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**REELING IN THE PATENT TROLL: WAS  
EBAY V. MERCEXCHANGE ENOUGH?**

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## I. INTRODUCTION

Research in Motion, Inc. (RIM) is the provider of the popular BlackBerry wireless message device, which allows "out-of-office" users to send and receive electronic mail messages without the need of a personal computer.<sup>1</sup> Since its public release in 1999, the BlackBerry has achieved great success in the marketplace, surpassing six million subscribers in 2006.<sup>2</sup> However, this success has not been achieved without at least one significant obstacle. On November 13, 2001, NTP, Inc. filed suit against RIM alleging that the BlackBerry wireless message device infringed on several of its patents.<sup>3</sup> Following trial, a jury concluded that RIM had infringed on NTP's patents and awarded nearly \$54 million in damages to NTP.<sup>4</sup> More importantly, the trial court issued a permanent injunction, which was stayed pending appeal, ordering RIM to shut down its popular BlackBerry service so long as the device infringed upon NTP's patents.<sup>5</sup> Although the patents asserted by NTP were of questionable validity, the threat of a permanent injunction disrupting the BlackBerry system eventually forced RIM to settle for \$612.5 million.<sup>6</sup> RIM was not the only company to be confronted with an infringement claim asserted by NTP; Good Technology and Nokia were also forced to pay large fees to NTP.<sup>7</sup>

As the BlackBerry litigation illustrates, there is an emerging problem in patent law—the powerful patent troll. A patent troll can exist either as an individual entity or a corporate entity.<sup>8</sup> Whether the patent troll is an individual or

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<sup>1</sup> NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1282, 1289 (Fed. Cir. 2005).

<sup>2</sup> Mark Heinzl, *RIM's Profit Surges on BlackBerry Subscriber Growth*, WALL ST. J., Sept. 29, 2006, at A3.

<sup>3</sup> NTP, 418 F.3d at 1282.

<sup>4</sup> *Id.* at 1292.

<sup>5</sup> *Id.*

<sup>6</sup> Ian Austen, *BlackBerry Service to Continue*, N.Y. TIMES, Mar. 4, 2006, at C6; see also Yuki Noguchi, *Canada Lobbies for Maker of BlackBerry; Offices Contacting U.S. on Patent Review*, WASH. POST, Feb. 22, 2006, at D1 (reporting that after failing on nearly every issue in court, RIM sought reexamination of the NTP patents at issue). At the time of the RIM settlement, the United States Patent and Trademark Office (USPTO) had issued an initial finding of invalidity as to all patents involved in the litigation. *Id.* However, because the court was unlikely to respond to the USPTO's initial findings, RIM was forced to settle. *Id.*

<sup>7</sup> David V. Radack, *Patent Trolls: Pay Up or Fight?*, LAW. J., Aug. 4, 2006, at 3. Indeed, RIM is not the only major corporation confronted with a patent troll like NTP in past few years. Intel was confronted in 2003 by a patent troll that demanded \$8 billion for a patent purchased for nearly \$50,000. *Id.* Similarly, Medrad was forced to pay out a total of \$1.25 billion to a patent troll in 2005. *Id.*

<sup>8</sup> David G. Barker, *Troll or no Troll? Policing Patent Usage with an Open Post-Grant Review*, DUKE L. & TECH. REV., Apr. 15, 2005, at 7; see also *Patent Trolls: Fact or Fiction?: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. 14–17 (2006).

corporation, these entities either receive or purchase the patent and wait until another individual or a corporation creates and implements a product or service that potentially infringes the patent held by the patent troll.<sup>9</sup> Once another party uses the patent owned by the patent troll to implement a product or service, the patent troll will generally wait until the industry builds up around the potentially infringing product or service.<sup>10</sup> Following this industry build-up, the patent troll will demand that the user of the patent pay a licensing fee.<sup>11</sup> If the user of the patent refuses to pay for a license to use the patent, the patent troll often will bring legal action alleging patent infringement.<sup>12</sup> Many times, the patents held by the patent troll are of questionable validity or the patents cover a trivial part of the overall product.<sup>13</sup> Patent trolls generally are not interested in enforcing their right to exclude others from using the patent, but rather, they use this right opportunistically as a way of extracting a large, sometimes exorbitant, settlement payment from the manufacturer of the product.<sup>14</sup>

Until recently, the Federal Circuit provided patent trolls with a very powerful tool: the presumptive right to permanent injunctive relief following a finding of infringement.<sup>15</sup> Accordingly, when a company, such as RIM, is confronted with an infringement action brought by a patent troll, such as NTP, it is forced to make a difficult decision. The manufacturer or provider of the product or service must decide whether to attempt to work around the patent, contest the alleged infringement in court, or settle with the patent troll and negotiate for a license to continue use of the product or service.<sup>16</sup>

When faced with a patent troll, the manufacturer may attempt to work around the alleged infringement by producing a product that does not infringe on the patent.<sup>17</sup> However, this option requires substantial research and cost, and may

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[hereinafter *Hearings*] (statement of Dean Kamen, President, DEKA Research & Dev. Corp.) (stating that the term patent troll has been applied to the following parties: “those who don’t manufacture products embodying their patent[,] those who offer a license as an alternative to suing for patent infringement[,] those who sue alleged infringers that have products already on the market[,] small entities who sue large entities with deeper pockets[, and] those who don’t ‘use’ their patent”).

<sup>9</sup> Barker, *supra* note 8, at 7.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *Id.* at 8.

<sup>14</sup> Michael J. Meurer, *Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation*, 44 B.C. L. REV. 509, 512 (2003).

<sup>15</sup> See *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) (holding that “[i]t is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it”).

<sup>16</sup> Radack, *supra* note 7, at 3.

<sup>17</sup> *Id.*

not produce a suitable alternative.<sup>18</sup> Alternatively, the manufacturer may decide to contest the questionable patent infringement claim in court.<sup>19</sup> If the manufacturer decides to contest infringement, the manufacturer faces the high cost of patent litigation and runs the risk of losing at trial and being permanently enjoined from providing the product or service to the public.<sup>20</sup> If enjoined, the infringer may still attempt to work around the patent.<sup>21</sup> However, the patent troll, “confronted with another possible infringement by that party in the form of a modified device will very likely seek to invoke the power of the court to punish the adjudged infringer for contempt in violating the court’s injunctive order.”<sup>22</sup>

If working around the infringing product or service is not feasible, the adjudged infringer may attempt to negotiate a license for the use of the patent.<sup>23</sup> However, because the patent troll would have the protection of the permanent injunction, the licensing fee would likely be extremely high.<sup>24</sup> For many manufacturers, the possibility of being permanently enjoined is too large a risk to contest the alleged infringement, and thus, they settle before final adjudication on the merits.<sup>25</sup> Because the patent troll is aware that the manufacturer or provider is not in an optimal bargaining position, the settlement amount or licensing fee is usually extremely high, as the \$612.5 million RIM settlement indicates.<sup>26</sup> It is not difficult to imagine that manufacturers are often reluctant to enter into settlements of this type. Nonetheless, manufacturers or service providers seem willing to settle before final adjudication in an effort to avoid being permanently enjoined from using the patent, in which case the manufacturer would likely have to pay much more for a license to use the patent.<sup>27</sup>

One must ask the question—is this really what we want from our patent system? However one defines the patent troll, there are commentators who argue that trolling activities constitute a legitimate business model.<sup>28</sup> These proponents of trolling assert that it is perfectly reasonable for a company with limited

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<sup>18</sup> *Id.*

<sup>19</sup> *Id.*

<sup>20</sup> See, e.g., VALUING INTELLECTUAL PROPERTY IN JAPAN, BRITAIN AND THE UNITED STATES 61 (Ruth Taplin ed., 2004) (indicating that the average cost of patent litigation in the United States is between \$1.5 million and \$2 million).

<sup>21</sup> Radack, *supra* note 7, at 3.

<sup>22</sup> KSM Fastening Sys., Inc. v. H.A. Jones Co., 776 F.2d 1522, 1524 (Fed. Cir. 1985).

<sup>23</sup> Radack, *supra* note 7, at 3.

<sup>24</sup> Meurer, *supra* note 14, at 516.

<sup>25</sup> *Id.*

<sup>26</sup> Hearings, *supra* note 8, at 1 (statement of Lamar Smith, Chairman, Subcom. on Courts, the Internet, and Intellectual Property).

<sup>27</sup> *Id.*

<sup>28</sup> *Id.* at 15 (statement of Dean Kamen, President, DEKA Research and Dev. Corp.).

resources to focus on licensing patents to firms with the financial and distributional capabilities to introduce the product into the market.<sup>29</sup> Because, to proponents of trolling, this is a reasonable and legal application of patent law, protecting these patents with the presumptive right to a permanent injunction is justified upon a finding of infringement.<sup>30</sup> Undoubtedly, activities that may be considered trolling are sometimes legitimate, such as when university researchers or small, independent inventors license their inventions.<sup>31</sup> Nonetheless, there are many entities who exploit the patent system and attempt to extract exorbitant licensing fees from manufacturers or service providers by alleging infringement based on questionable patents in which little investment on the part of the patent troll has been made.<sup>32</sup>

Opponents of patent trolling concede that “injunctions are an important and essential part of the patent system, [but] only parties who can show actual, irreparable harm should be able to receive an injunction following a finding of patent infringement.”<sup>33</sup> In addition, opponents of trolling argue that patent trolls who bring patent infringement actions based on questionable or trivial patents against a manufacturer of a successful product potentially have the negative effects of raising transaction costs, raising the “cost of licensing or avoiding infringement,” and deterring innovation.<sup>34</sup> For instance, a manufacturer may be reluctant to implement a new product, fearing that a patent troll will bring an infringement action against them based on patents of questionable validity. Further, because the questionable patents generally held by patent trolls are not easily discovered during examination of the prior art, the costs of avoiding infringement will likely increase as manufacturers or service providers spend more resources searching for these questionable patents.<sup>35</sup> In light of these potential negative effects of trolling activity, opponents argue that reform is needed to limit the power of patent trolls.<sup>36</sup>

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<sup>29</sup> *Id.*

<sup>30</sup> *Id.* at 16–17.

<sup>31</sup> *Id.*

<sup>32</sup> *Id.* at 30 (statement of Chuck Fish, Vice President & Chief Patent Counsel, Time Warner, Inc.).

<sup>33</sup> *Id.* at 31.

<sup>34</sup> NATIONAL RESEARCH COUNCIL OF THE NATIONAL ACADEMIES, A PATENT SYSTEM FOR THE 21ST CENTURY 95 (Stephen A. Merrill et al. eds., 2004), available at <http://newton.nap.edu/html/patentsystem/0309089107.pdf>.

<sup>35</sup> *Hearing, supra* note 8, at 22 (statement of Paul Misener, Vice President for Global Policy, Amazon.com).

<sup>36</sup> *See, e.g., id.* at 26–34 (statement of Chuck Fish, Vice President & Chief Patent Counsel, Time Warner, Inc.) (offering suggestions for reform).

There are many ways in which patent law can be reformed to limit the power and practice of patent trolls. Congress has begun the process of patent reform, and many proposed changes to the Patent Act have the potential to reduce the power of patent trolls.<sup>37</sup> In addition to legislative action, the United States Supreme Court has recently entered the patent reform arena by taking the opportunity to attack the Federal Circuit general rule of granting a permanent injunction automatically upon finding that a valid patent had been infringed.<sup>38</sup> In reversing the Federal Circuit, the Supreme Court held that upon a finding of infringement, an injunction cannot be issued automatically.<sup>39</sup> Rather, a court must, upon a finding of infringement, apply the equitable principles of the traditional balancing test used in other areas of the law to decide if an injunction should issue.<sup>40</sup> Thus, it would seem that by losing the power of the automatic injunction, much of the strength behind the patent troll has been dramatically reduced. However, notwithstanding the Supreme Court's holding, it is likely that patent trolls will continue to bring questionable claims of patent infringement.

The purpose of this Note is to analyze the implications of the *MercExchange* decision. Although the Supreme Court's holding is a step toward reducing the power of the patent troll, this Note will conclude that, acting alone, the *MercExchange* decision will have very little effect in practice, and thus, complementary legislative action is necessary.

Part II of this Note discusses the history and current state of patent law in terms of the availability of a permanent injunction upon a finding of patent infringement. Part III of this Note discusses the implications of the *MercExchange* decision. In particular, this section will analyze the likely response of district courts and patent trolls to the *MercExchange* decision. In addition, this section will suggest a number of potential reforms that may further reduce the power of the patent troll. These suggestions include improving the review of business-method patent applications, adjusting the presumption of validity in patent infringement actions involving business-method patents, eliminating the submarine patent, and awarding damages that represent the prevailing patent troll's actual contribution to the overall product or service. Without legislative adoption of at least some of these suggested reforms, the *MercExchange* decision, standing alone, will have little effect on the patent troll.

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<sup>37</sup> See Patent Reform Act of 2005, H.R. 2795, 109th Cong. (2005) (amending 35 U.S.C. § 283 to direct courts to "consider the fairness of the remedy in light of all the facts and the relevant interests of the parties associated with the invention").

<sup>38</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1841 (2006).

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

## II. BACKGROUND

Constitutional and statutory law provides that a patent owner has the exclusive right to use the patented invention. Patent trolls mainly rely on two provisions of the Patent Act to extract fees from parties alleged to be infringing upon a patent: the provision allowing for non-disclosure of an application for a patent and the provision allowing for injunctive relief. Prior to *MercExchange*, courts generally issued a permanent injunction following a finding of infringement. However, after the Supreme Court's *MercExchange* decision, courts are no longer permitted to grant automatic injunctive relief. Rather, courts must use traditional principles of equity when deciding whether to grant a permanent injunction.

## A. CONSTITUTIONAL AND STATUTORY LAW

The United States Constitution gives Congress the power to enact laws to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."<sup>41</sup> In passing the Patent Act, Congress acted upon its constitutional power, allowing inventors who meet certain requirements to obtain a patent for their invention.<sup>42</sup> Patent trolls rely on two provisions of the Patent Act to extract large fees from alleged patent infringers: the provision that allows for submarine patent applications<sup>43</sup> and the provision that provides for injunctive relief.<sup>44</sup>

First, under current patent law, a patent application must be published after eighteen months, subject to a few exceptions.<sup>45</sup> One such exception is that an applicant may prevent publication of the application, thus concealing the application, by agreeing to file for patent protection only in the United States.<sup>46</sup> This hidden application is often referred to as a submarine patent application.<sup>47</sup>

Second, the Patent Act provides for injunctive relief against infringing activity. Among the rights gained by obtaining a patent is the "right to exclude others from making, using, offering for sale, or selling the invention throughout the United States" for the duration of the protection period.<sup>48</sup> This language indicates that the patent owner has the right to force an infringing party to cease use of the

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<sup>41</sup> U.S. CONST. art. 1, § 8, cl. 8.

<sup>42</sup> Patent Act, 35 U.S.C. §§ 1–376 (2000).

<sup>43</sup> 35 U.S.C. § 122(b)(1)(A) (2000).

<sup>44</sup> 35 U.S.C. § 283 (2000).

<sup>45</sup> 35 U.S.C. § 122(b)(1)(A).

<sup>46</sup> 35 U.S.C. § 122(b)(2)(B)(i).

<sup>47</sup> See *Supreme Court Development: No. 05-130*, 21 BERKELEY TECH. L.J. 999, 1006 (2000) (discussing the submarine patent).

<sup>48</sup> 35 U.S.C. § 154(a)(1) (2000).



protected patent. Indeed, the Patent Act requires that a court award the owner of a patent adequate damages to compensate for infringement.<sup>49</sup> However, if a patent is infringed upon, pecuniary damages may not be adequate.

In addition to being compensated for the loss already suffered, patent owners generally wish to prevent further loss by halting the infringing activity through injunctive relief. The Patent Act states that courts “may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent.”<sup>50</sup> Without the right of an injunction, the United States patent system would in effect force patent owners to license their patents whenever another entity infringes upon the patent.<sup>51</sup> A compulsory licensing system would stand in stark contrast to the language of the U.S. Constitution and the Patent Act.<sup>52</sup> The “right to exclude” language found in the Patent Act and the U.S. Constitution indicates that patents are considered to be property for which an injunction should always be available to protect.<sup>53</sup> However, this conflicts to some degree with the Patent Act’s assertion that the courts “may” grant a permanent injunction upon a finding of infringement.<sup>54</sup> Congress’s election to provide courts with discretion when determining whether to grant a permanent injunction indicates that the right to exclude an infringer from using the patent is not absolute.<sup>55</sup> Because there is some ambiguity as to whether a patent owner has the right to a permanent injunction upon a finding that the patent has been infringed, examination of judicial interpretation of the right to an injunction under the Patent Act is necessary.

#### B. PRE-MERCExchange REMEDIAL PRACTICE

Prior to the Supreme Court’s *MercExchange* decision, the widely established law stated that, once infringement of a valid patent is found, an order for an

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<sup>49</sup> 35 U.S.C. § 284 (2000).

<sup>50</sup> 35 U.S.C. § 283 (2000).

<sup>51</sup> *Hearings*, *supra* note 8, at 17 (statement of Dean Kamen).

<sup>52</sup> *See* U.S. CONST. art. I, § 8, cl. 8 (“exclusive Right” to the invention); 35 U.S.C. § 154(a)(1) (“right to exclude others from . . . using” the invention).

<sup>53</sup> *See* *MercExchange, LLC, v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005) (stating that the “right to exclude recognized in a patent is but the essence of the concept of property” (quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246–47 (Fed. Cir. 1989))), *vacated and remanded*, 126 S. Ct. 1837 (2006).

<sup>54</sup> 35 U.S.C. § 283.

<sup>55</sup> *See, e.g., eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840 (2006) (rejecting the proposition that the right to exclude is an absolute right and stating that the right is subject to limitations).

injunction will almost always follow.<sup>56</sup> Indeed, before the *MercExchange* decision, the Federal Circuit and district courts routinely granted permanent injunctions to patent owners upon a finding of infringement.<sup>57</sup> The general rule of granting a permanent injunction upon a finding of validity and infringement was subject to only one exception: an injunction could be denied when the public interest mandated such denial.<sup>58</sup>

Of particular importance to the argument of the patent troll is the Supreme Court's *Continental Paper* decision.<sup>59</sup> The *Continental Paper* litigation involved an alleged infringement of a patent granted for an improvement to a particular

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<sup>56</sup> See, e.g., 7 DONALD S. CHISUM, CHISUM ON PATENTS: A TREATISE ON THE LAW OF PATENTABILITY, VALIDITY, AND INFRINGEMENT § 20.04[2] (2006) (stating that unless dictated otherwise by public interest, a permanent injunction will generally follow a finding of infringement); ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT § 13.1 (5th ed. 2001) (stating that "[b]ecause the principle value of a patent is its statutory right to exclude, the nature of the patent grant weighs against holding that monetary damages will always suffice to make the patentee whole"); ROGER E. SCHECHTER & JOHN R. THOMAS, PRINCIPLES OF PATENT LAW § 9.1 (2004) (stating that while 28 U.S.C. § 283 gives courts discretion as to whether an injunction should be granted, in practice, courts normally grant permanent injunctions to prevailing patent owners).

<sup>57</sup> See, e.g., *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246–47 (Fed. Cir. 1989) (holding that "it is contrary to the laws of property" to deny a patent owner's right to exclude an adjudged infringer from further infringement, and that "it is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it"); *Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1564 (Fed. Cir. 1984) ("Although a district court has discretion whether to enter an injunction, the exercise of this discretion cannot be arbitrary. A patent gives 'the right to exclude others from making, using or selling the invention.' " (quoting 35 U.S.C. § 154 (1982)) (other citations omitted)); *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983) (stating that a "court should not be reluctant to use its equity powers once a party so clearly establishes his patent rights," and holding that "where validity and continuing infringement have been clearly established . . . irreparable harm is presumed"); cf. *Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (holding that "[a]n injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances," and that an injunction "is not intended as a club to be wielded by a patentee to enhance his negotiating stance"). It is interesting to note that the Second Circuit in *Foster* was confronted with a situation whereby the patent owner would, today, be classified as a patent troll; the infringing party commercially used the product while the patent owner merely held the patent. *Id.* In rejecting the patent owner's request for a permanent injunction, the Second Circuit stated that "[i]n an assessment of relative equities, the court could properly conclude that to impose irreparable hardship on the infringer by injunction, without any concomitant benefit to the patentee, would be inequitable." *Id.*

<sup>58</sup> See, e.g., *Hybritech, Inc. v. Abbott Labs.*, 849 F.2d 1446, 1458 (Fed. Cir. 1988) (stating that the public interest required that injunction not stop supply of certain medical test kits that the patentee was not marketing); *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934) (holding that injunctive relief to prevent future infringement should be denied where injunction would have closed the city's sewage treatment plant, and in turn, endangered the lives of over 500,000 people by forcing residents to use Lake Michigan for raw sewage disposal).

<sup>59</sup> *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405 (1908).

machine used for making paper bags.<sup>60</sup> The inventor, who owned the patent, never commercially used the patented machine and did not intend to do so.<sup>61</sup> The adjudged infringer had been commercially using the patented machine for a number of years when the inventor filed a claim for infringement.<sup>62</sup> The infringing party argued that because the inventor did not commercially use the machine, the inventor should not be entitled to an injunction granting him exclusive use.<sup>63</sup> The Supreme Court rejected this argument and held that because the basic right granted to a patentee is the right to exclude others from use, a patentee does not lose the right to enforce a patent through an injunction if the patentee fails to use the patented invention.<sup>64</sup> However, the Supreme Court left open the question whether a court may be justified in withholding injunctive relief when the nonuse is unreasonable.<sup>65</sup>

In light of the Federal Circuit's general rule of granting a permanent injunction upon a finding of patent infringement and the Supreme Court's *Continental Paper* decision holding that reasonable nonuse of a patent may be protected by injunctive relief, it would have seemed as though the practices of patent trolls were protected by longstanding precedent. Nonetheless, when the Internet auction giant, eBay, was found to have infringed upon patents owned by a patent troll, MercExchange, and was enjoined from committing further infringement, the Supreme Court took the opportunity to reevaluate the remedial practice of the courts in terms of injunctive relief in patent infringement actions.

### C. THE MERCEXCHANGE LITIGATION

1. *The District Court Decision.* eBay, Inc. is the operator of a popular Internet website that permits sellers to list goods on that website and allows buyers to purchase these goods directly from the seller by way of paying a fixed price for the goods or by way of submitting a bid in auction format.<sup>66</sup> MercExchange is the holder of a number of patents, including "a business method patent for an electronic market designed to facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants."<sup>67</sup> MercExchange did not implement these patents for any

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<sup>60</sup> *Id.* at 417.

<sup>61</sup> *Id.* at 422–23.

<sup>62</sup> *Id.*

<sup>63</sup> *Id.*

<sup>64</sup> *Id.* at 427–30.

<sup>65</sup> *Id.*

<sup>66</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1839 (2006).

<sup>67</sup> *Id.*

commercial use of their own, but rather, licensed the use of the patents to other companies.<sup>68</sup> After unsuccessfully attempting to license its patents to eBay, MercExchange filed suit claiming that eBay was infringing on a number of its patents.<sup>69</sup> Following trial, a jury found that eBay willfully infringed upon two patents owned by MercExchange, and MercExchange was awarded a final judgment of \$29.5 million in damages.<sup>70</sup>

The District Court, however, denied MercExchange's motion for a permanent injunction.<sup>71</sup> The District Court noted that the "grant of injunctive relief against the infringer is considered the norm," but reiterated the fact that the trial judge has discretion in determining whether an injunction is appropriate.<sup>72</sup> Using this discretion, the court proceeded to evaluate whether to grant injunctive relief to MercExchange based on traditional principles of equity by considering four factors: "(i) whether [MercExchange] would face irreparable injury if the injunction did not issue, (ii) whether [MercExchange] has an adequate remedy at law, (iii) whether granting the injunction is in the public interest, and (iv) whether the balance of the hardships tips in [MercExchange's] favor."<sup>73</sup>

In terms of irreparable harm, the District Court noted that when validity and infringement are found, as was found in the present case, irreparable injury is presumed.<sup>74</sup> However, the court stated that this was merely a presumption that may be rebutted by evidence showing that the patent owner will not suffer irreparable harm.<sup>75</sup> The court held that a number of items in the record indicated that MercExchange would not suffer irreparable harm, including "evidence of [MercExchange's] willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media" indicating that it did not wish to seek an injunction against eBay.<sup>76</sup> Moreover, MercExchange did not move for a preliminary injunction, which suggested that it was not suffering irreparable harm while the litigation was pending.<sup>77</sup>

In addition to finding that MercExchange would not suffer irreparable harm by denying injunctive relief, the District Court found that MercExchange had an

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<sup>68</sup> *Id.*

<sup>69</sup> *Id.*

<sup>70</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 722 (E.D. Va. 2003), *aff'd in part, rev'd in part, vacated in part*, 401 F.3d 1323, *vacated and remanded*, 126 S. Ct. 1837 (2006).

<sup>71</sup> *Id.*

<sup>72</sup> *Id.* at 711.

<sup>73</sup> *Id.*

<sup>74</sup> *Id.* at 712.

<sup>75</sup> *Id.*

<sup>76</sup> *Id.*

<sup>77</sup> *Id.*

adequate remedy at law in the form of monetary damages.<sup>78</sup> While conceding that monetary damages are often inadequate in patent infringement cases, the court noted that this was an “atypical case” because MercExchange had previously licensed its patents and intended to continue doing so in the future.<sup>79</sup> In evaluating the third factor, the court held that the public interest favored the granting of an injunction to protect MercExchange’s patent rights and to maintain the patent system’s integrity.<sup>80</sup> However, the court noted that in light of the “growing concern over the issuance of business-method patents,” the public interest factor equally favored the denial of injunctive relief to “protect the public’s interest in using a patented business method that the patent holder declines to practice.”<sup>81</sup>

Finally, the District Court held that balancing the hardships indicated that an injunction should not be granted.<sup>82</sup> In making this determination, the court reasoned that because MercExchange was in the business of licensing its patents, any hardship imposed by denying injunctive relief could be alleviated through an award of damages.<sup>83</sup> Further, if an injunction was granted, eBay would effectively be forced to attempt to work around MercExchange’s patents, potentially subjecting eBay to future contempt proceedings.<sup>84</sup> Because the District Court found that three of the four factors weighed against ordering an injunction, MercExchange’s motion for entry of an injunction was denied.<sup>85</sup> In effect, the District Court greatly minimized the importance of the right to exclude when analyzing the traditional four-factor test.<sup>86</sup>

2. *The Federal Circuit Decision.* On appeal to the Federal Circuit, MercExchange challenged the denial of a permanent injunction against eBay.<sup>87</sup> In determining whether the District Court erroneously denied MercExchange’s motion for a permanent injunction, the Federal Circuit cited “the general rule . . . that a permanent injunction will issue once infringement and validity have been adjudged.”<sup>88</sup> The Federal Circuit reiterated that following a finding that a patent

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<sup>78</sup> *Id.* at 713.

<sup>79</sup> *Id.*

<sup>80</sup> *Id.* at 713–14.

<sup>81</sup> *Id.*

<sup>82</sup> *Id.* at 714.

<sup>83</sup> *Id.*

<sup>84</sup> *Id.*

<sup>85</sup> *Id.* at 715.

<sup>86</sup> See *Leading Cases, Availability of Injunctive Relief*, 120 HARV. L. REV. 332, 339–40 (2006) (discussing the role of the right to exclude in the District Court’s decision).

<sup>87</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338–39 (Fed. Cir. 2005), *vacated and remanded*, 126 S. Ct. 1837 (2006).

<sup>88</sup> *Id.* at 1338 (citation omitted).

has been infringed, a permanent injunction may justifiably be denied only in those “rare instances” where granting the injunction would frustrate an “important public need for the invention, such as the need to use the invention to protect public health.”<sup>89</sup>

In light of the longstanding general rule, the Federal Circuit found that the District Court’s denial of a permanent injunction was not justified for a number of reasons. First, according to the Federal Circuit, the District Court’s holding that denial of a permanent injunction was warranted based on the “general concern regarding business-method patents . . . is not the type of important public need that justifies the unusual step of denying injunctive relief.”<sup>90</sup> Second, the court concluded that the possibility of future lawsuits resulting from a defendant attempting to work around a patent was not a sufficient basis for denying a prevailing plaintiff’s motion for a permanent injunction because a “continuing dispute of that sort is not unusual in a patent case” and these types of disputes would likely continue even if an injunction was denied.<sup>91</sup> Third, the Federal Circuit concluded that because a permanent injunction and a preliminary injunction are “distinct forms of equitable relief,” the fact that MercExchange failed to move for a preliminary injunction should have no bearing on whether to award a permanent injunction.<sup>92</sup>

Finally, and most relevant to the patent troll issue, the Federal Circuit stated that MercExchange’s willingness to license its patents should be irrelevant in determining whether to grant an injunction.<sup>93</sup> Applying reasoning similar to that of the Supreme Court’s *Continental Paper* decision, the Federal Circuit stated:

Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well. If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that

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<sup>89</sup> *Id.* (quoting *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995)); *see also supra* note 58 (listing cases in which denial of injunctive relief was found to be justified based on public need for availability of the infringing invention).

<sup>90</sup> *MercExchange*, 401 F.3d at 1339.

<sup>91</sup> *Id.*

<sup>92</sup> *Id.* (quoting *Lermer Germany GmbH v. Lermer Corp.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996)).

<sup>93</sup> *Id.*

does not intend to compete in the marketplace with potential infringers.<sup>94</sup>

In rejecting nearly every factor that the District Court found supported the denial of a permanent injunction against eBay, the Federal Circuit held that there was “no reason to depart from the general rule that courts will issue permanent injunctions . . . absent exceptional circumstances” and reversed the District Court’s denial of injunctive relief against eBay.<sup>95</sup> Just as the District Court can be said to have minimized the role of the right to exclude in deciding to deny injunctive relief,<sup>96</sup> it can also be said that the Federal Circuit maximized the importance of the right to exclude such that “the argument can be made that one is irreparably harmed by deprivation of the right to exclude, that monetary damages can never adequately compensate the loss of that right, and that the hardship inflicted by the loss of the right to exclude is invariably heavy.”<sup>97</sup> In response to the Federal Circuit’s decision, eBay filed a petition for certiorari, which the Supreme Court granted.

3. *The Supreme Court Decision.* On appeal to the Supreme Court, eBay argued that the District Court did not abuse its discretion in denying injunctive relief and that the Federal Circuit’s “near-automatic” rule was contrary to the text of the Patent Act.<sup>98</sup> MercExchange argued that the Federal Circuit practice did not deny a district court’s discretion to grant a permanent injunction, but rather, reflected the Federal Circuit’s long-standing application of traditional principles of equity in the patent infringement context.<sup>99</sup>

Stating that “a major departure from the long tradition of equity practice should not be lightly implied,” the Supreme Court held that the traditional four-factor test used in determining whether to grant an injunction applies to patent infringement actions.<sup>100</sup> In making this decision, the Supreme Court relied on both the text of the Patent Act and on remedial practice under the Copyright Act. First, the Court noted that nothing in the Patent Act indicated that the traditional four-prong test generally used in determining whether to grant a permanent injunction did not apply to patent disputes.<sup>101</sup> In fact, the Court pointed out that

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<sup>94</sup> *Id.*

<sup>95</sup> *Id.*

<sup>96</sup> See *supra* note 86 and accompanying text.

<sup>97</sup> *Leading Cases, supra* note 86, at 334.

<sup>98</sup> Brief of Petitioners at 14, *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

<sup>99</sup> Brief for Respondent at 13, *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

<sup>100</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1839 (2006).

<sup>101</sup> *Id.*

the text of the Patent Act specifically states that a district court has discretion to grant a permanent injunction based on traditional equity principles.<sup>102</sup> The Court acknowledged the Patent Act's description of patent rights as having "attributes of personal property," including a right to exclude,<sup>103</sup> but stated that the "creation of a right is distinct from the provision of remedies for violations of that right."<sup>104</sup>

Second, the Supreme Court compared the Copyright Act to the Patent Act, indicating that the Copyright Act also provides copyright owners with the right to exclude.<sup>105</sup> The Court also noted that although the Copyright Act grants a district court discretion to award a permanent injunction upon a finding of infringement, previous attempts to establish a presumptive right to permanent injunctive relief in the copyright context had been consistently rejected by the Supreme Court.<sup>106</sup> Thus, relying on the text of the Patent Act and on precedent under the Copyright Act, the Court held that the issuance of permanent injunctions is to be governed by the traditional four-factor test, as applied within the discretion of the district court.<sup>107</sup>

Applying this reasoning to the *MercExchange* action, the Supreme Court held that both the District Court and the Federal Circuit erred by applying "categorical" rules and vacated the lower decisions.<sup>108</sup> Although the District Court purported to use the traditional four-factor test, the Supreme Court held that the District Court erred in creating a categorical rule that would deny injunctive relief to patent holders who do not commercially use, or who are willing to license, their patents.<sup>109</sup> The Court observed that patent holders, such as those who work in the university context or are "self-made inventors," often lack the resources to commercially implement their inventions and must license their patents.<sup>110</sup> In addition to finding that the District Court's categorical rule could unreasonably bar some patent holders from equitable relief, the Court indicated that such categorical rules are inconsistent with the Supreme Court's

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<sup>102</sup> *Id.*; see also 35 U.S.C. § 283 (2000) (stating that a court "may grant injunctions in accordance with principles of equity").

<sup>103</sup> See 28 U.S.C. § 154(a)(1) (2000) (patentee has right to exclude); 28 U.S.C. § 261 (2000) (patents have "attributes of personal property"). The Court relied substantially on the language of Section 261 to support their holding that a right to exclude does not include the presumptive right to injunctive relief. *MercExchange*, 126 S. Ct. at 1840. Section 261 expressly states that a patent's "attributes of personal property" are subject to other provisions of the Patent Act, including § 283, which grants the district court discretion to issue a permanent injunction. *Id.*

<sup>104</sup> *Id.*

<sup>105</sup> *Id.*

<sup>106</sup> *Id.*

<sup>107</sup> *Id.* at 1841.

<sup>108</sup> *Id.* at 1840.

<sup>109</sup> *Id.*

<sup>110</sup> *Id.*



*Continental Paper* decision.<sup>111</sup> The Court also held that the Federal Circuit similarly erred when it adopted a categorical rule in favor of injunctions in all cases of infringement (except in rare circumstances), which “departed in the opposite direction from the four-factor test.”<sup>112</sup>

In sum, the Supreme Court held that both the District Court and Federal Circuit erred and vacated the Federal Circuit judgment. Thus, the Federal Circuit must abandon the long-standing general rule that an injunction will automatically issue upon a finding of patent validity and infringement. In place of the general rule, a district court, in exercising its discretion, must apply the traditional four-factor test when deciding whether to issue a permanent injunction.<sup>113</sup>

### III. ANALYSIS

The Supreme Court’s *MercExchange* decision, which rejected the general practice of granting an automatic injunction following a finding of infringement, indicated that the power of the patent troll had been reduced. However, the Supreme Court failed to offer any guidance to the lower courts on how to apply the traditional four-factor test in the patent infringement context. As a result of this lack of guidance, it is possible that lower courts will apply the four-factor test differently. In fact, a preliminary examination of district court decisions after *MercExchange* has revealed that some jurisdictions are more willing than others to grant injunctive relief. To the extent that district courts apply the test differently, patent trolls will avoid the *MercExchange* decision by seeking a forum perceived to be more favorable to the plaintiff. Thus, *MercExchange* will not likely reduce the power of the patent troll to a significant degree.

Although the *MercExchange* decision will not likely reduce the power of the patent troll, Congress can further reduce the power of the patent troll by enacting legislation to that effect. Some potential reforms that Congress may adopt in an effort to reduce the power of patent trolls include improving the review of business-method patents, weakening the presumption of validity for business-

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<sup>111</sup> *Id.* at 1840–41.

<sup>112</sup> *Id.* at 1841.

<sup>113</sup> *Id.*; see also *id.* at 1841–42 (Roberts, C.J., concurring) (noting that the traditional four-factor test does not require courts to examine each patent as if “writing on an entirely clean slate,” but rather emphasizing that prior, similar cases may be taken into consideration); *id.* at 1842–43 (Kennedy, J., concurring) (making reference to the rise of patent trolls and suggesting that monetary damages may be adequate when a patent troll is involved). Both of these concurrences suggest that although lower courts must apply traditional principles of equity, the Supreme Court continues to believe that a permanent injunction will be appropriate in many cases. In addition, these concurrences may reflect the court’s reluctance to minimize the importance of the right to exclude to the same degree as the District Court. See *Leading Cases*, *supra* note 86, at 339–40.

method patents, eliminating the submarine patent, and providing that a court consider the patent troll's actual contribution to the overall product or service when determining the extent of monetary or equitable relief.

#### A. IMPLICATIONS OF *MERCExchange*

Because the patent troll often uses the threat of an permanent injunction as leverage to extract exorbitant licensing fees from alleged infringers, the Supreme Court's rejection of the Federal Circuit's general rule suggests that the power of the patent troll has been significantly weakened. In fact, advocates of the Federal Circuit's general rule favoring injunctions argue that rejection of the general rule by the Supreme Court effectively forces the patent troll to enter into a compulsory license with the adjudged infringer.<sup>114</sup> However, the fact that the Supreme Court rejected the District Court's categorical rule and declined the opportunity to reconsider the *Continental Paper* decision indicates that the patent troll will not likely be inhibited. Because a patent troll can still attempt to show that it has satisfied the traditional four-factor test, it is unclear whether, in practice, the *MercExchange* decision will do anything to diminish the power of the troll.

The *MercExchange* decision can best be described as a drafting guide that reminds the lower courts that they must apply traditional principles of equity, by using the four-factor test used in many other contexts, when deciding whether to grant a permanent injunction in patent infringement cases. However, the Federal Circuit's general rule granting a permanent injunction may simply be a reflection that in the vast majority of patent infringement cases, all four prongs of the traditional test will favor injunctive relief.<sup>115</sup> Indeed, because the right to exclude, which is typically protected by injunctive relief in other contexts, is among the rights granted upon issuance of a patent, courts generally find that granting a permanent injunction is the only way to protect the right to exclude when a patent has been infringed.<sup>116</sup> In other words, once a valid patent has been infringed, courts will generally find that the patent owner has been irreparably harmed due to violation of the owner's right to exclude. These findings, in turn, indicate that

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<sup>114</sup> See Brief for General Electric Company et al. as Amici Curiae Suggesting Affirmance at 16, *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130). Of course, the Supreme Court's holding does not implicate a compulsory licensing scheme. Because the Supreme Court rejected the District Court's categorical rule that an injunction will not issue when the patentee does not commercially use or is willing to license its patents, the Supreme Court's holding falls short of mandating a license. Rather, an injunction is still available to those patent owners, including patent trolls, who can satisfy the traditional four-prong test.

<sup>115</sup> Brief for Respondent, *supra* note 99, at 12–13.

<sup>116</sup> *Id.*

monetary damages will not be adequate to compensate for a continuing violation of the right to exclude.<sup>117</sup> Further, as courts balance the hardships imposed on the respective parties, it is highly unlikely that an adjudged infringer will succeed in persuading a court that the harm suffered as a result of an injunction will outweigh the patent owner's loss of the right to exclude if an injunction is not granted.<sup>118</sup>

Of course, following the *MercExchange* decision, district courts are free to use their discretion as to what facts they feel are important to their analysis under the traditional four-factor test, provided that they do not abuse their discretion by adopting a categorical rule.<sup>119</sup> However, because of the Supreme Court's failure to provide guidance as to how to apply the test, district courts may apply factors differently, resulting in conflicting holdings.<sup>120</sup> For example, one district court may hold that a patent owner who does not commercially use the patent will not be irreparably harmed and should only be awarded monetary damages, whereas another district court may hold to the contrary. Nonetheless, as Chief Justice Roberts observed in *MercExchange*, courts should adhere to the principle that "like cases should be decided alike."<sup>121</sup> Because injunctions have been granted in the overwhelming majority of patent infringement cases, one would expect that under this principle, a drastic change in remedial practice among district courts is unlikely.

A number of district courts have applied the *MercExchange* ruling in deciding whether to grant an injunction following a finding of patent infringement.<sup>122</sup>

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<sup>117</sup> *Id.*

<sup>118</sup> *Id.*

<sup>119</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1841 (2006) (vacating based on the Federal Circuit's adoption of a categorical rule).

<sup>120</sup> *See id.* (offering no guidance as to how to apply the four-factor test other than the mere statement that the lower courts applied the test incorrectly).

<sup>121</sup> *Id.* at 1842 (Roberts, C.J., concurring).

<sup>122</sup> *See Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1342 (Fed. Cir. 2006) (vacating district court's order granting permanent injunction and remanding for analysis under *MercExchange*); *3M Innovative Prop. Co. v. Avery Dennison Corp.*, No. 01-1781, 2006 WL 2735499 (D. Minn. Sept. 25, 2006) (refusing to force patent owner to license patent and granting permanent injunction); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614 (W.D. Okla. Sept. 5, 2006) (denying injunctive relief); *Floe Int'l, Inc. v. Newmans' Mfg., Inc.*, No. 04-5120, 2006 WL 2472112 (D. Minn. Aug. 23, 2006) (granting motion for permanent injunction); *Paice, L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006) (denying permanent injunction); *Telequip Corp. v. Change Exchange*, No. 5:01-CV-1748, 2006 WL 2385425 (N.D.N.Y. Aug. 15, 2006) (focusing on the right to exclude in applying traditional four-factor test and granting permanent injunction following finding of infringement); *Wald v. Mudhopper Oilfield Servs.*, No. CIV-04-1693-C, 2006 WL 2128851 (W.D. Okla. July 27, 2006) (granting injunction following finding of infringement); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 444 (E.D. Tex. June 14, 2006) (denying motion for permanent injunction after finding of infringement); *Tivo, Inc. v. EchoStar Commc'ns Corp.*, 446

Analysis of these cases indicates that some courts may be more willing to deny injunctive relief after the *MercExchange* decision despite earlier precedent, whereas many others continue to grant injunctive relief.<sup>123</sup> Thus, as a result of the Supreme Court's lack of guidance, decisions on whether to grant injunctive relief have been inconsistent across districts.<sup>124</sup> To the extent that district courts may apply the traditional four-factor test differently, patent trolls may be encouraged to shop for a forum that tends to favor patent owners. In addition, because the Federal Circuit may no longer apply the general rule favoring injunctions when reviewing cases on appeal, a district court granting a permanent injunction based on satisfaction of the traditional four-factor test will be reversed only if the Federal Circuit finds an abuse of discretion.<sup>125</sup> Thus, inconsistencies among district courts will be perpetuated.

In sum, the *MercExchange* decision seems, at first glance, to diminish the power of the patent troll; however in practice, patent trolls will be, at most, only slightly affected by the ruling. Because the Federal Circuit's general rule can be characterized as a simplification of the application of traditional principles of equity in the patent infringement context under the doctrine that like cases should be decided alike, it is unlikely that the majority of district courts will substantially decrease the practice of granting permanent injunctions. Nonetheless, some district courts will undoubtedly adopt a practice of denying permanent injunctions in some circumstances. However, the patent troll will simply avoid those district courts that deny injunctive relief by seeking a more favorable forum.<sup>126</sup> Thus, the mere fact that a district court has discretion to grant an injunction will not likely be enough to stop the practice of trolling. In order to diminish the power of a patent troll, further reforms in patent law are necessary.

#### B. SUGGESTIONS FOR FURTHER REFORM

Because the *MercExchange* decision most likely falls short of significantly diminishing the power of the patent troll, further patent reform is needed. Although there are certainly many ways in which patent law could be reformed,

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F. Supp. 2d 664, 669–70 (E.D. Tex. 2006) (granting permanent injunction after extensive analysis using traditional four-factor test).

<sup>123</sup> See The Fire of Genius, Injunctions, <http://www.thefireofgenius.com/injunctions> (last visited Mar. 12, 2007) (offering up-to-date results of courts applying *MercExchange*).

<sup>124</sup> See *Leading Cases*, *supra* note 86, at 338 (stating that “unguided discretion” has the effect of “undermining the Federal Circuit’s congressional mission to bring consistency to patent law”).

<sup>125</sup> *Id.*

<sup>126</sup> See *Hearing*, *supra* note 8, at 31 (Statement of Chuck Fish, Vice President and Chief Patent Counsel, Time Warner, Inc.) (noting that “[a]n aggressive patent plaintiff can sue almost anywhere in the U.S.” and that some patent trolls are seeking jurisdictions viewed as “pro-plaintiff”).

improving the United States Patent and Trademark Offices (USPTO) review of business-method patent applications, adjusting the presumption of validity in business-method patent infringement actions, eliminating the submarine patent application, and awarding damages representing the patent troll's contribution to the overall product or service could potentially reduce the power of the patent troll. Accordingly, Congress should enact legislation providing for the following reforms.

1. *Improving Review of Business-Method Patents.* One potential way to limit the power of the patent troll is to improve the USPTO's review of business-method patents.<sup>127</sup> Many of the patent infringement claims asserted by patent trolls are based on business-method patents. Indeed, both Research in Motion (RIM) and eBay were confronted with patent trolls alleging that a business-method patent had been infringed.<sup>128</sup>

Many business-method patents are of suspect validity because they are generally obvious when compared to the prior art.<sup>129</sup> The problems of validity regarding business-method patents are a result of the USPTO's inadequate resources and lack of prior art sources to aid in examining applications for business-method patents.<sup>130</sup> Increased funding for the USPTO is an obvious remedy advocated by many.<sup>131</sup>

In addition, expanding the number of patent examiners—particularly those with expertise in business-method prior art—will create more time to review prior art. The addition of examiners with expertise in business practices will also assist in developing an adequate source bank of relevant prior art and potentially reduce the costs of avoiding infringement. Because patent trolls often assert questionable business-method patents, improving the USPTO's review of these applications will reduce the granting of questionable business-method patents.

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<sup>127</sup> See *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1375–77 (Fed. Cir. 1998) (establishing that business-methods are patentable subject matter). Business-method patents are controversial because, in part, there exists scant prior art regarding these patents. See generally *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343 (Fed. Cir. 2001) (offering a great illustration of the problems regarding business-method patents).

<sup>128</sup> See *NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282, 1288–89 (Fed. Cir. 2005) (business-method patent for implementing wireless messaging device); *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1839 (2006) (business-method patent for implementing internet website allowing sellers to list goods and allowing buyers to directly purchase from seller).

<sup>129</sup> See FED. TRADE COMM., TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, ch. 1, p. 30 (2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf> [hereinafter FTC REPORT] (indicating that patent examiners reviewing an application rarely spend more than twenty-five hours researching prior art due to the staggering number of patent applications filed each year).

<sup>130</sup> See *id.*

<sup>131</sup> *Id.*

Thus, Congress should enact legislation providing the USPTO with adequate resources to improve the review of business-method patents.

2. *Weakening the Presumption of Validity for Business-Method Patents.* Because business-method patents currently tend to be of suspect validity, these patents should not be entitled to a strong presumption of validity upon review until the USPTO becomes competent in examining business-method patents.<sup>132</sup> Currently, courts require that a party challenging a patent establish that the patent is invalid by “clear and convincing evidence.”<sup>133</sup> Because the USPTO is not adequately prepared to review applications for business-method patents, granting this burdensome presumption of validity may be unjustified. Weakening the presumption of validity for business-method patent infringement actions would allow courts to invalidate those business-method patents that should not have been granted in the first place. Because patent trolls generally hold questionable business-method patents, this may substantially reduce their power to extract exorbitant licensing fees. Thus, Congress should enact legislation reducing the presumption of validity in cases involving the review of business-method patents.

3. *Elimination of the Submarine Patent.* Elimination of the submarine patent may also reduce the power of the patent troll. Patent trolls often utilize this practice by filing an application domestically and then deliberately postponing the grant of the patent, sometimes for years.<sup>134</sup> During this time, an unknowing party may invest significant resources to implement a product or service that potentially infringes upon the submarine patent application. Once the patent finally issues, the patent troll will likely seek a large licensing fee.

By requiring that all patents be published after eighteen months, regardless of whether the applicant agrees to seek protection only in the United States, the power of patent trolls will be reduced because they will no longer be able to keep the patent application from becoming discoverable prior art. Thus, as long as the prior art is properly reviewed, potential infringers can learn of the application before substantial investment. Consequently, Congress should amend the Patent Act to eliminate the submarine patent.

4. *Requiring Representative Damages.* Patent trolls currently benefit from their ability to gain injunctive relief against an infringing party regardless of the subject matter of their patent.<sup>135</sup> For instance, the patent may cover only a trivial aspect

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<sup>132</sup> See 35 U.S.C. § 282 (2000) (“A patent shall be presumed valid.”); FTC REPORT, *supra* note 129, at 8–10 (recommending legislation to change the standard from clear and convincing evidence to preponderance of the evidence); see generally Symposium, *Ideas into Action: Implementing Reform of the Patent System*, 19 BERKELEY TECH. L.J. 1053, 1100–22 (2004) (lengthy discussion of FTC Report).

<sup>133</sup> FTC REPORT, *supra* note 129, at 8–10.

<sup>134</sup> See *Supreme Court Development*, *supra* note 47, at 1006 (discussing the submarine patent).

<sup>135</sup> See *Hearings*, *supra* note 8, at 30–31 (statement of Chuck Fish, Vice President and Chief Patent

of the overall product or service; yet the patent troll will be able to extract monetary or equitable relief representing the total value of the product or service.<sup>136</sup>

Rather than allowing patent trolls to recover damages that are disproportionate to their contribution to the overall product or service, Congress should enact legislation requiring courts to consider the degree of the patent owner's overall contribution to that product or service. If the patent covers only a small portion of the overall product or service, courts should award a reasonable royalty for use of the patent and decline injunctive relief. Of course, this suggestion should not apply to patent owners who commercially implement their patent for their own use, as they may suffer irreparable harm if compelled to license a patent that they use. However, those who do not use the patent themselves, but rather license the use of the patent, should be limited to a reasonable royalty representing their contribution to the overall product. Because patent trolls do not implement their patents for their own commercial use, limiting the potential award from infringement to an amount that fairly represents their contribution will make it less advantageous for the patent troll to wait until a potential infringer is highly invested in a product or service.

#### IV. CONCLUSION

Although the practice of licensing patents is a justifiable business model for many patent owners, patent trolls exploit the patent system by asserting questionable claims of infringement in hopes of extracting large settlement fees. Prior to the *MercExchange* decision, patent trolls utilized both the submarine patent and the threat of a permanent injunction to achieve this objective. This practice of trolling has the negative effects of raising transaction costs, raising the costs associated with licensing and avoiding infringement, and deterring innovation.

While the Supreme Court's decision to reject the general practice of granting permanent injunctive relief following a finding of infringement may appear likely, in theory, to inhibit the practice of trolling, the *MercExchange* decision, standing alone, will not likely inhibit the patent troll to any significant degree. Because the Supreme Court provided virtually no guidance to district courts as to how the traditional four-factor test should be applied in the patent infringement context, jurisdictions have not applied the test uniformly. To the extent that some jurisdictions may favor granting injunctive relief following a finding of infringement, the patent troll will simply shop for a favorable forum.

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Counsel, Time Warner, Inc.).

<sup>136</sup> *Id.*

In order to truly reduce the power of the patent troll, congressional action is necessary. More specifically, Congress should act to improve the USPTO's review of business-method patents, reduce the presumption of validity in patent infringement cases involving business-method patents, eliminate the submarine patent, and provide for monetary and equitable relief that represents the patent troll's actual contribution to the overall product or service. Until Congress enacts legislation aimed at deterring trolling activity, the patent troll will continue to seek exorbitant sums of money from alleged infringers.

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