

# The Economic Implications (and Uncertainties) of Obtaining Permanent Injunctive Relief After *eBay v. MercExchange*

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## Introduction

In *eBay, Inc. v. MercExchange, L.L.C. (eBay)*,<sup>1</sup> the U.S. Supreme Court clarified the standards for a plaintiff to obtain a permanent injunction under the Patent Act.<sup>2</sup> Since the May 2006 decision, thirty-six district court decisions, including the remand in the *eBay* case, have applied the Court's decision.<sup>3</sup> The net result has been diminished power for patent holders and increased uncertainties for licensing parties and litigants. This is particularly true in those instances in which the patent holder and licensee/infringer are not direct competitors.

## I. The *eBay* Decision

In 2003, a federal district court jury found that eBay infringed MercExchange's patented technology with its "Buy It Now" transaction feature.<sup>4</sup> The feature allows customers to purchase, at a fixed price, website auction items before the auction ends.<sup>5</sup> Although damages ultimately were found

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<sup>1</sup> 547 U.S. 388 (2006).

<sup>2</sup> *Id.* at 390.

<sup>3</sup> See *infra* notes 35 & 36 and accompanying text.

<sup>4</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 698–99 (E.D. Va. 2003), *aff'd in part, rev'd in part*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 547 U.S. 388 (2006).

<sup>5</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1325 (Fed. Cir. 2005), *vacated*, 547 U.S. 388 (2006).

to be \$25 million,<sup>6</sup> the district court denied MercExchange's request for a permanent injunction.<sup>7</sup> In his opinion denying the request, Judge Friedman noted a growing concern over the issuance of business method patents that the patent holder did not practice.<sup>8</sup>

In 2005, the Court of Appeals for the Federal Circuit (Federal Circuit) not only upheld the finding of infringement and damages, but also imposed a permanent injunction.<sup>9</sup> The Federal Circuit noted a "general rule that courts will issue permanent injunctions against patent infringements absent exceptional circumstances."<sup>10</sup>

On May 15, 2006, the U.S. Supreme Court vacated the Federal Circuit ruling, writing that injunctions should not be granted automatically in patent cases.<sup>11</sup> Instead, the Supreme Court required the application of the traditional four-factor test to determine whether a permanent injunction ought to issue.<sup>12</sup> Specifically, the plaintiff must demonstrate the following:

- (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.<sup>13</sup>

The Supreme Court held that the district court was too restrictive, and the Federal Circuit too expansive, in interpreting the test and it remanded the case back to the lower court.<sup>14</sup>

Justice Kennedy's concurring opinion pointed to a purported increase in the number of firms that use patents primarily to obtain license fees.<sup>15</sup> He expressed concern that these firms, often known as *patent trolls*, could employ the threat of an injunction to charge exorbitant license fees to companies practicing the patented invention.<sup>16</sup> Further, Justice Kennedy wrote:

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<sup>6</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 563 (E.D. Va. 2007).

<sup>7</sup> *MercExchange*, 275 F. Supp. 2d at 722.

<sup>8</sup> *Id.* at 713–14.

<sup>9</sup> *MercExchange*, 401 F.3d at 1326.

<sup>10</sup> *Id.* at 1339.

<sup>11</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 390 (2006).

<sup>12</sup> *Id.*

<sup>13</sup> *Id.* at 391.

<sup>14</sup> *Id.* at 393–94.

<sup>15</sup> *Id.* at 396 (Kennedy, J., concurring).

<sup>16</sup> *Id.* For a discussion of "patent trolls," see Miranda Jones, Note, *Permanent Injunction, A Remedy by Any Other Name Is Patently Not the Same: How eBay v. MercExchange Affects the Patent Right of Non-Practicing Entities*, 14 GEO. MASON L. REV. 1035, 1035–36, 1040–42 (2007). See also Marc Morgan, *Stop Looking Under the Bridge for Imaginary Creatures: A Comment Examining Who Really Deserves the Title Patent Troll*, 17 FED. CIR. B.J. 165 (2007).

When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.<sup>17</sup>

Justice Kennedy also expressed skepticism about the validity of some business method patents granted in recent years.<sup>18</sup> He opined that such patents have had little economic worth in the past, which may justify a different “calculus” under the four-factor test than might be expected for a more valuable patent.<sup>19</sup>

Following the remand, on July 27, 2007, Judge Friedman issued an opinion denying MercExchange’s request for a permanent injunction.<sup>20</sup> The court found that three of the four factors favored eBay and one factor (balance of the hardships) favored neither party.<sup>21</sup> The court held that MercExchange was not a direct competitor of eBay, had no reputation, brand name, customer base or goodwill to defend, and no royalty stream to maximize.<sup>22</sup> Judge Friedman also found it significant that MercExchange’s actions (primarily, its attempts to license its technology) were inconsistent with defending its right to exclude.<sup>23</sup> He held that money damages were appropriate because the evidence pointed to MercExchange’s intent to use the threat of a permanent injunction as a bargaining chip to extract money from eBay.<sup>24</sup>

## II. Pre-*eBay* Injunction Cases

As the Federal Circuit noted in the *eBay* case, before 2006, permanent injunctions were granted routinely to patent holders who prevailed in litigation.<sup>25</sup> For example, in *Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp.*,<sup>26</sup> the court wrote that “[i]n the patent area, ‘it is the general rule that an injunction will issue when infringement has been adjudged, absent a

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<sup>17</sup> *eBay*, 547 U.S. at 396–97 (Kennedy, J., concurring).

<sup>18</sup> *Id.* at 397.

<sup>19</sup> *Id.*

<sup>20</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 559 (E.D. Va. 2007).

<sup>21</sup> *Id.* at 591.

<sup>22</sup> *Id.* at 578, 591.

<sup>23</sup> *Id.* at 591.

<sup>24</sup> *Id.* at 582.

<sup>25</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005), *vacated*, 547 U.S. 388 (2006).

<sup>26</sup> 106 F. Supp. 2d 696 (D.N.J. 2000).

sound reason for denying it.”<sup>27</sup> A variety of commentators have confirmed this “general rule.”<sup>28</sup>

Exceptions to this general rule were rare and were usually based on a critical public interest.<sup>29</sup> For example, an injunction was denied where a community would have been left without any viable means to dispose of raw sewage.<sup>30</sup> Injunctive relief was also denied where the burden of an injunction would have been borne primarily by non-party hospitals, patients and the public.<sup>31</sup> The same outcome resulted where a patentee refused to license the use of its patent to protect the health of “great numbers of the public . . . [who were] suffering with rickets.”<sup>32</sup> In most other cases, an injunction was issued with little fanfare. Upon a finding of infringement (rightly or wrongly), patent holders were able to exclude competitors from the marketplace.

With *eBay*'s retraction of the near automatic grant of permanent injunctions, the power (and, therefore, value) of patents has been diminished.<sup>33</sup> Although the full extent of the diminution is yet to be determined, it certainly has impacted a patent holder's entitlement to permanent injunctive relief; it likely has impacted a patent holder's ability to share its rights through a license; and it probably has impacted the process of establishing and estimating litigation damages.

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<sup>27</sup> *Id.* at 700 (quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989)); *see also* *W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281–82 (Fed. Cir. 1988) (holding that infringer's cessation of production is insufficient reason to deny injunction); *KSM Fastening Sys., Inc. v. H.A. Jones Co.*, 776 F.2d 1522, 1524 (Fed. Cir. 1985); *Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1564 (Fed. Cir. 1984).

<sup>28</sup> *See, e.g.*, Rebecca A. Hand, *eBay v. MercExchange: Looking at the Cause and Effect of a Shift in the Standard for Issuing Patent Injunctions*, 25 *CARDOZO ARTS & ENT. L.J.* 461–63 (2007); Charlene A. Stern-Dombal, *Tripping Over TRIPS: Is Compulsory Licensing Under eBay at Odds with U.S. Statutory Requirements and TRIPS?*, 41 *SUFFOLK U. L. REV.* 249, 254 (2007); Yixin H. Tang, *Recent Development: The Future of Patent Enforcement After eBay v. MercExchange*, 20 *HARV. J.L. & TECH.* 235, 243 (2006).

<sup>29</sup> *See MercExchange*, 401 F.3d at 1338 (quoting *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995)).

<sup>30</sup> *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934).

<sup>31</sup> *Mallinckrodt Inc. v. Masimo Corp.*, No. 00-6506 MRP (AJWx), 2004 U.S. Dist. LEXIS 28518, at \*103 (C.D. Cal. July 12, 2004), *aff'd in part, rev'd in part*, 147 Fed. App'x 158 (Fed. Cir. 2005).

<sup>32</sup> *Vitamin Technologists, Inc. v. Wis. Alumni Research Found.*, 146 F.2d 941, 946 (9th Cir. 1945).

<sup>33</sup> *See, e.g.*, Hess Bravin & Justin Schek, *Justices Get Another Shot at Patent Law*, *WALL ST. J.*, Jan. 16, 2008, at B1.

### III. Injunction Consequences

Since mid-2006, district courts have issued opinions in thirty-six patent cases where the plaintiff sought a permanent injunction.<sup>34</sup> Of those, injunctions were granted four out of five times<sup>35</sup> and denied the rest of

<sup>34</sup> See *infra* notes 35 & 36.

<sup>35</sup> The twenty eight injunction cases are: Verizon Servs. Corp. v. Vonage Holdings Corp., 503 F.3d 1295, 1298 (Fed. Cir. 2007); Acumed LLC v. Stryker Corp., No. 04-CV-513-BR, 2007 U.S. Dist. LEXIS 86866, at \*1 (Nov. 20, 2007); Martek Biosciences Corp. v. Nutrinova Inc., 520 F. Supp. 2d 537, 560 (D. Del. 2007); Sundance, Inc. v. DeMonte Fabricating Ltd., No. 02-73543, 2007 U.S. Dist. LEXIS 77728, at \*3-4 (E.D. Mich. Oct. 19, 2007); Allan Block Corp. v. E. Dillon & Co., 509 F. Supp. 2d 795, 811 (D. Minn. 2007); Johns Hopkins Univ. v. Datascope Corp., 513 F. Supp. 2d 578, 586 (D. Md. 2007); Muniauction, Inc. v. Thomson Corp., 502 F. Supp. 2d 477, 493 (W.D. Pa. 2007); Sanofi-Synthelabo v. Apotex Inc., 492 F. Supp. 2d 353, 356 (S.D.N.Y. 2007); Commw. Scientific and Indus. Research Org. v. Buffalo Tech. Inc., 492 F. Supp. 2d 600, 601 (E.D. Tex. 2007); Brooktrout, Inc. v. Eicon Networks Corp., No. 2:03-CV-59, 2007 U.S. Dist. LEXIS 43107, at \*1-2 (E.D. Tex. June 14, 2007); MGM Well Servs., Inc. v. Mega Lift Sys., LLC, 505 F. Supp. 2d 359, 365 (S.D. Tex. 2007); 800 Adept, Inc. v. Murex Secs., Ltd., 505 F. Supp. 2d 1327, 1340 (M.D. Fla. 2007); O2 Micro Int'l, Ltd. v. Beyond Innovation Tech. Co., No. 2-04-CV-32 (TJW), 2007 U.S. Dist. LEXIS 25948, at \*10 (E.D. Tex. Mar. 21, 2007); Ortho-McNeil Pharm., Inc. v. Mylan Labs. Inc., Nos. 04-1689, 06-757 and 06-5166, 2007 U.S. Dist. LEXIS 19494, at \*2-3 (D.N.J. Mar. 20, 2007); Novozymes A/S v. Genencor Int'l, Inc., 474 F. Supp. 2d 592, 613 (D. Del. 2007); MPT, Inc. v. Marathon Labels, Inc., 505 F. Supp. 2d 401, 423 (N.D. Ohio 2007), *aff'd in part, rev'd in part*, Nos. 2007-1183, -1204, -1238, 2007 U.S. App. LEXIS 28911 (Fed. Cir. Dec. 12, 2007); Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp., No. H-03-2910, 2006 U.S. Dist. LEXIS 93408, at \*40 (S.D. Tex. Dec. 27, 2006); Visto Corp. v. Seven Networks, Inc., No. 2:03-CV-333-TJW, 2006 U.S. Dist. LEXIS 91453, at \*2 (E.D. Tex. Dec. 19, 2006); Black & Decker Inc. v. Robert Bosch Tool Corp., No. 04 C 7955, 2006 U.S. Dist. LEXIS 86990, at \*2 (N.D. Ill. Nov. 29, 2006), *aff'd in part, vacated in part*, Nos. 2007-1243, -1244, 2008 U.S. App. LEXIS 207 (Fed. Cir. Jan. 7, 2008); Rosco, Inc. v. Mirror Lite Co., No. CV-96-5658 (CPS), 2006 U.S. Dist. LEXIS 73366, at \*25 (E.D.N.Y. Sept. 28, 2006); Smith & Nephew, Inc. v. Synthes (U.S.A.), 466 F. Supp. 2d 978, 990 (W.D. Tenn. 2006), *appeal dismissed*, No. 2007-1048, U.S. App. LEXIS 4889 (Fed. Cir. Feb. 22, 2008); 3M Innovative Props. Co. v. Avery Dennison Corp., No. 01-1781 (JRT/FLN), 2006 U.S. Dist. LEXIS 70263, at \*8 (D. Minn. Sept. 25, 2006); Litecubes, L.L.C. v. N. Light Prods., No. 4:04CV00485 ERW, 2006 U.S. Dist. LEXIS 60575, at \*65 (E.D. Mo. Aug. 25, 2006); Floe Int'l, Inc. v. Newmans' Mfg. Inc., No. 04-5120 (DWF/RLE), 2006 U.S. Dist. LEXIS 59872, at \*26 (D. Minn. Aug. 23, 2006); Am. Seating Co. v. USSC Group, Inc., No. 01-00578, 2006 U.S. Dist. LEXIS 59212, at \*2 (W.D. Mich. Aug. 22, 2006); TiVo Inc. v. EchoStar Commc'ns. Corp., 446 F. Supp. 2d 664, 671 (E.D. Tex. 2006), *aff'd in part, rev'd in part*, 516 F.3d 1290 (Fed. Cir. 2008); Telequip Corp. v. Change Exch., No. 5:01-CV-1748 (FJS/GJD), 2006 U.S. Dist. LEXIS 61469, at

the time.<sup>36</sup> To many patent holders, these results do not seem substantially different from pre-*eBay* cases.<sup>37</sup> Indeed, in his concurring opinion in the *eBay* case, Justice Kennedy wrote that the pre-*eBay* pattern of granting automatic injunctions against infringers was simply illustrative of the results of the four-factor test.<sup>38</sup>

This masks, however, the real effect of *eBay*, which is a reduced likelihood that certain *types* of patent holders will be able to obtain an injunction.

### A. Importance of “Direct Competition”

To date, the relationship of the parties-in-suit has been the single most important determinant as to whether an injunction will issue.<sup>39</sup> For the most part, when the parties-in-suit were deemed *direct* competitors, permanent injunctions were issued.<sup>40</sup> In fact, with two exceptions, permanent injunctions issued in all twenty-six cases where courts found direct competition

\*6 (N.D.N.Y. Aug. 15, 2006); *Wald v. Mudhopper Oilfield Servs.*, No. CIV-04-1693-C, 2006 U.S. Dist. LEXIS 51669, at \*19 (W.D. Okla. July 27, 2006).

<sup>36</sup> The eight non-injunction cases are: *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1380 (Fed. Cir. 2008); *Respiroics, Inc. v. Invacare Corp.*, No. 04-0336, 2008 U.S. Dist. LEXIS 1174, at \*2 (W.D. Pa. Jan. 7, 2008); *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 591 (E.D. Va. 2007); *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 444 (D. Del. 2007); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623, at \*21 (W.D. Okla. Sept. 5, 2006); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*2 (E.D. Tex. Aug. 16, 2006), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007); *Finisar Corp. v. DirecTV Group, Inc.*, No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 76380, at \*4 (E.D. Tex. July 7, 2006); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 438 (E.D. Tex. 2006), *aff'd*, 507 F.3d 1340 (Fed. Cir. 2007).

<sup>37</sup> Robert M. Isackson, *After 'eBay,' Injunctions Decrease*, NAT'L L.J., Dec. 3, 2007, at S1.

<sup>38</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring).

<sup>39</sup> Several commentators have made the same observation. See Andrew Beckerman-Rodau, *The Aftermath of eBay v. MercExchange*, 126 S. Ct. 1837 (2006): *A Review of Subsequent Judicial Decisions*, 89 J. PAT. & TRADEMARK OFF. SOC'Y 631, 633 (2007); Gregory A. Castanias et al., *Survey of the Federal Circuit's Patent Law Decisions in 2006: A New Chapter in the Ongoing Dialogue with the Supreme Court*, 56 AM. U. L. REV. 793, 812 (2007); Jeremy Mulder, *The Aftermath of eBay: Predicting When District Courts Will Grant Permanent Injunctions in Patent Cases*, 22 BERKELEY TECH. L.J. 67, 67 (2007); Tang, *supra* note 28, at 243; Jonathan Muenkel & Eric Lee, *The eBay Effect: Real Change or Status Quo? An Examination of Requests for Injunctive Relief in Patent Actions since eBay v. MercExchange*, IPL NEWSL. (A.B.A. Sec. Intell. Prop.) Fall 2006, at 14, 20; David Orozco and James G. Conley, *The "Longer Walk" After eBay v. MercExchange*, 42 LES NOUVELLES 426, 428 (2007).

<sup>40</sup> See Benjamin H. Diessel, Note, *Trolling for Trolls: The Pitfalls of the Emerging Market Competition Requirement for Permanent Injunctions in Patent Cases Post-eBay*, 106 MICH. L.

between a plaintiff and the infringer. In one exception, *Innogenetics, N.V. v. Abbott Laboratories*,<sup>41</sup> the Federal Circuit reversed the district court's grant of a permanent injunction because the damages awarded at trial presumably contemplated a hypothetical license for the life of the patent-at-issue (not just for pre-trial infringement).<sup>42</sup> In the other exception, *Praxair, Inc. v. ATMI, Inc.*,<sup>43</sup> the district court found that there was direct competition, but did not issue a permanent injunction because the plaintiff did not provide sufficient evidence of lost sales, lost profits, and/or lost market share.<sup>44</sup> The court noted that Praxair could renew its motion for injunctive relief after appellate review of the jury verdict.<sup>45</sup> This would allow Praxair the opportunity to provide the requisite evidence at a later date.

When the parties were *not* deemed to be direct competitors, injunctions were issued less often. In fact, when courts found no direct competition between the plaintiff and infringer, they denied permanent injunctions in more than half (five of nine) of the cases.<sup>46</sup> In the four cases where an injunction did issue despite a lack of direct competition between the patent holder and the infringer, the court generally identified other relevant competitors (related or licensee non-parties) who were disadvantaged by the infringement.<sup>47</sup> And in one of those four cases, the injunction issued despite a lack of competi-

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REV. 305, 309–10 (2007). For a discussion of the potential costs of a “market competition” requirement, *see id.* at 333–44.

<sup>41</sup> 512 F.3d 1363 (Fed. Cir. 2008).

<sup>42</sup> *Id.* at 1380–81.

<sup>43</sup> 479 F. Supp. 2d 440 (D. Del. 2007).

<sup>44</sup> *Id.* at 442, 444. The court in *IMX, Inc. v. LendingTree, LLC* utilized a different approach when it deferred ruling on the issue of a permanent injunction, allowing the plaintiff to provide further evidence before the district court issued an order. *See IMX, Inc. v. LendingTree, LLC*, 469 F. Supp. 2d 203, 226 (D. Del. 2007).

<sup>45</sup> *Praxair*, 479 F. Supp. 2d at 444.

<sup>46</sup> *See* *Respironics, Inc. v. Invacare Corp.*, No 04-0336, 2008 U.S. Dist. LEXIS 1174, at \*13–14 (W.D. Pa. Jan. 7, 2008); *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 578 (E.D. Va. 2007); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623, at \*18–19 (W.D. Okla. Sept. 5, 2006); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*13–14 (E.D. Tex. Aug. 16, 2006), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440 (E.D. Tex. 2006), *aff'd*, 507 F.3d 1340 (Fed. Cir. 2007).

<sup>47</sup> *See* *Allan Block Corp. v. E. Dillon & Co.*, 509 F. Supp. 2d 795, 799, 811 (D. Minn. 2007) (licensee was later found to be an infringer and so was found to compete); *MPT, Inc. v. Marathon Labels, Inc.*, 505 F. Supp. 2d 401, 420 (N.D. Ohio 2007), *aff'd in part, rev'd in part*, Nos. 2007-1183, -1204, -1238, 2007 U.S. App. LEXIS 28911 (Fed. Cir. Dec 12, 2007); *Novozymes A/S v. Genencor Int'l, Inc.*, 474 F. Supp. 2d 592, 612 (D. Del. 2007).

tion because the patentee was a research organization.<sup>48</sup> In *Commonwealth Scientific and Industrial Research Organisation (CSIRO) v. Buffalo Technology Inc.*,<sup>49</sup> the principal scientific research organization of the Australian Federal Government did not compete with the infringer, but it did compete with other research institutions for funding, ideas and the best scientific minds.<sup>50</sup> The court explained that the infringers could cause delays in funding and costly litigation, limiting current research and resulting in harms such as lost opportunities and a diminished reputation.<sup>51</sup> Not coincidentally, in the *eBay* case, Justice Thomas' majority opinion noted that some university researchers or self-made inventors, who do not directly compete with infringers, may be able to satisfy the four-factor test.<sup>52</sup>

Direct (or head-to-head) competition was largely dispositive because it has been tied to economic harm. Losses have been cited related to "market share,"<sup>53</sup> "sales,"<sup>54</sup> "customers,"<sup>55</sup> "profits,"<sup>56</sup> "opportunities,"<sup>57</sup> "reputation"<sup>58</sup>

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<sup>48</sup> *Commw. Scientific and Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 604 (E.D. Tex. 2007).

<sup>49</sup> 492 F. Supp. 2d 600 (E.D. Tex. 2007).

<sup>50</sup> *Id.* at 604. Although CSIRO did not practice the patent-at-issue at the time it filed suit in 2005, CSIRO did practice the invention through a joint venture until Cisco Systems, Inc. purchased the venture in 2001. *See id.* at 602.

<sup>51</sup> *Id.* at 604.

<sup>52</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393 (2006).

<sup>53</sup> *See, e.g., Novozymes A/S v. Genencor Int'l, Inc.*, 474 F. Supp. 2d 592, 599 (D. Del. 2007); *Smith & Nephew, Inc. v. Synthes (U.S.A.)*, 466 F. Supp. 2d 978, 983 (W.D. Tenn. 2006), *appeal dismissed*, No. 2007-1048, U.S. App. LEXIS 4889 (Fed. Cir. Feb. 22, 2008); *TiVo Inc. v. EchoStar Commc'ns. Corp.*, 446 F. Supp. 2d 664, 669-70 (E.D. Tex. 2006), *aff'd in part, rev'd in part*, 516 F.3d 1290 (Fed. Cir. 2008); *Wald v. Mudhopper Oilfield Servs.*, No. CIV-04-1693-C, 2006 U.S. Dist. LEXIS 51669, at \*16 (W.D. Okla. July 27, 2006).

<sup>54</sup> *See, e.g., Verizon Servs. Corp. v. Vonage Holdings. Corp.*, 503 F.3d 1295, 1310 (Fed. Cir. 2007); *Litecubes, L.L.C. v. N. Light Prods.*, No. 4:04CV00485 ERW, 2006 U.S. Dist. LEXIS 60575, at \*31-32 (E.D. Mo. Aug. 25, 2006); *Wald*, 2006 U.S. Dist. LEXIS 51669, at \*16.

<sup>55</sup> *See, e.g., Martek Biosciences Corp. v. Nutrinova Inc.*, 520 F. Supp. 2d 537, 558 (D. Del. 2007).

<sup>56</sup> *See, e.g., Smith & Nephew*, 466 F. Supp. 2d at 983.

<sup>57</sup> *See, e.g., Verizon*, 503 F.3d at 1310; *O2 Micro Int'l, Ltd. v. Beyond Innovation Tech. Co.*, No. 2-04-CV-32 (TJW), 2007 U.S. Dist. LEXIS 25948, at \*9 (E.D. Tex. Mar. 21, 2007).

<sup>58</sup> *See, e.g., MPT, Inc. v. Marathon Labels, Inc.*, 505 F. Supp. 2d 401, 420 (N.D. Ohio 2007), *aff'd in part, rev'd in part*, Nos. 2007-1183, -1204, -1238, 2007 U.S. App. LEXIS 28911 (Fed. Cir. Dec 12, 2007); *Black & Decker Inc. v. Robert Bosch Tool Corp.*, No. 04 C 7955, 2006 U.S. Dist. LEXIS 86990, at 11-12 (N.D. Ill. Nov. 29, 2006), *aff'd in part*,



and/or “brand name.”<sup>59</sup> And those kinds of losses commonly were deemed to be “irreparable,” thereby satisfying the first two prongs of the four-factor test (i.e., irreparable harm and inadequacy of money damages).<sup>60</sup> Further, according to Mulder, “[b]ased on the available data, courts view the first two factors as most crucial . . . . The latter two factors appear less crucial, either because they are less likely to be implicated or because when they are implicated, courts appear to stampede them with the first two factors.”<sup>61</sup>

While those direct competition losses typically led to a finding of irreparable harm and inadequacy of money damages, from an economic standpoint, it is not clear why that is necessarily, or even often, true. Certain kinds of harm associated with infringement may, in fact, be insurmountably difficult to quantify, irrespective of direct competition. For example, CSIRO successfully pointed out that it had a proven “right to control its licensing program and to choose to whom to license and on what terms,” and loss of that right caused CSIRO real harm.<sup>62</sup> Moreover, infringement suits, which often lead to challenges to the patent’s validity, may negatively impact CSIRO’s reputation in the research community and funds may be diverted from research to litigation. These things may lead to difficulties in hiring top scientists and result in lost opportunities.<sup>63</sup> In *Black & Decker Inc. v. Robert Bosch Tool Corp.*,<sup>64</sup> the court noted that infringement could injure the patent owner’s reputation as a worksite innovator.<sup>65</sup> These losses may be real, albeit difficult to quantify.

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*vacated in part on other grounds*, Nos. 2007-1243, -1244, 2008 U.S. App. LEXIS 207 (Fed. Cir. Jan. 7, 2008).

<sup>59</sup> See, e.g., *Smith & Nephew*, 466 F. Supp. 2d at 983.

<sup>60</sup> The bulk of courts have found little practical difference between the first (irreparable harm) and second (adequate remedy at law) prongs. See, e.g., *3M Innovative Props. Co. v. Avery Dennison Corp.*, No. 01-1781 (JRT/FLN), 2006 U.S. Dist. LEXIS 70263, at \*4–5 (D. Minn. Sept. 25, 2006); *Wald v. Mudhopper Oilfield Servs.*, No. CIV-04-1693-C, 2006 U.S. Dist. LEXIS 51669, at \*15–16 (W.D. Okla. July 27, 2006). The district court in the *eBay* remand wrote, “[t]he irreparable harm inquiry and remedy at law inquiry are essentially two sides of the same coin . . . .” *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 569 n.11 (E.D. Va. 2007). Thus, satisfaction of one prong, through the proof of direct competition, typically has led to the satisfaction of both.

<sup>61</sup> Mulder, *supra* note 39, at 80.

<sup>62</sup> *Commw. Scientific and Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 604–05 (E.D. Tex. 2007).

<sup>63</sup> *Id.* at 604.

<sup>64</sup> No. 04 C 7955, 2006 U.S. Dist. LEXIS 86990 (N.D. Ill. Nov. 29, 2006), *aff’d in part, vacated in part*, Nos. 2007-1243, -1244, 2008 U.S. App. LEXIS 207 (Fed. Cir. Jan. 7, 2008).

<sup>65</sup> *Id.* at \*11–12.

Many courts have held, however, that more typical business losses are, likewise, impermissibly difficult to quantify.<sup>66</sup> The court in *Wald v. Mudhopper Oilfield Services*<sup>67</sup> held that lost sales, market share, ability to maintain the industry standard and damage to the plaintiff's reputation were simply not compensable, even with treble damages.<sup>68</sup> The courts in *z4 Technologies, Inc. v. Microsoft Corp.*<sup>69</sup> and *Black & Decker* held that injuries such as the loss of market share are "impossible to determine."<sup>70</sup> And the court in *Smith & Nephew, Inc. v. Synthes (U.S.A.)*<sup>71</sup> wrote that loss of market share, lost profits and lost brand name recognition were incalculable and irreparable injuries.<sup>72</sup>

Normal business losses, however, are not *per se* incalculable. In fact, there is a whole industry of economists, financial analysts and accountants who regularly calculate damages associated with lost sales, loss of market share and lost profits, for example. And courts regularly accept these calculations.<sup>73</sup> Many of these same calculations are used in the business world to forecast or predict various performance metrics and to value assets, liabilities, projects and other potential investment opportunities—billions of dollars are spent on the basis of these types of calculations. Done carefully, these calculations can be reliable. The fact that the impact of the loss of an asset may be challenging to estimate does not mean it is impossible.

A corollary to the frequently-adopted position that "direct competition" usually leads to irreparable harm and/or inadequacy of money damages, is the common belief that the "right to exclude" is particularly important in such

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<sup>66</sup> See, e.g., *id.* at \*12; *Wald v. Mudhopper Oilfield Servs.*, No. CIV-04-1693-C, 2006 U.S. Dist. LEXIS 51669, at \*15–16 (W.D. Okla. July 27, 2006); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440–41 (E.D. Tex. 2006).

<sup>67</sup> No. CIV-04-1693-C, 2006 U.S. Dist. LEXIS 51669 (W.D. Okla. July 27, 2006).

<sup>68</sup> *Id.* at \*16. See also *z4 Techs.*, 434 F. Supp. 2d at 440 (holding that lost profits, loss of brand name recognition and loss of market share are "often incalculable and irreparable").

<sup>69</sup> 434 F. Supp. 2d 437 (E.D. Tex. 2006).

<sup>70</sup> *Id.* at 441; *Black & Decker*, 2006 U.S. Dist. LEXIS 86990, at \*12.

<sup>71</sup> 466 F. Supp. 2d 978 (W.D. Tenn. 2006), *appeal dismissed*, No. 2007-1048, U.S. App. LEXIS 4889 (Fed. Cir. Feb. 22, 2008).

<sup>72</sup> *Id.* at 983. The court qualified the statement by acknowledging that "[d]amages due to lost sales might theoretically be proven with lesser or greater degree of certainty," however, the court reiterated its belief that the loss of goodwill (and other intangibles) "can never be ascertained accurately." *Id.* at 984.

<sup>73</sup> See Robert E. Koosa, *Dial "M" for Malpractice: How Much Certainty is Reasonable After Beverly Hills Concepts?*, 20 Q.L.R. 527, 567 (2001) (noting that a court admitted the testimony of an accountant who used lost profits calculations to determine damages); see also Gerard Mantese, et. al., *The Effective Use of Experts During Discovery and Trial*, 75 MICH. B.J. 832, 832 (1996) ("An appraiser, economist, actuary, or other business analyst can marshal the facts to prove lost profits, lost income, or the valuation of assets.").

settings, and that such right is at the core of patent protection. Some courts have pointed to this “right to exclude” as virtually mandating a permanent injunction.<sup>74</sup>

That reasoning, however, appears to beg the question. Permanent injunction determinations seek to determine the bounds of that *right to exclude*.<sup>75</sup> That is, they seek to determine whether an infringer is not allowed to participate in the business at all, or whether and how the infringer should provide adequate compensation for its participation. Citing a *right to exclude* provides no real guidance from an economic standpoint.

### B. Ambiguity About *Direct Competition*

Although courts generally have been clear that direct competition between the plaintiff and the infringer usually justifies the issuance of a permanent injunction, eminently less clear is what precisely satisfies the standard of *direct competition*. Associated with that are several unresolved issues.

- *When* should the determination of *direct competition* be made? (At the time of first infringement? At the time that the injunction is under consideration? At some other point in time?)
- *How much* competitive overlap is sufficient?
- *How direct* does the competition have to be? (Does the patent holder have to be in the business? Is the licensing of a direct competitor to the infringer sufficient?)
- *How important* must the infringement be to competition between the parties?
- *Does the type* of patent matter? (Is a business method patent less deserving of protection than any other type of patent?)

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<sup>74</sup> See, e.g., *Brooktrout, Inc. v. Eicon Networks Corp.*, No. 2:03-CV-59, 2007 U.S. Dist. LEXIS 43107, at \*5 (E.D. Tex. June 14, 2007); *MGM Well Servs., Inc. v. Mega Lift Sys., LLC*, 505 F. Supp. 2d 359, 379 (S.D. Tex. 2007); *Telequip Corp. v. Change Exch.*, No. 5:01-CV-1748 (FJS/GJD), 2006 U.S. Dist. LEXIS 61469, at \*4 (N.D.N.Y. Aug. 15, 2006).

<sup>75</sup> An alternative viewpoint is that courts are not necessarily re-defining the right to exclude; rather, they are re-defining the *class* of patent holder entitled to *exercise* that right. When the injunction is granted, the patent holder enjoys the same exercise of the right to exclude that it would have had before *eBay*, albeit at a higher cost of enforcement. When the injunction is denied, the patent holder is denied the exercise of the right to exclude, with regard to the infringer, although it may be compensated for the loss of that right. See generally James M. Fischer, *The “Right” to Injunctive Relief for Patent Infringement*, 24 SANTA CLARA COMPUTER & HIGH TECH L.J. 1, 12–16 (2006).

### 1. *Timing of Competition*

In making an assessment of whether there is direct competition between the plaintiff<sup>76</sup> and the infringer, the question of when such a determination should be made is critical. Answering this question raises a number of challenging issues.

The two most likely points of consideration are: (1) at the time of first infringement and (2) at the time the injunction is under consideration. In most cases, the infringing party is in the market at both points time. The first point is sensible because an infringement suit has been filed. The second is reasonable because an injunction has been requested. In contrast, there are several possibilities for the plaintiff, each of which involves different concerns in an injunction determination.

In some sense, the situation where the plaintiff is on the market at the time of the first infringement and at the time that the injunction is being considered is the easiest case. In this case, the patent holder and infringer often will be considered direct competitors, and an injunction often will issue.

The situation where the patent holder was on (or close to) the market but did not enter or could not survive, is a more difficult case, particularly if the infringement contributed to the patent holder's failure. Failure to grant an injunction in such a situation may effectively reward the infringer for its behavior. In *z4 Technologies, Inc. v. Microsoft Corp.*, the patent holder argued that the infringer's actions prevented z4's success despite its "tremendous efforts to commercialize" the patent-in-suit.<sup>77</sup> z4 further argued that the infringer's (Microsoft's) actions changed the dynamics of the competitive relationship and forced a change in the company's role from a supplier to a licensor.<sup>78</sup> In part because it did not become a supplier of competing software, z4 was not granted an injunction.<sup>79</sup>

In the *eBay* case, MercExchange granted several licenses shortly after the issuance of its patent and raised \$10 million in venture capital.<sup>80</sup> MercExchange claimed that though it intended to enter the business, competition

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<sup>76</sup> In most cases, the plaintiff is the patent holder who is litigating alone or with one or more licensees. One exception is the *Transocean* case where the sole plaintiff was the exclusive licensee. See *Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*, No. H-03-2910, 2006 U.S. Dist. LEXIS 93408, at \*2 (S.D. Tex. Dec. 27, 2006).

<sup>77</sup> *z4 Techs. Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440 (E.D. Tex. 2006), *aff'd*, 507 F.3d 1340 (Fed. Cir. 2007).

<sup>78</sup> *See id.*

<sup>79</sup> *See id.*

<sup>80</sup> Julia Wilkinson, *The eBay Patent Wars: Interview with MercExchange CEO Thomas Woolston*, AUCTIONBYTES.COM, Sept. 30, 2004, available at <http://www.auctionbytes.com>; Tang, *supra* note 28, at 237.

in the online auction business had intensified to such a degree, driven largely by the presence of eBay, that its commercialization efforts failed by the point of eBay's first alleged infringement.<sup>81</sup> The infringement may have been, in part, responsible for MercExchange's business failure, yet that very failure had limited its ability to obtain an injunction.

Another challenging situation is where the patent holder is or was not on (or close to) the market at the time of the injunction determination, but has or had well-formed plans to commercialize the invention at some point in the future. In such a case, the failure to grant an injunction could reward the infringer by reducing the likelihood of future entry by the patent holder (who would no longer have exclusive access to his/her patent). To date, this does not appear to have been addressed by any court. However, in light of other decisions, the fact that the patent holder had never commercialized its technology may yield a finding of no direct competition and, therefore, lead to a denial of a motion for permanent injunction, regardless of any future plans that the patent holder may have had.

## 2. Degree of Competition

Another unresolved issue is the degree of competition that is required to justify granting an injunction. For example, if the patent holder has a 60 percent market share, but defendant has a 0.6 percent market share, is that enough competition? What if those shares are reversed? What if the parties compete in only a portion of their businesses?

The district court considered this issue in *eBay*.<sup>82</sup> In 2004, MercExchange granted uBid, an online auction service and eBay competitor, a non-exclusive license to its entire patent portfolio.<sup>83</sup> The district court held that although uBid "plainly competes" with eBay for certain business-based sellers, a significant portion of the relevant market is turned away from uBid as non-certified businesses, and individuals, who cannot sell products on uBid's website.<sup>84</sup> Without quantifying the degree of overlap in the customer base between uBid and eBay, the court nevertheless found that a "significant" portion of non-overlapping customers was enough to justify denial of permanent injunction in this case.<sup>85</sup>

In *800 Adept, Inc. v. Murex Securities, Ltd.*,<sup>86</sup> as in many other cases, the significance of the infringer's presence was examined in the "balance of hard-

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<sup>81</sup> Tang, *supra* note 28, at 237.

<sup>82</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 578–79 & n.20 (E.D. Va. 2007).

<sup>83</sup> *Id.* at 561

<sup>84</sup> *Id.* at 578–79 & n.20.

<sup>85</sup> *Id.*

<sup>86</sup> 505 F. Supp. 2d 1327 (M.D. Fla. 2007).

ships” analysis.<sup>87</sup> There, the court found that patent holder had a small market share relative to the infringers’.<sup>88</sup> In granting an injunction, however, the court found that the infringers directly competed with the patent holder, had more customers and that some of the customers were obtained from the patent holder.<sup>89</sup> Left unanswered was the extent to which the infringer’s presence might be deemed to be *too small*.

### 3. Nature of Competition

A third issue involves the nature of competition between the patent holder (or its licensee(s)) and the infringer. The central issue surrounds identification of the entity with whom the infringer is competing.

In practice, most courts consider only the competition between the infringer and plaintiff(s).<sup>90</sup> In these cases, the plaintiffs typically include the patent holder, who practices the patent, or the non-practicing patent holder and its practicing licensees. Other courts, however, consider the activities of a wider group of potential competitors not involved in the litigation, including unrelated licensees,<sup>91</sup> exclusive distributors,<sup>92</sup> practicing subsidiaries<sup>93</sup> and companies closely related to the patent holder.<sup>94</sup> The table below illustrates the results from those cases.

Direct competition (and, therefore, near entitlement to a permanent injunction) typically is found in cases involving companies and individuals that practice the patent directly or through related entities.<sup>95</sup> On the other

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<sup>87</sup> *Id.* at 1338.

<sup>88</sup> *Id.*

<sup>89</sup> *Id.*

<sup>90</sup> *See, e.g., id.* at 1335–38.

<sup>91</sup> *See* Allan Block Corp. v. E. Dillon & Co., 509 F. Supp. 2d 795, 811 (D. Minn. 2007); MercExchange, L.L.C. v. eBay, Inc., 500 F. Supp. 2d 556, 578–79 & n.20 (E.D. Va. 2007).

<sup>92</sup> *See* Innogenetics, N.V. v. Abbott Labs., No. 05-C-0575-C, 2007 U.S. Dist. LEXIS 193, at \*63–64 (W.D. Wis. Jan. 3, 2007), *aff’d in part, rev’d in part*, 512 F.3d 1363 (Fed. Cir. 2008).

<sup>93</sup> *See* Novozymes A/S v. Genencor Int’l, Inc., 474 F. Supp. 2d 592, 596 (D. Del. 2007).

<sup>94</sup> *See* MPT, Inc. v. Marathon Labels, Inc., 505 F. Supp. 2d 401, 420 (N.D. Ohio 2007), *aff’d in part, rev’d in part*, Nos. 2007-1183, -1204, -1238, 2007 U.S. App. LEXIS 28911 (Fed. Cir. Dec 12, 2007).

<sup>95</sup> *See, e.g.,* MPT, Inc. v. Marathon Labels, Inc., 505 F. Supp. 2d 401, 420 (N.D. Ohio 2007), *aff’d in part, rev’d in part*, Nos. 2007-1183, -1204, -1238, 2007 U.S. App. LEXIS 28911 (Fed. Cir. Dec 12, 2007); Sanofi-Synthelabo v. Apotex Inc., 492 F. Supp. 2d 353, 356–57, 397 (S.D.N.Y. 2007); Novozymes A/S v. Genencor Int’l, Inc., 474 F. Supp. 2d 592, 613 (D. Del. 2007); Brooktrout, Inc. v. Eicon Networks Corp., No. 2:03-CV-59, 2007 U.S. Dist. LEXIS 43107, at \*3, 6 (E.D. Tex. June 14, 2007); Transocean Offshore

Plaintiff(s)	Injunction	No Injunction
Company		
Practices	18	4 <sup>a</sup>
Practices Through Related Entity	3 <sup>b</sup>	0
Practices Through Un-Related Entity	2 <sup>c</sup>	1 <sup>d</sup>
Non-Practicing	0	2 <sup>e</sup>
Individual		
Practices	0	0
Practices Through Related Entity	3 <sup>f</sup>	0
Practices Through Un-Related Entity	0	1 <sup>g</sup>
Non-Practicing	0	0
University or Research Institution	2 <sup>h</sup>	0
Total	28	8

<sup>a</sup> The plaintiff in *Praxair* was given the opportunity to provide evidence at a later date. *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 444 (D. Del. 2007). The plaintiff in *z4* was not in competition with the defendant for the same customers. *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440 (E.D. Tex. 2006), *aff'd*, 507 F.3d 1340 (Fed. Cir. 2007). The *Innogenetics* court considered the activities of a non-party exclusive distributor. *Innogenetics*, 2007 U.S. Dist. LEXIS 193, at \*63–64. Although competition was found, the Federal Circuit denied an injunction because damages at trial were inconsistent with an injunction. *Innogenetics*, 512 F.3d at 1380–81. In the *Respironics* case, the alleged competition with the plaintiff's patented product came from the defendant's non-accused product. *Respironics, Inc. v. Invacare Corp.*, No 04-0336, 2008 U.S. Dist. LEXIS 1174, at \*13–15 (W.D. Pa. Jan. 7, 2008). The infringing product was not manufactured or sold by the defendant. *Id.* at \*13.

<sup>b</sup> The *Novozymes* and *MPT* courts considered the activities of a non-party subsidiary and licensee, respectively. *Novozymes*, 474 F. Supp. 2d at 595–97, 612–13; *MPT*, 505 F. Supp. 2d at 420. The *Sanofi* court considered the activities of a related, exclusive licensee that joined the suit. *Sanofi-Synthelabo v. Apotex Inc.*, 492 F. Supp. 2d 353, 356–57 (S.D.N.Y. 2007).

<sup>c</sup> The *Allan Block* court considered the activities of the defendant as exclusive licensee (who also infringed by misappropriation). *Allan Block Corp. v. E. Dillon & Co.*, 509 F. Supp. 2d 795, 799, 811 (D. Minn. 2007). The court in *Sundance* considered the activities of a non-exclusive licensee that joined the suit. See *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 77728, at \*3 (E.D. Mich. Oct. 19, 2007); *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 158, at \*9 (E.D. Mich. Jan. 4, 2007).

<sup>d</sup> The *eBay* court, on remand, considered the activities of a non-party, non-exclusive licensee. *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 577–79 (E.D. Va. 2007).

<sup>e</sup> The plaintiff in *Finisar* did not practice or license its patent. Transcript of Hearing at 7:7–22, *Finisar Corp. v. DirecTV Group, Inc.*, No. 1:05-CV-264 (E.D. Tex. July 6, 2006), available at [http://www.fr.com/news/Finisar-v-Directv\\_Transcript1.pdf](http://www.fr.com/news/Finisar-v-Directv_Transcript1.pdf) and [http://www.fr.com/news/Finisar-v-Directv\\_Transcript2.pdf](http://www.fr.com/news/Finisar-v-Directv_Transcript2.pdf) [hereinafter *Finisar* Hearing Transcript]. The *Paice* court did not consider the activities of any licensees if they existed. See *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, \*13–14 (E.D. Tex. Aug. 16, 2006), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007) (discussing the possibility of prospective future licensees).

<sup>f</sup> See *Litecubes, L.L.C. v. N. Light Prods.*, No. 4:04CV00485 ERW, 2006 U.S. Dist. LEXIS 60575, at \*32–33 (E.D. Mo. Aug. 25, 2006); *Floe Int'l, Inc. v. Newmans' Mfg. Inc.*, No. 04-5120 (DWF/RLE), 2006 U.S. Dist. LEXIS 59872, at \*1–2 (D. Minn. Aug. 23, 2006); *Wald v. Mudhopper Oilfield Servs.*, No. CIV-04-1693-C, 2006 U.S. Dist. LEXIS 51669, at \*1 (W.D. Okla. July 27, 2006).

<sup>g</sup> See *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623, at \*18–20 (W.D. Okla. Sept. 5, 2006).

<sup>h</sup> See *Johns Hopkins Univ. v. Datascope Corp.*, 513 F. Supp. 2d 578, 581 (D. Md. 2007); *Commw. Scientific and Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 601 (E.D. Tex. 2007).

hand, companies and individuals who do not practice the patent or who license to un-related entities have been less successful in their requests for an injunction.<sup>96</sup> Courts granted permanent injunctions in only two of these six cases.<sup>97</sup> In *Allan Block Corp. v. E. Dillon & Co.*,<sup>98</sup> a permanent injunction was granted after a company that was a licensee later became an infringer.<sup>99</sup> Although the patent holder did not practice the patent, the infringer's sales were found to have displaced prospective licensed sales.<sup>100</sup> In *Sundance, Inc. v. DeMonte Fabricating Ltd.*,<sup>101</sup> the plaintiff had licensed its patent to what appears to be multiple un-related, non-exclusive licensees.<sup>102</sup> The court initially denied their request for a permanent injunction,<sup>103</sup> but later granted the injunction in another proceeding on unrelated grounds (i.e., concern about the defendant's ability to pay).<sup>104</sup>

Related is the fact that, of the twelve cases with more than one plaintiff, injunctions were denied in only two.<sup>105</sup> The additional plaintiffs in these cases

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*Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*, No. H-03-2910, 2006 U.S. Dist. LEXIS 93408, at \*9 (S.D. Tex. Dec. 27, 2006); *Rosco, Inc. v. Mirror Lite Co.*, No. CV-96-5658 (CPS), 2006 U.S. Dist. LEXIS 73366, \*13 (E.D.N.Y. Sept. 28, 2006); *Litecubes*, 2006 U.S. Dist. LEXIS 60575, at \*31; *Floe Int'l*, 2006 U.S. Dist. LEXIS 59872, at \*1-2; *Wald*, 2006 U.S. Dist. LEXIS 51669, at \*16.

<sup>96</sup> See, e.g., *MercExchange*, 500 F. Supp. 2d at 591; *Voda*, 2006 U.S. Dist. LEXIS 63623, at \*18-20; *Paice*, 2006 U.S. Dist. LEXIS 61600, at \*11-13; *Finisar* Hearing Transcript, *supra* note 99, 7:7-22. But see *Allan Block Corp. v. E. Dillon & Co.*, 509 F. Supp. 2d 795, 811 (D. Minn. 2007); *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 77728, \*6 (E.D. Mich. Oct. 19, 2007).

<sup>97</sup> See *Allan Block*, 509 F. Supp. 2d at 811; *Sundance*, 2007 U.S. Dist. LEXIS 77728, at \*6.

<sup>98</sup> 509 F. Supp. 2d 795, 811 (D. Minn. 2007).

<sup>99</sup> *Id.* at 799, 811.

<sup>100</sup> See *id.*

<sup>101</sup> No. 02-73543, 2007 U.S. Dist. LEXIS 158 (E.D. Mich. Jan. 4, 2007).

<sup>102</sup> *Id.* at \*6-9.

<sup>103</sup> *Id.* at \*9.

<sup>104</sup> *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 77728, \*5-6 (E.D. Mich. Oct. 19, 2007).

<sup>105</sup> The court denied an injunction in *Respironics, Inc. v. Invacare Corp.*, No. 04-0336, 2008 U.S. Dist. LEXIS 1174, at \*1, 18 (W.D. Pa. Jan. 7, 2008) and *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 441, 444 (D. Del. 2007). The *Praxair* case involved a plaintiff who directly competed with the defendant, but failed to provide evidence to show entitlement to an injunction. See *Praxair*, 479 F. Supp. 2d at 442, 444. The court allowed the plaintiffs to provide the evidence at a later date. *Id.* at 444. Offsetting this result, however, is the *Sundance* case, which would have resulted in no injunction had other considerations not come into play. See *Sundance*, 2007 U.S. Dist. LEXIS 158, at \*6-9. The court granted an injunction in the remaining ten cases. *Johns Hopkins Univ. v. Datascope Corp.*, 513 F. Supp. 2d 578,



included licensees and otherwise related companies that practiced the patents.<sup>106</sup> Further, courts considered the activities of non-parties in an additional five cases, granting injunctions in three.<sup>107</sup> In three of those cases, the sole plaintiff was a non-practicing patent holder.<sup>108</sup> The remaining nineteen cases involving a single plaintiff resulted in fifteen injunctions.<sup>109</sup> The plaintiff practiced the

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581, 586 (D. Md. 2007); 800 Adept, Inc. v. Murex Secs., Ltd., 505 F. Supp. 2d 1327, 1338 (M.D. Fla. 2007); Verizon Servs. Corp. v. Vonage Holdings. Corp., 503 F.3d 1295, 1298, 1311 (Fed. Cir. 2007); *Sundance*, 2007 U.S. Dist. LEXIS 77728, at \*6; Sanofi-Synthelabo v. Apotex Inc., 492 F. Supp. 2d 353, 356, 397 (S.D.N.Y. 2007); Black & Decker Inc. v. Robert Bosch Tool Corp., No. 04 C 7955, 2006 U.S. Dist. LEXIS 86990, at \*1, 15–16 (N.D. Ill. Nov. 29, 2006), *aff'd in part, vacated in part*, Nos. 2007-1243, -1244, 2008 U.S. App. LEXIS 207 (Fed. Cir. Jan. 7, 2008); 3M Innovative Proprs. Co. v. Avery Dennison Corp., No. 01-1781 (JRT/FLN), 2006 U.S. Dist. LEXIS 70263, at \*2, 6 (D. Minn. Sept. 25, 2006); Litecubes, L.L.C. v. N. Light Prods., No. 4:04CV00485 ERW, 2006 U.S. Dist. LEXIS 60575, at \*31–33 (E.D. Mo. Aug. 25, 2006); Floe Int'l, Inc. v. Newmans' Mfg. Inc., No. 04-5120 (DWF/RLE), 2006 U.S. Dist. LEXIS 59872, at \*1–2, 26 (D. Minn. Aug. 23, 2006); Wald v. Mudhopper Oilfield Servs., No. CIV-04-1693-C, 2006 U.S. Dist. LEXIS 51669, at \*1, 17 (W.D. Okla. July 27, 2006).

<sup>106</sup> See, e.g., *Verizon*, 503 F.3d at 1298 (related companies); *Johns Hopkins*, 578 F. Supp. 2d at 581 (patent owner and licensee); *Sanofi*, 492 F. Supp. 2d at 356–57 (related companies and licensee).

<sup>107</sup> *Allan Block Corp. v. E. Dillon & Co.*, 509 F. Supp. 2d 795, 799, 811 (D. Minn. 2007) (granting injunction in part as to future production of infringing product, denying injunction as to sale of remaining inventory of licensed patented product); *MPT, Inc. v. Marathon Labels, Inc.*, 505 F. Supp. 2d 401, 421 (N.D. Ohio 2007) (granting injunction), *aff'd in part, rev'd in part*, Nos. 2007-1183, -1204, -1238, 2007 U.S. App. LEXIS 28911 (Fed. Cir. Dec 12, 2007); *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 569–70 (E.D. Va. 2007) (denying injunction); *Novozymes A/S v. Genencor Int'l, Inc.*, 474 F. Supp. 2d 592, 595 (D. Del. 2007) (granting injunction); *Innogenetics, N.V. v. Abbott Labs.*, No. 05-C-0575-C, 2007 U.S. Dist. LEXIS 3148 (W.D. Wis. Jan. 12, 2007) (granting injunction and a compulsory license), *vacated*, 512 F.3d 1363, 1380–81 (Fed. Cir. 2008) (vacating injunction). In the *eBay* remand, competition with the licensee was not significant, and the court noted that the license may have been the result of legal maneuvers aimed primarily at winning an injunction. *MercExchange*, 500 F. Supp. 2d at 569–70.

<sup>108</sup> *Allan Block*, 509 F. Supp. 2d at 799; *MPT*, 505 F. Supp. 2d at 405; *Novozymes*, 474 F. Supp. 2d at 596–97.

<sup>109</sup> Injunctions were granted in: *Martek Biosciences Corp. v. Nutrinova Inc.*, 520 F. Supp. 2d 537, 543 (D. Del. 2007); *Muniauction, Inc. v. Thomson Corp.*, 502 F. Supp. 2d 477, 484 (W.D. Pa. 2007); *Commw. Scientific and Indus. Research Org. (CSIRO) v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 601 (E.D. Tex. 2007); *Brooktrout, Inc. v. Eicon Networks Corp.*, No. 2:03-CV-59, 2007 U.S. Dist. LEXIS 43107, at \*1 (E.D. Tex. June 14, 2007); *MGM Well Servs., Inc. v. Mega Lift Sys., LLC*, 505 F. Supp. 2d 359, 380 (S.D. Tex. 2007); *O2 Micro Int'l, Ltd. v. Beyond Innovation Tech. Co.*, No. 2-04-CV-32 (TJW), 2007 U.S. Dist. LEXIS 25948, at \*10 (E.D. Tex. Mar. 21, 2007); *Ortho-McNeil Pharm., Inc. v. Mylan*

patent in fourteen of the fifteen cases.<sup>110</sup> Looking at the post-*eBay* cases from this perspective, practicing patent holders and non-practicing patent holders who are joined by practicing companies usually obtain injunctions.

Apart from the issue of whether *existing* licensees are considered in the *competition* calculus, the issue of whether courts will consider the interests of a *potential* licensee in assessing the merits of a permanent injunction appears to matter. After all, ongoing infringement can affect the ability of a patent holder to pursue a successful licensing program with regard to the patent-at-issue, as the rights that can be granted by the patent holder in a license (for example, exclusivity) are diminished. In *Paice LLC v. Toyota Motor Corp.*,<sup>111</sup> the court dismissed the patent holder's argument that the failure to obtain a permanent injunction would harm its licensing program.<sup>112</sup> According to the court, however, Paice failed to *prove* that it would have been otherwise able to license its patented technology.<sup>113</sup> In *CSIRO v. Buffalo Technology*

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Labs. Inc., Nos. 04-1689, 06-757 and 06-5166, 2007 U.S. Dist. LEXIS 19494, at \*3 (D.N.J. Mar. 20, 2007); Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp., No. H-03-2910, 2006 U.S. Dist. LEXIS 93408, at \*26 (S.D. Tex. Dec. 27, 2006); Visto Corp. v. Seven Networks, Inc., No. 2:03-CV-333-TJW, 2006 U.S. Dist. LEXIS 91453, at \*11 (E.D. Tex. Dec. 19, 2006); Rosco, Inc. v. Mirror Lite Co., No. CV-96-5658 (CPS), 2006 U.S. Dist. LEXIS 73366, at \*25 (E.D.N.Y. Sept. 28, 2006); Smith & Nephew, Inc. v. Synthes (U.S.A.), 466 F. Supp. 2d 978, 981 (W.D. Tenn. 2006), *appeal dismissed*, No. 2007-1048, U.S. App. LEXIS 4889 (Fed. Cir. Feb. 22, 2008); Am. Seating Co. v. USSC Group, Inc., No. 01-00578, 2006 U.S. Dist. LEXIS 59212, at \*2 (W.D. Mich. Aug. 22, 2006); TiVo Inc. v. EchoStar Comm. Corp., 446 F. Supp. 2d 664, 665 (E.D. Tex. 2006), *aff'd in part, rev'd in part*, 516 F.3d 1290 (Fed. Cir. 2008); Telequip Corp. v. Change Exch., No. 5:01-CV-1748 (FJS/GJD), 2006 U.S. Dist. LEXIS 61469, at \*6 (N.D.N.Y. Aug. 15, 2006). Telequip's website claims that the company has been manufacturing coin dispensing solutions since 1974. See Telequip Company Profile, <http://www.telequipcorp.com/company-profile.html> (last visited Jan. 9, 2008).

Injunctions were denied in: *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623, at \*21 (W.D. Okla. Sept. 5, 2006); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*2 (E.D. Tex. Aug. 16, 2006), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007); *Finisar Corp. v. DirecTV Group, Inc.*, No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 76380, at \*4 (E.D. Tex. July 7, 2006); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 438 (E.D. Tex. 2006), *aff'd*, 507 F.3d 1340 (Fed. Cir. 2007).

<sup>110</sup> An injunction was granted to the non-practicing patent holder in the *CSIRO* case based on the "university" exception in *eBay*. *CSIRO*, 492 F. Supp. 2d at 604 (quoting *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393 (2006)).

<sup>111</sup> No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. Aug. 16, 2006), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007).

<sup>112</sup> *Id.* at \*13-14.

<sup>113</sup> *Id.*

*Inc.*, as noted above, the patent holder was able to successfully show that the infringing activity would dampen its licensing program. Though competition may be direct or indirect, courts typically required that the directly impacted party be part of the suit.

#### 4. Importance of Patent

A fourth issue is how important the patent is to the competition between the parties. According to the *eBay* Supreme Court decision, the patent holder is less likely to be entitled to a permanent injunction in cases where the patent accounts for a small part of the overall infringing product and the threat of injunction is used as undue leverage in negotiations.<sup>114</sup> And in *CSIRO v. Buffalo Technology Inc.*, the court wrote that the “right to exclude becomes more urgent when the product is the invention.”<sup>115</sup>

The *z4 Technologies, Inc. v. Microsoft Corp.* and *Paice LLC v. Toyota Motor Corp.* cases were instances in which an injunction was denied, in part, because of the relative insignificance of the patents.<sup>116</sup> *z4*’s patent related to software product activation technology.<sup>117</sup> Microsoft was found to have incorporated the product activation technology in its Windows operating system and Microsoft Office software.<sup>118</sup> The court held that since “Microsoft only uses the infringing technology as a small component of its own software,” *z4* would not suffer “lost profits, the loss of brand name recognition or the loss of market share,” or other “injuries that are often incalculable and irreparable” from Microsoft’s continued sale of the infringing products.<sup>119</sup>

In the *Paice* case, the patent related to hybrid transmissions for vehicles.<sup>120</sup> Toyota was found to have incorporated the technology-at-issue into its hybrid vehicle transmissions.<sup>121</sup> The court evaluated the relative importance of the *Paice* technology and found that the infringed claims formed “only a small

<sup>114</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396–97 (2006) (Kennedy, J., concurring).

<sup>115</sup> *CSIRO*, 492 F. Supp. 2d at 605.

<sup>116</sup> *z4Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 441 (E.D. Tex. 2006), *aff’d*, 507 F.3d 1340 (Fed. Cir. 2007); *Paice*, 2006 U.S. Dist. LEXIS 61600, at \*15; *see also* *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 158 (E.D. Mich. Jan. 4, 2007) (“[T]he segmented cover is but one feature of the infringing product.”).

<sup>117</sup> *z4 Techs.*, 434 F. Supp. 2d at 438.

<sup>118</sup> *Id.* at 439.

<sup>119</sup> *Id.* at 440. Moreover, the court was not convinced that Microsoft’s infringement had any impact on *z4*’s sales or licensing programs, since Microsoft did not produce product activation software that would directly compete with *z4*. *Id.*

<sup>120</sup> *Paice*, 2006 U.S. Dist. LEXIS 61600, at \*15.

<sup>121</sup> *Id.* at \*3.

aspect of the overall vehicles.”<sup>122</sup> The court held that Paice did not compete for market share with the accused vehicles, and that Paice could still continue its licensing efforts even though potential licensees would likely consider the outcome of the case in their licensing decisions.<sup>123</sup>

Holding all else constant, patents that are *relatively insignificant* are less likely to lead to permanent injunctive relief. What, however, is *relatively insignificant*? Is the hybrid technology of a hybrid vehicle really of such character?

In *Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*,<sup>124</sup> the exclusive licensee was granted an injunction against its direct competitor, even though the licensee acknowledged that it was willing to license to the infringer on “fair grounds.”<sup>125</sup> Importantly, the court found that the patent related to the infringing product’s “core functionality.”<sup>126</sup>

### 5. Character of Patent

A final issue is whether the character (or type) of the patent matters. Justice Kennedy, in his concurring opinion in the *eBay* case, wrote that, “injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.”<sup>127</sup>

For the eight cases where injunctions were denied, the patents covered:

- a method for genotyping the hepatitis C virus (*Innogenetics, N.V. v. Abbott Laboratories*);<sup>128</sup>
- sleep therapy devices (*Respironics, Inc. v. Invacare Corp.*);<sup>129</sup>
- “methods for limiting the unauthorized use of computer software” (*z4 Technologies, Inc. v. Microsoft Corp.*);<sup>130</sup>
- a “business-method patent for an electronic market designed to facilitate the sale of goods between private individuals” (*eBay*);<sup>131</sup>

<sup>122</sup> *Id.* at \*15.

<sup>123</sup> *Id.* at \*13–14.

<sup>124</sup> No. H-03-2910, 2006 U.S. Dist. LEXIS 93408 (S.D. Tex. Dec. 27, 2006).

<sup>125</sup> *Id.* at \*2, 15.

<sup>126</sup> *Id.* at \*17.

<sup>127</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 397 (2006) (Kennedy, J., concurring).

<sup>128</sup> *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1368 (Fed. Cir. 2008).

<sup>129</sup> *Respironics, Inc. v. Invacare Corp.*, No 04-0336, 2008 U.S. Dist. LEXIS 1174, at \*1–2 (W.D. Pa. Jan. 7, 2008).

<sup>130</sup> *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 438 (E.D. Tex. 2006), *aff'd*, 507 F.3d 1340 (Fed. Cir. 2007).

<sup>131</sup> *eBay*, 547 U.S. at 390.

- a method for the “transfer of information from an information database, to subscribers, upon request, through satellite transmission” (*Finisar Corp. v. DirecTV Group, Inc.*);<sup>132</sup>
- “hybrid transmission[]” technology (*Paice LLC v. Toyota Motor Corp.*);<sup>133</sup>
- “angioplasty guide catheter[s]” (*Voda v. Cordis Corp.*);<sup>134</sup> and
- “apparatus which safely control the discharge of pressurized fluids from the outlet of pressurized tanks. (*Praxair, Inc. v. ATMI, Inc.*).<sup>135</sup>

Three of the eight cases—*z4*, *eBay*, *Finisar*—involved business method patents.<sup>136</sup> Only one of these cases, the *eBay* remand, specifically relied on Justice Kennedy’s concurring opinion regarding the character of the patent.<sup>137</sup> The court wrote:

[T]he ‘265 patent is both a business method patent and a patent which appears to rely upon a unique combination of non-unique elements present in prior art, and although such patent is presently valid and enforceable, the nature of the patent causes the court pause because, as previously recognized by this court, “there is a growing concern over the issuance of business-method patents which forced the PTO to implement a second level review policy.” Although patent holders of valid business method patents, like any other patent holders, are certainly able to obtain an injunction if the application of the case specific facts to the four-factor test reveals that equitable relief is warranted, the nature of such patents may be considered by the court when balancing the equities. Here, not only was the ‘265 patent never subject to a second level review, but the PTO *twice* rejected all claims of the ‘265 patent; when crafting *prospective* equitable relief the court cannot ignore such realities. Additionally, although in *eBay* only a four member panel recognized the “suspect validity” of some business method patents, in *KSR Int’l. Co. v. Teleflex Inc.*, the Supreme Court unanimously highlighted “the need for caution in granting a patent based on the combination of elements found in the prior art” because such a combination “is likely to be obvious when it does no more than yield predictable results.”<sup>138</sup>

The patents in the twenty-eight cases where an injunction was granted covered a variety of products, processes and business methods. Twenty-one of

<sup>132</sup> *Finisar Corp. v. DirecTV Group, Inc.*, No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 70300, at \*4 (E.D. Tex. Sep. 1, 2006).

<sup>133</sup> *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*15 (E.D. Tex. Aug. 16, 2006), *aff’d in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007).

<sup>134</sup> *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623, at \*1 (W.D. Okla. Sept. 5, 2006).

<sup>135</sup> *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 441 (D. Del. 2007).

<sup>136</sup> For a discussion of the difficulty of defining “business method” patents, see Lois Matelan, *The Continuing Controversy Over Business Patents*, 18 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 189, 191–93 (2007).

<sup>137</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 574 (E.D. Va. 2007).

<sup>138</sup> *Id.* (citations omitted).

these cases covered products such as coin changers,<sup>139</sup> mirrors,<sup>140</sup> wheel chair restraint systems,<sup>141</sup> fax server boards<sup>142</sup> and segmented tarp systems.<sup>143</sup>

The remaining seven cases appear to have involved methods or processes. These include:

- “a method for labeling and relabeling reusable containers” (*MPT, Inc. v. Marathon Labels, Inc.*);<sup>144</sup>
- a telephone routing method (*800 Adept, Inc. v. Murex Securities, Ltd.*);<sup>145</sup>
- data synchronization methods in the mobile e-mail market (*Visto Corp. v. Seven Networks, Inc.*);<sup>146</sup>
- a method for conducting online municipal bond auctions (*Muniauction, Inc. v. Thomson Corp.*);<sup>147</sup>
- a process for producing omega-3 fatty acids using algae (*Martek Biosciences Corp. v. Nutrinova Inc.*);<sup>148</sup>
- a method for solving a problem common with wireless local area networks (*CSIRO v. Buffalo Technology Inc.*);<sup>149</sup> and
- methods of conducting voice over internet protocol and telephone communications (*Verizon Services Corp. v. Vonage Holdings Corp.*).<sup>150</sup>

<sup>139</sup> *Telequip Corp. v. Change Exch.*, No. 5:01-CV-1748 (FJS/GJD), 2006 U.S. Dist. LEXIS 61469, at \*2 (N.D.N.Y. Aug 15, 2006).

<sup>140</sup> *Rosco, Inc. v. Mirror Lite Co.*, No. CV-96-5658 (CPS), 2006 U.S. Dist. LEXIS 73366, at \*2 (E.D.N.Y. Sep. 28, 2006).

<sup>141</sup> *Am. Seating Co. v. USSC Group, Inc.*, No. 01-00578, 2006 U.S. Dist. LEXIS 59212, at \*1 (W.D. Mich. Aug. 22, 2006).

<sup>142</sup> *Brooktrout, Inc. v. Eicon Networks Corp.*, No. 2:03-CV-59, 2007 U.S. Dist. LEXIS 43107, at \*3 (E.D. Tex. June 14, 2007).

<sup>143</sup> *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 158, at \*5 (E.D. Mich. Jan. 4, 2007).

<sup>144</sup> *MPT, Inc. v. Marathon Labels, Inc.*, 505 F. Supp. 2d 401, 405 (N.D. Ohio 2007), *aff'd in part, rev'd in part*, Nos. 2007-1183, -1204, -1238, 2007 U.S. App. LEXIS 28911 (Fed. Cir. Dec 12, 2007).

<sup>145</sup> *800 Adept, Inc. v. Murex Sec., Ltd.*, 505 F. Supp. 2d 1327, 1333 (M.D. Fla. 2007).

<sup>146</sup> *Visto Corp. v. Seven Networks, Inc.*, No. 2:03-CV-333-TJW, 2006 U.S. Dist. LEXIS 91453, at \*3 (E.D. Tex. Dec. 19, 2006).

<sup>147</sup> *Muniauction, Inc. v. Thomson Corp.*, 502 F. Supp. 2d 477, 482 (W.D. Pa. 2007).

<sup>148</sup> *Martek Biosciences Corp. v. Nutrinova Inc.*, 520 F. Supp. 2d 537, 543 (D. Del. 2007).

<sup>149</sup> *Commw. Scientific and Indus. Research Org. (CSIRO) v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 601 (E.D. Tex. 2007).

<sup>150</sup> *Verizon Servs. Corp. v. Vonage Holdings. Corp.*, 503 F.3d 1295, 1298 (Fed. Cir. 2007).

Some patents were arguably business method oriented, namely those involved in the *800 Adept*, *Visto*, *Muniauction*, *CSIRO* and *Verizon* cases.<sup>151</sup> None of these cases mentioned or discussed the concepts associated with Justice Kennedy's concurring opinion.<sup>152</sup> However, the *MPT* case, which arguably involved a process patent, indirectly addressed Justice Kennedy's concerns by emphasizing the strength and importance of the patent.<sup>153</sup>

Given the outcome of cases involving business method patents to date, it does not appear that Justice Kennedy's prediction has been accurate. The question of whether the patent at issue is a *business method* patent has not yet been a significant or explicit factor in the permanent injunction determination—although the *eBay* remand may be a sign of changes to come.

*eBay* opened the door to a reduction in the number of injunctions issued in patent infringement cases and has tended to make injunctions less available to patent holders who do not compete with the infringer. The degree to which this will limit the value of patents for such patent holders remains to be seen and depends on how the courts refine the understanding of *direct competition*.

#### IV. Licensing Consequences

One of the key determinants of a patent's value is its ability to generate licensing revenue for its holder. The *eBay* case diminished the nature and bundle of rights that can be licensed outside of litigation and that can be licensed in an attempt to resolve or head off a dispute.

##### A. No Pending Litigation

Non-practicing patent holders may no longer be able to deliver exclusive rights to their patents without the assistance of the licensee. This circumstance can impair the value of a patent to a patent holder before license negotiations begin, during licensing negotiations, and after a licensing agreement is reached.

As an initial matter, the *eBay* decision decreases the incentives for potential licensees to seek a license rather than practice patents without permission (and

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<sup>151</sup> *800 Adept*, 505 F. Supp. 2d at 1333; *Visto*, 2006 U.S. Dist. LEXIS 91453, at \*3; *Muniauction*, 502 F. Supp. 2d at 482; *CSIRO*, 492 F. Supp. 2d at 601; *Verizon*, 503 F.3d at 1298.

<sup>152</sup> See *800 Adept*, 505 F. Supp. 2d at 1335–38; *Verizon*, 503 F.3d at 1310–11; *Muniauction*, 502 F. Supp. 2d at 482–84; *CSIRO*, 492 F. Supp. 2d at 602–07; *Visto*, 2006 U.S. Dist. LEXIS 91453, at \*12–14.

<sup>153</sup> *MPT, Inc. v. Marathon Labels, Inc.*, 505 F. Supp. 2d 401, 420–21 (N.D. Ohio 2007), *aff'd in part, rev'd in part*, Nos. 2007-1183, -1204, -1238, 2007 U.S. App. LEXIS 28911 (Fed. Cir. Dec 12, 2007).

risk a patent infringement suit). To some degree, the decision to take a license is based on a comparison of the expected cost of a license and the expected cost of practicing the patent without a license. The latter cost includes: (1) the expected costs of litigation, (2) the likelihood that the patent will be found valid, enforceable and infringed, and (3) the cost of the expected penalties associated with a finding of infringement. Removing the potential that a permanent injunction could force the infringing product or products off the market significantly decreases the magnitude of the expected penalties associated with infringement and is likely to encourage some potential licensees to forego a license and risk litigation. As explained by Tang:

Since *eBay* drastically reduced the threat of permanent injunctions over large corporations' core products or services, these corporations now have even less financial incentive to license from non-practicing patent owners, which include a significant number of independent inventors who tried to practice their patents but could not obtain the necessary funding.<sup>154</sup>

At the negotiation stage, *eBay* reduces the value of patents to patent holders by limiting their ability to grant exclusive licenses—particularly in situations where exclusivity has the potential to provide a significant competitive advantage. Knowing that the likelihood of having an injunction issued to stop infringement in the event that a patent infringement suit is successfully pursued is lower than it was in the pre-*eBay* world, in such situations, it is more likely that a competitor who is unable to obtain a license from the patent holder will decide to infringe the patent. This possibility lowers the bargaining power of the patent holder and is likely to decrease the compensation that the patent holder will be able to receive (relative to a situation where permanent injunctions were essentially automatic).

After a license is negotiated, the *eBay* decision continues to shift power from the patent holder to the licensee (or licensees), because it appears that the individual patent holder's ability to successfully prevent continuing unauthorized access to its intellectual property depends on the willingness of the licensee (or licensees) to participate in the suit.<sup>155</sup> For example, in *Voda v. Cordis Corp.*,<sup>156</sup> Dr. Voda was unable to protect his exclusive licensee when he was denied a permanent injunction against a willful infringer.<sup>157</sup> This circumstance provides licensees with an opportunity to renegotiate their licensing terms if the terms of the initial deal were less favorable ex post than was expected ex ante. Simply put, if the terms turn out to be a favorable deal for the licensee

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<sup>154</sup> Tang, *supra* note 28, at 250.

<sup>155</sup> See discussion *infra* Part IV, Section A.

<sup>156</sup> No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623 (W.D. Okla. Sept. 5, 2006).

<sup>157</sup> *Id.* at \*20. The court found that Dr. Voda identified no harm to himself, and found it significant that Scimed "elected not to sue to enforce the patent rights." *Id.* at 19.



(i.e., the true value of the exclusive license, ex post, turns out to be higher for the licensee than the perceived value, ex ante), then the licensee may join the patent holder in obtaining a permanent injunction against an infringer.<sup>158</sup> Thus, the licensee could preserve the terms of a favorable deal, including its exclusivity.<sup>159</sup> If, however, the licensing terms turn out to be unfavorable for the licensee (i.e., the true value of the exclusive license, ex post, turns out to be lower than the perceived value, ex ante), then the exclusive licensee may refuse to join the suit, and no permanent injunction will issue.<sup>160</sup> The licensee would then be free to renegotiate the exclusive license to obtain more advantageous terms.

Taken together, these factors suggest that it will be much more difficult for non-practicing patent holders to monetize their technology through licensing. The result is a reduction in patent value.

## **B. Likely (or Actual) Litigation**

### ***1. Settlement Attempts***

A potentially unexpected (but, nevertheless predictable) consequence of the *eBay* decision, is a decrease in the incentives for patent holders to attempt to settle pending court cases with alleged infringers. Simply put, several courts' post-*eBay* treatment of settlement negotiations effectively penalized patent holders by using the existence of such discussions as evidence of a lack of need for a permanent injunction.<sup>161</sup>

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<sup>158</sup> It appears that exclusive licensees can obtain permanent injunctions with or without the patent holder. See *Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*, No. H-03-2910, 2006 U.S. Dist. LEXIS 93408, at \*2, 16–18, 26 (S.D. Tex. Dec. 27, 2006) (an exclusive licensee that granted non-exclusive licenses to competitors obtained a permanent injunction against another infringing competitor).

<sup>159</sup> Injunctions were granted when the licensees joined suit with the patent holder in the following cases: *Sanofi-Synthelabo v. Apotex Inc.*, 492 F. Supp. 2d 353, 356–57 (S.D.N.Y. 2007); *Litecubes, L.L.C. v. N. Light Prods.*, No. 4:04CV00485 ERW, 2006 U.S. Dist. LEXIS 60575, at \*32–33 (E.D. Mo. Aug. 25, 2006); *Floe Int'l, Inc. v. Newmans' Mfg. Inc.*, No. 04-5120 (DWF/RLE), 2006 U.S. Dist. LEXIS 59872, at \*1 (D. Minn. Aug. 23, 2006); *Wald v. Mudhopper Oilfield Servs.*, No. CIV-04-1693-C, 2006 U.S. Dist. LEXIS 51669, at \*14–17 (W.D. Okla. July 27, 2006).

<sup>160</sup> Alternatively, in this scenario, if there is sufficient value to the licensee of retaining exclusivity, it may decide to renegotiate the terms of the exclusive license in lieu of refusing to join the suit.

<sup>161</sup> See, e.g., *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 570 (E.D. Va. 2007); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*16 (E.D. Tex. Aug. 16, 2006), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007).

In fact, a number of courts found that pre-litigation licensing offers are proof that a patent holder will *not* be irreparably harmed by a compulsory license with an infringer.<sup>162</sup> For example, Paice's willingness to extend offers to license its product, including to Toyota throughout litigation, illustrated the adequacy of money damages to the court.<sup>163</sup> Further, the court in the *eBay* remand wrote:

MercExchange exhibited a "lack of commercial activity in practicing the [relevant] patents" and instead exhibited a "willingness to license its patents." ... Although MercExchange's consistent practice of licensing, rather than developing, its patents in no way acts to *exclude* MercExchange, or similarly situated patent holders, from the opportunity to obtain a permanent injunction, it is one factor that this court must consider in weighing the equities. Such factor is considered not because the court endeavors to "writ[e] on an entirely clean slate," but rather, taking a page from history, it is apparent that the Federal Circuit has repeatedly recognized that "the lack of commercial activity by the patentee is a *significant factor in the calculus*" of whether the patentee will suffer irreparable harm absent an injunction.<sup>164</sup>

The court went on to write:

[MercExchange's] consistent course of litigating or threatening litigation to obtain money damages by a company of two employees, the inventor of the patents a former patent attorney, indicates that MercExchange has utilized its patents as a sword to extract money rather than as a shield to protect its right to exclude or its market-share, reputation, goodwill, or name recognition, as MercExchange appears to possess none of these. It is therefore unsurprising that, in light of eBay's dominant position in the online auction market, MercExchange has both initiated litigation against eBay and, as discussed below, exhibited its willingness to license its patents to eBay if the total dollars negotiated are acceptable to MercExchange. The court therefore recognizes factual distinctions between MercExchange and the typical small inventor or researcher who opts to utilize outside licensees to help develop its patents.<sup>165</sup>

In *3M Innovative Properties Co. v. Avery Dennison Corp.*,<sup>166</sup> the district court found that the patent holder showed irreparable harm and that monetary damages were inadequate, noting that 3M had spent almost five years litigating to protect the patent-in-suit, and that it refused to execute a license agreement with Avery.<sup>167</sup> And in *MGM Well Services, Inc. v. Mega Lift Systems*,

<sup>162</sup> See, e.g., *IMX, Inc. v. LendingTree, LLC*, 469 F. Supp. 2d 203, 225, 225 n.24 (D. Del. 2007); *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 158, at \*9 (E.D. Mich. Jan. 4, 2007).

<sup>163</sup> *Paice*, 2006 U.S. Dist. LEXIS 61600, at \*16.

<sup>164</sup> *MercExchange*, 500 F. Supp. 2d at 570–71 (citations omitted).

<sup>165</sup> *Id.* at 572.

<sup>166</sup> No. 01-1781 (JRT/FLN), 2006 U.S. Dist. LEXIS 70263 (D. Minn. Sept. 25, 2006).

<sup>167</sup> *Id.* at \*4–5.

LLC,<sup>168</sup> an injunction was issued in a case where the patent holder showed that it had an existing policy to not license its patents.<sup>169</sup>

Not all courts have ruled consistently on this point, however. Attempts by TiVo to license its patent to EchoStar did not demonstrate absence of irreparable harm.<sup>170</sup> The same was found in the *Innogenetics* and *Transocean* cases.<sup>171</sup>

Nonetheless, in certain circumstances (and courts) it is now true that the strength of one patent-holder option—i.e., to license in order to resolve a dispute—has been greatly reduced. Patent holders must take care in exercising that option.

## 2. Other Activities

In addition to considering settlement negotiations between the parties-in-suit, courts have used other types of post-trial activities against plaintiffs.<sup>172</sup> In the *eBay* remand, the district court considered MercExchange's post-trial licenses and negotiations with third parties (e.g., with uBid) as well as its public statements of the company's willingness to license the patents-at-issue to eBay or sell the portfolio to uBid.<sup>173</sup> It concluded that such activities showed that MercExchange was interested in collecting royalties and/or collecting money, not in putting eBay out of business or in developing the patent portfolio.<sup>174</sup> Though the district court's reasoning makes sense, the use of this information to deny a permanent injunction is at odds with an overarching goal of encouraging the parties-in-suit to resolve their differences, even when putting aside that the credible threat of an injunction often impacts an agreed-upon royalty and when putting aside whether MercExchange was ever interested in developing its patent portfolio.<sup>175</sup> This result may well cause some patent

<sup>168</sup> 505 F. Supp. 2d 359 (S.D. Tex. 2007).

<sup>169</sup> *Id.* 379.

<sup>170</sup> *TiVo Inc. v. EchoStar Commc'ns. Corp.*, 446 F. Supp. 2d 664, 669–70 (E.D. Tex. 2006), *aff'd in part, rev'd in part*, 516 F.3d 1290 (Fed. Cir. 2008).

<sup>171</sup> *Innogenetics, N.V. v. Abbott Labs.*, No. 05-C-0575-C, 2007 U.S. Dist. LEXIS 3193, at \*72–73 (W.D. Wis. Jan. 3, 2007), *rev'd*, 2008 512 F.3d 1363 (Fed. Cir. 2008); *Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*, No. H-03-2910, 2006 U.S. Dist. LEXIS 93408, 17–18 (S.D. Tex. Dec. 27, 2006).

<sup>172</sup> *See, e.g., IMX, Inc. v. LendingTree, LLC*, 469 F. Supp. 2d 203, 225, 225 n.24 (D. Del. 2007).

<sup>173</sup> *MercExchange*, 500 F. Supp. 2d at 561, 569. The court in *MercExchange* did not mention whether there were settlement negotiations between the plaintiff and *eBay*.

<sup>174</sup> *Id.* at 581.

<sup>175</sup> This does not mean that a patent holder's refusal to license should not be a consideration in applying the four-factor test. *See, e.g., 3M Innovative Props. Co. v. Avery Dennison Corp.*, No. 01-1781 (JRT/FLN), 2006 U.S. Dist. LEXIS 70263, at \*4–5 (D. Minn. Sept.

holders to alter their behavior in ways that reduce their ability to extract value from their patents. For example, a patent holder that wants to license to a limited group of manufacturers (excluding the defendant) may forfeit some of its patent's value by foregoing license negotiations with third parties until the final resolution of the case for fear that this activity would lead to a denial of injunction against the defendant.

Furthermore, in a number of cases, defendants have argued successfully that a plaintiff's delay in bringing suit should result in no injunction.<sup>176</sup> If harm were imminent, the argument goes, why the delay? In *TiVo Inc. v. EchoStar Communications Corp.*,<sup>177</sup> the infringer's delay argument was successfully countered by TiVo's explanation that the delay was due to attempts to enter into a business arrangement with the infringer prior to filing suit.<sup>178</sup> In *Sundance, Inc. v. DeMonte Fabricating Ltd.*, however, the court agreed that the delay in filing suit was evidence that Sundance was not irreparably harmed.<sup>179</sup> Similarly, MercExchange's failure to seek a preliminary injunction was considered in the *eBay* remand.<sup>180</sup> Although consideration of delay may not be new, due to eBay's requirement for litigants to explicitly consider irreparable harm, such a factor is likely to be significant and considered in many more injunction determinations.

Some plaintiffs are being "punished" for engaging in settlement negotiations, in negotiating with third parties and in delaying the filing of suit.<sup>181</sup> Moving quickly and aggressively may entitle a patent holder to an injunction, or it may counter that by showing that the patent is being used as a sword, rather than a shield. Going forward, there will likely be less settlement and related activity. This expected behavior increases the costs of enforcement, and may run counter to the goal of efficient dispute resolution.

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25, 2006); see also *Smith & Nephew, Inc. v. Synthes (U.S.A.)*, 466 F. Supp. 2d 978, 983 (W.D. Tenn. 2006), *appeal dismissed*, No. 2007-1048, U.S. App. LEXIS 4889 (Fed. Cir. Feb. 22, 2008).

<sup>176</sup> See, e.g., *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 158, at \*7 (E.D. Mich. Jan. 4, 2007); *MercExchange*, 500 F. Supp. 2d at 573 & n.13. But see *TiVo Inc. v. EchoStar Commc'ns. Corp.*, 446 F. Supp. 2d 664, 670 (E.D. Tex. 2006), *aff'd in part, rev'd in part*, 516 F.3d 1290 (Fed. Cir. 2008).

<sup>177</sup> 446 F. Supp. 2d 664 (E.D. Tex. 2006).

<sup>178</sup> *Id.* at 670.

<sup>179</sup> *Sundance*, 2007 U.S. Dist. LEXIS 158, at \*7.

<sup>180</sup> *MercExchange*, 500 F. Supp. 2d at 573 & n.13.

<sup>181</sup> See, e.g., *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*13-14, 16 (E.D. Tex. Aug. 16, 2006), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007).

## V. Damages Consequences

### A. Recovery Standards

35 U.S.C. § 284 governs recovery for patent infringement; it provides: “[u]pon finding for the claimant the [c]ourt shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer . . . .”<sup>182</sup> Courts interpret this provision to mean that the holder of an infringed patent is entitled to be made whole. That is, the damages award should restore a plaintiff to the financial position it would have enjoyed had its patent not been infringed.<sup>183</sup>

In some cases, an appropriate measure of damages may be lost profits. Lost profits typically represent the additional sales and corresponding profits on those sales that the patent holder would have made had there been no infringement.<sup>184</sup> Except in rare circumstances, non-competitors are not entitled to and do not obtain lost profits recovery.<sup>185</sup> As a result, *eBay* has had little impact on the calculation or awardability of lost profits damages.

For infringing sales on which lost profits are not appropriate, a damaged party is entitled to at least a reasonable royalty. A reasonable royalty represents the payment or stream of payments that the accused infringer should have made for using the patent holder’s technology.<sup>186</sup> Usually, the amount of a reasonable royalty payment is computed initially by making reference to what the two parties would have agreed upon at the point of first accused infringement, often referred to as a “hypothetical negotiation.”<sup>187</sup>

### B. New Recovery Uncertainties

As a practical matter, the *eBay* decision altered the nature and scope of the hypothetical negotiation for certain classes of patent holders. Prior to the *eBay* decision (when permanent injunctions were almost automatic), reasonable royalty determinations covered the period from the point of first infringe-

<sup>182</sup> 35 U.S.C. § 284 (2000).

<sup>183</sup> See, e.g., *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654–55 (1983); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964).

<sup>184</sup> A form of lost profits is known as price erosion. Damages for such represent the difference between the revenue (price times quantity) that the patent holder should have obtained but for the infringement minus the revenue that it actually did receive.

<sup>185</sup> See, e.g., *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1577 (Fed. Cir. 1989).

<sup>186</sup> See *Minco, Inc. v. Combustion Eng’g, Inc.*, 95 F.3d 1109, 1119 (Fed. Cir. 1996).

<sup>187</sup> See, e.g., *id.*

ment until the point of trial.<sup>188</sup> After trial, a patent holder whose patent was infringed almost always regained full control over its patent (through a permanent injunction) as it would have had prior to the infringement, so there was generally no need to include future damages in patent damages awards.

After the *eBay* decision, infringement (and, therefore, the harm to patent holders) may no longer end at trial, which could alter the approach to establishing reasonable royalty damages in such proceedings. In this regard, several new issues have arisen.

The first issue involves the scope and nature of the hypothetical license. In the absence of an injunction, the hypothetical license covers not only a license to practice the patent during the initial (i.e., pre-trial) infringement period, but also an option to continue practicing the patent as long as the infringer chooses. The latter option may impair a patent holder's ability to regain full control over his or her intellectual property after a finding of infringement. A license covering the life of a patent, as opposed to the historical infringement period only, results in a patent owner losing the ability to control access to its intellectual property for a longer period. Such a loss may appropriately be considered in making the patent holder *whole*.

The Federal Circuit addressed this issue on January 17, 2008 in *Innogenetics, N.V. v. Abbott Laboratories*.<sup>189</sup> The case is significant, in part, because it is the first post-*eBay* Federal Circuit decision reversing a district court's grant of a permanent injunction.

The Federal Circuit's decision turned not on a detailed review of the district court's application of the four-factor test; rather, it turned on the form of the infringement damages awarded at trial.<sup>190</sup> These damages were based, in part, on market comparable licenses.

Market comparables can be a valuable source of information regarding the terms of a hypothetical negotiation. Although past licenses/transactions may differ from the license/transaction considered in the hypothetical negotiation,<sup>191</sup> the closer the transactions are in nature and scope to those envisaged in the hypothetical negotiation, the more useful the information. In the *Innogenetics* case, the terms and conditions of these comparables (similar licenses), including

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<sup>188</sup> The only exception occurred when there was a delay between the point of trial and point of judgment. In such a case, the same economic analysis and reasonable royalty rate usually were simply carried forward in time.

<sup>189</sup> *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1379–81 (Fed. Cir. 2008).

<sup>190</sup> *Id.*

<sup>191</sup> Some of the potential differences include: time of the transaction, parties to the transaction, existing and projected market conditions, nature of the intellectual property transferred, strength of the intellectual property transferred, bundle of rights transferred, costs of design-around and relative bargaining strength of the parties.

those involving the patent-at-issue in the case, were examined and inferences were drawn to determine what the parties at issue would have agreed to.<sup>192</sup> These licenses suggested that an up-front fee coupled with a running royalty were appropriate. The jury agreed and awarded an upfront payment and a running royalty at trial.<sup>193</sup>

The Federal Circuit held that the jury's damages award was based on a hypothetical license that anticipated access to the patent-in-suit for the life of the patent, not just through the trial.<sup>194</sup> The Federal Circuit noted that the lump sum fee contemplated, or was based on, future sales.<sup>195</sup> The court wrote that the "market entry fee was based upon the projection that Abbott could sell its product through 2019."<sup>196</sup> The court also wrote that jury instructions did not limit the reasonable royalty to the date of judgment.<sup>197</sup> As a result, the Federal Circuit held that "this factor greatly outweighs the other *eBay* factors in this case."<sup>198</sup>

An unanswered question is whether any lump sum or market entry fee now precludes a permanent injunction—even for direct competitors. Is it not the case that most market entry fees contemplate or depend, at least in part, on estimates of future sales? If so, then what should pre-trial damages look like if market comparables suggest a lump sum fee and a running royalty, but the plaintiff legitimately desires a permanent injunction?

In markets where entry license fees are common, can competitors infringe at will, knowing that their investment in an infringing product will not be wasted? If so, does this not mean that even practicing patent holders have a reduced ability to offer exclusive licenses, control the quantity and make-up of licensees or protect their intellectual property from competitors?

The *Innogenetics* case exemplifies the complexity of the interaction between permanent injunction determinations and damages calculations after *eBay*. The two are now interdependent. The fact that pre-trial damages calculations can affect permanent injunction determinations prompts the question: must damages experts now calculate multiple sets of damages to be considered at trial?

The second new issue introduced by the *eBay* decision is the fact that the absence of the injunction option changes the potential infringers' incentives in ways that might encourage infringement. As discussed above, the risk of

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<sup>192</sup> *Innogenetics*, 512 F.3d at 1380.

<sup>193</sup> *Id.*

<sup>194</sup> *Id.*

<sup>195</sup> *Id.*

<sup>196</sup> *Id.* at 1380–81.

<sup>197</sup> *Id.* at 1380.

<sup>198</sup> *Id.*

a permanent injunction imposed potential costs on would-be infringers and tended to discourage companies from violating the intellectual property rights of others. Without this risk, reasonable royalty determinations may need to be adjusted to prevent increases in “strategic infringement” (i.e., conscious choices to forego licenses and risk litigation). Without the costs of permanent injunctions, the direct costs of infringement, in some instances, may need to be increased, and the impact on the hypothetical negotiation needs to be scrutinized.

In this regard, it is worth mentioning that Justice Kennedy noted that permanent injunctions might be used by a patent holder as leverage to obtain an unfair deal from an infringer.<sup>199</sup> But at the same time, an unfairly low reasonable royalty rate in the absence of an injunction could dramatically shift the leverage in the negotiation, enabling infringers to reject a reasonable offer from the patent holder because the court has eliminated the need for a negotiated license. Thus, the future damages determination in an injunction-free case should consider the incentives being generated by the injunction-free proceeding.

The third new issue introduced by *eBay* is the fact that the nature of the infringement at issue may be different after trial compared to before the end of the trial. During the initial period of infringement, there is often a colorable argument that the infringement was inadvertent or based on reasonable differences of opinion/interpretation. After a formal finding of liability, such an argument may not be available. In a pre-*eBay* setting, the hypothetical negotiation ignores willfulness, which is determined separately by the court (who then adjusts the patent holder’s damages appropriately). Without an injunction, the defendant’s use of the patent-in-suit is no longer in doubt, and one might arguably adjust the royalty damages.<sup>200</sup> Countering this notion, however, is that the defendant’s ongoing use will have been sanctioned by the court. Does that then mean that the continuing activity is no longer infringing? If not, then the issue of willfulness and the accompanying possibility of enhanced damages may not be appropriate. Moreover, while a reasonable royalty rate is compensatory, the court may separately determine the extent to which deterrence or punishment is allocated..

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<sup>199</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring).

<sup>200</sup> See Aaron Homer, *Whatever It Is . . . You Can Get It on eBay . . . Unless You Want an Injunction—How the Supreme Court and Patent Reform Are Shifting Licensing Negotiations from the Conference Room to the Courtroom*, 49 S. TEX. L. REV. 235, 262 (2007). But see *Innogenetics*, 512 F.3d at 1380, 1380 n.8 (Fed. Cir. 2008) (holding that granting “extra damages” or “kickers” on top of compensatory damages is an abuse of discretion).



The fourth new issue created by the *eBay* decision is the question of how future patent infringement damages should be determined. A wide variety of options are available, which differ along dimensions such as the time that the damages assessment is made and the form in which damages are awarded.<sup>201</sup>

With regard to timing, the court has the option to establish the damages award at the time of the initial trial or at some future point in time (e.g., in a subsequent trial). To date, different courts have chosen different paths. In *Paice LLC v. Toyota Motor Corp.*, the lower court fixed the terms of payment at the time of the initial trial.<sup>202</sup> Toyota had to keep a quarterly account of infringing sales, and then pay a reasonable royalty (\$25 per accused vehicle, which was adopted by the court for past infringement) for future infringement based on this accounting.<sup>203</sup> In contrast, the court in *z4 Technologies, Inc. v. Microsoft Corp.* ordered the patent holder to file a new complaint for post-verdict patent infringement, and ordered Microsoft to answer the complaint and file quarterly reports showing the number of infringing products sold.<sup>204</sup> It then applied the royalty rate from the jury trial to future infringement. According to Mulder:

Under this method, the plaintiff will need to return to court and request the court grant it damages for the defendant's infringing activities between the last trial and the current action. This arguably requires the patentee to commence multiple suits to obtain a remedy at law, which some courts have held tantamount to no adequate remedy at law.<sup>205</sup>

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<sup>201</sup> The choice of options, and indeed the entire damages calculus, may also turn, in part, on the creditworthiness of the infringer (i.e., the risk that the infringer will be unable to pay). In *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 158, at \*4-5 (E.D. Mich. Jan. 4, 2007). In a later proceeding, however, the court issued a permanent injunction, in part, because of the defendant's questionable financial condition. *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 77728, at \*5-6 (E.D. Mich. Oct. 19, 2007).

<sup>202</sup> *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*19-20 (E.D. Tex. Aug. 16, 2006), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007).

<sup>203</sup> *Id.* The Federal Circuit, however, found that there was no reasoning to support the \$25 ongoing royalty rate and remanded the case for re-evaluation, allowing the lower court to consider additional evidence. *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1315 (Fed. Cir. 2007).

<sup>204</sup> *z4 Techs. Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440 (E.D. Tex. 2006), *aff'd*, 507 F.3d 1340 (Fed. Cir. 2007).

<sup>205</sup> Mulder, *supra* note 39, at 85.

The main benefit of the one-trial approach is judicial economy. The key weakness is the higher degree of uncertainty associated with predicting such key facts as the extent of future infringement or the emergence of a competitive technology that changes the value of the patent at issue. The availability of future trials resolves the problems associated with trying to predict the future—at the expense of repeated future litigation (which would require the injured party to repeatedly return to the court to obtain compensation for its injury). The problems associated with continued litigation were one reason why the court in *MGM Well Services, Inc. v. Mega Lift Systems, LLC* granted an injunction.<sup>206</sup>

With regard to the form of the damages award, the options include (but may not be limited to) establishment of a royalty rate to be applied to future infringing activity and establishment of a lump sum payment that covers all future infringement. Since patent infringement damages are normally calculated based on a reasonable royalty rate that is applied to a royalty base, the first option seems attractive. It has, in fact, been used by a number of courts.<sup>207</sup> However, such an approach creates a substantial risk of under compensating the patent holder for the infringement because it may not compensate the patent holder for the loss of the ability to control access to its technology for the life of the patent. For example, the court's decision not to grant an injunction may substantially limit the patent holder's ability to conduct and control its licensing program pertaining to the technology at issue—which is a loss that may be difficult to quantify and incorporate into a running royalty rate.<sup>208</sup> In essence, such a loss causes a decline in the asset value of the patent—a loss that may be better compensated with a lump-sum payment that reflects this decrease in asset value. Moreover, according to the court in *CSIRO v. Buffalo Technology Inc.*, a compulsory license would be an inadequate remedy for future infringement of the patent because it would

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<sup>206</sup> *MGM Well Servs., Inc. v. Mega Lift Sys., LLC*, 505 F. Supp. 2d 359, 379 (S.D. Tex. 2007).

<sup>207</sup> The courts in *Voda* and *Paice* appear to have adopted the running royalty established for pre-trial infringement. See *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623, at \*2, 20–21 (W.D. Okla. Sept. 5, 2006); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, at \*7–8, 19 (E.D. Tex. Aug. 16, 2006), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007). The court in *Finisar* arrived at a new royalty rate for future infringement by adjusting the rate for pre-trial infringement to account for inflation. See *Finisar* Hearing Transcript, *supra* note 99, at 136.

<sup>208</sup> See, e.g., *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 570–72 (E.D. Va. 2007); *Paice*, 2006 U.S. Dist. LEXIS 61600, at \*13–14 & n.3.

not include all of the associated non-monetary business terms derived by the patent owner.<sup>209</sup>

The main challenge associated with a lump sum damages payment covering the infringing party's future infringement is tailoring the payment to the infringement. For example, the appropriate lump-sum payment for an infringer likely would differ if infringement were going to continue ten years rather than one year or if infringement were expected to cover one thousand units or one million units. Unfortunately, at the time that the damages determination is made, the parties (including the court) would not know how long infringement will persist into the future. Moreover, the "life" of the infringement is under the control of the infringer.<sup>210</sup>

All told, the calculus of damages estimation is different, while the process of estimation is yet to be resolved. Such uncertainties have led to less predictability and a reduced probability of resolving disputes, and have diminished the value of patents.

## Conclusions

*eBay* has changed much. Injunctions are more difficult to obtain, particularly for patent holders who do not compete directly with the infringer. The bounds of sufficient "direct competition" are not yet well or consistently defined. Nonetheless, important and core patents might matter, and non-practicing patent holders are well served to have interested and impacted parties join the lawsuit.

Because the strength of patent rights has been reduced, so has been the strength of the corresponding licenses. Licensors give and licensees receive less. Moreover, attempts to resolve possible litigation have been discouraged because of their potential to be used to defeat a motion for a permanent injunction. The failure to request a preliminary injunction or an unexplained delay in bringing suit may have the same effect.

Finally, though damages recovery has never been a certain art, a host of new substantive and process issues have arisen. Until the ground hardens, and very likely beyond, both the changes and uncertainties have diminished the value of patents.

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<sup>209</sup> *Commw. Scientific and Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600, 605–06 (E.D. Tex. 2007).

<sup>210</sup> *But see supra* note 209 (discussing the initial compulsory license and subsequent injunction due to the weakened financial condition of infringer in the *Sundance* case).