

# Do Predictions Come True? KSR, eBay, And The Real Impact On Patent License Negotiations

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In 2006 and 2007, the U.S. Supreme Court decided a series of cases which many commentators predicted would change the playing field of patent law and give significantly increased leverage to entities and individuals accused of infringing patents in years to come.<sup>2</sup> In *eBay, Inc. v. MercExchange, LLC*,<sup>3</sup> the Supreme Court scaled back the general rule that in the absence of “exceptional circumstances,” permanent injunctions preventing further use of technology should typically issue in the event that technology was found to infringe a valid patent. In *KSR International Co. v. Teleflex, Inc.*,<sup>4</sup> the Court broadened the circumstances under which claims of a patent could be found obvious based on prior art, ruling that such a finding did not hinge on whether a “teaching, suggestion or motivation” to combine prior art references to obtain the patented invention was set forth in the art. And in *Medimmune, Inc. v. Genentech, Inc.*,<sup>5</sup> the Court held that a licensee was not required to terminate or breach a license agreement prior to asking a court to determine that the patent covered under the license agreement was invalid.

More than a year later, have the changes predicted by numerous prognosticators occurred? Has the new litigation vehicle provided by *Medimmune*, combined with the shift in legal standards set out in *KSR* and *eBay*, had a measurable, practical effect? While it is difficult to determine whether more licensees are taking to the Courts, it is readily apparent, based on an analysis of decisions from key patent courts, that the scale has shifted in favor of alleged infringers on substantive legal issues. As anticipated, following *eBay* and *KSR*, significantly more patents are being found obvious, and fewer injunctions preventing infringers from making,

using, or selling infringing technology are issuing. Licensees and others accused of infringing patents should sit up, heed this trend, and factor it into their assessment of the value of technology and the decision of whether to enter into a license agreement (and if so, at what price).

To assess the impact of the two Supreme Court rulings, the authors studied decisions from lower courts in which patent cases are most frequently litigated, beginning with decisions dating one year before the *eBay* and *KSR* decisions.<sup>6</sup> Changes in governing authority like those set forth in *eBay* and *KSR* can often take years to be absorbed fully by lower courts. As a result, the authors were somewhat surprised to observe a relatively drastic shift in the way lower courts are approaching patent cases in the wake of the Supreme Court decisions.

In the year prior to the Supreme Court’s ruling in *eBay*, all of the courts faced with the question of whether to issue an injunction permanently preventing an infringer from making, using, or selling infringing technology answered in the affirmative. As the lower court noted in *eBay*, “the right to exclude recognized in a patent is but the essence of the concept of property, [and, accordingly,] the general rule is that a permanent injunction will issue once infringement and validity have been adjudged.”<sup>7</sup> Moreover, the presumption of irreparable harm flowing from the prospect of continued infringement was a key factor cited by nearly every court supporting injunctive relief. In the period since *eBay*, however, courts have refused to grant a permanent injunction in seven (7) of the nineteen (19) cases in which it was considered – a *nearly 40% rejection rate*. No longer can patent holders rely on a presumption of “hardship” and a blanket rule that an injunction will issue once infringement

and validity have been adjudicated. In particular, non-practicing patent holders (referred to in some quarters as “patent trolls”) are hard-pressed to show damage to brand name, future research and development opportunities, and goodwill – factors upon which courts now focus as part of their analysis. Indeed, in at least one case, the Federal Circuit Court of Appeals upheld a lower court’s determination that an ongoing royalty for continued and future use of the patented technology may fully compensate an injured patentee and that no injunction was warranted.<sup>8</sup> Courts remain willing to issue injunctive relief in cases between competitors, and in cases in which recovery of future damages may be difficult (for example, in cases involving infringers venued overseas).


A shift is also evident on the obviousness front. In the year prior to *KSR*, key patent courts made an affirmative finding of obviousness in only two cases – a mere 6% of the cases surveyed. In all other cases, the courts either affirmatively rejected all obviousness attacks (in more than 50% of the cases surveyed) or deferred a final ruling until later in the case (based on, for example, disputed issues of fact). By comparison, in the year following *KSR*, the same group of courts made some finding of obviousness invalidating at least one patent claim 38% of the time, rejected all obviousness attacks in 32% of the cases, and deferred a final ruling in the remainder of the cases. Freed of the need to identify a “teaching, suggestion or motivation” to combine prior art references, courts are showing an increased willingness to find that the subject matter of an invention would have been obvious to one of ordinary skill in the art at the time the invention was made. As the Supreme Court stated in *KSR*, “common sense teaches . . . that familiar items may have obvious uses beyond their primary purposes, and in many cases a person of ordinary skill will be able to fit the teachings of multiple patents together like pieces of a puzzle.”<sup>9</sup> This principle is being applied on a broader basis.

Thus, our survey indicates that, in the wake of these watershed Supreme Court

decisions, there has been a 40% rise in patents being found obvious in light of prior art, and a 40% reduction in permanent injunctions being entered. How should this impact the decision-making of a party faced with a request to take a license or the prospect of defending against an infringement suit? In such circumstances:

- Parties would be advised to spend more upfront on prior art searches and use the results in initial negotiations. Rarely will a single reference anticipate (*i.e.*, contain all elements of) a claim, and, in the absence of an anticipatory reference, patent holders in the past were unlikely to be deterred by combinations of prior art references. Post-KSR, a combination of two or more strong references covering all elements of one or more claim(s) poses a significant obviousness challenge, must be taken seriously by a patentee, and can be used as a tool to reject a license outright and fight, or reduce transaction costs.

- Patent holders (and particularly non-practicing patent holders) can no longer wield the sword of a litigation that could eliminate a business line (or worse) in an effort to drive up license rates or settlements (as in the well known “blackberry” case, NTP v. Research in Motion). Aggrieved parties can make an economic decision to fight patents that they believe are invalid or not infringed without having to report to investors or shareholders that a permanent injunction is likely in the event their efforts fail.
- The party faced with a request to take a license or the prospect of an infringement suit should use the court statistics to its advantage! As courts digest the recent Supreme Court jurisprudence, the statistics may skew even further in that party’s favor. Patent holders are well aware of reputedly plaintiff-friendly courts, but the recent statistics in some of those very same courts suggest that

the patent holders should “look closely before they leap.” 

## ENDNOTES

1. Mr. Papastavros is a partner and Ms. Harris is a senior associate in the Intellectual Property Department of Nixon Peabody LLP.
2. See, e.g., Slenkovich, “Triple Dose of Bad News To Non-Practicing Patent Holders,” IP Frontline ([www.ipfrontline.com](http://www.ipfrontline.com)), August 29, 2007; Shea, “Patent Licensing in The Wake of Medimmune, eBay, KSR and Microsoft,” West LegalWorks, Boston, MA, June 14, 2007.
3. 126 S. Ct. 1837 (2006).
4. 127 S. Ct. 1727 (2007).
5. 127 S. Ct. 764 (2007).
6. The authors analyzed cases from the following districts: Northern District of California, District of Delaware, District of Massachusetts, Southern District of New York, Eastern District of Texas, Eastern District of Virginia, and Western District of Wisconsin. Post-KSR cases dated from May 1, 2007 to the present.
7. MercExchange, LLC v. eBay, Inc., 401 F.3d 1323, 1339 (Fed. Cir. 2005)
8. Paice LLC v. Toyota Motor Corp., 504 F.3d 1293, 1314-15 (Fed. Cir. 2007) (stating that in some cases an award of an ongoing royalty is appropriate, and remanding the case for the limited purpose of having the district court reevaluate the ongoing royalty rate).
9. 127 S. Ct. at 1742.