

# INJUNCTIVE RELIEF IN THE POST-*EBAY* WORLD

By Benjamin Petersen

## I. INTRODUCTION

The power of a court to grant an injunction in patent cases arises out of 35 U.S.C. § 283: “The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”<sup>1</sup> According to *W.L. Gore & Associates v. Garlock, Inc.*, an early Federal Circuit case, an injunction would almost certainly follow a showing of validity and infringement, and the court should issue an injunction unless there is a sufficient reason for denying it.<sup>2</sup> This principle derives from the reasoning that a patent embodies, in essence, the right to exclude others from making or using the subject of the invention, and that an injunction most strongly protects that right.<sup>3</sup> Courts traditionally considered monetary damages insufficient to compensate for an infringed patent because the principal value of a patent comes from the patent holder’s right to exclude.<sup>4</sup>

Since courts traditionally issued injunctions almost automatically upon a showing of patent validity and infringement, patent holders could dangle the threat of a permanent injunction over the heads of defendants to promote favorable settlements. This threat effectively forced infringing manufacturers to choose between paying the settlement amount and entirely losing access to the patented technology. Thus, patent holders could often effectuate extremely favorable settlements, even in cases where the validity and value of the patent was questionable.

In *eBay Inc. v. MercExchange, LLC*, the Supreme Court significantly reduced the frequency with which courts grant injunctive relief, holding that courts should use the traditional four-factor test for equitable relief when considering whether to issue preliminary or permanent injunctions.<sup>5</sup> Thus, patent holders found the value of their greatest bargaining chip greatly diminished when *eBay* cast doubt on whether injunctive relief could be obtained with any degree of certainty.

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1. 35 U.S.C. § 283 (2000).

2. *See* 842 F.2d 1275 (Fed. Cir. 1988).

3. *See* *Smith Int’l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983).

4. *See id.*

5. *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).

In the two years after *eBay*, several trends emerged from cases addressing injunctive relief for patent infringement. There is a strong, almost perfect, correlation between competition between the parties and injunctive relief. Conversely, there is a strong correlation between pursuing a licensing program or failing to practice the patent and denial of an injunction. Indeed, most courts focused their analysis on those facts: whether there is competition, licensing, or practice of the invention. Courts have then shoehorned these factual findings into the framework of the equitable factors. This approach seems consistent across district courts, although courts differed as to how particular factual elements align with the factors of the *eBay* test.

In addition to changing district courts' willingness to grant injunctive relief, *eBay* has raised other questions with respect to patent litigation. The International Trade Commission (ITC) has recently increased in popularity as a forum for plaintiffs to assert their patents against infringers. *eBay* may provide an additional incentive for patent plaintiffs to go to the ITC. Additionally, a great deal of debate has emerged as to how courts should address willful infringement, particularly in the context of ongoing infringement post-trial. Finally, it remains unclear whether *eBay* effectively creates compulsory licenses for the infringer, irrespective of the patent holder's wishes.

This Note briefly reviews the *eBay* decision in Part II, then analyzes the trends that have emerged in the district courts over the past few years in Part III. Part IV discusses trends in royalty and damage calculations. Part V addresses whether a court's refusal to grant an injunction following a showing of infringement constitutes a compulsory license. Finally, Part VI discusses the recent surge in popularity of the ITC as a patent litigation forum.

## II. BACKGROUND AND OVERVIEW OF *EBAY*

In *eBay Inc. v. MercExchange, LLC*, MercExchange sued eBay and its subsidiary Half.com in the United States District Court for the Eastern District of Virginia for infringing MercExchange's business method patent on online auctions.<sup>6</sup> Although the jury found that eBay had infringed the patent, the district court denied MercExchange permanent injunctive relief.<sup>7</sup> The court held that although 35 U.S.C. § 283 authorized courts to

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6. *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005).

7. *Id.* at 1326.

grant injunctions, it did not require that such relief be granted automatically upon a showing of infringement.<sup>8</sup>

MercExchange successfully challenged this ruling in its appeal to the Federal Circuit.<sup>9</sup> Overturning the district court, the Federal Circuit reaffirmed its long-standing general rule that courts will issue permanent injunctions against patent infringers absent exceptional circumstances.<sup>10</sup> The Supreme Court then granted certiorari to determine “[w]hether th[e] Court should reconsider its precedents . . . on when it is appropriate to grant an injunction against a patent infringer.”<sup>11</sup>

The Supreme Court overturned the Federal Circuit’s standard for injunctive relief and replaced it with the four-factor test for equitable relief. The Court ruled that to merit an injunction, a patent holder must show that 1) he has suffered irreparable harm; 2) legal remedies are inadequate; 3) the balance of hardships lies in his favor; and 4) the public interest weighs in favor of granting the injunction.<sup>12</sup> Furthermore, the Court held that the decision to grant or deny equitable relief lies within the discretion of the district courts and will be reviewed only for an abuse of that discretion.<sup>13</sup>

Chief Justice Roberts and Justice Kennedy wrote concurring opinions. Chief Justice Roberts suggested that district court judges, while having discretion, should still issue injunctions more often than not.<sup>14</sup> Roberts noted that since the early 19th century, “courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases.”<sup>15</sup> Thus, Roberts argued that “limiting discretion according to legal standards helps promote the basic principle of justice that like cases

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8. *Id.*

9. *Id.* at 1338.

10. *See id.*

11. *eBay Inc. v. MercExchange, LLC*, 546 U.S. 1029, 1029-30 (2005).

12. *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006). Justice Thomas recited the four factors as follows:

[A] plaintiff must demonstrate: (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.

*Id.* (citing *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311-13 (1982); *Amoco Production Co. v. Gambell*, 480 U.S. 531, 542 (1987)).

13. *Id.*

14. *Id.* at 1841-42 (Roberts, J., concurring).

15. *Id.* at 1842.

should be decided alike.”<sup>16</sup> Over the past two years, however, few courts have cited to the Roberts concurrence.<sup>17</sup>

Justice Kennedy’s concurrence drew a distinction between cases where the patent holder does not practice the invention and cases where the patent holder actually uses the invention. Kennedy noted that over time, “[a]n industry has developed in which firms use [business method] patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees” and that “[t]he potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.”<sup>18</sup> Fearing that such patents may be abused “as a bargaining tool to charge exorbitant fees,” he suggested that in cases where the patent holder does not practice the invention, and where the patented component makes up only a small portion of the infringing product, an injunction is unnecessary because monetary damages provide sufficient compensation.<sup>19</sup> In the years following *eBay*, several courts relied heavily on the Kennedy concurrence in their analysis of whether to grant a patent holder a permanent injunction.<sup>20</sup>

### III. TRENDS IN THE POST-*EBAY* LANDSCAPE IN THE DISTRICT COURTS

In the two years after the Supreme Court’s ruling in *eBay*, there were thirty-three district court decisions<sup>21</sup> that interpreted *eBay* when determining whether to grant injunctive relief to a patent holder. Of these decisions, twenty-four have granted permanent injunctions and ten have denied injunctions. Seven of these thirty-three cases were heard in the Eastern District of Texas, a forum that has a reputation for favoring patent holders and

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16. *Id.* at 1841-42 (quoting *Martin v. Franklin Capital Corp.*, 546 U.S. 132, 139 (2005)).

17. The courts that have cited Chief Justice Robert’s concurrence have done so solely for purposes of establishing a background of injunctive relief. *See, e.g.*, *Paice, LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*2 (E.D. Tex. Aug. 16, 2006), *aff’d in part and vacated in part on other grounds*, 504 F.3d 1293 (Fed. Cir. 2007).

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

19. *Id.*

20. *See, e.g.*, *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440-41 (E.D. Tex. 2006) (citing the Kennedy concurrence to support their finding on the sufficiency of monetary damages when the patented component comprises only a small portion of a greater product); *Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*, No. H-03-2910, 2006 WL 3813778, at \*3 (S.D. Tex. Dec. 27, 2006); *MPT, Inc. v. Marathon Labels, Inc.*, 505 F. Supp. 2d 401 (N.D. Ohio 2007).

21. As of February 3, 2008.

thus presides over a significant percentage of patent litigation in the United States.<sup>22</sup> Although several of the courts cited Justice Kennedy's concurrence regarding the sufficiency of legal remedies when the patent holder neither practices nor sells the invention, none have cited Justice Roberts' concurrence as authority for upholding strong patent rights.<sup>23</sup> Additionally, three of the earlier district court cases, *z4 Techs., Inc. v. Microsoft Corp.*, *Tivo, Inc. v. Echostar Comm. Corp.*, and *Finisar v. DirecTV*, have been widely cited by subsequent district courts.<sup>24</sup>

In undertaking a comparative analysis of these thirty-one cases, a natural starting point would be an examination of the courts' treatment of each equitable factor. Unfortunately, the district courts have provided wildly divergent analyses of the four equitable factors. For instance, although some courts have viewed the public interest factor as including only the interests of the general public,<sup>25</sup> others have considered the possible plight of the infringer's employees if an injunction were to be issued a matter of public interest.<sup>26</sup> Thus, although the equitable factors provide courts with flexibility in their analysis, that same flexibility renders futile any attempt to compare the analysis of the various courts based on the four factors. Rather, it is more profitable to examine and compare the factual circumstances in these cases which the courts have found to be central to their analysis.

This Part will argue that four discrete and definable trends have emerged from the post-*eBay* cases, separate and distinct from the four equitable factors. First, district courts tend to place a heavy emphasis on whether the patent holder and the infringer are in direct competition; courts are more likely to grant injunctions when parties compete in the same marketplace. Indeed, in the post-*eBay* decisions to date, courts granted injunctions in thirteen out of sixteen such cases. Second, when the patent holder actually practices the invention, courts granted a permanent injunction by a margin of twelve to five. Third, some courts considered whether the patent holder licenses the invention, although the data indi-

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22. Andrew W. Spangler, *Litigating in the Eastern District of Texas*, in PATENT LAW INSTITUTE (2ND ANNUAL), at 217 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 14506, 2008). Of these Eastern District cases, five resulted in an injunction and two resulted in no injunctive relief.

23. *See e.g.*, *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, \*2 (E.D. Tex. Aug. 16, 2006)

24. *See, e.g.*, *Black & Decker Inc. v. Robert Bosch Tool Corp.*, No. 04 C 7955, 2006 WL 3446144, \*4 (N.D. Ill. Nov. 29, 2006); *Transocean*, 2006 WL 3813778, \*3.

25. *See, e.g.*, *Paice*, 2006 WL 2385139, at \*6.

26. *See id.*, *Sundance v. DeMonte Fabricating, Ltd.*, No. 02-73543, 2007 WL 37742, \*2 (E.D. Mich. Jan. 4, 2007).

cates that this factor is not as dispositive as whether the parties directly compete. Finally, in five of the ten cases where courts denied an injunction, the court found that the patented invention is merely a small component of the infringing product. There were no instances where a court awarded an injunction after determining that the patent covers only a small component of the infringing product.

### A. Direct Competition

When direct competition existed between the patent holder and infringer, courts proved more likely to grant an injunction. In language subsequently cited by other courts, Judge Ward of the Eastern District of Texas summarized the prevailing view on injunctions against competitors, writing that “[i]ntellectual property enjoys its highest value when it is asserted against a direct competitor in the plaintiff’s market.”<sup>27</sup> Other courts noted that direct competition between the parties is a central, if not dispositive, factor when considering whether to grant a permanent injunction.<sup>28</sup> To measure the level of competition between the parties, courts often considered the loss of market share by the patent holder.<sup>29</sup>

A court granted an injunction to a patent holder who was not in direct competition with the infringer in only one post-*eBay* case. In *Commonwealth Scientific & Industrial Research Organisation v. Buffalo Technology, Inc. (CSIRO)*, the district court for the Eastern District of Texas granted an injunction to the patent holder, an Australian government agency.<sup>30</sup> Relying on language in the *eBay* decision, the court held that direct competition is not necessary for an injunction and that research in-

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27. *Visto Corp. v. Seven Networks, Inc.*, No. 2:03-CV-333-TJW, 2006 WL 3741891, at \*4 (E.D. Tex. Dec. 19, 2006).

28. *See e.g.*, *O2 Micro Int’l Ltd. v. Beyond Innovation Tech. Co.*, No. 2-04-CV-32 (TJW), 2007 WL 869576, at \*2 (E.D. Tex. Mar. 21, 2007) (“[Direct competition] weighs heavily in the Court’s analysis.”); *MPT, Inc. v. Marathon Labels, Inc.*, 505 F. Supp. 2d 401, 420 (N.D. Ohio 2007) (“Usurping this market by inducing or contributing to infringement will irreparably harm [the patent holder].”); *Novozymes A/S v. Genencor Int’l, Inc.*, 474 F. Supp. 2d 592, 613 (D. Del. 2007) (“[The patent holder has a] right, granted by Congress, not to assist its rival with the use of proprietary technology.”); *Muniauction, Inc. v. Thomson Corp.*, 502 F. Supp. 2d 477, 482 (W.D. Pa. 2007) (“If plaintiff cannot prevent its only competitor’s continued infringement of its patent, the patent is of little value.”).

29. *See e.g.*, *Black & Decker*, 2006 WL 3446144, at \*4 (“Loss of market share is a key consideration in determining whether a plaintiff has suffered irreparable harm.”); *Sundance*, 2007 WL 37742, at \*2 (“[T]he market for tarp systems contains many other competitors and [noninfringing] systems have a larger percentage over” systems covered by the patent.).

30. *Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech., Inc.*, 492 F. Supp. 2d 600, 601 (E.D. Tex. 2007).

stitutions, such as the patent holder, may reasonably prefer to pursue licensing rather than practicing the invention.<sup>31</sup> However, this case is unique among post-*eBay* cases in that it involved a government research agency rather than business entities.<sup>32</sup> The identity of the patent holder as a government research agency likely swayed the court in favor of granting an injunction. The court also emphasized that CSIRO was actively engaged in research,<sup>33</sup> perhaps drawing a subtle distinction between non-practicing patent holders who are nonetheless engaged in research, and entities that simply obtain and hold patents. Thus, *CSIRO* is not an anomaly in opposition to the trends established by other decisions, but rather distinguishable by the unique facts and circumstances of the case.

There are, to date, only two instances where a district court has denied the patent holder a permanent injunction where the parties were in direct competition.<sup>34</sup> Like *CSRIO*, these cases contain distinctive fact patterns. *Sundance, Inc. v. DeMonte Fabricating Ltd.* involved additional factors central to the court's decision and is discussed more in the following section on licensing. *Praxair Inc. v. ATMI* seems contrary to many of the trends established other cases and is analyzed separately.<sup>35</sup> Hence, there is an almost exact correlation between parties in direct competition and the courts' willingness to grant injunctive relief.<sup>36</sup> Whether the infringer directly competes with the patent holder so as to cause a loss of market share or other economic effects on the patent holder's business remains the clearest indicator of whether the court will grant an injunction.

## B. Licensing the Invention

Courts are somewhat less likely to grant an injunction when a patent holder licenses his invention. In five of the ten post-*eBay* cases denying permanent injunctions, the patent holder licensed his invention to other

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31. *Id.* at 603-04.

32. *Id.* at 604.

33. *Id.*

34. See *Sundance*, 2007 WL 37742; *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440 (D. Del. 2007). This analysis does not include *KEG Technologies, Inc. v. Laimer*, 436 F. Supp. 2d 1364, 1371 (N.D. Ga. 2006), wherein the court held that the patent holder lacked sufficient notice of the *eBay* decision and declined to grant a permanent injunction until the patent holder had an opportunity to make a showing of the four factors.

35. *Praxair*, 479 F. Supp. 2d 440, is discussed in detail in Section III.E, *supra*.

36. Aside from *CSIRO*, the parties were in direct competition in every instance where the court granted an injunction. Of the cases that denied the plaintiff an injunction, two involved direct competition between the parties.

parties.<sup>37</sup> In some of these cases, courts found the existence of a licensing program to be nearly dispositive in precluding injunctive relief. However, other courts held that a licensing program does not prohibit patent holders from obtaining injunctions.

Several courts used the lack of a licensing program as a reason to support granting a permanent injunction. Finding that the patent holder would suffer irreparable harm absent an injunction, the court in *MGM Well Services, Inc. v. Mega Lift Systems, LLC* noted that the “[p]atent gives MGM the right to exclude others from practicing its patent, and MGM has proven an existing policy not to license its patented technology.”<sup>38</sup> Similarly, although the plaintiff in *Novozymes A/S v. Genencor International, Inc.* did not practice the invention and instead licensed it to a subsidiary, the court held that this sort of licensing did not support denial of injunctive relief.<sup>39</sup> The court in *Sundance, Inc. v. DeMonte Fabricating Ltd.* found that the plaintiff “licenses the . . . patent to others, and offered to license it to [defendant] prior to filing suit against it, thus demonstrating that money damages are adequate.”<sup>40</sup> This language suggests that the existence of a licensing program is dispositive in the inquiry into whether monetary damages are sufficient.<sup>41</sup>

Although some courts viewed a plaintiff’s willingness to license the patent as evidence that monetary damages are sufficient,<sup>42</sup> other district courts rejected this conclusion. In *Baden Sports Inc. v. Kabushiki Kaisha Molten*, the court held that “even if Baden were willing to offer such licenses, Baden still risks loss of good will because . . . Molten’s infringement and advertising erode consumers’ and retailers’ perception of Baden as an innovator.”<sup>43</sup> The court in *Smith & Nephew, Inc. v. Synthes, Inc.*

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37. See *Sundance*, 2007 WL 37742, at \*2 (“[The patent holder] licenses . . . to others, and offered to license it to [defendant] prior to filing suit against it, thus demonstrating that money damages are adequate”). See also *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*5 (E.D. Tex. Aug. 16, 2006) (“Plaintiff does not demonstrate why other potential licensees would be less likely to take a license if this case ends with monetary damages instead of equitable relief.”); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614 (W.D. Okla. Sept. 5, 2006).

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

39. *Novozymes A/S v. Genencor Int’l, Inc.*, 474 F. Supp. 2d 592, 598, 603 (D. Del. 2007).

40. *Sundance*, 2007 WL 37742, at \*2.

41. See *id.*

42. See e.g., *IMX, Inc. v. LendingTree, LLC*, 469 F. Supp. 2d 203, 225 (D. Del. 2007); *Sundance*, 2007 WL 37742, at \*2.

43. *Baden Sports, Inc. v. Kabushiki Kaisha Molten*, No. C06-210MJP, 2007 WL 2790777, at \*2 n.1 (W.D. Wash. Sept. 25, 2007).



reached a similar conclusion, holding that *eBay* did not necessarily preclude licensing patent holders from obtaining injunctive relief.<sup>44</sup>

There are three cases wherein a patent holder that licensed its patent still obtained a permanent injunction against the infringer: *CSIRO*, *Smith & Nephew*, and *Transocean Offshore Deepwater Drilling v. Globalsantafe Corp.* *CSIRO* was addressed in the previous section; the fact that the patentee was a government research agency likely swayed the court and distinguishes that case from others.<sup>45</sup> In *Smith & Nephew* the district court held that although the patent holder licensed the invention, “[m]onetary damages generally are not an adequate remedy against future infringement because the central value of holding a patent is the right to exclude others from using the patented product.”<sup>46</sup> The court found that the statutory right to exclude trumped other factors.<sup>47</sup> The court in *Transocean* reached a similar conclusion, holding that an offer to license was not sufficient to defeat a motion for a permanent injunction.<sup>48</sup> It is noteworthy that in both *Smith & Nephew* and *Transocean*, the patent holder was in direct competition with the infringer, a fact that weighed heavily in the analysis of both courts.<sup>49</sup>

Thus, although an offer of a license by the patent holder did not preclude a permanent injunction, it seemed to be an important factor in the analysis of many courts.

### C. A Small Component of the Infringing Product

In his concurrence, Justice Kennedy wrote that injunctions may not be appropriate in cases where the patented device comprises only a small

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44. *Smith & Nephew, Inc. v. Synthes, Inc.*, 466 F. Supp. 2d 978, 983 (W.D. Tenn. 2006) (citing *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006)).

45. *See Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech., Inc.*, 492 F. Supp. 2d 600, 604 (E.D. Tex. 2007). For a discussion of this case, see Section III.A, *supra*.

46. *Smith*, 466 F. Supp. 2d at 984.

47. *Id.* Some courts have emphasized the importance of the right to exclude as a paramount interest. *See, e.g., Johns Hopkins Univ. v. Datascope Corp.*, 513 F. Supp. 2d 578, 586 (D. Md. 2007) (“The importance of the Plaintiffs’ continuing right to exclude favors a permanent injunction.”). However, other courts have been more dismissive of the right to exclude. *See e.g., Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 443-44 (D. Del. 2007); *Finisar Corp. v. DirecTV Group*, No. 1:05-CV-264, 2006 WL 2709206 (E.D. Tex. Sept. 1, 2006).

48. *Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*, No. H-03-2910, 2006 WL 3813778, at \*5 (S.D. Tex. Dec. 27, 2006).

49. *See id.* at \*4; *Smith*, 466 F. Supp. 2d at 983.

component of the infringing product.<sup>50</sup> Since *eBay*, courts have found that the patented device comprises only a small component of the infringing product in half of the cases in which a permanent injunction has been denied. Of the cases granting a permanent injunction, no court found that the patented device is merely a small component of the infringing product.

In one of the first post-*eBay* cases, *z4 v. Microsoft*, the court refused to grant a permanent injunction where the invention read on only a small part of Microsoft's infringing system.<sup>51</sup> The court found that the infringing "component of the software is in no way related to the core functionality for which the software is purchased by consumers."<sup>52</sup> The *z4* decision has been cited heavily by subsequent courts, including the district court in the *eBay* remand.<sup>53</sup> The court in *Paice, LLC v. Toyota Motor Corp.* also emphasized that the invention comprised only a small part of the infringing product, noting that "[t]he jury's damages award also indicates that the infringed claims constitute a very small part of the value of the overall vehicles."<sup>54</sup> The fact that the patent covered only one feature of the infringing product also greatly influenced the decision in *Sundance*.<sup>55</sup> The court held that the infringed device was "but one feature of" the product, and thus, *Sundance's* lost sales could not be attributable solely to the infringement.<sup>56</sup> Finally, the *Baden* court implicitly endorsed this notion when it held that "[w]here a defendant's infringement is not limited to a minor component of plaintiff's patented product, irreparable harm is likely."<sup>57</sup>

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50. *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (Kennedy, J., concurring).

51. *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440-41, 444 (E.D. Tex. 2006).

52. *Id.* at 442.

53. *See e.g.*, *IMX, Inc. v. LendingTree, LLC*, 469 F. Supp. 2d 203, 225 (D. Del. 2007). *See also* *eBay Inc. v. MercExchange, LLC*, 500 F. Supp. 2d 556, 568 (E.D. Va. 2007); *MPT, Inc. v. Marathon Labels*, 505 F. Supp. 2d 401, 420 (N.D. Ohio 2007) (holding that the patented devices were not "an insubstantial component of a larger invention").

54. *Paice, LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*5 (E.D. Tex. Aug. 16, 2006). The Federal Circuit has already issued a ruling for *Paice*. *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007). The Federal Circuit did not dispute any of the findings of the district court with respect to the four factors. *See id.* at 1314-15. However, the court discussed the imposition of an ongoing royalty on the infringer at length. The question of ongoing royalties will be examined in Part V, *infra*. *See id.* at 1313-15.

55. *See Sundance, Inc. v. DeMonte Fabricating, Ltd.*, No. 02-73543, 2007 WL 37742, at \*2 (E.D. Mich. Jan. 4, 2007).

56. *Id.*

57. *Baden Sports, Inc. v. Kabushiki Kaisha Molten*, No. 06-210, 2007 WL 2790777 (W.D. Wash. Sept. 25, 2007)

Despite this trend, there are two reasons why the data does not support a definite conclusion that courts will be less likely to grant injunctions where the patent in suit comprises only a small part of a larger product. First, determining what constitutes a “small component” of any device is often quite difficult. This is by nature a qualitative and unquantifiable issue, and no court has taken up the task of providing guidance for determining whether a given element constitutes a small component. Bereft of any objective standards and with only a few cases on point, courts are left to their own devices in answering this question. Second, in several of the cases that denied injunctions where the patent covered only a “small component,” other issues likely factored into the court’s decision. For instance, the holding in *z4* could be justified simply on the grounds of public policy, that the importance and ubiquity of Microsoft’s product prohibited a permanent injunction. Additionally, both the *Paice* and *Sundance* courts seemed to address the question of small components simply as one element of the more general question of market effects.<sup>58</sup>

Although some post-*eBay* decisions cite Justice Kennedy’s statement that permanent injunctions should not issue where the invention constitutes only a small component of the larger product, this factor does not seem dispositive. Courts only applied this factor in a few instances, and it did not figure prominently in any decisions. Nevertheless, the difference in size between the patented technology and the infringing product remains an important issue, especially in those cases where the facts closely resemble those of cases such as *z4* or *Paice*.

#### **D. Practicing the Invention**

Courts have been much more likely to grant injunctive relief in cases where the patent holder actually practices the invention. However, there is naturally a strong correlation between actual practice of the invention and the parties being in direct competition. Indeed, there are only two cases wherein these variables are not aligned.

In *Novozymes*, the patent holder did not practice the invention itself, but instead licensed it to a subsidiary.<sup>59</sup> The patent holder, its subsidiaries,

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(citing *IMX, Inc. v. LendingTree, LLC*, 469 F. Supp. 2d 203, 225 (D. Del. 2007)).

58. *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at \*3 (E.D. Tex. Aug. 16, 2006); *Sundance*, 2007 WL 37742 at \*2 (“Moreover, as DeMonte points out, the segmented cover is but one feature of its Quick Draw system. Thus, it cannot be said that Sundance’s licensees are losing sales to DeMonte expressly because of its infringement of the segmented cover.”).

59. *Novozymes A/S v. Genencor Int’l, Inc.*, 474 F. Supp. 2d 592, 598, 603 (D. Del. 2007).

and the infringer competed in the same market.<sup>60</sup> Given the fact that the subsidiary of the patent holder practiced the invention, this situation is distinguishable from those cases where the patent holder only licenses the patent to other entities.

In *IMX, Inc. v. LendingTree, LLC*, the parties did not directly compete within the same market. Rather, they occupied different niches within the financial services market.<sup>61</sup> The court refused to grant a permanent injunction<sup>62</sup> on the ground that the lack of direct competition was more important than whether the patent holder practiced the invention.<sup>63</sup>

When the inquiries into whether the parties are in direct competition and whether the patent holder practices the invention yield different results, the competition factor is dispositive. Therefore, although the post-*eBay* landscape does show a correlation between grants of injunction and the patentee actually practicing the invention, this factor is of secondary importance when compared with the presence of direct competition between the parties.

#### **E. An Outlier to the Post-*eBay* Trends: *Praxair***

The case of *Praxair, Inc. v. ATMI* is an outlier, running contrary to the trends discussed *supra*, and thus deserves special attention.<sup>64</sup> In *Praxair*, each of the factors seemed to point strongly toward granting a permanent injunction.<sup>65</sup> However, the court refused to grant an injunction, holding that Praxair failed to prove that it was entitled to its statutory right to exclude.<sup>66</sup> The court emphasized that Praxair did not provide enough evidence in the way of data on market share, sales figures, profits, and the like to show that a permanent injunction was warranted.<sup>67</sup> The court dismissed the argument that the right to exclude and thus become a “monopoly supplier” justified granting an injunction and noted that the products in question represented only a small share of each party’s revenue.<sup>68</sup> Despite the fact that the parties competed directly in the markets for these products, the court found that irreparable harm would not occur and that monetary damages were sufficient.<sup>69</sup>

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60. *Id.* at 608.

61. *IMX, Inc. v. LendingTree, LLC*, 469 F. Supp. 2d 203, 222 (D. Del. 2007).

62. *Id.* at 226.

63. *See id.* at 225.

64. *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440 (D. Del. 2007).

65. *Id.* at 442-43.

66. *Id.* at 443.

67. *Id.* at 444.

68. *Id.*

69. *Id.*

This case counters several of the trends discussed above. Despite the patentee practicing the invention and directly competing with the infringer, the court denied an injunction. Additionally, the court found no evidence that Praxair had licensed the invention or that it comprised only a small component of a larger product. The court seemed to place a heavy evidentiary burden on the patent holder but declined to state what would satisfy that burden. In contrast to many of the other courts that held that prospective damages from future infringing sales are incalculable and hence that monetary damages are insufficient,<sup>70</sup> the *Praxair* court seemed to assume that such damages are quantifiable.<sup>71</sup>

As one of the more recent post-*eBay* decisions, *Praxair* seems all the more out of place given the trends that had already begun to solidify. *Praxair* thus creates some uncertainty as to what a patent holder must do to provide the court sufficient reason to grant a permanent injunction. However, *Praxair* has not been cited by any subsequent courts and thus probably represents only an isolated incident rather than a wholesale change.

#### IV. ROYALTIES AND DAMAGES

An open question, and one not explicitly addressed by the courts to date, is whether a denial of injunctive relief will, or should, increase the royalty paid to the patent holder. Additionally, it remains unclear whether courts will include the possibility of treble damages in the calculation of the adequacy of monetary damages in the four-part test for injunctive relief.

##### A. Changes in Injunctions and Damages Due to *eBay*

In theory, an injunction is a mechanism that allows the market to determine the correct value of a patent, whereas the imposition of increased damages or an ongoing royalty substitutes the court's judgment. Unfortunately, this ideal is marred by the presence of trolls in the market, inefficiencies in the patent system, and problems arising from the lock-in phenomena.<sup>72</sup> Due to these problems, the market cannot reach efficient out-

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70. See, e.g., *Black & Decker, Inc. v. Robert Bosch Tool Corp.*, No. 04 C 7955, 2006 WL 3446144, at \*4 (N.D. Ill. Nov. 29, 2006).

71. See *Praxair*, 479 F. Supp. 2d at 444.

72. In some cases, a given technology may become entrenched in an industry due to ubiquity, dependant technologies, or other causes. The technology thus becomes "locked in" in that industry. Such technologies may be overvalued because of the lock-in effect. See S.J. Liebowitz & Stephen E. Margolis, *Path Dependence, Lock-in, and History*, 11 J.L. ECON. & ORG. 205, 218 (1995).

comes; *eBay* represents a response to this inefficiency and is an attempt to restore the balance. However, *eBay* leaves to the district courts the responsibility of determining when to substitute the judgment of the court for that of the market, and of guessing the right value to substitute. Thus there is a danger of overvaluing some patents while undervaluing others. Given that the balance attempted in *eBay* is effectuated by diminishing the power of patent holders, the danger of undervaluing patents seems more immediate.

### **B. Should Courts Raise Royalties to Compensate for Denial of Injunction?**

Courts may elect to increase the royalty rate paid to the patent holder in the absence of an injunction so as to compensate for future infringement. After all, the Supreme Court has recognized the principle of providing relief for future-arising damages in other areas of the law.<sup>73</sup>

It is possible that any increase in damages due to more stringent injunction requirements is offset by the weaker bargaining position that the patent holder now occupies.<sup>74</sup> Absent the threat of an injunction, patent plaintiffs may find it much more difficult to bring manufacturers to the negotiating table. This is especially problematic for patent holders who are individual inventors or small businesses suing large infringing companies, since small entities are generally less able to weather the cost of protracted litigation. Thus, an increase in damages may still not level the playing field for patent holders and infringers.

For any given infringer involved in patent litigation, the expected cost of the litigation is equal to the probability of an adverse outcome multiplied by the expected cost of that outcome. As the expected cost of the judgment increases, so does the expected cost of the litigation. Thus, infringers have a greater incentive to settle as the expected cost of an adverse verdict increases. However, it is unlikely that courts will increase damage awards to a level that would result in infringers having the same settlement incentives as they did before *eBay*, as such an increase would essentially constitute a return to the pre-*eBay* world. Furthermore, the call for an increase in damages awards rests upon the assumption that courts

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73. See, e.g., *Great-West Life & Annuity Ins. Co. v. Knudson*, 534 U.S. 204, 211 (2002) (holding that the Court may require specific performance in suits that seek to prevent future losses that are either incalculable or will be greater than sum awarded).

74. See David L. Applegate, *A Billion Here and a Billion There: Talking Real Money in the Patent Damages Case*, in *PATENT LITIGATION 2007*, at 1367 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. 11589, 2007).

will habitually undervalue patents, an assumption that has not been proven.

Post-*eBay*, it seems that the value of a patent is dependent not only upon what the patent covers, but also what the patent holder is doing with the patent. In keeping with the trends described in Part III, perhaps increased monetary damages could be used in those cases where some factors favor an injunction while others do not. For example, a court might consider increasing damages in cases where the patent holder does not compete with the infringer but still makes use of the invention. Increased damages would probably not be appropriate in cases where the patent holder licenses the invention since the market has already valued the patent. In any case, since courts have yet to address the issue of increased damages, it remains open for speculation.

### C. Should Courts Calculate Treble Damages When Weighing Adequacy of Monetary Relief?

Under 35 U.S.C. § 284, courts may award treble damages in instances of willful patent infringement.<sup>75</sup> However, treble damage awards may be less common, especially after *In re Seagate*, a case in which the Federal Circuit revised the standard for proving willfulness, imposing a requirement of objectively reckless conduct.<sup>76</sup> In determining whether to award enhanced damages, courts must balance equitable considerations, weighing the positions of the patent holder and the infringer.<sup>77</sup> Enhanced damages awards are considered remedies at law.<sup>78</sup> Thus, in determining whether the plaintiff has an adequate remedy at law, the prospect of treble damages may enter into the court's calculations.<sup>79</sup>

Such a consideration of treble damages would likely cause adverse unintended consequences. If willfulness can serve as insurance against the imposition of an injunction, an infringer may have an incentive to willfully

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75. 35 U.S.C. § 284 (2000) (“[T]he court may increase the damages up to three times the amount found or assessed.”).

76. *In re Seagate Tech. LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007). Although a detailed analysis of *In re Seagate* is beyond the scope of this Note, it is important to acknowledge that the standard for willful infringement is continuing to evolve and change. For a more detailed treatment of this subject, see Joseph Casino & Michael Kasdan, *In re Seagate Technology: Willfulness and Waiver, a Summary and a Proposal*, 2007 Patently-O Patent L.J. 1, [http://www.patentlyo.com/lawjournal/2007/05/in\\_re\\_seagate\\_t.html](http://www.patentlyo.com/lawjournal/2007/05/in_re_seagate_t.html). See also Danny Prati, Note, *In re Seagate Technology LLC: A Clean Slate for Willfulness*, 23 BERKELY TECH. L.J. 47 (2008).

77. *SRI Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1468 (Fed. Cir. 1997); *Swofford v. B&W Inc.*, 336 F.2d 406, 410 (5th Cir. 1964).

78. *Tull v. United States*, 481 U.S. 412, 426 (1987).

79. See Applegate, *supra* note 74, at 1400-01.

infringe. Thus, the original intent of treble damages—to deter willful infringement—would be perverted as infringers might actually seek to willfully infringe. Additionally, the *eBay* factors look to compensatory damages<sup>80</sup> while willfulness damages are inherently punitive. Thus, despite the fact that treble damages may be considered monetary damages, courts must avoid mixing injunctive relief analysis with the analysis for willfulness.

An additional issue, that has gone largely unaddressed, is whether continuing infringers not subject to injunctions may be subject to treble damages.<sup>81</sup> Treating continued acts of infringement as willful infringement would act as a strong deterrent and buttress the case for limiting injunctive relief.<sup>82</sup> In instances where the court imposes a compulsory license, willfulness is not a problem.<sup>83</sup> In cases where the court does not impose a license, however, treble damages may be so high so as to constitute *de facto* injunctions against continued infringement. For almost all infringers, the possibility of treble damages would act as a potent incentive to negotiate a license, as the costs of damages would be much greater than the benefits of continued infringement.

This issue reveals a great tension between two competing ideals. On the one hand, it seems implausible that courts would create a new and detailed standard for injunctive relief only to have the prospect of treble damages for willfulness act as a *de facto* injunction. On the other hand, it also seems unlikely that an infringer should become permanently immune from the willfulness penalty simply by avoiding an injunction. Unfortunately, there is no readily apparent relief for this tension.

## V. COMPULSORY LICENSING

An open question, and one not yet fully answered by the courts, is whether a denial of injunctive relief constitutes compulsory licensing. Some have rejected the term “compulsory licensing” as being unnecessarily pejorative, preferring the term “ongoing royalty” instead.<sup>84</sup> However, others have been quick to point out that this is merely a semantic shift that does little to disguise the fact that the courts are compelling patent holders

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80. *See eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006) (establishing that the second factor inquires whether “remedies available at law, such as monetary damages, are inadequate to compensate for that injury”).

81. *See Applegate*, *supra* note 74, at 1401.

82. *See id.*

83. For a more detailed examination of compulsory licensing, see Part V, *infra*.

84. *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1313 (Fed. Cir. 2007).



to license their inventions.<sup>85</sup> Although most early district court cases did not tackle this issue, the Federal Circuit recently addressed it in *Paice, LLC v. Toyota Motor Corp.*<sup>86</sup>

### A. Early Cases

The right of a patent holder to exclude is derived from Article I, Section 8, Clause 8 of the Constitution, which gives Congress the power to secure for inventors for limited times the “exclusive Right” to their inventions.<sup>87</sup> Although § 283 does make injunctions discretionary by providing that a court may grant an injunction “in accordance with the principles of equity” and “on such terms as the court deems reasonable,”<sup>88</sup> courts previously issued an injunction almost automatically in cases of infringement.<sup>89</sup> Immediately after *eBay*, commentators expressed concern that the decision constituted a violation of the right to exclude and instead compelled patent holders to license their inventions, willing or not.<sup>90</sup>

The courts in *IMX* and *Transocean* suggested that when a court does not enjoin future infringement, the court effectively compels the patent holder to license its patent to the infringer.<sup>91</sup> The *Transocean* court reasoned that “if it does not enter a permanent injunction, it will force a compulsory license on Transocean.”<sup>92</sup> Such a compulsory license, imposed without regard for the patent holder’s wishes, contrasts sharply with the usual norms of the U.S. legal system, which generally avoids coercing parties at suit into ongoing relationships.<sup>93</sup>

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85. *Id.* at 1316

86. *Id.* at 1313.

87. U.S. CONST. art. I, § 8, cl. 8.

88. 35 U.S.C. § 283 (2000).

89. Matt Gross, *Supreme Court sides with eBay in patent case*, IDG NEWS, May 15, 2006, [http://www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=9000470&source=rss\\_news62](http://www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=9000470&source=rss_news62).

90. *See, e.g., id.* (quoting Ronald Riley as saying “It amounts to a compulsory license at the whim of a judge. It will allow vested interests to take the very essence of what makes an upstart start-up viable.”).

91. *IMX, Inc. v. LendingTree, LLC*, 469 F. Supp. 2d 203, 226 (D. Del. 2007); *Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*, No. H-03-2910, 2006 WL 3813778, at \*5 (S.D. Tex. Dec. 27, 2006).

92. *Transocean*, 2006 WL 3813778 at \*5.

93. Colleen Chien, *Cheap Drugs at What Price to Innovation: Does The Compulsory Licensing Of Pharmaceuticals Hurt Innovation*, 18 BERKELEY TECH. L.J. 1, 10-12 (2003) (“[C]ourts have emphatically resisted compulsory licenses merely because a patent holder chooses not to use her invention.”).

## B. The Federal Circuit Weighs In

In one of its first post-*eBay* decisions on injunctive relief, *Paice, LLC v. Toyota Motor Corp.*, the Federal Circuit addressed the issue of compulsory licensing much differently than the *IMX* or *Transocean* courts.<sup>94</sup> First, the court objected to the characterization of an ongoing royalty as a compulsory license, holding that:

The term “compulsory license” implies that anyone who meets certain criteria has congressional authority to use that which is licensed . . . . By contrast, the ongoing-royalty order at issue here is limited to one particular set of defendants; there is no implied authority in the court’s order for any other auto manufacturer to follow in Toyota’s footsteps and use the patented invention with the court’s imprimatur.<sup>95</sup>

However, in his concurrence, Judge Rader appropriately noted that this strenuous objection to the term “compulsory license” amounts to little more than an exercise in semantics.<sup>96</sup> In addition, the court neglected to show how the term “compulsory” denotes a license open to the public, as opposed to the traditional meaning of the word.<sup>97</sup>

The Federal Circuit majority went on to explore “[t]he more difficult question raised by this case . . . whether an order *permitting* use of a patented invention in exchange for a royalty is properly characterized as *preventing* the violation of the rights secured by the patent.”<sup>98</sup> The court held that “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.”<sup>99</sup> Although the district court had the power to impose an ongoing royalty on the parties, it neglected to provide sufficient reasoning to support its determination of the amount of that royalty.<sup>100</sup>

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94. *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293 (Fed. Cir. 2007).

95. *Id.* at 1313 n.13.

96. *Id.* at 1316 (Rader, J., concurring) (“Nonetheless, calling a compulsory license an “ongoing royalty” does not make it any less a compulsory license.”).

97. *See id.* at 1316.

98. *Id.* at 1314 (emphasis in original).

99. *Id.* at 1314-15.

100. *Id.* at 1315. This case was remanded to the district court for a reevaluation of the ongoing royalty rate.

In his concurrence, Judge Rader argued that the trial court should not have the power to deny the parties an opportunity to set the terms of a royalty on their own.<sup>101</sup> Rather, the court should encourage the parties to negotiate the terms of the royalty on their own.<sup>102</sup> In Judge Rader's view, allowing the parties the opportunity to set the royalty would ensure that "an ongoing royalty would be an ongoing royalty, not a compulsory license."<sup>103</sup>

The plaintiff in *Paice* also raised a constitutional challenge to the imposition of an ongoing royalty rate, arguing that the imposition of such an award by the court violated the right to a jury trial guaranteed by the Seventh Amendment.<sup>104</sup> The court rejected that argument, holding that "while *Paice* may be correct as a general matter, not all monetary relief is properly characterized as 'damages.'"<sup>105</sup> An order for an ongoing royalty falls within the sphere of equitable relief and thus raises no Seventh Amendment issues.<sup>106</sup>

### C. Moving Forward: Will Courts Order Ongoing Royalties?

Unfortunately, the Federal Circuit's decision raises more questions than it answers. Despite the court's insistence that its ongoing royalties are not compulsory licenses, Judge Rader effectively dispatches that semantic argument. However, neither the majority opinion nor Judge Rader addresses the question of whether such orders are in accordance with the stated purposes of the Patent Act. Additionally, since the Patent Act provides that injunctions depend on the equitable discretion of the court "to prevent the violation of any right secured by patent, on such terms as the court deems reasonable,"<sup>107</sup> it is difficult to see how ordering the payment of an ongoing royalty under the auspices of the court's equitable discretion fits within the stated purpose of the Act. Under *Paice*, victorious plaintiffs may find that they have achieved only a pyrrhic victory, as the ultimate value of their patent may be set by judicial fiat.

Judge Rader's insistence that the court provide an opportunity for the parties to independently negotiate the terms of a royalty offers little hope for plaintiffs. A patent holder who has been denied an injunction can apply only anemic leverage to the negotiating table at best; an infringer who

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101. *Id.* at 1316 (Rader, J. concurring).

102. *Id.*

103. *Id.*

104. *Id.* at 1314.

105. *Id.* at 1316.

106. *Id.*

107. 35 U.S.C. § 283 (2000).

finds himself relieved of the possibility of facing an injunction will likely be able to control the settlement. Additionally, since patent litigation tends to be costly, it stands to reason that if the parties could negotiate a licensing settlement on their own, they would do so. Thus, Judge Rader's recommendation here seems ultimately inutile.<sup>108</sup> Finally, Judge Rader seeks refuge from the unpleasantness of imposing compulsory licenses by allowing the parties to negotiate a royalty rate.<sup>109</sup> But the only motivation that parties would have to come to the table would be the prospect of the court imposing a compulsory license.<sup>110</sup> Thus, Judge Rader seems preoccupied with the difference between compelling the parties to accept a given license and compelling them to negotiate a license under threat of a court-imposed license. Although there may be differences in these approaches, calling one compulsory and the other non-compulsory seems somewhat implausible.

Assuming that granting ongoing royalties is both a legitimate exercise of a court's discretion and is in accordance with the stated purposes of the Patent Act, there is still the question of how to calculate the royalty. Here the Federal Circuit did not provide much guidance, opting instead to remand the case to the district court.<sup>111</sup> The only concrete direction given by the court was that the royalty should not necessarily be identical to the damages for past infringement. However, an examination of the underlying incentives of the parties reveals that the royalty can only be at or greater than the level of damages. If the royalty is set lower than damages, patent holders have an incentive to wait as long as possible before bringing suit. Although the doctrine of laches and estoppel may act as a deterrent against such behavior, it is doubtful that the court would intend to encourage delay by setting royalty rates lower than damages. In general, the patent holder's incentive to bring suit would likely correlate with the expected royalty rate. However, an extremely high royalty, while providing a great incentive for bringing suit, would likely be unfair to the infringer and be viewed as punitive. The Federal Circuit did not specify any quantitative or qualitative standards with respect to the district court's analysis of the royalty, merely holding that the lower court had erred in not providing any reasoning.<sup>112</sup> Thus, there is still uncertainty as to how a court should calcu-

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108. In addition to the issues discussed here, there is also the problem of how compulsory licensing would interact with the doctrine of willfulness. *See* Section IV.C, *supra*.

109. *See Paice*, 504 F.3d at 1316.

110. *See id.*

111. *Id.* at 1315.

112. *Id.*

late an ongoing royalty and whether there are upper or lower bounds for the royalty.

Implicit in an imposition of an ongoing royalty is a possible erosion of a patent holder's statutory right to exclude. In *eBay*, the Supreme Court effectively penned an addendum to the Patent Act: that patents grant inventors the right to exclude others from making, using, or selling the invention—provided that the court deems such exclusion to be proper.<sup>113</sup> Although injunctive relief has always been discretionary, the previous Federal Circuit rule captured the idea that, absent injunctions, a patent holder had no way to preserve his statutory right to exclude. Indeed, a refusal by the government to protect and enforce a right serves to undermine that right. Because *eBay* has been applied almost exclusively against non-producing patent holders, however, not much has been made of this point.<sup>114</sup>

## VI. THE INTERNATIONAL TRADE COMMISSION AS AN ALTERNATE FORUM

After *eBay*, patent holders can no longer assume that district courts will always grant injunctive relief. As a result, some patent plaintiffs may turn to the International Trade Commission (ITC) as an alternate forum. The ITC has several important institutional differences from district courts that favor patent holders, and *eBay* has increased the perceived favorability of the ITC.

### A. Overview of the ITC

Created by Congress in 1916, the ITC determines the impact of imports on U.S. industries and adjudicates disputes surrounding importation, including patent infringement. The ITC offers two remedies for plaintiff: exclusion orders and cease-and-desist orders. Exclusion orders prevent entry into the United States all infringing articles that originate from the infringer.<sup>115</sup> Cease-and-desist orders prevent the use of infringing goods that are already in the United States.<sup>116</sup> The ITC can also order the seizure

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113. See notes 91 & 92 *supra*.

114. Additionally, the fact that injunctions have been refused under the *eBay* doctrine only in cases where the patent holder is a non-producing entity (see discussion in Part III, *supra*) is perhaps a testament to the utility and salutary effect of the four-factor test.

115. Joseph R. Heffern & Jacob A. Gantz, *Outbidding the Supreme Court: The ITC as an Alternative Forum for Patent Litigation Post-eBay*, 4 THE LEGAL INTELLIGENCER 27 (2007).

116. *Id.*

of the infringing products for forfeiture to the U.S. government.<sup>117</sup> A combination of an exclusion order and a cease-and-desist order effectively constitutes an injunction. Even before *eBay*, the ITC steadily gained popularity as a forum for adjudicating patent infringement disputes. From 2003 to 2006, the number of cases before the ITC alleging patent infringement more than doubled, and this number will likely to continue to rise.<sup>118</sup>

Relief offered by the ITC stands almost opposite to the relief granted by the district courts. Whereas injunctive relief has become more difficult to obtain at the district court due to the *eBay* decision, the ITC offers only injunctive-type relief in the form of exclusion orders and cease-and-desist orders.<sup>119</sup> Although relief from the ITC is limited in that it can only halt the importation of infringing products into the United States, the U.S. government enforces these orders. In contrast, patent holders bear the burden of enforcing injunctions granted by district courts.<sup>120</sup> ITC exclusion orders are generally limited in scope, but the ITC may occasionally issue general exclusion orders to bar the importation of an entire category of products.<sup>121</sup>

There are several reasons why a prospective plaintiff in a patent case may choose to bring his case before the ITC rather than the district courts. First, under Section 1337 of the ITC statute, the ITC can assert jurisdiction over a dispute when a defendant imports an allegedly infringing product or device into the United States.<sup>122</sup> This simple standard contrasts sharply with the frequent jurisdiction and venue battles which plague the early stages of patent litigation in the district courts.<sup>123</sup> Thus, plaintiffs can avoid the uncertainty and cost of these skirmishes by electing to go to the ITC. Second, the ITC is popularly viewed as the forum with the shortest time interval from initiating proceedings to resolution.<sup>124</sup> The speed and efficiency of the ITC are due to several institutional features, most notably the drastically expedited discovery process.<sup>125</sup> Third, the ITC provisions

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117. *Id.*

118. See Robert Hahn, *Assessing Bias in Patent Infringement Cases: A Review of International Trade Commission Decisions 3* (AEI-Brookings Joint Center for Regulatory Studies 07-03, 2007).

119. John F. Rabena & Kim E. Choate, *Injunctive Relief in the ITC Post eBay*, 1 AKRON INTELL. PROP. J. 27, 32 (2007); see also 19 U.S.C. § 1337(d)-(f) (2000).

120. *See id.*

121. Eric J. Fues, *Implications Of eBay v. MercExchange*, PATENT WORLD, June 2007, at 4.

122. 19 U.S.C. § 1337 (2000).

123. Rabena, *supra* note 119, at 31-32.

124. *Id.*

125. *Id.*

for post-proceeding design-around products favor victorious patent holders much more than the corresponding district court procedures.<sup>126</sup> Therefore patent holders are in a stronger position to negotiate with infringers since it is more difficult to meet the ITC standard for design-around products than the standards in district courts. Finally, patent plaintiffs are statistically more likely to prevail in the ITC than they are in the district courts.<sup>127</sup> These four reasons could certainly explain the surge in the number of patent cases before the ITC in recent years.<sup>128</sup>

## B. *eBay* and the ITC

The weakening of the patent holder's bargaining position due to the *eBay* decision now provides an additional incentive for plaintiffs to bring their case to the ITC. The Supreme Court based its ruling in *eBay* chiefly upon its interpretation of 35 U.S.C. § 283.<sup>129</sup> The ITC is not obligated to adhere to the Court's reasoning because patent infringement suits adjudicated at the ITC are governed by an entirely different statute, 19 U.S.C. § 1337.<sup>130</sup> The ITC statute contains no provisions mandating use of the equitable factors when deciding whether to grant relief. Instead, "absent extraordinary circumstances, the ITC will issue an exclusion order if the plaintiff meets three criteria: the plaintiff is using the patent in the United States; and the plaintiff's patent is infringed by an imported product."<sup>131</sup> The only major caveat to the otherwise general policy towards granting exclusion orders upon a showing of infringement is that the ITC will not grant exclusion orders that would adversely affect the general U.S. economy.<sup>132</sup>

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126. *Id.* at 32.

127. Hahn, *supra* note 118 ("Between 1975 and 1988, the complainant prevailed—that is, achieved a favorable decision by the ITC or a settlement—in 75 percent of patent cases brought before the ITC, compared with a 40 to 45 percent win rate for patent plaintiffs in federal district courts. . . . In more recent years, the ITC 'has decided 54 percent of contested cases in favor of the patent holder. This compares positively with win rates for district court patent cases.'").

128. Omitted from the list of reasons why the ITC offers a more plaintiff-friendly environment than the district courts is the assertion that "certain defenses that are available in district court are not available at the ITC . . . though that argument may be hard to square with the terms of Section 337(c), which provides that a respondent in an ITC complaint proceeding may raise '[a]ll legal and equitable defenses.' (19 U.S.C. § 1337(c))." *Id.*

129. *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).

130. 19 U.S.C. § 1337 (2000).

131. Heffern, *supra* note 115.

132. 19 U.S.C. § 1337 (c)-(f) (2000).

Although monetary damages are unavailable at the ITC, the near certainty of an exclusion order upon a successful showing of infringement gives the patent holder a distinct advantage in negotiations with the alleged infringer.<sup>133</sup> Additionally, the ITC places additional restrictions upon infringers that may complicate an attempt to avoid infringement by redesigning the product.<sup>134</sup> For instance, the ITC requires separate adjudication for each design-around product before allowing the importation of those products.<sup>135</sup> This process generally takes about a year to complete and may seriously hamper a business's efforts to bring its product to market.<sup>136</sup> Thus, the ITC provides great bargaining power to patent holders, especially those who would otherwise be unlikely to pass the four-factor test set forth in *eBay*.

As a final incentive to patent holders, an ITC determination does not preclude or influence action in other forums, including district courts.<sup>137</sup> Thus, a patent holder is free to bring an action for exclusion before the ITC and then, regardless of outcome, bring an infringement suit before a district court.<sup>138</sup> This institutional bias may cause problems in the future as more patent holders begin to employ this forum, especially if the ITC becomes viewed as a safe haven for non-practicing patent holders.<sup>139</sup>

The ITC is currently experiencing a surge of activity as greater numbers of patent plaintiffs view it as a more favorable forum. However, the past few years have seen a general move toward patent reform. Beginning with *eBay* and continuing with *KSR International Co. v. Teleflex, Inc.*, the Supreme Court has recently made several major adjustments to patent doctrine.<sup>140</sup> Meanwhile, the United States Patent and Trademark Office (USPTO) has recently promulgated new rules governing patent applications,<sup>141</sup> and patent reform continues to be a subject of Congressional ac-

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133. Hahn, *supra* note 118, at 3-4.

134. Rabena, *supra* note 119, at 35.

135. *Id.* at 35-36.

136. *See id.* at 39.

137. Heffern, *supra* note 115, at 138.

139. Hahn, *supra* note 118, at 3.

140. *See eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 126 S. Ct. 1837 (2006); *KSR Int'l Co. v. Teleflex, Inc.*, 127 S. Ct. 1727 (2007) (addressing the issue of obviousness).

141. *See* Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications, 72 Fed. Reg. 46,716, 46,716-46,843 (Aug. 21, 2007) (to be codified at 37 C.F.R. pt. 1). For an examination of the proposed new rules, see Matt Browning, *New PTO Rules: What Are They, and Will They Work?*, 23 BERKELEY TECH. L.J. 247 (2008).



tion.<sup>142</sup> Against this background, it seems unlikely that the ITC will escape the reformers' touch.

## VII. CONCLUSION

Although *eBay* altered the landscape of patent litigation, uncertainty remains as to whether the decision heralds the beginning of permanent shift toward the ITC, the demise of patent trolls, or how it will relate to the doctrine of willfulness. Although injunctive relief is no longer nearly automatic, post-*eBay* district court decisions do not suggest that injunctions are now rare. Indeed, the effect of *eBay* seems limited almost exclusively to non-practicing patent holders who are not in direct competition with the infringer. Nevertheless, there is still no consensus among district courts regarding the application of the equitable test to patent infringement, and the Federal Circuit has offered only minimal guidance. Thus, there remains some inconsistency in the analysis, if not the results, of district courts in determining whether to issue injunctive relief.

The use of the traditional four-factor test in granting injunctive relief has created tension with the doctrine of willfulness. Although the apparent incompatibility between these two principles has not yet been addressed, it will likely be pivotal in any future litigation where a patent holder who was denied an injunction brings suit against the same defendant for continuing acts of infringement.

The notion of compulsory licensing is implicit in the imposition of ongoing royalties, but courts remain uncomfortable with the idea. This is likely because they view compulsory licensing as an intrusion upon the fundamental right granted by a patent—the right to exclude. Moving forward, courts will have to resolve the tension inherent in ruling that although a patent holder has a right to exclude others, this right is contingent on how the patent holder is using the patent.

The ITC currently serves as a safety net for patent plaintiffs—a forum in which the four-factor test does not apply. The trend of increasing ITC patent suits could continue well into the future. However, there is no guarantee that the ITC will remain unaffected by the patent reform movement.

The *eBay* decision constituted a valiant effort to restore the balance between patent holders and the public, and thus far it seems as though district courts have carefully applied it in only against non-producing and non-practicing patent holders. Although the ancillary effects of the Court's decision have yet to be fully realized, experience has so far validated the

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142. See Patent Reform Act of 2007, H.R. 1908, 110th Cong. (2007).

*eBay* decision. The *eBay* decision may thus mark the beginning in a shift from rigid formulaic analysis to a more flexible and nuanced approach in determining injunctive relief.