

an earbud alone without the Bluetooth device is of little to no use to a consumer.”

- The argument that the accused earbuds did not have an impact on sales was “to be proffered via admissible evidence at trial and for the jury to weigh the competing evidence.” The Court did not want to “usurp that role” – a reasonable jury could find that the convoyed sales test is met.

### III. INJUNCTIVE RELIEF

#### **eBay v. MercExchange, 547 U.S. 388 (2006)**

- Previous Federal Circuit rule was that only in exceptional circumstances should a permanent injunction not be granted.
  - Based on the idea that a patent give a right to exclude others from making, using, or selling the invention.
- The Supreme Court overturned the Federal Circuit. The Court held that standards for injunctions in patent law are the same as in any other area of law and must be based on traditional equitable principles.
  - Equitable remedies are highly discretionary; district court judges have a large degree of latitude in how they weigh the equities.
  - Four factor test for permanent injunction:
    - The prevailing party suffered an irreparable injury
    - Available remedies at law are inadequate
    - Considering the balance of hardships between the parties, a remedy in equity is warranted
    - Public interest would not be disserved by a permanent injunction
  - This holding smears a Federal Circuit bright-line rule into a less predictable standard based on case-by-case analysis.
- Roberts’ concurrence - The long tradition of granting equitable relief does not justify the Federal Circuit’s rule. There is likely a good reason that so many cases in the past favored equitable relief, but that alone does not mean automatic entitlement to an injunction is proper.

- Kennedy's concurrence
  - Recognizes that injunctive relief is a large bargaining chip for NPE's, and is concerned that equitable remedies might be used for undue leverage
  - Also an issue when the patented invention is a very small part of a much larger product, a permanent injunction can block the sales of the larger product
    - Example: iPhone antenna infringes a patent, could block sales of entire iPhone.

### **Changes Post-eBay**

- Changes in injunctive relief grant rates
  - Chien & Lemley, *Patent Holdup, The ITC, and the Public Interest*, 98 CORNELL L. REV. 1 (2012)
    - Sample study shows instances of injunctive relief being granted dropped from over 95% to between 70-80%
    - Injunction grant rates by entity type (Source: Chien & Lemley, *Patent Holdup, The ITC, and the Public Interest*, 98 CORNELL L. REV. 1 (2012)):
      - University: 100%
      - Individual: 90%
      - Practicing Company: 79%
      - Patent-Assertion Entity (Total Requests): 26%
      - Patent-Assertion Entity (Contested Requests): 7%
  - Kirti Gupta and Jay P. Kesan, *Studying the Impact of eBay on Injunctive Relief in Patent Cases* (July 10, 2015), available at SSRN: <http://ssrn.com/abstract=2629399>
    - Results of a large scale study show only a minor decrease in injunctive grant rates post-*eBay*.
    - Authors explain this as the result of self-selection; parties less likely to be granted an injunction are now less likely to seek one.
    - The number of motions for injunctions, especially preliminary injunctions, has dropped precipitously since

*eBay*, despite the fact that the number of patent cases has increased.

- Focus of change can be linked to Justice Kennedy’s concurrence
  - Paice LLC v. Toyota Motor Corp., No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. Aug. 16, 2006)
    - Jury found that Toyota’s hybrid vehicle sales infringed NPE Paice’s patents under doctrine of equivalents.
    - Court found no irreparable harm for injunctive relief
      - As an NPE, Paice’s concerns about their loss of brand recognition and market share were not implicated.
      - Paice had been unsuccessful in licensing its technology, but Toyota’s sales of infringing vehicles were not responsible for the lack of success.
  - Z4 Techs., Inc. v. Microsoft Corp., 434 F. Supp. 2d 437 (E.D. Tex. 2006)
    - Non-practicing entity z4 owned patent for software product authentication and activation, sued Microsoft for its Windows and Office products. A jury found the patent valid and infringed. The court denied a permanent injunction against Microsoft’s products.
    - Court rejected argument that patentee’s right to exclude created a rebuttable presumption of irreparable harm.
    - Directly cites Justice Kennedy’s concurrence in finding remedies at law inadequate: “[P]roduct activation is a very small component of the Microsoft Windows and Office software products. . . .”
- Patent-Assertion Entities Seeking Relief at the ITC?
  - Many commentators have stated that the ITC is being flooded by NPE’s hoping to circumvent federal district courts after eBay
    - Practical effect of an exclusionary order from the ITC is similar in effect to injunctive relief from a district court for any imported infringing product.

- eBay does not apply to ITC remedies, including exclusionary orders. Spansion, Inc. v. Int’l Trade Comm’n, 629 F.3d 1331, 1359 (Fed. Cir. 2010). This would presumably make it easier for patent-assertion entities to block sales of infringing products.
  - While the number of new investigations instituted has increased at the ITC, the numbers show that NPE’s are not the cause. (Source: USITC, *Facts & Trends Regarding USITC Section 337 Investigations* (June 10, 2014))
    - The number of all Section 337 investigations instituted peaked in 2011 at 69 and has been falling since.
    - For the period between the date of the eBay decision and Q1 2014:
      - Patent assertion entities accounted for only 33 instituted investigations, making up only ten percent of the total.
      - Only two patent assertion entities successfully obtained an exclusion order, and both of them developed the technology themselves.

### **Preliminary Injunctions**

- Amazon.com v. BarnesandNoble.com, 239 F.3d 1343 (Fed. Cir. 2001)
  - Preliminary injunction motion by Amazon to prevent BN from using its “Express Lane” feature on its website.
  - Factors test for preliminary injunction in the Federal Circuit (other circuits vary)
    - Reasonable likelihood of success on the merits
    - Irreparable harm if an injunction is not granted
    - Balance of hardships tips in its favor
    - The injunction’s favorable impact on the public interest
  - Both of the first two factors must be met for an injunction to be granted
  - Biggest difference from permanent injunctions is the first requirement. The major questions are validity and infringement

- Defendant must raise “a substantial question” regarding either criteria to defeat preliminary injunction
- Not a substantial question if patentee proves that Defendant’s defenses for either “lacks substantial merit.”

### **Federal Circuit’s Causal Nexus Requirement**

- This requirement was never part of the traditional equitable principles, but the Federal Circuit has added it as a requirement to find irreparable harm.
- Adoption of the Requirement — Apple Inc. v. Samsung Electronics Co. (Apple I), 678 F.3d 1314 (Fed. Cir. 2012)
  - Apple sued Samsung for infringement of their design and utility patents. Apple was denied a preliminary Injunction in the district court, which held that there was no irreparable harm as Apple demonstrated no nexus between Apple’s claims of lost market share and the infringement of the patented design.
  - The Federal Circuit affirmed and adopted the Causal Nexus standard.
    - There is no irreparable harm for a patentee who lost sales to an infringer “if consumers buy that product for reasons other than the patented feature”
    - Makes no citation to eBay in this analysis
- The High Water Mark — Apple Inc. v. Samsung Electronics Co. (Apple II), 695 F.3d 1370 (Fed. Cir. 2012)
  - Apple sued Samsung, claiming that the Galaxy Nexus smartphone infringed, among others, its patent for “unified search.” Apple’s motion for preliminary injunction enjoining sales of the Galaxy Nexus was granted
  - The Federal Circuit reversed, finding that there was not a “sufficiently strong causal nexus.”
  - “To establish a sufficiently strong causal nexus, Apple must show that consumers buy the Galaxy Nexus because it is equipped with the apparatus claimed in the ‘604 patent—not because it can search in general, and not even because it has unified search.”

- There must be affirmative proof that the infringing feature drives the demand for the infringing product for consumers
- Softened Standard? — Apple Inc. v. Samsung Electronics Co. (Apple III), 735 F.3d 1352 (Fed. Cir. 2013)
  - In the same case as Apple I, but this time dealt with Apple’s motion for a permanent injunction, which the district court denied. The Federal Circuit remanded the case, finding that the district court abused its discretion in its application of the four factors.
  - The proof requirement in Apple II was lowered; the patented feature need not be the sole reason for consumer demand.
    - “Thus, rather than show that a patented feature is the *exclusive reason* for consumer demand, Apple must show some connection between the patented feature and demand for Samsung’s products.”
  - Some commenters believe this was backpedaling to not stray as far from eBay’s instruction to follow traditional equitable principles.

#### IV. PATENT EXHAUSTION

##### Overview of Patent Exhaustion

- Patent exhaustion is a judicially created defense to claims of patent infringement.
- Also referred to as “first sale doctrine,” this origins of this defense are found in a 150 year old Supreme Court decision.
  - Bloomer v. McQuewan, 55 U.S. 539 (1853)
    - Patent for planing machine whose only value was in its use.
    - Chief Justice Taney framed the patent as a grant of a monopoly in the patentee, who could share a portion of that monopoly with his licensees.
    - There is a distinction to be made between a licensee of a patent and one who purchases the patented good in a lawful sale.