



The Importance of Injunctive Relief and the RESTORE Patent Rights Act

Dr. Kristina M.L. Acri née Lybecker

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Executive Summary:

- In the 2006 *eBay Inc. v. MercExchange LLC* decision, the U.S. Supreme Court abandoned the longstanding principle that a patent owner is presumptively entitled to an injunction once it defends validity and demonstrates infringement. The ruling reduced the issuance of injunctions for all types of patent owners, both licensors and manufacturers, thus ushering in a period of tremendous uncertainty for patent owners.
- The consequences of the *eBay* decision are of particular note because injunctions are critical to a healthy innovation ecosystem: not only do they serve to stop an infringer's activities or terminate competition in the marketplace, they also safeguard efficient markets and facilitate the determination of fair market value by market actors. Without injunctions, the efficient markets that previously facilitated financial negotiations and established the fair market value of innovations vanished. In their place a system emerged in which predatory infringers are favored over patent owners, and the 'infringe now, pay later' strategy is rewarded.
- A growing body of evidence documents the damaging consequences of the lack of injunctive relief: lower damage awards, decreases in enhanced damages, and the devaluation of patents as an asset class. Specifically:
 - After *eBay*, fewer firms involved in a patent infringement case sought injunctions. In the case of permanent injunctions, the relative drop was larger for non-practicing entities (NPEs) (87% vs. 66%), and in the case of preliminary injunctions, the relative drop was larger for operating companies (53% vs. 48%).
 - In addition, the share of cases in which a permanent injunction would be granted also substantially dropped after *eBay*. The relative decrease was significantly greater for NPEs, 91%, in comparison to a 67% drop for operating companies.
 - Empirical evidence reveals, due to the diminished likelihood of the award of a permanent injunction, fewer patent owners may be willing to bear the costs of seeking the remedy.
- The Realizing Engineering, Science, and Technology Opportunities by Restoring Exclusive (RESTORE) Patent Rights Act of 2024 aims to remedy the weakening of patent rights following *eBay*. The Act

* Professor of Economics and Business, Colorado College; Senior Scholar, George Mason University Antonin Scalia Law School Center for Intellectual Property x Innovation Policy (C-IP²).

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reestablishes the legal right of a patent owner to a “rebuttable presumption” of injunctive relief. This, in turn, would right the balance in licensing negotiations and restore the incentives that drive the innovation economy. Moreover, it would eliminate the perverse incentive to engage in predatory infringement and restore the viability of the patent system as an instrument to protect innovation and facilitate the financing and monetization of the transfer of technology.

I. Introduction

In the 2006 *eBay Inc. v. MercExchange LLC* decision,¹ the U.S. Supreme Court abandoned the longstanding principle that a patent owner is presumptively entitled to an injunction once it defends validity and demonstrates infringement. Instead, the Court imposed a new four-factor test for courts to use when deciding whether to grant an injunction. The test requires the party seeking a permanent injunction to demonstrate “(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”² These factors are to be balanced and each particular case should be decided on its merits.³ Following *eBay*, many courts have erroneously assumed that patent owners may be made whole through monetary damages calculated using the “reasonable royalty” standard, failing the second factor of the *eBay* test. This factor weighs even more in favor of the infringer in the case of a patent-licensing firm (or non-practicing entity, NPE), based on Justice Kennedy’s concurrence in *eBay* that

specifically noted that NPEs would be a class of patent owners unlikely to receive injunctive relief. Based on *eBay*, many patent owners – both licensors and manufacturing firms—have been denied injunctive relief, even though a court has found that their patent is being infringed.

Because it has become more challenging for patent owners to secure an injunction against infringers, parties seeking to use a particular technology have no incentive to negotiate in good faith. Instead, many infringers refuse to negotiate at all, preferring to rely on stalling tactics and litigation. In the absence of injunctive relief, infringement is the economically rational strategy. As described by Boris Teksler, the former head of patent licensing at Apple, “efficient infringement, where the benefits outweigh the legal costs of defending against a suit, could almost be viewed as a ‘fiduciary responsibility,’ at least for cash-rich firms that can afford to litigate without end.”⁴ The term “efficient infringement,” however, masks that what is really happening is a sort of “infringe now, pay later” strategy that is better termed predatory infringement.⁵ Instead of agreeing to a licensing fee for the use of a patented technology, an infringer benefits from using the technology and amassing profits from the strategy, delaying the payment of royalties until they can later (perhaps) be determined through litigation and the settlement process. In many cases, that royalty rate may be less than would have been negotiated for ahead of time, and in some cases, the infringer can simply outlast the patent owner in their court battles and not be liable for royalty payments at all.

The impact of *eBay*, however, extends well beyond the individual patent owner who is unable to get injunctive relief for infringement of his patent. The loss of certain injunctive relief has thrown license

negotiations out of balance and incentivized infringement. Injunctions serve as the legal backstop that enables property owners to set terms in commercial negotiations. Without viable injunctive relief, the efficient markets that previously facilitated financial negotiations and established a fair market value for innovations have vanished. In the face of this uncertainty, patent owners are increasingly seeing their patents devalued. This is a problem for the patent system, innovation, and the economy more generally.

The bipartisan RESTORE Patent Rights Act has been introduced to address these concerns. The Realizing Engineering, Science, and Technology Opportunities by Restoring Exclusive (RESTORE) Patent Rights Act of 2024 aims to remedy the weakening of patent rights following *eBay*. The single-sentence bill seeks to reestablish a rebuttable presumption of an injunction in favor of patent owners who prove their patents have been infringed. This would place the burden on the infringer to demonstrate that a permanent injunction is not warranted, eliminating the perverse incentives that encourage predatory infringement and encouraging pre-infringement licensing negotiations.

II. Broader Consequences of the *eBay* Ruling

To date, the debate over *eBay* has primarily focused on litigation remedies and halting infringement. While certainly important, since the inability to obtain injunctions has led to predatory infringement, it is necessary to broaden the focus of the legal and policy debate about injunctions. The focus on litigation and infringement may create the impression that injunctions solely serve to stop an infringer's activities or terminate competition in the marketplace.

Not as well studied, but certainly as important, is the fact that injunctions also safeguard efficient markets and facilitate the determination of fair market value by market actors. An injunction ensures that contractual negotiations occur by securing to a property owner the right to say “No, not at that price,” and preventing coerced transfers of property in which third parties take property and the “prices” are determined after-the-fact by judges or regulators. This is a key function of injunctions for all property rights, whether for land or inventions.

Without injunctions, the efficient markets that facilitate financial negotiations and establish the fair market value of innovations are likely to disappear. Instead of agreeing to a licensing fee for the use of a patented technology, an infringer can simply use the technology. While accruing profits, the infringer delays the payment of royalties until they can later – if at all – be determined through litigation. Accordingly, predatory infringers benefit at the expense of patent owners. A growing body of evidence documents the extent of these problems and the damaging consequences of the *eBay* ruling.

One of these consequences is that the absence of injunctive relief alters the market for patents and devalues them as an asset class. The unavailability of injunctions means that a patent owner is no longer able to stop infringement or offer the right-to-exclude. As such, *all* patent owners are harmed because the lack of injunctive relief distorts licensing negotiations. A recent study by AUTM reveals how licensing agreements – though usually secret – are impacted. In the years following the *eBay* ruling, the amount of licensing increased overall, but generally higher-value exclusive licenses have decreased and lower-value non-exclusive licenses have increased.⁶ An exclusive

license is a higher-valued asset since it confers, to only one party, the right to use and commercially benefit from the transferred patented technology. The lower value placed on non-exclusive licenses is economically logical given that the licensee is purchasing *fewer* rights. Exclusiveness has been eliminated as a negotiable term in a license agreement. Unable to halt infringement with an injunction, patent owners are left to extract a fraction of the value of their invention through deficient licenses. Accordingly, commercial transactions reflect this devaluation of patents.

In addition, evidence of the effects of *eBay* may be found in data on damage awards in patent infringement cases. Specifically, damage awards have been reduced in the decades following the *eBay* ruling. According to a recent study, courts currently award median patent litigation damages of \$3.7 million.⁷ Following the *eBay* decision, enhanced damages have also been decreasing. In cases where damages are awarded, courts levy enhanced damages against willfulness just 22% of the time.⁸ Reverberating across the intellectual property landscape, the 2006 *eBay* ruling essentially converted patents from a property right priced by the market to a quasi-compulsory license whose value is assessed by the court.

III. The Repercussions and Economic Implications

A forthcoming study empirically examines the repercussions of the *eBay* decision by analyzing injunction data between 2000 and 2023.⁹ The ruling was an exogenous shock and resembles a natural experiment, providing the opportunity to analyze whether the decision had a differential impact on non-practicing entities relative to operating

companies. The study considers two questions: First, did the rate of seeking and granting preliminary and permanent injunctions change due to the *eBay* ruling? Second, given that the *eBay* ruling sought to mitigate the frequent granting of permanent injunctions, especially where the patent owner was a non-practicing entity (NPE), did the ruling differentially affect the granting of injunctive relief across operating companies versus NPEs?

The study considers the universe of all patent cases filed between 2000 and 2023, focusing on whether the decision had a differential impact based on the category of plaintiff (operating company versus NPE), and whether there was a differential impact across injunction types (permanent versus preliminary). In some fraction of patent infringement cases, a motion for an injunction will be sought. On an annual basis, this percentage fell following the *eBay* decision. That is, after *eBay*, fewer firms involved in a patent infringement case sought injunctions. This held for both permanent and preliminary injunctions. In the case of permanent injunctions, the relative drop was larger for NPEs (87% vs. 66%), and in the case of preliminary injunctions, the relative drop was larger for operating companies (53% vs. 48%). In addition, the share of cases in which a permanent injunction would be granted also dropped after *eBay*. The relative decrease was significantly greater for NPEs, 91%, in comparison to a 67% drop for operating companies.

Beyond the impact of *eBay* on the percent of total patent cases in which an injunction was sought over time, it is critical to consider the likelihood of an injunction being granted at the case level. Controlling for patent quality, the study uses regression analysis to explain the variation in the probability that an injunction will be granted. Drawing on the set

of all requests for permanent and preliminary injunctions across six specifications, the analysis finds evidence of significant impacts of the *eBay* decision. First, across time, before and after *eBay*, permanent injunctions are more likely to be granted than preliminary injunctions. Second, across time, NPEs are less likely to be granted injunctions than are operating companies. Third, the *eBay* ruling reduced the likelihood of the grant of an injunction to *both* NPEs and operating companies. And fourth, the *eBay* decision reduced the likelihood of an injunction being granted across *both* permanent and preliminary injunctions. The study also considered a subset of the data focusing only on the cases in which a permanent injunction was sought. Again, the analysis shows that the *eBay* decision reduced the likelihood of the grant of a permanent injunction. However, within this subset of the data, analysis demonstrates that the *eBay* ruling had a differential effect on NPEs, more significantly reducing the likelihood of the grant of a permanent injunction than in the case of an operating company.

The changes put in motion by the *eBay* decision are noteworthy for the consequences that both did and did not materialize. The empirical analysis answers the two questions posed in the study in the affirmative. The ruling negatively impacted injunctions both sought and granted, and in some circumstances also resulted in differential treatment across plaintiff categories. The *eBay* ruling reduced the share of patent infringement cases in which a motion for either type of injunction was sought each year and reduced the percentage of patent cases in which permanent injunctions are granted annually. The decrease in requests for preliminary injunctions is particularly unexpected since the *eBay* ruling sought to mitigate the frequent granting of permanent injunctions alone. These annual trends are

bolstered by the analysis done at the individual patent case level, which again demonstrated the *eBay* ruling diminished the likelihood of grants of *both* preliminary and permanent injunctions. Surprisingly, the *eBay* ruling reduced the likelihood of the grant of an injunction to *both* NPEs and operating companies. Given that the ruling arguably sought to target non-practicing entities in particular, it is striking that the *eBay* decision did not differentially impact NPEs. In the context of motions for a preliminary injunction, the larger relative decrease for operating companies is significant, indicating that self-selection is in play. That is, not only did the *eBay* decision result in operating companies scaling back their requests for permanent injunctions, but they are also shown to have scaled back their requests for preliminary injunctions. Both suggest that injunctions that were worth seeking pre-*eBay* are no longer sought due to the change in the legal environment.

These empirical results reveal the tremendous repercussions of the *eBay* decision. The Supreme Court's decision in *eBay Inc. v. MercExchange, LLC* significantly lessened the "frequency with which courts grant injunctive relief . . . [t]hus, patent holders found the value of their greatest bargaining chip greatly diminished".¹⁰ The decision reduced the leverage of patent holders, thereby reducing the value of patents because enforcement becomes less predictable. In essence, the lack of a credible threat (of an injunction) encourages litigation where licensing negotiation would once have been sufficient.¹¹ Patent litigation decisions have established the importance of injunctions as a "critical backstop in the efficient functioning of markets".¹²

Fundamentally, a key function of an injunction is to ensure the efficient operation

of markets and enable the determination of fair market value by market actors. The absence of injunctive relief distorts the market for patents, devaluing all patents as an asset class. In effect, the patent is worth less because the patent holder is no longer able to stop violations of their property rights. Intuitively, the “licensee is purchasing *fewer* rights, because the right to exclude is no longer one of the rights that the patent owner can offer for sale.”¹³ Devaluing patents discourages innovation, which in turn has significant economic and geopolitical implications. Startups and small companies are a major source of economic growth, and they rely on patents to secure financing and to negotiate commercial deals. If patents are no longer reliably protected rights, the United States risks losing its global technological leadership.¹⁴ Accordingly, policy discussion must be reoriented back to the economic role of injunctions, in which the legal protection of property rights facilitate markets and thus driving the innovation economy.

IV. RESTORE Patent Rights Act of 2024

The Realizing Engineering, Science, and Technology Opportunities by Restoring Exclusive (RESTORE) Patent Rights Act of 2024¹⁵ would essentially abrogate *eBay v. MercExchange*. According to the bill text, Section 283 of the patent law¹⁶ would be amended to add the following language: “(b) REBUTTABLE PRESUMPTION.—If, in a case under this title, the court enters a final judgment finding infringement of a right secured by patent, the patent owner shall be entitled to a rebuttable presumption that the court should grant a permanent injunction with respect to that infringing conduct.”¹⁷

The RESTORE Patent Rights Act would introduce a statutory rebuttable presumption in favor of granting a permanent injunction upon a finding of patent infringement. This presumption would enable infringers to argue that an injunction is not warranted under certain circumstances, such as harm to the public, but the burden of proof would be on the infringer. The incentives propping up the ‘infringe now, pay later’ strategy would be eliminated. The RESTORE Act effectively reverses the Court’s four-factor test created in 2006 “and *restores* the original patent system – the property rights that launched the economic successes of the Industrial Revolution through the computer and biotech revolutions.”¹⁸ In doing so, it would protect innovation and ensure our continued global leadership and competitiveness.

Endnotes

¹ *eBay, Inc., v. MercExchange, LLC*, 547 U.S. 388 (2006).

² *Id.* at 391.

³ *Id.* at 391-94.

⁴ David Kappos & Jonathan Barnett, *Enhanced Damages Necessary In No-Injunction Patent System*, LAW360 (Feb. 2, 2023), available at <https://www.law360.com/articles/1569762/enhanced-damages-necessary-in-no-injunction-patent-system> (citing *The trouble with patent-troll hunting*, ECONOMIST (Dec. 14, 2019) (quoting Boris Teksler, described as "Apple's former patent chief")).

⁵ Kristen Jakobsen Osenga, *The Loss of Injunctions under eBay: Evidence of the Negative Impact on the Innovation Economy*, Policy Memo, Hudson Institute (Feb. 2024), available at <https://www.hudson.org/regulation/loss-injunctions-under-ebay-evidence-negative-impact-innovation-economy> (stating that predatory infringers recognize that they are unlikely to be enjoined and therefore decide to take the risk to 'infringe now, pay later').

⁶ *Id.*

⁷ Marcum Accountants & Advisers. *2024 Marcum Patent Litigation Study*, 2024. Available at: <https://info.marcumllp.com/hubfs/pdf/2024-Marcum-Patent-Litigation-Study.pdf?hsLang=en>

⁸ *Id.*

⁹ Kristina M.L. Acri née Lybecker, *Injunctive Relief in Patent Cases: the Impact of eBay*, available at <http://dx.doi.org/10.2139/ssrn.4866108> (June 14, 2024).

¹⁰ Benjamin Peterson, *Injunctive Relief in the Post-eBay World*, 23 BERKELEY TECH. L.J. 193 (2008).

¹¹ Tim Carlton, *The Ongoing Royalty: What Remedy Should a Patent Holder Receive When a Permanent Injunction is Denied?*, 43 GA. L. REV. 543 (2009).

¹² Adam Mossoff, *The Injunction Function: How and Why Courts Secure Property Rights in Patents*, 96 NOTRE DAME L. REV. 1581 (2021).

¹³ Osenga, *supra* note 5.

¹⁴ Kappos & Barnett, *supra* note 4.

¹⁵ Senators Chris Coons (D-DE) and Tom Cotton (R-AR) recently introduced the RESTORE Patent Rights Act (S. 4840) in the U.S. Senate. Representatives Nathaniel Moran (R-TX) and Madeleine Dean (D-PA.), joined by cosponsors, Representatives Hank Johnson (D-GA), Deborah Ross (D-NC) and Chip Roy (R-TX), sponsored the House companion bill (H.R. 9221).

¹⁶ The text currently reads, "The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable."

¹⁷ https://www.coons.senate.gov/imo/media/doc/restore_act_bill_text.pdf

¹⁸ Eileen McDermott, *Coons/Cotton RESTORE Patent Rights Act Would Abrogate eBay*, IPWATCHDOG (July 30, 2024), available at <https://ipwatchdog.com/2024/07/30/coons-cotton-restore-patent-rights-act-abrogate-ebay/id=179675/>.

ABOUT THE AUTHOR

Dr. Kristina M. L. Aciri née Lybecker is a Senior Scholar at C-IP² and is the John L. Knight Chair of Economics and Professor of Economics at Colorado College. She received her B.A. from Macalester College, double majoring in Economics and Latin American Studies. She received her Ph.D. in Economics from the University of California, Berkeley. Kristina's research analyzes the difficulties of strengthening intellectual property rights protection in developing countries, specifically in the context of the pharmaceutical and environmental technology industries. Recent projects also address the challenges of counterfeit pharmaceuticals during the COVID-19 pandemic, alternatives to the existing patent system, the balance between pharmaceutical patent protection and access to essential medicines, the markets for jointly produced goods such as blood and blood products, and the role of international trade agreements in incentivizing innovation. Kristina has testified in more than a dozen states on the economics of parallel trade in medicines and the risks of biopharmaceutical counterfeiting. In 2016 she was awarded the Thomas Edison Innovation Fellowship by the Center for the Protection of Intellectual Property (CPIP; now C-IP²) at the Antonin Scalia Law School, George Mason University. She has also worked with the U.S. Food and Drug Administration, Reconnaissance International, PhRMA, IFPMA, the National Peace Foundation, the OECD, the Partnership for Safe Medicines, the Fraser Institute, and the World Bank, on issues of innovation, biopharmaceutical policymaking, international trade, and corruption.

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