

## RIGHTS AND REMEDIES POST EBAY V. MERCExchange - DEEP WATERS STIRRED

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### ABSTRACT

*eBay* confirms the adage that good things often come in small packages. The court concisely focused on the inherent requirements of discretionary equitable relief in the use of injunctive remedies. The opinion informed that categorical presumptions based on presumed incidents of property rights did not satisfy the requirements of appropriate discretionary consideration. The four prongs of the requisite test “restated” for issuance of an injunction imposed the burden of proof on the plaintiff and all four factors which follow be deliberated by the court: (1) a finding of irreparable injury, (2) a finding of inadequate remedy at law for compensation, (3) a balancing of relative hardships between the parties, and (4) a finding that a permanent injunction not “disserve” the public interest.

These threshold questions appear simple and direct. What specific incidents of “rights” constitute irreparable harm to justify an injunction? What is an “adequate remedy at law?” How does one measure “value” and adequacy of compensation? What are appropriate valuation methodologies? What factors will be considered in determination of “relative harms” to the parties? What is the meaning of “disserve” the public? Is this an antonym to public benefit? Who bears the burden of alleging and proving detriment? Should it be left to the parties or the court? Should third parties representing the “public interest” have standing on these limited matters?

Distinct from the immediacy of these questions, but permeating all sections of this paper are issues focusing on the mystique of that simple “why.” Why did the court make the distinction between rights and

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remedies at this juncture and in this case? Why did they unanimously focus on the discretionary elements and requirements of judicial relief? Is this potentially a line in the sand drawn by the court based on their constitutional obligations under separation of powers? Why was the opinion of the court written by a solitary Justice with two concurrences, each representing observable penchants from prior case alignments? Does this open the door in the context of remedies to future considerations of balance between private rights and public interests? There are seemingly endless questions suggested by the eBay decision. The purpose is to acknowledge these questions, appreciating that only the future has the potential to clarify and resolve.

I. INTRODUCTION AND OVERVIEW .....	135
II. PROPERTY RIGHTS AND REMEDIES .....	141
A. In General – Short History and Quandary .....	141
B. Absolute Right to Exclude .....	145
C. Discretion and Remedies – Injunction or Damages Flip Side of the.....	146
(1) Behavior, Business Model and Use indicating elements of “right:” .....	149
(2) The exclusive right to use (right to exclude) for licensee and royalty fees.....	150
(3) Adequacy of remedy at law damages .....	150
(4) Abuse of discretion in remedy at law: .....	151
(5) Misuse of Remedy to increase value: .....	151
(6) Valuation as an independent factor of Equity and Due Process: .....	152
D. Valuation: A Re-learning Curve: The Adequacy of Remedy at Law.....	153
III. THE PUBLIC INTEREST(S) – IDENTIFICATION OF ELEMENTS AND CONSIDERATION .....	157
IV. CONCLUSION: THE BEGINNING OF THE POST EBAY REMEDY .....	160

## I. INTRODUCTION AND OVERVIEW

The Supreme Court ruling in *eBay v. MercExchange*<sup>1</sup> focused on Merc's request for a permanent injunction against eBay for infringement of two of its business method patents relating to the conduct of online auction sales.<sup>2</sup> The decision immediately stirred deep waters of long established practice and expectations. The opinion of the court constitutes a concise restatement of the required exercise of judicial discretion in the application of well-established rules and principles of equity, particularly in the issuance of an injunction.<sup>3</sup> These general principles include and apply to matters involving patents and copyrights.<sup>4</sup> The opinion of the court confirmed and clarified that each case must be approached/decided without categorical presumption on its own facts and merits. The burden of proof is on the plaintiff to establish both a recognized "right" as the subject matter requiring protection. The plaintiff must meet the requirements that the party "...seeking a permanent injunction must satisfy a four-factor test before a court may

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1. *eBay, Inc. v. MercExchange, L.L.C.* (eBay), 126 S.Ct. 1837 (U.S. 2006); references to eBay will be to eBay I (the first district court case) *eBay* (the Supreme Court case), and *eBay II* (the substantive consideration by the district court on remand). The applicable cases are as follows: *MercExchange, L.L.C. v. eBay, Inc.* (eBay I), 275 F.Supp. 2d 695 (E.D.Va. 2003); *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323 (C.A.Fed.Va.2005); *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837 (2006); *MercExchange, L.L.C. v. eBay, Inc.*, 188 Fed.Appx. 993, (C.A.Fed 2006); *MercExchange, L.L.C. v. eBay, Inc.*, 467 F.Supp. 2d 608 (E.D.Va. 2006); *MercExchange, L.L.C. v. eBay, Inc.* (eBay II), 500 F.Supp. 2d 556 (E.D.Va 2006). It is assumed for purposes of this presentation that these decisions are generally well known and repeating them in great detail and at length, other than necessary for the purposes of the paper would constitute "clutter." The decisions are thoroughly and delightfully considered in the papers of this First Annual Akron Intellectual Property Forum: *See generally*, Lisa A. Dalok, *eBay and the BlackBerry®: A Media Coverage Case Study*, 2 AKRON INTELL. PROP. J. 1 (Mar. 2008); Jay Dratler, Jr., *eBay's Practical Effect: Two Differing Visions*, 2 AKRON INTELL. PROP. J. 35 (Mar. 2008); Sheri J. Engelken, *Opening the Door to Efficient Infringement: eBay Inc. v. MercExchange, L.L.C.*, 2 AKRON INTELL. PROP. J. 57 (Mar. 2008); Thomas C. Folsom, *Truth in Intellectual Property Revisited: Embracing eBay at the Edge*, 2 AKRON INTELL. PROP. J. 69 (Mar. 2008); Richard S. Grunner, *Constructed and Enhanced Equities under eBay: Whose Right is it Anyway*, 2 AKRON INTELL. PROP. J. 107 (Mar. 2008); Liam O'Melinn, *The Effects of eBay: Injunctions, Statutory Damages and the Public Interest*, 2 AKRON INTELL. PROP. J. 119 (Mar. 2008); Sandra L. Rierson, *IP Remedies After eBay: Assessing the Impact on Trademark Law*, 2 AKRON INTELL. PROP. J. 163 (2008); Tracy A. Thomas, *eBay Rx*, 2 AKRON INTELL. PROP. J. 187 (2008).

2. *See eBay*, 126 S. Ct 1837.

3. *Id.*

4. *Id.*

grant such relief.”<sup>5</sup> Further, the case held that “[t]he decision to grant or deny such relief is an act of equitable discretion by the district court.”<sup>6</sup> By this ruling the Court placed the burden of proof directly on the plaintiff and rejected relief based on categorical groupings of like cases.<sup>7</sup> There is little question but that this constitutes a correct recitation of the applicable rules. At the same time, however, the restatement serves to highlight the current disconnect which reflects distinctions that have emerged over time between rules and the reality of practice and precedent.

Immediate concerns address the impact these restated rules will have on negotiation, litigation practice and judicial decisions. How have the rules changed in practice? What are the inherent questions and issues relating to dependent business paradigms, readiness and risk analysis in the acquisition of patent rights which should be included in valuation practices relative to use by the patent holder? The legal construct of “property rights” has been loosely used to identify the interests of the patent holder. This use has not fostered the requisite account of specifics regarding included rights which are neither not uniform nor monolithic.<sup>8</sup> The broad characterization of rights as property does not necessarily identify the specific incidents of right that need protection, nor the appropriate remedies as required by *eBay*.<sup>9</sup>

The four-prong test set forth by the court appears to squarely place the burden of proof on the patent right holder to demonstrate the “right” and the (1) irreparable harm, (2) inadequate remedy at law, (3) relative burden on the parties and (4) that “the public interest will not be disserved or suffer detriment by a permanent injunction.”<sup>10</sup> It is not likely issues relating to application of the four-pronged requirements will be fully addressed or resolved in the near term. The near term represents a transitional period considering among other factors:

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5. *Id.* at 1839.

6. *Id.*

7. *Id.*

8. See generally, Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031 (2005).

9. *Id.*

10. It is interesting to note the focus on harm to the public interest, since disservice or harm is the flip side of benefit. Is benefit included in the calculation? See e.g., *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F.Supp. 2d 437 (E.D. Tex. 2006) and *Paice, LLC v. Toyota Motor Corp.* 2006 U.S. Dist. LEXIS 61600, 1 (E.D. Tex. 2006) (*aff'd.-in-part*, 2007 U.S. App. LEXIS 24357, 1 (Fed. Cir. 2007)) in their public interests analysis, as well as the decision of the District Court on remand in *eBay II* (*MercExchange, L.L.C. v. eBay, Inc. (eBay II)*, 500 F.Supp. 2d 556, 586-591 (E.D.Va 2006).

- (1) Cases already in or on the precipice of litigation;
- (2) Business investment premised on the relationship between patent and copyright treatment of remedies treated as “ordinary” based on prior application;
- (3) New business, forewarned and appropriately accounting for the new rules and uncertainty in their application that may internalize and resolve the disconnection between right and remedy.<sup>11</sup>

In an analysis of the *eBay* decision, there notably are the seeds of broader policy issues beyond the immediacy of the case before the court. However, the underpinning of the court’s ruling remains the inherent obligation of the court to exercise discretion and abide by principles of equity in resolving the controversy before it.<sup>12</sup> During the transitional period, however, there are additional equitable considerations that should factor in near term decisions. These factors involve equities occasioned by the changes affecting prior practice that reflected then appropriate investment backed expectations. This is not to say that an injunction should issue without the *eBay* due consideration to questions of irreparable harm, adequate remedy at law and balance of harm between the parties, but that in the transition period legitimate expectations be factored into the determination of protected interests and their remediation. *eBay I* and the cases that followed indicate that not the least of questions during this transition will be issues regarding valuation methods, the perfection of necessary skills in valuation and the development of objective measures for validation. A disruption of the status quo ante should take into account issues of private and public interest as a part of the transitional equation.<sup>13</sup>

As expected, the decision in *eBay* served as a catalyst for a flood of studies and analysis directed at new “groupings” of rights, interests and any thread of light that could help clarify remedies and rights in the future, particularly those that would qualify for injunctive relief, distinct from a remedy at law. Initially, there was only a smattering of detail regarding the burden of proof. Many studies focused on the dreaded categorical conundrum raising questions distinguishing between users,

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11. Damian Myers, *Reeling in the Patent Troll: Was eBay v. MercExchange Enough?*, 14 J. INTELL. PROP. L. 333, 349 (Spring 2007).

12. *Id.* at 339.

13. “... [The majority opinion rightly rests on the proposition that “a major departure from the long tradition of equity practice should not be lightly implied.” *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1841 (2006) (Roberts, C.J., concurring).

non-users, NPEs,<sup>14</sup> and patent trolls.<sup>15</sup> Some articles since *eBay* have served well in the attempt to justify the role of the NPE in the overall function of intellectual activities and technology transfer making the case illustrative of both functionality and characterization in their perception of rights in the patent.<sup>16</sup> At this point, however, it should be asked how many of these studies are at the requisite level of right identification and qualification required by the decision distinct from operating normative practice in prior cases?

A missing element affecting the outpouring of published scholarship was the absence of decision on remand in *eBay II*.<sup>17</sup> The final opinion after rehearing on the merits in *eBay II* represents a thorough and detailed analysis of each and every procedural and substantive concern of the Supreme Court decision.<sup>18</sup> The opinion not only reflects, but incorporates interim cases and scholarly analysis published prior to the rehearing and decision.<sup>19</sup> The court in *eBay II* methodically addressed the spectrum of issues required by the four-prong test and found neither irreparable harm nor an inadequate remedy at law. The district court opinion incorporates “relative” consideration of the forth prong, detriment to the public.<sup>20</sup> Guidance for the court was provided by the opinions and contexts of both *z4 v. Microsoft*<sup>21</sup> and *Paice LLC v. Toyota Motor Corp.*<sup>22</sup> The district court in *eBay II* added and expanded on appropriate factors, for consideration looking at the relative harm to the public consumer/user, economy, suppliers and related enterprises.<sup>23</sup>

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14. Miranda Jones, *Permanent Injunction: A Remedy by any Other Name is Patently Not the Same: How eBay v. MercExchange Affects the Patent Right of Non-Practicing Entities*, 14 GEO. MASON L. REV. 1035 (2007).

15. See generally Myers, *supra* note 11. See also the commentary of the court in *eBayII* that categories were not per se considered exclusive of the exercise of discretion (*MercExchange, L.L.C. v. eBay, Inc.*, 500 F.Supp. 2d 556, 590 (E.D.Va 2006)).

16. By last, and certainly unscientific count, there were about 30 cases (including the decision of the District Court on remand in *eBay II*) and in excess of 115 articles and studies addressing the eBay case. For a list of 23 cases see Darryl J. Adams & Victoria Wicken, *Permanent Injunctions After eBay v. MercExchange: The Year in Review*, 5 TEX. INTELL. PROP. L.J. 417 (2007).

17. See generally, *Merc. v. eBay*, 500 F.Supp. 2d 556.

18. *Id.*

19. *Id.*

20. *Id.* at 586.

21. *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F.Supp. 2d 437, 440 (E.D. Tex. 2006)

22. *Paice, L.L.C. v. Toyota Motor Corp.*, 2006 WL 2385139, 1 affirmed in part and remanded on issue of valuation, 2007 U.S. App. LEXIS 24357, 1.

23. *Merc. v. eBay*, 500 F.Supp. 2d at 586-590.

While most of the focus was on the discretionary use of injunctions, the foundation for the injunction rests on a number of subsidiary issues involving, in the first instance, the adequacy of remedy at law. These are valuation questions involving making the party whole, while at the same time providing fairness to the infringing party.

Fairness to the infringing party concerns both the potential “extortion” element noted in the second concurring opinion and due process issues of compensatory and punitive damage awards.<sup>24</sup> An issue arises when the court specifically acknowledges the combination of compensatory damages and punitive damages assessed by the jury far exceeded the valuation of the patent interest.<sup>25</sup> The issue becomes exacerbated when the court award was premised on the validity of the patents, both likely to be overturned as “obvious.”<sup>26</sup>

Does confirmation of an award rendered by a jury and acknowledged to be larger than the value of the patent right infringed constitute an exercise of discretion reviewable pursuant to the opinion of the Supreme Court in *eBay*?<sup>27</sup> The case represents a potential anomaly reasonably certain to lead to further appeals questioning whether the court abused its discretion in not staying execution of the final judgment, or addressing the jury verdict. The final judgment of the court was rendered December 11, 2007.<sup>28</sup> A press release issued by *eBay* indicates its intent to appeal the judgment regarding the impact of patent ‘265 being overturned and its “work around” regarding the patents in question.<sup>29</sup>

At another level and in the world of “why” comes the essential philosophical digression<sup>30</sup> of issues behind “the looking glass” which

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24. *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1842 (2006) (Kennedy, J., concurring).

25. *See MercExchange, L.L.C. v. eBay, Inc.*, 275 F.Supp. 2d 695, 709 (E.D.Va. 2003).

26. *Merc. v. eBay*, 500 F.Supp. 2d at 563.

27. *See Bridgeport Music, Inc v. Justin Combs Publishing*, 2007 U.S. App. LEXIS 24262 \*1 (6th Cir. 2007) for a graphic illustration of limitations on awards as abuse of discretion and fundamental principles of justice. The court set aside an award that had both compensatory (statutory) damages and excessive punitive damages that were deemed unconstitutional as violating “due process.” Justice Thomas stated, “The decision to grant or deny such relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion.” (*eBay v. Merc.*, 126 S.Ct. at 1838).

28. A final decision was published by the court on December 11, 2007 (*see Merc. v eBay*, 500 F.Supp. 2d 556).

29. *eBay* issued a press release and indicated its’ intent to appeal the judgment (*eBay Inc. Statement on District Court Ruling in MercExchange v. eBay Case*, <http://investor.news.com/cnet?GUID=4055100&Page=MediaViewer&Ticker=%24CNINE>).

30. Or, one might think it a precursor highlighting a function of the fourth factor in the four-

inhere in the *eBay* case. One might ask whether the reassertion and restatement of “the rule” represents a fundamental shift reflecting possible “cross roads” in society, intellectual property and constitutional law similar in some proportion to matters referenced by Professor Lawrence Tribe in his observation of the difficulties of projecting the future direction of the law.<sup>31</sup>

The expansion of intellectual property rights in content coverage (derivative rights), form (digitalization) and duration during the past century has affected the respective roles of courts and congress. There have been concerns with philosophical differences regarding patent and copyright interests that have been evident as tensions and deference in the interplay between Congress and the courts.<sup>32</sup> Do the tensions evident in *Eldred* regarding perceptions of expansion of patent and copyrights duration beyond constitutional intent?<sup>33</sup> Has this tension been stoked somewhat further in the P2P cases, or in the growing realization of changes in normative behavior and perceptions of the efficacy of legal systems?<sup>34</sup> *eBay*, may represent a step along this continuum opening an

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pronged test, that of public interest representation. The lengthily exposition by the court in *eBay II* (*Merc. v. eBay*, 500 F.Supp. 2d at 586-590) to satisfy the requirement of considering the impact on the public interest of the decision demonstrates the inherent imitation of the parties and the court and raises, once again, the question of who should speak for the public interest. *See generally*, Robert I. Reis, *The Public Beneficial Interest in the Intellectual Commons: The Implications of the Public Trust Doctrine and Necessary Standing to Represent the Public Interest* (Presented IPSC Berkeley 2006).

31. *See generally*, Lawrence H. Tribe, *The Treatise Power*, 8 Green Bag 2d. 291, available at <http://www.greenbag.org/Tribe-low%20res.pdf>.

32. *See e.g.*, addressing and redressing balance between Congress and judicial roles after *Eldred* (*Eldred v. Ashcroft*, 537 U.S. 186 (2003); *Kahle v. Gonzales*, 474 F.3d 665 (9<sup>th</sup> Cir. 2007) *opinion withdrawn*; *Kahle v. Gonzales*, 487 F.3d 697 (9<sup>th</sup> Cir. 2007) ; *petition for cert. filed* (Aug 10, 2007). *See also* the P2P cases, particularly *Metro-Golden-Mayer Studios, Inc. v. Grokster, LTD*, 545 U.S. 913 (2006).

33. *Eldred*, 537 U.S. at 203 (2003).

34. *See generally*, Pamela Samuelson, *The Jurisprudence of Justice Stevens: Panel II: Antitrust/Intellectual Property: The Generativity Of Sony v. Universal: The Intellectual Property Legacy Of Justice Stevens*, 74 *FORDHAM L. REV.* 1831 (2006). It is with appreciation that I have been reintroduced to the works of Lewis Carroll by Professor Folsom, *supra* note 1. I thusly beg his indulgence in my adaptation of *Jabberwocky* by pointing to language in recent congressional proposals, as well my characterization of this as nonsense literature in the tradition of Lewis Carroll and others of his time. *See generally*, recent legislative proposals before Congress, such as H.R. 4137, approved by the Education and Labor Committee of the house on November 15, 2007 directed at file sharing on college campuses. The bill indicates the need to reduce illegal downloading to diminish operating costs, bandwidth, and threats to the security of computers on campus and protect copyrighted materials. What is not said is the system has failed to address the normative values of those who may be “supposed” to be downloading and the collateral damage to legitimate public expectations and educational values may be at risk. This is nowhere more evident than the bill that by targeting universities will cause them lose some federal support, including Title

opportunity for the court to reflect on its inherent powers and duties in the exercise of discretion affecting the full range of intellectual property interests as a required step in crafting and applying remedies in law and equity. The coincidence of alignment in these concurring opinions may be thought by some as representative of competing perspectives on the nature of public interest(s) falling within the province of inherent powers and duties of the court addressing remedies distinct from rights.

The structure of the paper starts with the basics: what are rights and what incidents of rights justify injunctions and which are satisfied by remedies at law:

- (1) Addressing the task of identifying with specificity the appropriate substance of rights that require the use of injunction.
- (2) Identifying the changing context and the right of exclusion in the commercialization of rights and the value of use.
- (3) The inherent function of discretion in the selection and crafting of injunctive remedies and monetary awards.
- (4) The impact of certainty in valuation, transaction costs and risk analysis in investment negotiation and the settlement calculus.
- (5) The possible expansion of public interest(s), market constructs and social conscience as an element of equitable considerations noted in the fourth prong of the four-prong test.

## II. PROPERTY RIGHTS AND REMEDIES

### *A. In General – Short History and Quandary*

*eBay* has changed and otherwise altered the repose of patent remedies by removing both assumptions of and presumptions about the core bundle of interests included under the rubric “property.”<sup>35</sup> The decision will increasingly require the plaintiff to identify the specific incidents of “property” that constitute “rights,” the protection of which justify the use of the equitable remedy of injunction. Thus, the nature of

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IV student eligibility for loans and financial assistance. The great educational institutions of this country and students thus become collateral damage in an effort to maximize economic return to the very private interests that were created to further their intellectual well being. Thus said, this may well qualify as venerable nonsense literature in the tradition of Lewis Carroll.

35. *See generally*, eBay, Inc. v. MercExchange, L.L.C., 126 S.Ct. 1837, 1842 (2006).

the property right and the justification for its protection through use of injunction are matters constituting the threshold burden of proof on the party requesting the relief.

Why might this be thought a quandary? First, because the status quo treatment of patents and copyrights assumed from the label “property” the bundle of included rights in much the way the use of any “Mark,” such as a “Trade Mark” functions in contemporary society. The image created by the use of “property” was easily assumed, did not add much by way of further specification, did not require analysis of the function of the rights presumed to be included, nor of the propriety of an almost automatic injunction.

Assumptions, such as that attendant to the use of “property” as a shorthand expression for assumed rights have some functional value in society for non-critical decision making. They do, however, countenance some “laziness” and obfuscation of the real consequences of rights and remedies. The decision in *eBay* raises the specter of clearing the cobwebs off critical judicial analysis in the prosecution of legal rights. Professor Wesley Newcomb Hohfeld addressed specificity in the identification of legal rights and relationships in his seminal work entitled *Fundamental Legal Conceptions as Applied in Judicial Reasoning and Other Legal Essays*.<sup>36</sup> The rigors of required analysis outlined by Hohfeld became known as “Hohfeldian” analysis, a term that struck fear in many for its rigors and complexity. Borrowing from contemporary horror movies, “he’s back.”<sup>37</sup>

The issue of what is accorded the label “property” and the incidence of rights included therein has a history in the trade secret cases that may be of some avail here. There has been some ambivalence during the past century whether trade secrets were even property rights at all.<sup>38</sup> Just as with the task at hand, the question is not only whether it is “property,” but more specifically identification of the incident of the property right that requires protection and the remedy best suited thereto. In response to the question whether Trade Secrets are property, Justice Holmes opined :

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36. WESLEY NECOMB HOHFELD, *FUNDAMENTAL LEGAL CONCEPTIONS AS APPLIED IN JUDICIAL REASONING* (Walter Wheeler Cook ed., 1923).

37. See generally, Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031 (2005); see also, Brian M. Hoffstadt, *Dispossession, Intellectual Property, and the Sin of Theoretical Homogeneity*, 80 S. CAL. L. REV. 909 (July 2007) (for an excellent analysis in the context of intellectual property).

38. See generally, Lemley, *supra* note 37.

In *E.I. du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100 . . . (1917). . . . “The word property as applied to trademarks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant knows the facts . . . The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs.” *Id.* at 102.

Over seventy years later, the Supreme Court revisited the issue of whether trade secrets are property in *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 . . . (1984) . . . . [noting the following] Justice Holmes did not deny the existence of a property interest; he simply deemed determination of the existence of that interest irrelevant to resolution of the case.<sup>39</sup>

The characterization of interests as “property rights” obscures, but also highlights some of the mystique surrounding intellectual property. The subliminal analogy to the bundle of historic rights and remedies inherent in protecting real property interests has permitted presumptions and remedies to operate without critical review and thus function as clichés.<sup>40</sup> The consequence of assuming an absolute right to exclude without further analysis, leads to the syllogistic dependent presumption of need for equitable injunctive intervention because of a presumed inadequate remedy at law. A century of critical analysis has possibly been lost in the maze of presumption.<sup>41</sup>

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39. SHUBHA GHOSH, RICHARD GRUNNER, JAY P. KESAN & ROBERT I. REIS, *INTELLECTUAL PROPERTY: PRIVATE RIGHT, THE PUBLIC INTEREST, AND THE REGULATION OF CREATIVE ACTIVITY* 10, 11 (Thompson West 2007).

40. See generally, Allison Dunham, *Flood Control Via The Police Power*, 107 U. PA. L. REV. 1098 (1959) (for the proposition the notions such as “health, safety and welfare” serve as substitutes for critical analysis).

41. Janice M. Mueller, *An Introduction to Patent Law* 14 footnote 29 (Aspen 2nd Ed. 2006) (2003) (“See *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 36 (1923)) (noting that “[i]t is the fact that the patentee has invented or discovered something useful, and thus has the common-law right to make, use, and vend it himself, which induces the Government to clothe him with power to exclude everyone else from making, using, or vending it.” Quoting *Crown* 261 U.S. at 36.)” The common law did not provide the inventor with any right to exclude others, however, See *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 525-526 (1972). The negative right to exclude is provided only through the Patent Act. See *id.* at 526 note 8 (quoting *Brown v. Duchesne*, 19 How. 183, 195 (1857) (“But the right of property which a patentee has in his invention, and his right to its exclusive use, is derived altogether from these statutory provisions;

Michael Risch<sup>42</sup> offers further insight in his presentation on “rights” one might use to determine the incidents of which might support injunctive protection post eBay. While again directed at Trade Secrets, the exposition applies across the spectrum of “property” labeled interests.

A substantive trade secret “property right” is comprised of a collection of rights associated with what might be done with particular information. This . . . is hardly an earth shattering proclamation. The complexity . . . is detailing what rights are included in the bundle and whether or not a particular right is appropriately justified. To date, this analysis remains incomplete.

In all events, a comparison to the real property bundle is not apt. Information simply cannot be protected in the same way that real property can be protected, at the very least because information can be replicated without loss, while real property is unique. That said, the suggestion that trade secret rights should be protected like “any other” property is hardly the end of the world for efficient intellectual property laws. . . . Real property is not the “infinite rights of exclusion” straw man that it is made out to be. If the bundle of rights for real property were unending, there would be no nuisance, attractive nuisance, zoning regulations, land use regulations, building codes, adverse possession, fence laws, endangered species laws, public easements, and so forth. Instead, each of the above laws and their limitations on the real property bundle of rights gets analyzed for normative justification, economic efficiency, and other considerations. So, too, are the bundle of rights afforded to trade secrets and any other intellectual property, for that matter. Rather than stopping at the comparison to real property, it may make sense to focus on the limits of real property rights and analogize them to intangibles.

What, then, is the bundle of rights associated with trade secrets? It is not simply the right to exclude, nor is it simply the right to acquire, use, and dispose. Furthermore, the rights must be

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and this court [has] always held that an inventor has no right of property in his invention, upon which he can maintain a suit, unless he obtains a patent for it, according to the acts of Congress; and that his rights are to be regulated and measured by these laws, and cannot go beyond them.”))

42. Michael Risch, *Why Do We Have Trade Secrets*, 11 MARQ. INTELL. PROP. L. REV. 1, at 23,24 (2007).

additional to and/or different from those that would exist in the absence of trade secret law; otherwise, there would be no need to have trade secrets in the first place. (Footnotes omitted)<sup>43</sup>

His analysis engages in an exercise similar to that required post eBay by identifying specific incidents of rights within the classification trade secret, whether property or not.<sup>44</sup>

### B. Absolute Right to Exclude

A paradox is created by the assumption that property rights, real or personal, include within the bundle of rights the “absolute right to exclude.”<sup>45</sup> There is no “absolute right to exclude” as recognized by the eBay court.<sup>46</sup> The assumption there is such an inherent right presumes all property rights have the same bundle of incidents and use and therefore the same needs for remedial action simply because they are property. This has never been the case in our jurisprudence. Property interests have always been subject to reasonable regulation under the police power, “takings” pursuant to eminent domain law for public use (and benefit) and limitations imposed by more diffuse notions of public policy. Certainly, eminent domain proceedings have monetized relief. The ethic remains that “property” is not sacrosanct and is subject to reasonable police power regulation. This was fundamental in issue in *Bell v. Maryland*<sup>47</sup> over four decades ago. Would *Continental Paper Bag Company v. Eastern Paper Bag Company*<sup>48</sup> be decided the same way today in a post eBay situation? Does the statement that no reasons need accompany the refusal to use or license the patent right ring true in the context of rapidly changing technologies and rights of use? Might this

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43. *Id.*

44. *Id.* at 24-26: The right to keep certain information secret and still obtain legal protection including: the right to exclude others from disclosing certain information, so long as certain prerequisites are met; the right to exclude others – even those without privity or actual knowledge – from using certain information, so long as certain prerequisites are met; the duty to attempt to keep information secret; the right to use certain information as one wishes and still receive protection even if others have the same information; the right to not use certain information if one wishes and still obtain legal protection; the right to recover damages for harm caused by illicit use or disclosure of certain information, so long as certain prerequisites are met; the right to recover the benefits from others for the illicit use or disclosure of certain information, so long as certain prerequisites are met; the right to transfer, devise, or otherwise make exclusive grants of certain information, and the right to compensation for a government taking of certain information.

45. *See generally*, NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1282 (Fed. Cir. 2005).

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

47. 378 U.S. 226 (1964).

48. 210 U.S. 405, 423 (1908).

not offend some in the application, not only of the delineation of the right needing a remedy, but also the “harm to the public interest” in the fourth prong of the test, or sense that this would yield an inequitable result under the guise of doing equity?<sup>49</sup>

*C. Discretion and Remedies – Injunction or Damages Flip Side of the Same Coin: Paradox or Repairable Disconnect?*

As oft noted, the decision of the court in *eBay II* will most likely require greater specificity in the identification of the exact right and incidents in need of injunctive relief.<sup>50</sup> Recognizing this may resolve some of the apparent disconnect occasioned by the rejection of categorical assumptions and consequent application of remedies. The Supreme Court cleared away any doubt that remedies are not independent rights unto themselves.<sup>51</sup> Remedies are solely within the discretion of the court and are not to be presumed by the property right holder. The use of injunctive relief is the result of a deliberative process and equitable determination that the right exists, the harm is irreparable and there is no adequate remedy at law – these represent the first two issues in the “four-pronged” test.<sup>52</sup> Nothing in the opinion forecloses the use of an injunction if there is an “alternative” remedy at law, even if the remedy at law can be said to approximate the protection of the right accorded by use of the injunctive power.<sup>53</sup> One need again note that the starting point in this and related proceedings lies in the identification and proof of the property right as a generic vessel. This analysis should include the incident(s) of right in the vessel in need of judicial relief. Remedies and their application are within the inherent power of the court; subject of course to review on appeal for abuse of discretion.<sup>54</sup> Further elaboration on this position appears in *eBay II* based on intervening cases, as well as interpretation of the Supreme Court decision in *eBay*:

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49. See generally, Hanoch Dagan, *The Social Responsibility of Ownership*, 92 CORNELL L. REV. 1255 (2007). Note, it is partially this line of questioning, rights relative to remedies that led to the earlier question posed in the digression regarding the power and function of the court under separation of powers as well the positioning of the Justices in this and previous opinions.

50. *MercExchange, L.L.C. v. eBay, Inc.*, 500 F.Supp. 2d 556, 568 (E.D.Va 2006).

51. *eBay v. Merc.*, 126 S.Ct. 1837.

52. *Id.*

53. See generally, Jeremy Mulder, *The aftermath of eBay: Predicting When District Courts Will Grant Permanent Injunctions In Patent Cases*, 22 BERKELEY TECH. L.J. 67 (2007).

54. “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,” *eBay v. Merc.*, 126 S.Ct. at 1839.

the court must consider whether a presumption of irreparable harm upon a finding of validity and infringement survives the Supreme Court's opinion remanding this case. Although the parties did not perform extensive briefing on such issue and the Supreme Court's opinion does not squarely address it, a review of relevant case law, as well as the language of the Supreme Court's decision, supports defendants' position that such presumption no longer exists. See, *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F.Supp.2d 437, 440 (E.D.Tex.2006) (concluding that the language in the Supreme Court's eBay opinion "does not imply a presumption, but places the burden of proving irreparable injury on the plaintiff"); *Paice LLC v. Toyota Motor Corp.*, 2006 U.S. Dist. LEXIS 61600 (E.D.Tex. Aug.16, 2006) (unpublished) ("The *eBay* decision demonstrates that no presumption of irreparable harm should automatically follow from a finding of infringement."); *eBay*, 126 S.Ct. at 1840 (rejecting the application of categorical rules as inconsistent with traditional equitable principles); . . . . Although a presumption of irreparable harm is inconsistent with the Supreme Court's instruction that traditional equitable principles require the plaintiff to demonstrate that it has suffered an irreparable injury, the court is not blind to the reality that the nature of the right protected by a patent, the right to exclude, will frequently result in a plaintiff successfully establishing irreparable harm in the wake of establishing validity and infringement. See *eBay*, 126 S.Ct. at 1841 (Roberts, C.J., concurring) (indicating that it is unsurprising that injunctive relief has been granted in the "vast majority" of patent cases since the early 19th century "given the difficulty of protecting a right to exclude through monetary remedies"). However, putting the onus on the plaintiff to prove irreparable harm is much more than an idle exercise as numerous case specific facts may weigh against the issuance of an injunction notwithstanding the nature of the patent holder's right. See *id.* at 1841 (unanimously recognizing that the Federal Circuit erred in its categorical grant of injunctive relief upon a finding of validity and infringement). Thus, even though an affirmed jury verdict establishes that *eBay* is a willful infringer of plaintiff's '265 patent, a permanent injunction shall only issue if plaintiff carries its burden of establishing that, based on traditional equitable principles, the case specific facts warrant entry of an injunction.<sup>55</sup>

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55. *Merc*, 500 F.Supp. 2d at 568.

Based on the above and further considerations in the opinion, the court finds that MercExchange failed in its burden to prove irreparable harm.<sup>56</sup> The court makes the point that simply alleging irreparable harm does not constitute proof. In the process of the decision, the court does highlight a number of included sticks in the bundle of patent holder property rights. It is suggestive that had there been appropriate proof proffered some of these sticks might have justified the use of an injunction as an appropriate remedy.<sup>57</sup> The court specifically notes that a number of these interests and the requisite analysis are repetitious as applying both to the determination whether an injunction is necessary, or there is adequate remedy at law in monetary compensation.<sup>58</sup>

The court in *eBay II* on remand prefaces the opinion with a disclaimer regarding its charge on rehearing as regards both process and requisite deliberation: “The court’s determination that MercExchange fails to establish irreparable harm is based upon the facts specific to this case and not broad classifications or categorical exclusions of certain types of patent holders.”<sup>59</sup>

The *eBay II* court engaged in painstakingly careful consideration of the requisite factors set out by the Supreme Court decision.<sup>60</sup> The decision is structured around each of the separate “prongs” of the test. There was no firm line segregating “injunction” factors, from those necessary to consider in the second prong addressing the adequacy of a “remedy at law.”<sup>61</sup> To the contrary, the decision expressly recognized that factors in each analysis were applicable to both prongs of the required test. Specific observations by the court in the quotations and references that follow illustrate the nature and symmetry of factors affecting the burden of proof and determination whether an injunction is necessary or appropriate to protect incidents of rights which might otherwise be adequately protected by the remedy at law. In the final analysis, the court (1) refused to issue an injunction, (2) found the remedy at law was adequate and (3) upheld the prior jury award for compensation and enhanced damages.<sup>62</sup>

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56. *Id.* at 570.

57. *See id.*

58. “As recognized above, the requisite analysis for the second factor of the four-factor test inevitably overlaps with that of the first. On these facts, after balancing the equities, the court concludes that damages at law constitute an adequate remedy for eBay’s willful infringement.” *Id.* at 582.

59. *Id.* at 570.

60. *See id.*

61. *Id.* at 582.

62. *See id.*

Following is an extended *blend and tracking* of notations from the courts opinion regarding the two separate, but related, prongs constituting “irreparable harm” and “adequate remedy at law:”

(1) Behavior, Business Model and Use indicating elements of “right:”

a) “. . . MercExchange has acted inconsistently with defending its right to exclude and . . . has failed to establish why its harm is irreparable.”<sup>63</sup>

b) The nature of the patent and the general concern of the PTO leading to the second level of review policy leading in this case to rejecting all claims of the 265 patent.<sup>64</sup> *See eBay*, 126 S.Ct. at 1842 (Kennedy, J., concurring) (recognizing both that “trial courts should bear in mind . . . the nature of the patent being enforced” and that the “potential vagueness and suspect validity of some [business method patents] may affect the calculus under the four-factor test”).<sup>65</sup> This element goes to the heart of whether the right exists at all, the incidents of the right and what the elements of the right require by way of remedy.

c) “. . . MercExchange failed to develop its patent or develop its patent through a licensing program.”<sup>66</sup>

d) As further indication of the failure to prove (a) the rights needed to support an injunction, or (b) that “irreparable harm” existed, but were satisfied through use of a monetary award, the court finds that “. . . presently, and at the time of trial, MercExchange has virtually no presence in the online auction industry and has little, if any, name recognition, customer base, market share or licensing program spurring patent development.” One can assume from this listing that these constitute appropriate elements for consideration of injunctive relief in

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63. *Id.* at 569.

64. *Id.* at 574.

65. *Id.* at 574.

66. *Id.* at 582. Compare and contrast this with the excerpt from the opinion of the court on remand: “Returning to the Supreme Court’s opinion remanding this case, the Court recognized the utility of self-made inventors or university researchers opting to enter into licensing agreements in lieu of raising what at times may be a prohibitive amount of financing necessary to develop their products themselves. This court recognizes and concurs with such utility and further recognizes that a patent holder’s decision to establish a licensing program does not negate the possibility that such patent holder will suffer damage to its goodwill, reputation, research and development opportunities, or ability to bring a unique product to market. However, the majority of the utility achieved by such licensing programs results from the fact that patent holders are still *seeking to develop* their patent, they are just opting to do so in partnership with others.” *Id.*, at 572.

conjunction with adequacy of remedy at law.<sup>67</sup>

e) “MercExchange exhibited a ‘lack of commercial activity in practicing the [relevant] patents’” [Id. at 10] “. . . although the Supreme Court rejected analysis implying that a categorical exclusion prevented injunctions from issuing if a patent holder did not practice its patents and existed only to license them, the Court in no way suggested that such facts could not be considered as part of the calculus in weighing the traditional equitable factors. *eBay*, 126 S.Ct. at 1840.”<sup>68</sup>

(2) The exclusive right to use (right to exclude) for licensee and royalty fees

f) MercExchange repeated, stated publicly and demonstrated by action that it was willing to license its patent portfolio. That coupled with “its post-trial attempt to sell off its intellectual property rights. . . is proof that MercExchange is part of the “industry [that] has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.” *eBay* 126 S.Ct. at 1842 (Kennedy, J., concurring) which the court notes “. . . lessens the impact of MercExchange’s plea for equitable relief.”<sup>69</sup>

(3) Adequacy of remedy at law damages

g) While the harm was found “irreparable,” the remedy of damages was deemed adequate.<sup>70</sup>

Likewise, Thus, MercExchange’s lack of commercial activity and pattern of granting licenses to market participants that were knowingly or unwittingly practicing its patents does not eliminate MercExchange’s ability to establish irreparable harm, but it weighs against the need for an equitable remedy as it evidences MercExchange’s willingness to forgo its right to exclude in return for money.<sup>71</sup>

h) The fact that licensee fees may be less than if an injunction were granted is not irreparable harm. “MercExchange has followed a consistent course of seeking to maximize the *money* it can obtain from licensing its patents to market participants allegedly utilizing such

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67. *Id.* at 583.

68. *Id.* at 571.

69. *Id.* at 582.

70. *Id.*

71. *Id.* at 571.

patents; a substantial damages award against eBay, apparently the primary infringer on MercExchange's '265 patent, will accomplish precisely such goal."<sup>72</sup>

i) Respecting the issue of valuation, the court previously considered the substantial discrepancy between the valuation of the patent and the jury award in its lower court opinion. It confirms the consideration that through the inclusion of

punitive damages, enhanced damages [which] are intended to punish/deter egregious conduct, it is possible that the monetary award ultimately collected by MercExchange will actually over compensate MercExchange for the value of its patent, thus making monetary damages more than adequate as a remedy." Accordingly, the court finds that in this particular case, the plaintiff has an adequate remedy at law, a factor weighing against entry of an injunction.<sup>73</sup>

(4) Abuse of discretion in remedy at law:

j) The court's reference to the award as the "prize" MercExchange sought, coupled with other questions opens a number of issues regarding the court's use or abuse of discretion and conformity with the principles set forth in the opinion and concurrence, specifically that of Justice Kennedy.<sup>74</sup> It also raises potential issues as to the valuation processes actually used by the court in the valuation of remedies at law, what might have been included or excluded and how the "right to exclude" might have been factored.

(5) Misuse of Remedy to increase value:

k) "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" which leads the court to think that this will be used against eBay if they obtain an injunction.<sup>75</sup>

l) MercExchange's assertion that eBay was their natural fit and a consistent course of litigating or threatening litigation to obtain money damages by a company of two employees, the inventor of the patents a former patent attorney, indicates that

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72. *Id.* at 585.

73. *Id.* at 583.

74. *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1842 (2006).

75. *Merc v. eBay*, 500 F.Supp. 2d at 582.

MercExchange has utilized its patents as a sword to extract money rather than as a shield to protect its right to exclude or its market-share, reputation, goodwill, or name recognition, as MercExchange appears to possess none of these.<sup>76</sup>

m) MercExchange seeks the injunction to enhance its bargaining position.<sup>77</sup>

n) “Utilization of a ruling in equity as a bargaining chip suggests both that such party never deserved a ruling in equity and that money is all that such party truly seeks, rendering monetary damages an adequate remedy in the first instance.”<sup>78</sup>

(6) Valuation as an independent factor of Equity and Due Process:

The court in *eBay II* noted the valuation of the 25 million dollar award was comprised in small part of compensation reflecting the value of the patent and predominantly reflected punitive damages for willful infringement.<sup>79</sup> It further noted that the jury award was not appealed and thus not reviewed by the Supreme Court and therefore was a final judgment.<sup>80</sup> The court recognized the anomaly created by an award for a right that may be later found invalid, but said that it wouldn't subordinate the judicial process to the proceedings of the PTO, the possible appeal to the court that would follow and the likely motions to delay further conclusion of the proceedings.<sup>81</sup> The court said that the decision to stay was in the discretion of the court and despite the large award to be paid, it was justified by eBay's willful infringement and failure to ask for relief until after the judgment of the jury.<sup>82</sup>

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76. *Id.* at 572.

77. *Id.* at 585.

78. *Id.*

79. *Id.* at 562.

80. *Id.*

81. *Id.*

82. On December 11, 2007, a final decision was rendered by the court in the matter. A published response by eBay indicated its' disappointment and intent to appeal on just these issues: “We are disappointed with the court's order and we plan to appeal it. In its ruling, the court concluded that it did not have the legal right to consider the merits of our arguments concerning the '265 patent, but rather was required to reject our motions based on the procedural posture of the case. We intend to appeal the Court's ruling on the procedural issues and remain confident that after the appeal, the Court will consider our arguments on their merits. “Additionally, our motion for summary judgment that our 2003 design-around was effective and there is no ongoing infringement of the '265 patent, and that no further damages are due, also remains pending before the court. eBay Inc. Statement on District Court Ruling in MercExchange v. eBay Case

<http://investor.news.com/cnet?GUID=4055100&Page=MediaViewer&Ticker=%24CNINE>.

Compare these proceedings and ruling with the decision in *Bridgport Music, Inc v. Justin Combs Publishing*.<sup>83</sup>

*D. Valuation: A Re-learning Curve: The Adequacy of Remedy at Law*

The objective of a monetary remedy at law is to secure compensation that renders the patent or copyright holder whole. In patent or copyright infringement actions, that would constitute an award that meets the standards of reasonable compensation, fair value, or in the valuation context of takings cases, just compensation. Despite differences in expression, these underlying methods of valuation rest on similar fundamentals.<sup>84</sup>

The methods in general use include, but are not limited to, the staples of valuation:

*Market Value* – what a willing buyer would pay a willing seller, each having knowledge of all relevant facts and circumstances which surround the transaction. The connotation of “willing” is that neither party is acting under duress.

Market value can be established by any number of means or combination thereof:

Identification of comparables, a factor that because of long standing practices is currently somewhat easier to establish with tangibles than with intellectual property interests. It should also be noted that there most likely are instances where the patent or copyright interest is sufficiently unique that there are no acceptable comparables.

Replacement cost - less depreciation which in the context of intellectual property might include the cost of development anew, the cost of developing a “work around,” both likely to require some measure of “depreciation” in considering changes in underlying technology of development and use.

A final measure or blend of the two inquires noted above would be

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83. 507 F.3d 470 (6th Cir. 2007).

84. See generally, Ted Hagelin, *Valuation of Intellectual Property Assets: An Overview*, 52 SYRACUSE L. REV. 1133 (2002); Dr. Gregory K. Leonard & Lauren J. Stiroh, *Economic Approaches to Intellectual Property Policy, Litigation, and Management*, 910 PLI 1303 (2007); 26 AM. JUR. 2D *Eminent Domain* § 277 (2007) (Compensation E. Measure and Elements of Compensation 1. In General b. Fair Market Value as Measure); Brian W. Napper, *Pricing of Technology* 1551 PLI 83 (2006); Keith Witek, 2 *Internet Law and Practice* § 22:7, *Par IV - Intellectual Property Issues, Managing and Valuing IP* (2006). But see, the valuation methods accepted by the court in *eBay I*, *MercExchange, L.L.C. v. eBay, Inc.*, 275 F.Supp. 2d 695, 710 (E.D.Va. 2003). The court accepted evidence regarding gross merchandise sales (GMS) and a hypothetical negotiation as evidence of value.

used in valuation as a cross reference since both tests are more an art than a science.

All things being equal in theory and practice, this should yield a fair market value, or fair compensation, to the patent holder that meets both legal and equitable valuation concerns. Because it may meet the standard of valuation, however, does not mean this remedy at law forecloses further consideration and constitutes an “adequate remedy” if there are other elements of irreparable harm that justify an injunction. It only indicates that the economic aspects of use can be valued by the application of standard measures.

Neither the Supreme Court decision, nor any of the cases that follow directly raise the issue of “certainty” and “risk” in the valuation process. These are both factors that affect negotiations and market value. The change in certainty regarding remedies will affect market negotiations, as well as litigation awards.<sup>85</sup>

A simple “certainty” and “risk reward” proposition:

1) Certainty is one factor taken into account in fair market valuation. The more certain market and legal issues are, the more accurate likelihood of projected costs and returns and the lesser the discount for unforeseen or known risk need be priced in the initial acquisition valuation.

2) Certainty is diminished with the decision in eBay because of the elimination of categorical decision making coupled with an “automatic” injunction. The issuance of an injunction places the burden of proof on the requesting party. This burden, coupled with the flexibility inherent in the exercise of discretion by the court makes risk analysis and valuation difficult.

3) The number of injunctions issued after eBay will likely” be fewer in number and involve increased litigation expenses. Anything less than the prior injunction policy creates uncertainty.

4) These factors may diminish inflated expectations premised on the use of injunctions as leverage. They may also remove the threat of an injunction as an important factor which operated to impede rational market valuation and licensing negotiations. If this comes to pass, it can permit NPEs, Universities and other participants in the technology

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85. There is an established cadre of experts and a burdening industry addressing technology readiness and valuation. Content right holders, private and public, including universities often see the services of market assessment consultants. Conversations with Dr. Phyl Speser, Foresight Technologies, Providence, Rhode Island. Dr. Speser is the author of *The Art and Science of Technology Transfer* (John Wiley & Sons, April 21, 2006).

incubation and transfer process the context in which to engage in the necessary and positive functions noted in the concurrence of Justice Kennedy.

Some of this “speculation” regarding the valuation paradigm may be seen seeded in the decisions that followed the Supreme Court decision, but preceded eBay II on remand.

Several cases applied the four-pronged test prior to the rehearing and decision in *eBay II*. The district court in *Paice v. Toyota Motor Corporation*<sup>86</sup> awarded royalties to the patent holder which was appealed to the Circuit Court challenging the royalty approved and the methodology, or lack thereof used in the decision. The Circuit Court of Appeals reversed and remanded noting the apparent lack of specifics regarding the procedure and considerations used in arriving at the award.<sup>87</sup>

[A]warding an ongoing royalty where “necessary” to effectuate a remedy . . . for . . . patent infringement does not justify the provision of such relief as a matter of course whenever a permanent injunction is not imposed. In most cases, where the district court determines that a permanent injunction is not warranted, 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.

In this case, the district court, after applying the four-factor test for a permanent injunction and declining to issue one, imposed an ongoing royalty *sua sponte* upon the parties. But, the district court’s order provides no reasoning to support the selection of \$25 per infringing vehicle as the royalty rate. Thus, this court is unable to determine whether the district court abused its discretion in setting the ongoing royalty rate. Accordingly, we think it prudent to remand the case for the limited purpose of having the district court reevaluate the ongoing royalty rate. Upon remand, the court may take additional evidence if necessary to account for any additional economic factors arising out of the imposition of an ongoing royalty. The district court may determine that \$25 is, in fact, an appropriate royalty rate

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86. *Paice, LLC v. Toyota Motor Corp.* 2006 U.S. Dist. LEXIS 61600, 1 (E.D. Tex. 2006).

87. *Paice, L.L.C. v. Toyota Motor Corp.*, 2006 U.S. App. LEXIS 24357, 1 (Fed. Cir. 2007).

going forward. However, without any indication as to why that rate is appropriate, we are unable to determine whether the district court abused its discretion. *Cf. Hensley v. Eckerhart*, 461 U.S. 424, 437, 103 S.Ct. 1933, 76 L.Ed.2d 40 (1983) (“It [is] important . . . for the district court to provide a concise but clear explanation of its reasons for the fee award”).<sup>88</sup>

Judge Rader, in a concurring opinion noted that the court should not have been permissive in suggesting the parties negotiate an appropriate royalty rate, but that they 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.”<sup>89</sup>

Judge Rader’s opinion does not appear to be either reflected or accounted for in *eBay II*. Perhaps this is because the court had engaged in a lengthy valuation analysis in *eBay I*,<sup>90</sup> considering expert witnesses testimony regarding methods using: Gross Merchandise Sales (GMS), hypothetical negotiations between the parties and ultimately enhanced damages. In *eBay II* they confirmed the finality of the original jury verdict. This is somewhat ironic since they accepted a “hypothetical negotiation. It may follow in time that the invalidation of the patents in issue by the PTO, the possible excessive nature of the total award, and the opportunity to ameliorate potential problems consistent with the line of reasoning suggested by Judge Rader’s reasoning give rise to issues of abuse of discretion.”<sup>91</sup>

Further references relating to the *eBay II* court’s consideration of the damage award can be found in the section addressing “Discretion and Remedies.” An issue not discussed in decisions since *eBay* relates to whether a remedy at law should take into account the public interest factor inherent in the impact of upholding a potentially excessive award without deliberation, or whether it should take into account the potential “due process” issues raised in *Bridgeport Music, Inc v. Justin Combs Publishing*.<sup>92</sup> There is some irony in thinking that in refusing to issue an injunction premised in part to prevent it from being used as a sword in negotiations, or to “extort” one who wants the right to use, or the

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88. *Id.* at 50-51.

89. *Id.* at 55.

90. *MercExchange, L.L.C. v. eBay, Inc.*, 275 F.Supp. 2d 695, 705-722 (E.D.Va. 2003).

91. *See supra* note 29 indicating eBay’s intent to appeal the final decision of December 11, 2007.

92. *See Bridgeport*, 2007 U.S. App. LEXIS 24262, 1 (6th Cir. 2007). *See also*, *TXO Production Corp. v. Alliance Resources Corp.*, 509 U.S. 443 (1993) (discussing the issue of punitive damages and due process).

innocent or willful infringer, the court might countenance an award that could be viewed as achieving a similar result. This is an issue that will have to be addressed by parties, counsel and the courts post eBay. Because of the notoriety attendant to the case and its possible consequences, it would not be a surprise if it were included in deliberations regarding and warrant inclusion in patent reform hearings and proposals. The overriding goal of valuation practices and market analysis is to methodically identify and guard against dysfunctional market forces into the determination of fair value and compensation.

### III. THE PUBLIC INTEREST(S) – IDENTIFICATION OF ELEMENTS AND CONSIDERATION

The fourth element of the four-prong test is "that the public interest would not be disserved by a permanent injunction," or phrased as "not harm to the public interest."<sup>93</sup> The public interest is not monolithic. It is a composite or blend of many different publics, many with competing interests and even within any one public differing interest. The public interest is a dynamic balance which, in our perfect world, would change relative to time and circumstance. If it is to be taken into account as an element of prong four of the test, it must consider the dichotomy established in the concurring opinions in eBay as part of the equation.<sup>94</sup> It must also account for the observation that no one appears formally to represent the public interest in these otherwise adversarial judicial proceedings involving intellectual interests.

The test uses the public "disserved" the synonyms of which are "damage, harm, wrong," as well then "detriment" which also has as a synonym "injury." The antonym of harm is "benefit." It would thus appear to the flip side is that that the consideration should consider the benefits of not issuing the injunction. In both *Paice*<sup>95</sup> and *Microsoft*,<sup>96</sup> some sense of this emerging public interest analysis can be gleaned. What follows are some lengthy excerpts from *z4 v. Microsoft* with added headnotes:

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93. eBay, Inc. v. MercExchange, L.L.C., 126 S.Ct. 1837, 1838 (2006).

94. *eBay v. Merc.*, 126 S.Ct. at 1841-1842 (Roberts, J., concurring) (Kennedy, J., concurring).

95. *Paice, LLC v. Toyota Motor Corp.* 2006 U.S. Dist. LEXIS 61600 \*1, \*16 (E.D. Tex. 2006) (the court noted that the public needs product and injunction will inhibit development as well as harm suppliers, dealers and others.

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

## THE PUBLIC “DISSERVED”

### *Most popular and widely used software in world*

Microsoft’s Windows and Office software products are likely the most popular software products in the world. The vast majority of computers sold, whether to individuals, businesses, governments, or educational institutions, run on the Microsoft Windows operating system and employ the Microsoft Office suite of software.

### *Redesign to satisfy injunction would affect public and computer industry*

Microsoft argues that the redesign of its Windows and Office products would undoubtedly effect certain sectors of the public. Microsoft suggests that smaller computer manufacturers (called system builders), retail sellers, and the consumers of both would be effected if z4’s proposed injunction were granted.

### *System builders will be burdened by time and testing*

Microsoft contends that the system builders would be harmed because of the time, testing, and expense required for these manufacturers to integrate a new release or re-release of Windows and Office products to be used with their computer systems. Although it is likely that changes to Windows or Office would not be significant enough to have as dramatic of an effect on the system builders as Microsoft proposes, such a re-release of the Microsoft products would likely create a burden for these manufacturers.

### *Redesign will take products off market for some time*

Furthermore, Microsoft contends that a redesign of its products could result in the products being taken off the market for a short period of time. Microsoft urges that such an absence from the market, even if for only a week, would have a detrimental effect on the retail sellers of its products as well as the retail consumers.

*Could harm public undisputed enormous reliance on products*

It is impossible to determine the actual effect that the implementation of such a re-design might have on the availability of Microsoft's products and the accessibility of those products to the public. However, it is likely that any minor disruption to the distribution of the products in question could occur and would have an effect on the public due to the public's undisputed and enormous reliance on these products.

*Activation services will be suspended leading to pirated software*

Microsoft also proposes a host of repercussions to the public resulting from the deactivation of the activation servers. Microsoft contends that, in the event the servers were deactivated, the market would be flooded with illegal, pirated copies of Windows and Office software, leaving unsuspecting customers with no way of determining the genuineness of their software. Microsoft argues that these unsuspecting purchasers of pirated software would be very susceptible to contracting computer viruses and other security breaches to their computer systems by installing pirated software. Furthermore, Microsoft contends that because it would be impossible for Microsoft to determine genuine versions from pirated versions once the system was reactivated, some legitimate users of Microsoft software might be unable to download product patches and updates.

Again, although it is impossible to determine the actual events that would follow the deactivation of Microsoft's product activation servers, it is likely that the market would see an increase in pirated versions of the software. As a result, unsuspecting public consumers would undoubtedly suffer some negative consequences.

*No negative affects to public not issuing injunction*

Under both aspects of z4's proposed permanent injunction, there is a risk that certain sectors of the public might suffer some negative effects. However, the Court is unaware of any negative effects that might befall the public in the absence of an injunction. Although these negative effects are somewhat speculative, such potential negative effects on the public weigh,

even if only slightly, against granting an injunction. Accordingly, the public interest is likely to be disserved if a permanent injunction were entered against Microsoft.<sup>97</sup>

The primary factors used by the respective courts related to the size and economic value of the enterprises, collateral harms to users or suppliers and global economic involvement. The court found harm to the public would result from an injunction. It is far too early to tell how this factor will develop in the courts or legislative arena. While each of the cases since *eBay* has added to the list, context and consideration of possible issues, one can't foresee what interests will be included in the calculation and how they will be weighted in the final determination.

The lack of direct representation or the opportunity of the public to intervene leaves advocacy for these interests either to the parties as it serves their needs, or to the discretion of the court acting in the historic role of what is remembered as the "honorary trustee."

#### IV. CONCLUSION: THE BEGINNING OF THE POST EBAY REMEDY

Post *eBay* will reflect the consequences of deliberate consideration of each of the elements in the "four-pronged" test. In the context of patent enforcement, the absence of categorical presumptions requires that right holders, lawyers and the courts identify with specificity the interests and appropriate remedies for relief. The requirement that the plaintiff bear the burden of proving the need for an injunction premised on irreparable harm that is not satisfied by monetary compensation as a remedy at law changes the posture of the parties. It is axiomatic that there will be fewer injunctions granted since anything less than all as permitted by the presumption that routinely granted almost all injunctions for infringement of a "property right" is "less." This infuses uncertainty into the process which will affect the perceived rights of patent holders and have a significant impact on technology transfer and management regarding patents and copyrights.

An early consequence of the decision in *eBay* may be an effort to meet the burden of proof standards by pre-litigation marshalling of factors that meet judicial requirements. Based on *eBay* some of these malleable factors include: exclusivity of use in the interest, competitive

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97. *Id.* at 443-444.

position, attribution, product recognition and other elements yet to be identified as requiring exclusivity. Conversely, longer-term impacts may seek other methods of maximizing “market value” and valuation for negotiations purpose or compensatory relief as a matter of law. That said, modifications of business constructs will reflect diminished reliance on injunctive relief as a bargaining tool with correlative emphasis on valuation methodologies which result realistic valuations that reflect the intrinsic values of the patents (or copyrights) as elements in the market place. In an ideal world, this would result in less litigation and greater “use” of intellectual property by either the holder of the patent or copyright or their licensees.

Litigation models reward lawyers who are prepared to engage with careful and distinct delineations and articulation of the incidents of “right” in need of judicial protection. This can be a self selecting process weeding out weaker cases that were countenanced or buttressed by “presumption” in prior cases which treated all property rights as including the right to exclude and worthy of injunctive relief. As Justice Roberts notes, long standing rules and their application should not be lightly overturned.<sup>98</sup> This states that which can be empirically observed - that lawyers and judges are slow to change their ways when precedent weighs heavily in their decisions. The full impact of the four-prong test requiring the plaintiff to bear the burden of proof regarding the first two factors of irreparable harm and inadequate remedy at law will not be realized immediately. The thirty or so cases decided since the decision in *eBay* support this normative observation. The third prong of the test, balancing relative hardships between or among the parties is one in which lawyers are skilled in both training and practice. This is evident in the each of the most recent cases.

Thus, near term changes will affect judicial procedures. That is to say, each case will be prosecuted and considered with a conscious attempt to avoid the appearance of categorization. The use of categories notwithstanding, the cases will methodically address each of the requisite elements required for the exercise of discretion by the court in the selection and application of rules of law and equity.

The most interesting element is the elevation in the fourth and final prong of the four prong test of the use as a standard of “disserve the public,” or harm to the public interest. What constitutes the public interest? Is there an identifiable public interest and is it monolithic? How are competing public interests addressed? How much weight is to

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98. *eBay v. Merc.*, 126 S.Ct. at 1841.

be given to the harm to the public interest? Is the denial or absence of benefit to be secured in “progress” in the “arts” and “sciences” by denying or limiting full use of the property right in the patent or copyright harm to the public interest?” At the risk of appearing esoteric or oblique, who speaks for the public interest and the harm it has or is likely to suffer?

It was suggested in the body of this paper that public interests are not adequately reflected in adversarial proceedings other than as meets the needs of the parties. It might also be suggested that the court, though well intentioned and above reproach, is not always in a position to represent the public interest. The body of this paper listed elements of the public interest consideration and included a few paragraphs from the decision in *z4 v. Microsoft* to allow the reader to appreciate these observations and reflect on the future role of this element in remedial decision making.

After this the crystal ball clouds. The cases have not evidenced any consistent pattern. Most of them were in process before or immediately after the decision in *eBay*. They don’t fully reflect the necessary crafting of presentation and detail respecting the creation, transfer and use of patent interests in anticipation of litigation. Thus far, the insertion of the public interest component gives the appearance of analysis, but results in little concrete. *Toyota* and *Microsoft* open the door to consideration of collateral consequences and costs of an injunction in the public arena. *eBay II* adds slightly to this concern and reflects the transitional quandary of compliance. All said, adding this factor to the equation may assist in the necessary “balance” to secure that intellectual property interests remain vibrant and in perspective.