

The Bell Tolls for Trolls?

The Potential Impact of the eBay Decision on Patent Litigation

A good working definition of the industry term “patent troll” is an individual or company that does not research or develop the technology or, more importantly, any products related to its patent. Instead, the patent troll waits for others to independently develop the patented technology into useful, and commercially successful, products. Once the firm that uses the patent is locked into the patented technology, the patent troll seeks payment through either licensing or litigation. The troll’s “club” is the threat of a court injunction prohibiting the firm using the patent from selling its commercially successful product.

SUPREME COURT DECISION

To mix metaphors, the Supreme Court’s *eBay*¹ decision may have not only whittled down the size of the troll’s club, but may have also changed the landscape for determining reasonable royalty damages.

By statute, “[u]pon 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 infringer, together with interest and costs as fixed by the court.”² Patent infringement damages generally take the form of either lost profits and/or a reasonable royalty. When reasonable royalty is the measure of damages, the expert is required by precedent to consider the 15 *Georgia Pacific* factors.³ These factors form the basic, non-exclusive framework for the standard evaluation of a reasonable royalty.

GEORGIA PACIFIC FACTORS

Analysis of the *Georgia Pacific* factors takes place in the context of a “hypothetical negotiation.” This hypothetical negotiation is a legal fiction created to analyze the importance of the

patented technology to both the patent holder and the alleged infringer. Factor 15 describes this hypothetical negotiation as “The amount that a licensor and licensee would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.”⁴

COURT INJUNCTION

A court can order a permanent injunction in a case involving either lost profits or reasonable royalty damages. In fact, the general rule was that “courts will issue permanent injunctions against patent infringement absent exceptional circumstances.”⁵ The threat of a permanent injunction is only relevant in determining the amount of a reasonable royalty if the plaintiff uses this threat as a factor in determining the negotiating position of the parties in constructing a hypothetical negotiation— i.e., the amount a licensee would have agreed upon...not to have to exit the market.

In patent litigation, prior to the *eBay* decision, some damage experts espoused the position that the value of a naked patent license⁶ is not in the value of the patented technology, but the value of not being sued. And, assuming validity and infringement, the value of not being sued is that the alleged infringer gets a “free pass” to practice what is covered by the patent without being shut down. Under this framework, the value of the invention is not based on market demand for the patented technology, price premi-



KRISTOPHER A. BOUSHIE,
CPA/ABV, CVA, CFE

The CapAnalysis Group, LLC
Washington, D.C.
BoushieK@capanalysis.com

ums, or cost savings. The value of the invention is tied directly and solely to the harm that would come to the alleged infringer from an injunction. This could be considerable, assuming the inability of an alleged infringer to remove the patented feature or technology from its product in a timely and non-disruptive manner.⁷

UNANIMOUS DECISION

With its decision in *eBay Inc. et al. v. MercExchange, LLC*, the Supreme Court may have refocused the question of damages on the value of the technology and away from the potential harm to the alleged infringer resulting from an injunction. In the *eBay* decision, a unanimous Court ruled that “[t]he 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.”⁸ Further, “the Patent Act expressly provides that injunctions ‘may issue in accordance with the principles of equity.’”⁹ The principles of equity require that the plaintiff demonstrate:

1. that it has suffered an irreparable injury;
2. that remedies available at law such as monetary damages, are inadequate to compensate for that injury;
3. that, considering the balance of hardships between the plaintiff

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- and defendant, a remedy in equity is warranted; and
4. that the public interest would not be disserved by a permanent injunction.¹⁰

In *eBay*, the Court concluded that: the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.¹¹

POTENTIAL IMPACT

What impact will this have on patent damages? Certainly the landscape for many plaintiffs has changed; however, the topography still is not clear. While the Supreme Court did reach a unanimous decision in *eBay*, it also offered two separate concurring opinions. Chief Justice Roberts filed one concurring opinion, joined by Justices Scalia and Ginsburg. In that concurring opinion the Justices argued that “a major departure from a long tradition of equity practice [of issuing permanent injunctions] should not be lightly applied”¹²—or, stated differently—they would expect courts to issue permanent injunctions in most cases.

COUNTER OPINION

This position was countered by another concurring opinion authored by Justice Kennedy, joined by Justices Stevens, Souter, and Breyer. In Justice Kennedy’s concurring opinion he states:

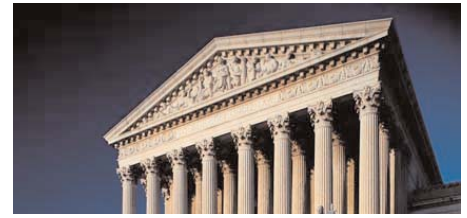
For these firms [firms that do not produce or sell goods, but primarily obtain licensing fees], an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. When the patented in-

vention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times....

For these reasons it should be recognized that district courts must determine whether past practice fits the circumstances of the cases before them.¹³

Given the uncertainty over whether courts will issue permanent injunctions, it should be much more difficult for a plaintiff to try to establish a reasonable royalty by tying the value of a patent to the harm an injunction could bring upon a defendant.

One interesting development to watch for in the future will be the number of cases brought before the



U.S. International Trade Commission (“ITC”). The ITC is becoming an increasingly popular forum to push for quick injunctions against foreign infringers. Note that the ITC is not only a forum to go after foreign infringers, but can also include U.S. companies with foreign manufacturing facilities importing back into the U.S. For firms satisfying Section 337 requirements¹⁴ for bringing an infringement action before the ITC, the Supreme Court’s *eBay* ruling and the resulting uncertainty over permanent injunctions may make the ITC an even more popular forum. ☞

expert TIP

The *eBay* Supreme Court decision may change the landscape for determining reasonable royalty damages. ■

¹*eBay Inc. et al. v. MercExchange, L.L.C.*, 547 U.S. _ (2006) (slip op.).

² 35 U.S.C. 284.

³See *Georgia-Pacific Corporation v. U.S. Plywood Corporation*, 318 F. Supp. 1116, 1120 SDNY 1970).

⁴*Ibid.*

⁵*eBay Inc. et al. v. MercExchange, L.L.C.*, 547 U.S. (2006) (slip op. at 2), citation omitted.

⁶A patent license where only the rights to the patent are being licensed. For example, there no additional obligations for the licensor for technological support, implementation assistance, or training from the licensor.

⁷Other experts argue that “damages adequate to compensate for infringement” should be related to the value of the technology (the theme of *Georgia Pacific*). The value of an injunction, i.e., “value” based on the potential harm to the infringer, is not damage to the patent holder.

⁸*eBay Inc. et al. v. MercExchange, L.L.C.*, 547 U.S. (2006), (slip op. at 2).

⁹*eBay Inc. et al. v. MercExchange, L.L.C.*, 547 U.S. (2006), (slip op. at 3).

¹⁰*eBay Inc. et al. v. MercExchange, L.L.C.*, 547 U.S. (2006) (slip op. at 2).

¹¹*eBay Inc. et al. v. MercExchange, L.L.C.*, 547 U.S. (2006), (slip op. at 5).

¹²*eBay Inc. et al. v. MercExchange, L.L.C.*, 547 U.S. (2006), (slip op. at 1) (Roberts, concurring).

¹³*eBay Inc. et al. v. MercExchange, L.L.C.*, 547 U.S.(2006), (slip op. at 2) (Kennedy concurring).

¹⁴ 19 U.S.C. 1337.