

WHAT HATH EBAY V. MERCExchange WROUGHT?

by
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Before the Supreme Court's decision in eBay Inc. v. MercExchange, L.L.C., courts tended to grant injunctive relief for patent infringement as a matter of course. The Court's decision in eBay changes the calculus such that courts have broad discretion in awarding discretionary relief if they consider four factors: irreparable injury, inadequacy of the remedy at law, the balance of hardships, and public policy. Most scholarly discussion of this change in the law has focused on a rights-based analysis. This Essay analyzes the decision from a remedial perspective.

This Essay first discusses traditional identification of rights and remedies along an axis that aligns damages with so-called liability rules and injunctions with so-called property rules. It then analyzes the four-part test from the perspective of the law of remedies, taking particular note of several public policy concerns raised by commentators, and how the courts have dealt with these concerns when applying the eBay decision. Finally, this Essay reviews the courts' application of their newfound discretion under eBay, and concludes that it is difficult to discern a trend in post-eBay decisions, outside a significant reinvigoration of the irreparable injury requirement.

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I. INTRODUCTION

The Supreme Court's decision in *eBay Inc. v. MercExchange, L.L.C.*¹ has sparked a spirited exchange regarding how intellectual property rights should be protected.² Debate has centered on whether injunctive

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¹ 547 U.S. 388 (2006).

² 7 DONALD S. CHISUM, CHISUM ON PATENTS: A TREATISE ON THE LAW OF PATENTABILITY, VALIDITY AND INFRINGEMENT § 20.04[2][b] n.66 (2009).

relief is an efficient or effective means of promoting the goals of intellectual property, particularly patent law, as a discrete area of law. Intellectual property commentators have largely developed their arguments within the framework of a rights-based analysis.³ This Essay will approach the question from a remedial viewpoint that examines how the insights of rights-based analysis cohere with traditional remedy doctrinal analysis applicable to injunctive relief.

Part II of this Essay will discuss the traditional identification of rights and remedies along an axis that aligns damages with so-called liability rules and injunctions with so-called property rules.⁴ Part III of this Essay addresses whether and how patent policy concerns identified by several commentators, such as limiting injunctive relief to patent holders who practice the patent, fit within the traditional test for equitable relief ordained by the Court in its *eBay* opinion. Part IV of this Essay examines how courts have approached claims for injunctive relief for proven infringement in the aftermath of *eBay*.

II. RIGHTS V. REMEDIES

There are many ways of conceptualizing rights, including property rights. A right by its very nature may be conceived as containing a power to exclude others from using or infringing the right without the consent of the right holder. As so formulated, this is a negative right. A right may, however, include the right to exploit or exercise that right. This formulation confers on the right holder a positive right. This positive right may be unbounded, in effect a sovereign right, or limited, as, for example, a right to reasonable exploitation or use of the right. The dominant view today defines property as the right to exclude.⁵ Alternatively, property may be characterized as a bundle of rights, which includes the right to exclude, the right to exploit, and the right to use, amongst others.⁶ Traditionally, patents, as a species of property, have been seen as adopting the right to exclude thesis: “the principal value of

³ Shyamkrishna Balganes, *Demystifying the Right to Exclude: Of Property, Inviolability, and Automatic Injunctions*, 31 HARV. J.L. & PUB. POL’Y 593 (2008); Adam Mossoff, *Exclusion and Exclusive Use in Patent Law*, 22 HARV. J.L. & TECH. 321 (2009); see generally Mark A. Lemley & Philip J. Weiser, *Should Property or Liability Rules Govern Information?*, 85 TEX. L. REV. 783 (2007).

⁴ The nomenclature—liability rules and property rules—derive from the seminal Calabresi and Melamed article. Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972).

⁵ Hanoch Dagan, *Exclusion and Exclusion in Property*, (Tel Aviv Univ. Law Faculty Papers, Paper No. 109, 2009), available at <http://law.bepress.com/taulwps/fp/art109>.

⁶ See *Brotherton v. Cleveland*, 923 F.2d 477, 481 (6th Cir. 1991) (addressing whether survivors of a decedent had property rights to the decedent’s bodily organs).

a patent is its statutory right to exclude.”⁷ It is accepted that patent holders do not have a duty to use or exploit the patent.⁸

A right may also be measured by the nature of the response to a violation of the right.⁹ If no remedy for a violation is provided, the right is illusory for practical purposes. The stronger the remedy, the more valuable the right is to the right holder. A right that is redressed only by an award of damages is, in effect, only a right to be free of uncompensated harm. Third parties may violate the right as long as they make reparation to the right holder for any harm inflicted as a consequence of the violation. In other words, third parties may acquire, through payment of damages, an unconsented-to license to infringe rights held by the right holder. Stronger remedies, such as injunctive relief or disgorgement, may enhance the right holder’s position. An injunction is thought to prevent the unconsented-to harm. The presence of the court order ensures that a third party may violate a right only with the right holder’s permission. If the right holder withholds permission, no harm will occur. Disgorgement remedies may also raise the consequences of inflicting harm. A third party may inflict harm, but if it does it must turn over all the revenues it received as a result of transgressing the right.¹⁰ Disgorgement remedies are not uniformly available for violation of intellectual property rights;¹¹ therefore, this Essay will focus on damages and injunctions as intellectual property remedies.

Treating damages and injunctions as discrete responses to particular right infringements is, however, a bit misleading. Damages remedies are

⁷ H.H. Robertson, *Co. v. United Steel Deck, Inc.*, 820 F.2d 384, 390 (Fed. Cir. 1987).

⁸ *Cont’l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 424–30 (1908); *see also* 6 CHISUM, *supra* note 2, § 19.04[3][1].

⁹ Daryl J. Levinson, *Rights Essentialism and Remedial Equilibration*, 99 COLUM. L. REV. 857 (1999) (discussing right-remedy correlation and feedback loops and noting that rights and remedies are necessarily intertwined and inseparable in practice).

¹⁰ These approaches can sometimes be confused. For example, Congress may create a remedial regime that uses terms that do not tightly correlate with the normal meanings of the term. This is illustrated by 17 U.S.C. § 504(c), which permits an award of “statutory damages” for violations of copyrights. The “damages” award can range from \$750 to \$150,000 per violation (infringement). Statutory damages are not, however, necessarily correlated to the actual harm sustained by the right holder, which is the usual measure of damages. Indeed, statutory damages under 17 U.S.C. § 504(c) are significantly influenced by the defendant’s state of mind, which suggests they operate more as punitive damages or a penalty, rather than compensatory damages.

¹¹ *See generally* Caprice L. Roberts, *The Case for Restitution and Unjust Enrichment Remedies in Patent Law*, 14 LEWIS & CLARK L. REV. 653 (2010). Under the Patent Act, the patentee can recover damages, which include either a reasonable royalty or lost profits, which may be measured by the patentee’s lost profits. *Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc.*, 761 F.2d 649, 655 (Fed. Cir. 1985). However, this is not the same as disgorgement, which is barred except in infringement of design patents. 35 U.S.C. § 289 (2006); 7 CHISUM, *supra* note 2, § 20.03[5]; 4 ROBERT A. MATTHEWS, JR., ANNOTATED PATENT DIGEST § 30:2 (2010).

often thought of as providing less rights protection than injunctions because damages, as a so-called liability rule, give the power to the third party to violate the right and pay damages. Injunctions, on the other hand, because they are backed up directly by court authority, are seen as a so-called property rule, giving the right holder the power to prevent the third party from violating the right unless the right holder consents.

The above view is correct as far as it goes, but it can obscure several important features of a functioning system of law. First, not all damages remedies are created equal. A damages remedy may theoretically confer a power to violate rights, but the remedy may be calibrated in such a way as to strongly discourage violations because the remedy is draconian relative to the violation.¹² Similarly, an injunction may theoretically bar a third party from violating a right, but an injunction is not self-enforcing. If the injunction is violated, the right holder must seek relief, usually through contempt.¹³ The contempt sanction may, however, be set too low to deter rights infringement—the rights violator may find it cheaper to pay the fine than comply with the injunction or the order may not be enforceable.¹⁴ Second, the likelihood of obtaining a remedy for unconsented use of property is just as important as the remedy's severity. We may call this the confidence factor. Whether rights are respected or violated is determined not just by the severity of the consequences imposed on a rights violator, but also by our confidence that the consequence will be imposed.¹⁵ The danger here is that the court may determine that the language of the order is insufficient to support contempt or may be persuaded at the contempt hearing that the original decision to issue the injunction was ill-considered.

¹² See generally Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439 (2009).

¹³ 42 AM. JUR. 2D *Injunctions* § 319 (2d. ed. 2000); JAMES M. FISCHER, UNDERSTANDING REMEDIES § 20.1, at 193–95 (2d ed. 2006).

¹⁴ This is, admittedly, a less than likely outcome. The danger is that the court would set the measure of compensatory contempt equal to a reasonable royalty, which would diminish the value of the injunction in securing the defendant's cessation of infringement.

¹⁵ This is, of course, the famous Holmesian “bad man” model. O. W. Holmes, Address, *The Path of the Law*, 10 HARV. L. REV. 457, 459 (1897) (“If you want to know the law and nothing else, you must look at it as a bad man, who cares only for the material consequences . . .”). I do not suggest that this is by any means the exclusive or necessarily correct view as to why law is obeyed or rights are respected (see, e.g., Benjamin C. Zipursky, *The Internal Point of View in Law & Ethics: Introduction*, 75 FORDHAM L. REV. 1143, 1144 (2006) (discussing H.L.A. Hart's non-Holmesian view that individuals internalized law and legal norms as moral guides for proper and obligatory behavior in society)), but it is a significant factor in much decision making, particularly, I would suspect in anonymous, commercial transactions when the parties are not familiar with one another and are unlikely to have repeated transactions with one another. See ROBERT ELLICKSON, *ORDER WITHOUT LAW: HOW NEIGHBORS SETTLE DISPUTES* 177–81 (1991) (discussing welfare-maximizing norms in close-knit communities).

We may depict the options through the use of a decision tree.¹⁶ Assume a damages remedy has an expected value, and a consequent cost to the defendant, of \$10 million. This is calculated by summing the range of expected outcomes, discounted by their probability of being obtained. Whether an injunction is a greater or lesser deterrent to unconsented use of property depends on the same expected value and consequent cost analysis: What are the expected outcomes if an injunction is issued, discounted by their probability of being obtained. The reality of the remedy, as measured by its practical severity, is a more important consideration for litigants than the nomenclature of the remedy.

Prior to *eBay Inc. v. MercExchange, L.L.C.* the general thinking was that if an owner established an infringement of patent property rights, the owner was entitled to injunctive relief as a matter of course.¹⁷ Although injunctive relief to redress actual infringement was not mandatory, courts repeatedly intoned that it was the norm.¹⁸ The entitlement theory of injunctive relief for intellectual property rights violations rested on the view that a patent was a property right, the violation of which could not be adequately redressed by damages. The balancing of interests and public policy factors of the four-part test were thought to be satisfied by the importance and unique nature of the property, coupled with Congress's express recognition of injunctive relief

¹⁶ 1 OXFORD ENGLISH DICTIONARY ADDITIONS SERIES 110 (John Simpson & Edmund Weiner eds., 1993) ("The decision tree depicts a sequence of binary, yes or no, decisions which progress until a conclusion is reached.")

¹⁷ *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005), *vacated*, 547 U.S. 388 (2006). "MercExchange challenges the district court's refusal to enter a permanent injunction. Because the 'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged. To be sure, 'courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest.' Thus, we have stated that a court may decline to enter an injunction when 'a patentee's failure to practice the patented invention frustrates an important public need for the invention,' such as the need to use an invention to protect public health." *Id.* at 1338, *rev'd sub nom.* 547 U.S. 388 (2006) (citations omitted) (quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989); *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995)). Although it is sometimes implied that the granting of injunctive relief as a matter of course on proof of actual infringement is relatively recent, the remedy has a long pedigree. See Andrew Beckerman-Rodau, *The Aftermath of eBay v. MercExchange*, 126 *S. Ct. 1837* (2006): *A Review of Subsequent Judicial Decisions*, 89 *J. PAT. & TRADEMARK OFF. SOC'Y* 631, 632 (2007); Dariush Keyhani, *Permanent Injunctions in Patent Cases*, 6 *BUFFALO INTELL. PROP. L.J.* 1, 1-3 (2008).

¹⁸ *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) ("Although the district court's grant or denial of an injunction is discretionary depending on the facts of the case, injunctive relief against an adjudged infringer is usually granted. This court has indicated that an injunction should issue once infringement has been established unless there is a sufficient reason for denying it." (citations omitted)).

in the Patent Act.¹⁹ In effect, a court could reason that by expressly providing for injunctive relief for patent infringements, Congress had indicated that injunctive relief should be presumptively available, if not the preferred remedy.²⁰ This approach is not uncommon when construing complete statutory schemes for protecting rights.²¹

This entitlement theory simplified expected value and consequent loss calculations because, save in the exceptional case involving public health and safety,²² no discount, based on the likelihood that the injunction would be granted, needed to be determined. However, *eBay* changed that calculus when the Court rejected the entitlement theory and reemphasized the patent holder's need to establish a four-part test for injunctive relief. This test requires: (1) irreparable injury; (2) inadequacy of the legal remedy; (3) balance of hardship in the plaintiff right holder's favor; and (4) that public policy favors granting the injunction.²³ How the four-part test is implemented will significantly

¹⁹ *Atlas Powder Co. v. Ireco Chems.*, 773 F.2d 1230, 1233 (Fed. Cir. 1985) (“[A]rguments that [patent] infringement and related damages are fully compensable [sic] in money downplay the nature of the statutory right to exclude others from making, using, or selling the patented invention throughout the United States.”).

²⁰ *Polymer Techs., Inc. v. Bridwell*, 103 F.3d 970, 975 (Fed. Cir. 1996) (“Because of the very nature of a patent, which provides the right to exclude, infringement of a valid patent inherently causes irreparable harm in the absence of the above or similar exceptions.” (citations omitted)).

²¹ For example, Title VII of the Civil Rights Acts of 1964 bars discrimination and other wrongful conduct in the workplace. A covered employee who has been terminated or otherwise affected by workplace discrimination may sue for damages, restitution, and injunctive relief. Here, courts have frequently exhibited a preference for equitable relief (reinstatement to the workplace) rather than lost future earnings. Lea S. VanderVelde, *Making Good on Vaca's Promise: Apportioning Back Pay to Achieve Remedial Goals*, 32 UCLA L. REV. 302, 337–38 (1984); Martha S. West, *The Case Against Reinstatement in Wrongful Discharge*, 1988 U. ILL. L. REV. 1, 2 (noting that “[r]einstatement, accompanied by back pay, however, has been the traditional remedy for employees illegally discharged under federal labor relations law or discharged without ‘just cause’ under collective bargaining agreements”). Reinstatement avoids the need to estimate what the employee would have earned had he not been wrongfully terminated. Initially, the remedies available were limited to those equitable in nature. Recoveries of back pay and front pay were deemed “restitutionary” rather than “as damages,” which would be the normal understanding. The reason for the characterization was to keep discrimination claims away from juries, equitable remedies being traditionally heard by the judge. The statute was amended in 1991 to permit damage awards for emotional distress and punitive damages, 42 U.S.C. § 1981(a) (2006), but the idea that lost earnings were restitution rather than damages was not changed.

²² “If a patentee’s failure to practice a patented invention frustrates an important public need for the invention, a court need not enjoin infringement of the patent. Accordingly, courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest.” *Rite-Hite Corp.*, 56 F.3d at 1547 (citations omitted).

²³ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

influence the value of injunctions, relative to damages, as a deterrent to unconsented infringement of patent rights.

A number of commentators have argued that patent rights should be less strongly protected.²⁴ Their concern is that patent holdups prevent socially useful products from being developed because developers have to pay exorbitant rents to holders of minor patents that are a necessary part of the larger, socially useful product. These commentators, however, also recognize that socially useful patents need the protection afforded by law to encourage innovation by insuring that innovators are allowed to profitably exploit their inventions.

In the aftermath of *eBay*, the above concerns have been married by some of these commentators to the Court's four-part test for injunctive relief. The argument is that courts should reserve injunctive relief for patent owners who are practicing the patent or exclusively licensing the patent; otherwise, patent owners should be limited to damages.²⁵ Some post-*eBay* decisions can be seen as accepting this result, although it is not always clear that the courts accept the commentators' reasoning in reaching the result approved by those commentators.²⁶

III. INFRINGEMENT, PRESUMPTIONS, POLICY

The Court in *eBay Inc. v. MercExchange, L.L.C.* rejected the entitlement theory to injunction relief, holding that Congress's use of the phrase "in accordance with the principles of equity" in the statute evidenced that courts were to use traditional methodologies in determining whether an injunction should be issued to redress a patent infringement.²⁷ The Court was silent, however, as to how courts should implement the four parts (factors) of its test for injunctive relief.

The issue has been raised in post-*eBay* decisions whether courts should presume the existence of one or more of the three factors remaining after a finding of infringement.²⁸ Patent owners, reading *eBay*

²⁴ Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 2035–36 (2007).

²⁵ *Id.*

²⁶ See Bernard H. Chao, *After eBay, Inc. v. MercExchange: The Changing Landscape for Patent Remedies*, 9 MINN. J. L. SCI. & TECH. 543, 549–64 (2008) (identifying three factors courts have relied on in deciding whether to grant injunctive relief for patent infringement: "(1) the existence of direct competition, (2) the institutional status of the patent holder, and (3) the value that the patent technology contributes to the infringing product.").

²⁷ 547 U.S. at 392 (citing 35 U.S.C. § 283 (2006)).

²⁸ Because the issue is permanent injunctive relief, the court will necessarily find that the defendant has infringed the patent as a precondition to determining whether the remedy of injunctive relief is appropriate. The issue is more complicated if the remedy sought is a preliminary injunction. Courts have developed a number of different approaches with respect to this remedy and some of these approaches do not require that the plaintiff patent owner establish a substantial likelihood of infringement as a condition to securing temporary injunctive relief if one or more of

narrowly, will argue that a court may still presume that all or some of the factors are satisfied once an infringement is found, thus shifting the burden of proof to the infringer to demonstrate that the factor has not been satisfied.²⁹ Accused infringers, reading *eBay* more broadly, will argue that courts should use the balance of hardships or public factors to implement the view that injunctive relief should be limited to those practicing or exclusively licensing the patent. In effect, a presumption that either or both factors are not satisfied should be adopted when the patent owner does not fall into either above category. How well do these positions align with the traditional understanding of the equitable requirements for permanent injunctive relief?

A. *Irreparable Injury/Inadequacy of the Remedy at Law*

The Court's formulation treats inadequacy of the remedy at law and irreparable injury as separate factors without defining how they are different. It is generally understood that the two terms are interchangeable. For example, Doug Laycock writes:

There is more than one way to say that the irreparable injury rule is satisfied, and my footnotes do not always distinguish equivalent formulations. Most commonly, courts use one of the two standard formulations: that plaintiff faces irreparable injury or that legal remedies are inadequate. Occasionally, the court will say the same thing in a nonstandard way: for example, that an injunction is the only effective remedy.³⁰

Dan Dobbs agrees:

In many instances courts formulate the adequate legal remedy rule by saying that equitable relief is denied unless the plaintiff could show that, without such relief, he would suffer an irreparable harm. The two formulas represent the same core ground for refusing equitable relief when non-coercive relief "at law" is available.

....

Many cases have listed both inadequate remedy at law *and* irreparable harm as separate prerequisites to coercive relief. This seems to be an erroneous conflation of the two different kinds of cases, remedial and substantive. Where the issue is remedial, the

the other factors tip heavily in the owner's favor. That approach is, however, of doubtful validity in light of the Court's decision in *Winter v. Natural Resources Defense Council, Inc.*, in which the Court held that the "possibility" of irreparable injury was not sufficient to justify awarding preliminary injunctive relief. 129 S. Ct. 365, 375 (2008). The court added, by way of dicta, that the same considerations would apply to permanent injunctive relief. *Id.* at 381–82.

²⁹ It is sometimes unclear whether the presumption is seen as rebuttable or irrebuttable. I treat it as rebuttable in this Essay, as treating it otherwise would effectively recreate the entitlement approach the Court rejected in *eBay*.

³⁰ Douglas Laycock, *The Death of the Irreparable Injury Rule*, 103 HARV. L. REV. 687, 702 (1990).

adequacy and irreparability rules mean the same thing. Where the issue is substantive, whether the court should create a new right, irreparable harm has a meaning that is different, but one that is not involved at all in the question whether to leave the plaintiff to a noncoercive remedy.³¹

Gene Shreve, however, suggests that the two terms identify different interests: Inadequacy refers to the availability of a less onerous damages remedy that will provide complete relief; irreparability refers to the availability of non-injunctive relief other than damages, (e.g., adequate forum, declaratory relief) that will provide adequate relief.³² The difficulty with this distinction, however, is that the test is not the inadequacy of the remedy of damages. The test asks whether a law court can provide as complete, practical, and efficient relief as a court of equity. Damages are often seen as the quintessential legal remedy, but it is not the sole legal remedy. The Court's failure to clarify this point creates needless uncertainty in this area.³³

The irreparable injury/inadequacy of the remedy at law ("irreparable injury") is said to exist when the remedy at law is not as complete, practical, and efficient as the remedy in equity.³⁴ The usual remedy at law is money damages, which is designed to compensate the injured party for the harm inflicted by the rights violation. Damages cannot undo the harm, but do provide a substitute (money) that enables the right owner to obtain or restore what was lost. In other words, damages permits the plaintiff to purchase a substitute that is comparable to what was lost. When what was lost was money, such as royalties or lost profits, a damages award is a near perfect substitute, save for uncertainty as to calculation of the amount actually lost.³⁵ If, however, no comparable

³¹ DAN B. DOBBS, *LAW OF REMEDIES* § 2.5(1), at 124 (2d ed. 1993) (citations omitted) (citing *Eberle v. State*, 779 S.W.2d 302 (Mo. Ct. App. 1989); *Kugler v. Ryan*, 682 S.W.2d 47 (Mo. Ct. App. 1984); DOUGLAS LAYCOCK, *THE DEATH OF THE IRREPARABLE INJURY RULE* 8 (1991)). For a discussion of the withholding of equitable relief because the interest is substantively insubstantial, see FISCHER, *supra* note 13, § 20.1, at 193–95. "Cases evidencing judicial disinclination to provide equitable relief can in turn be subdivided into several categories: (1) cases where the claimed 'right' raises collateral issues that warrant non-intervention by an equity court; (2) cases where the claimed 'right' is legally insignificant and not deserving of protection on the merits; and (3) cases that raise concerns over the propriety and advisability of judicial involvement." *Id.* § 25, at 227.

³² Gene R. Shreve, *Federal Injunctions and the Public Interest*, 51 *GEO. WASH. L. REV.* 382, 393 (1983).

³³ *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 569 n.11 (E.D. Va. 2007) ("The irreparable harm inquiry and remedy at law inquiry are essentially two sides of the same coin; however, the court will address them separately in order to conform with the *four-factor* test as outlined by the Supreme Court.").

³⁴ FISCHER, *supra* note 13, § 21.2, at 207.

³⁵ Professor Murphy questions whether awards in these contexts should be labeled substitutes rather than specific. Colleen P. Murphy, *What is Specific About "Specific Restitution"?*, 60 *HASTINGS L.J.* 853, 856 (2009) (noting that if the plaintiff receives exactly what was promised, lost, or not delivered, the relief is specific).

substitute exists or comparability cannot be measured or ascertained, a damages remedy may fail to redress the rights violation as completely, practically, and efficiently as an injunction.³⁶

Does practicing or exclusively licensing the patent as opposed to merely holding the patent provide an insight into how the irreparable injury requirement should be resolved? Practicing, exclusively licensing, or merely holding a patent does not, on its face, indicate how the inadequacy of the remedy at law issue should be resolved. Patent holders who practice the patent or exclusively license the patent are commercially exploiting the patent for financial gain. Therefore, it does not initially appear that monetary damages would not compensate for any commercial loss. The non-practicing patent holder does not explicitly fall into this category. One could argue that the non-practicing patent holder has the strange irreparable injury argument over the practicing patent holder. The non-practicing patent holder is practicing in a very real sense the right to exclude by keeping the patent off the market. Forcing him to exploit and use his property creates a harm that is inimitable to monetary evaluation or equivalent. Nonetheless, it is generally assumed that the non-practicing patent holder is seeking an injunction as a negotiating lever against the infringer.³⁷ To the extent that is true, the non-practicing patent holder sustains compensable economic harm from the infringer and is, thus, similarly situated with the patent holder who practices or exclusively licenses the patent.

It may, however, be argued that while the harms are not qualitatively different, they are quantitatively different because damages may be difficult to calculate in one or more of the contexts, but not all of the contexts. Courts and some commentators have adopted this approach, although they have done so with conditions, the most common being that the practicing patent holder be in direct competition with the infringer.³⁸ The presence of direct competition and infringement results in potential lost profits, potential lost market share, and potential lost goodwill, all of which may be difficult to measure and, thus, may support the award of injunctive relief. Difficulty in measuring damages is a

Professor Murphy's taxonomy is more accurate. On the other hand, the plaintiff does not receive the exact performance promised, but a different performance mandated by intervening judicial authority. The performance is similar, but not identical to what was lost or not originally provided.

³⁶ *Multi-Channel TV Cable Co. v. Charlottesville Quality Cable Operating Co.*, 22 F.3d 546, 551 (4th Cir. 1994) (stating that "irreparable injury is suffered when monetary damages are difficult to ascertain" (quoting *Danielson v. Local 275*, 479 F.2d 1033, 1037 (2d Cir. 1973))); FISCHER, *supra* note 13, § 21.2.3, at 210.

³⁷ Professor Ward Farnsworth noted, however, that in some cases other factors, such as enmity, may cause efficient bargains to be lost. Ward Farnsworth, *Do Parties to Nuisance Cases Bargain After Judgment? A Glimpse Inside the Cathedral*, 66 U. CHI. L. REV. 373, 421 (1999) (observing from a small sample of cases that plaintiffs receiving nuisance abatement injunctions did not, as a rule, use the injunctions to leverage a larger settlement or any settlement for that matter).

³⁸ See generally Chao, *supra* note 26.

traditional ground for finding the remedy at law inadequate, and the types of harms listed—lost profits (particularly lost future profits), loss of market share, and loss of goodwill—have been accepted by courts as reasons for finding the legal remedy (damages) inadequate because of the difficulty of accurately calculating what was lost.³⁹

A non-practicing patent holder does not suffer the same types of loss as a practicing patent holder, but that does not necessarily mean the non-practicing patent holder's legal remedy (damages) is adequate. Even if we stipulate that the non-practicing patent holder only wishes to extract more money from the infringer,⁴⁰ which he will be able to do with an injunction, we still have the question of whether the royalty damages award is comparable to what was lost. The lost chance of exploiting property has itself been recognized as demonstrating that the legal remedy of damages is inadequate.⁴¹

B. *Balance of Hardships*

In order to obtain injunctive relief, the defendant's cost of complying with the injunction should not be inappropriately large relative to the plaintiff's benefits gained from obtaining the injunction.⁴² The test is largely centered on the notion of preventing economic waste. For example, defendant builds a structure that slightly intrudes onto plaintiff's land. The economic benefit to plaintiff of recovering possession of the occupied land is small because the amount of land occupied is small. If, however, defendant must dismantle the structure to restore possession of the land to plaintiff, the cost to defendant may be great. Weighing the competing benefit to plaintiff versus the cost to defendant, a court may conclude that in this context it is more equitable to limit plaintiff to damages rather than order defendant to cease encroaching onto plaintiff's property.

Balancing of hardships is usually limited to situations when the defendant's actions are not willful or reckless. If a defendant deliberately trespasses onto plaintiff's property or acts in reckless disregard of

³⁹ See KIRSTIN STOLL-DEBELL ET AL., *INJUNCTIVE RELIEF: TEMPORARY RESTRAINING ORDERS AND PRELIMINARY INJUNCTIONS* 77–114 (2009); DOBBS, *supra* note 31, § 2.5(2)(4).

⁴⁰ *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 582 (E.D. Va. 2007). “[A]fter balancing the equities, the court concludes that damages at law constitute an adequate remedy for eBay’s willful infringement. Briefly recapping the relevant analysis, the court’s conclusion that monetary damages adequately compensate MercExchange for its injury is driven not only by the fact that MercExchange failed to develop its patent or develop its patent through a licensing program, but also by the fact that MercExchange has established a pattern of utilizing the ‘265 patent primarily as a sword to aid in litigation or threatened litigation against infringers or potential infringers.” *Id.*

⁴¹ FISCHER, *supra* note 13, § 21.2.5, at 212–13.

⁴² *Id.* § 33.2, at 300.

plaintiff's property rights, many courts reject balancing altogether.⁴³ In this context, a defendant deliberately bypasses the obligation to negotiate a transfer of rights. Balancing would effectively nullify an essential aspect of property rights and transform property rights into liability rules. To prevent this, courts limit balancing to situations when the defendant's breach is not morally culpable in the sense of being deliberate or reckless.

It is difficult to align these traditional balancing-of-hardships concerns with different types of patent holders and patent infringers.⁴⁴ For example, a finding that the infringement was willful would operate to deny the defendant infringer the opportunity to raise the balance of hardship factor under the traditional equitable approach to granting injunctive relief. The focus on balancing is on the cost of compliance to the infringer, tied to an examination of the infringer's state of mind in engaging in the violation of the plaintiff's property rights. Whether the plaintiff is practicing or not practicing, the patent tells us little about the relative cost of balancing and nothing about the defendant's state of mind relative to the actual infringement.

Compliance with an order to cease infringing may create third party impacts that are larger than the impact on the defendant. The plaintiff's licensing demands may prevent the end product from being commercially viable; thus, denying to the public benefits that patent law is designed to foster. Although third party effects can be considered under the balancing-of-hardships factor, they are often considered in the public policy factor of the traditional four-part test for injunctive relief.⁴⁵

⁴³ RESTATEMENT (SECOND) TORTS § 941 cmt. b (1979); see also Mitchell G. Stockwell, *Implementing eBay: New Problems in Guiding Judicial Discretion and Enforcing Patent Rights*, 88 J. PAT. & TRADEMARK OFF. SOC'Y 747, 751 (2006).

⁴⁴ A number of commentators have noted that the balancing of hardships factor is a relatively recent import into the test for injunctive relief. John Leubsdorf, *The Standard for Preliminary Injunctions*, 91 HARV. L. REV. 525, 534 (1978). The factor is generally understood to have first evolved in nuisance cases and then migrated to other areas of the law. See Robert G. Bone, *Normative Theory and Legal Doctrine in American Nuisance Law: 1850 to 1920*, 59 S. CAL. L. REV. 1101, 1105-06 (1986); see generally Jared A. Goldstein, *Equitable Balancing in the Age of Statutes*, 96 VA. L. REV. (forthcoming May 2010), available at <http://ssrn.com/abstract=1460924>.

⁴⁵ Whether third party impacts are considered under the balance of hardship factor or the public policy factor may have significance due to the context in which the third party impacts are considered. In the balancing-of-hardships context, third party impacts are measured directly against the plaintiff's interest in having the injunction issued; in the public policy context, the plaintiff's interest will likely be subsumed within the broader public interests at stake. Moreover, evaluating third party impacts in the balancing-of-hardships context could cause those considerations to be ignored if the defendant's willfulness caused the balancing factor to not be considered.

C. Public Policy

Patent holdups are commonly condemned as antithetical to the general design and goal of patent law, which is to encourage the pursuit of science and engineering for the public good.⁴⁶ To the extent an injunction gives the plaintiff leverage to accomplish a patent holdup, that remedy may be seen as inconsistent with a basic goal of patent law. An injunction is particularly likely to result in a holdup when it is granted to a non-practicing patent holder who, as noted, may use the injunction to exert leverage in negotiations.⁴⁷

On the other hand, a patent is a form of property and property rights have not traditionally been understood as including a duty to exploit; indeed, the concept of right is completely converse to that of duty. Granting different remedies to patent holders based on their exploitation of the patent consigns the patent holder who does not exploit the patent to second-class status. This second-class status creates, in effect, an incipient duty to exploit. While this may be consistent with patent law as it is or as it is idealized to be, one should not ignore the Coasean consequences that property status will have on transaction costs associated with the negotiation and transfer of patent rights to putative and actual infringers.

A patent holder whom public policy favors when assessing entitlement to injunctive relief is in a stronger position to negotiate terms over access to or use of the patent than its adversary. This holds true whether the patent holder actively practices the patent or merely holds it. Certainly, there is a risk that practicing patent holders may abuse any preferred position by, for example, blocking innovation. There is also a danger that non-practicing patent holders will block commercial development by making excessive demands in connection with third party uses of their existing patents. The important point is that assignment of a preferred legal position will have strategic consequences when negotiating over access to or use of the patent. It is not surprising

⁴⁶ See generally Lemley & Shapiro, *supra* note 24. Some commentators disagree that patent holdups are a problem. J. Gregory Sidak, *Holdup, Royalty Stacking, and the Presumption of Injunctive Relief for Patent Infringement: A Reply to Lemley and Shapiro*, 92 MINN. L. REV. 714 (2008) (critiquing Lemley and Shapiro on the ground that empirical data does not support the patent holdup thesis).

⁴⁷ It is often argued that the plaintiff seeks injunctive relief as leverage to enhance its negotiating position. See, e.g., Robert Cooter, *Unity in Tort, Contract, and Property: The Model of Precaution*, 73 CAL. L. REV. 1, 27 (1985) (“One purpose of the remedy of injunctive relief in nuisance cases is to strengthen the bargaining position of victims. The right to an injunction enables victims to bargain from a position of strength.”) This bargaining power allows victims to demand a combination of abatement and compensation that they find preferable to injunctive relief. “In economic jargon, the right to injunctive relief establishes the victims’ threat point in bargaining; the injurer cannot induce the victims to settle unless the terms of the cooperative solution benefit the victims more than the advantage they derive from exercising their threat.” *Id.* But see Farnsworth, *supra* note 37, at 421 (discussing absence of Coasean bargaining in nuisance cases when injunctive relief was granted).

that advocates of particular views of the goals and purposes of patent law have seen *eBay* as a critical decision because it reduces patent holders' ability to command, as a matter of course, injunctive relief after establishing an infringement.

The public policy factor, thus, seems to be the linchpin upon which the court's discretion to grant or withhold injunctive relief in the face of a proven statutory violation is justified.⁴⁸ What, however, is the substance of this public policy? The law itself cannot be said to violate public policy except to say that the law is unconstitutional. Courts are uniformly deferential to the legislative body as the primary expositor of the jurisdiction's public policy. What is necessarily meant is that the remedy of injunctive relief, a remedy expressly provided for by the statute, is somehow inconsistent with the explicit or implicit policies of the statute itself. How is that consistency or inconsistency determined?

One approach is to revive the longstanding debate whether the goals and purposes of the statute are determined by the statutory language alone or whether the language may be amplified by external means, such as legislative history.⁴⁹ That distinction does not appear to be significant in the case of patents because the statute itself makes a reference to an external means—the customary practices of equity.

Another approach is that the implied and overreaching goal of all statutory schemes is compliance. A court may not permit noncompliance with statutory requirements by refusing to enjoin a violation; however, a court may adjust and select among statutory remedies as long as compliance is achieved.⁵⁰ What does compliance mean in the context of patent enforcement? If a patent holder receives only royalties and the "infringer" is allowed to continue using the patent without the patent holder's permission, has compliance been achieved? One view is that it has not. Compliance means that the infringement has ceased. A damage award may deter continued violation or infringement. If it does, compliance is achieved. But where infringement continues, the patent holder is obliged to suffer with the salve of damages as a remedy.

Damages can be seen as a court-awarded license.⁵¹ In effect the patent is not infringed because the defendant is authorized to use the

⁴⁸ It is unclear whether public policy must be advanced by the granting or denying of the injunction or not harmed by the granting or denying of the injunction. Courts have used both formulations in this area. See 7 CHISUM, *supra* note 2, § 20.04.

⁴⁹ Compare Max Radin, Note, *Statutory Interpretation*, 43 HARV. L. REV. 863, 869–70 (1930) (arguing that legislative intent is a fiction), with James M. Landis, Note, *A Note on "Statutory Interpretation,"* 43 HARV. L. REV. 886, 888–89 (1930) (arguing that legislative intent is real and that difficulty in discovering actual legislative intent should not be construed as evidence of its non-existence).

⁵⁰ Zygmunt J.B. Plater, *Statutory Violations and Equitable Discretion*, 70 CAL. L. REV. 524, 528 (1982).

⁵¹ 35 U.S.C. § 284 (2006) ("Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the

patent as long as compensation is provided. Compliance is here equated with advancement of the ends and purposes of the Patent Act. If the court finds that a court-awarded license would better achieve that goal, damages achieve compliance and an injunction would effectively deter compliance. Unless we have a clear understanding of what compliance is and is not, a compliance mandate does not significantly advance the inquiry into whether injunctive relief should or must be available for statutory violations.

The Court has recognized that Congress may set public policy and in so doing circumscribe the equitable discretion to grant or deny an injunction. In *Virginian Railway Co. v. System Federation No. 40*, the Court expressly noted that Congress's declaration that railroads negotiate with unions overrides the courts' traditional unwillingness to order parties to negotiate.⁵²

Professor Plater notes a general presumption that a statutory violation should be cured by injunctive relief.⁵³ Plater provides an extended discussion of Supreme Court decisions addressing the issue. The problem is that it is difficult to extract from the decisions the explicit rule that all statutory violations presumptively warrant injunctive relief. The Court is usually guarded and often dealing with issues of separation of powers or justiciability that muddy and sublimate the pure remedial issue. While the Court's past decisions can be read for the proposition that statutory violations carry a presumptive entitlement to injunctive relief, they can also be read as retaining a strong role for traditional judicial discretion in this area. In that sense, *eBay* continues that ambiguous line of authority. On the one hand, the *eBay* Court rejects the entitlement theory and disconnects statutory violations from compliance remedies;⁵⁴ on the other hand, the Court does this by purporting to read Congress's intent on this point by referencing the statutory language that provides for injunctive relief for statutory violations. Interestingly, the Court makes no attempt to define Congress's understanding of the

infringer . . ."). As noted by one student commentator, when lost profits are difficult to prove, patent holders are entitled to at least a "reasonable royalty" for damages. "[C]ourts calculate damages as the royalty for which the patent holder could have licensed the patent. This economic approach tries to determine the minimum royalty the patent holder would accept and the maximum royalty the infringer would be willing to pay and then finds a price in between these two numbers." Tim Carlton, Note, *The Ongoing Royalty: What Remedy Should a Patent Holder Receive When a Permanent Injunction is Denied?*, 43 GA. L. REV. 543, 552 (2009) (citations omitted).

⁵² 300 U.S. 515, 552 (1937). "The fact that Congress has indicated its purpose to make negotiation obligatory is in itself a declaration of public interest and policy which should be persuasive in inducing courts to give relief. It is for [such] reasons that courts, which traditionally have refused to compel performance of a contract to submit to arbitration . . . enforce statutes commanding performance of arbitration agreements." *Id.*

⁵³ Plater, *supra* note 50, at 566–85.

⁵⁴ *EBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393 (2006).

phrase “in accordance with the principles of equity,” making only a passing reference to the dispositive issue of the case.⁵⁵

The *eBay* Court also noted that similar language appears in the Copyright Act and that the Court had previously rejected the claim that copyright infringements carry an entitlement to injunctive relief.⁵⁶ The *New York Times Co. v. Tasini* decision relied on by the *eBay* Court is less sweeping than the Court suggests. *Tasini* provided:

Notwithstanding the dire predictions from some quarters, . . . it hardly follows from today’s decision that an injunction against the inclusion of these Articles in the Databases (much less all freelance articles in any databases) must issue. The parties (Authors and Publishers) may enter into an agreement allowing continued electronic reproduction of the Authors’ works; they, and if necessary the courts and Congress, may draw on numerous models for distributing copyrighted works and remunerating authors for their distribution. In any event, speculation about future harms is no basis for this Court to shrink authorial rights Congress established in § 201(C). Agreeing with the Court of Appeals that the Publishers are liable for infringement, we leave remedial issues open for initial airing and decision in the District Court.⁵⁷

eBay continues the Court’s tradition of fence-sitting on the issue of the compellingness of injunctive relief for statutory violations. The one consistent theme in the decisions is that public policy is the determinative factor. Unfortunately, the Court is somewhat hazy as to the source and nature of the public policy consideration. In large part, this is due to the myriad contexts in which the Court confronts the issue, e.g., pure statutory remedy, justiciability concerns, separation of powers, etc.⁵⁸ Even in the pure remedial context, the question of the compellingness of injunctions as remedies for statutory violations is sometimes addressed as a statutory public policy issue⁵⁹ and other times as a mixed question.⁶⁰

⁵⁵ “The decision to grant or deny permanent injunctive relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion. . . . These familiar principles apply with equal force to disputes arising under the Patent Act.” *Id.* at 391. The Court has long recognized “‘a major departure from the long tradition of equity practice should not be lightly implied.’ Nothing in the Patent Act indicates that Congress intended such a departure. To the contrary, the Patent Act expressly provides that injunctions ‘may’ issue ‘in accordance with the principles of equity.’” *Id.* at 391–92 (citations omitted) (quoting *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 320 (1982); 35 U.S.C. § 283 (2006)).

⁵⁶ *Id.* at 392–93 (citing *New York Times Co. v. Tasini*, 533 U.S. 483, 505 (2001)). Compare H. Tomás Gómez-Arostegui, *What History Teaches Us About Copyright Injunctions and the Inadequate-Remedy-at-Law Requirement*, 81 S. CAL. L. REV. 1197 (2008) (stating that traditional English practice was to protect copyrights with injunctions against infringements).

⁵⁷ *Tasini*, 533 U.S. at 505–06 (citations omitted).

⁵⁸ See Plater, *supra* note 50, at 535–36 (suggesting a three dimensional approach to the issue).

⁵⁹ *Tasini*, 533 U.S. at 505.

Lower courts will have significant flexibility in formulating appropriate infringement remedies because the Court's decisions fail to identify a single, correct approach for resolving the appropriateness of injunctive relief to remedy a statutory violation. This will result in some uncertainty, if not confusion, as to when injunctive relief will be used to redress actual infringements. The post-*eBay* decisions reflect this uncertainty. Some decisions read *eBay* narrowly, and effectively recreate an entitlement theory in the form of a presumption that proving one or more of the first three parts of the four-part test for infringement establishes the fourth part of public policy.

Other courts have, however, read *eBay* as invigorating the traditional equity requirements for injunctive relief. For these courts, the proven statutory violation merely satisfies the first factor of the test. A prevailing plaintiff still must demonstrate that the other factors support the granting of an injunction. In some cases the threshold is set quite high, in effect permitting the defendant to expropriate the plaintiff's patent by paying the court awarded royalty as a compulsory licensing fee.

Patent litigation becomes more strategic and creative when the Court keeps the rules open and ambiguous. Forum selection becomes more critical as certain trial judges and circuits become identified with a narrow or broad reading of *eBay*. In this regard, the Court recently eased the "case and controversy" requirements relative to the remedy of declarative relief for alleged patent infringement; a change that will likely give putative infringers more control over the setting of patent infringement litigation.⁶¹ Initiating a declaratory relief claim forces the patent holder to bring the infringement action as a compulsory counterclaim in the forum selected by the alleged infringer.⁶²

IV. REMEDIAL STRATEGIZING

If *eBay Inc. v. MercExchange, L.L.C.* reflects a rejection of "one size fits all" in terms of the ordinary availability of injunctive relief on proof of

⁶⁰ See *eBay Inc.*, 547 U.S. at 392–93 (rejecting categorical test that, absent exceptional circumstances, an infringement required a statutory remedy of injunction as a matter of course and instead adopting a case-by-case approach to remedy).

⁶¹ *Medimmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764, 774 n.11, 776 (2007) (rejecting requirement that alleged infringer must have a "reasonable apprehension of suit" before initiating action for declaratory relief). It is sufficient that the patentee claim that the declaratory plaintiff is violating the patentee's rights. See *Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1336 (Fed. Cir. 2008).

⁶² *Vivid Techs., Inc. v. Am. Sci. & Eng'g, Inc.*, 200 F.3d 795, 802 (Fed. Cir. 1999) ("[W]hen the same patent is at issue in an action for declaration of non-infringement, a counterclaim for patent infringement is compulsory and if not made is deemed waived."). See generally 6 ROBERT A. MATTHEWS, JR., ANNOTATED PATENT DIGEST § 39:27 (2010) (infringement claim compulsory to directed judgment claim) (collecting decisions).

patent infringement in favor of remedy tailoring,⁶³ then courts should have some idea of what design or end they are tailoring towards. Here, tailoring will either reflect a rights orientation, as advocated by some intellectual property commentators, or a traditional remedies orientation, which may or may not align with patent law aims and objectives.

A patent rights orientation poses the question of whether patent law allows inventors to lock up ideas and processes, much like an author can lock up a character,⁶⁴ or whether patent law should be applied to encourage and spur innovation?⁶⁵ One may, as the opinion for the Court did in *eBay*, distinguish between rights and remedies, but how the right is defined will influence and control the remedy ultimately provided.⁶⁶ Correlatively, the remedy actually made available will define the practical, real value of the right.

In the aftermath of *eBay*, courts have taken several divergent paths in addressing whether the remedy of injunctive relief should be made available for proven infringements. One approach is the traditional test that emphasizes the four factors used in equity to determine the appropriateness of injunctive relief. If a damages award will compensate the plaintiff for the harm caused by the infringement or if the balance of hardship favors the defendant, injunctive relief is denied. Otherwise, injunctive relief is granted. Under this approach, the focus is on the difficulty in calculating damages or a straight weighing of hardships; factors emphasized in the policy approach, such as whether the plaintiff is practicing the patent or is a university, may be downplayed or ignored. For example, in *Smith & Nephew, Inc. v. Synthes (U.S.A.)*, the court granted permanent injunctive relief on a finding of actual infringement when the infringement interfered with the plaintiff's market momentum and ability to form relationships.⁶⁷ This harm was deemed to outweigh the harm the defendant would sustain if it was unable to continue to use the plaintiff's patent. The court was not persuaded that the plaintiff's licensing of its patent diminished the claim for injunctive relief. A similar balancing approach was used in *Hynix Semiconductor Inc. v. Rambus Inc.*,⁶⁸ although here the balancing favored the defendant. The court denied the plaintiff's request for an injunction because the infringement was

⁶³ Michael W. Carroll, *Patent Injunctions and the Problem of Uniformity Cost*, 13 MICH. TELECOMM. & TECH. L. REV. 421, 421–22 (2007).

⁶⁴ See, e.g., *J.D. Salinger v. Colting*, 641 F. Supp. 2d 250 (S.D.N.Y. 2009) (granting preliminary injunction barring publication of novel *60 Years Later: Coming Through the Rye*, a derivative of J.D. Salinger's iconoclastic *Catcher in the Rye*, and an infringement of the character Holden Caulfield).

⁶⁵ Cf. *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11th Cir. 2001) (vacating injunction barring publication and distribution of book *The Wind Done Gone*, which was a derivative of *Gone With The Wind*; the court found that the newer book was protected under the fair use defense as a parody of the original work).

⁶⁶ See *supra* Part II.

⁶⁷ 466 F. Supp. 2d 978, 982, 985 (W.D. Tenn. 2006).

⁶⁸ 609 F. Supp. 2d 951 (N.D. Cal. 2009).

deemed to be non-willful and granting the remedy would destroy the defendant's business.⁶⁹ The court specifically rejected the contention that equity required that the patent be practiced as a condition to granting injunctive relief.⁷⁰

The appropriateness of enjoining proven infringements can also, or alternatively, be approached through a focus on patent policy concerns, such as bringing new products to markets. Foremost here are the factors of direct competition and practicing the patent.⁷¹ Another factor often referenced is the relationship of the infringed product to the larger product in which it is incorporated. This approach follows Justice Kennedy's concurrence in *eBay* in which he suggested that injunctive relief might be inappropriate if the infringed product was only a small component of the larger product sold to consumers.⁷² A number of lower courts have emphasized this factor in deciding whether to grant injunctive relief.⁷³

Courts have also identified several other policy factors, but have reached inconsistent results as to how the factor should be applied. For example, some courts treat licensing the patent as akin to practicing the patent, as some commentators suggest,⁷⁴ and thus a factor favoring injunctive relief.⁷⁵ Some courts treat licensing the patent as evidence that

⁶⁹ *Id.* at 959.

⁷⁰ *Id.* at 968.

⁷¹ *Callaway Golf Co. v. Acushnet Co.*, 585 F. Supp. 2d 600, 619 (D. Del. 2008), *rev'd on other grounds*, 576 F.3d 1331 (Fed. Cir. 2009); *Black & Decker Inc. v. Robert Bosch Tool Corp.*, No. 04-C-7955, 2006 WL 3446144, at *4 (N.D. Ill. 2006); *Visto Corp. v. Seven Networks, Inc.*, No. 2:03-CV-333-TJW, 2006 WL 3741891, at *4 (E.D. Tex. 2006); Chao, *supra* note 26, at 549–55 (collecting cases).

⁷² *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396–97 (2006). “When the patented invention is but a small component of the product . . . 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.” *Id.* In these cases, “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.” *Id.* at 397.

⁷³ *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at *3 (E.D. Tex. 2006) (finding that plaintiff was entitled to a reasonable royalty of one eighth of one percent (0.00125) based on the contribution provided by the infringed product to the whole product sold to consumers); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 441 (E.D. Tex. 2006); Chao, *supra* note 26, at 558–63 (collecting cases).

⁷⁴ Mark A. Lemley & Carl Shapiro, Reply, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 2163, 2172–73 (2007) (“We do not intend to suggest—and do not read *eBay* to establish—a bright-line rule that . . . those who do not practice never get injunctions. Sometimes nonpracticing entities should get injunctions, for example because they have granted an exclusive license to an entity that does practice the invention . . .”).

⁷⁵ *See 3M Innovative Props. Co. v. Avery Dennison Corp.*, No. 01-1781, 2006 WL 2735499, at *1 (D. Minn. 2006). “Avery asserts that a damage award to 3M would fully compensate 3M, but the Court cannot agree. . . . Having lost at trial, Avery wants to

a monetary award is adequate to compensate the plaintiff for the harm caused by the infringement, and thus as a factor undermining the claim for injunctive relief.⁷⁶ Some courts treat the defendant's ability to design around the patent as a factor in favor of granting injunctive relief.⁷⁷ Other courts disagree.⁷⁸

The Court's decision in *eBay* to use a factors approach that is committed to the trial court's discretion rather than to issue categorical rules has generated, not surprisingly, a myriad number of conflicting decisions. While practicing the patent and being in direct competition is a factor in many cases where courts grant injunctive relief, it is not present in all of those cases, nor does the factor's presence guarantee that injunctive relief will be granted.

Most courts appear to have taken to heart the Court's basic admonition in *eBay* that the decision to grant injunctive relief on proof of infringement rests on the traditional four-part equitable test. That said, it is difficult to discern a significant trend in the post-*eBay* cases other than a significant reinvigoration of the irreparable injury requirement. Establishing that money damages will not adequately compensate the plaintiff for the defendant's infringement also goes far in substantiating

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. 'In a patent infringement case, where the infringing device will continue to infringe and thus damage Plaintiffs in the future, monetary damages are generally considered to be inadequate.' As such, the Court finds that 3M has suffered an irreparable injury and that monetary damages are inadequate to compensate for that injury." *Id.* (quoting *Schneider (Europe) AG v. Scimed Life Sys., Inc.*, 852 F. Supp. 813, 861 (D. Minn. 1994)); *see also* *Advanced Cardiovascular Sys., Inc. v. Medtronic Vascular, Inc.*, 579 F. Supp. 2d 554, 560-61 (D. Del. 2008). The confusion results from the Court's equivocal statements in *eBay* that patent owners who license their technology "may" be able to secure injunctive relief against infringement. *Ebay Inc.*, 547 U.S. at 392.

⁷⁶ *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 WL 37742, at *2 (E.D. Mich. 2007) (stating that the willingness to license patented technology "indicates an interest only in obtaining money damages against accused infringers"); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614, at *6 (W.D. Okla. 2006); *see also* *Telcordia Techs., Inc. v. Cisco Sys., Inc.*, 592 F. Supp. 2d 727, 748 & n.10 (D. Del. 2009) ("Further supporting the court's conclusion that Telcordia will not suffer (and has not suffered) irreparable harm is the fact that it licensed the patents-in-suit to two other defendants, Lucent Technologies, Inc. and Alcatel USA Inc. Thus, Cisco's infringement of the patents-in-suit has not affected Telcordia's ability to license the patents-in-suit. Telcordia's willingness to forego its patent rights for compensation, while not dispositive, is one factor for the court to consider in its irreparable harm analysis. . . . Telcordia's willingness to license its patents also suggests that its injury is compensable in monetary damages, which is inconsistent with the right to exclude." (citations omitted)).

⁷⁷ *See* *Novozymes A/S v. Genecor Int'l, Inc.*, 474 F. Supp. 2d 592 (D. Del. 2007).

⁷⁸ *Z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 442 (E.D. Tex. 2006). On the cost of a design around in *Z4 Techs., Inc.*, see Garrett Barten, *Permanent Injunctions: A Discretionary Remedy for Patent Infringement in the Aftermath of the eBay Decision*, 16 U. MIAMI BUS. L. REV. 1, 9 (2007).

the balance-of-hardships and public policy prongs of the test, but that has always been the case in equity.

EBay may appear to be exceptional, but it rests on a decided proclivity of the Court over the past twenty-five years to carefully police the boundary between law and equity, particularly in the area of remedies.⁷⁹ Commentators may disagree with the Court's conclusions in this area, and the boundary lines the Court will enforce may be difficult to discern. Nonetheless, the general direction the Court is taking is consistent. The Court reads congressional grants of equitable remedies narrowly, and *eBay* follows in the footsteps of that approach. The providing of equitable relief in the Patent Act does not operate to expand the power of courts or dispense with the traditional requirements for granting equitable relief. A court could, in effect (and under *eBay, Inc.* does), provide the same quantum of equitable relief for statutory violations as would the Patent Act if it did not contain a specific recognition of equitable relief.

V. CONCLUSION

Both Professor Calabresi and Justice Scalia have said that we live in an age of statutes. That may be true as to "rights," but it appears to have little weight when it comes to equitable remedies. Here, the Court remains committed to a traditional approach that emphasizes the discretionary nature of the decision to grant or withhold the equitable remedy. For some, discretion begets justice, for it permits individualized decision making that is sensitive to the facts of the particular case. For others, discretion begets arbitrariness. The absence of rules undermines accountability and frustrates planning because those directly affected by the decision cannot accurately forecast the result. It is the old "half-filled, half-empty" problem.

⁷⁹ FISCHER, *supra* note 13, § 20.1, at 193–94 (discussing *Great-West Life & Annuity Ins. Co. v. Knudson*, 534 U.S. 204 (2002); *Grupo Mexicano de Desarrollo, S.A. v. Alliance Bond Fund, Inc.*, 527 U.S. 308 (1999); and *Mertens v. Hewitt Assocs.*, 508 U.S. 248 (1993)). The Court's approach has been criticized. See John H. Langbein, *What ERISA Means by "Equitable": The Supreme Court's Trail of Error in* Russell, Mertens, and *Great-West*, 103 COLUM. L. REV. 1317 (2003); Judith Resnik, *Constricting Remedies: The Rehnquist Judiciary, Congress, and Federal Power*, 78 IND. L.J. 223 (2003). The Court's approach also has its defenders. See John Choon Yoo, *Who Measures the Chancellor's Foot? The Inherent Remedial Authority of the Federal Courts*, 84 CAL. L. REV. 1121 (1996).