

Permanent Injunctions and Pluralistic Competition

By Clement S. Roberts

Since the decision in *eBay*,¹ most disputes over whether or not a permanent injunction should be entered against an infringer have been framed in a somewhat binary manner. The plaintiff tries to establish that it is likely to suffer irreparable harm by showing that the parties are direct competitors in the marketplace, while the defendant tries to show that they are not.

In a few cases, nonpracticing entities have complicated the picture somewhat by arguing that they have been irreparably harmed in other ways, such as by the litigation's effect on their reputation, or by having missed research opportunities as a result of uncompensated infringement. By and large, the courts have been receptive to some of these arguments, even though they have not often found them dispositive. The fact that the courts have been open to these arguments suggests, however, that it is worth examining various aspects of competition to see if and how they could give rise to arguments that would be useful in seeking or resisting an injunction.

In the real world, competition can take many different forms. Thus, for example, firms can compete with one another for *inputs* (such as programming talent, polysilicon materials, or pollution credits) even when their *outputs* are not competitive. Similarly, many companies' *outputs* compete with one another in limited market segments, even though the product offerings are not generally thought of as substitutes for one another.

Yet, for the most part, since *eBay* was handed down, litigants (and courts) have paid little attention to the arguments these aspects of competition afford. This is unfortunate because the pluralistic nature of competition gives rise to a number of arguments on both sides that could both make a difference in the outcome in particular cases and result in a richer, more nuanced doctrine overall.

Background

The threat of an injunction is often the most powerful tool a patentee has to force a favorable resolution. Prior to the decision in *eBay*,² this potent threat was equally available to intellectual property licensing entities and to manufacturing companies alike. Indeed, before *eBay*, a victorious patent plaintiff was *entitled* to an injunction. But the *eBay* decision changed this regime by instituting a requirement that no injunction should issue without a finding that (1) the plaintiff had suffered an irreparable injury, (2) money damages were inadequate, (3) the balance of hardships favored the plaintiff, and (4) an injunction was in the public interest.³

Although the Supreme Court explicitly noted that nonpracticing entities *might* be able to satisfy this four-factor

test, the reality has been that very few of them have been able to do so.⁴ Instead, in practice, the four-factor test has collapsed into a single question—namely whether or not the plaintiff and defendant compete head to head in the marketplace.⁵ If they do, the court will most likely find that continued sales of the infringing product would cause the patent holder to lose market share, find that this loss of market share constitutes an irreparable harm, and enter an injunction. If the parties are not direct competitors, however, it has been very difficult for the plaintiff to show irreparable harm.

The most controversial case in which a nonpracticing plaintiff has been successful in obtaining an injunction is *CSIRO v. Buffalo Technology*.⁶ CSIRO, which is the research arm of the Australian government, sued Buffalo Technology claiming that CSIRO's patent covered the 802.11a and g wireless standards used by Buffalo Technology's (and virtually all other) wireless modems. On summary judgment, the court found the patent valid and infringed, and entered judgment in CSIRO's favor.

The court went on to enter a permanent injunction against Buffalo even though CSIRO did not manufacture a competing product. The court found that an injunction was warranted because (1) Buffalo had, by challenging the patent in court, hurt CSIRO's reputation, caused it to lose research opportunities, and damaged its ability to attract research talent; (2) a "compulsory license" would not fully compensate CSIRO for these harms because it would not adequately reflect the worth of the patent or "include other non-monetary license terms that are as important . . . to a licensor such as CSIRO"; (3) the balance of hardships favored CSIRO because Buffalo would lose only 11% of its revenue, while CSIRO's harms were irreparable; and (4) public policy favored a strong patent system.⁷

More recently, in *Hynix Semiconductor v. Rambus*,⁸ the plaintiff tried to make the same arguments that had worked in *CSIRO*—but was unsuccessful. For example, the *Rambus* court noted that while the plaintiff had allegedly suffered "reputational" harm as a result of having its patents challenged in a lawsuit, the lawsuit was now over and was not, in any case, something that could be addressed by an injunction against future sales.⁹ Similarly, the court found that, while the plaintiff might have missed out on *past* research opportunities as a result of the infringement, an injunction was not necessary to prevent it from missing out on future opportunities that could be funded by ongoing royalty payments.¹⁰

While none of the arguments that Rambus took from *CSIRO* gained any traction, the court was receptive to a different argument. Rambus argued that if Hynix were allowed to continue selling its products, it would undermine Rambus's ability to convince computer makers to adopt an alternate technology that Rambus wished to license.¹¹ The court noted that, while this argument was conceptually sound, Rambus had already licensed the patent in suit to other companies. Thus, taking Hynix's product off the market was unlikely to

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meaningfully affect the supply of the older technology and therefore unlikely to result in many additional design wins for Rambus's new technology.¹² As a result, while the court concluded that Rambus *had* shown a real risk of irreparable harm, it found that harm to be outweighed by the effect an injunction would have on Hynix.¹³

While the merits of the decisions in both *CSIRO* and *Rambus* are (as with any decisions) open to debate, they do represent a genuine effort to expand the analysis beyond a focus on direct head-to-head competition in the marketplace. This expanded focus should not, however, be confined to situations where the plaintiff is a nonpracticing entity. Indeed, as discussed below, practicing entities have, if anything, a *greater* number of ways to use the pluralistic nature of competition to seek or resist an injunction.

Competition Is Pluralistic

In the real world, firms compete with each other in many different ways and not just head to head in the marketplace. Some of these forms of competition provide interesting and potentially useful avenues for plaintiffs and defendants to either seek, or resist, an injunction.

Competition for Inputs

Many firms compete for scarce inputs (including both materials and labor) even when they don't sell goods or services that compete with one another. Thus, for example, solar cell and computer-chip manufacturers compete for access to polysilicon, which provides the raw material for both products. Similarly, companies as diverse as Google, EA Games, and Oracle compete for programming talent even though they do not sell competitive software.

Yet, this kind of competition for *inputs* is rarely used as a way to argue for the entry of a permanent injunction. In all likelihood this is due to a number of predictable factors—namely the fact that many nonpracticing entities don't use many inputs and the fact that practicing entities often don't have to rely on competition over inputs to argue for an injunction because they can instead rely on direct head-to-head competition. Thus, competition for inputs is most likely to be a useful argument when the plaintiff is an active market participant but is seeking to enforce a patent that it does not currently practice. It is most likely to be useful to companies like IBM and AT&T that have large patent portfolios that cover far more than their existing product lines.

The Fluidity of Labor and Materials Markets

Because the labor and materials markets in the United States are very fluid, it is rare that firms genuinely cannot find willing workers or input materials. For example, when unemployment is substantially above the structural rate (approximately 3.7%), it is comparatively easy to find additional workers by luring them off the unemployment rolls. Moreover, if a company has to pay more to attract workers or to secure a reliable supply of polysilicon, it might suffer harm, but it is a harm that can be compensated with money, and therefore not *irreparable*.

On the other hand, many workers are not fungible. For example, while it is true that firms compete for programming

talent *overall*, they often compete for prize employees on an intensely personal basis. The 2005 fight between Google and Microsoft over Kai-Fu Lee—a talented and well-regarded Microsoft engineer who was seen as key to developing a presence in China—is but one example. Google and Microsoft spent millions fighting over Mr. Lee, an amount that belies the argument that he could simply be replaced by paying a little more to hire an alternative.

Moreover, while many input markets are fluid, others are not. There has, for many years, been a dramatic shortage of nurses in the United States such that hospitals are often unable to maintain desired nursing levels. Moreover, hospitals cannot simply solve the shortage by raising salaries—both because other hospitals quickly match any raises and because raising nurses' salaries can have dramatic negative effects on the availability of other critical care. Yet, without adequate nursing levels, a hospital can see an increase in post-operative complications and a declining customer-service rating and can, as a result, suffer precisely the kind of declining market share that is normally sufficient to establish irreparable harm.¹⁴

Thus, while not *all* competition for inputs displays the characteristics that are associated with irreparable harm, *some* of them do. In particular, firms that compete with each other for management talent and high-end engineers as well as firms that compete in tight labor and materials markets should have arguments, under the right circumstances, that competition for inputs is likely to cause them irreparable harm.

The Causal Connection Between Inputs and Outputs

The more difficult problem with arguing for an injunction based on competition over inputs is establishing a causal connection between the continued sale of an *output* and an impact on the competition over *inputs*.

Say, for example, that *CSIRO* had won its follow-on litigation against the wireless industry.¹⁵ An injunction against sales of chips making use of the 802.11a and g wireless standard would be unlikely to have any impact on the competition for research talent. While an injunction would have resulted in *CSIRO* having somewhat more money (because *CSIRO* would have been able to use the injunction as a bargaining chip), the amount at issue would have been unlikely to meaningfully impact either *CSIRO*'s budget or the budget of a company like Intel.¹⁶ Moreover, given the fact that Intel and *CSIRO* work in very different parts of the globe, it's not at all obvious that they compete for research talent in the first place.¹⁷

The problem with establishing a causal link applies even in less dramatic situations. Say, for example, that a patent covers a product that is responsible for a relatively small proportion of the revenue of each party. In that case, an injunction is unlikely to have any meaningful impact on the parties' ability to compete for inputs. Similarly, an injunction that prevents a competitor from continuing to sell software with a minor feature that does not drive overall product demand is unlikely to have an impact on the competition for inputs because the defendant would simply invent around the patent or eliminate the infringing feature.

But there are likely to be *some* situations where there is a clear causal link between the continued sale of an output

and a firm's ability to compete for inputs. Thus, for example, where a patent reads on a product that accounts for a large percent of a competitor's revenue, an injunction can have a dramatic and immediate effect on the defendant's ability to compete for inputs. If the input market is one in which the plaintiff can *benefit* from the defendant's loss, then a *failure* to grant the injunction might result in irreparable harm.

This *still* might not be sufficient to justify an injunction. Instead, courts might resist granting injunctions when the input over which the parties compete is unrelated to the alleged infringement. For example, in *Rambus* the plaintiff argued that it was harmed because Hynix's failure to pay royalties had forced Rambus to grant inexpensive licenses to other manufacturers so that they could compete with Hynix (which had a cost advantage because it was not paying royalties).¹⁸ Although the court rejected this argument for a number of reasons, it noted that it was "not persuaded that any diminished royalties were the result of Hynix's infringement" and therefore cognizable.¹⁹ In other words, the court took the position that the only harms that count in deciding whether or not the plaintiff is likely to suffer irreparable harm are those that are directly related to the infringement.

If the courts apply this causality test narrowly, it will be very difficult to find a situation where competition for inputs could justify an injunction. The only situations that might qualify under a strict causality standard are those in which the plaintiff's patent reads on the use of an input (say a novel way of using polysilicon) that is itself in short supply.

On the other hand, the *CSIRO* and *Rambus* courts did not appear to be using an especially narrow causality test. For example, each court considered its plaintiff's claim to have suffered reputational harm as a result of having the validity of its patents challenged in litigation. If the causality requirement were applied narrowly, those harms would not be cognizable because they aren't caused *by the infringement*. Thus, there is at least some hope (for plaintiffs) that the causality requirement won't be applied very narrowly and, consequently, that a greater range of arguments about input competition will be available.

Even with a loose causality standard it seems unlikely that there will be many situations where competition over inputs will be dispositive. On the other hand, there should be *some* instances where plaintiffs can use the existence of this competition to strengthen their overall claim to an injunction.

Market Segmentation

Firms rarely compete against each other in all market segments at the same time. Instead, firms normally provide a variety of offerings that are targeted at different segments. When a patent covers a product aimed at a particular market segment and the accused infringer offers a competing product aimed at that same segment, the analysis is fairly straightforward because the products are in direct head-to-head competition.

But what about situations where the plaintiff's and defendant's products are only competitive at the margin? Imagine, for example, one company that sells software aimed at small to mid-sized banks, while a second company offers software that is aimed at large national banks. If the two companies

offer products in different segments, such that they don't take any business away from one another, then, again, the analysis is easy because they don't compete.

The analysis is more complicated, however, when the parties' products overlap. Suppose, for example, that the plaintiff's product is only practical to use in banks that have more than 1,000 employees, while the defendant's software becomes impractical when the number of bank employees *exceeds* 1,100? In this hypothetical, the two companies compete with one another for only a few customers (i.e., banks with more than 1,000 but less than 1,100 employees). In such a situation, it is not clear whether or not the plaintiff should be entitled to an injunction. To decide that issue the court must determine whether the overlap is large enough to cause irreparable harm and, if it is, whether the balance of harms favors granting an injunction.

At one level, the theoretically appealing answer to this question is also the least practical—namely that an injunction should issue against the defendant's product but *only* to the extent it competes with the plaintiff's product. Thus, in the above hypothetical, the problem can be neatly solved by entering an injunction but by limiting its *scope* to banks with more than 1,000 employees. But this solution, while efficient on paper, is unlikely to be attractive to a court in most situations because the real-world market segments in which products compete are rarely as neatly defined as those in the hypothetical.

On the other hand, in *Broadcom v. Qualcomm*, the Federal Circuit approved an injunction that sought to balance the harms to the parties and to consumers by giving the defendant 20 months before the injunction became effective, during which time the defendant could build a new, noninfringing chipset into its products.²⁰ Although it is much easier to limit an injunction by time than by market segment, the *Broadcom* case suggests that the Federal Circuit might be open to limiting the scope of an injunction as a way to balance the equities.

The existence of market segmentation also gives rise to a number of other arguments that a defendant might use to avoid an injunction.

First, in most industries there are a wide variety of players and the elimination of a single product offering from one market segment is unlikely to meaningfully impact the plaintiff's market share. As discussed above, Hynix successfully made a version of this argument in the *Rambus* case (i.e., that the injunction was unlikely to help Rambus sell its alternative technology because other companies were already licensed to use the patent). But the argument is likely to have traction in a variety of situations. Say, for example, that there are 10 companies that sell into a given market segment and the plaintiff has 20% of that segment, while the defendant has 1%. If an injunction is entered against the defendant, the plaintiff should expect its market share in that segment to go up only 0.2%! While it *might* be the case that the 0.2% market share is sufficient to sway the balance of harms in the plaintiff's favor, it's not obvious that it will be. Thus, defendants should try to see if they can characterize their competition with the plaintiff as taking place in a market segment in which one or both of the parties has only a small market share.

Second, in some situations an injunction against a

defendant might have impacts on *other* participants in the relevant segment that the defendant can use to its advantage. Continuing the hypothetical from the previous paragraph, let's say that the plaintiff's main competitor has a 40% market share in the relevant segment. That competitor would be expected to benefit, on average, twice as much from the entry of an injunction against the defendant as would the plaintiff. In many industries (especially those with strong network effects), losing ground *relative* to a competitor is a highly negative result even if one gains ground overall. In other words, in at least some situations, a defendant might be able to tip the scales in its favor by showing that an injunction would be likely to *harm* the plaintiff's interests relative to other market participants even if it benefits the plaintiff relative to the defendant.²¹

Third, in some situations defendants should be able to use the effect of the injunction in *other* market segments. Once again, let's continue with the previous hypothetical. Say the defendant has only a one percent market share in the segment in which it competes with the plaintiff, but is one of two competitors in another segment. If the defendant is forced to take its product off the market entirely, the entity with which it competes in this other segment will end up with a monopoly. To put it less dramatically, if a defendant is one of only a few suppliers in a particular market segment, it should be able to use the fact that a sweeping injunction will raise prices and harm consumers in that other segment as a way to defend against the injunction.

The *reason* these market segmentation arguments are likely to be useful is because (once again) the *eBay* decision specifically calls on the courts to consider the balance of hardships and the public interest. And courts have shown themselves responsive to this kind of argument. For example, in *Rambus*, the court declined to enter an injunction because of the impact on the defendant, *despite* its finding that the continued sale of the infringing product was likely to cause *some* irreparable harm to the plaintiff.²² Thus, defendants should be able to take advantage of a wide variety of market segment effects to resist an injunction, including the impact on the plaintiff in the relevant segment, the impact on other market participants in that segment, the impact on other market segments, and the impact on consumers.

Competition in the Courts

One of the most controversial suggestions in the *CSIRO* decision is the idea that litigation conduct itself can create a cognizable irreparable harm that justifies the imposition of a permanent injunction. In particular, Judge Davis pointed to the fact that, by challenging *CSIRO*'s patent in court, Buffalo Technology "impugn[ed] *CSIRO*'s reputation as a leading scientific research entity" and had forced it "to divert millions of dollars away from research and into litigation costs." These harms were, in the court's view, irreparable because they represented a loss of "brand recognition" and unique opportunities that could not be accounted for in pure dollar terms.²³

There is a fair amount of logic behind this argument. Businesses *do*, in fact, compete with each other using the courts. For example, businesses often sue each other for

alleged patent violations in order to interfere with important events (such as a planned IPO) or to delay a smaller competitor's progress in the marketplace. While perhaps distasteful, this kind of conduct is perfectly legal and very much routine. Similarly, the things companies say and do in litigation (and the fact of litigation) *do* have real impact in the marketplace. Indeed, if there were no such impact, companies would not use litigation as a business tool in the first place. Moreover, some of the harms caused by litigation (say, for example, the loss of market share caused by a forced delay in an IPO) are genuinely irreparable. So, one might ask, if we are to take seriously the idea that competition is pluralistic, shouldn't we also take the competition that is litigating into account in evaluating whether or not to issue a permanent injunction? The answer is no.

In the first place, the *purpose* of an injunction is to prevent future harm, not to compensate a company for past harm. Insofar as a harm is caused by litigation positions or the fact (and cost) of ongoing litigation, any harms that extend past the end of the litigation are really just aftereffects, not a continuing wrong that can be remedied with an injunction. To put it another way, if one *were* to issue an injunction against the harms caused by litigation, it should be an injunction against the conduct causing the harm—namely, engaging in litigation. But we already have that; it's called *res judicata*. To its credit, the court in *Rambus* seems to have understood this issue and decided it correctly.²⁴

More importantly, however, awarding injunctions based on the fact or content of litigation is terrible public policy. In the first instance, it is clear that the impact on public policy can and should be taken into account. As the Court put it in *eBay*, in evaluating an injunction request, courts should first determine "that the public interest would not be disserved by a permanent injunction."²⁵

But public policy strongly favors a full airing of positions during litigation. This is why, for example, there is a litigation privilege that protects against collateral claims based on statements made during litigation and why issues not raised for the first time during trial cannot be raised on appeal. Similarly, there is a strong public policy of not discouraging defendants from fully defending themselves. This is why, for example, the American system requires (with rare exceptions) parties to pay their own litigation fees and why law school was the last time many of us heard of doctrines like offensive, nonmutual collateral estoppel.

Using the fact that a defendant refused to take a license and instead chose to defend itself (unsuccessfully) in court violates all of these policies. In *CSIRO*, the court found that the public interest favored the plaintiff because "[t]he public has an interest in a strong patent system," but this proves too much. In the first place, this argument could be used to justify an injunction in *any* case. More importantly, however, the interest in a genuinely strong patent system *cannot* logically be said to be advanced by a policy that discourages defendants from challenging patents in litigation. A genuinely strong patent system, after all, is one in which patents are subject to a rigorous review. The U.S. Patent and Trademark Office relies on litigation to provide that last level of review,

and we weaken the patent system rather than strengthen it when we discourage parties from challenging patents in court by increasing the penalties for losing.

Thus, defendants faced with plaintiffs who make this argument (and after its success in *CSIRO*, there are likely to be a number of them) can either rely on the lack of causality between the alleged reputational harm and a future injunction (as the defendant did in *Rambus*) or make more direct public-policy arguments.

Conclusion

Where the parties are in direct head-to-head competition with products that are effective substitutes for each other, the arguments outlined above are unlikely to play much of a role. On the other hand, where the plaintiff's products and the defendant's products are not perfect substitutes for each other, or where the plaintiff is a nonpracticing entity, there is more room for the parties to advance arguments that take advantage of the pluralistic nature of free-market competition. ■

Endnotes

1. *eBay, Inc. v. MercExchange, LLC*, 126 S. Ct. 1837 (2006).
2. *Id.*
3. *Id.* at 1839.
4. *Id.* at 1840 (noting that a nonpracticing entity might "be able to satisfy the traditional four-factor test [for issuance of an injunction] and we see no basis for categorically denying them the opportunity to do so").
5. *See, e.g., Tivo, Inc. v. EchoStar Commc'ns Corp.*, 446 F. Supp. 2d 664, 669 (E.D. Tex. 2006).
6. 492 F. Supp. 2d 600 (E.D. Tex. 2007). Some other companies that (under a strict view) might be considered nonpracticing entities also have successfully obtained injunctions. *See, e.g., Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683 (Fed. Cir. 2008). There are, conversely, also some cases in which practicing entities in direct competition with the plaintiff have *failed* to obtain injunctions. *See, e.g., Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 443–44 (D. Del. 2007) (denying the plaintiff's motion for an injunction notwithstanding the fact that the litigants were direct competitors because the plaintiff "ha[d] not provided or described any specific sales or market data to assist the court, nor ha[d] it identified precisely what market share, revenues, and

customers [it] has lost").

7. *CSIRO*, 492 F. Supp. 2d at 603–06.
8. 2009 U.S. Dist. LEXIS 13530 (N.D. Cal. Feb. 23, 2009).
9. *Id.* at *96. The court also noted that, during the trial, Rambus had submitted evidence of design awards it had received, which undermined its claim to have suffered reputational harm. *Id.* at *94.
10. *Id.* at *92. The court also noted that "to the extent Rambus receives more money from Hynix's infringing sales . . . an injunction would cause Rambus further harm to its research and development pipeline." *Id.*
11. *Id.* at *86.
12. *Id.* at *87.
13. *Id.* at *96–98.
14. Numerous studies show a strong correlation between nursing levels, surgical levels, and mortality rates. *See, e.g., Linda H. Aiken et al., Hospital Nurse Staffing and Patient Mortality, Nurse Burnout, and Job Dissatisfaction*, 288:16 J. AM. MED. ASSOC. 1987 (Oct. 23, 2002); Jack Needleman et al., *Nurse-Staffing Levels and the Quality of Care in Hospitals*, 346:22 NEW ENG. J. MED. 1715 (May 30, 2002).
15. *CSIRO* sued many other parties over the patent it asserted against Buffalo in the Eastern District of Texas, but it settled in April 2009.
16. Intel's budget for R&D in 2008 was, for example, U.S.\$5.7 billion. *See INTEL CORP.*, 2008 FORM 10-K, at 8, available at <http://files.shareholder.com/downloads/INTC/577167640x0x277591/7AC94A9C-C6D7-4EB0-B657-91573BB11FE0/200810Kfiling.pdf>. For the same period, *CSIRO's* R&D budget was approximately AU\$900 million. *See CSIRO ANNUAL REPORT 2007–08*, <http://www.csiro.au/files/files/pmvp.pdf>.
17. It's also probably improper for a court to consider the money a plaintiff could extract from a defendant by using the injunction as a bargaining chip in determining whether the plaintiff is likely to suffer irreparable harm absent an injunction. *See MercExchange, LLC, v. eBay, Inc.*, 500 F. Supp. 2d 556, 582 (E.D. Va. 2007) ("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.").
18. *Hynix Semiconductor v. Rambus*, 2009 U.S. Dist. LEXIS 13530, at *89–90 (N.D. Cal. Feb. 23, 2009).
19. *Id.*
20. *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 704 (Fed. Cir. 2008).
21. Of course, the plaintiff will argue that it wants the injunction anyway, but that is a function of the fact that (in almost all cases) the plaintiff intends to use the injunction to extract money from the defendant, not to enforce it.
22. *Rambus*, 2009 U.S. Dist. LEXIS 13530, at *96–98.
23. *CSIRO v. Buffalo Tech.*, 492 F. Supp. 2d 600, 603, 605 (E.D. Tex. 2007).
24. *Hynix Semiconductor v. Rambus*, 2009 U.S. Dist. LEXIS 13530, at *96 (N.D. Cal. Feb. 23, 2009).
25. *eBay, Inc. v. MercExchange, LLC*, 126 S. Ct. 1837, 1839 (2006).