

**“Reminding Everybody to Stop Wandering Off the Path:
The Effect of *eBay v. MercExchange* on District Courts’ Decisions Whether to
Grant Injunctions in Patent Cases”**

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I. The Supreme Court’s Opinion in *eBay Inc. v. MercExchange*

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

eBay Inc. v. MercExchange, L.L.C., 126 S.Ct. 1837 (2006)

On May 27, 2003, two years after software company MercExchange had filed a patent infringement suit against online auction giant eBay for infringing MercExchange’s patent for a method of conducting on-line sales, the jury in the *eBay v. MercExchange* case pending before Judge Jerome Friedman in the Eastern District of Virginia returned a verdict finding the defendants liable for \$35 million for willfully infringing the plaintiff’s patents.

The usual flurry of postjudgment motions followed the verdict, and on August 6, 2003 Judge Friedman entered judgment on the verdict and awarded damages, but denied the permanent injunctive relief MercExchange sought.¹ A year and a half later, on March 16, 2005, the Court of Appeals for the Federal Circuit, reversed in part, finding that Judge Friedman had abused his discretion by denying a permanent injunction.² The Supreme Court granted *eBay*’s petition for writ of certiorari that November, and the stage was squarely set for the Supreme Court to decide the crucial issue in patent litigation of whether the traditional rule in patent cases that an injunction should ordinarily issue following a finding of infringement and validity would stand.

On May 15, 2006, the Supreme Court held that it would not. Writing for a unanimous court, Justice Thomas held that the traditional four-factor test applied by courts of equity when considering whether to award permanent injunctive relief to a prevailing plaintiff applies to disputes arising under the Patent Act. Therefore, the plaintiff must show that: (1) it has suffered an irreparable injury; (2) remedies available at law are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and the defendant, a remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction.³ Acknowledging that the Patent Act provides that as personal property, patents carry the right to exclude, the court cautioned

that “the creation of a right is distinct from the provision of remedies for violations of that right.”⁴ Accordingly, the court held, everybody got it wrong.

Judge Friedman erred by adopting “expansive principles suggesting that injunctive relief could not issue in a broad swath of cases,” including where the plaintiff was willing to license its patents and was not practicing them commercially. And the Federal Circuit erred in the opposite direction by following a general rule, unique to patent disputes, that a permanent injunction will issue once infringement and validity have been adjudged, and that the denial of an injunction is proper only in the “unusual” case, under “exceptional circumstances” and “ ‘in rare instances ‘ ‘ to protect the public interest.”⁵

Justice Thomas’ majority opinion engaged in no speculation as to what the results of the correct analysis would be in this case or any other, but the two concurrences in *eBay* were a veritable festival of dicta on the subject.

Chief Justice Roberts, writing for the unlikely trio of himself and Justices Scalia and Ginsburg observed in a one-paragraph concurrence that the result of the decision might not be much of a change at all. “From at least the early 19th century,” he wrote, “courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases.” Why does this matter? Because while there is no general rule in favor of injunctions, “there is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate.” Quoting Justice Holmes, he noted that when it comes to discerning and applying these standards, in this area as others, “a page of history is worth a volume of logic.”⁶ Whatever the merits of this statement, it apparently garnered only three votes - not enough to be included in the majority opinion.

On the other end of the spectrum was Justice Kennedy’s concurrence, which Justices Stevens, Souter and Breyer concurred in. Picking up where his new Chief’s concurrence left off, Kennedy agreed that history informs current practice, but adds the caveat that it does so “when the circumstances of a case bear substantial parallels to litigation the courts have confronted before” and suggests that current cases are different from historical cases in important ways. He wrote:

An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.⁷

Again, the viewpoint that legal damages “may well be sufficient” where the a patent owner uses the

patent primarily to seek license fees fell one vote short of inclusion in the Court's majority opinion, leaving it dicta. But it set the stage for the district courts that would interpret *eBay*.

II. District Court Decisions Applying *eBay*

In the eight months since the *eBay* opinion, approximately seven reported and two unreported district court decisions have applied it in substantive decisions deciding whether to grant injunctions, with one decision expected to issue shortly. Of those opinions, four have come from Texas federal district courts, with a fifth expected soon, all in the Eastern District of Texas.⁸

A. Texas federal district courts

1. *z4 Technologies v. Microsoft* - injunction denied

Perhaps not surprisingly, the first case to apply the new standards set forth in *eBay* came out of the Eastern District of Texas. In fact, in the twelve months leading up to the *eBay* decision being released, some six patent cases were tried to jury verdict, with five being Marshall Division cases tried by either Judge Ward or Judge Folsom, and one in Tyler by Judge Davis. As luck would have it, the first case applying *eBay* would be Judge Davis' Tyler case, *z4 Technologies v. Microsoft*.

U.S. District Judge Leonard Davis was appointed by President George W. Bush in 2002 to fill the vacancy created by Judge Paul Brown's taking senior status. The federal bench was actually not the first appointment Judge Davis had received from a George Bush - as Governor of Texas Mr. Bush had appointed Judge Davis as chief justice of the 12th Court of Appeals in Tyler, and in 1992 Judge Davis had been nominated by then-president George H.W. Bush to a new judgeship in the Eastern District. Judge Davis earned a mathematics degree from the University of Texas at Arlington and a master's degree in management from Texas Christian University before earning his law degree from Baylor University School of Law, where he graduated first in his class.

On joining the federal bench in 2002, Judge Davis immediately began using his fellow Baylor Law graduate Judge Ward's rules for patent cases, which were largely patterned on the Northern District of California's rules. His patent docket, drawn from Tyler, Sherman and Marshall, where he shared the dockets with other judges began to grow rapidly, and in 2005 Chief Judge Thad Heartfield appointed him to chair a committee on the Eastern District judges' use of standing orders. Under Judge Davis' leadership, that committee recommended the adoption of those patent rules on a district-wide basis.⁹

According to judicial caseload statistics, in 2005 Judge Davis had more new patent cases assigned to him than any other judge in the nation. As of this writing, he maintains a docket of approximately 80 patent cases, placing him second in the district to Judge Ward, who routinely handles approximately 130 patent cases. Judge Davis' output in terms of reported decisions in patent cases is immense, with some twenty reported opinions in patent cases, with approximately fourteen to date in 2006. They include numerous claims construction rulings as well as several opinions interpreting the provisions of the Eastern District's patent rules, which are often cited by practitioners. Paradoxically, however, *z4 Technologies* was only Judge Davis' second patent trial, and the second patent case tried in Tyler.

The Tyler Division of the Eastern District of Texas covers several counties lying east of the Dallas/Forth Worth metroplex. While most of the counties are rural, the division is anchored by Smith and Gregg counties, both of which are decidedly urban and conservative strongholds in deep East Texas. The conservative nature of the district is well-illustrated by two crucial local elections in 2004. In a special election held in January, the local state Senate seat moved from small Mount

Pleasant to Tyler, and the redistricted First Congressional District followed suit in November, with the seat changing parties and location from Marshall to Tyler.

The conservative backdrop of the community and its juries made it doubly surprising when shortly after midnight on April 19, 2006, the jury in *z4 Technologies, Inc. v. Microsoft Corp. & Autodesk, Inc.* returned a jury verdict for the plaintiff for \$133 million. The jury found that Microsoft infringed three claims on two patents and that its infringement was willful. It further found that Autodesk infringed two claims (the third claim and willfulness were not submitted as to Autodesk). It found that defendants had not shown by a preponderance of the evidence that the patent was invalid. Damages awarded were \$115 million against Microsoft and \$15 million against Autodesk.

z4 Technologies v. Microsoft was, and as of this writing remains the largest amount awarded by a jury in a patent case in the Eastern District.¹⁰ It exceeded the prior week's *TiVo v. Echostar* verdict of approximately \$73 million, and had *TiVo* not come in when it did, *z4* would have been five times the largest jury verdict ever rendered by an Eastern District jury.¹¹ In fact - even including *TiVo*, it was almost as large as all of the patent jury verdicts in the district since 1999 combined. The Court issued a press release the morning of the verdict providing some basic details regarding the verdict and the litigation.¹²

Less than two months after the jury's verdict, and almost exactly one month after the Supreme Court's opinion in *eBay*, Judge Davis issued his opinion denying *z4 Technologies*' request for a permanent injunction.¹³ It was the first reported decision applying *eBay*.

In *z4 Technologies*, the plaintiff sought a permanent injunction which enjoined Microsoft from making, using or selling software products that used product activation, specifically including the Windows XP products since 2001, and the Office products since 2000, and deactivated the servers that controlled product activation for the infringing products.

Judge Davis began his analysis of the four-factor test for injunctive relief by rejecting the plaintiff's contention that a finding of infringement and validity created a presumption of irreparable harm, noting that *eBay* did away with such a categorical rule. Next, he concluded that the plaintiff did not suffer irreparable harm because Microsoft's continued infringement did not inhibit the plaintiff's ability to market its patented technology to other entities Microsoft did not produce product activation software that it then individually sold, distributed, or licensed to others.

With respect to the adequacy of monetary damages, because the infringing technology was a small component of the whole product and was not related to the "core functionality" for which consumers purchase the product, Judge Davis held that monetary damages were adequate to remedy Microsoft's infringement. As for the balance of hardships, Judge Davis found that the potential hardship to Microsoft if the injunction were granted outweighed the hardships that the plaintiff would suffer if the injunction were denied. Specifically, Judge Davis referred to the hardship Microsoft would suffer if it were required to deactivate the servers and redesign the infringing products. Finally as a result of the massive use of Microsoft's products, Judge Davis found that an injunction with respect to these products would have a "host of repercussions to the public."

After weighing the four factors as *eBay* directed, Judge Davis held that they weighed against granting the plaintiff's motion for preliminary injunction.¹⁴

2. *Finisar v. DirecTV - injunction denied*

After the *z4 Technologies* opinion, decisions on the requested injunctions in the other

pending cases in the Eastern District began to trickle down. But the next, *Finisar v. DirecTV*, was actually tried two months after *eBay*, before Judge Ron Clark of Beaumont.

U.S. District Judge Ron Clark was a stablemate of Judge Davis' in the nomination process. Both he and Judge Davis were nominated on the same day, with Judge Clark's nomination being for a vacancy created when Judge Howell Cobb of Beaumont took senior status. Judge Clark's confirmation occurred on October 2, 2002, after which he stopped campaigning for reelection to the Texas House of Representatives, where he had served since 1997. Judge Clark was also a familiar face prior to his appointment - he wrote the *Texas Municipal Law and Procedure Manual* and chaired the Eastern District's CJRA advisory panel (now the Local Rules committee). After his appointment, Judge Clark moved from Sherman to Beaumont, where he currently handles part of the Beaumont and Lufkin dockets, plus some of the patent cases from the Marshall Division. Judge Clark received his bachelors and masters degrees from the University of Connecticut, and his law degree from the University of Texas.

On June 28, 2006, a Beaumont Division jury found direct, contributory and inducing infringement on all of the asserted claims of the patent in suit in the *Finisar v. DirecTV* litigation, that the infringement was willful, and that the defendants had not shown by clear and convincing evidence that the asserted claims of the patents were invalid, nor had they prevailed on their claims of laches. The jury awarded \$78,920,250.25 in damages. Notably, the Plaintiff had asked the jury for \$1.65 billion in damages, which was 3 percent of DirecTV's gross sales. DirecTV had claimed that appropriate damages, even if infringement had occurred, would be \$17 million.

Less than two weeks after the jury's verdict, Judge Clark held a hearing on the issue of enhanced damages. Based on the jury's finding of willful infringement, Judge Clark enhanced the \$78 million damages award by \$25 million, but denied the request for attorneys fees and the request for an injunction. Judge Clark told the parties at the hearing that his reading of *eBay* was that the Supreme Court was simply "reminding everybody to stop wandering off the path" when it came to injunctions in patent cases, and that he was to follow the same analysis as he would in any other case.

Judge Clark rejected Finisar's claim that their right to exclude others from using their patent "could be priceless," noting that Finisar had never made an effort to use the patent or to license it. Accordingly, irreparable harm was not shown. Nor were money damages insufficient to remedy the harm. Judge Clark held that the past damages awarded by the jury, plus future damages in the form of a compulsory license to the defendant of \$1.60 per set top box for the duration of the patent (which expires in 2012) would adequately compensate Finisar for the defendant's use of the patented technology. As for the balance of hardships, Judge Clark determined that the cost of an injunction against the defendant would be enormous, especially compared to Finisar's lack of hardship. After all, Judge Clark noted, it had received over \$100 million from a patent "which has been on a shelf for some ten years with no return at all." Finally, Judge Clark concluded that no public interest would be served by an injunction. The public policy of deterring infringement was adequately addressed by the monetary damages awarded, and the public has an interest in "technology being used and improved upon."

Judge Clark's analysis is contained not in the order itself, which is not reported, but in the lengthy transcript of the hearing, in which he analyzed the relevant factors and explained the rationale for his decision.

3. Split Decisions - *Paice v. Toyota* and *TiVo v. Echostar*

The next two opinions from the Eastern District interpreting *eBay* were by U.S. District Judge David Folsom . A native of Murfreesboro, Arkansas, Judge Folsom was appointed by President Bill Clinton in 1995 to the vacancy created when Judge Sam B. Hall, Jr. passed away the previous year. A graduate of the University of Arkansas both for his undergraduate and law degrees, Judge Folsom had been a private practitioner in Texarkana for 21 years prior to his nomination and assumed responsibility for the Marshall and Texarkana divisions.

Judge Folsom had two patent cases “in the can” so to speak, when *eBay* came out. The first, *Paice v. Toyota*, was tried to a jury in December, 2005. In that case, the plaintiff alleged that some of Toyota's vehicles infringed the plaintiff's patents for hybrid transmissions. On December 20, 2005, the jury found that the defendant did not literally infringe any of the eight claims of the three patents in suit, but that it did infringe two of the nine claims under the doctrine of equivalents, although the infringement was not willful. The jury also found that none of the patents were invalid by anticipation or obviousness, and damages were approximately \$4.2 million (the plaintiff had argued for about \$34 million).

Following trial, Paice sought a permanent injunction enjoining sales of the accused vehicles. On August 16, 2006, Judge Folsom, applying *eBay*, denied Paice's motion for permanent injunction¹⁵. Tracking Judge Davis' reasoning in *z4 Technologies*, Judge Folsom reiterated that post-*eBay*, irreparable harm will no longer be presumed after a finding of infringement and validity. He also rejected the plaintiff's claim that it could establish irreparable harm by showing that it could not license its technology effectively absent an injunction, finding it significant that Paice did not compete in the market with the accused vehicles. When determining whether the harm to the plaintiff could be remedied by money damages, Judge Folsom noted, echoing Judge Davis, that the infringing technology was a small component of the overall vehicle Toyota was selling. Finally, Judge Folsom determined that the balance of hardships and the public interest factors weighed against granting the injunction.

The very next day, Judge Folsom granted a permanent injunction in the *TiVo Inc. v. Echostar Communications Corp.* case.¹⁶ In *TiVo*, the plaintiff contended that Echostar's digital video recorders (DVRs) infringed its patent. After a jury verdict finding willful infringement and declining to find the patents invalid, TiVo sought a permanent injunction preventing EchoStar from selling its DVRs which the jury had found infringed TiVo's patent, and deactivating Echostar's existing DVRs.

Judge Folsom's analysis in *TiVo* followed closely his decision the day before in *Paice*, but reached the opposite result. He found that in *TiVo*, the plaintiff had shown that it would continue to suffer irreparable harm in the absence of an injunction and that there was no adequate remedy at law. A crucial consideration in Judge Folsom's analysis was his finding that absent an injunction TiVo would lose market share in a newly established market. The products' consumers were “sticky customers,” he noted, who tended to remain with the company that they bought the product from. Therefore, the effect of the infringement was “shaping the market to [Tivo's] disadvantage”, which resulted in long-term customer loss by TiVo. The balance of hardships also weighed in favor of an injunction because Tivo was a small and fairly new company, and the defendant competed directly with TiVo.

Judge Folsom also found it significant that the infringing products did not form the core of Echostar's business, which was satellite transmission, which would not be affected by the proposed injunction. Finally, Judge Folsom held that the public interest would not be disserved by a permanent injunction, noting that the public “has an interest in maintaining a strong patent system

[which] is served by enforcing an adequate remedy for patent infringement”. It was also noteworthy that the infringing products were for entertainment purposes only.

After balancing these interests, Judge Folsom held that the injunction should issue. The injunction was subsequently stayed by the Federal Circuit pending appeal.¹⁷

5. Request for Injunction Pending - *Visto Corporation v. Seven Networks Inc.*

On April 21, 2006, the jury in the *Visto v. SEVEN Networks* case being tried in Marshall¹⁸ in Judge Ward's court found that the three products at issue infringed each of the five claims asserted from the three patents in suit, and that such infringement was willful. The jury also found that the defendant had not shown by clear and convincing evidence that the patents were invalid. Plaintiff asked the jury in opening statements for \$8 million in lost profits & reasonable royalties - the jury awarded a little under half that amount - \$3,683,000. Notably for the injunction issue, the plaintiff had marketed a product implementing its patented technology in 1997.

On October 25, 2006 Judge Ward held a hearing on the postverdict issues, including whether an injunction should issue. No decision has yet been entered.

B. Non-Texas district court cases

There have also been several reported cases outside the Eastern District of Texas applying *eBay* in the context of determining whether a permanent injunction should issue following a finding on infringement and validity. (Stipulated injunctions or injunctions following a default are relegated to a lowly endnote.¹⁹ Similarly, worthy as discussions of *eBay* in the context of preliminary injunctions may be, they are not discussed here).

1. No Harm, No Injunction - *Voda v. Cordis Corp.*

In May 2006, a Western District of Oklahoma jury determined that Cordis had willfully infringed three patents owned by the plaintiff dealing with catheters used to perform angioplasty. It awarded the plaintiff a 7.5% royalty, worth an estimated \$10 million over the life of the patent. On motion for enhanced damages and for an injunction, the district court awarded some enhanced damages, but not to the limits of the permitted trebling. More importantly, on the injunction, the court found that the plaintiff did not show either irreparable injury or that monetary damages would be inadequate.²⁰ The court found significant that the patents were under an exclusive license to another company at the time, which declined to sue Cordis. Thus the plaintiff had shown no harm to himself, only alleged harm to a third party. This deficiency precluded the issuance of an injunction.

2. Injunction Granted to Competitor- *3M Innovative Properties Co. v. Avery Dennison Corp.*

On December 22, 2005, the jury in *3M Innovative Properties Co. v. Avery Dennison Corp.* pending in the District of Minnesota found that defendant Avery Dennison Corp.'s EZ Series Fleet Marketing Film infringed five claims of 3M's patent. On March 17, 2006, the district court granted 3M's motion for a permanent injunction, and enjoined Avery from marketing the product, and on April 25, 2006 modified the permanent injunction to cover distributors as well.

On May 18, 2006, three days after *eBay* was issued, Avery asked the district court to reconsider the issuance of the injunction. District Judge John R. Tunheim granted the motion to reconsider and on September 25, 2006 vacated the prior injunction order, but granted a new injunction under the standards set forth in *eBay*.²¹

Judge Tunheim disagreed with Avery's claim that a damage award to 3M would fully compensate it. "3M has spent nearly five years litigating to protect its interest in this patent and has consistently refused to execute a licensing agreement with Avery," he wrote. "Having lost at trial, Avery wants to force 3M to grant a license that 3M refused to grant before trial. The Court will not disturb 3M's determination that its business interests will not be served by the licensing of this product." Judge Tunheim found that 3M had suffered an irreparable injury, and that monetary damages were inadequate to compensate for that injury. The Court also found that the balance of hardships faced by 3M and Avery warranted issuance of a permanent injunction. Specifically, it found that 3M had been barred from exercising its "right to exclude" conveyed by the '930 patent for more than 20 percent of the limited lifetime of this patent.

Finally, the Court concluded that the public interest would not be disserved by a permanent injunction. Like Judge Folsom in the *TiVo* case, Judge Tunheim found that the subject matter did not implicate important public health or safety concerns, writing "[t]his is a case about commercial graphics used for advertising, so concerns about public health or safety that could warrant denial of injunctive relief are not present." Judge Tunheim also declined to stay issuance of the injunction pending appeal. The case was appealed to the Federal Circuit on October 23, 2006, and as of this writing, unlike *TiVo*, that court had not been asked to stay of the injunction pending appeal.

3. Injunction Granted to Competitor - *Rosco, Inc. v. Mirror Lite Co.*

This case was filed in 1996. Following an appeal to the Federal Circuit which reversed the trial court's findings that the patent was invalid, and a bench trial in 2000, in which Senior Judge Sifton found infringement, the Court on September 29, 2006 granted the plaintiff's motion for an injunction.²² Judge Sifton first rejected the argument that an injunction was not necessary because the infringer had stopped manufacturing the infringing products. Importantly, he found that because the parties were competitors, a mandatory license would not adequately compensate the patent holder. The Court further noted that an injunction would be very valuable to the patent holder, and there would be no harm to the public. Again, the court distinguished this case involving mirrors from other cases where an injunction might adversely affect the public, citing a case where an injunction "would have caused a great inconvenience to the public because compliance would necessarily slow down train schedules."²³ By contrast, in this case the public could simply purchase the needed curved bus mirrors from the prevailing patent holder.

4. Injunction Granted to Competitor - *Wald v. Mudhopper Oilfield Services, Inc.*

Judge Robin Cauthron of the Western District of Oklahoma held that the Plaintiffs in *Wald v. Mudhopper Oilfield Services, Inc.* suffered irreparable harm for which they had not been compensated by money damages.²⁴ Specifically, as a result of Defendants' infringement, Plaintiffs suffered injuries in addition to lost sales, including lost market share, the opportunity to maintain their own product as the industry standard; and damage to their "reputation for innovation".

The respective hardships to the parties, when balanced, and the public's interest also weighed in favor of a permanent injunction. The Court found that the defendants had not identified any specific hardship they might suffer as a result of an injunction, instead simply objecting to an injunction as unnecessary, since they had immediately stopped selling the accused product upon learning of the patent.

5 Injunction Granted to Competitor - *Smith & Nephew, Inc. v. Synthes (U.S.A.), et al.*

In an unpublished opinion in the *Smith & Nephew, Inc. v. Synthes (U.S.A.), et al.* litigation

pending in the Western District of Tennessee²⁵, Judge Samuel H. Mays, Jr., granted the plaintiff's request for a permanent injunction after finding infringement by two of the defendants' products used to treat orthopedic fractures. The Court held that the plaintiff proved irreparable harm by showing that the sales growth of its products were flattening, that there were significant sales of Synthes' accused products, and that there was competition between the two companies' products that hampered the plaintiff's ability to develop customer relationships and new products. As was the case in *TiVo* and *Wald*, the loss of market share and brand recognition was held to be significant. Another factor was the inherent uncertainty in proving lost sales damages where multiple suppliers exist. The Court also held that the balance of hardships favored an injunction because the only hardship the defendant alleged was its inability to continue infringing. Finally, Judge Mays held that the public interest in protecting patent rights weighed in favor of an injunction because there were other sources of similar products, and because there was no evidence of "undisputed and enormous public reliance on Synthes' [infringing] products." Accordingly the injunction was granted.

III. Analysis

What is the effect of *eBay* on district courts' decisions whether to grant injunctions? Put briefly, based on the nine substantive cases reported, the landscape for injunctions following a finding of infringement and the failure of a challenge to validity is drastically altered. In place of the former general rule that injunctions must issue is a new emerging consensus that plaintiffs that use their patents to manufacture products and compete with the infringing defendant are likely to obtain injunctive relief, and plaintiffs who simply seek to license their inventions are not. Justice Kennedy's concurrence alluded to the significance of who the plaintiff is - a competitor or a licensor - and district courts seem to be finding the same thing important when performing their analysis. Thus although a majority of the Supreme Court did not recognize such a distinction *per se*, district courts are certainly doing so in practice.

Of the nine substantive decisions discussed above, the plaintiff prevailed in one out of four in the Eastern District of Texas, but four out of five outside it. Why the geographic split? Because both of the concurrences in *eBay* were correct. Chief Justice Roberts was correct that "history informs current practice" in cases which, as Justice Kennedy wrote "bear substantial parallels to litigation the courts have confronted before." Essentially the litigation outside the Eastern District of Texas follows the more traditional model of litigation between competitors in an industry and accordingly, the non-Eastern District of Texas cases present a win rate of 80% for a prevailing plaintiff on the merits. On the other hand the litigation in the Eastern District apparently more often presents cases where, as Justice Kennedy observed, the plaintiff was not a competitor, but rather a company seeking licensing revenues in return for the use of its invention. Accordingly, in these cases the requests for injunctions were denied, and, the plaintiff's overall win rate is only 25%. This is perhaps an illustration that, as Justice Kennedy observed, trial courts are using their discretion to determine whether "past practice fits the circumstances of the case before them."²⁶

What the successful plaintiffs shared in all of the cases was that they manufactured products and were direct competitors of the defendants. All five competitors prevailed when seeking an injunction, but none of the three licensing plaintiffs did, nor did the patent owner who could not show harm. In addition, courts were more likely to grant injunctions where the products were only distantly related to public health and safety concerns, such as the DVRs in *TiVo*, or where there was available alternatives for products that did involve health and safety, such as the orthopedic products in *Smith & Nephew*.

Another effect of *eBay* seems to be that some district courts are finding persuasive the

statement in Justice Kennedy's concurrence to the effect that whether the infringing device is "one component of a larger product" matters when determining whether an injunction should issue. Both Judge Davis and Judge Folsom relied heavily on that fact in their decisions in *z4 Technologies* and *Paice* finding that an injunction should not issue.

What is the effect of this changed landscape on settlements? In most cases, the caselaw supports a fairly reliable determination as to whether an injunction will issue, as indicated above. Essentially, the powerful threat of an "automatic" injunction is gone, and case valuation can be expected to be far more tied to economic calculations of what a reasonable royalty would have generated.

In this context, accused infringers are far less likely to assign much value to the risk of a permanent injunction preventing them from producing allegedly infringing products, essentially taking away - in some cases - the risk of an extremely bad result, and thus the value associated with that option. This loss in value will apply in many cases, thus likely preventing some cases from being filed by companies seeking to license patents they are not currently practicing. Paradoxically, the same case might be worth far more if the patent is assigned to a company that practices the patent, and can meet the requirements for injunctive relief if it sues.

Even the cases that are filed will, in many cases, present less risk to the defendant, and the risk that is present can be calculated with some degree of certainty, based on the anticipated royalty rate and royalty base. Although enhanced damages are still available, even they are limited by statute, and attorneys fees are limited by caselaw. Thus without the risk of a apocalyptic downside, more defendants can be expected to litigate patent cases on the merits, and settlements can be expected to occur later, rather than sooner. Trials, when they occur, can be expect to result in more defense wins, as the risk of loss for the defendant in a case that is of marginal value to a plaintiff will be low enough to accept. Previously this was not necessarily the case. In addition, additional discovery will be taken, and proof adduced on the elements necessary for injunctive relief, thus raising case preparation expenses.

In general, if one is prepared to shamelessly generalize, as a result of *eBay* there will be fewer cases overall, but litigation costs will be higher in the cases that remain. There will be more trials, and possibly more defense wins at trial, and smaller settlements when settlements occur with plaintiffs who are licensing the patents, not practicing them.

MCS

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ENDNOTES

1. *MercExchange, L.L.C. v. eBay, Inc.*, 275 F.Supp.2d 695 (E.D.Va.2003)

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

3. *eBay Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837 (2006)

4. *Id.* at 1840.

5. *Id.* at 1840-41.

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

7. *Id.* at 1842-43 (Kennedy, J., concurring).

8. Although it is not germane to the issue presented in this paper, for the sake of completeness, the Supreme Court's decision in *eBay* generated three reported decisions requiring pending appeals or motions to be rebriefed under the standards set forth in *eBay*.

The Federal Circuit sent at least two cases which had held that "[o]nce infringement and validity have been established, irreparable harm is presumed" back to the district court for reconsideration following *eBay*. See *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1341 (Fed.Cir. 2006); *Int'l Rectifier Corp. v. IXYS Corp.*, 2006 WL 2036676 at *1 (Fed.Cir. 2006). And in *Keg Technologies, Inc. v. Laimer*, 436 F.Supp.2d 1364, 1371 (N.D.Ga. 2006) the district court declined to deny a request for a permanent injunction for failure to meet the standards set forth in *eBay*, instead directing the parties to confer and brief the missing issues.

9. The order resulted in the addition of a provision in Local Rule CV-83, which added the Patent Rules as Appendix M to the Eastern District Local Rules.

10. It is not the largest verdict, however - the *Intel v. Intergraph* case was \$150 million, but that was not set by a jury - the parties stipulated as to the amount of damages pretrial.

11. In fact, only two of the dozen or so verdicts that preceded it were even in the eight figures - 1999's *TI v. Hyundai* resulted in a Marshall jury verdict of \$25.7 million, and a Tyler jury awarded \$26 million in the *Halliburton* case. No jury verdict, before or since, has exceeded \$100 million.

12. The press release is no longer available online at the Court's website but is available at http://mcsmith.blogs.com/eastern_district_of_texas/files/microsoft_verdict_press_release.pdf

13. *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F.Supp.2d 437 (E.D.Tex. Jun 14, 2006)

14. On August 18, 2006, Judge Davis resolved the numerous postjudgment motions. He denied all motions for judgment as a matter of law and defendants' motion for a new trial, and held that both patents-in-suit are enforceable, therefore upholding all portions of the jury's verdict. He then granted z4's motions awarding it enhanced damages, attorneys' fees and expenses, and prejudgment interest. Specifically, he ordered Microsoft to pay \$1,978,000 in attorneys' fees and expenses to z4, as well as \$25,000,000 in enhanced damages and \$115,000,000 in actual damages. He also ordered Autodesk to pay \$322,000 in attorneys' fees and expenses to z4, as

well as \$18,000,000 in actual damages.

15. *Paice L.L.C. v. Toyota Motor Corporation*, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006).

16. *TiVo Inc. v. Echostar Communications Corp.*, 2006 WL 2398681 (E.D. Tex. Aug. 17, 2006).

17. *TiVo v. Echostar Cumminications Corp.*, 2006-1574 (order dated 10/3/06) (docketed in district court as Docket No. 812 in case no. 2:04cv0001).

18. *Visto Corporation v. Seven Networks Inc.*, Case Number: 2:03-cv-333 (E.D. Tex.)

19. The following are post *eBay* reported cases where the injunctions were either stipulated or otherwise not opposed:

In *Telequip Corp. v. The Change Exchange*, 2006 WL 2385425 (N.D.N.Y. 2006) Senior Judge Scullin of the Northern District of New York granted a motion for permanent injunction. In that case, the plaintiff took a default judgment against a Korean company, and filed its papers before *eBay* was decided. The judge noted that the "general rule" that a injunction should issue that the plaintiff relied on in its briefing had been repealed, but nonetheless found that under the new test, the injunction should issue anyway.

On July 20, 2006, a Minnesota jury in *Floe Intern., Inc. v. Newmans' Mfg. Inc.*, finding that the patent was not invalid, was willfully infringed, that \$21 per trailer was a reasonable royalty rate and awarded Floe \$643,881 in damages. See *Floe Intern., Inc. v. Newmans' Mfg. Inc.*, 2006 WL 2472112 (D.Minn. 2006). The parties subsequently stipulated to a permanent injunction, subject to a reasonable time for the defendant to sell its existing inventory of the accused product. *Id.*

20. *Voda v. Cordis Corp.*, 2006 WL 2570614, *5 (W.D.Okla. 2006)

21. *3M Innovative Properties Co. v. Avery Dennison Corp.*, 2006 WL 2735499 (D.Minn. 2006)

22. *Rosco, Inc. v. Mirror Lite Co.*, 2006 WL 2844400 (E.D.N.Y. 2006)

23. *Id.* at *5 (citing *Nerrney v. New York, N.Y. & H.R. Co.*, 83 F.2d 409, 411 (2d Cir.1936)

24. *Wald v. Mudhopper Oilfield Services, Inc.*, 2006 WL 2128851 (W.D. Okla. 2006)

25. *Smith & Nephew, Inc. v. Synthes (U.S.A.), et al.*, Case 2:02-cv-02873 (Document # 294, filed 09/28/2006)

26. *eBay*, 126 S.Ct. at 1842.