of infringement and that plaintiff has agreed that determination of the scope of the infringement and the amount of damages could be deferred to an accounting proceeding. Nevertheless, the Court declines to enter judgment in favor of defendant at this time. The Court finds it appropriate, rather, to proceed to a determination of the nature and the scope of plaintiff's infringement before entering judgment. Recognition of the binding effect of the two pre-trial orders discussed above does mean, however, that plaintiff may not contend in subsequent proceedings that it has in no way infringed the two patents at issue.

The court denied Hughes' request for a preliminary injunction, because it considered Smith's admission of infringement to be too general to meet the requirement of specificity for injunctive relief under Fed.R.Civ.P. 65(d). Hughes sought to overcome this defect by filing a "Motion for Preliminary and Permanent Injunction, or in the Alternative, for Reconsideration of Order of October 6, 1982." In a proposed order, it recited Claim 1 of the '928 patent and stated that Smith had infringed the patent "by making, using and selling rock bits of the type specified in the aforesaid Claim 1." The proposed order also recited the fact that the Ninth Circuit Court had declared the '928 patent to be valid and enforceable, and stated that continued infringement by Smith would result in irreparable harm to Hughes. In addition, Hughes presented portions of the record from the trial, which had not been considered by the court when it denied Hughes' first motion for an injunction. This evidence was intended to demonstrate the scope of infringement by Smith.

Because of the presentation of evidence, the district court viewed the motion as one for partial summary judgment, apparently on the issue of the *extent* of Smith's infringement. Because the motion was not presented as one for summary judgment, the court declined to grant the motion, holding in an order dated December 15, 1982, that the extent of Smith's infringement must be determined by trial or motion for summary judgment before an injunction could issue. However, the court specifically rejected Smith's argument that there had been no determination of infringement. Hughes has appealed from this order denying its motion for a preliminary injunction.

GROUNDS FOR GRANTING PRELIMINARY INJUNCTIONS

[1] The constitutional provision, which is the basis of patent law, grants Congress the power to award "inventors the exclusive right to their . . . discoveries." U.S. Const. art. 1, § 8, cl. 8. Congress has exercised this power by enacting the Patent Statute, which provides that patents shall have the attributes of personal property (35 U.S.C. § 261) and grants to the patentee the right to exclude others from making, using or selling the invention for a period of seventeen years (35 U.S.C. § 154). The grant of a patent is the grant of the right to invoke the state's power in order to exclude others from utilizing the patentee's discovery without his consent. *Zenith Radio Corp. v. Hazeltine Research,* 395 U.S. 100, 135, 89 S.Ct. 1562, 1582, 23 L.Ed.2d 129 (1969); *Sears, Roebuck & Co. v. Stiffel Co.,* 376 U.S. 225, 229, 84 S.Ct. 784, 787, 11 L.Ed.2d 661, *reh. denied,* 376 U.S. 973, 84 S.Ct. 1131, 12 L.Ed.2d 87 (1964); *Continental Paper Bag Co. v. Eastern Paper Bag Co.,* 210 U.S. 405, 430, 28 S.Ct. 748, 756, 52 L.Ed. 1122 (1908). Protection of this right to exclude has been provided by Congress through 35 U.S.C. § 283, *inter alia,* which provides that injunctions may be granted under the principles of equity to "prevent the violation of any rights secured by patent, on such terms as the court deems reasonable." Without this injunctive power of the courts, the right to exclude granted by the patent would be diminished, and the express purpose of the Constitution and Congress, to promote the progress of the useful arts,

would be seriously undermined. The patent owner would lack much of the "leverage," afforded by the right to exclude, to enjoy the full value of his invention in the market place. Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research. See I. KAYTON, KAYTON ON PATENTS, ch. 1, pp. 17–20 (1979).

[2, 3] However, courts have over the years developed a reluctance to resort to preliminary injunctions in patent infringement cases, and have constructed a rather strict standard for the granting of this form of equitable relief. It is generally recognized that the grant or denial of a preliminary injunction in a patent case is a matter committed to the sound discretion of the district court. *Pacific Cage and Screen Co. v. Continental Cage Corp.*, 259 F.2d 87, 88 (9th Cir.1958); *Superior Electric Company v. General Radio Corp.*, 194 F.Supp. 339 (D.N.J.) *aff'd*, 321 F.2d 857 (3rd Cir.), *cert. denied*, 376 U.S. 938, 84 S.Ct. 793, 11 L.Ed.2d 659, *reh. denied*, 376 U.S. 973, 84 S.Ct. 1134, 12 L.Ed.2d 88 (1964). The standard for granting such relief has been characterized as "unusually stringent." *Rohm & Haas Co. v. Mobil Oil Co.*, 525 F.Supp. 1298, 1302 (D.Del.1981). A preliminary injunction will normally issue only for the purpose of preserving the status quo and protecting the respective rights of the parties pending final disposition of the litigation. *Superior Electric Company v. General Radio Corp., supra.* The usual requirement of a showing of probability of success on the merits before a preliminary injunction will issue has historically been even stronger in a patent case. Besides having to prove title to the patent, it has been stated as a general proposition that the movant must show that the patent is beyond question valid and infringed. *Mayview Corp. v. Rodstein*, 480 F.2d 714, 717 (9th Cir.1973); *Bose Corporation v. Linear Design Labs, Inc.*, 467 F.2d 304, 307 (2d Cir.1972); *Eli Lilly and Company v. Generix Drug Sales, Inc.*, 460 F.2d 1096, 1099 (5th Cir.1972); *Carter-Wallace, Inc. v. Davis-Edwards Pharmacal Corp.*, 443 F.2d 867, 871 (2d Cir.), *cert. denied*, 412 U.S. 929, 93 S.Ct. 2753, 37 L.Ed.2d 156 (1973). In order to meet the burden of showing validity, the movant has sometimes been required to show either that his patent has previously been adjudicated valid, that there has been public acquiescence to its validity, or that there is conclusive direct technical evidence proving its validity. *Carter Wallace Inc. v. Davis Edwards Pharmacal Corp., supra*, at 871–874; *Jenn-Air Corporation v. Modern Maid Company*, 499 F.Supp. 320, 323 (D.Del.), *aff'd*, 659 F.2d 1068 (3rd Cir.1981). However, other courts have employed a less stringent standard of proof on the issue of validity. *See Eli Lilly and Co. v. Premo Pharmaceutical Labs.*, 630 F.2d 120, 136 (3rd Cir.), *cert. denied*, 449 U.S. 1014, 101 S.Ct. 573, 66 L.Ed.2d 473 (1980); *Tyrolean Handbag Co. v. Empress Hand Bag, Inc.*, 122 F.Supp. 299, 302 (S.D.N.Y.1954). The basis for the more severe rule appears to be both a distrust of and unfamiliarity with patent issues and a belief that the ex parte examination by the Patent and Trademark Office is inherently unreliable. Duft, *Patent Preliminary Injunctions and the United States Court of Appeals for the Federal Circuit*, 65 J.Pat.Off.Soc'y # 131 (1983).[1]

[4] As with preliminary injunctions in other types of cases, the movant is also required to demonstrate in a patent case that he will suffer immediate irreparable harm if the injunction is not granted. *Singer Co. v. P.R. Mallory & Co., Inc.*, 671 F.2d 232, 234 (7th Cir.1982). Some courts refuse to find irreparable injury where the alleged infringer is solvent and money will adequately compensate the injury. *Nuclear-Chicago Corp. v. Nuclear Data, Inc.*, 465 F.2d 428 (7th Cir.1972); *Rohm & Haas Co. v. Mobil Oil Corp., supra* at 1307; *Jenn-Air*

1. It has been asserted that a hearing on a motion for a preliminary injunction is not the proper place to make a showing on absolute proof of likelihood of success. *See*, Duft, *supra*. However, we do not find it necessary to decide that question, nor the question of the proper standard of proof, because we find that Hughes has met even the more stringent standard.

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Corp. v. Modern Maid Co., supra at 333. However, at least one court is of the opinion that where the showing on patent validity is very strong, invasion of the inventors right to exclude granted by the patent laws should be sufficient irreparable harm without a showing that the infringer is financially irresponsible. *Zenith Laboratories, Inc. v. Eli Lilly and Co.*, 460 F.Supp. 812 (D.N.J.1978).

[5] Finally, where relevant, the court should take into account both the possibility of harm to other interested persons from the grant or denial of the injunction, and the public interest. *Eli Lilly and Co. v. Premo Pharmaceutical Labs., supra* at 136. In reaching its decision, the district court must consider the above factors and balance all of the elements. No one element will necessarily be dispositive of the case. *Id.* at 136.

[6–9] On appeal, the scope of review of a district court's decision involving the denial of an injunction is narrow. One denied a preliminary injunction must meet the heavy burden of showing that the district court abused its discretion, committed an error of law, or seriously misjudged the evidence. *Eli Lilly and Co. v. Premo Pharmaceutical Labs., supra* at 136. The district court's discretion is not absolute, however, and must be measured against the standards governing the issuance of injunctions. *Singer Co. v. P.R. Mallory & Co., Inc., supra* at 234; *Fox Valley Harvestore, Inc. v. A.O. Smith Harvestore Products, Inc.*, 545 F.2d 1096, 1097 (7th Cir.1976). Where a case for a temporary injunction is clearly made out, it is not open to the trial court to deny the remedy. *Western Electric Co. v. Cinema Supplies, Inc.*, 80 F.2d 106, 110 (8th Cir. 1935). It is under this standard of review that we now undertake to examine the District Court's denial of a preliminary injunction in the instant case, being mindful of the fact that we now have exclusive jurisdiction over appeals from orders granting or denying injunctions in patent cases. 28 U.S.C. 1292(a)(1) and (c)(1), *as amended by* The Federal Courts Improvement Act of 1982, Pub.L. No. 97–164, § 125, 96 Stat. 36.

THE VALIDITY OF THE HUGHES PATENTS

As noted above, the Court of Appeals for the Ninth Circuit held that both the '928 patent and the '195 patent were valid, reversing the district court's holdings to the contrary. *Smith International, Inc. v. Hughes Tool Co., supra.* This holding was made despite arguments of invalidity by Smith on the basis of obviousness under 35 U.S.C. § 103, anticipation by prior art under 35 U.S.C. § 102, and failure to properly claim the invention under 35 U.S.C. § 112. The Ninth Circuit Court had the benefit of the contentions and arguments of Smith, a party whose interest animated its search for the best prior art and case law to support its position of invalidity, and still the court found the patents valid. The United States Supreme Court denied certiorari. Thus, the validity of the Hughes patents has been adjudicated by a competent appellate court, which we assume considered all possible grounds for invalidating the patents, and yet it rejected them all.

THE INFRINGEMENT OF THE HUGHES PATENTS

[10] In its brief and in oral arguments, Smith steadfastly denied that it had infringed the Hughes patents. It argued that there has been no finding of infringement by any court, that its former admissions are stale, and that, in any event, the admissions did not specify any particular product of Smith that infringed the patents, but only admitted "claim coverage" by unspecified devices.[2]

[11] Smith's arguments are unconvincing. In our view, the record establishes the

2. It is elementary that the metes and bounds of a patent right are defined by the claims of the patent, and that if the accused matter falls within the claims, literal infringement is made out. *Laser Alignment, Inc. v. Woodruff & Sons, Inc.*, 491 F.2d 866 (7th Cir.), *cert. denied*, 419 U.S. 874, 95 S.Ct. 135, 42 L.Ed.2d 113 (1974); *Strumkis v. U.S.*, 200 Ct.Cl. 668, 474 F.2d 623, *cert. denied*, 414 U.S. 1067, 94 S.Ct. 576, 38 L.Ed.2d 472, *reh. denied*, 414 U.S. 1147, 94 S.Ct. 902, 39 L.Ed.2d 103 (1974). Therefore, an admission of "claim coverage" is an admission of literal infringement.

fact of infringement beyond all question. As the pleadings quoted above reveal, Smith never denied that its F series bits infringed the claims of the Hughes patents. It never denied that it would continue to make and sell these bits unless enjoined by the court. Instead, it relied solely upon its contention that the patents were invalid. As the Pre-Trial Conference Order reveals, Smith had no reservation about admitting that it manufactured and sold rock bits coming within the claims of the Hughes patents. The Ninth Circuit Court's decision removed any question about the validity and enforceability of the patents. Therefore, we have before us a clear admission that Smith makes and sells bits falling within the claims of Hughes' patents. Smith's failure to deny Hughes' allegations that Smith's F series bits infringed the Hughes' patents, and that it intended to continue making and selling them also amounts to an admission of infringement under Fed.R.Civ.P. 8(d). Even the district court recognized that Smith had "conceded liability on the issue of infringement." It stated that Smith would not be allowed to contend that it had in no way infringed the patents. Order of October 6, 1982.

The inclusion of Smith's admissions in the district court's pre-trial orders amounts to an adjudication that Smith had infringed the patents. Under Fed.R.Civ.P. 16, those orders controlled the subsequent course of action, unless modified. Here, no modification occurred. Those orders were merged into the final declaratory judgment of the district court. *Cohen v. Beneficial Loan Corp.*, 337 U.S. 541, 546, 69 S.Ct. 1221, 1225, 93 L.Ed. 1528 (1949). No issue relating to infringement was appealed by Smith to the Ninth Circuit Court, thus rendering the district court's adjudication of infringement final and conclusive. *Richardson v. Communications Workers of Amer. AFL–CIO*, 486 F.2d 801, 804 (8th Cir.1973); *Atchison, Topeka and Santa Fe Railway Co. v. Jackson*, 235 F.2d 390, 392 (10th Cir.1956). We see no reason why any further adjudication on the *fact* of infringement is needed.[3]

[12] The district court, while recognizing that infringement occurred, nonetheless declined to grant an injunction until the *extent* of the infringement was shown. We have found no case in our research that places such a burden on one seeking a preliminary injunction in a patent infringement case, and none has been cited to us. Such a requirement would make the standard practically impossible to meet. This inquiry is better left for the accounting proceeding, and the district court erred in making such a requirement of Hughes.[4]

Thus, the decisions on validity and infringement weigh heavily in Hughes' favor on the injunction issue before us. This is so even though these two issues, validity and infringement, have historically made preliminary injunctions difficult to obtain in patent cases.

IRREPARABLE HARM

[13] As mentioned above, some courts will not find irreparable harm to exist without a showing of financial irresponsibility. In this case, no such showing exists. However, none of the cases we have reviewed in which injunctions were denied for lack of irreparable harm involved such a strong showing of validity and infringement as exists in the instant case.[5] Courts faced

3. The reinstatement of the Hughes counterclaim by the Ninth Circuit Court, and its remand for further proceedings, in no way indicates that the court viewed the fact of infringement as an open question. In our view, the "further proceedings" provision in the remand order refers to an accounting proceeding and a consideration of the matter of a permanent injunction. No further proceedings are necessary on the issue of whether infringement occurred.

4. As noted above, the district court viewed the Hughes motion as one for summary judgment because Hughes presented evidence on the scope of infringement. Had the district court not stated in its previous order of October 6, 1982, that it would not grant an injunction before determining the scope of infringement, Hughes would have had no reason to present such evidence. The source of confusion about the Hughes motion was the district court's erroneous requirement of proof of the extent of infringement.

5. *See generally, Singer Co. v. P.R. Mallory & Co., Inc., supra; Rohm & Haas Co. v. Mobil Oil Corp., supra; Frommelt Industries, Inc. v. W.B.*

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with strong showings of validity and infringement, on the other hand, have found irreparable harm from continued infringement of a valid patent. *Zenith Laboratories, Inc. v. Eli Lilly and Co., supra* at 825 (where validity is very strong, invasion of the right to exclude is sufficient irreparable harm); *Teledyne Industries, Inc. v. Windmere Products, Inc.*, 433 F.Supp. 710, 741 (S.D.Fla.1977) (to permit infringement during pendency of suit would be to grant a license valid as long as the infringer could contest the suit, and encourage others to infringe as well). We agree with the reasoning in these cases. The very nature of the patent right is the right to exclude others. Once the patentee's patents have been held to be valid and infringed, he should be entitled to the full enjoyment and protection of his patent rights. The infringer should not be allowed to continue his infringement in the face of such a holding. A court should not be reluctant to use its equity powers once a party has so clearly established his patent rights. We hold that where validity and continuing infringement [6] have been clearly established, as in this case, immediate irreparable harm is presumed.[7] To hold otherwise would be contrary to the public policy underlying the patent laws.

[14] Upon balancing the requisite factors, we hold that the district court erred in denying Hughes' motion for a preliminary injunction. It committed a clear error of law in requiring proof of the extent of infringement prior to granting the preliminary injunction. The extent of infringement relates to damages and is a question to be determined at the trial on the merits. In addition, there do not appear to be any equitable considerations in this case that could in any way offset the strong showing of validity and infringement made by Hughes, coupled with the presumption of irreparable harm. Smith argues that public policy and the balance of hardship are in its favor, because it is a substantial competitor and has on hand a large inventory of the rock bits at issue here, and it would be unfair to disrupt its activities with an injunction. But it is clearly established that Smith knew of the Hughes patents when it designed the F series bits and took a calculated risk that it might infringe those patents. It instituted this action in an attempt to invalidate its competitor's patents, and, having failed, it will not now be heard to say that public policy is in its favor. To the contrary, public policy favors protection of the rights secured by the valid patents. Under these circumstances, we hold that the denial of a preliminary injunction was based on a clear error of law and constituted an abuse of discretion.[8]

McGuire Co., Inc., 504 F.Supp. 1180 (N.D.N.Y. 1981); *Jenn-Air Corporation v. Modern Maid Co., supra; Superior Electric Co. v. General Radio Corp., supra.*

6. Even if Smith's admissions are not interpreted as indicating an intention to infringe in the future, the showing of past infringement has been strong enough to justify a finding of probable future infringement. *See Aluminum Extrusion Company v. Soule Steel Company*, 260 F.Supp. 221, 225 (C.D.Cal.1966).

7. This is the rule in copyright cases. *See*, Duft, *supra* at n. 64 and cases cited therein. Our holding on this issue does not abrogate the traditional requirement of a showing of irreparable harm by one seeking a preliminary injunction. As noted above, the trial court should balance the requisite factors. In cases where the showing of validity and infringement is less forceful than it is here, or in cases where equitable or public policy considerations are in favor of the infringer, a movant would have to make a stronger showing of irreparable harm in order to tip the balance of equity in his favor.

8. Though the parties and the district court treated the matter as involving a "preliminary" injunction, and we have reviewed the case in those terms, we intend no implication that a patentee is not entitled to a permanent injunction against the infringer in the case upon final judicial determination that the involved patent is valid and has been infringed by that infringer. Such an injunction prohibits infringement by any product, not just those involved in the original suit. The burden of avoiding infringement at the risk of contempt falls upon the one enjoined.

CONCLUSION

The decision of the district court is reversed, and the cause is remanded with instructions to issue an appropriate preliminary injunction enjoining Smith International, Inc. from infringing claim 1 of the '928 patent on such terms as are deemed proper by the district court.

REVERSED AND REMANDED.

