



VOLUME 4

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TABLE OF CONTENTS

ARTICLES

GOING PRIVATE: THREE DOCTRINES GONE ASTRAY..... 399
Mary Siegel

PRACTITIONER NOTES

FEDERAL ANTITRUST REVIEW OF GENERIC DRUG MERGERS:
A PROPOSAL FOR A MORE FLEXIBLE APPROACH 465
Steven K. Bernstein & Jeff L. White

“NOVEL ISSUES” OR A RETURN TO CORE PRINCIPLES? ANALYZING
THE COMMON LINK BETWEEN THE DELAWARE CHANCERY COURT’S
RECENT RULINGS IN OPTION BACKDATING AND TRANSACTIONAL
CASES 505
Mark Lebovitch with Laura Gundersheim

PROSPECTIVE RELIEF FOR PATENT INFRINGEMENT IN A POST-EBAY
WORLD 549
George M. Newcombe, Jeffrey E. Ostrow, Patrick E. King &
Gabriel N. Rubin

DELAWARE LAW, FINANCIAL THEORY AND INVESTMENT BANKING
VALUATION PRACTICE 579
R. Scott Widen

STUDENT NOTES

RIPPLES IN THE PATENT POOL: THE IMPACT AND IMPLICATIONS OF
THE EVOLVING ESSENTIALITY ANALYSIS 605
Michael A. Lavine

STRATEGIC CHOICES IN MERGER AGREEMENTS: A STUDY OF
DECISIONS TO CHOOSE (AND NOT TO CHOOSE) LAW AND FORUM.. 647
Brian E. Price

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PROSPECTIVE RELIEF FOR PATENT
INFRINGEMENT IN A POST-EBAY WORLD

GEORGE M. NEWCOMBE,* JEFFREY E. OSTROW,**
PATRICK E. KING,*** AND GABRIEL N. RUBIN****¹

While the United States Congress continues to debate sweeping patent reform legislation,² the Supreme Court has initiated substantive changes to the manner in which the patent laws are interpreted. Whether establishing a more flexible regime for obviousness as it relates to patentability,³ limiting the extraterritorial reach of patent laws,⁴ clarifying the standard for when a party can bring suit for a declaratory judgment of non-infringement and/or invalidity,⁵ eliminating the presumption that once a patent is found to be valid and infringed a permanent injunction shall issue,⁶ or granting *certiorari* to rule on the contours of the patent-exhaustion doctrine,⁷ the Roberts Court has led the charge for patent reform after years of seeming indifference from the Rehnquist Court. This article considers how one of these decisions, *eBay, Inc. v. MercExchange*, has altered the landscape of available remedies after the determination that a valid patent has been infringed.

This article first looks at what remedies were traditionally available for a patentee after proving that another party has infringed a valid patent. Next this article examines the *eBay* case and its mandate that courts must consider the traditional four-factor test when determining whether a permanent injunction should issue, rather than merely applying categorical

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1. This article is current as of its submission date, February 13, 2008.

2. *See, e.g.*, Patent Reform Act of 2007, S. 1145, 110th Cong. (2007); Patent Reform Act of 2007, H.R. 1908, 110th Cong. (2007).

3. *KSR Int'l Co. v. Teleflex, Inc.*, 127 S. Ct. 1727 (2007).

4. *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007).

5. *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007).

6. *eBay, Inc. v. MercExchange, LLC*, 126 S. Ct. 1837 (2006).

7. *Quanta Computer, Inc., v. LG Elecs., Inc.*, *cert. granted*, 168 L. Ed. 2d 805 (Sept. 25, 2007) (No. 06-937).

rules. This article then analyzes how courts have applied the four-factor test post-*eBay*, noting the trends that have evolved in the district courts. Finally, this article considers the various options available to courts in fashioning relief for prospective infringement after a permanent injunction is denied.

I.

REMEDIES TRADITIONALLY AVAILABLE FOR PATENT INFRINGEMENT BEFORE *eBAY*

The patent laws provide a patent-holder with two categories of relief for infringement of a valid patent: damages and injunctive relief. Because a patent offers its owner the right to exclude others from practicing a claimed invention,⁸ historically, a patentee received a permanent injunction as a matter of course when another party was found to infringe a valid patent. The traditional four-factor test that applies when assessing a request for permanent injunction was generally not applied in patent cases.⁹ Prior to *eBay*, as the Federal Circuit observed, “[i]t is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it.”¹⁰

As a consequence of the nearly universal use of an injunction for future relief, damages were traditionally considered as

8. 35 U.S.C. § 154 (“Every patent shall contain . . . a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.”).

9. The four factor test is: “(1) that [the patentee] 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.” *See, e.g., eBay*, 126 S. Ct. at 1839 (citations omitted).

10. *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) (citing *W.L. Gore & Associates, Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988)). *See, e.g., Vitamin Technologists, Inc. v. Wisconsin Alumni Research Found.*, 64 USPQ 285 (holding that the public interest would not be served by enjoining the infringer’s irradiation of oleomargarine, although the public interest would be better served by holding the patents invalid).

a means of redressing only past infringement, not prospective infringement. Courts predominantly recognized three different methods for calculating past damages.

1. *Reasonable Royalty*: Courts applied a reasonable royalty, authorized by statute, to “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.”¹¹ The rate is set based on an established royalty rate or the outcome of a hypothetical negotiation between a willing licensor and licensee on the date of first infringement, where the patent is assumed to be valid and infringed.¹²

2. *Lost Profits*: Courts awarded lost-profits to provide the patentee with the profits it would have made “but for” the infringement.¹³ To receive lost profits, a patentee must establish: (1) demand for the patented product; (2) the absence of acceptable non-infringing substitutes; (3) its own manufacturing and marketing capability to exploit the demand; and (4) the profits it would have made absent the infringement.¹⁴

3. *Enhanced Damages*: Courts are also authorized to enhance damages upon finding that an infringer is willful.¹⁵ To

11. 35 U.S.C. § 284; *see also* *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995).

12. A patentee who is unable to satisfy the requirements for the award of lost-profits “is entitled to no less than a reasonable royalty on an infringer’s sales” *Rite-Hite*, 56 F.3d at 1554 (citations omitted). “The royalty may be based on an established royalty, [or if one does not exist], upon the supposed result of hypothetical negotiations between the plaintiff and defendant” that takes place on the eve of infringement. *Id.* (citations omitted). *Georgia-Pacific v. United States Plywood* outlines 15 factors that guide courts in envisioning how this hypothetical negotiation plays out. 318 F. Supp 1116, 1120 (S.D.N.Y. 1970). These factors generally suggest looking at the economic value of both the patent and the infringing product as well as the behavior of both the patentee and infringer. *Id.*

13. *Grain Processing Corp. v. American Maize-Products Co.*, 185 F.3d 1341, 1349 (Fed. Cir. 1999).

14. *See Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978).

15. 35 U.S.C. § 284 (“the court may increase the damages up to three times the amount found or assessed”); *Beatrice Foods Co. v. New England Printing & Lithographing Co.*, 923 F.2d 1576, 1578 (Fed. Cir. 1991) (“Although the statute does not state the basis upon which a district court may increase damages, it is well-settled that enhancement of damages must be premised on willful infringement or bad faith.”) (citation and quotation marks omitted).

prove willfulness, “a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.”¹⁶ Once establishing this factor, “the patentee must also demonstrate that this objectively-defined risk. . . was either known or so obvious that it should have been known to the accused infringer.”¹⁷

Due to the prevalence of permanent injunctions pre-*eBay*, courts rarely fashioned remedies for ongoing, future infringement. Relief for post-injunction infringing activities was almost always in the form of a contempt order.

The Supreme Court’s decision in *eBay* radically altered this landscape.

II. THE *EBAY* CASE

In *eBay*, a non-competing entity, MercExchange LLC (“MercExchange”), had acquired several patents regarding e-commerce.¹⁸ On September 26, 2001, MercExchange asserted these patents against the popular on-line auction house, eBay, and its wholly-owned subsidiary, Half.com.¹⁹ After a full trial on the merits, the jury found that the defendants willfully infringed both patents and awarded damages in the amount of \$35 million.²⁰ Subsequently, MercExchange requested a permanent injunction to prevent future infringement. The district court applied the four-factor test typically used when assessing requests for permanent injunction (outside the patent context) and denied the plaintiff’s request. The district court focused, in part, on MercExchange’s failure to practice the patents.²¹ Moreover, because MercExchange had previously demonstrated a willingness to license the patents, the district court found that it was likely that money damages would be adequate to remedy any harm suffered as a result of the de-

16. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (citation omitted).

17. *Id.*

18. U.S. Patent No. 5,845,265 (filed Nov. 7, 1995) (the “‘265 patent”) and U.S. Patent No. 6,085,176 (filed Mar. 8, 1999) (the “‘176 patent”).

19. *MercExchange, LLC v. eBay, Inc.*, 275 F. Supp. 2d 695, 698-99 (E.D. Va. 2003), *rev’d*, 401 F.3d 1323 (Fed. Cir. 2005); *eBay*, 126 S. Ct. at 1837-38.

20. *MercExchange*, 275 F. Supp. 2d at 698.

21. *Id.* at 712.

defendants' actions.²² The court also noted the plaintiff's statements to the media that it did not intend to seek an injunction and would prefer to collect monetary damages for the defendants' infringement.²³

The parties both appealed the district court's decision and, in response, the Federal Circuit reversed the district court's denial of a permanent injunction with respect to infringement of the '265 patent.²⁴ In reversing the district court's denial of equitable relief, the Federal Circuit did not engage in an analysis of the traditional four-factor test, but instead stated the "general rule" that, once infringement and validity have been established, a patent holder is entitled to an injunction in all but "exceptional circumstances."²⁵ The Federal Circuit stated: "Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license."²⁶

A. *The Supreme Court Decision*

The Supreme Court granted *certiorari* to determine the appropriateness of the "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."²⁷ The case attracted widespread attention and numerous briefs from amici. Many pharmaceutical companies and universities, as well as the American Bar Association, favored the application of the "general rule." Electronics manufacturers, financial associations, and intellectual property professors tended to favor a more rigorous application of the traditional four-factor test.

On May 15, 2006, the Supreme Court issued its unanimous opinion and reversed the decision of the Federal Circuit, remanding the case for further consideration in light of the Court's decision.²⁸ The common thread in the lead opinion and two concurring opinions is that the Supreme Court is not willing to recognize a presumptive "general rule" in patent

22. *Id.* at 712-13.

23. *Id.* at 712.

24. *Id.* at 1326.

25. *Id.* at 1338.

26. *Id.* at 1339.

27. *eBay*, 126 S. Ct. at 1839 (quoting *MercExchange*, 401 F.3d at 1339).

28. *Id.* at 1841.

cases that trumps the traditional four-factor test for demonstrating an entitlement to injunctive relief.²⁹

The lead opinion, written by Justice Thomas, held that because patents have the attributes of personal property, injunctive relief may only issue “in accordance with the principles of equity.”³⁰ Therefore, following “well-established principles of equity,” the Court held that the patent holder had to demonstrate that the factors of the traditional four-factor test applied: (1) the patentee would suffer irreparable injury absent a permanent injunction; (2) remedies at law are inadequate; (3) the balance of hardships favor the patentee; and (4) the public interest is served (or not disserved) by the issuance of a permanent injunction.³¹ According to the Court, neither the trial court nor the Federal Circuit properly applied the four-factor test.³²

Although the district court cited the four-factor test in its initial denial of a permanent injunction, the Supreme Court faulted the district court for adopting “expansive principles suggesting that injunctive relief could not issue in a broad swath of cases” such as when the patent holder is willing to license its patents or lacks commercial activity in practicing its patents.³³ The Supreme Court noted that certain patent holders, such as university researchers and self-made inventors, may choose to license their patents instead of securing the financing to bring the works to market themselves, and, in some cases, may be able to satisfy the four-factor test.³⁴ Presumptively denying these patentees injunctive relief would be contrary to the principles of equity adopted by Congress and inconsistent with prior Supreme Court case law that rejected “the contention that a court of equity has no jurisdiction to

29. *Id.* (“[T]he decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.”).

30. *Id.* at 1840.

31. *Id.* at 1839 (citations omitted).

32. *Id.* at 1840-41.

33. *Id.* at 1840.

34. *Id.*

grant injunctive relief to a patent holder who has unreasonably declined to use the patent.”³⁵

The Supreme Court also criticized the Federal Circuit’s failure to apply the four-factor test. The Court rejected a “general rule, unique to patent disputes,” that a permanent injunction will issue once infringement and validity have been adjudged except in the “unusual case, under exceptional circumstances and in rare instances to protect the public interest.”³⁶ Because neither court properly applied the traditional four-factor test, the Supreme Court vacated the Federal Circuit’s judgment to allow the district court to properly apply the test in the first instance.³⁷

B. *The Roberts Concurrence*

The Court issued two concurring opinions. Chief Justice Robert’s concurrence,³⁸ like the majority opinion, rejected the “general rule” favoring the award of injunctive relief but expressly embraced the idea that the power to exclude goes to the heart of the rights conferred by a patent,³⁹ and acknowledged the extensive history of precedent awarding injunctions in patent cases.⁴⁰ While not articulating how the four-factor test should be applied in the patent context, the Roberts concurrence cautioned that district courts will not be writing on a clean slate in this heavily litigated area and that precedent should continue to play an important role in the determination of whether a permanent injunction should issue.⁴¹ The opinion suggests that, even with the application of the four-factor test, permanent injunctions should be liberally granted.⁴²

35. *Id.* at 1840-41 (citing *Cont’l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 422-30 (1908)).

36. *Id.* at 1841 (quotation marks omitted).

37. *Id.*

38. Joined by Justices Scalia and Ginsburg.

39. *Id.*

40. *Id.* (Roberts, J., concurring).

41. *Id.* at 1841-42 (arguing that “[w]hen it comes to discerning and applying standards, in this area as others, ‘a page of history is worth a volume of logic.’”) (quoting *New York Trust Co. v. Eisner*, 256 U.S. 34534 (1921)).

42. *Id.*

C. *The Kennedy Concurrence*

Justice Kennedy concurs with the lead opinion but finds that the landscape that exists today differs materially in three ways from that which existed when earlier precedents granted injunctive relief.⁴³ First, Justice Kennedy focused on the challenges posed by entities that own patents but are not engaged in selling or manufacturing and do not practice their own patents.⁴⁴ Such non-competing entities,⁴⁵ sometimes referred to as “patent trolls,”⁴⁶ use litigation as a tool in an effort to monetize their patents, employing the threat of a permanent injunction as a powerful tool to extract higher payments. Given that backdrop, Kennedy’s concurrence suggests such entities may not be able to establish irreparable harm – a necessary element in securing a permanent injunction. For these patent holders, money damages may be the more appropriate relief. If so, the concurrence suggests that courts should not allow these entities to use the threat of a permanent injunction to extract unreasonable fees from alleged infringers.⁴⁷

Justice Kennedy’s concurrence seemingly ignores the lead opinion’s discussion that some patent holders who do not practice their patents (*i.e.*, universities and individual inventors) might still be entitled to injunctive relief depending on their other business activities.⁴⁸ Justice Kennedy’s concurrence instead focuses on the “industry [that] has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.”⁴⁹

Second, Justice Kennedy’s concurrence tacitly recognizes the fact that products today are far more complex than they were in earlier times when much of the precedents in this area

43. Joined by Justices Stevens, Souter, and Breyer.

44. *Id.* at 1842 (Kennedy, J., concurring).

45. A non-competing entity, for purposes of this article, is an entity that holds patent rights within a patent, but does not compete directly, in a horizontal relationship with the accused infringer.

46. *See, e.g.*, Robert E. Thomas, *Vanquishing Copyright Pirates and Patent Trolls: The Divergent Evolution of Copyright and Patent Laws*, 43 AM. BUS. L.J. 689, 692 (Winter 2006).

47. *See eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring).

48. *Id.* at 1840 (majority opinion).

49. *Id.* at 1842 (Kennedy, J., concurring).

were established.⁵⁰ As a result, Justice Kennedy's opinion also directs trial courts to look to whether "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. . . ." ⁵¹ In those cases, Justice Kennedy suggests that legal remedies are adequate and an injunction does not serve the public interest.⁵²

Third, Justice Kennedy's concurrence notes that the nature of patents issued by the PTO now is different than when earlier precedents were set.⁵³ As a result, the concurring opinion states that the quality of the patent itself may be taken into account when applying the four-factor test.⁵⁴ Justice Kennedy states: "In addition 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."⁵⁵

Notably, none of the opinions provide much guidance on how to apply the four-factor test in the context of patent litigation. As a result, district courts have found many paths to follow post-*eBay*.

III.

APPLYING THE FOUR-FACTOR TEST IN THE PATENT CONTEXT

The Court in *eBay* admonished lower courts to avoid categorical rules when considering whether to grant or deny injunctive relief.⁵⁶ An examination of reported cases post-*eBay*, however, demonstrates that near-categorical rules about injunctions have emerged from the decision. Since *eBay*, at least 30 permanent injunctions have issued.⁵⁷ In all but two of

50. *Id.*

51. *Id.*

52. *Id.*

53. *Id.*

54. *Id.*

55. *Id.*

56. *Id.* at 1841 (majority opinion) ("Just as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief.").

57. *Acumed LLC v. Stryker Corp.*, No. 04-513, 2007 U.S. Dist. LEXIS 86866 (D. Or. Nov. 20, 2007); *Sundance, Inc. v. DeMonte Fabrication Ltd.*,

No. 02-73543, 2007 U.S. Dist. LEXIS 77728 (E.D. Mich. Oct. 19, 2007); Martek Biosciences Corp. v. Nutrinova Inc., No. 03-896, 2007 U.S. Dist. LEXIS 80190 (D. Del. Oct. 30, 2007); Baden Sports, Inc. v. Kabushiki Kaisha Molten, No. C06-210, 2007 U.S. Dist. LEXIS 70776 (W.D. Wash. Sept. 25, 2007); Allan Block Corp. v. E. Dillon & Co., Civ. No. 04-3511, 2007 U.S. Dist. LEXIS 61163 (D. Minn. Aug. 20, 2007) (infringer allowed to sell its remaining inventory of infringing goods because “the jury’s damage award included a reasonable royalty for [the] remaining . . . inventory [and it] would be inequitable to prohibit [the defendant] from selling the [inventory] for which it must pay royalties”) *id.* at *37-38; Johns Hopkins Univ. v. DataScope Corp., Nos. 05-0759, 06-2711, 2007 U.S. Dist. LEXIS 68972 (D. Md. Aug. 9, 2007); MuniAuction, Inc. v. Thomson Corp., Civ. No. 01-1003, 2007 U.S. Dist. LEXIS 55433 (W.D. Pa. July 30, 2007); Sanofi-Synthelabo v. Apotex Inc., No. 02 Civ. 2255, 2007 U.S. Dist. LEXIS 44033 (S.D.N.Y. June 19, 2007); Commonwealth Scientific and Indus. Research Org. v. Buffalo Tech., *Inc.*, 492 F. Supp. 2d 600 (E.D. Tex. 2007); Brooktrout, Inc. v. Eicon Networks Corp., No. 2:03-CV-59, 2007 U.S. Dist. LEXIS 43107 (E.D. Tex. June 14, 2007); MGM Well Servs., Inc. v. Mega Lift Sys., No. H-05-1634, 2007 U.S. Dist. LEXIS 30536 (S.D. Tex. Apr. 25, 2007); 800 Adept, Inc. v. Murex Sec., Ltd., No. 6:02-cv-1354-Orl-28DAB, 2007 U.S. Dist. LEXIS 27051 (M.D. Fla. Apr. 12, 2007); O2 Micro Int’l Ltd. v. Beyond Innovation Tech. Co., No. 2-04-CV-32, 2007 U.S. Dist. LEXIS 25948 (E.D. Tex. Mar. 21, 2007); Ortho-McNeil Pharm., Inc. v. Mylan Labs. Inc., No. 04-1689, 2007 U.S. Dist. LEXIS 19494 (D.N.J. Mar. 20, 2007); Novozymes A/S v. Genencor Int’l, Inc., No. 05-160, 2007 U.S. Dist. LEXIS 10577 (D. Del. Feb. 16, 2007); MPT, Inc. v. Marathon Labels, Inc., No. 1:04-cv-2357, 2007 U.S. Dist. LEXIS 3992 (N.D. Ohio Jan. 19, 2007); Innogenetics, N.V. v. Abbott Labs., No. 05-C-0575-C, 2007 U.S. Dist. LEXIS 3148 (W.D. Wis. Jan. 12, 2007); Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp., No. H-03-2910, 2006 U.S. Dist. LEXIS 93408 (S.D. Tex. Dec. 27, 2006); Visto Corp. v. Seven Networks, Inc., No. 2:03-CV-333, 2006 U.S. Dist. LEXIS 91453 (E.D. Tex. Dec. 19, 2006) (injunction stayed to sanction the patentee for sharing confidential documents with its patent prosecution counsel) *id.* at *23; Black & Decker Inc. v. Robert Bosch Tool Corp., No. 04-C-7955, 2006 U.S. Dist. LEXIS 86990 (N.D. Ill. Nov. 29, 2006); Rosco, Inc. v. Mirror Lite Co., No. CV-96-5658, 2006 U.S. Dist. LEXIS 73366 (E.D.N.Y. Sept. 28, 2006); Smith & Nephew, Inc. v. Synthes, 466 F. Supp. 2d 978 (W.D. Tenn. 2006); 3M Innovative Props. Co. v. Avery Dennison Corp., No. 01-1781, 2006 U.S. Dist. LEXIS 70263 (D. Minn. Sept. 25, 2006); Litecubes, L.L.C. v. N. Light Prods., 2006 U.S. Dist. LEXIS 60575 (E.D. Mo. Aug. 25, 2006); Floe Int’l, Inc. v. Newmans’ Mfg. Inc., No. 04-5120, 2006 U.S. Dist. LEXIS 59872 (D. Minn. Aug. 23, 2006) (infringer stipulated to a permanent injunction, and patentee agreed to a stay to allow the infringer a “reasonable amount of time” to sell its remaining stock of infringing goods) *id.* at *23-25; Am. Seating Co. v. USSC Group, Inc., No. 01-00578, 2006 U.S. Dist. LEXIS 59212 (W.D. Mich. Aug. 22, 2006); TiVo Inc. v. Echostar Communs. Corp., 446 F. Supp. 2d 664 (E.D. Tex. 2006); Telequip Corp. v. The Change Exch., No. 5:01-CV-1748, 2006 U.S. Dist. LEXIS 61469 (N.D.N.Y. Aug. 15, 2006); Wald v. Mudhopper Oilfield Servs., *Inc.*, No. CIV-04-1693-C, 2006 U.S. Dist. LEXIS 51669 (W.D. Okla. July 27, 2006); KEG

these cases,⁵⁸ the infringer was a direct horizontal competitor plaintiff patentee. Conversely, in six of the seven cases where the patentee and infringer were not direct-horizontal competitors, the courts initially denied a permanent injunction.⁵⁹ Thus, the emerging general rule appears to be that a patentee who competes in the market with the adjudged infringer will likely be awarded a permanent injunction while a patentee who does not compete with the infringer, but merely licenses its intellectual property, will likely not be awarded a permanent injunction.

Despite the emergence of these general rules, there is little consensus among district courts about how the four factors are to be applied to reach the result.

Techns., Inc. v. Reinhart Laimer, No. 1:04-CV-0253 (N.D. Ga. July 24, 2006) (consent order for permanent injunction). *But see* Nichia Corp. v. Seoul Semiconductor, Ltd., No. 06-0162 (N.D. Cal. Feb. 7, 2008) (order denying permanent injunction); *Respironics, Inc. v. Invacare Corp.*, No. 04-0336, 2008 U.S. Dist. LEXIS 1174, (W.D. Pa. Jan 8, 2008) (denying injunction when patentee was a new entrant to the market and the infringement was a old, one-time event) *id.* at *13-*18; *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440 (D. Del. 2007) (“direct and head-to-head” competitor was not granted a permanent injunction) *id.* at 442; *IMX, Inc. v. LendingTree, LLC*, 469 F. Supp. 2d 203 (D. Del. 2007) (denying permanent injunction even though patentee has a product that potentially competes with the infringing product because, *inter alia*, the court could not determine whether the products are “available to and used by the same ‘public.’”) *id.* at 226.

58. *Sundance, Inc. v. DeMonte Fabrication Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 77728 (E.D. Mich. Oct. 19, 2007); *Commonwealth Scientific and Indus. Research Org. v. Buffalo Tech., Inc.*, 492 F. Supp. 2d 600 (E.D. Tex. 2007).

59. *MercExchange, LLC v. eBay, Inc.*, 500 F. Supp. 2d 556 (E.D. Va. 2007); *Sundance, Inc. v. DeMonte Fabricating, Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 158 (E.D. Mich. Jan. 4, 2007); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623 (W.D. Okla. Sept. 5, 2006); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. Aug. 16, 2006); *Finisar Corp. v. DirecTV Group*, No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 76380 (E.D. Tex. July 7, 2006); *z4 Tech. Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006) (vertical competitor). *But see* *Commonwealth Scientific and Indus. Research Org.*, 492 F. Supp. 2d 600 (E.D. Tex. 2007) (granting a permanent injunction when the patentee was a non-competing research institution). *But see* *Sundance, Inc. v. DeMonte Fabrication Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 77728, at *5 (E.D. Mich. Oct. 19, 2007) (granting the patentee’s second motion for a permanent injunction after previously denying this relief because “[c]ircumstances have changed significantly”). For a further discussion of the *Sundance* case, see *infra* Part III(A)(2).

A. *Irreparable Injury*

Irreparable harm is generally regarded as harm that cannot be compensated by money damages.⁶⁰ Courts have therefore examined the nature of the injury that would be suffered by the patent-owner should the infringer not be enjoined from its infringing activity. In those decisions that have issued permanent injunctions, courts have focused on harm to the underlying business of the patent-holder.

1. *Competing Entities*

Courts have found that a patentee who is also a market participant will suffer irreparable injury based on the market share erosion from continued infringement that competes against the patentee and loss of goodwill and reputation.⁶¹ As one court stated: “The loss of market share and the resulting lost profits and loss of brand name recognition. . . [due to the] continued sale of the infringing products constitute injuries that are both incalculable and irreparable.”⁶² This loss of market share is even more acute in an emerging nascent market.⁶³ Courts have found that customers in these markets are “sticky” and tend to remain loyal.⁶⁴ The patentee who chooses to be a first-mover at the “critical time” when the market emerges will never have the same opportunity to capture customers once the market matures.⁶⁵

60. *See, e.g.*, Paice LLC, 2006 U.S. Dist. LEXIS 61600, at *13 (“Irreparable harm lies only where injury cannot be undone by monetary damages”).

61. *See, e.g.*, Black & Decker Inc. v. Robert Bosch Tool Corp., No. 04-C-7955, 2006 U.S. Dist. LEXIS 86990, at *12-13 (N.D. Ill. Nov. 29, 2006) (“Accordingly, Black & Decker’s loss of market share weighs in favor of granting its motion” for a permanent injunction); Smith & Nephew, Inc. v. Synthes, 466 F. Supp. 2d 978, 983 (W.D. Tenn. 2006).

62. Smith & Nephew, Inc., 466 F. Supp. 2d at 983.

63. *See e.g.*, TiVo Inc. v. Echostar Communs. Corp., 446 F. Supp. 2d 664, 669-70 (E.D. Tex. 2006); Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp., No. H-03-2910, 2006 U.S. Dist. LEXIS 93408, at *13 (S.D. Tex. Dec. 27, 2006).

64. TiVo Inc. Corp., 446 F. Supp. at 669-70.

65. *Id.* at 670; *see also* Transocean Offshore Deepwater Drilling, Inc., 2006 U.S. Dist. LEXIS 93408, at *13 (“[A]bsent a permanent injunction[,] the infringer, . . . will be able to continue using the patented invention to compete against the patent holder, . . . for business in a developing market with a small customer base.”) (citation omitted).

Courts have also found irreparable injury from continued infringement in the form of harm to the patentee's reputation and goodwill.⁶⁶ As one court noted: "Indeed, the harm to [the patentee's] reputation resulting from confusion between products is a type of harm that is often not fully compensable by money because the damages caused are speculative and difficult to measure."⁶⁷ The patentee typically presents evidence that its reputation in the target market may have been harmed by the infringement, and as such, found this factor weighed in the patentee's favor. Because this harm is usually presumed from consumer confusion between patented and infringing goods, again, this factor typically only helps the patentee when it competes directly with the infringer.⁶⁸

One should not assume, however, that all patentees who are also market participants will receive the benefit of a permanent injunction. District courts have denied permanent injunctions to patentees who practice their inventions and directly compete with the adjudicated infringer.⁶⁹ In one recent example, the patentee argued it would suffer irreparable harm from continued infringement due to "brand recognition erosion, harm to its reputation, price erosion, and loss of market share."⁷⁰ The court, in denying the patent holder's request for a permanent injunction, rejected the argument, finding no irreparable harm from past infringement – there were only two infringing sales within the United States, both occurring nearly three years prior to the patentee's motion, one to the patentee and the other for \$165.⁷¹ The court also found that the infringer's only customers for future sales were all located in Asia, and had been notified of the infringer's intent to cease

66. *See, e.g.*, *Black & Decker, Inc.*, 2006 U.S. Dist. LEXIS 86990, at *11 (citation and quotation marks omitted).

67. *Id.*

68. *See* *z4 Techs., Inc.*, 434 F. Supp. 2d at 440 ("In the absence of a permanent injunction against Microsoft, z4 will not suffer . . . the loss of brand name recognition).

69. *See* *Nichia Corp. v. Seoul Semiconductor, Ltd.*, No. 06-0162 (N.D. Cal. Feb. 7, 2008) (order denying permanent injunction); *Respironics, Inc. v. Invacare Corp.*, No. 04-0336, 2008 U.S. Dist. LEXIS 1174, (W.D. Pa. Jan 8, 2008); *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440 (D. Del. 2007); *IMX, Inc. v. LendingTree, LLC*, 469 F. Supp. 2d 203 (D. Del. 2007).

70. *Nichia Corp.* at 2.

71. *Id.*

production of the accused product.⁷² The court was persuaded by the defendant's unrebutted representation that "the technology embodied in the accused product is pretty much obsolete and it is at the very, very tail end of its sales. . . ."⁷³ Thus, the extent of past infringing activities and the likelihood of future infringing activities are factors that at least one court has found relevant in deciding whether to issue an injunction.⁷⁴

Finally, the Federal Circuit has ruled that a patentee who "requests and receives" a reasonable royalty from the jury "that contemplates or is based upon future sales. . . cannot be heard to complain that it will be irreparably harmed by future sales."⁷⁵ In such circumstances, the Federal Circuit vacated a district court's order for a permanent injunction, finding that the jury awarded the patentee damages that "contemplated or [was] based upon future sales by [the infringer] in a long term market."⁷⁶ The court found that this award fully compensated the patentee for past and future infringement, and precluded any finding of irreparable injury from future infringement. The court, therefore, held that it was an abuse of discretion for the district court to also grant a permanent injunction prohibiting future sales that the patentee had already been compensated for.⁷⁷

2. *Non-Competing Entity*

The concerns expressed by courts when finding irreparable injury to competing entities are generally not present for the non-competing patentee. Because they are not competing with the infringer, there is no market share to lose.⁷⁸ Likewise,

72. *Id.* at 2-3.

73. *Id.* at 3 (quotation marks and citation omitted).

74. *But see id.* at 3-4 (citing *W.L. Gore & Assocs. Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281-82 (Fed. Cir. 1988) for the proposition that a permanent injunction may still be "appropriate where [the infringer], without providing any reason, ceased production of infringing product at time of trial").

75. *Innogenetics, N.V. v. Abbott Labs.*, No. 2007-1145, -1161, 2008 U.S. App. LEXIS 976, at *41 (Fed. Cir. Jan 17, 2008).

76. *Id.* at *41.

77. *Id.* at *38-41.

78. *z4 Techs., Inc.*, 434 F. Supp. 2d at 440 ("In the absence of a permanent injunction against Microsoft, z4 will not suffer lost profits . . . or the loss of market share because of Microsoft's continued sale of the infringing prod-

courts have generally not recognized a loss of goodwill by the denial of an injunction to a non-competing entity. This point was made clear by the trial court in *eBay* after remand, where the court found 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.”⁷⁹ Unsurprisingly, given this sharp language, that court found the patentee would not suffer irreparable injury from continued infringement.⁸⁰ To date, courts have downplayed the potential that a patentee’s current or potential licensees may face competition from ongoing and unwelcome infringement and, as a result, may be reluctant to either continue a license or decline to take on a license in the first instance.⁸¹

Indeed, since *eBay*, only two non-competing patentees have been awarded a permanent injunction.⁸² Most recently, this occurred in *Sundance*, a case notable for the fact that the same court originally denied a permanent injunction.⁸³ The court, however, agreed with the patentee when it made a second motion for a permanent injunction: “Circumstances have changed significantly” and granted a permanent injunction on the basis that these circumstances demonstrated irreparable harm to the patentee if an injunction was again denied.⁸⁴ These circumstances were primarily questions regarding the infringer’s continued solvency and ability to pay future damages.⁸⁵ What is striking in this rather short order though is the court’s comment that “[a]n injunction simply enforces the jury’s verdict of infringement by enjoining [the infringer] from infringing the. . . patent [in-suit]. . . .”⁸⁶ This analysis –

ucts. . . . The only entity z4 is possibly prevented from marketing, selling or licensing its technology to absent an injunction is Microsoft.”).

79. *MercExchange, LLC*, 500 F. Supp. 2d at 572.

80. *Id.*

81. *Voda*, 2006 U.S. Dist. LEXIS 63623, at *19 (citation omitted).

82. *Sundance, Inc. v. DeMonte Fabrication Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 77728 (E.D. Mich. Oct. 19, 2007); *Commonwealth Scientific and Indus. Research Org. v. Buffalo Tech., Inc.*, 492 F. Supp. 2d 600 (E.D. Tex. 2007).

83. *Sundance, Inc.*, 2007 U.S. Dist. LEXIS 77728, at *4.

84. *Id.* at *5-*6.

85. *Id.*

86. *Id.* at *6.

that an injunction is the logical conclusion to any verdict of infringement – completely disregards one of the central holdings of *eBay*: that an injunction will not automatically and presumptively issue upon a verdict of infringement.

The other non-competing patentee to be awarded a permanent injunction is the principal scientific research organization of the Australian Federal Government, Commonwealth Scientific and Industry Research Organization (“CSIRO”). The case, *Commonwealth Scientific and Indus. Research Org. v. Buffalo Tech., Inc.* (“CSIRO”),⁸⁷ warrants a detailed discussion as it illustrates the logical difficulty courts have in identifying irreparable harm to an entity that simply wants to license its patents.

3. *CSIRO*

CSIRO obtained a patent on wireless networking technology.⁸⁸ CSIRO had agreed with a standard setting organization to offer licenses to the patent on reasonable and non-discriminatory (“RAND”) terms once the patent was incorporated into several wireless networking standards.⁸⁹ After no potential licensee accepted CSIRO’s offer to license the ‘069 patent, CSIRO brought suit against potential licensees Buffalo Technology, Inc. and Buffalo, Inc. (collectively, “Buffalo”), who sold network cards that incorporated the standards.⁹⁰ On summary judgment, Buffalo was found to infringe CSIRO’s valid patent.⁹¹

In its opinion granting injunctive relief, the court compared CSIRO to the U.S. National Science Foundation and the National Institute of Health⁹² and appears to distinguish CSIRO on this basis from the run of the mill “patent troll” that merely acquires patents for the purpose of licensing.

The court accepted CSIRO’s argument that *no one* would take a license to its technology in the absence of an injunc-

87. 492 F. Supp. 2d 600.

88. U.S. Patent No. 5,487,069 (filed Nov. 23, 1993) (the “‘069 patent”).

89. *Commonwealth Scientific and Indus. Research Org.*, 492 F. Supp. 2d at 601-02.

90. *Id.* at 602.

91. *Id.*

92. *Id.* at 601.

tion.⁹³ CSIRO argued that a denial of injunctive relief would ruin CSIRO's business model of licensing its patents and put the entity out of business.⁹⁴ It is this aspect of CSIRO's argument that underlies the court's finding of irreparable harm.⁹⁵ The court found that if Buffalo's continued infringement was not enjoined, other potential licensees would be dissuaded from taking a license, thereby diminishing CSIRO's revenues. This would make it impossible for CSIRO to "fund further research and development for frontier projects" that "could be initiated or developed sooner with additional licensing revenue."⁹⁶

In addition, the court found that "[h]aving its patents challenged via the courts. . . impugns CSIRO's reputation as a leading scientific research entity. . . ."⁹⁷ This finding has troubling implications. The holding penalizes a defendant for exercising its right to challenge the validity of a patent by increasing the likelihood that an injunction will issue if that challenge is unsuccessful. Moreover, the public does not benefit from the grant of a patent on technology that is already in the public domain or in some other way invalid. Penalizing an accused infringer for testing the validity of patents in open court undercuts sound public policy goals.

At least one non-competing entity has seized upon the CSIRO decision, recasting themselves as research institutes. Wi-LAN Inc., a company that describes its two-prong strategy as "to sign licenses with every company who uses our patented technology and to strengthen our portfolio through active technology research and development,"⁹⁸ has brought suit against 22 companies for infringement of patents relating to wireless networking and power consumption in DSL

93. *Id.* at 603.

94. *Id.*

95. The court's discussion of the consequences of this result – such loss of research, inability to hire top scientists – serves to undermine its decision, since these consequences can be remedied by money. This discussion, however, illustrates the difficulty in finding irreparable harm to an entity whose business is to license patents.

96. *Id.* at 604.

97. *Commonwealth Scientific and Indus. Research Org.*, 492 F. Supp. 2d at 604.

98. WiLAN Home Page, <http://www.wilan.com/> (last visited Apr. 5, 2008).

modems.⁹⁹ Wi-LAN devoted a “modest budget” to create a small in-house research and development team tasked with developing wireless technologies and patents.¹⁰⁰ Wi-LAN’s Chief Executive acknowledged this research arm was created to help Wi-LAN obtain permanent injunctions.¹⁰¹

B. *Adequate Remedy at Law*

Because “[i]rreparable harm lies only where injury cannot be undone by monetary damages” it makes sense that courts’ analysis of the “inadequacy of monetary damages” largely mirrors the analysis of “irreparable injury.”¹⁰² For example, courts have cited that the loss of goodwill and other intangibles caused by continued infringement cannot be calculated with certainty, and even if they could, “monetary damages alone would not meet the ends of justice here because this remedy would allow the infringement to continue.”¹⁰³ Similarly, courts have held that monetary damages cannot compensate a patentee who loses “sticky” customers in an emerging market because the patentee will suffer long-term customer loss.¹⁰⁴

Some of the reasons that courts have given for finding that monetary compensation is an inadequate remedy, however, fall outside their analysis of irreparable injury. For instance, some courts have been reluctant to craft monetary relief because, as one court stated, this would “force a compulsory license. . . that will not contain any of the commercial business terms typically used by a patent holder to control its technology or limit encroachment on its market share.”¹⁰⁵ A

99. Press Release, Wi-LAN, Inc., Wi-LAN Initiates Litigation for Patent Infringement (Nov. 1, 2007), available at <http://www.wilan.com/press-centre/press-releases/press-release.aspx?listingid=512>.

100. Stuart Weinberg, *Wi-LAN Goes Big, Sues 22 Firms For Patent Infringement*, DOW JONES NEWS SERVICE, Nov. 1, 2007.

101. *Id.*

102. *Paice LLC*, 2006 U.S. Dist. LEXIS 61600, at *13.

103. *Smith & Nephew, Inc. v. Synthes*, 466 F. Supp. 2d 978, 984 (W.D. Tenn. 2006).

104. *TiVo Inc. v. Echostar Communs. Corp.*, 446 F. Supp. 2d 664, 669-70 (E.D. Tex. 2006).

105. *Transocean Offshore Deepwater Drilling, Inc.*, 2006 U.S. Dist. LEXIS 93408, at *19. While the court found that this reason also demonstrated irreparable injury to the patentee from continued infringement, this analysis seems to show not why the patentee would suffer irreparable injury, but

separate justification for finding the inadequacy of monetary damages is of particular importance for corporations residing outside the United States.¹⁰⁶ The *O2 Micro* court held that because the infringers were foreign corporations, there was little assurance that the patentee could collect any monetary damages.¹⁰⁷ Under these circumstances, in the court's view, monetary damages would be an insufficient remedy.¹⁰⁸

C. Balance of Hardships

Courts have generally found that the "balance of hardship" weighs in favor of the party that successfully prevails in establishing the first two factors.¹⁰⁹ One argument advanced by infringers that courts are not sympathetic to is that an injunction would cripple its business. As one court found: "One who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against continuing infringement destroys the business so elected."¹¹⁰

The Federal Circuit has provided some guidance to the district courts on how to analyze the balance of hardships factor.¹¹¹ While affirming a district court's grant of a permanent injunction after previously issuing an emergency stay of that order,¹¹² the Federal Circuit faulted the district court for not considering whether the adjudicated infringer should have been given enough time to "implement a workaround that

rather, why damages could not compensate for the injury suffered from the loss of market share. *Id.* at *9-14.

106. *O2 Micro International Ltd. v. Beyond Innovation Technology Co.*, No. 2-04-CV-32, 2007 U.S. Dist. LEXIS 25948 (E.D. Tex. Mar. 21, 2007).

107. *Id.* at *9.

108. *Id.*

109. *See, e.g., Visto Corp. v. Seven Networks, Inc.*, No. 2:03-CV-333, 2006 U.S. Dist. LEXIS 91453, at *14 (E.D. Tex. Dec. 19, 2006) ("The court agrees with [the patentee] Visto that if no permanent injunction is entered, Visto will lose goodwill, potential revenue, and the very right to exclude that is the essence of the intellectual property at issue. Although [infringer] Seven will be harmed by an injunction, the balance of hardships favors Visto . . .").

110. *Commonwealth Scientific and Indus. Research Org.*, 492 F. Supp. 2d at 606 (citing *Windsurfing Intern. Inc. v. AMF, Inc.*, 782 F.2d 995, 1003 (Fed. Cir. 1986)); *see also MercExchange, LLC*, 500 F. Supp. 2d at 584.

111. *Verizon Servs. Corp. v. Vonage Holdings Corp.*, Nos. 2007-1240, -1251, -1274, 2007 U.S. App. LEXIS 22737 (Fed. Cir. Sept. 26, 2007).

112. *Id.*; *Verizon Servs. Corp. v. Vonage Holdings Corp.*, 228 Fed. Appx. 986 (Fed. Cir. Apr. 24, 2007).

would avoid continued infringement. . . .”¹¹³ The court reasoned that while a patentee has “a cognizable interest in obtaining an injunction to put an end to infringement of its patents; it [does] not have a cognizable interest in putting [an infringer] out of business.”¹¹⁴ Analyzing this factor the way the Federal Circuit prescribes moves the question of whether to issue a permanent injunction from a simple yes/no question to a question of if yes, then when should that permanent injunction issue?

D. *Public Interest*

Historically, protecting the “public interest” provided the sole basis for denying a permanent injunction in the patent context.¹¹⁵ It was the general rule that a permanent injunction would issue absent exceptional circumstances – those exceptional circumstances being when the public interest would be disserved by a permanent injunction for health or safety reasons.¹¹⁶ Following *eBay*, no court has denied a permanent injunction solely on this basis. Instead, several courts have found that this factor presumptively weighs in the patentee’s favor because, “[i]n general, public policy favors the enforcement of patent rights.”¹¹⁷ One court did, however, explicitly recognize this tension, and scheduled a later hearing to consider the issue: “I agree with defendant that enjoining it from selling its product could pose a serious risk to the public health if plaintiff cannot fill the diagnostic market need. On the other hand, plaintiff has shown its entitlement to a perma-

113. *Verizon Servs. Corp.*, 2007 U.S. App. LEXIS 22737 at *39-40 n.12.

114. *Id.*

115. *See, e.g., Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 865-66 (Fed. Cir. 1984) (“standards of the public interest, not the requirements of private litigation, measure the propriety and need for injunctive relief”).

116. *See id.*; *see also MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005) (“Thus, we have stated that a court may decline to enter an injunction when ‘a patentee’s failure to practice the patented invention frustrates an important public need for the invention,’ such as the need to use an invention to protect public health.”) (citing *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995)).

117. *Black & Decker Inc. v. Robert Bosch Tool Corp.*, No. 04-C-7955, 2006 U.S. Dist. LEXIS 86990, at *13-14 (N.D. Ill. Nov. 29, 2006). *See also, e.g., Smith & Nephew, Inc. v. Synthes*, 466 F. Supp. 2d 978, 985 (W.D. Tenn. 2006) (“As a general matter, the public maintains an interest in protecting the rights of patent holders, and injunctions serve that interest.”).

ment injunction in all respects other than this one of the public interest.”¹¹⁸ After the hearing, the court issued a permanent injunction, finding that the patentee had enough capacity to supply the public.¹¹⁹ The Federal Circuit vacated this order.¹²⁰

IV.

PROSPECTIVE RELIEF AFTER DENIAL OF A PERMANENT INJUNCTION

Before *eBay*, prospective relief was, for the most part, injunctive relief. The Supreme Court did not address the issue of non-injunctive prospective relief in its *eBay* decision. Until very recently, the Federal Circuit also had not addressed this issue. As a consequence, following *eBay*, the district courts were on their own, sailing into uncharted water when awarding damages for future infringement. It has not been smooth sailing.

Courts have adopted several approaches to deal with this future infringement. Some courts have awarded future infringement damages.¹²¹ Some courts have done nothing, requiring the patentee to initiate new litigation to collect damages for future infringement.¹²² Finally, some courts have imposed a compulsory license.¹²³ The Federal Circuit has only just begun to express its views on the appropriateness of these varied remedies, allowing for the award of future infringement damages, which unlike a compulsory license, correctly keep the infringer in the status of an ongoing (and willful) infringer as opposed to a licensee.

118. *Innogenetics, N.V. v. Abbott Labs.*, No. 05-C-0575-C, 2007 U.S. Dist. LEXIS 3148, at *75 (W.D. Wis. Jan. 12, 2007).

119. *Id.* (order granting permanent injunction).

120. *Innogenetics, N.V. v. Abbott Labs.*, No. 2007-1145, -1161, 2008 U.S. App. LEXIS 976 (Fed. Cir. Jan 17, 2008).

121. *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623 (W.D. Okla. Sept. 5, 2006); *Paice L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. Aug. 16, 2006).

122. *z4 Tech., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006).

123. *Finisar Corp. v. DirecTV Group*, No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 76380 (E.D. Tex. July 7, 2006).

A. *Extrapolate Past Damages into the Future*

A majority of the trial courts that have considered and addressed the issue of damages for future infringement have chosen to apply the reasonable royalty established for past infringement to prospective sales.¹²⁴ This approach has facial appeal in that the jury presumably quantifies the damages for past infringement at trial.¹²⁵ Applying the same damage calculation going forward offers the parties some predictability and avoids the time and expense of future litigation.

For example, in *Voda v. Cordis*, the defendant indicated it would continue to infringe after the court denied injunctive relief.¹²⁶ The patentee moved to sever his claim for future monetary damages.¹²⁷ The court denied the motion as unnecessary because, in the court's view, determining relief for future infringement required only a "simple mathematical calculation based on defendant's sales."¹²⁸ The court ordered the infringer to file quarterly reports of sales, implying that it would calculate a royalty for future infringement based on the jury's determination of a reasonable royalty for past infringement.¹²⁹ The court in *Paice v. Toyota Motor Corp.* also used this approach, holding that infringer could continue its infringement and pay an ongoing royalty equal to the jury-determined royalty rate for past infringement.¹³⁰

124. In no reported decision has a court yet awarded prospective lost profits damages following the denial of a request for injunctive relief. Courts typically view lost profits for future sales as "incalculable and irreparable." *z4 Tech. Inc.*, 434 F. Supp. 2d at 440. *But see* Commonwealth Scientific and Indus. Research Org. v. Buffalo Tech., No. 6:06-CV-324, 2007 U.S. Dist. LEXIS 43832, at *16 (E.D. Tex. June 15, 2007) (holding that monetary damages for future infringement would be inadequate because, *inter alia*, "[t]he royalty payment would be extrapolated from a determination of [the defendant's] past sales, which may not adequately reflect the worth of the patent today[.]").

125. *See Voda*, 2006 U.S. Dist. LEXIS 63623 (utilizing a predetermined royalty rate to extrapolate post-verdict infringement damages); *Paice L.L.C.*, 2006 U.S. Dist. LEXIS 61600 (same); *Finisar Corp.*, 2006 U.S. Dist. LEXIS 76380 (same).

126. *Voda*, 2006 U.S. Dist. LEXIS 63623, at *20.

127. *Id.*

128. *Id.*

129. *Id.*

130. *Id.* at *19-20.

By extrapolating the jury's reasonable royalty into the future, courts are extending the results of the hypothetical negotiation used to set reasonable royalty damages for past infringement into territory in which it has not previously been used. In so doing, these courts implicitly assume that the result of that hypothetical negotiation continues to be valid after a trial in which the patent is found to be valid and infringed. When considering prospective damages, no district court to date has expressly analyzed whether the *Georgia-Pacific*¹³¹ factors considered in arriving at an historical royalty rate are fairly applied when calculating a royalty for future infringement. Arguably, there is no need to re-do the hypothetical negotiation. One might argue that that it is fair to assume that any agreement reached during a hypothetical "negotiation" runs for the life of the patent. Under this theory, the patentee's victory at trial merely confirms certain key facts presumed during the hypothetical negotiation – validity and infringement – and validates the running royalty conceived in such a negotiation.

An alternative argument is that circumstances may have changed between the eve of infringement, when the hypothetical negotiation is to have taken place, and the date of the jury's verdict.¹³² *Georgia-Pacific* did not envision that the hypothetical negotiation it requires would be used to set a rate for ongoing and future infringement. Even though two critical assumptions required by *Georgia-Pacific* – validity and infringement – are later confirmed by a verdict, other factors, such as, *inter alia*, the marketplace, available non-infringing substitutes, economic efficiencies, and demand may have changed significantly over the years. Under this argument, reevaluating the appropriate remedy for future infringement based on

131. *Georgia-Pacific* lays out fifteen factors for a jury to consider and guide them in determining the reasonable royalty that a willing patentee and licensee would arrive at during a hypothetical negotiation on the eve of infringement. See *supra* note 12 and accompanying text.

132. *Paice LLC v. Toyota Motor Corp.*, Nos. 2006-1610, -1631, 2007 U.S. App. LEXIS 24357, at *51 (Fed. Cir. Oct. 18, 2007) ("But, the district court's order provides no reasoning to support the selection of [the jury determined reasonable royalty rate] as the [ongoing] royalty rate"); *id.* at 2 (Rader, J., concurring) ("But pre-suit and post-judgment acts of infringement are distinct, and may warrant different royalty rates given the change in the parties' legal relationship and other factors").

these changed circumstances permits the royalty to reflect the most current information.¹³³

The Federal Circuit appears to be moving toward the second approach. It recently held that “[u]nder some circumstances, awarding an ongoing royalty for patent infringement in lieu of an injunction may be appropriate” but faulted the district court for using the jury-determined royalty rate for past infringement as the measure for an ongoing royalty.¹³⁴ The Federal Circuit provided little guidance to the district court on what factors it could or should consider in devising a new rate for prospective infringement, writing only that the district court “may take additional evidence if necessary to account for any additional economic factors arising out of the imposition of an ongoing royalty.”¹³⁵ The court did not state which, if any, of the *Georgia-Pacific* factors need to be updated, or under what other basis district courts should reconsider the hypothetical negotiation. But the court clearly acknowledged that the world may have changed between the eve of first infringement and the jury’s verdict and the changed circumstances could be considered.¹³⁶

The uncertainty of the law in this area is highlighted by the Federal Circuit’s suggestion that a prospective reasonable

133. If a new royalty is to be calculated for the future use of valid and infringed patent, it is not clear who should make this calculation or when it should be made. Is the award of royalties for future use a legal remedy to be determined by the jury or an equitable remedy to be awarded by the judge? The issue was briefly considered by the Federal Circuit in *Paice LLC*. Plaintiff Paice argued: “It is well settled that the determination of damages is a legal question which carries a Seventh Amendment right to a jury trial.” *Paice LLC*, 2007 U.S. App. LEXIS 24357, at *53 (citation and quotation marks omitted). The court found the argument fell “far short of demonstrating that there was any Seventh Amendment violation” but did not rule out the possibility that a more robust argument might establish such a violation. *Id.* at *54. If ongoing royalties are damages in law, properly determined by the jury, district courts may want to instruct juries on the calculation and award of royalties for future use at the time of trial in the event that the court later denies a permanent injunction.

134. *Id.* at *49, *51 (citing *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 628 (Fed. Cir. 1985) (noting that there was no dispute that the district court had the authority to craft a remedy “styled a ‘compulsory license’”)).

135. *Id.* at *51.

136. *Id.*

royalty should not be awarded as a matter of course.¹³⁷ The court injects further uncertainty by saying that prospective royalty damages should only be awarded after the parties are given an opportunity to negotiate a license.¹³⁸ In his concurring opinion, Judge Rader stated the court should *require* the district court to “remand” the issue of the terms of prospective relief to the parties or obtain “permission” of both parties before setting such prospective relief.¹³⁹ Judge Rader even notes that the task of projecting future royalty payments is “speculative”—an acknowledgement that one might argue supports a finding of irreparable injury and the inadequacy of remedies at law.¹⁴⁰

It is far from clear that providing the opportunity to the parties — who have just fought for several years — one more opportunity to settle before the court issues prospective relief will be a fruitful exercise once the threat of an injunction is eliminated (and setting aside the issue of enhanced damages).¹⁴¹ Other than eliminating future uncertainties on appeal and possible remand, there appears to be little incentive for the parties to reach such an agreement. The plaintiff is unlikely to accept a royalty rate less than the jury awarded and the defendant has no incentive to pay more than that amount. Needless to say, it will be interesting to see how the law develops. In the meantime, the district courts are, again, left with little guidance.

B. *Collect Damages for Prospective Infringement in a Separate Action*

Another approach to prospective relief is to leave it for another day in a different lawsuit. In *z4 Tech., Inc. v. Microsoft*, the court adopted this solution, holding that any harm the pat-

137. *Id.* at *50 (“Awarding an ongoing royalty where ‘necessary’ to effectuate a remedy . . . does not justify the provision of such relief as a matter of course whenever a permanent injunction is not imposed.”).

138. *Id.*

139. *Id.* *55-57 (Rader, J., concurring). Judge Rader does (appear to) acknowledge the district court retains the power to impose license terms if the parties cannot reach agreement. *Id.* at *57-58 (“Of course, if the parties cannot reach agreement, the court would retain jurisdiction to impose a reasonable royalty to remedy the past and ongoing infringement.”).

140. *Id.* at *57.

141. *See supra* Part IV(D).

entee suffered from future infringement could be compensated by calculating a reasonable royalty and ordered the patentee to file a new complaint alleging causes of action for that post-verdict infringement.¹⁴² The court also required the defendant to file quarterly reports of infringing sales and appeared to view this process as a routine accounting matter using the royalty rate set by the jury, although that is not entirely clear.¹⁴³

C. A Compulsory License

A third approach used by courts to award future damages is to impose a compulsory license.¹⁴⁴ For example, in *Finisar Corp. v. DirecTV Group*, the court “granted a compulsory license” from plaintiff to defendants for the remaining life of the patent at issue, at “an ongoing royalty of \$1.60” per infringing device.¹⁴⁵

A compulsory license is not identical to imposing ongoing royalty damages. While both seek to capture the same damages for the prospective infringement and both permit the infringer to choose between continuing to practice the patent for a fee or halt infringement, the compulsory license has several fundamental differences. Other than recognizing that licenses are complex and have lots of detailed terms in them,¹⁴⁶ courts have not explicitly addressed these differences. First, the “license” may give rise to cross-licensing obligations, trigger most-favored-nation clauses whereby the patentee has to alter terms with other licenses, or affect any exclusive license that the patentee has granted. Second, a compulsory license changes the infringer’s status from an ongoing *willful* infringer to a licensed entity. That change in status could have major implications for determining whether a patentee is entitled to enhanced damages for future infringement.¹⁴⁷

142. *z4 Tech., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 444-45 (E.D. Tex. 2006).

143. *Id.*

144. *Finisar Corp.*, 2006 U.S. Dist. LEXIS 76380.

145. *Id.*, at *4-5.

146. *Transocean*, 2006 U.S. Dist. LEXIS 93408, at *19.

147. Both Judges Clark and Folsom have acknowledged some of these issues by inviting the parties in *Finisar* and *Paice* to negotiate “more comprehensive or convenient terms” in a formal license, in light of the court’s directives. *Paice, L.L.C.*, 2006 U.S. Dist. LEXIS 61600, at *20; *see also Finisar Corp.*,

But not all on the Federal Circuit are convinced of this distinction. As Judge Rader wrote in his concurrence to the *Paice* decision, “calling a compulsory license an ‘ongoing royalty’ does not make it any less a compulsory license.”¹⁴⁸ In his view, there is no practical difference between prospective royalty damages and a compulsory license.¹⁴⁹ Judge Moore similarly found that a jury-determined damages award that includes “both an up-front payment and an *ongoing* royalty payment” is a “compulsory license.”¹⁵⁰ In vacating a district court’s grant of a permanent injunction, she remanded the issue back to the district court “to delineate the terms of the compulsory license, such as conditioning the future sales of the infringing products” and did so specifically to “permit the court to retain jurisdiction to ensure the terms of the compulsory license are complied with.”¹⁵¹

D. *The Elephant in the Room: Enhancement of Prospective Damages*

An entity that continues its infringing activity after losing at trial on infringement and validity – and after denial of a permanent injunction – is unquestionably a willful infringer. Nevertheless, no court has yet addressed the issue of enhanced damages for continued infringing activity following the denial of injunctive relief. Indeed, in *Voda*, the jury found that the defendant infringed each of the patents-in-suit and that the

2006 U.S. Dist. LEXIS 76380, at *5 (“It is anticipated that, as sophisticated entities with experience in licensing agreements, the parties may wish to agree to more comprehensive or convenient terms.”). Presumably, a “more comprehensive” license negotiated by “sophisticated entities” would consider, *inter alia*, the ramifications of cross-licensing or “most favored nation” obligations that may be triggered by a mandatory license. It should also be noted that a court-imposed compulsory license may be subject to one or more legal challenges. While 35 U.S.C. § 284 permits a court to grant relief “adequate to compensate for . . . infringement,” no provision of the Patent Act explicitly grants a court the authority to force a party to license its property.

148. *Paice LLC v. Toyota Motor Corp.*, Nos. 2006-1610, -1631, 2007 U.S. App. LEXIS 24357, at *55 (Fed. Cir. Oct. 18, 2007) (Rader, J., concurring).

149. *Id.*

150. *Innogenetics, N.V. v. Abbott Labs.*, No. 2007-1145, -1161, 2008 U.S. App. LEXIS 976, at *38-39, *41 (Fed. Cir. Jan 17, 2008) (quotation marks and citation omitted) (emphasis in original).

151. *Id.* at *41; *42 n.9.

infringement was willful.¹⁵² The court considered in the same opinion both the appropriateness of enhanced damages for the *past* willful infringement and injunctive relief as a *prospective* remedy.¹⁵³ The court conducted a lengthy analysis of the willfulness arguments before awarding over \$3 million in enhanced damages for the defendant's *past* infringement. However, when the court turned to the issue of prospective relief, it did not even consider the possibility of enhancing prospective damages for the future infringement based on willfulness.¹⁵⁴

Enhanced damages for infringing activity post-verdict when injunctive relief has been denied is a critical element that, if factored into the mix, may well provide the necessary incentive for the parties to settle or for the infringer to cease its infringing activities. Although not as powerful as the threat of injunctive relief, the knowledge that going forward the court may enhance the reasonable royalty damages by up to a factor of three, could give the defendant an incentive to enter into a license. Moreover, for a patentee who truly wants to exclude the defendant from using the patentee's patented technology, enhanced damages may provide a sufficiently high economic disincentive to achieve this result without injunctive relief. In any event, the potential award of enhanced damages for future infringement is an element that has been missing from the analyses to date.

V.

CONCLUSION

The post-*eBay* landscape is far from settled. Courts continue to grapple with the task of applying the traditional four-factor test for equitable relief. It is not at all clear that the trend in the district courts of granting injunctive relief predominantly to horizontal competitors will survive scrutiny at the Federal Circuit, particularly in light of the *Innogenetics* decision where the Federal Circuit vacated a permanent injunction granted to a patentee that directly competed with the infringer. The terrain for prospective relief once an injunction is denied is even more unclear. Recognition by the courts of the fundamental difference between an award of prospec-

152. *Voda*, 2006 U.S. Dist. LEXIS 63623, at *6-13.

153. *Id.* at *6-20.

154. *Id.*

2008]

PATENT INFRINGEMENT POST-EBAY

577

tive reasonable royalty *damages* and a compulsory *license* will be key to the process of sorting these issues out. The possibility of enhanced damages in the former case may restore some lost leverage to patentees in post-verdict settlement discussions when the threat of an immediate injunction is lifted.

