

Life after *eBay v. MercExchange* – The Strong Get Stronger



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INTRODUCTION

The Supreme Court decision in *eBay v. MercExchange*² dramatically reduces the likelihood that a non-practicing patentee can obtain a permanent injunction after winning a patent infringement trial. A number of articles have been written regarding the adverse impact of this landmark decision on the non-practicing patentee.³ The adverse impact of this decision on so-called patent trolls, who use their patents solely as a means for obtaining licensing fees, is particularly acute.⁴ At least one article has commented on the drop in stock price of Acacia, a publicly-traded patent holding company, after the *eBay* decision.⁵

This article reviews the flip-side to the *eBay* decision – i.e., the benefits to market leaders since the *eBay* decision. The four factors required in *eBay* for a permanent injunction, i.e., (1) irreparable injury, (2) inadequacy of legal remedies (monetary damages), (3) balancing of hardship in favor of the patent owner, and (4) no disservice to the public interest will almost always favor the market leader over those less dominant in the market. The greater the disparity in size in the market, the greater the more dominant entity will benefit from the *eBay* decision over the less dominant entity. This is true regardless of whether the more dominant entity in the market is the patent owner or the adjudicated infringer. The trend has been and will continue to be that dominant entities in a market will be able to avoid permanent injunctions that would severely harm their core business. As such, dominant entities will be able to now settle patent infringement accusations against them for less money than prior to the *eBay* decision, and will become ever more dominant. Three cases since *eBay* illustrate that the four factors for permanent injunction under *eBay* favor market leaders. These three are now reviewed.

Grant Of Permanent Injunction In Favor Of Largest Offshore Driller Precedes Its Takeover Of The Adjudicated Infringer, With No Premium Paid To The Adjudicated Infringer's Shareholders

In *Transocean Offshore Deepwater Drilling v. GlobalSantaFe Corp.*,⁶ Transocean sued GlobalSantaFe (“GSF”) for infringement of numerous apparatus and method claims of four patents to which it was the exclusive licensee. Transocean and GSF were not only direct competitors in equipment for deepwater drilling, but also two of the largest competitors in that market. Following an eight-day trial in which only two of the originally asserted claims remained at issue, the jury rejected all of GSF’s affirmative defenses. The district court granted Transocean’s motion for a permanent injunction, after finding that each of the four factors set forth in *eBay* favored Transocean.

The district court noted that Judge Kennedy’s concurrence in *eBay* recognized that “[t]o the extent earlier cases establish a pattern of granting an injunction against patent infringers almost as a matter of course, this pattern simply illustrates the result of the four-factor test in the contexts then prevalent.” 126 S. Ct. at 1842 (Kennedy, J., concurring). The district court further noted that GSF did not cite any case in which the continuing infringer in direct competition with a patent holder had not been permanently enjoined from using the patented invention to compete against the patent holder.

The district court stated that if it did not enter a permanent injunction, it would force a compulsory license on Transocean that would not contain any of the commercial business terms typically used by a patent holder to control its technology or limit encroachment on its market share.

The district court found that since GSF’s witnesses testified that the infringing rigs could be modified to avoid infringement with minimum disruption, the balance of hardship weighed in favor of Transocean.

The district court stated that public policy favored the enforcement of patent rights, and found that GSF’s concerns regarding the delay in production and concomitant disservice to the public that might be caused by an injunction could be mitigated

by limiting the scope of the injunction. Thus, the court concluded that the public interest factor weighed in favor of an injunction against GSF from future infringement.

The court entered a permanent injunction that required GSF to implement the structural modifications described by its own witness that both parties agreed would prevent future infringement with minimal disruption to GSF’s ability to fulfill its ongoing contracts and to practice the prior art.

On July 23, 2007, Transocean announced that it was buying GSF for about \$18 billion, with no premium for GSF shareholders, including stock, as well as a distribution of \$15 billion to the stockholders of both companies.⁷ The deal is expected to close at the end of 2007.⁸ At the time of this announcement, Transocean was the largest offshore driller, and GSF its smaller rival.⁹ In the ensuing period since the district court decision (on December 27, 2006) to issue a permanent injunction against patent infringement through October 31, 2007, Transocean’s stock increased about 60% versus less than 20% for the S&P 500.

Large Infringer Whose Core Business Is Not Enjoined Outperforms Smaller Patentee Who Wins Permanent Injunction

In *Tivo Inc. v. EchoStar Communications Corp.*,¹⁰ Tivo claimed that EchoStar’s digital video recorders (DVRs) infringed several patent claims. In April 2006, a jury found that EchoStar’s accused DVRs infringed each of the asserted claims, and awarded Tivo compensatory damages of about \$74 million. The district court granted Tivo’s motion for a permanent injunction.

The district court held that Tivo had demonstrated that it continued to suffer irreparable injury in the absence of an injunction and there was no adequate remedy at law.¹¹ The district court noted that EchoStar competed directly with Tivo because EchoStar marketed its infringing products to potential DVR customers as an alternative to purchasing Tivo’s DVRs. The district court noted that the availability of the infringing products led to loss of market share for Tivo’s products, and that loss in this nascent market was a key consideration in finding that Tivo suffered irreparable harm. More specifically, the district court stated that Tivo was losing market share at a critical time in the market’s development, “market share that it will not have the same opportunity to capture once the market matures.”¹²

The district court noted that DVR customers are “sticky customers,” that is, they

tend to remain customers of the company from which they obtain their first DVR. Thus, the impact of EchoStar's continued infringement was shaping the market to Tivo's disadvantage and resulted in long-term customer loss. This was particularly key since Tivo's primary focus was on growing a customer base specifically around the product with which EchoStar's infringing product competed. Tivo was a relatively new company with only one primary product, so the loss of market share and of customer base as a result of infringement was causing severe injury that could not be remedied by monetary damages.¹³

The district court also ruled that the balance of harm favored an injunction. While some harm would come to EchoStar if an injunction issued, that harm was less than the harm to Tivo without an injunction. The district court noted that the injunction would not interfere with EchoStar's satellite transmission business. Further, software updates transmitted directly to the infringing products allowed for the disabling of the DVR capabilities of the infringing products, and the district found that this was not a weighty hardship for EchoStar, and that the distributor's sales of EchoStar's core products would not be affected by the injunction.

Lastly, the district court held that the public interest would not be disserved by the grant of the permanent injunction. The district court noted that the public has an interest in maintaining a strong patent system, and that this interest is served by enforcing an adequate remedy for patent infringement — in this case, a permanent injunction. The district court further noted that the infringing products were not related to any issue of public health or any other equally key interest; they were used for entertainment. The district court stated that the public does not have a greater interest in allowing EchoStar's customers to continue to use their infringing DVRs.¹⁴

In the ensuing period since the district court decision (on August 17, 2006) to issue a permanent injunction against patent infringement through October 31, 2007, Tivo's stock has increased about 9% versus more than 60% for EchoStar. While Tivo obtained a permanent injunction, EchoStar was not precluded from growing its satellite business. On October 31, 2007, EchoStar had a market cap of over \$21 billion, whereas Tivo had a market cap of under \$700 million. This further supports the hypothesis that strong, dominant companies will continue to get strong, even

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enjoined infringers, so long as their core business is not impacted by the injunction.

Auto Company Defeats Motion For Permanent Injunction, Federal Circuit Remands For Determination Of Compulsory License Rate

In *Paice LLC v. Toyota Motor Corp.*,¹⁵ after a jury found for the patentee and against Toyota, the district court denied the patentee's motion for permanent injunction. The patentee did not appeal the denial the permanent injunction. Instead, the patentee appealed the ongoing-royalty rate order, which ordered Toyota to pay the patentee a royalty of \$25 per infringing vehicle. The asserted claims were directed at drive trains for hybrid electric vehicles. The Federal Circuit stated that it was unable to determine whether the district court abused its discretion in setting the ongoing royalty rate and remanded for further proceedings. In all other respects, the Federal Circuit affirmed the district court's final judgment, including the district court's decision that the patentee was not entitled to a jury trial to determine the amount of the ongoing royalty rate.

Since the district court decision on August 16, 2006, through October 31, 2007, Toyota stock is basically unchanged. However, it is believed that its stock price would have been lower if it was enjoined by the district court and if a permanent injunction was affirmed by the Federal Circuit. Toyota continues to be the largest seller of hybrids in the United States.¹⁶

CONCLUSION

The above illustrative cases show that the *eBay* decision favors large, dominant companies, whether they are patentees or infringers. In *Transocean*, the largest offshore driller not only obtained a permanent injunction, it is taking over the adjudicated infringer with no premium paid to the adju-

dicated infringer's shareholders. In *Tivo*, EchoStar's core business (satellite transmission) was not enjoined as transmitted software updates allowed for disabling of DVR capabilities of infringing products, and EchoStar's stock price outperformed that of the smaller patentee, who had won a permanent injunction. In *Paice*, Toyota defeated a motion for permanent injunction to enjoin the sale of its hybrid electric vehicles, which contained infringing drive trains. The trend will continue to be that the strong will become stronger.

ENDNOTES

1. Robert Resis is a principal shareholder with the intellectual property law firm of Banner & Witcoff, Ltd. Mr. Resis is resident in the firm's Chicago office. The views expressed in this article are solely those of the author and should not be attributed to Banner & Witcoff, Ltd. or any of its clients.
2. *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S., 126 S. Ct. 1837 (May 15, 2006).
3. See e.g., Nina Medlock, Robert Resis, and Joslyn Barrett, "The Non-Practicing Patentee's Right to a Permanent Injunction Restraining Patent Infringement: Going Once, Twice, Gone?," *Intellectual Property & Technology Law Journal*, Vol. 18, Number 9, September 2006.
4. *Id.*
5. Glenn Perdue, "The economics of judicial patent reform in the United States," *Intellectual Asset Management* October/ November 2007.
6. 2006 U.S. Dist. LEXIS 93408 (S.D. Tex., December 27, 2006).
7. <http://www.reuters.com/article/businessNews/idUSWEN953020070723?feedType=RSS&rpc=23&sp=true>.
8. *Id.*
9. <http://dealbook.blogs.nytimes.com/2007/07/23/transocean-and-globalsantafe-to-merge/>
10. 446 F.Supp.2d 664 (E.D. Tex, August 17, 2006).
11. *Id.* at 669.
12. *Id.* at 669-670.
13. *Id.* at 670.
14. *Id.*
15. 2007 WL 3024994 (Fed. Cir., October 18, 2007).
16. <http://www.edmunds.com/reviews/list/top10/116743/article.html>.