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INJUNCTIONS ENJOINED; REMEDIES RESTRUCTURED

Lily Lim† & Sarah E. Craven‡

Abstract

One of the foundational intellectual property rights in the proverbial "bundle of sticks" granted by the United States patent system to a patentee is the patentee's right to exclude others from practicing his or her patented invention. The Supreme Court's decision in eBay, Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006), and the Federal Circuit's decision in Kyocera Wireless Corp. v. International Trade Commission, 545 F.3d 1340 (Fed. Cir. 2008), have shortened those sticks. This article tracks the impacts those two decisions have on cases in the district courts and in investigations in the International Trade Commission, including a decrease in the rate of injunctions issued against parties found to infringe patents and an increasing likelihood of patentees being required to accept compulsory-like-licenses as their only remedy for infringement. In addition, this article examines the disparate impact the cases have on patentees that are in direct competition with the accused infringers versus patentees that are non-practicing entities (NPE).

I. INTRODUCTION

Since its founding, this country has recognized a patent holder's right to exclude.\textsuperscript{1} By recognizing this right, the Founders sought to promote innovation, a goal desired by all. One would think, therefore, that the courts would strongly support patent rights, as the United States' economy depends upon innovation. Yet surprisingly, the

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\textsuperscript{1} U.S. CONST. art. I, § 8, cl. 8 ("To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries").
courts have been reducing the available remedies for patent infringement, making it more difficult for patentees to obtain injunctions. In *eBay, Inc. v. MercExchange, L.L.C.*, the Supreme Court eliminated the two-decade-old sanctioned practice of granting a permanent injunction against patent infringement after a finding of infringement, absent extraordinary circumstances. As a result, district courts have severely reduced the rate at which they grant permanent injunctions. In the International Trade Commission, another forum that used to all but guarantee patentees an injunction after a finding of infringement, the Federal Circuit's decision in *Kyocera Wireless Corp. v. International Trade Commission* has also raised the bar for obtaining an injunction for a typical patentee. The practical result of these two cases is that certain patentees who successfully proved infringement of their patents cannot exclude the infringer from practicing the invention. Essentially, courts grant a compulsory license instead of an injunction. Some may view this as a fair result for non-practicing entities (e.g., trolls), but this ignores that certain bedrocks of innovation in this country (e.g., universities and small inventors) are frequently non-practicing entities.

Section II of this article discusses the history and impact of *eBay*. Section III focuses on the background and impact of *Kyocera*. In Section IV, the article discusses the resulting compulsory-license-like effect of these two decisions and their disparate impact on patentees based upon who they seek to exclude, a direct competitor or a non-practicing entity.

II. **Ebay v. MercExchange**

A. A History of Injunctive Relief Before eBay

In *eBay, Inc. v. MercExchange, L.L.C.*, the Supreme Court practically eviscerated two decades of Federal Circuit precedent granting permanent injunctive relief virtually every time a valid patent was found to be infringed. The Supreme Court struck down the Court of Appeal's "general rule" that the facts surrounding a finding of patent infringement typically meet the equitable test for

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3. *Id.* at 391-94.
5. *Id.* at 1345.
injunctive relief absent “exceptional circumstances.”7 The Supreme Court concluded that granting permanent injunctions almost automatically upon a finding of infringement departed unjustifiably from the historical practice of scrupulously applying the four-factor equitable test applicable to all assessments of whether a complainant is entitled to injunctive relief.8 Under the four-factor test, patentees, like any other plaintiff seeking injunctive relief, must demonstrate (1) that they have suffered an irreparable injury; (2) that remedies available at law (e.g., money damages) are inadequate to compensate for the injury; (3) that the balance of the hardships warrants a remedy in equity; and (4) that the public interest would not be disserved by a permanent injunction.9

1. Genesis of the four-factor equitable test

Injunctions trace their roots to Ancient Rome,10 and made their way to U.S. courts modeled after English courts in equity. From the beginning, courts have refused to issue injunctions as a matter of right.11 Rather, courts have long recognized the need for “caution, deliberation, and sound discretion” in issuing such a powerful remedy, limiting its application to the finding of great injury without an “adequate or commensurate remedy in damages.”12

The Supreme Court too has long recognized injunctive relief as a powerful remedy and limited such relief to preventing irreparable injuries that lack an adequate remedy at law.13 Injunctive relief, therefore, is not issued as a matter of course even for the violation of a property right.14 But rather, the Court has demanded the grant of injunctive relief remain subject to equitable considerations, derived from several hundred years of history, that seek to flexibly accommodate competing private claims and the public interest in each

7. Id. at 393-94.
8. Id. at 391-92.
9. Id. at 391.
11. Id. (citing FRANCIS HILLIARD, THE LAW OF INJUNCTIONS 16 (2d ed. 1869)).
particular case. These equitable considerations have been transformed into the modern four-factor test that the Supreme Court applied in *eBay*.

2. Pre-*eBay*: Twenty years of injunctions granted absent "exceptional circumstances"

The Supreme Court's *eBay* decision dismantled approximately twenty years of Federal Circuit precedent. Since the 1980s, the Federal Circuit has held that an injunction will issue when infringement of a valid patent has been found, absent a sound reason, or exceptional circumstances, for denying it.

Shortly after the creation of the Federal Circuit in 1982, the court announced its general rule giving a patentee a near automatic injunction for infringement. The Federal Circuit did not, however, fashion its general rule outside the context of the historical equitable factors well known to the court. Rather, the Federal Circuit based its rule on a presumption that the patentee suffered an irreparable harm from the violation of the property right to exclude, a right that the founding fathers sanctioned in the Constitution. In *Richardson v. Suzuki Motor Co.*, the court explained that, "this presumption derives in part from the finite term of the patent grant" and the irremediable harm wrought on the patentee by the passage of time in litigation during which the patent term is not suspended. The court thus ordered the lower court to enter appropriate injunctive relief in light

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16. Richardson v. Suzuki Motor Co., 868 F.2d 1226, 1246-47 (Fed. Cir. 1989) ("Infringement having been established, it is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from use of his property. 35 U.S.C. § 261. '[T]he right to exclude recognized in a patent is but the essence of the concept of property.' It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it.") (citations omitted); see also MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1339 (Fed. Cir. 2005), vacated, 547 U.S. 388 (2006).
20. Richardson, 868 F.2d at 1247 (quoting H.H. Robertson, Co., 820 F.2d 384).
of the accused infringer’s failure to present a “sound reason” for denying such relief.21

Under the Federal Circuit’s application of the four-factor test, patentees were all but assured the coercive force of an injunction as an infringer had little hope of establishing a sound reason for denying injunctive relief. To provide the court with a sound reason to deny an injunction, the infringer had to claim that the patentee had failed to practice the patented invention and thereby frustrated an important public need for the invention.22 For example, the Federal Circuit denied injunctive relief when such relief would deprive the public of a medical test kit for cancer,23 sewage treatment,24 and vitamin fortification.25 Injunctive relief was also denied in other circumstances, such as where laches applied or where there existed too many complexities to determine possible future infringing activities.26

In the context of preliminary injunctions, the Federal Circuit has provided additional (and more achievable) factors sufficient to overcome the presumption of irreparable harm for the denial of injunctive relief. These include whether the infringer ceased infringing activities, whether the patentee delayed in bringing suit, and whether the patentee granted licenses in the past so that damages would provide an adequate remedy for the invasion of the patent right.27 Because the analysis for preliminary injunctions differs from that for permanent injunctions, it is unclear whether eBay applies to preliminary injunctions.28

21. Id. at 1246-47.
24. Id. at 1548 (citing City of Milwaukee v. Activated Sludge, Inc., 69 F.2d 577 (7th Cir. 1934)).
25. Id. (citing Vitamin Technologists, Inc. v. Wis. Alumni Research Found., 146 F.2d 941 (9th Cir. 1945)).
26. Fuji Photo Film Co. v. Jazz Photo Corp., 394 F.3d 1368, 1380-81 (Fed. Cir. 2005) (affirming denial of a permanent injunction when the complexities of determining future infringing activity precluded the court from drafting a narrowly tailored order); Odetics, Inc. v. Storage Tech. Corp., 185 F.3d 1259, 1272-74 (Fed. Cir. 1999) (affirming denial of a permanent injunction on pre-complaint products when laches applied).
27. See Polymer Techs., Inc. v. Bridwell, 103 F.3d 970, 974 (Fed. Cir. 1996).
3. Pre-eBay: Wielding the injunction threat

The pre-eBay threat of a near automatic injunction gave a patentee a very powerful bargaining chip in licensing and settlement negotiations. The Federal Circuit simply viewed this coercive power as an inherent part of the value of the patent grant: "If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers."

Others have not viewed it so favorably, especially when the threat is wielded by a patent troll, or non-practicing entity (NPE). The headline-grabbing story of NTP and its patent infringement suit against Research in Motion (RIM), maker of the wireless email BlackBerry device, highlighted the power of injunctive relief to generate large settlements. In the pre-eBay era, NTP, a patent holding company, succeeded in extracting a $612.5 million settlement from RIM to prevent the BlackBerry devices of 3.2 million U.S. customers, including White House staff and Congressmen, from going silent.

The dispute began in 2000 when NTP first approached RIM for licensing fees based on the use of its patented wireless communications systems and methods. When RIM refused, NTP filed suit in the Eastern District of Virginia in November 2001, alleging that various configurations of RIM’s BlackBerry system infringed over forty system and method claims from several of its patents. A jury found NTP’s patents valid and willfully infringed, and the judge


30. See, e.g., Foster v. Am. Mach. & Foundry Co., 492 F.2d 1317, 1324 (2d Cir. 1974) ("[An injunction] is not intended as a club to be wielded by a patentee to enhance his negotiating stance.").


33. NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1282, 1290 (Fed. Cir. 2005).
awarded NTP $53.7 million in damages and (importantly) a permanent injunction, which was stayed pending appeal.\textsuperscript{34}

The settlement figure during the parties’ appeal to the Federal Circuit reached $450 million, a modest number in hindsight.\textsuperscript{35} RIM, however, failed to achieve a complete victory in the Federal Circuit, which affirmed infringement of certain of NTP’s system claims and remanded the case back to the district court.\textsuperscript{36} Also, RIM failed to convince either the Supreme Court or the district court to allow time for another look at NTP’s patents: the Supreme Court denied RIM’s petition for a writ of certiorari,\textsuperscript{37} and the district court denied a motion to stay the injunction pending a reexamination of the patent by the U.S. Patent and Trademark Office (USPTO).\textsuperscript{38} With time running out and the permanent injunction looming large, even the U.S. Justice Department became involved, filing a request for a ninety day stay to compile a list of government workers whose email service should not be cut off.\textsuperscript{39}

At the end of its legal rope, RIM settled with NTP for $612.5 million. And, while BlackBerry users throughout the United States breathed a sigh of relief, commentators’ attacks on NPEs for taxing the U.S. economy continued with renewed vigor,\textsuperscript{40} especially as NTP continued to sue other companies on the same patents even after the USPTO rejected all of NPT’s patent claims in its reexamination proceedings due to substantial new questions of patentability.\textsuperscript{41} NTP became the poster child for all the ills plaguing the U.S. patent system.

The story, however, is not so black and white. NTP was not started by a greedy villain, but by Thomas Campana Jr., an electrical engineer, a small businessman, and an independent inventor.\textsuperscript{42} Like many small inventors, lauded as the backbone of enterprise in this

\begin{thebibliography}{99}
\bibitem{34} Id. at 1292.
\bibitem{36} NTP, 418 F.3d at 1325-26.
\bibitem{37} Research In Motion, Ltd. v. NTP, Inc., 546 U.S. 1157 (2006).
\bibitem{39} Yuki Noguchi, Government Enters Fray Over BlackBerry Patents, WASH. POST, Nov. 12, 2005, at D1.
\bibitem{40} See, e.g., Editorial, Patently Absurd, WALL ST. J., Mar. 1, 2006, at A14.
\bibitem{42} Aaron Homer, Whatever It Is . . . You Can Get It On eBay . . . Unless You Want an Injunction–How the Supreme Court and Patent Reform Are Shifting Licensing Negotiations from the Conference Room to the Courtroom, 49 S. TEX. L. REV. 235, 244 (2007).
\end{thebibliography}
country, Campana started his first business out of his basement. The company provided wireless equipment to pager companies and grew to thirty employees before folding. Campana, although out of business, retained a large patent portfolio, and he teamed up with his patent attorney to license the technology he had developed through NTP. But, similar to what many small inventors experience, large companies simply ignored him. As another small inventor noted, "only an infinitesimal percentage of small inventors can muster the resources to defend their property . . . . So in 99 percent of cases, the large companies get the IP for free." RIM, however, did not get off lightly. The very public NTP-RIM battle would come to echo in the Supreme Court's eBay decision, and especially its aftermath. It would come to ensure that other NTPs would not have the bargaining power of an injunction behind their patent rights.

B. eBay: Strict Application of the Four-Factor Test

In May 2003, history seemed set to repeat itself. The NPE MercExchange won a willful infringement verdict against online retailer eBay for its fixed-priced sales over the internet. And while the district court had denied MercExchange a permanent injunction, the Federal Circuit reversed under its then general presumption of irreparable harm absent exceptional circumstances and remanded the case to the district court to enter injunctive relief. But unlike RIM, the Supreme Court came to eBay's rescue, granting certiorari and overruling the Federal Circuit's general rule.

In denying injunctive relief to MercExchange in the first instance, the district court had found the presumption of irreparable harm rebutted by several factors. Specifically, the court found that the plaintiff's obvious desire to license its patents, its lack of commercial activity in practicing the patents, and its failure to seek a preliminary injunction demonstrated a lack of irreparable harm. In so holding, the court relied in part on the Federal Circuit's precedent in the context of a preliminary injunction that the patentee's lack of commercial activity is a significant factor in the calculus for

43. Id.
44. Id.
45. Id.
50. MercExchange, 275 F. Supp. 2d at 712.
The court also concluded that the issuance of business-method patents to NPE's, like the one at issue, lent significant weight against the imposition of an injunction because it failed to serve the public interest. The Federal Circuit reversed, holding that the district court had abused its discretion in not awarding injunctive relief to MercExchange whose patents had just been found valid and infringed. The Court of Appeals found none of the factors considered by the district court sufficiently exceptional to overcome the presumption of irreparable harm and rejected the district court's reasoning. The Federal Circuit disagreed that (1) the public's concern over business-method patents; (2) the failure of the patentee to seek a preliminary injunction; and (3) the patentee's failure to practice the invention and willingness to license, supported denial of injunctive relief. As to the third issue, the Federal Circuit stated:

Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well.

The Supreme Court in a unanimous opinion overruled the Federal Circuit's general rule that presumed irreparable harm for infringement of a valid patent. Writing for the Court, Justice Thomas explained that the historical four-factor equitable test for permanent injunctions applies equally to the Patent Act as in other contexts. Citing the Court's precedent under other statutory schemes where it had rejected categorical rules in favor of the four-factor test, including the Copyright Act, the Court again concluded that it would not imply into the Patent Act a major departure from the long tradition of equity practice. The Court, therefore, rejected not only the Federal Circuit's general rule that an injunction will issue absent "extraordinary circumstances" but also the district court's apparent adoption of the "expansive principle" that failure to practice the

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51. Id. (citing High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc., 49 F.3d 1551, 1556 (Fed. Cir. 1995)).
52. Id. at 713-14.
53. MercExchange, 401 F.3d at 1339.
54. Id.
55. Id.
57. Id. at 391.
58. Id. at 391-93.
invention and a willingness to license established the absence of irreparable harm and thus precluded an injunction. In rejecting the district court's reasoning, the Court pointed out that some patent holders, such as university researchers or self-made inventors, might legitimately prefer to license their patents and should not be categorically precluded from satisfying the four-factor test. The Justices expressed no opinion on the correctness of an injunction in the case before them but vacated the Federal Circuit's decision for the district court to apply the "new" standard in the first instance.

Though the decision was unanimous, two concurring opinions revealed an actual split in the Supreme Court's reasoning. First, Chief Justice Roberts, joined by Justices Scalia and Ginsburg, concurred with the Court's opinion that the traditional four-factor test neither entitles a patent holder to a permanent injunction nor justifies a general rule that injunctions should automatically issue upon a finding of infringement. But these three Justices went on to suggest that applying the test would not result in a drastic reduction in the ability of courts to issue such injunctions. The Chief Justice emphasized the importance of history in the application of the equitable test, noting that "[f]rom at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases." This long tradition of injunctive relief, Roberts wrote, "is worth a volume of logic" as it reflects the difficulty in protecting the patentee's right to exclude through monetary damages alone.

In contrast, a concurrence by Justice Kennedy, with whom Justices Stevens, Souter, and Breyer joined, suggested quite the opposite: application of the four-factor test should make injunctive relief less available. Justice Kennedy emphasized that the right to exclude remains distinct from the remedy and thus does not suggest the inadequacy of monetary damages. Rather, the history of injunctive relief reflects the economy of earlier times, and thus history, while "instructive," should be considered in light of changed

59. Id. at 393-94.
60. Id. at 393.
61. Id. at 394.
62. Id. at 394-95 (Roberts, C.J., concurring).
63. Id.
64. Id. at 395.
65. Id. at 395 (quoting N.Y. Trust Co. v. Eisner, 256 U.S. 345, 349 (1921)).
66. Id. at 395-97 (Kennedy, J., concurring).
67. Id. at 396.
economic and patent conditions. Kennedy wrote that the outcome of the four-fact test should be affected by the bargaining power of an NPE to extract "exorbitant fees," especially when a patent covers only a small component of a product. Under this formulation, a patentee who does not practice his own invention is in fact less entitled to a permanent injunction than one that does. Kennedy also latched on to concerns over business-method patents, noting that the "potential vagueness and suspect validity" of such patents also should play into the four-factor test.

The eBay decision has been viewed as the Supreme Court's response to the very public NTP-RIM BlackBerry patent feud. As highlighted in Justice Kennedy's concurring opinion, the opinion does appear to reflect concerns over the emergence of business-method patents and the rise of non-practicing, patent holding companies with the power to hold-up market participants. A more benign view is that the Court simply wished to bring the Federal Circuit in line with the injunctive standard governing other cases. In light of the Court's rejection of categorical rules for permanent injunctions in other statutory contexts, the Court simply refused to allow the Federal Circuit to create such a rule under the Patent Act.

The subsequent application of the four-fact test in the district courts, however, seems to vindicate the first view as courts immediately began to deny injunctions to NPEs. As discussed below, the courts have created a new near categorical rule: if a patentee does not practice the invention and is willing to grant licenses, an injunction will not issue. Practicing patentees, however, have also found themselves out of luck depending on how the court views the relevant market for damages purposes. As such, rather than the Federal Circuit's more equal treatment of patentees facing a violation of their right to exclude, the result of eBay has been the creation of a two-tier system of patent remedies based not on the value of the patent but on the identity of the patentee.

68. Id. at 396-97.
69. Id.
70. Id. at 397.
C. The Aftermath of eBay: A Two-Tier System of Remedies

Before eBay, courts granted patentees injunctions 95% of the time after finding infringement. After eBay, this number has dipped to 72%. Whether a patentee and an accused infringer directly compete in the marketplace has become the most significant factor determining whether a court issues an injunction. Also of significance in the new injunction calculus is (1) the patentee’s willingness to license; (2) the impact of the unauthorized sales on the patentee’s reputation, future profit, brand name; and (3) whether the patent covers a component of limited importance to the total device. Delay in bringing suit has also been considered. Perhaps surprisingly, the willfulness of the infringement has not played a significant role. The result is that a patentee who directly competes in the marketplace with the infringing party gets an injunction 79.6% of the time, while an NPE’s chance of getting an injunction falls precipitously to 33.3%.

1. Injunctions for competitors only

A trio of district court decisions out of the Eastern District of Texas post-eBay immediately established the importance of direct competition in the marketplace for a patentee’s entitlement to

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75. FTI Consulting analysis of relevant publicly available court cases (collecting cases between May 15, 2006, through October 22, 2008, with 73% granted (41) / 26% denied (15) / 1% undecided (1) for a total of 57 cases). (unpublished report, on file with author); since then the undecided fell into the denial category.

76. See Foley & Larder, supra note 74.


79. FTI Consulting analysis of relevant publicly available court cases (collecting cases between May 15, 2006, through October 22, 2008, with 79.6% of 49 cases granted for competitors (39 granted; 10 denied) and 33.3% of the 9 cases granted for NPE (3 granted; 6 denied) (unpublished report, on file with author).
injunctive relief. The trend has continued but with some increasing nuances.

In z4 Technologies, Inc. v. Microsoft Corp.,80 decided just a month after eBay, the court denied an NPE an injunction, relying in part on Justice Kennedy's concurring opinion.81 A jury found that Microsoft's Window and Office products infringed z4's patents covering product activation software and that the infringement was willful.82 But when z4 moved for injunctive relief, the court held that z4 failed to establish that a single one of the four factors weighed in its favor. Specifically, the court held that z4 failed to establish either irreparable harm or the inadequacy of money damages since z4 did not compete in the marketplace with Microsoft and thus would not suffer a loss of profits, brand name recognition, customer goodwill, market share, or the ability to license the technology to others.83 The court also relied on the fact that Microsoft incorporated the infringing code into its products as a small component unrelated to the products' core functionalities.84 In balancing the private and public hardships, the court found that any redesign of the software (only a few years from being phased out completely) would be an enormously expensive task for Microsoft and disabling the product activation system could flood the market with pirated software, producing incalculable losses for Microsoft and leaving the public without a supply of widely used software and vulnerable to inferior pirated copies.85

An NPE experienced the same result in Paice, L.L.C. v. Toyota Motor Corp.86 After winning a jury verdict of infringement, the court refused to enjoin the sale of defendants' hybrid vehicles. The court found no irreparable harm since Paice did not directly compete in the market and had failed to demonstrate any lost ability to license its hybrid engine technology.87 The court also found that damages were adequate since the patent covered a small component of the overall vehicle and Paice offered a license to Toyota during the post-trial

81. Id. at 441.
82. Id. at 438-39.
83. Id. at 440-41.
84. Id. at 440.
85. Id. at 442-43.
87. Id. at *4-5.
period. And finally, the balance of hardships favored the infringer since an injunction would disrupt the business of downstream supplies and dealers and could have an adverse effect on the hybrid market and Toyota's reputation.

In contrast, a practicing patentee received injunctive relief when pitted against a market competitor who infringed a patent covering digital video recorder (DVR) technology. The court in *TiVo Inc. v. EchoStar Communications Corp.* found both irreparable harm and an inadequate remedy at law based on the infringer's direct competition with the patentee at a critical time in the nascent DVR market. The court also found that these same factors tipped the balance of the hardships in the patentee's favor since DVRs were a smaller part of the infringers' satellite transmission business. And finally, the court held that the public would not be disserved by an injunction given the public's interest in a strong patent system and that the fact that any reduction in DVR availability impacts entertainment and not public health or welfare.

Other practicing patentees have received similar treatment, with courts sometimes using language that suggests a two-tier evaluation of patents based on the entity whose patent rights have been infringed. For example, the court in *Visto Corp. v. Seven Networks, Inc.* granted a permanent injunction against the patentee's competitor in the mobile email market. In so doing, the court found

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88. *Id.* at *5.*
89. *Id.* at *6.*
91. *Id.* at 669-70.
92. *Id.* at 670.
93. *Id.*
94. See, e.g., *Johns Hopkins Univ. v. Datascope Corp.*, 513 F. Supp. 2d 578, 586 (D. Md. 2007) (finding irreparable harm from loss of market share and concluding that "[i]f the Plaintiffs do not obtain injunctive relief, others may be encouraged to infringe their patents and risk litigation, thus devaluing the Plaintiffs' property"), *rev'd on other grounds*, 543 F.3d 1342 (Fed. Cir. 2008); *Muniauction, Inc. v. Thomson Corp.*, 502 F. Supp. 2d 477, 482 (W.D. Penn. 2007) ("If plaintiff cannot prevent its only competitor's continued infringement of its patent, the patent is of little value."), *rev'd on other grounds*, 532 F.3d 1318 (Fed. Cir. 2008); see also *Verizon Servs. Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295, 1310 (Fed. Cir. 2007); *MGM Wells Servs., Inc. v. Mega Lift Sys., LLC*, 505 F. Supp. 2d 359, 378-80 (S.D. Tex. 2007); *Litecubes, L.L.C. v. N. Light Prods., Inc.*, No. 4:04CV00485 ERW, 2006 WL 5700252, at *10 (E.D. Mo. Aug. 25, 2006); *Smith & Nephew, Inc. v. Synthes*, 466 F. Supp. 2d 978, 982-85 (W.D. Tenn. 2006).
96. *Id.*
irreparable harm based on the direct market competition of the parties, a factor that "weighs heavily in the court's analysis" since "[i]ntellectual property enjoys its highest value when it is asserted against a direct competitor in the plaintiff's market." Similarly, the Federal Circuit, in affirming the grant of a permanent injunction against an infringing competitor, found that "[t]he essential attribute of a patent grant is that it provides a right to exclude competitors from infringing the patent." 

In contrast, NPEs have a more difficult time obtaining injunctions. For example, the district court again denied MercExchange a permanent injunction on remand from the Supreme Court, holding that MercExchange failed to establish irreparable injury and an inadequate remedy at law given MercExchange's lack of commercial activity in practicing the patent and pattern of seeking only royalty revenue. The court also considered MercExchange's failure to seek a preliminary injunction, the suspect nature of its business-method patent with claims twice rejected by the USPTO, and the impact on eBay's large number of customers. In the court's view, the case represented a patentee seeking to use its patent as a sword to extract money and not a shield to protect its right to exclude and guard its market share or reputation.

Exceptions do, however, exist in both directions. More than a few competitors have had courts deny their request for a permanent injunction for a variety of reasons, including the absence of any risk of continued infringement, the lack of a nexus between the loss of

97. Id. at *4; see also 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) ("This Court has recognized the high value of intellectual property when it is asserted against a direct competitor in the plaintiff's market."). vacated on other grounds by 521 F.3d 1351 (Fed. Cir. 2008).
100. MercExchange, 500 F. Supp. at 569-71, 578, 582.
101. Id. at 573-74.
102. Id. at 585, 587.
103. Id. at 572.
104. See, e.g., Nichia Corp. v. Seoul Semiconductor, Ltd., No. 06-0162 MMC, 2008 WL 346416, at *2 (N.D. Cal. Feb. 7, 2008) (finding no irreparable harm when the evidence showed no likelihood of continued infringement since the defendants no longer manufactured the product, their only potential customer resided outside the United States, and the technology had become obsolete); Respironics, Inc. v. Invacare Corp., No. 04-0336, 2008 WL 111983, at *5-6 (W.D. Penn. Jan. 8, 2008) (finding no irreparable harm or inadequate remedy at law when there
market share and the infringing sales in a multiplayer market, \(^\text{105}\) a willingness to license, \(^\text{106}\) the failure to join the exclusive licensee as a party, \(^\text{107}\) unclean hands, \(^\text{108}\) and the seeming failure of the patentee to provide any evidence of the injury. \(^\text{109}\) The Federal Circuit also vacated an injunction awarded to a competitor when the jury’s damage award included both an up-front market entry payment and an ongoing royalty that covered future sales, concluding that “[w]hen a patentee requests and receives such compensation, it cannot be heard to complain that it will be irreparably harmed by future sales.” \(^\text{110}\) And finally, in at least two cases, although involving the same parties, the courts found the public interest in promoting a variety of medical devices in the marketplace supported denying the patentee a permanent injunction, even noting the preference of physicians for the infringing product. \(^\text{111}\)

On the other side, one NPE, a scientific research organization, succeeded in obtaining an injunction based on harm to its ability (1) to license the technology to finance its research and development and (2) to compete in the marketplace for scientific talent for its research and development programs. \(^\text{112}\) The court concluded that because the work of research institutions contributes fundamentally to scientific advancement, these types of NPEs merit strong patent protection. \(^\text{113}\) Seizing on this decision, at least one highly-litigious patent holding company has sought to recast itself as a research and development company with no risk of future infringement by a model at a trade show that was destroyed and never marketed).


113. Id. at 608.
In this way, NPEs might establish irreparable harm, the most difficult prong for an NPE, and fight the battle on willingness to license, a prong that has gone against not only NPEs, but also some competitors.115

The post-eBay opinions reveal a strong correlation between competition between the parties and injunctive relief, and the likelihood of an injunction is especially high for patentees who compete head-to-head with the infringer in a two-party market.116 The NPEs who seek licensing revenue have, in contrast, largely been denied such relief. The right to exclude has therefore come to equal the right to prevent another from intruding on a patentee’s narrowly-defined market share, creating a two-tiered valuation for patents based on the identity of the patentee.117 The first tier of patentees who compete with the infringers are granted injunctive relief. The second tier of patentees, in contrast, are mainly granted damages that are for practical purposes calculated in the absence of the threat of an injunction—essentially a compulsory license, discussed in Section IV.

III. KYOCERA V. U.S. INTERNATIONAL TRADE COMMISSION

Because the eBay decision decreased the likelihood of obtaining a permanent injunction in district court, patentees have expressed a heightened interest in pursuing patent infringement claims in an alternative forum known to award injunctions upon finding infringement—the International Trade Commission (ITC). In fact, the only remedy that the ITC is authorized to grant is an injunction, known as an exclusion order; it does not have the authority to award damages.118 More importantly, the ITC’s ability to grant an exclusion order, unlike a district court’s ability to issue an injunction, is not impacted by the eBay decision.119 Thus, patentees have flocked to the

114. See George M. Newcombe et al., Prospective Relief for Patent Infringement in a Post-eBay World, 4 N.Y.U. J. L. & Bus. 549, 565-66 (2008) (describing Wi-LAN Inc., which characterizes its business strategy not only as licensing companies that use its patented technology, but also as strengthening its portfolio through active research and development).

115. See supra text accompanying note 106.


117. Douglas Ellis et al., The Economic Implications (and Uncertainties) of Obtaining Permanent Injunctive Relief After eBay v. MercExchange, 17 FED. CIR. B.J. 437, 442 (2008) ("[T]he real effect of eBay . . . is a reduced likelihood that certain types of patent holders will be able to obtain an injunction.").


119. Certain Baseband Processor Chips and Chipsets, Transmitter & Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, USITC Inv. No. 337-TA-543,
But a recent decision by the Federal Circuit may stem that tide. In *Kyocera Wireless Corp. v. International Trade Commission*¹²¹ the Federal Circuit limited the ability of patentees to exclude downstream products containing infringing articles when the patentee does not name the downstream manufacturers as respondents to the investigation.¹²²

**A. Historical Reach of In Rem Limited and General Exclusion Orders**

The ITC is a quasi-judicial agency delegated authority by Congress to enforce a variety of U.S. international trade laws, including Section 337 of the Tariff Act of 1930 as amended, 19 U.S.C. § 1337. Section 337 authorizes the ITC to conduct investigations into allegations of unfair practices in import trade.¹²³ This includes patent infringement,¹²⁴ which makes up the vast majority—over 90%—of its enforcement actions.¹²⁵ In order for patentees to succeed in an ITC investigation, they must establish infringement of a valid patent, a domestic industry for the patented product, and infringement by an imported product.¹²⁶ And unlike district courts, which can maintain personal jurisdiction only over

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¹²⁰ ITC investigations have more than doubled since 1997, and the number of Section 337 patent infringement proceedings has risen 25% from 2006 to 2007. ANALYSIS GROUP, *PATENT LITIGATION BEFORE THE INTERNATIONAL TRADE COMMISSION* 1, http://www.analysisgroup.com/uploadedFiles/Practice_Areas/Patent_Litigation_Before_the_ITC.pdf.


¹²² Kyocera Wireless Corp. v. Int’l Trade Comm’n, 545 F.3d 1340 (Fed. Cir. 2008).


¹²⁵ G. Brian Busey, *An Introduction to Section 337 and the U.S. International Trade Commission*, 949 PRAC. L. INST.: PATENTS, COPYRIGHTS, TRADEMARKS & LITERARY PROPERTY COURSE HANDBOOK SERIES 11, 13, 35 (2008) (asserting that the statute is, however, broad enough to encompass many other claims of unfair competition including misappropriation of trade secrets, passing off, gray market goods, false advertising, violations of the Digital Millennium Copyright Act, and antitrust violations).

defendants who have minimum contacts with the forum,\textsuperscript{127} pursuant to Section 337, the ITC has both in personam jurisdiction and jurisdiction over the "article."\textsuperscript{128} Thus, the ITC has jurisdiction over an infringing product imported into the United States even if the manufacturer or seller of the product does not have a presence in the United States (preventing in personam jurisdiction).\textsuperscript{129} This in rem jurisdiction provides patentees facing foreign and domestic infringers that import products from overseas, including many companies in the electronics, chemical, and general manufacturing industries, with an alternative forum for protecting their patent right to exclude through injunctive relief.

The ITC has the power to issue exclusion orders that instruct the U.S. Customs and Border Protection (Customs) to exclude from the United States articles found to violate the statute.\textsuperscript{130} Section 1337(d) provides for two types of exclusion orders: limited exclusion orders (LEOs) and general exclusion orders (GEOs). A LEO covers the products of a named respondent found by the Commission to be in violation of the statute.\textsuperscript{131} A GEO, in contrast, may extend to any infringing products, regardless of their source, if a patentee can show either (1) that such a general remedy is necessary to prevent circumvention of a LEO or (2) that there exists a pattern of violation, but the source of the infringing products is not easily identifiable.\textsuperscript{132}

The Commission, however, has slowly extended the scope of LEOs to reach not only the infringing article itself, but also downstream products that contain the infringing article. In \textit{Certain Erasable Programmable Read Only Memory},\textsuperscript{133} the ITC introduced what have come to be known as the EPROM factors.\textsuperscript{134} The Commission, seeking to balance patentees' need for effective relief against the burden on third parties and the public, set forth nine non-exclusive factors to consider in fashioning the exclusion of downstream products for a LEO. The enumerated factors include:

\begin{itemize}
  \item \textsuperscript{127} Int'l Shoe Co. v. Washington, 326 U.S. 310, 318-20 (1945).
  \item \textsuperscript{128} 19 U.S.C. § 1337 (2000).
  \item \textsuperscript{129} \textit{Id}.
  \item \textsuperscript{130} \textit{Id} at § 1337(d).
  \item \textsuperscript{131} \textit{Id} at § 1337(d)(1).
  \item \textsuperscript{132} \textit{Id} at § 1337(d)(2).
  \item \textsuperscript{134} \textit{Id}.
\end{itemize}
[1.] the value of the infringing articles compared to the value of the downstream products in which they are incorporated, [2.] the identity of the manufacturer of the downstream products (i.e., are the downstream products manufactured by the party found to have committed the unfair act, or by third parties), [3.] the incremental value to complainant of the exclusion of downstream products, [4.] the incremental detriment to respondents of such exclusion, [5.] the burdens imposed on third parties resulting from exclusion of downstream products, [6.] the availability of alternative downstream products which do not contain the infringing articles, [7.] the likelihood that imported downstream products actually contain the infringing articles and are thereby subject to exclusion, [8.] the opportunity for evasion of an exclusion order which does not include downstream products, [and 9.] the enforceability of an order by Customs. . . .

In the EPROM decision, the Commission concluded that to provide the complainant, Intel, with an effective remedy, the LEO must be tailored to reach not only infringing EPROMs but also downstream products containing the EPROMs manufactured by respondent Hyundai. The Commission found that both the ease of circumventing the LEO and the vital nature of the infringing read-only memory to the downstream product favored the exclusion. But the Commission also concluded that the LEO should not extend to products of non-respondents, not only because Intel had not requested such an exclusion, but also because the incremental benefit to Intel appeared small compared to the burden on non-respondents of having to comply with the order. The Federal Circuit affirmed, upholding the order as not arbitrary or capricious, but as a reasonable means of ensuring an effective remedy given the Commission’s findings that infringing memory could be incorporated into Hyundai’s downstream products and that Hyundai had violated Section 337. Some interpreted both the ITC and the Federal Circuit’s opinions as disapproving of LEOs that cover the downstream products of non-respondents.

135. Id. at 125.
136. See id. at 126; see also Hyundai, 899 F.2d at 1209.
137. Certain Erasable Programmable Read-Only Memories, at 125-27.
138. Id. at 127.
139. Hyundai, 899 F.2d at 1209.
Yet, only a few years later, the ITC took the next step in *Certain Integrated Circuit Telecommunication Chips*\(^{141}\) and extended a LEO to the downstream products of a non-respondent.\(^{142}\) In opposing the exclusion order, the respondent argued that such an extension amounted to granting the complainant a GEO without the complainant having established either a pattern of violation or likelihood of circumvention.\(^{143}\) The Commission disagreed, distinguishing a GEO as prohibiting the importation of infringing articles regardless of their manufacturer, while the LEO at issue prohibited importation of downstream products containing only respondent HMC’s chips.\(^{144}\) It noted that, under *EPROM*, the failure to name the manufacturer of the downstream products receives weight in tailoring a LEO, but concluded that it would be inequitable to deprive the patentee of effective relief merely because of a failure to name as respondents all manufacturers of downstream products.\(^{145}\)

The ITC continued to extend LEOs to cover the downstream products of non-respondents when the products contained a respondent’s infringing article. In *Certain Display Controllers*,\(^{146}\) for example, the Commission weighed the *EPROM* factors and issued a LEO covering not only the infringing display controllers, but also all circuit boards and LCD monitors that contained such controllers, regardless of the manufacturer.\(^{147}\) The Commission found that the second *EPROM* factor—the identity of the manufacturer of the downstream product—weighed against the exclusion but did not preclude it because virtually all the infringing controllers entered the

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142. *Id.* at 32. Pre-EPROM, the ITC had extended a LEO to downstream products of non-respondents. *Certain Dynamic Random Access Memories, Components Thereof & Prods.*, USITC Pub. 2034, Inv. No. 337-TA-242, Comm'n Op., 90 (Nov. 1987). But on review, the President disapproved the order. Schwartz, *supra* note 140, at 138. In *Certain Integrated Circuit Telecomm. Chips*, the Commission noted that it was "mindful" that such a LEO had been the basis of Presidential disapproval but did not find that it barred the LEO in the case before it.


144. *Id.*

145. *Id.* at 27-28.


147. *Id.*
U.S. as part of a monitor product. And under the eighth EPROM factor—the opportunity for evasion of an exclusion order that does not include the downstream products—the Commission concluded that the complainant would not be afforded effective relief without the exclusion. And again in Certain Electrical Connectors, the Commission issued a LEO covering the downstream products of non-respondents’ that contain the respondents’ infringing electrical connector. The Commission again found that since the infringing connectors were imported only in the downstream products, their exclusion was necessary to fashion an effective remedy.

The ITC thus gave patentees access to a broad injunctive remedy against not only infringing articles, but also the products in which they were ultimately imported. This broad remedy, just like the near automatic grant of injunctive relief in district courts pre-eBay, was recently brought to an end. In Kyocera v. International Trade Commission, the Federal Circuit rejected the ITC’s interpretation of its statutory authority to include extending LEOs to the products of parties that had not been named as respondents to the investigation.

B. Kyocera: Limiting Limited Exclusion Orders

The Commission’s remedy decision in Certain Baseband Processor Chips simply mirrored its earlier decisions. On June 21, 2005, the Commission instituted an investigation under Section 337 based on a complaint by Broadcom Corp. (Broadcom) for patent infringement in the importation of, inter alia, certain baseband processor chips and chipsets, and products containing the chips, including cellular telephone handsets. Broadcom named Qualcomm, the chip manufacture, as the sole respondent.

During the violation stage, the Administrative Law Judge (ALJ) determined that Qualcomm infringed numerous claims of one of

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148. Id. at § IV(A).
149. Id.
151. Id. at 11-15.
152. Id.
154. Id. at 1358-59.
156. Id. at 2.
several asserted patents. While not recommending the exclusion of downstream products, the ALJ did reject Qualcomm's argument that such an exclusion fell outside the Commission's authority under Section 337(d)(1). The Commission then held a public hearing on remedies on March 21-22, 2007, in which six interveners joined.

As in its earlier opinions, the Commission analyzed the PROM factors and issued a LEO prohibiting the unlicensed entry not only of infringing baseband processor chips but also new models of wireless communication devices containing Qualcomm's infringing chips. Unsurprisingly, the Commission found that the exclusion of the downstream communications devices was necessary to give Broadcom an effective remedy in light of the fact that virtually all of Qualcomm's infringing chips entered the United States as part of such devices. It also concluded that, although Qualcomm did not manufacture the downstream products, that alone did not preclude relief and did not even warrant special weight. While noting the importance of encouraging complainants to name all potential respondents, the Commission refused to find that the failure to do so automatically precluded a remedy against downstream third parties, and rejected the claim that Broadcom's failure was an attempt to mislead Qualcomm and third-party manufactures as to the scope of the investigation and remedy requested.

On appeal, the Federal Circuit reversed. The Court of Appeals held that the ITC has no statutory authority to issue a LEO against the downstream products of non-respondents. The court found that the plain language of Section 1337(d) created two distinct forms of exclusion orders: one limited to persons determined by the Commission to be violating the statute (a LEO) and one general to articles encompassing the violation when the complainant demonstrates either that such a remedy is necessary to prevent

157. Id. at 9.
158. Id. at 3, 18.
159. Id. at 39.
160. Id. at 3-4.
161. Id. at 124 (determining that the burden on third parties and the public warranted grandfathering in devices imported for sale to the public on or before the date of its exclusion order).
162. Id. at 12, 62.
163. Id. at 37, 43, 47-48.
164. Id. at 50.
165. Id. at 50-51.
167. Id.
circumvention or that there exists a pattern of violations (a GEO). As such, the court held that Section 1337 "on its face" limited LEOs to named respondents and that the ITC does not have the authority to expand LEOs from "persons determined by the Commission to be violating" [this section] to "articles manufactured by persons determined by the Commission to be violating this section." To read these words into the statute, the Federal Circuit concluded, would make other sections superfluous.

To exclude downstream products of non-respondents, the complainant must satisfy the heightened evidentiary requirement of a GEO. In so holding, the Federal Circuit rejected Broadcom and the Commission's argument that such an interpretation impermissibly converted the ITC's in rem jurisdiction over infringing articles to an in personam remedy. The court replied that this argument ignored the Act's plain constraint on the Commission's authority under Section 1337(d)(2) to "persons determined by the Commission to be violating this section," thus incorporating an in personam element. The Court also expressed little sympathy for Broadcom's lack of an effective remedy without an exclusion order covering downstream products, noting that Broadcom made a strategic choice not to seek a GEO and not to name even a single downstream importer of Qualcomm's chips despite knowing their identities.

C. Impact of Kyocera: To Name or Not to Name

The fallout from Kyocera has just begun. Only weeks after the Federal Circuit's Kyocera decision, two respondents of concluded Section 337 investigations filed petitions to modify issued LEOs covering the downstream products of non-respondents containing their infringing articles. On October 27, 2008, respondent System General (SG) filed the first petition. On August 11, 2006, the Commission had issued a LEO excluding from entry into the United States not only respondent SG's infringing pulse width modulation (PWM) chips, but also any downstream products containing the infringing chips, including LCD computer monitors, AC printer

168. Id. at 1356.
169. Id.
170. Id.
171. Id. at 1356-57.
172. Id. at 1357.
173. Id.
adapters, and circuit boards. The Commission granted SG’s request and narrowed its LEO. On October 28, 2008, Epistar Corp. filed a similar petition seeking modification or rescission of a LEO covering circuit boards containing infringing LEDs manufactured by non-respondents. Interestingly, the complainant, Philips Lumileds Lighting Co., submitted a cross-petition arguing that the LEO should be converted to a GEO.

Incoming complaints show the effects of Kyocera. For example, on November 17, 2008, Spansion filed a complaint alleging the unlawful importation of certain Samsung flash memory chips and downstream products containing these chips. Despite naming ten downstream manufacturers in addition to Samsung and its affiliates, Spansion specifically requested a GEO and alleged a pattern of unauthorized use, difficulty in identifying all sources, and ease in circumvention of a limited order. At least two other complainants have also specifically requested a GEO to reach downstream products. Thus, the trend is for ITC complainants to seek virtually the same scope of relief that would have been sought pre-Kyocera by requesting a LEO.

The heightened evidentiary standards for a GEO will, however, leave many patentees without an effective remedy against downstream products. As described above, obtaining a GEO requires a patentee to show what the Federal Circuit has called “exceptional circumstances,” a pattern of violation by sources difficult to identify.

175. Id. at 1-2.
176. Id. at 3-4.
181. Id. at 5-18.
182. Id. at 36-39.
or the ease of circumventing a LEO.\textsuperscript{184} Broadcom would appear to fail this standard. First, the record indicates that Broadcom knew the identity of the downstream manufacturers,\textsuperscript{185} but because some were its customers or potential customers, good business sense dictated not naming them in the investigation. Second, the Commission’s conclusion that the eighth \textit{EPROM} factor—the opportunity for circumvention of a LEO without inclusion of downstream products—was inapplicable when all infringing chips were imported in downstream products could also hold for GEOs.

But the remaining remedy, a LEO naming all downstream manufacturers as respondents, poses more than a few difficulties. First, it increases both the need and the extent of pre-filing discovery so as to ensure inclusion of all downstream manufacturers since the fast-paced ITC proceedings leave little time to amend a complaint post-filing. Such an investigation can be difficult even when the infringing devices remain unaltered within the downstream product. Second, it can lead to a long list of respondents, increasing the complexity and expense of the litigation. And finally, it can also leave a patentee without representation if conflicts among law firms cannot be resolved.

Leaving this morass as the only option for patentees who face importation of infringing articles within downstream products runs counter to the policy behind the ITC’s in rem jurisdiction over imports. Over the past ten years and out of 227 completed investigations, the Commission has issued only 19 GEOs compared to 43 LEOs.\textsuperscript{186} This is consistent with the ITC’s recognition that a GEO represents a significant restraint on international trade.\textsuperscript{187} Because \textit{Kyocera} limits the ITC’s ability to exclude infringing products upon a finding of infringement, just as \textit{eBay} severely limited a district court’s ability to issue a permanent injunction, patentees likely have lost a good deal of leverage in licensing negotiations.

For those patentees who can satisfy the heightened evidentiary requirements for a GEO, or are able to jump the considerable hurdles and name as respondents all the manufacturers, distributors, and

\textsuperscript{184} Kyocera Wireless Corp. v. Int’l Trade Comm’n, 545 F.3d 1340, 1356 (Fed. Cir. 2008).

\textsuperscript{185} \textit{Id.} at 1357.

\textsuperscript{186} USITC Year in Trade 1997-2007, Tables A-10.

sellers of not only an infringing device but also its downstream products, once the Commission finds a Section 337 violation, injunctive relief is nearly automatic. In contrast, for those patentees like Broadcom that know the identity of the downstream manufacturers, but do not wish to tarnish relations by naming their own customers or potential customers as respondents, the ITC no longer offers as inviting of a forum as it did prior to *Kyocera*.

IV. REMEDIES RESTRUCTURED

A. *No Injunction Equals a Compulsory License*

Neither the Supreme Court in *eBay* nor the Federal Circuit in *Kyocera* specifically addressed what the appropriate prospective remedy should be when a patentee proves infringement but is nonetheless denied a permanent injunction. Yet both decisions have created the specter that the U.S. patent system is essentially adopting a compulsory licensing approach. Because *Kyocera* raises the obstacles for certain patentees to file in the ITC, such patentees will likely look to bring an action only in district court and thus be subject to *eBay*’s restrictions on injunctions. When the patentee cannot meet the *eBay* factors despite establishing infringement, district courts cannot award prospective relief outside of a running royalty rate on future infringement.\(^8\)

The result is a compulsory license that allows a non-patentee to practice a patent without the patentee’s authorization. Congress has, however, repeatedly refused to adopt a compulsory license scheme for patents.\(^9\)

Member nations of the World Trade Organization have agreed that if they implement laws concerning compulsory licenses, such laws will be consistent with Article 31 of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. Article 31 provides that if a member nation’s laws allow for the use of a patent without the authorization of the patent holder, including use by the government or third parties authorized by the government, the provisions governing such a compulsory license should include that:

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(i) prior to the grant of a compulsory license, the proposed user made efforts to obtain authorization from the patent holder on "reasonable commercial terms and conditions" and that such efforts were not successful within a "reasonable period of time"; (ii) if a national emergency arises, the requirement to make an effort to license the patent prior to obtaining a compulsory license may be waived; (iii) any compulsory license is not exclusive; (iv) a compulsory license is not assignable; (v) authorization of use will be limited to predominantly supplying the domestic market; and (vi) a patent holder will be paid "adequate remuneration." \(^{190}\)

Despite Congress's refusal to enact legislation on compulsory licenses, the courts seem to have already allowed them. For instance, in *Innogenetics N.V. v. Abbott Laboratories*, the Federal Circuit remanded the issue of determining the proper prospective running royalty where a request for an injunction was denied, bluntly characterizing the running royalty as "a compulsory license." \(^{191}\) As another example in *Paice*, the Federal Circuit approved the use of prospective royalties, attempting to frame them as ongoing rather than compulsory licenses. \(^{192}\) The Court has, however, noted that in most cases the courts should allow the parties to attempt to negotiate a license themselves. \(^{193}\) And when not possible, the court should take additional evidence in determining such a rate given the change in the parties' bargaining positions and the different economic factors involved once the uncertainty of liability and patent validity are

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\(^{191}\) Innogenetics, N.V. v. Abbott Labs., 512 F.3d 1363, 1381 (Fed. Cir. 2008).

\(^{192}\) See *Paice*, 504 F.3d at 1315.

\(^{193}\) See id. at n.15. In *Paice*, the Federal Circuit attempted to frame this prospective relief as an ongoing royalty as opposed to a compulsory license, defining the later as one in which all who meet a certain criteria must be given a license. 504 F.3d at 1313 n.13. Judge Rader's concurrence, however, seems to best the argument in making the distinction between a rate reached by the parties through negotiations—an ongoing royalty—versus one imposed by the court without permission—a compulsory license. Judge Rader would have mandated a remand to the parties who he believes are better suited to arrive at a fair and efficient rate, and he would have resorted to judicial intervention only should such negotiations fail. 504 F.3d at 1316-17 (Radar, J., concurring). Allowing the parties to negotiate leaves open the possibility of other resolution. For example, MercExchange and eBay settled their battle with eBay buying the patents, a remedy which the court would not have ordered. Michael C. Brandt, *Compulsory Licenses in the Aftermath of eBay Inc. v. MercExchange, L.L.C.: The Courts' Authority to Impose Prospective Compensatory Relief for Patent Infringement*, 17 FED. CIR. B.J. 699, 712 (2008).
determined.\textsuperscript{194} While this could become the standard practice going forward,\textsuperscript{195} the Federal Circuit has not given any guidance in the particular economic factors that a court should consider post-judgment or how the uncertainty of the patented technology’s value in the future should affect the hypothetical negotiations for setting royalty rates.\textsuperscript{196} An alternative approach that has emerged, however, is having the jury assess a future royalty during trial.\textsuperscript{197}

Deprived of the leverage of an injunction, certain patents have been devalued based solely on the identity of their owner. This value cannot be compensated by considerations of the changed bargaining position and altered economic factors in establishing a royalty rate post-judgment. While many have expressed their concern about patent thickets and hold-ups making downstream development more expensive and allowing some patentees to claim inflated values for their patents,\textsuperscript{198} one may question whether grouping patentees into practicing versus non-practicing entities or direct versus indirect competitors attacks this problem. Also, the concern with bad patents issuing from an overburdened USPTO has more to do with the value of those individual patents than it does with the entity that claims ownership to them.

\textbf{B. Lost Remedy Equals Lost Value}

Patents have long been equated with the right to exclude. The U.S. Constitution authorizes Congress “[t]o promote the [p]rogress of [s]cience and useful [a]rts, by securing for limited [t]imes to [a]uthors and [i]nventors the exclusive [r]ight to their respective [w]ritings and [d]iscoveries.”\textsuperscript{199} The Patent Act gives patents the attributes of

\begin{enumerate}[\textsuperscript{194}]
  \item See Amado v. Microsoft Corp., 517 F.3d 1353, 1362 (Fed. Cir. 2008); Paice, 504 F.3d at 1315.
  \item See generally Christian Tregillis, \textit{Awards for Future Damages in Patent Infringement Cases after eBay v. MercExchange}, 24 INTELL. PROP. L. NEWSL., Summer 2006, at 4. At least one court has concluded that the date of the hypothetical negotiations is the date of the verdict rather than the date of first infringement. Boston Scientific, 2008 WL 5054955, at *1.
  \item U.S. CONST. art. I, § 8, cl. 8 (emphasis added).
\end{enumerate}
personal property, including "the right to exclude others from making, using, offering for sale, or selling the invention." In exchange, the patentee must meet the statutory disclosure requirements, but there is no requirement that a patentee actually practice the invention, as long recognized by the Supreme Court.

The Federal Circuit focused on the right to exclude in formulating its pre-eBay general rule favoring injunctions. The court concluded that "it is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from use of his property." The Federal Circuit also recognized that this right gives value to a patent. The court viewed this not as a drain on society, however, but as part of the value given to patentees in exchange for disclosing their invention and necessary to spur innovation generally. Specifically, the court stated that without the power of an injunction,

the express purpose of the Constitution and Congress, to promote the progress of the useful arts, would be seriously undermined . . . [and] the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.

The court is not alone in expressing this view. Renowned jurist Joseph Story also noted that without injunctive relief to secure rights to patents, the inventor could be ruined by the need for constant litigation.

201. Id. at § 154(a)(1).
202. Id. at § 112.
205. Id.
207. Id.
208. 2 JOSEPH STORY, COMMENTARIES ON EQUITY JURISPRUDENCE AS ADMINISTERED IN ENGLAND AND AMERICA 236 (Melville M. Bigelow ed., 13th ed. 1886) ("It is quite plain that if no other remedy could be given in cases of patents and copyrights than an action at law for damages, the inventor or author might be ruined by the necessity of perpetual litigation, without ever being able to have a final establishment of his rights."). Other authors have since commented on the affect constant litigation would have on an inventor. See, e.g., Paul M. Mersino, Patents, Trolls, and Personal Property: Will eBay Auction Away a Patent Holder's Right to Exclude?, 6 AVE MARIA L. REV. 307, 310 (2007); Benjamin H. Diessel, Trolling for Trolls: The Pitfalls of the Emerging Market Competition Requirement for Permanent Injunctions in Patent Cases Post-eBay, 106 MICH. L. REV. 305, 334 (2007).
The new uncertainty introduced into every patentee’s right to exclude by eBay and the practical impact on choice of forum resulting from Kyocera can be expected to have exactly the opposite effect on innovation. Replacing an injunction with the equitable remedy of an ongoing license\(^{209}\) diminishes patent values for practicing and non-practicing patentees alike by reducing pre-litigation and pre-judgment settlement values, reducing the value of exclusive licenses, and increasing litigation costs.

While NPEs clearly rest on the bottom rung of the patentee ladder, right next to them sit small inventors and start-up businesses. While the “troll” hunt of recent years has condemned NPEs as a leech on market participants,\(^{210}\) others have argued persuasively that such entities provide a market for inventions without which many inventors and small businesses would be left with few resources to enforce their patent rights (especially against large companies) and thus unable to realize the future value of their inventions.\(^{211}\) Moreover, NPEs often have been, or are attempting to become, market players. Small businesses contribute much to innovation and have more patents per employee than large companies, but without the threat of an injunction, large companies have very little incentive to bargain since the worst they face for just stealing the invention is writing a check.\(^{212}\) One small inventor sees the eBay decision as a potential death-knell to his kind. Pre-eBay, this inventor came head-to-head with behemoth Microsoft only to have his once successful software company reduced to NPE status.\(^{213}\) But with the threat of an injunction, he managed to get Microsoft to settle for a $60 million license.\(^{214}\) Under the post-eBay regime such settlement prospects look

\(^{209}\) In response to arguments that the Patent Act does not authorize future damage awards, the courts have interpreted the ongoing royalty as an equitable remedy. See Boston Scientific Corp. v. Johnson & Johnson, No. C 02-0790 SI, 2008 WL 5054955, at *4 (N.D. Cal. Nov. 25, 2008) (citing Paice L.L.C. v. Toyota Motor Corp., 504 F.3d 1293, 1314 (Fed. Cir. 2007)).


\(^{211}\) Cf. McDonough, supra note 210, at 210.

\(^{212}\) See Seidenberg, supra note 46, at 52-53, 55.

\(^{213}\) Id. at 52-53.

\(^{214}\) Id. at 52.
grim. In contrast, the value of an identical patent in the hands of a large, established market player like Microsoft remains largely intact.

Yet such companies may find that their patent portfolios are not entirely immune. Many companies license patents in areas in which they do not actively compete, including giants such as IBM, Honeywell, and Lucent.215 Also, the way the court defines the relevant market can also leave practicing entities without injunctive relief.216 Thus even market participants may find a decrease in the value of their license revenues.

The risk that an exclusive license could be made non-exclusive in the absence of injunctive relief also diminishes the licensing revenues for patentees. In *Voda v. Cordis Corp.*, the failure to join the patentee's exclusive licensee as a party to the suit resulted in the loss of that exclusivity when the patentee did not himself practice the invention.217 The value of such exclusive relationships now depends on the identity of the patentee and a licensee's willingness to aid in the defense of the patent.

Finally, the loss of injunctive relief post-*eBay* and post-*Kyocera* reduces incentives to settle either pre-litigation or pre-verdict, increasing the number and duration of cases. The alleged infringer has less incentive to settle against an NPE or non-competitor since the worst outcome is being forced pay what was already owed. And the larger the company, the more it can afford even willful infringement damages, though the risk of such a finding has been reduced under the Federal Circuit's new "objective recklessness" standard for willfulness.218 Patentees also have less incentive to settle given that settlement talks can demonstrate a willingness to take a license, a factor that has weighed against patentees seeking an injunction.219

This has prompted some to propose ways to raise the value of patents whose owners fail the test for injunctive relief. These include

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215. *Id.* at 53.


218. *In re Seagate Tech.*, L.L.C., 497 F.3d 1360, 1371 (Fed. Cir. 2007).

increasing the royalty rate when the court denies an injunction\(^2\) by, for example, treating ongoing infringement as willful and thus subject to treble damages.\(^2\) While affording a patentee some increased value, nothing comes close to the power to exclude through injunctive relief.

V. CONCLUSION

The decrease in the ability for patentees to obtain injunctions in both predominant forums for patent litigation, district courts, and the ITC will likely result in patentees losing leverage in licensing and settlement negotiations. As a result, this will likely have an impact on damage awards because damage calculations are often based upon what royalty rates patentees in the industry are able to obtain.\(^2\) Thus, there is a real danger that eBay and Kyocera will have the long-term effect of devaluing patents; the same result as if Congress had introduced a compulsory license provision into the Patent Act.


