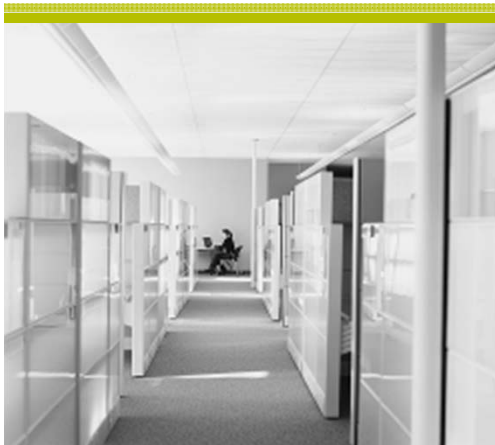




The Impact of *eBay v. MercExchange*



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eBay v. MercExchange (2006)

- Jury found that MercExchange’s patent was valid and infringed, and found damages were appropriate.

- MercExchange’s motion for permanent injunctive relief was denied.
 - Injunctive relief may be inappropriate where a patent holder does not itself practice the patent and is willing to license its patent to others.

- The CAFC reversed.
 - Applied its “general rule” that courts **must** issue permanent injunctions where patent infringement is found, absent “exceptional circumstances.”

eBay v. MercExchange (2006)

- The Supreme Court held that a district court’s decision to grant or deny a motion for a permanent injunction in a patent case must conform to the same “traditional principles of equity” that guide courts in non-patent cases. 547 U.S. 388 (2006).

- Those “traditional principles of equity” are embodied in the following four-factor test, which requires a patent owner to demonstrate that:
 1. it has suffered an **irreparable injury**;
 2. the **remedies** available at law, such as monetary damages, are **inadequate to compensate** for that injury;
 3. considering the **balance of hardships** between the parties, a remedy in equity is warranted; and
 4. the **public interest** would not be disserved by a permanent injunction.

eBay, Inc. v. MercExchange (2006)

- The Supreme Court stated that district court in this case erred in its **categorical denial** of a permanent injunction
 - Willingness to license patents and lack of commercial activity in practicing patents are insufficient to establish that the patent holder would not suffer irreparable harm if the injunction did not issue.
- Similarly, the CAFC erred in its **categorical denial** of a permanent injunction
 - Courts should have far more discretion in determining whether the facts of a situation require it to issue an injunction.
- “[S]ome patent holders, such as **university researchers or self-made inventors**, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. **Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so.**” *Id.* at 393.

eBay v. MercExchange (2006)

“In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. 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.”

Id. at 396-97 (Kennedy, J., concurring).

Immediate Reactions to *eBay*

- Would this help the perceived “NPE problem”?
 - Removing the presumption of irreparable injury from the equitable balancing could foreclose non-practicing entities from receiving permanent injunctions
 - Would make it even more attractive for patent owners to rush to the more lenient ITC for redress

- What effect would this have on “practicing” patent owners?
 - “Beneficial” infringement could be considered “useful to the public” and preclude issuance of an injunction under the fourth factor
 - Well-funded infringer could potentially continue infringing and force patent owners to expend resources repeatedly litigating the case

“My general advice to litigators: The injunction is now a big issue — make sure that you focus on evidence of irreparable harm from the beginning — including your cease & desist letter or initial complaint. . . . Based on this decision, it is now clear that **the value of a patent does depend upon the identity of the owner.**”

-Dennis Crouch, *Supreme Court Vacates eBay Injunction*,
Patently-O, May 16, 2006.

“If it becomes harder for companies to obtain injunctions . . . patents could become fundamentally different, with new rules required to distinguish between ‘patent trolls’ and productive, non-practicing entities, such as research institutions.”

-Catherine Fredenburgh, *Supreme Court Throws Out eBay Injunction*, Law360, May 15, 2006.

What was *eBay*'s effect?

- Factors favoring permanent injunction:
 - Direct competition
 - Loss of market share and/or access to potential customers
 - Emerging market (such that immediate foothold is critical)
 - Core nature of patented product to patentee's business
 - Defendant's potential inability to satisfy money judgment
 - Award of lost profits

- Factors cutting against permanent injunction:
 - Public interest in access to technology
 - More than two competitors in the market (but this cannot alone defeat injunction)
 - Patentee's willingness to license patent
 - Patent covers small component of product

The Big Obstacle: Irreparable Harm

- In the immediate years following the *eBay* decision, most denied requests for permanent injunctions were due to a failure to demonstrate irreparable harm
 - In the first year after *eBay*, 29% of all requests for permanent injunctions were denied and all of these denials were based on the patent holders failure to demonstrate irreparable harm.
- In particular, courts narrowly defined “competition” as between product-based competitors
- Courts were hesitant to grant injunctions absent evidence of direct competition, loss of market share or the like, and loss of brand name recognition or goodwill
- As predicted, non-practicing entities were usually denied access to permanent injunctions and attorneys began advising their clients to seek remedies through the ITC

Early Denials after *eBay*

- *Paice LLC v. Toyota Motor Corp.*, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. Aug. 16, 2006).
 - Paice failed to demonstrate irreparable harm; non-practicing entity
 - Court found patent holder was not at risk of losing name recognition or market share and plaintiff’s evidence indicating it would be unable to successfully license its patented technology was deemed unpersuasive

- *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006).
 - z4 Tech was a non-practicing entity
 - Fact that patented technology was only a component of the final product cut against a showing of irreparable harm
 - “Microsoft’s continued infringement does not inhibit z4’s ability to market, sell, or license its patented technology [because] Microsoft does not produce product activation software that it then individually sells, distributes, or licenses to other software manufacturers or consumers.” *Id.* at 440.

Early Denials after *eBay*

- *Amado v. Microsoft Corp.*, 2007 U.S. Dist. LEXIS 96487 (C.D. Cal. Mar. 13, 2007).
 - “Amado does not compete with Microsoft, does not sell a product covered by the patent and is no longer even attempting to commercialize or license the patent. Moreover, Amado’s patent only covers a very small component of the infringing products. . . . Thus, Amado’s injury can be adequately compensated through monetary damages.”

What was *eBay*'s effect?

- Prior to the *eBay* decision, permanent injunctions were granted in 84% of cases

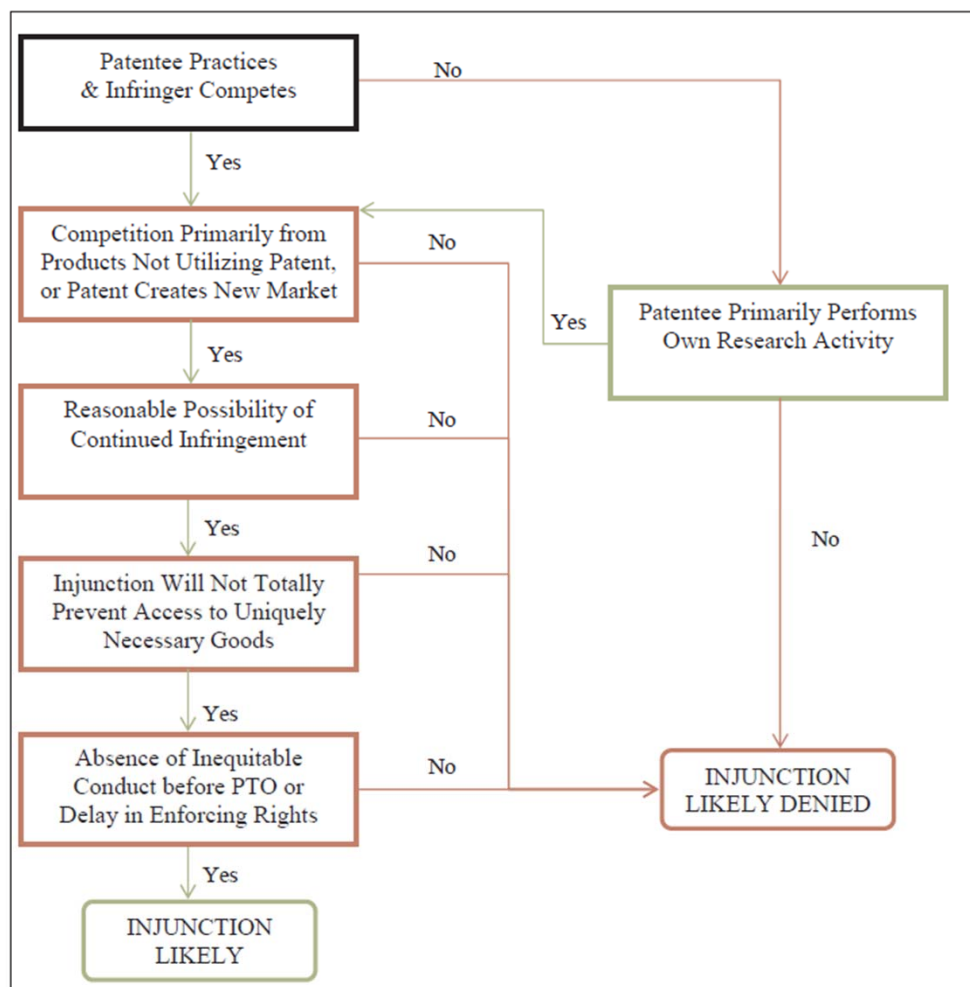
- As of November 30, 2012, permanent injunctions are still granted in the majority of cases
 - Granted in 165 out of 221 reported cases, or **75%** of the time
 - Denied in 56 out of 221 reported cases, or **25%** of the time

- In most post-*eBay* cases where an injunction was granted, the court described the parties as **competitors**

- In most post-*eBay* cases where an injunction was denied, the patent holder was described as a **non-practicing entity**

Source: Patstats.org's "Post-*eBay* Special Patent Report"

Model for Predicting Issuance of Permanent Injunctions (assumes validity & infringement)



Scott McClelland, *A Model For Predicting Permanent Injunctions After eBay v. MercExchange*,
 8 Baker Botts Intellectual Property Report 11 (Nov. 2011).

Definition of “Competition” expands?

- Initial spike in denials seems to be evening out as courts take a less narrow approach

- Non-practicing entities have since been granted permanent injunctions
 - *Joyal Products v. Johnson Electric North America*, 2009 U.S. Dist. LEXIS 15531 (D.N.J. Feb. 26, 2009) (granting an injunction in favor of a company who had previously practiced the patent, but had since ceased operations and was looking to sell the patent).
 - *Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 600 (E.D. Tex. 2007) (granting an injunction in favor of research-focused arm of a foreign government).

Definition of “Competition” expands?

- Market competition, not just product competition, now a consideration
 - *Broadcom Corp. v. Qualcomm, Inc.*, 2007 U.S. Dist. LEXIS 97647 (C.D. Cal. Dec. 31, 2007) (explaining that while not offering replacement products may affect the degree of competition, both firms compete in the same market, a market the patent holder should have the opportunity to exploit).
 - *Callaway Golf Co. v. Acushnet Co.*, 585 F. Supp. 2d 600 (D. Del. 2008) (granting permanent injunction relying in part argument about plaintiff’s loss of market share) (vacated on other grounds).
- Patent holders who are among a number of competitors in a particular market and have licensed the patented technology to other competitors have been granted permanent injunctions
 - *Acumed LLC v. Stryker Corp.*, 551 F.3d 1323 (Fed. Cir. 2008) (affirming permanent injunction and noting that “adding a new competitor to the market may create an irreparable harm that the prior licenses did not”).

Definition of “Competition” expands?

- Even patent holders who are not presently manufacturing the product or actively using the patented technology have been successful
 - *Callaway Golf Co. v. Acushnet Co.*, 585 F. Supp. 2d 600 (D. Del. 2008) (granting permanent injunction although patent holder had ceased manufacturing the product embodying the patented technology) (vacated on other grounds).
 - *Emory Univ. v. Nova BioGenetics, Inc.*, 2008 U.S. Dist. LEXIS 57642, (N.D. Ga. July 24, 2008) (granting permanent injunction to protect patent owner’s goodwill despite the fact that the corporate defendant was dissolved and its principal was incarcerated).
 - *Joyal Prods., Inc. v. Johnson Elec. N. Am., Inc.*, 2009 U.S. Dist. LEXIS 15531 (D.N.J. Feb. 26, 2009) (finding irreparable harm and granting permanent injunction although the patent holder had ceased operating and was in the process of liquidating its assets through a bankruptcy proceeding).

After eBay: what's next?

- Ongoing post-verdict royalties
 - “Under some circumstances, awarding an ongoing royalty for patent infringement in lieu of an injunction may be appropriate.” *Paice LLC v. Toyota*, 504 F.3d 1293, 1314 (Fed. Cir. 2007).
 - In face of extensive licensing and licensing efforts, loss of revenue due to ongoing infringement can be remedied. *ActiveVideo v. Verizon*, 694 F.3d 1312 (Fed. Cir. 2012).
 - Limited guidance from CAFC to date means district courts will develop different approaches to determining post-verdict royalties.

After eBay: what's next?

- Section 337 investigations before the ITC
 - ITC is vested with power to issue “exclusion orders” to stop importation of articles that infringe U.S. patents after a Section 337 investigation (target completion is 16 months after institution of investigation).
 - The *eBay* factors do not apply to remedy determinations in a Section 337 investigation.
- Section 337’s jurisdiction requirement of “domestic industry”
 - A “domestic industry” is considered to exist if there is in the U.S. with respect to the articles protected by the patent concerned:
 - “significant investment in plant and equipment”
 - “significant employment of labor or capital” or
 - “substantial investment in its exploitation, including engineering, research and development, or licensing.”

After eBay: what's next?

- When does licensing activity satisfy the “domestic industry” requirement?
Relevant factors include:
 - Revenue paid to purchase rights to asserted patent(s)
 - Scope, nature and timing of any licenses granted
 - Patent prosecution costs incurred for asserted patent(s)
 - Revenue spent by prior licensees of asserted patent(s) to support research, development and manufacturing costs made in the U.S. in connection with asserted patent(s)
 - Number of employees involved in licensing activity and their salaries
 - Overhead expenses to support licensing activity
 - Whether the licensing activity is “production-driven” or “revenue-driven”
- Public interest considerations