

A Model for Predicting Permanent Injunctions After *eBay v. MercExchange*

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Sometimes, aware that Congress is unhappy with judicial precedent, courts will shake things up and adjust their practices to prevent legislative intervention. In 2006, the Supreme Court did just that. In the face of proposed legislation to similar effect,¹ the Supreme Court decided the landmark case *eBay, Inc. v. MercExchange, L.L.C.*,² eliminating the Federal Circuit's then-existing rebuttable presumption that a permanent injunction should automatically issue against future infringement when a patent holder successfully proved an infringement claim.³ Since then, district courts have grappled with the traditional equitable standard to determine whether an injunction should issue, such that a plaintiff must demonstrate: (1) irreparable injury; (2) inadequate remedies available at law; (3) the balance of hardships weighs in its favor; and (4) a permanent injunction would not disserve the public interest.⁴

In the immediate aftermath of the *eBay* decision, it was widely predicted that the ruling would prevent non-practicing patent holders from obtaining injunctions, but that practicing patentees would still be able to enjoin their competitors from further infringement. However, our research indicates that this factor alone has an imperfect predictive value. We investigated virtually every permanent injunction decision after *eBay* through the end of 2010 in many of the jurisdictions with the busiest patent dockets,⁵ and built a model that provides potential litigants a tool to determine whether, assuming infringement is proven and the patent not found invalid, a court will issue a permanent injunction.

Before *eBay*, the Federal Circuit's presumption of irreparable harm led to the rise of businesses focused solely on acquiring patents, often from bankrupt companies who had no intention of ever practicing the patents, and then using the patents as leverage to get royalties from large corporate infringers. Injunctions issued essentially automatically after a finding of validity and infringement, so that non-practicing entities ("NPEs") were able to use the threat of an injunction to gain favorable licensing agreements or settlements with defendants.⁶ In some cases, this essentially forced defendants to choose between paying an exorbitant settlement amount and taking their products off the market entirely, even if the patented technology was only a minor detail of the infringing product. It was not long before these NPEs commonly and more derogatorily became known as "patent trolls."

Since the Supreme Court's *eBay* decision, the landscape for patentees appears to have changed in the way that the Supreme Court intended. Of the cases we analyzed, injunctions were granted in 60% and denied in 40%. Although injunctions are still granted more often than not, the percentage of cases in which an injunction is entered is in stark contrast to pre-*eBay* statistics: in the year prior to *eBay*, 100% of courts to consider the issue

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granted an injunction.⁷ Our results are consistent with those of others who have surveyed outcomes across all judicial districts after *eBay*.⁸

The early predictions have turned out to be mostly true, albeit incomplete. Whether a patentee both practices the patent and competes with the infringer predicts whether an injunction issued in 86% of cases. Entities not practicing the specific patent at issue have been almost entirely unsuccessful in obtaining injunctive relief against infringers. We located only two decisions since *eBay* entering an injunction in favor of a NPE.⁹ However, we found several instances of practicing entities actively competing in the market where injunctions were nevertheless denied.

To account for these results, we developed a refined model depicted in the chart below, which we believe predicts the outcome in every case we encountered. Note, the model must be followed as a decision tree (that is, in the exact order presented)—using it out of order provides inaccurate results. Moreover, the model does not seek to address every relevant fact the courts consider. It is designed solely as a predictive tool and should not be used as a template for pleading. Although our model may not perfectly predict every future case, its utility to potential litigants in assessing the potential for injunctive relief (and the bargaining chip that brings) should not be understated.

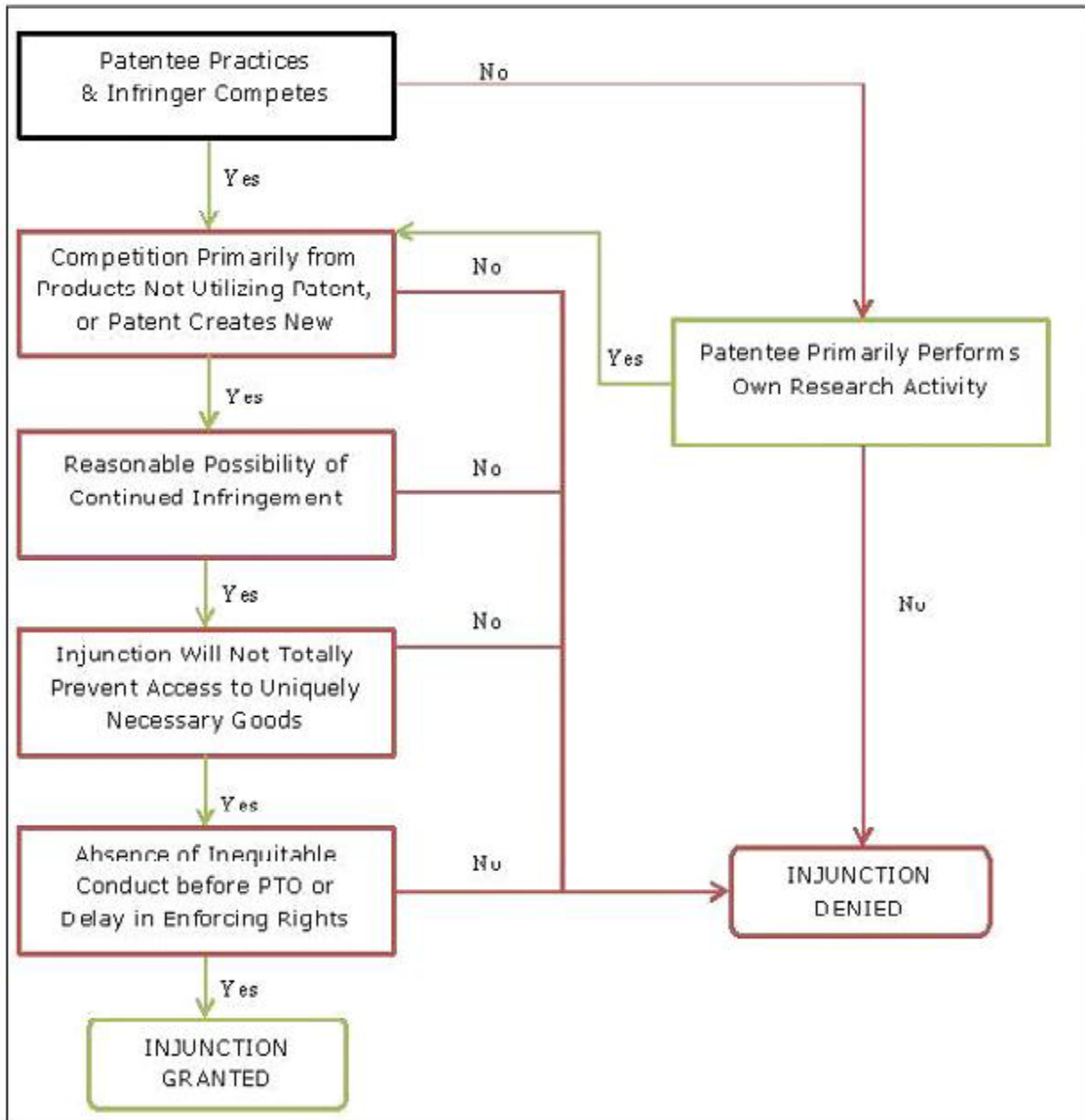


Figure 1. Model for Predicting Issuance of Permanent Injunctions (Assumes Validity & Infringement)

The model begins by inquiring whether the patent holder practices the *specific* patent at issue *and* the infringer competes with the patent holder in the market in which the patent is used. Both factors are necessary to pass this stage of the inquiry, and it is critical that the specific patent at issue is practiced and is the subject of competition, not just that the parties generally compete with each other.¹⁰ In several decisions, failure to provide a summary of the relevant market and of actual lost sales or opportunities to the infringer supported by evidence proved fatal to the argument that the parties were competitors, even where it appeared logically obvious.¹¹ If the infringer is the only competitor, it is immensely helpful to the injunction-seeking patent holder, because in such a situation all of the competitor's sales and market share are sales and market share the patent holder has lost that may be attributed directly to the infringement.¹² Also pertinent, though not necessarily determinative, is whether the channels through which the patent holder and infringer market and sell their products overlap.¹³

If the patentee does not practice the specific patent at issue *or* the infringer is not a competitor, then the next inquiry is whether the patent holder is primarily a research organization.¹⁴ If so, then the model advances as if the patent holder were a practicing entity. If not, then an injunction will be denied.

If the patentee is a practicing entity or a primarily research-focused NPE, then we consider whether the primary competition is from products not utilizing the patents or whether the patent creates a new market. In essence, this criterion determines whether the primary revenue from the patent is likely to be from licensing, and, if so, whether a sufficient history will allow for proper market valuation of a license. Where a new market is created by a patent, the court will be unable to properly determine a reasonable royalty, so an injunction is warranted even if the practicing patentee expects most of its revenues to derive from licenses.¹⁵ On the other hand, where an active license market for the patent exists, and the patentee has already shown a willingness to license its patents to firms that will use the technology in competing goods outside of the context of a joint venture, then the court will deny an injunction and instead either set an ongoing royalty or leave the parties to negotiate one (with the implicit or explicit understanding that failure to negotiate a license will lead to future infringement suits).¹⁶

The model next considers whether the infringer has the apparent capability to continue infringing. If there is no reasonable prospect of continued infringement, then the court will deny an injunction.¹⁷ In essence, a court finding no reasonable prospect of continued infringement is faced with a patent holder who cannot show that an injunction will prevent an irreparable injury, and thus the balance of the hardships and public interest factors will also likely be neutral. Note, however, that the infringer's mere assurances that it no longer infringes are not helpful to this inquiry; in fact, such assurances may lead a court to find that an injunction should issue because the infringer's intent and ability to refrain from further infringement indicates the injunctions will not work a hardship on the infringer.¹⁸

If the possibility of continued infringement exists, then the model inquires whether an injunction would completely disrupt the availability of goods that are either ubiquitous or are especially important to the public but for which there is no ready alternative. For example, infringing medical devices would fall into this category where they were widely used and the patentee is not capable of producing an adequate supply.¹⁹ So, too, do widely-used consumer goods: completely disrupting access to such widely used goods as Microsoft Office would counsel against an injunction where the infringing portion cannot be easily disabled, but if the infringing portion of the product can be readily disabled without totally disrupting consumer use then an injunction is proper.²⁰ Alternatively, an injunction may be granted but will take effect only after some period sufficient to allow the infringer to develop an alternative non-infringing product or until the specific public need is satisfied.²¹

Finally, the model considers whether the patentee's conduct, in litigation or in front of the PTO, militates against an injunction. If the patentee engaged in inequitable conduct in front of the PTO, or was particularly neglectful in attempting to enforce its rights, for example, by unjustifiably *both* delaying bringing suit for several years *and* failing to seek preliminary injunctive relief, then the court will deny an injunction.²²

One factor that appears to be a bit of a wild card is where the remaining life of the patent is particularly short (e.g., one year or less). Courts have pointed to the fact that the injunction would be short-lived both to hold in favor of, and against, injunctive relief. In favor, courts have cited the relative lack of hardship to the infringer.²³ Against, courts have cited the relative lack of value to the patent holder. It appears that a short remaining patent life more frequently cuts against injunctive relief. Some courts have noted the short remaining life of a patent as a determinative factor, and the model does not directly address the concerns raised by the courts as respects this issue. Nevertheless, we believe the model predicts the outcomes in these cases, because where an injunction is denied there has been a failure in one of the previously discussed factors.²⁴

Our model does not describe every relevant fact, nor does it attempt to. However, the factors that the model discusses generally emerge as a pattern because of other relevant facts that courts consider. In a sense, the proposed model tracks the *eBay* factors. The first two inquiries relate primarily to the sufficiency of money damages and the likelihood of irreparable harm. The third relates primarily to the balance of hardships, and the fourth to the public interest. The final inquiry relates to other equitable factors the court may consider. Therefore, it appears that district courts have heeded the words of the Supreme Court and have addressed the equities in deciding whether to grant patent holders' requests for injunctive relief. For litigators, trying to use the *eBay* factors to predict a court's determination would require a detailed analysis of the equities, the complete facts of which may not be available at the outset. Although our model should not supplant such an analysis, the model describes a step-by-step method that litigators can use to predict the outcome in individual cases with more certainty, especially before or at the outset of litigation when the complete factual picture is still uncertain.

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¹ See Patent Reform Act of 2005, H.R. 2795, 109th Cong. (2005) (directing district courts considering injunctions to "consider the fairness of the remedy in light of all the facts and the relevant interests of the parties associated with the invention").

² 547 U.S. 388 (2006)

³ See, e.g., *W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed.Cir.1988) ("an injunction should issue once infringement has been established unless there is a sufficient reason for denying it").

⁴ *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006).

⁵ We reviewed the decisions from the district courts of California, Delaware, New York, Texas, Virginia, New Jersey, and Illinois. We excluded uncontested decisions, such as where an injunction was issued according to stipulation or settlement, or where a judgment or injunction was entered or issued by default. We also excluded those decisions for

which we were unable to determine the judicial reasoning behind the injunction decision even after reviewing the relevant publicly available pleadings and transcripts, and those decisions where the injunction sought or issued did not extend to the prohibition against future infringement.

⁶ See generally, David V. Radack, *Patent Trolls: Pay Up or Fight?*, LAW. J. (Allegheny Bar Assoc.), Aug. 4, 2006 at 3.

⁷ Nicholas G. Papastavros & Maia H. Harris, *Do Predictions Come True? KSR, eBay, and the Real Impact on Patent License Negotiations*, INTELL. PROP. TODAY, July 2008, at 8, available at http://www.nixonpeabody.com/publications_detail3.asp?ID=2440.

⁸ For example, The Docket Navigator reported that of all patent injunction decisions between January 2008 and the end of November 2009, injunctions or injunctions in part were entered in 72% of cases. Posting of The Docket Navigator to Patent Infringement Blog, Success Rates for Permanent Injunction after *eBay v. MercExchange*, <http://docketreport.blogspot.com/2009/11/success-rates-for-permanent-injunction.html> (Nov. 13, 2009, 15:53 CST). Because those results include injunctions entered on default, the higher percentage of granted injunctions reported is expected.

⁹ *Joyal Products v. Johnson Electric North America*, No. 04-CV-5172, 2009 BL 51090 (D.N.J. Feb. 26, 2009) (granting an injunction in favor of a company who had previously practiced the patent, but had since ceased operations and was looking to sell the patent); *Commonwealth Scientific & Industrial Research Organisation v. Buffalo Technology Inc.*, 492 F. Supp. 2d 600 (E.D. Tex. 2007) (granting an injunction in favor of research focused arm of a foreign government).

¹⁰ This particular result may stem from the rationale advanced by the district court in the original *eBay* decision: "the public does not benefit from a patentee who obtains a patent yet declines to allow the public to benefit from the inventions contained therein." *MercExchange, LLC v. eBay, Inc.*, 275 F. Supp. 2d 695, 714 (E.D. Va. 2003). It could be argued, however, that the public does benefit from an unexercised patent because a patent discloses technological advances to others in the field in exchange for a state-sanctioned temporary monopoly, where otherwise the technology might be kept secret and inhibit efficient research and development.

¹¹ See, e.g., *Robert Bosch, LLC v. Pylon Manufacturing Corp.*, No. 08-CV-00542, 2010 BL 260238 (D. Del. Nov. 03, 2010) ("In light of Bosch's failure to define a relevant market, the existence of additional competitors and the non-core nature of Bosch's wiper blade business in relation to its business as a whole, the court concludes that Bosch has failed to show that it would suffer irreparable harm absent a permanent injunction"); *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 443-44 (D. Del. 2007) ("[T] the court finds that . . . Praxair has not provided or described any specific sales or market data to assist the court, nor has it identified precisely what market share, revenues, and customers Praxair has lost to ATMI.").

¹² Compare *IGT v. Bally Gaming Int'l Inc.*, 675 F. Supp. 2d 487 (D. Del. 2009) (denying injunction where there were several competing market participants) with *Callaway Golf Co. v. Acushnet Co.*, 585 F. Supp. 2d 600 (D. Del. 2008) (granting injunction against infringing golf ball manufacturer although other manufacturers in the market sold similar competing products), *rev'd on other grounds, injuncton vacated* 576 F.3d 1331 (Fed. Cir. 2009).

¹³ Compare *Robert Bosch, LLC v. Pylon Manufacturing Corp.*, No. 08-CV-00542, 2010 BL 260238 (D. Del. Nov. 03, 2010) (denying injunction where patent holder and infringer sold to different segments of the same market) with *Mytee Products, Inc. v. Harris Research, Inc.*, No. 06-CV-01854, Order re: Permanent Injunction, (S.D. Cal. Jan. 20, 2010) (granting injunction though parties targeted different market segments and used different distribution channels).

¹⁴ *Buffalo Tech. Inc.*, 492 F. Supp. 2d 600 (E.D. Tex. 2007); *Hynix Semiconductor Inc. v. Rambus Inc.*, 609 F. Supp. 2d 951 (N.D. Cal. 2009).

¹⁵ See, e.g., *Transocean Offshore Deepwater Drilling Inc. v. GlobalSantaFe Corp.*, No. 03-CV-02910, 2006 BL 126736 (S.D. Tex. Dec. 27, 2006).

¹⁶ See, e.g., *Advanced Cardiovascular Sys., Inc. v. Medtronic, Inc.*, No. 95-CV-03577, 2008 BL 237963 (N.D. Cal. Oct. 21, 2008) (holding money damages adequate because the plaintiff had licensed the patent to two other competitors with market shares larger than either of the parties to the suit, showing that the patent holder was not primarily concerned with market share). Cf. *ReedHycalog UK, Ltd. v. Diamond Innovations Inc.*, No. 08-cv-00325, Memorandum Opinion and Order (E.D. Tex. Aug. 12, 2010) (issuing injunction despite patentee's demonstrated willingness to grant a royalty-free license to infringer on conditions that would protect patentee's ability to collect royalties from downstream licensees, where patentee had no licensees in the same market segment as infringer).

¹⁷ See *Nichia Corp. v. Seoul Semiconductor, Ltd.*, No. 06-CV-00162, Order (N.D. Cal. Feb. 7, 2008) (denying injunction where there had been only two infringing sales, those sales had occurred three years ago, one of those sales was to plaintiff; the technology was obsolete, and defendant had no remaining United States customers for the infringing product).

¹⁸ See, e.g., *Funai Electric Co. v. Daewoo Electronics Corp.*, 593 F. Supp. 2d 1088 (N.D. Cal. 2009); *i-Flow Corp. v. Apex Medical Technologies, Inc.*, No. 07-CV-01200, 2010 BL 3916 (S.D. Cal. Jan. 08, 2010).

¹⁹ Compare *Advanced Cardiovascular Systems, Inc. v. Medtronic Vascular, Inc.*, 579 F. Supp. 2d 554 (D. Del. 2008) (denying injunction because the public interest favors diversity in the coronary stent market where the patent term was near expiration) with *Sanofi-Synthelabo v. Apotex Inc.*, 492 F. Supp. 2d 353 (S.D.N.Y. 2007) (finding the public interest slightly favored the investments in drug research over the quicker availability of less expensive generic drugs, though not requiring recall of already shipped drugs) and *Retractable Technologies, Inc. v. Occupational & Medical Innovations, Ltd.*, No. 08-CV-00120, 2010 BL 185004 (E.D. Tex. Aug. 11, 2010) (granting injunction where infringer "failed to refute [patent holder's] contention that [patent holder] can fully meet customer demand").

²⁰ Compare *z4 Technologies Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006) (denying injunction that would interfere with access to arguably the most popular software in the world) with *TiVo Inc. v. EchoStar Communications Corp.*, 446 F. Supp. 2d 664 (E.D. Tex. 2006) (granting an injunction where infringing portions of DVRs could be readily disabled through a software update).

²¹ See, e.g., *Fresenius Med. Care Holdings, Inc. v. Baxter Int'l, Inc.*, No. 03-CV-01431, 2008 BL 75933 (N.D. Cal. Mar. 21, 2008) (granting injunction with nine month delayed effect where infringer could design a suitable non-infringing alternative within that time period) and *Retractable Technologies, Inc. v. Becton, Dickinson, & Co.*, No. 07-CV-00250, Order (E.D. Tex. May 19, 2010) (granting but simultaneously staying injunction for minimum of twelve months for infringing syringes used in vaccinations in face of H1N1 pandemic).

²² Compare *Dow Chemical Co. v. Nova Chemicals Corp.*, No. 05-cv-00737, Memorandum Order (D. Del. July 30, 2010) (denying injunction where patent holder delayed four years in bringing suit and did not seek preliminary injunction) with *Mytee Products, Inc. v. Harris Research, Inc.*, No. 06-cv-01854, Order (S.D. Cal. Jan. 20, 2010) (granting injunction despite failure to seek preliminary injunction).

²³ See, e.g., *Cummins-Allison Corp. v. SBM Co.*, No. 07-CV-00196, Reporter's Transcript of Hearing on Post-Trial Motions, Vol. II at 224, (E.D. Tex. Nov. 5, 2009). But see *Humanscale Corp. v. CompX Int'l Inc.*, No. 09-CV-00086, 2010 BL 94410 (E.D. Va. Apr. 29, 2010) ("the balance of the hardships tips in favor of [the infringer] because of the short life left on the [infringed patents]").

²⁴ See, e.g., *Dow Chemical Co. v. Nova Chemicals Corp.*, No. 05-CV-00737, Memorandum Order (D. Del. July 30, 2010) (denying injunction where patent holder unjustifiably delayed in enforcing its rights); *Humanscale Corp. v. CompX Int'l Inc.*, No. 09-CV-00086, 2010 BL 94410 (E.D. Va. Apr. 29, 2010) (denying injunctive relief for the remaining six weeks of the patent where there was insufficient evidence that the parties were competitors).