

**IP LITIGATION INJUNCTIONS:
LICENSING, OPEN SOURCE, DAMAGES &
OTHER KEY ISSUES AFTER *EBAY***

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WLF

Washington Legal Foundation
Critical Legal Issues WORKING PAPER Series

Number 162
March 2009

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**IP LITIGATION INJUNCTIONS:
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& OTHER KEY ISSUES IN THE POST-*EBAY* ERA**

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It will soon be three years since the U.S. Supreme Court rendered its decision in *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), in which the Court held that whether a permanent injunction should issue in a patent infringement case should be determined based on application of the four well-known equitable factors for granting injunctions in equity.¹ In so holding, the Supreme Court disapproved of the U.S. Court of Appeals for the Federal Circuit's "general rule" that was applied in patent cases for decades, providing that an injunction should ordinarily issue upon a finding of patent infringement, absent a compelling reason to the contrary. *Id.* at 393-94. The Supreme Court's decision purportedly made the rule in patent cases consistent with the approach taken in other intellectual property cases, although that assertion is subject to debate. *See id.* at 392 ("This approach is consistent with our treatment of injunctions under the Copyright Act."). Beyond disapproving of the Federal Circuit's "general rule" and approving the four-factor test, however, the decision provided only minimal guidance to lower courts, and, as a consequence, a

¹The author was one of the counsel for the patentee, MercExchange, LLC, in the *MercExchange v. eBay, Inc.* litigation. The views expressed herein are those of the author and are not necessarily the views of Goodwin Procter LLP or its clients.

number of questions have arisen pertaining to injunctions in intellectual property cases.

The Federal Circuit and other courts have since had numerous opportunities to apply the *eBay* decision in patent cases, and also to determine whether the decision might impact the approach in other intellectual property cases, such as those involving copyright or trademark infringement. As a result, some important issues have been addressed in the wake of *eBay*, while a few others remain unresolved. For example, it remains unclear whether a presumption of irreparable harm still exists upon a finding of likelihood of success on the merits (for a preliminary injunction) or upon a finding of infringement (for a permanent injunction). A sharp disagreement has emerged within the Federal Circuit as to the standard under which an allegation of patent invalidity may defeat a preliminary injunction motion. In addition, the application of the *eBay* decision to trademark and copyright cases remains uncertain. However, the courts have provided some useful guidance with respect to specific arguments about irreparable harm in the context of intellectual property disputes. Most notably, the Federal Circuit has held that the copyright holder and licensor of open source software that was allegedly infringed may be threatened by irreparable harm and might therefore be entitled to a preliminary injunction. Further, that court has also reaffirmed that the mere fact a patentee has licensed its patents to others does not of itself preclude the availability of injunctive relief.

I. BACKGROUND: THE SUPREME COURT'S DECISION IN *eBAY, INC. V. MERCEXCHANGE, L.L.C.*

The Supreme Court's 2006 *eBay* decision addressed the standard for granting permanent injunctive relief following a jury trial that resulted in a verdict of patent infringement. A jury found that eBay, the well-known Internet forum for conducting auctions and fixed-price sales of a plethora of goods, willfully infringed patents owned by MercExchange, L.L.C. At the conclusion of the trial, the district judge declined MercExchange's request to enter a permanent injunction. The district court also declined to enhance damages or award attorneys' fees in consequence of the willfulness finding.

In denying the injunction the district court emphasized, among other things, that MercExchange had previously licensed its patents to others and had publicly stated its willingness to enter into a settlement and license with eBay. *Id.* at 393. The district court ruled this demonstrated that MercExchange would not be irreparably harmed if injunctive relief was denied. Although the evidence was disputed, the district court also believed that MercExchange had not attempted to commercialize its patents, which further militated against injunctive relief. The district court also expressed concern that the patented invention was for a "business method," and that there was public concern over the validity of such patents.

On appeal to the Federal Circuit, the appellate court, *inter alia*, upheld the infringement finding with respect to one of MercExchange's patents.

MercExchange, LLC v. eBay, Inc., 401 F.3d 1323 (Fed. Cir. 2005). eBay had not separately challenged the willfulness aspect of the verdict. The Federal Circuit then reversed the district court's refusal to permanently enjoin the infringement. The appellate court stated the general rule that "an injunction will issue when infringement has been adjudged, absent a sound reason for denying it." See *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989). The Federal Circuit addressed *seriatim* the specific reasons the district court had articulated for denying the injunction, and found that none of them presented a sufficient reason for denying injunctive relief.

eBay petitioned the Supreme Court for a writ of certiorari. The Supreme Court granted the writ and, in a 9-0 decision authored by Justice Thomas, reversed the Federal Circuit and disapproved of its use of the "general rule." Instead, the Supreme Court held that injunctions in a patent case should be addressed using the four equitable factors traditionally used in other contexts. *eBay*, 547 U.S. at 391-94. Although the Court disapproved of both the appellate court's and the trial court's reasoning, the Court's opinion provided little guidance to lower courts as to how these factors should be applied. The Court commented briefly, however, that "some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying

them the opportunity to do so.” *Id.* at 393. Because the district court appeared to have adopted its own “categorical rule” denying injunctive relief in the presence of such facts, the Court ordered the case remanded for further proceedings. *Id.* at 393-94.

In a separate concurring opinion, Chief Justice Roberts admonished that, notwithstanding the Court’s reversal, it was not surprising that lower courts have historically granted injunctive relief in the vast majority of patent cases where infringement was found, “given the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee’s wishes.” *Id.* at 395 (Roberts, C.J., concurring) (emphasis in original). Accordingly, the Chief Justice stated that “[w]hen it comes to discerning and applying those standards ... ‘a page of history is worth a volume of logic.’” *Id.* In another concurring opinion, Justice Kennedy expressed concern over “business method” patents, and the rise of firms that use patents “not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees,” and which employ the threat of injunctions as a bargaining tool to charge exorbitant license fees. *Id.* at 396-97 (Kennedy, J., concurring).

II. INJUNCTIONS IN INTELLECTUAL PROPERTY CASES IN THE POST-*eBAY* WORLD

A. Injunctions to Enforce Open Source License Conditions

In the wake of *eBay*, the conventional wisdom was that the decision could only complicate the ability of patentees to obtain permanent injunctive relief, particularly when the litigating parties were not in competition with one another. In particular, the Court’s rejection of the Federal Circuit’s general rule, and Justice Kennedy’s concurring opinion, seemed to provide ammunition to patent infringers who wished to argue that a patentee will not face irreparable harm if an injunction is denied. The irreparable harm question is presented in a unique posture in the case of public or “open source” software licenses, however, because by definition the licensor is not seeking monetary compensation for the use of its software. Although there are numerous variations on such open source licenses, in general they are used by creators of copyrighted works to permit others to use, copy, modify, or distribute the works without payment, possibly subject to certain conditions, e.g., attribution, or non-commercial use.²

In a significant ruling last year, the Federal Circuit reversed a district court’s refusal to enter a preliminary injunction in a copyright case involving an “open source” license to computer code for controlling model trains. *Jacobsen*

²The question whether *eBay* should be applied outside the patent context is discussed *infra*.

v. Katzer, 535 F.3d 1373 (Fed. Cir. 2008). The case is particularly noteworthy because of the manner in which the Federal Circuit stated that irreparable harm might be found. The case drew some interesting contributions from *amici curiae*, particularly with respect to the open source community's support for injunctive relief. For example, in support of the copyright holder and licensor in *Jacobsen*, a group of *amici* that included Creative Commons Corporation voiced stalwart support for the need for injunctive relief:

[t]he right to exclude is about much more than the ability to exchange a copyrighted work for money; it includes the ability to prevent the work being used at all, or to place limits for a variety of purposes on permissions granted. In short, the right to exclude secures to the copyright owner the essential character of the property right that copyright law grants.

Copyright remedies are designed to support the right to exclude; money damages alone do not and cannot support or enforce that right. While injunctive relief may be available on a contract claim, see Farnsworth on Contracts § 12.5, it is significantly easier to obtain on a copyright claim, especially on a preliminary basis, because a copyright holder enjoys a presumption of irreparable harm upon showing a likelihood of success on the merits.

Copyright law does not discriminate in favor of some business models and against others. Those who choose to license their work under conditions designed to increase innovation should not be penalized with inadequate protection and diminished enforcement rights. Rather, they should retain the full array of remedies that other licensors retain.

Brief of *Amici Curiae* Creative Commons Corporation, *et al.*, 2007 WL 4968765,

** 13-16 (Dec. 28, 2007).

In *eBay*, however, Creative Commons' now-former CEO and Board Chairman Professor Lawrence Lessig had joined with other intellectual property law professors in urging the Supreme Court to disapprove of the Federal Circuit's general rule favoring the imposition of injunctions. The brief of the "intellectual property law professor" *amici* in that case took a different tone in discussing whether injunctive relief was necessary:

Patent owners who do not manufacture the patented or any other competing good, and who seek only to license their invention at a reasonable royalty, should be entitled to injunctive relief only if they would be irreparably injured by the infringement.

The patentee does not compete with eBay in the market. Its interest is in obtaining a royalty. MercExchange can likely obtain a larger royalty from eBay by settlement if it can threaten to shut down eBay altogether. But in doing so it will not be capturing value associated with its invention, but value that eBay has actually contributed to the world. We do not express an opinion on how the application of the traditional equitable factors would actually come out in this case, but it is clear that there are significant issues that should have been considered and which the Federal Circuit's mandatory injunction rule has short-circuited.

Brief of *Amici Curiae* of 35 Intellectual Property Professors in Support of Petition for Certiorari, 2005 WL 2381070, *6 (Sept. 26, 2005).³

The Federal Circuit had jurisdiction over the appeal in *Jacobsen* because the case also contained patent invalidity allegations, placing the case within the

³Of course, it could be argued that these statements may be reconciled in that an open source licensor is, by definition, not interested in monetary compensation, whereas a rights holder that aggressively licenses its rights in exchange for payment of a royalty is very much, if not only, interested in monetary compensation. Nonetheless, the briefs of these two sets of *amici* show a marked difference in the manner in which the legal right to exclude is portrayed.

court's exclusive appellate jurisdiction. *Jacobsen*, 535 F.3d at 1377. The decision was important both because of its potential impact on open source licenses, and also because of the manner in which the Federal Circuit held that irreparable harm to the licensor may be demonstrated when the rights holder had not sought monetary reward for the use of its creation.

The case involved an allegation that the defendant copied software for use in connection with model trains without complying with the terms of the open source license, such as inclusion of attribution and copyright notices, and a description of how the software had been changed from the original. *Id.* at 1376. The Federal Circuit first had to determine whether the alleged violation of the open source license provisions created a claim for breach of contract (in which case no injunction would likely be available), or for copyright infringement (in which case an injunction might be available under federal law). Applying the California law of contracts to construe the terms of the license, the Federal Circuit held that provisions restricting the use of the code constituted conditions, for which failure to comply resulted in copyright infringement. *Id.* at 1381.

On that basis, the appellate court reversed the district court and remanded for further proceedings, but in so doing it expounded at some length as to the potential harm open source licensors would face if the license conditions were not enforced through an injunction. In particular, the appellate court stated that “[t]he conditions set forth in the Artistic License are vital to

enable the copyright holder to retain the ability to benefit from the work of downstream users,” and that “[c]opyright holders who engage in open source licensing have the right to control the modification and distribution of copyrighted material.” *Id.* The Federal Circuit further stated:

Copyright licenses are designed to support the right to exclude; money damages alone do not support or enforce that right. The choice to exact consideration in the form of compliance with the open source requirements of disclosure and explanation of changes, rather than as a dollar-denominated fee, is entitled to no less recognition. Indeed, because a calculation of damages is inherently speculative, these types of license restrictions might well be rendered meaningless absent the ability to enforce through injunctive relief.

Id. at 1381-82.

Although this strong language might be read as voicing continued resistance to the *eBay* decision, it should be emphasized that *Jacobsen* was decided on a *preliminary* injunction motion. Accordingly, and particularly in light of the *eBay* Court’s admonition against “categorical” rules, the decision should not be read as a *per se* rule of injunctive relief in open source cases.⁴ On a permanent injunction motion, one would expect the infringer to develop facts and argue, among other things, that the balance of harms weighs against an injunction.

⁴Indeed, on remand, the district court recently denied a preliminary injunction for a second time, holding: (i) that the Supreme Court’s intervening decision in *Winter v. Natural Resources Defense Council*, ___ U.S. ___, 129 S. Ct. 365, 374 (2008), had eliminated the use of a presumption to find irreparable harm; (ii) that the Federal Circuit’s decision was not a holding that irreparable harm was actually present; and (iii) that the plaintiff had failed to put forward any evidence of actual harm or an immediate threat of imminent harm. *Jacobsen v. Katzer*, 2009 WL 29881, **7-9 (N.D. Cal. Jan. 5, 2009). It should be noted, however, that *Winter* did not squarely address the use of the presumption, but rather addressed whether irreparable harm was “likely” or merely “possible” in the absence of an injunction. *Winter*, 129 S. Ct. at 375-76.

B. Preliminary Injunctions and “Substantial Questions” of Invalidity or Unenforceability

A full-fledged dispute appears to have broken out on the Federal Circuit over the standard required to defeat a preliminary injunction motion by alleging patent invalidity. A number of prior decisions on preliminary injunction motions in patent cases have stated that in order to defeat a patentee’s showing of likelihood of success on the merits, an accused infringer need only show a “substantial question” of invalidity or unenforceability of the patent. In *Sanofi-Synthelabo v. Apotex, Inc.*, for example, in affirming a preliminary injunction a Federal Circuit panel opinion authored by Circuit Judge Lourie stated “we conclude that the district court did not clearly err in finding that [defendant’s] anticipation defense lacks substantial merit.” 470 F.3d 1368, 1375 (Fed. Cir. 2006); *see also id.* at 1381 (“[defendant] clearly fails to raise a substantial question as to the enforceability of [the patent]”). Another articulation of this standard has been that the burden is merely to show that the patent is “vulnerable.”

Arguably, such a standard imposes a somewhat lesser hurdle for defendants in defeating preliminary injunction motions, because at trial clear and convincing evidence is necessary for the accused infringer to prove invalidity or unenforceability of a patent. Thus, early in 2008 a panel decision authored by Circuit Judge Rader vacated a grant of preliminary injunction to a patentee, holding that the evidence raised a substantial question as to whether

the patent was invalid as obvious. *Erico Int'l Corp. v. Vutec Corp.*, 516 F.3d 1350, 1355-56 (Fed. Cir. 2008). The panel decision explained the relative burdens as follows:

Validity challenges during preliminary injunction proceedings can be successful, that is, they may raise substantial questions of invalidity, on evidence that would not suffice to support a judgment of invalidity at trial. In other words, a defendant need not prove actual invalidity. On the contrary, a defendant must put forth a substantial question of invalidity to show that the claims at issue are vulnerable. Thus, a showing of a substantial question of invalidity requires less proof than the clear and convincing standard to show actual invalidity.

Id. (citations omitted).

The 2008 *Erico* decision, however, was rendered over a vigorous dissent by Circuit Judge Pauline Newman, in which she stated that not only was the “substantial question” standard erroneous and unsupported by Federal Circuit precedent, but moreover the standard departed from the Supreme Court’s admonition in *eBay* that traditional principles of equity apply in patent cases just as any other. *Id.* at 1357-58 (Newman, J., dissenting). The correctly-stated issue on a preliminary injunction motion, according to Judge Newman, is “whether the defendants have shown that they are likely to succeed on the merits, on the standards and burdens of proof as would prevail at trial.” *Id.* at 1359.

In a more recent Federal Circuit panel decision, Circuit Judge Newman’s opinion states that whether the accused infringer has raised a “substantial question” is *not* the correct standard. *Abbott Labs. v. Sandoz, Inc.*, 544 F.3d

1341 (Fed. Cir. 2008). Circuit Judge Newman’s opinion canvassed prior Federal Circuit case law and again stated that the issue is not whether there is a substantial question of invalidity or unenforceability, but rather whether the plaintiff has shown a likelihood of success at trial, with recognition of the correct presumptions and burdens. *Id.* at 1364. Judge Newman again stated that to utilize the “substantial question” approach different from that used in any other federal jurisprudence would contradict the Supreme Court’s ruling in *eBay* that patent cases do not require unique treatment, and should be governed by the same equitable principles applied in other cases. *Id.* at 1365, 1370. Notably, Circuit Judge Gajarsa dissented, and stated that whether the defendant has raised a substantial question of invalidity or unenforceability is indeed the correct standard. According to Judge Gajarsa, “Under our precedent, the likelihood of success factor is properly analyzed by considering whether the alleged infringer raises a substantial question as to validity.” *Id.* at 1372 (Gajarsa, J., dissenting). He further characterized Judge Newman’s discussion of precedent as a “pleasant, ambulatory, and meandering discussion; but [one that] is not required to decide this case, [] not part of the majority opinion, and [] clearly dicta.” *Id.* at 1373.⁵

Accordingly, it is unclear whether *Abbott Labs.* will be the last word on the subject, or whether *en banc* review will be required to settle this dispute. It

⁵The third member of the panel, Circuit Judge Archer, concurred in the judgment affirming the grant of preliminary injunction, but did not join in that aspect of Judge Newman’s opinion with respect to the correct standard relating to contentions of invalidity or unenforceability.

should be noted that by local rule *en banc* review is required in order to overrule binding precedent. However, this raises the question which of the views articulated above is entitled to deference as constituting the binding precedent of the Federal Circuit.

C. Presumption of Irreparable Harm Still Unresolved

For at least two decades before the *eBay* decision, the Federal Circuit held that upon a showing of likelihood of success on the merits (for a preliminary injunction) or infringement (for a permanent injunction), a presumption arose that the patentee would be irreparably harmed in the absence of injunctive relief. This presumption appears to have been first articulated in a 1983 preliminary injunction case. *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573 (Fed. Cir. 1983). On several occasions since the *eBay* decision, the Federal Circuit has noted that the Supreme Court's opinion, and specifically its instruction to use the four-factor test, might be deemed inconsistent with the use of this presumption. On each occasion that it has noted this question, however, the Federal Circuit has declined to decide the issue. *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1359 n.1 (Fed. Cir. 2008) (finding it unnecessary to reach whether district court improperly held that *eBay* eliminated presumption of irreparable harm on permanent injunction issue, because there was absence of irreparable harm based on evidence at trial); *Sanofi-Synthelabo*, 470 F.3d at 1383, n. 9 ("Because we conclude that the district court did not clearly err in finding that Sanofi established several kinds of

irreparable harm, including irreversible price erosion, we need not address this contention”); *see also Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 702 (Fed. Cir. 2008) (“It remains an open question ‘whether there remains a rebuttable presumption of irreparable harm following *eBay*’”); *Abbott Labs.*, 544 F.3d at 1363.⁶ It seems likely that the appellate court will not squarely address this issue unless and until a case arises in which the use of the presumption is critical to the appeal.⁷ In the meantime, patentees and accused infringers should be prepared to present their arguments about injunctive relief in the absence of certainty over the rule.

D. Relevance of *eBay* to Trademark and Copyright Cases

In the Supreme Court’s *eBay* decision, the Court stated that its ruling (requiring the use of the four-factor test and disapproving the Federal Circuit’s general rule of imposing injunctions) would render patent law consistent with the approach taken in copyright cases. This was a highly arguable proposition. In fact, permanent injunctions in copyright and trademark cases was very much the norm upon a finding of infringement. *See* 5 J. McCarthy, Trademarks and Unfair Competition, § § 30:2, p. 30-6 – 30-7 (4th ed. 2005); *L’Anza Research Int’l, Inc. v. Quality King Distributors, Inc.*, 98 F.3d 1109, 1120 (9th Cir. 1996)

⁶The Court also noted this open question in *Jacobsen*, reflecting that the same issue is posed in copyright cases. *Jacobsen*, 535 F.3d at 1378 (citing *MGM Studios, Inc. v. Grokster, Ltd.*, 518 F. Supp.2d 1197, 1212 (C.D. Cal. 2007) (noting that “longstanding” presumption may have to be reevaluated in light of *eBay*)).

⁷As noted *supra*, on remand the district court in *Jacobsen* recently held that the Supreme Court’s 2008 decision in *Winter*, a case involving environmental statutes, eliminated the use of a presumption for finding irreparable harm. This case presents the possibility that the Federal Circuit could squarely address the issue on appeal.

“as a general rule, a copyright plaintiff is entitled to a permanent injunction when liability has been established and there is a threat of continuing violations”); *Century 21 Real Estate Corp. v. Sandlin*, 846 F.2d 1175, 1180 (9th Cir. 1988) (characterizing permanent injunction as the “remedy of choice in trademark and unfair competition cases, since there is no adequate remedy at law for the injury caused by a defendant’s continuing infringement”).⁸ It was an unusual case in which infringement was found but yet the trademark or copyright infringer was permitted to continue the infringing activity.

As if to underscore this historical fact, courts addressing injunctions in trademark and copyright cases decided since *eBay* have begun to question whether they must now follow the four-factor test of *eBay*. See, e.g., *North Am. Med. Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211, 1227 (11th Cir. 2008) (holding that *eBay* is applicable to trademark cases and remanding case for further proceedings consistent with decision); *Christopher Phelps & Assocs., LLC v. Galloway*, 492 F.3d 532, 543 (4th Cir. 2007) (holding that *eBay* applied to copyright cases). This sort of questioning (and remanding of decisions in light of *eBay*) would be unnecessary if all *eBay* had done was to make patent cases consistent with the approach taken in other intellectual property cases.

Because trademark and copyright cases are not matters within the exclusive jurisdiction of the Federal Circuit, however, the answer to this

⁸Moreover, as noted *supra*, in *Jacobsen* the appellate court recognized that the same presumption of irreparable harm that the Federal Circuit had applied for two decades in patent cases was also being applied by other federal courts in copyright cases.

question will likely not be definitive for some time. Rights holders and accused infringers both should be aware whether the court in which their case is pending has addressed the issue, or be prepared to present their arguments without certainty as to whether the court will view *eBay* as binding in trademark and copyright cases.

E. Relevance of Patentees' Licenses and Competition with Accused Infringers

The relevance *vel non* of the patentee's licensing or prospective licensing, and whether the patentee was engaged in competition with the infringer, was of significant importance to the district court decision in *eBay* with respect to irreparable harm. Nonetheless, as noted above, the Supreme Court's opinion provided little guidance as to the relevance of licensing to irreparable harm other than to say that some patentees that license their patents might still be entitled to an injunction under the four factor test.

In cases appealed since the *eBay* decision, the Federal Circuit has tended to defer to the findings of the district courts as to irreparable harm as long as they fairly apply the four factor test.⁹ The Federal Circuit affirmed the grant of a preliminary injunction in one case, notwithstanding the defendant's argument that monetary damages would be adequate and the patentee had licensed

⁹Since the *eBay* decision, district courts have denied permanent injunctions more frequently than in the past, largely based on arguments that a particular patentee had extensively licensed its patents and/or that it did not compete with the accused infringer. See *Amgen, Inc. v. F. Hoffman-La Roche Ltd.*, 581 F. Supp.2d 160, 210 (D. Mass. 2008) (noting that *eBay* has allowed courts to decline injunctions where plaintiff is a "patent troll," but it has changed little where the parties are competitors).

others. *Abbott Labs.*, 544 F.3d at 1361-62. The court observed that the district court had properly considered evidence of potential loss of market share and revenue loss during the pendency of the litigation. *Id.* With respect to the fact the patentee had licensed others, the court stated:

We agree that the fact that a patentee has licensed others under its patents does not mean that unlicensed infringement must also be permitted while the patents are litigated. Precedent illustrates that when the patentee is simply interested in obtaining licenses, without itself engaging in commerce, equity may add weight to permitting infringing activity to continue during litigation, on the premise that the patentee is readily made whole if infringement is found. In this case the district court received [the patentee's] argument that it could not be made whole if it prevails in this litigation, for the added erosion of markets, customers, and prices, is rarely reversible.

Id. at 1362.

The Federal Circuit upheld the entry of a permanent injunction in another case, notwithstanding arguments by the defendant that the plaintiff did not sell the same specific types of products as the defendant, and that the plaintiff had entered into a license with another party. *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 701-04 (Fed. Cir. 2008). The appellate court held that the lower court had properly considered the four factors under *eBay*, and that it had provided “a well-reasoned and comprehensive opinion” showing why injunctive relief was appropriate notwithstanding these arguments. In particular, the plaintiff had introduced evidence showing that there was at least indirect competition between the parties in that their respective, albeit different products, resulted in “design wins” for the development and production of cell

phones that would utilize the products. *Id.* at 702. Further, that the plaintiff had licensed its patents to another did not foreclose irreparable harm. The Federal Circuit stated, “We also agree that the Verizon license has little bearing on the effect of a compulsory license to a direct competitor, particularly in light of these market realities.” *Id.* at 703.¹⁰

The court also affirmed the entry of a permanent injunction more recently in *Acumed LLC v. Stryker Corp.*, ___ F.3d ___, 2008 WL 5397567 (Fed. Cir. Dec. 30, 2008), in which the defendant argued that the plaintiff had previously licensed two large competitors. In response to this argument, the Federal Circuit stated that such licenses were simply one factor to be considered among many others, and that the “the weight accorded to the prior licenses falls squarely within the discretion of the court.” *Id.* at *3.

In view of that right [to exclude], infringement may cause a patentee irreparable harm not remediable by a reasonable royalty. While the fact that a patentee has previously chosen to license the patent may indicate that a reasonable royalty does compensate for an infringement, that is but one factor for the district court to consider. The fact of the grant of previous licenses, the identity of the past licensees, the experience in the market since the licenses were granted, and the identity of the new infringer all may affect the court’s discretionary decision concerning whether a reasonable royalty from an infringer constitutes damages adequate to compensate for the infringement.

¹⁰Similarly, the Federal Circuit in *Sanofi-Synthelabo* held, on a preliminary injunction motion, that merely because the plaintiff had entered into a related settlement agreement that effectively capped the damages for infringement of its patent did not negate irreparable harm, where there was evidence of irreversible price erosion, loss of goodwill, and potential layoffs. 470 F.3d at 1381.

Id. The court further noted that “[a]dding a new competitor (the adjudicated infringer) to the market may create an irreparable harm that the prior licenses did not. *Id.*

Another recent Federal Circuit decision makes clear, however, that the irreparable harm must be to the plaintiff, not to its exclusive licensee. *Voda v. Cordis Corp.*, 536 F.2d 1311 (Fed. Cir. 2008). In that case, the patentee attempted to prove irreparable injury by alleging harm to his exclusive licensee. *Id.* at 1329. The appellate court affirmed the district court’s denial of a permanent injunction, stating, “Nothing in *eBay* eliminates the requirement that the party seeking a permanent injunction must show that ‘it has suffered an irreparable injury’ ... the district court did not clearly err or abuse its discretion in finding that monetary damages were adequate to compensate [the patentee].” *Id.*

In light of this decision, patent holders that have exclusively licensed their patents should be prepared to think creatively and show how damage to their exclusive licensee will inure to the patent holder itself. For example, a patentee might consider arguing the loss of goodwill with its exclusive licensee. Patentees might also look to the *Jacobsen* decision for support in showing irreparable harm where there is no monetary loss.¹¹

¹¹Also of interest, the court in *Acumed* stated that there was no abuse of discretion in not considering the defendant’s expenses in designing and marketing the accused product as an aspect of balancing the harms, because those expenses related to a product found to be infringing. *Id.* at *4 (citing *Windsurfing Int’l, Inc. v. AMF, Inc.*, 7892 F.2d 995, 1003 n. 12 (Fed. Cir. 1986)). The Federal Circuit also has continued to take note of the public interest in

F. Impact of Denials of Injunctions on Damages Issues

The prospect that there may be more intellectual property cases in which permanent injunctions will be denied raises significant questions about how district courts should adjudge post-verdict damages and, in effect, construct a compulsory license between the parties. Although few cases have dealt with how post-verdict damages should be determined, the Federal Circuit has already made clear that the issue is not as simple as applying the pre-verdict royalty rate to post-verdict sales.

In *Paice LLC v. Toyota Motor Corp.*, a jury found infringement, after which the district court denied a permanent injunction and imposed an ongoing royalty. 504 F. 3d 1293, 1302-03 (Fed. Cir. 2007). Applying the four-factor test mandated by *eBay*, the district court took note of the fact that the patentee did not actually manufacture any goods, and there was evidence suggesting that monetary damages would be adequate. *Id.* The district court's ruling effectively permitted the defendant to continue using the invention at the cost of \$25 per accused vehicle. *Id.* at 1313.

On appeal, the patentee contended that the district court did not have the statutory authority to issue the order and, alternatively, that the Seventh Amendment compelled a jury trial to determine the ongoing royalty. The Federal Circuit rejected both arguments, stating, "Under some circumstances,

enforcement of patent rights as a relevant factor. Thus, in *Abbott Labs.*, the court stated that there continues to be a public interest in the enforcement of patent rights that "warrants weight in considering the public interest," as the "statutory period of exclusivity reflects the congressional balance of interests." *Id.* at 1362-63.

awarding an ongoing royalty for patent infringement in lieu of an injunction may be appropriate.” *Id.* at 1314. The court cautioned, however, that in most of such cases the district court may “wish to allow the parties to negotiate a license amongst themselves regarding future use of a patented invention before imposing an ongoing royalty. Should the parties fail to come to an agreement, the district court could step in to assess a reasonable royalty in light of the ongoing infringement.” *Id.* at 1315. Because there was no reasoning in the district court’s order to provide the basis for the \$25 per vehicle royalty, the Federal Circuit remanded for the limited purpose of having the royalty rate reevaluated. “Upon remand,” the Federal Circuit instructed, “the court may take additional evidence if necessary to account for any additional economic factors arising out of the imposition of an ongoing royalty.” *Id.*¹²

In a concurring opinion, Circuit Judge Rader stated that the court should “*require* the district court to remand this issue to the parties, or to obtain the permission of both parties before setting the ongoing royalty rate itself.” *Id.* at 1316 (Rader, C.J., concurring) (emphasis in original). Judge Rader was critical

¹²In a footnote, the court somewhat defensively stated that its use of the term “ongoing royalty” was intended to distinguish the result from a “compulsory license.” The court stated, “The term ‘compulsory license’ implies that *anyone* who meets certain criteria has congressional authority to use that which is licensed.” *Id.* at 1313, n.13. “By contrast,” the court stated, “the ongoing-royalty order at issue here is limited to one particular set of defendants; there is no implied authority in the court’s order for any other auto manufacturer to follow in [defendant’s] footsteps and use the patented invention with the court’s imprimatur.” *Id.* The court’s observation was of course correct that there are statutory compulsory licenses under copyright laws broadly applicable to any party meeting certain criteria. As Judge Rader’s concurrence notes, however, from the patentee’s perspective the imposition of an ongoing royalty and denial of an injunction is, for all practical purposes, a compulsory license, even if limited to only one infringer. Moreover, a patentee that has lost the injunction issue in one case, resulting in an ongoing royalty, will likely find it all the more challenging to obtain injunctive relief against a subsequent infringer.

of the lower court for imposing an ongoing royalty *sua sponte* after denying injunctive relief, which meant that the parties had no meaningful chance to present evidence of an appropriate royalty rate for future acts of infringement. His view was that, “Projecting the costs to be incurred for what would otherwise be future acts of infringement is necessarily a speculative exercise, even for the most stable markets and technologies. As licenses are driven largely by business objectives, the parties to a license are better situated than the courts to arrive at fair and efficient terms.” *Id.* at 1317.

Judge Rader also stated that in contrast to damages for past infringement, which was what the trial evidence concerned, “presuit and post-judgment acts of infringement are distinct, and may warrant different royalty rates given the change in the parties’ legal relationship and other factors.” *Id.* at 1316-17. In the subsequent *Amado* decision, the court further explained, “There is a fundamental difference, however, between a reasonable royalty for pre-verdict infringement and damages for post-verdict infringement. ... Prior to judgment, liability for infringement, as well as the validity of the patent, is uncertain, and damages are determined in the context of that uncertainty. Once a judgment of validity and infringement has been entered, however, the calculus is markedly different because different economic factors are involved.” *Amado*, 517 F.3d at 1361-62 (citations and parenthetical omitted).

For example, when a district court orders an injunction, but stays the injunction pending appeal, “the assessment of damages for infringements taking

place after the injunction should take into account the change in the parties' bargaining positions, and the resulting change in economic circumstances, resulting from the determination of liability — for example, the infringer's likelihood of success on appeal, the infringer's ability to immediately comply with the injunction, the parties' reasonable expectations if the stay was entered by consent or stipulation, etc. — as well as the evidence and arguments found material to the granting of the injunction and stay." *Amado*, 517 F.3d at 1362. Although the court in that case remanded to the district court for a determination of the escrow award, the court observed that, "logically, the eventual award should fall somewhere between the [] amount the jury found to be an appropriate pre-verdict reasonable royalty and the [] amount [the patentee] was willing to accept in exchange for a license." *Id.* at 1362, n.2.

Accordingly, parties in intellectual property litigation need to prepare for the possibility that additional damages issues may arise in the event injunctive relief is denied. Although much of the same damages evidence may be relevant as for pre-verdict infringement, the parties should not presume that post-verdict damages will be a rote exercise in applying a pre-verdict royalty rate.¹³

¹³Parties should also be mindful that recovery of certain types of damages as part of the jury verdict may be viewed as providing full compensation, thereby precluding the need for injunctive relief. *See, e.g., Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1380-81 (Fed. Cir. 2008) (reversing grant of permanent injunction because damages verdict was viewed as including payment of "market entry fee" that contemplated or was based upon future sales by the defendant).

CONCLUSION

Nearly three years after the Supreme Court's *eBay* decision, several important questions remain unresolved with respect to the standards for injunctions in intellectual property cases. However, the Federal Circuit's decisions since that time have provided some useful guidance. In particular, these decisions have shown that the mere fact that a patentee has licensed its patents to others is simply one fact among many to be considered in applying the four equitable factors mandated by *eBay*. Moreover, in the case of open source licenses, rights holders may be eligible for injunctive relief depending on the facts and circumstances. Further, the appellate court has shown considerable deference to the findings of district courts with respect to injunctions provided that the lower courts have faithfully followed the four factors and fairly considered all the facts relevant to those factors.