UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TEXAS
TYLER DIVISION

Georgetown Rail Equipment Company	§	~~SEALED~~ UNSEALED PER #89 ORDER
	§	
v.	§	**Case No. 6:13-cv-366-MHS-JDL**
	§	
Holland L.P.	§	

~~SEALED~~ ORDER ADOPTING REPORT AND RECOMMENDATION OF UNITED STATES MAGISTRATE JUDGE

The above entitled and numbered civil action was referred to United States Magistrate Judge John D. Love pursuant to 28 U.S.C. § 636. The Report and Recommendation of the Magistrate Judge (Doc. No. 51) has been presented for consideration.

BACKGROUND

Upon consideration of the parties' arguments presented at a hearing on October 4, 2013, the Magistrate Judge recommends granting Plaintiff Georgetown Rail Equipment Company's (Georgetown) Motion for Preliminary Injunction (Doc. No. 21). Defendant Holland L.P. (Holland) filed objections (Doc. No. 56) reiterating its earlier arguments that: (1) Holland's Rail Vision System (RVS) does not infringe U.S. Patent No. 7,616,329 (the '329 Patent); (2) that the balance of hardships and public interest favor denying the preliminary injunction; and (3) that Georgetown is not the only source for three-dimensional-tie-plate inspection services in the United States (Doc. No. 56 at 4, 15). Additionally, Holland has, for the first time, requested that Georgetown submit a bond of $2 million (Doc. No. 56 at 17).

DISCUSSION

A. Holland Bears the Burden of Showing the Extent of Injury Caused by the Preliminary Injunction.

Holland argues that a bond of $2 million is appropriate to cover the "minimum lost revenue Holland anticipates from the injunction" (Doc. No. 56 at 17). In response, Georgetown

proposes that "a bond in the amount of no more than $25,000 is reasonable under the circumstances" (Doc. No. 62 at 13). *See Nicholas v. Alcatel USA, Inc.*, 532 F.3d 364, 379 (5th Cir. 2008) ("We have previously highlighted the importance of the bond requirement. 'It assures the enjoined party that it may readily collect damages . . . in the event that it was wrongfully enjoined, without further litigation and without regard to the possible insolvency of the applicant, and it provides the plaintiff with notice of the maximum extent of its potential liability. . . . Because of the importance of the bond requirement, failure to require the posting of a bond or other security constitutes grounds for reversal of an injunction.'") (quoting *Phillips v. Chas. Schreiner Bank*, 894 F.2d 127, 131 (5th Cir. 1990)). Accordingly, Holland bears the burden of showing the extent of its injury resulting from the injunction prohibiting it from selling or offering to sell RVS. *Oakley, Inc. v. Sunglass Hot Inter.*, 61 U.S.P.Q.2d 1658, 2001 WL 1683252, at *12 (C.D. Cal. Dec. 7, 2001), *aff'd on other grounds*, 316 F.3d 1331 (Fed. Cir. 2003) ("It is Defendants' burden to reasonably estimate the extent to which they would be damaged if this preliminary injunction were improvidently granted."). For example, the Court in *Oakley* awarded a bond of just $100,000 where defendants requested $5 million and $10 million, because defendants "have not provide evidence to substantiate the necessity of their requested bond amounts." *Id.*; *see also Equifax Servs., Inc. v. Hitz*, 905 F.2d 1355, 1362 (10th Cir. 1990) (declining to speculate on the sufficiency of the bond amount when defendant "presented no evidence on the extent to which he would be harmed by an injunction").

B. Holland Only Represents That It May Incur Hypothetical Future Losses

1. Any Hypothetical Unsubstantiated Future Losses of "Rail Vision [System] [R]evenues" Are Too Speculative

Holland has only offered contradictory and unsupported speculation of the injury it might incur following the grant of a preliminary injunction enjoining Holland's sale of RVS. In his

declaration, Holland's Vice President and General Manger of Railway Measurement Systems & Services, Robert Madderom, offered that:

> 10. If Holland is enjoined from using the Rail Vision System, then the loss of Rail Vision revenue supporting customer's requirements for the next 2 year period is estimated to be in the excess of $750,000.
>
> 11. If Holland is enjoined from using the Rail Vision System, then the loss of additional TrackSTAR® testing revenues supporting customer requirements over the next 2 year period is estimated to be in excess of $1,125,000.
>
> 12. A total two year direct revenue loss resulting from the injunction would therefore be in excess of $1.8 million U.S.D.

(Madderom Decl., Doc. No. 37-1 at ¶ 10–12). But paragraph 10 of Mr. Madderom's declaration contradicts Holland's representations that: (1) it "has no revenue, gross profits, or profitability from the accused [Rail Vision] system"; (2) the accused Rail Vision system "has not been employed in any revenue services since November 10, 2009"; and (3) none of Holland's customers have purchased Rail Vision or services from Holland that use Rail Vision (Doc. No. 62 at 12, citing Doc. No. 62-2 at 7; *see also* Inj. Hr'g Tr., Doc. No. 53 at 33:7–36:5 (despite significant marketing efforts Holland has never sold RVS services)). In the absence of any actual revenue generated by RVS prior to the preliminary injunction, how Holland could lose "Rail Vision revenue" following an injunction prohibiting it from selling RVS is at best unclear. While it is possible Holland might not realize prospective earnings as the result of its inability to offer RVS, such speculative unrealized revenue hardly constitutes a certain, or even likely "loss."

Moreover, Holland has alleged it will incur a "loss of Rail Vision revenue supporting customer's requirements" over two years (Doc. No. 37-1 at ¶ 10) based on nothing more than conclusory and speculative statements without concrete evidence detailing the supposed loss. Holland's argument is akin to that of the defendant in *EcoNova, Inc. v. DPS Utah*, 1:12-cv-174, 2012 WL 5944257, at *16–17 (D. Utah Nov. 28, 2012). In *EcoNova*, the defendant was "not

ready to sell" the accused product because the product was "not yet manufactured." 2012 WL 5944257, at *16. Accordingly, the *EcoNova* defendant could only "contend[] that if an injunction is issued, one and a half years of marketing efforts and developing contacts would be 'severely interrupted.'" *Id.* The *EcoNova* defendant also estimated "that it faces a loss of potential contracts worth approximately $20 million" and sought to have the plaintiff post a bond of $11 million. *Id.* But the court found that defendant did "not provide concrete evidence to support" a bond of $11 million. *Id.* at *17. Although the plaintiff contended that no bond was necessary, the court required the plaintiff to post a bond of $20,000 to preserve the "status quo." *Id.*; *see also Oakley, Inc.*, 2001 WL 1683252, at *12 ("It is Defendants' burden to reasonably estimate the extent to which they would be damaged").

2. Any Hypothetical Unsubstantiated Future Losses of TrackSTAR Revenue Are Too Speculative

At the hearing, Mr. Madderom reiterated the general sentiments of his declaration and explained that Holland's TrackSTAR product would also suffer losses if Holland were enjoined from selling RVS services as a component of its larger TrackSTAR business (Inj. Hr'g Tr., Doc. No. 53 at 23:7–18). Specifically, Mr. Madderom testified that:

> Q: If an injunction was issued against Rail Vision, how would that affect Holland's business?
>
> A: Well, we have been looking to expand our broad TrackSTAR business and look at all ways that we can to expand our position and our services for the customers, to serve them effectively. *Machine vision* technology is an area that can help our customers; we know that. If there was an injunction that stopped us in the Rail Vision area completely, it would probably have on the order of -- for just the *machine vision technology area*, probably seven hundred to -- 700,000 to a million-dollar impact in revenue over the next 2 years, let's say. But it also has the effect of diminishing our capability to expand our track testing services with TrackSTAR because we know that as we're able to bring more value to our customers with *machine vision*, that it's going to expand our TrackSTAR business. That's probably another million dollars. So, somewhere between certainly a million and a half to $2 million over the next 2 years, revenue.

(Doc. No. 53 at 23:7–25, emphasis highlighting qualifying use of "machine vision" added.) Holland's allegations of uncertain prospective TrackSTAR business revenue losses suffers from at least all the same problems as Holland's allegations of lost Rail Vision revenue detailed above (*see* Inj. Hr'g Tr., Doc. No. 53 at 33:7–36:5 (despite significant marketing efforts Holland has never sold RVS services, not even as part of TrackSTAR)).

Moreover, it is apparent from Mr. Madderom's testimony that "probably another million dollars" refers to the cumulative total of *all* uncertain prospective sales of the various discreet "track testing service*s*" provided under the banner of "TrackSTAR business" (*see* Inj. Hr'g Tr., Doc. No. 53 at 23:18–24; Madderom Decl., Doc. No. 37-1 at ¶ 11 (addressing "additional TrackSTAR® testing revenues" only, not Rail Vision revenue). Mr. Madderom asserts that Georgetown's bond ought to cover uncertain prospective sales of "track testing services" other than RVS, which *might* be unrealized only because Holland has been enjoined from selling RVS services (*see* Inj. Hr'g Tr., Doc. No. 53 at 30:19–21 (explaining that "TrackSTAR" is a business that incorporates "normal track testing" such as "track geometry, rail profile measurement, track gauge strength, that's been in place for many years")). Such speculative future losses resulting from Holland's hypothetical inability to sell services other than that which it is actually enjoined from providing are too attenuated regardless of the additional "value" RVS *might* add. Such a duplicative accounting approach is especially problematic given that Mr. Madderom earlier accounted for the losses specifically attributable to RVS (*compare* Doc. No. 37-1 at ¶ 10 *with* ¶ 11; *also compare* Doc. No. 53 at 23:13–18 *with* 23:18–24).

Finally, other significant disparities exist between Mr. Madderom's declaration and his testimony at the hearing, which further highlight the speculative and imprecise nature of Holland's request for a $2 million bond (Doc. No. 68 at 5). Notably, Mr. Madderom inexplicably

reduced the speculative loss of "additional TrackSTAR® testing revenues" by $125,000, and the speculative loss of "Rail Vision [only] revenue" by $50,000 (*compare* Doc. No. 37-1 at ¶ 10–11 *with* Doc. No. 53 at 23:7–18. Given the inherently speculative nature of Holland's bond request, and the absence of supportive evidence, the Court finds Holland's request that Georgetown post a bond of $2 million without merit.

C. Conclusion

Having rejected the amount proposed by Holland, the Court must ascertain the exact amount of Georgetown's bond.[1] *See* Fed. R. Civ. P. 65(c) ("The court may issue a preliminary injunction or a temporary restraining order only if the movant gives security in an amount that the court considers proper."); *see also Equifax Servs., Inc.*, 905 F.2d at 1362; *Stockslager v. Carroll Elec. Co-op. Corp.*, 528 F.2d 949, 951 (8th Cir. 1976) ("The amount of the bond rests within the sound discretion of the trial court and will not be disturbed on appeal in the absence of an abuse of that discretion."). Based on the above discussion, Georgetown's offer to post a bond of $25,000 more accurately maintains the status quo. *See EcoNova, Inc.*, 2012 WL 5944257, at *17 (requiring only a $20,000 bond to "preserve[] the status quo . . . given the speculative nature of the harm claimed" by defendant).

Having carefully considered the parties' arguments, the Court is of the opinion that the findings and conclusions of the Magistrate Judge are correct.[2] Therefore, the Court adopts the

[1] The Court notes that the Magistrate Judge has endeavored to resolve the matter quickly, granting Holland's Letter Brief request (Doc. No. 50) setting an early *Markman* Hearing (Doc. No. 57).

[2] Holland has asserted that "the district judge *must* determine *de novo* any part of the magistrates judge's disposition that has been properly objected to," citing Federal Rule of Civil Procedure 72(b)(3). Doc. No. 56 at 4 (emphasis added). Having considered the Magistrate Judge's recommendation *de novo*, the District Judge accepts the recommendation in accord with Rule 72(b)(3). *See* Fed. R. Civ. P. 72(b)(3) ("The district judge *may accept*, reject, or modify the recommended disposition" (emphasis added)).

Report and Recommendation of the United States Magistrate Judge (Doc. No. 51) as the findings of this Court.

Accordingly, it is hereby **ORDERED** that Georgetown's Motion for Preliminary Injunction (Doc. No. 21) be **GRANTED**. It is further **ORDERED** that Holland, L.P. and its officers, employees, servants, agents, affiliates, distributors, dealers, attorneys, successors and/or assigns and all persons acting in concert or participation with any of them, who receive actual notice of this Order by personal service or otherwise, are preliminarily enjoyed from making, using, selling, or offering for sale in the United States any system for inspecting a railroad that infringes the claims of the '329 Patent, including the accused Rail Vision System, where the customer is located in the United States or any substantial portion of the sales activity occurs in the United States, until the issuance of a Final Decision and Order in this case. Holland is specifically preliminarily enjoined from demonstrating, taking orders, advertising, or discussing the accused Rail Vision System with any current or potential customer. This preliminary injunction will be effective upon Georgetown placing a $25,000 cash or surety bond with the Clerk of this Court in accordance with Fed. R. Civ. P. 65(c).

It is SO ORDERED.

SIGNED this 5th day of January, 2014.

MICHAEL H. SCHNEIDER
UNITED STATES DISTRICT JUDGE