

HEINONLINE

Citation: 17 U. Miami Bus. L. Rev. 343 2008-2009

Content downloaded/printed from
HeinOnline (<http://heinonline.org>)
Thu Apr 19 15:12:27 2012

- Your use of this HeinOnline PDF indicates your acceptance of HeinOnline's Terms and Conditions of the license agreement available at <http://heinonline.org/HOL/License>
- The search text of this PDF is generated from uncorrected OCR text.
- To obtain permission to use this article beyond the scope of your HeinOnline license, please use:

[https://www.copyright.com/ccc/basicSearch.do?
&operation=go&searchType=0
&lastSearch=simple&all=on&titleOrStdNo=1047-2819](https://www.copyright.com/ccc/basicSearch.do?&operation=go&searchType=0&lastSearch=simple&all=on&titleOrStdNo=1047-2819)

HAS EBAY SPELLED THE END OF PATENT TROLL ABUSES? PAYING THE TOLL: THE RISE (AND FALL?) OF THE PATENT TROLL

GREGORY D'INCELLI*

INTRODUCTION	344
I. THE PATENT TROLL	344
A. <i>Why Have Patent Trolls Succeeded and Why Are They Bad?</i>	345
B. <i>Not Everyone is Scared of The Big Bad Patent Trolls</i>	348
II. THE CONSTITUTION AND THE PATENT ACT OF 1952 ...	350
III. THE PERMANENT INJUNCTION PRACTICE PRIOR TO EBAY—THE PRESUMPTION IN FAVOR OF THE PERMANENT INJUNCTION	352
IV. EBAY	353
A. <i>The District Court</i>	354
B. <i>The CAFC</i>	355
C. <i>The Supreme Court's Decision—Justice Thomas' Opinion</i>	356
D. <i>Chief Justice Roberts' Concurrence</i>	357
E. <i>Justice Kennedy's Concurrence</i>	357
V. ANALYSIS	358
VI. POST—EBAY DISTRICT COURT CASES SHOW THE EMERGENCE OF THE “MARKET COMPETITION REQUIREMENT” AND PATENT PRACTICE AS THE DETERMINATIVE FACTORS IN OBTAINING INJUNCTIVE RELIEF	360
VII. THE “MARKET COMPETITION REQUIREMENT” NEGATIVELY IMPACTS PATENT TROLLS, BUT THIS (ARGUABLY) IS A GOOD THING	361
VIII. CONCLUSION	363

[A] troll hides under bridges, metaphorically speaking, waiting for companies to produce and market products, that is, to approach and cross the bridge. The ugly, evil troll then leaps up and demands a huge toll, that is, a licensing fee settling actual or threatened patent

* J.D. University of Miami School of Law, 2008. A.B., Dartmouth College, 2004. E-mail: gdincelli@gmail.com. I would like to thank all the members of my family for their unwavering support throughout law school and life. I am also grateful to the entire editorial board of The University of Miami Business Law Review, and, most especially, to Daniela Rosette, my Research and Writing Editor.

litigation, litigation that could result in an injunction halting the product line.¹

INTRODUCTION

Rightly or wrongly, patent trolls have emerged as the villains of the intellectual property debate.² This article examines patent trolls and focuses on patent rights and remedies; specifically the ability of patent trolls to obtain injunctive relief subsequent to the Supreme Court's decision in *eBay Inc. v. MercExchange, L.L.C.*³ Therefore, Part I investigates the rise of patent trolls and explores the differing perspectives on these entities. Part II is a discussion of the patent right and existing remedies. Part III examines the standard for issuing permanent injunctions prior to *eBay*. Part IV scrutinizes all levels of *eBay*, culminating in the Supreme Court decision. Part V analyzes the potential impact of *eBay*. Part VI comments on the creation of the "Market Competition" requirement and patent practice as the two determinative factors in post-*eBay* federal district court decisions. Part VII analyzes the entrenchment of these factors and how it harms patent trolls. Finally, this article concludes that curbing the ability of patent trolls to obtain injunctive relief is beneficial because these entities undermine our patent law system and exploit the applicable remedy.

I. THE PATENT TROLL

These maligned actors entered the spotlight and moved Intellectual Property Law to center stage in 2006, when Virginia-based NTP, Inc. ("NTP"), a patent holding company, sued the Canadian makers of the well-known BlackBerry wireless device, Research in Motion ("RIM").⁴ NTP

¹ Donald S. Chisum, *Reforming Patent Law Reform*, 4 J. MARSHALL REV. INTELL. PROP. L. 336, 340 (2005). Wikipedia defines a patent troll as "a pejorative term used for a person or company that enforces its patents against one or more alleged infringers in a manner considered unduly aggressive or opportunistic." Wikipedia.org, Patent Troll, http://en.wikipedia.org/wiki/Patent_troll (last visited Mar. 25, 2009).

² See Editorial, *Patently Ridiculous*, N.Y. TIMES, Mar. 22, 2006, at A24. The neutral term non-practicing entity ("NPE") is also used to refer to patent trolls and for purposes of this article is used interchangeably. See generally Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (Oct. 2003) [hereinafter FTC], available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

³ 547 U.S. 388 (2006).

⁴ See *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005), cert. denied, 546 U.S. 1157 (2006). NTP filed suit against RIM on November 13, 2001, accusing RIM of infringing on multiple patents. *Id.* at 1290. It originally alleged that over forty system and method patents-in-suit had

owned five patents covering an email system, which integrated existing email systems with RF wireless communications networks.⁵ The ensuing trial was highly litigious, resulting ultimately in a jury finding that RIM had infringed NTP's patents and an award of \$54 million in damages to NTP.⁶ More importantly, the district court entered a permanent injunction enjoining RIM from further manufacture, use, importation, or sale of all accused BlackBerry systems, software, and handhelds.⁷ Despite the questionable validity of the asserted patents and RIM's contentions that it had a feasible workaround strategy, the United States Court of Appeals for the Federal Circuit ("CAFC") affirmed and remanded. Nonetheless, the risk that an injunction would dim BlackBerry screens world-wide had more than three million subscribers in a frenzy that ultimately forced a settlement.⁸

A. *Why Have Patent Trolls Succeeded and Why are They Bad?*

The BlackBerry case illuminates the rise of the patent troll. However, RIM is not the only major corporation that has had to pay the toll.⁹ But what are patent trolls and why have they succeeded?¹⁰ According to

been infringed. *Id.*

⁵ See *id.* at 1288–89.

⁶ See *id.* at 1291–92.

⁷ See *id.* at 1292. The injunction was stayed pending appeal. *Id.*

⁸ See Antony P. Ng, *Blackberry Brouhaha*, TEX. LAWYER, Dec. 25, 2006, at 31; Damian Myers, *Reeling in the Patent Troll: Was Ebay v. MercExchange Enough?*, 14 J. INTELL. PROP. L. 333, 335 (2007). Settlement figures upwards of \$1 billion were circulated before RIM made a one-time payment of \$612.5 million to avoid the injunction and received a license to all of NTP's patents. See Catherine Yang, *The BlackBerry Widow's Tale*, BUS. WK., Dec. 19, 2005, at 33; see also Press Release, Research in Motion and NTP Sign Definitive Settlement Agreement to End Litigation (Mar. 3, 2006), available at http://www.blackberry.com/news/press/2006/pr-03_03_2006-01.shtml.

⁹ Good Technology and Nokia are among others to have paid large licensing fees to NTP. See Myers, *supra* note 8, at 334. Likewise, in 2003, a patent troll demanded \$8 billion from Intel for a patent it bought for \$50,000. In 2005 Medrad paid out \$1.25 billion to a troll. See *id.* at 334 n.7. Other noteworthy cases include: tiny patent holder Freedom Wireless, which won a \$148.1 million award from Boston Communications Group and four other companies over a patent for prepaid cell phone systems; and PhoneTel, a Texas entity, which extracted more than \$65 million in settlement from more than a dozen technology and telecommunications companies in 2002 based on call-ID technology. See Greg Griffin, *Trolling for Patents*, DENV. POST, Mar. 12, 2006, at K-01. In March, 2005, Burst.com also won a \$60 million settlement from Microsoft Corp. See Peter Burrows, *Underdog or Patent Troll?*, BUS. WK., Apr. 24, 2006, at 58, available at http://www.businessweek.com/magazine/content/06_17/b3981070.htm (last visited Mar. 25, 2009).

¹⁰ Recent definitions of patents trolls have focused on: (1) an enforcing entity's lack of active competition with the infringer; (2) collection of nuisance-value settlements; (3) threat of litigation on dubious patents; and (4) usage of patents as a means to generate revenue. See Miranda Jones, Note, *Permanent Injunction, A Remedy by Any Other Name Is Patently Not The Same: How eBay v. MercExchange*

Scandinavian folklore and its predecessor Norse mythology, trolls are members of a fearsome humanoid race.¹¹ Peter Detkin, then Assistant General Counsel for Intel, coined the term “patent troll” to mean “someone who tries to make a lot of money off a patent that they are not practicing and have no intention of practicing and in most cases never practiced.”¹² These entities obtain patents and then wait until another individual or corporation’s product or service potentially infringes on the patent.¹³ Then, the patent troll will aggressively seek to extract licensing fees and make threats of litigation and the mighty permanent injunction if the fee is not paid.¹⁴ Often, the patents are of suspect validity or cover insignificant parts of the overall product.¹⁵ Likewise, because the patent has not been previously enforced and is often difficult to discover, the threat comes as a vexatious surprise to a defendant, which explains the analogy to trolls that leap out and demand tolls from unsuspecting travelers attempting to cross the troll’s bridge.¹⁶ Infringing companies generally choose to pay the licensing fees

Affects the Patent Right of Non-Practicing Entities, 14 GEO. MASON L. REV. 1035, 1041 (2007).

¹¹ Wikipedia.org, Trolls, <http://en.wikipedia.org/wiki/Trolls> (last visited, Mar. 25, 2009); Scott Trimble, SCANDINAVIAN MYTHOLOGY AND FOLKLORE, ¶ 13, <http://www.ststlocations.com/Archives/Scandinavian/Folklore/> (last visited Mar. 25, 2009).

¹² Brenda Sandburg, *Trolling for Dollars*, RECORDER, July 30, 2001, at 1.

¹³ See Myers, *supra* note 8, at 335.

¹⁴ See Victoria E. Luxardo, *Towards a Solution To the Problem of Illegitimate Patent Enforcement Practices in the United States: An Equitable Affirmative Defense of “Fair Use” in Patent*, 20 EMORY INT’L L. REV. 791, 794 (2006). This practice is referred to as patent trolling. Patent trolling describes the act of hunting down and acquiring unused patents to enforce against other companies using similar technology, as well as threatening injunction to extort licensing fees. See Jennifer Kahaulelio Gregory, *The Troll Next Door*, 6 J. MARSHALL REV. INTELL. PROP. L. 292, 292–93 (2007).

¹⁵ The patent system has been criticized for granting both too high a volume of patents as well as too many low-quality patents. See FTC, *supra* note 2, at 5 (providing a general discussion of low-quality patents). An additional problem is patent thickets:

A thicket exists when there are numerous patents held by different entities, each of which may be technologically and legally distinct, but all of which overlap to cover actual commercial products. So, a company desiring legitimately to launch a product cannot do so without getting multiple licenses, which may be difficult because of unreasonable independent demands—or because it is too difficult to determine which of the patent “thorns” in the thicket endanger the product.

Chisum, *supra* note 1, at 339; see also Myers, *supra* note 8, at 335.

¹⁶ A submarine patent is an example of a patent that may be difficult to discover. See, e.g., *Reiffin v. Microsoft Corp.*, 104 F. Supp. 2d 48, 49 n.3 (D.D.C. 2000) (“Patents that remain ‘submerged’ during a long *ex parte* examination process and then ‘surface’ upon the grant of the patent have been labeled ‘submarine patents.’ A holder of a ‘submarine patent’ may be able to demand high royalties from non-patent holders who invested and used the technology not knowing that a patent would later be granted.”). The FTC explains that this occurs when:

a patent applicant allows its application to languish in the PTO while watching another company make substantial investments in a technology or product that will infringe the yet-

because redesign to avoid using the patented product is often too costly.¹⁷ A company may opt to challenge the patent, however, as the risk of having business shut down via permanent injunction is too great and the cost of a legal fight is too high or simply economically unfeasible.¹⁸ Therefore, companies are compelled to pay the fees to avoid potential injunctions.¹⁹ Ultimately, this has given trolls significant leverage in settlement negotiations, which has led to criticism of the U.S. Patent System.²⁰

The patent trolling enforcement racket is extremely lucrative because the patent troll has all the leverage and almost nothing to lose. Because of the inequality between the two parties, the patent troll more closely resembles Goliath, while the alleged infringer is more akin to the weakling David.²¹

to-be-issued patent. Once the other company's sunk costs are large, the patent applicant obtains the patent, asserts infringement, and "holds up" the other company, demanding supra-competitive royalties for a license to the "submarine patent."

FTC, *supra* note 2, at 26. Congress addressed this problem in 1999, by requiring publication of patent applications within eighteen months. However, this requirement can still be avoided by filing for patent protection only in the United States, which arguably is frequently done by patent trolls. See 35 U.S.C. § 122 (2000); see also Brief for Yahoo!, Inc. as Amicus Curiae Supporting Petitioner at 9, *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (No. 05-130) [hereinafter Yahoo!]; Gerard N. Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, 82 NOTRE DAME L. REV. 1809, 1814 (2007).

¹⁷ See Magliocca, *supra* note 16, at 1814; David V. Radack, *Patent Trolls: Pay Up or Fight?*, LAW. J., Aug. 4, 2006, at 3. Manufacturers often have to "choose between the risk of being sued for infringement after they sink costs into invention or production, or dropping innovative or productive efforts altogether. Either option can injure economic welfare." FTC, *supra* note 2, at 28.

¹⁸ See, e.g., AMERICAN INTELLECTUAL PROPERTY LAW ASS'N, REPORT OF THE ECONOMIC SURVEY 22 (2003) (presenting survey results reporting: (i) the median cost of participating in patent infringement litigation with less than \$1 million at risk as \$290,000 through discovery and approximately \$500,000 through trial and appeal; (ii) the median cost of participating in patent infringement litigation with between \$1 million and \$25 million at risk as approximately \$1 million through discovery and \$2 million through trial and appeal; and (iii) the median cost of participating in patent infringement litigation with more than \$25 million at risk as approximately \$2.5 million through discovery and \$4 million through trial and appeal); Gregory, *supra* note 14, at 293-94; Magliocca, *supra* note 16, at 1814-15.

¹⁹ The alternative is too risky. See, e.g., *Polaroid Corp. v. Eastman Kodak Co.*, 789 F.2d 1556, 1557 (Fed. Cir. 1986), (where court upheld injunctive relief against Kodak for infringing Polaroid's patented instant camera). It did so despite Kodak's arguments that such relief would result in the loss of 4,500 jobs, \$200 million in plant and equipment costs, and would injure Kodak's customers and its goodwill. See Gregory, *supra* note 14, at 293.

²⁰ Josh Lerner, testifying before the House Subcommittee on Courts, the Internet, and Intellectual Property explained: "In the past two decades, the United States has strengthened patent rights while weakening the standards for granting patents." While it was not premeditated, these two policy changes have created a "perfect storm": a complex and intensifying combination of factors that increasingly makes the patent system a hindrance rather than a spur to innovation. See Editorial, *Patently Absurd*, WALL ST. J., Mar. 1, 2006, at A14, available at <http://promotetheprogress.com/ptpfiles/patentreform/houseoversight/060905/prepared/lerner.pdf>.

²¹ See Luxardo, *supra* note 14, at 795. See generally Bernard Stamler, *Battles of the Patents, Like*

First, trolls are “non-practicing entities” (“NPE”) that do not practice their patents within the industry and are, by nature, focused exclusively on enforcement.²² In contrast, for industry participants, or patent practicing entities (“PPE”) that obtain strong and extensive patent portfolios, these portfolios discourage enforcement and often produce reasonable cross-licensing arrangements.²³ The cross-licensing arrangements result from the increased likelihood that participants will end up holding patents used by each other, leading to mutually assured destruction if they choose to litigate.²⁴ However, patent trolls do not need a license and have no interest in cooperative arrangements.²⁵ Thus, the same tactic does not dissuade trolls from extolling exorbitant licensing fees because trolls, like rogue states, have nothing to lose.²⁶

B. Not Everyone is Scared of The Big Bad Patent Trolls

“Those who worship at the altar of start-ups see trolls as necessary intermediaries; those who swoon at the big behemoths view trolls as a nuisance.”²⁷ Without a doubt, patent trolls have been much maligned by the

David v. Goliath, N.Y. TIMES, Feb. 21, 2006, at G2.

²² The Federal Trade Commission referred to patent trolls using it as a neutral term in its October 2003 report. See generally FTC, *supra* note 2. The FTC also added that NPEs are firms that are, for a variety of reasons, invulnerable to a countersuit for patent infringement. They may be design firms that patent their inventions but do not practice them, or patent assertion firms that buy patents from other companies (particularly bankrupt ones) not to practice but to assert against others. *Id.* at 31; see also Yahoo!, *supra* note 16, at 12.

²³ See Chisum, *supra* note 1, at 340.

²⁴ See Patti Waldmeir, *Patent Extortion Is the Cost of Business*, FIN. TIMES, Mar. 17, 2005, at 7, available at <http://search.ft.com/nonFtArticle?id=050317001392> (last visited Mar. 26, 2009). “Patents are like nuclear warheads—even if you never use them, they serve their purpose.” *Id.*; see also Brief for Computer & Comm. Indus. Ass’n as Amicus Curiae Supporting Petitioner at 15, *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (No. 05–130) (“Given the inherently rich functionality of information technology, these phenomena—the automatic injunction rule, the Federal Circuit’s other expansive patent jurisprudence, and the customer orientation of the PTO—have triggered a patent arms race. Facing potential liability on a vast scale, companies in the information technology sector hedge their bets by filing for hundreds of patents, expecting that ‘mutually assured destruction’ will deter others from asserting patents against them.”).

²⁵ See Magliocca, *supra* note 16, at 1817; Yahoo!, *supra* note 16, at 12.

²⁶ See Waldmeir, *supra* note 24, at 7; see also Brief for Computer & Comm. Indus. Ass’n as Amicus Curiae Supporting Petitioner at 16, *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (No. 05–130) (“While portfolio accumulation is a rational strategy against present and potential competitors, it provides little protection against patent speculation by non-producers. Easily asserted patents, endowed with automatic injunctive relief, become potent weapons in the hands of non-producing patent firms, sometimes referred to as ‘trolls.’ These trolls profit solely from holding up producers, and therefore have no need for cross-licenses and no fear of mutually assured destruction.”).

²⁷ Magliocca, *supra* note 16, at 1818.

media.²⁸ However, the negative connotation of the patent troll label has been criticized, and some scholars contend that this reputation is unmerited and that the patent troll is merely misunderstood.²⁹ Supporters of patent trolls, or NPEs, argue that in the past, large corporations infringed patents without consequences, stealing the patents of individual inventors and small companies, and then fought such suits in the hopes of exhausting a plaintiff's means.³⁰ As a result, individual investors and small companies rarely sought to enforce their patent rights.³¹ Framed in that manner, patent trolling is a vindication of the rights of the little guy that infuses capital into undercapitalized entities by buying their dormant patents and in the process making a significant contribution to research and development.³²

Most patent trolls see themselves as defenders of small inventors, fighting an uphill battle to protect the inventors' hard-earned intellectual property from pillaging corporate titans. NPEs contend that many of the criticisms set forth are problems with the patent system itself rather than with the actions of patent trolls.³³ Supporters of patent trolls argue that these entities, "function with respect to inventions both as venture capital firms and as market-makers, and facilitate the public disclosure of invention, which is one of the patent system's primary functions."³⁴ In addition, the

²⁸ See, e.g., Griffin, *supra* note 9, at K-01 ("There's a new bogeyman haunting corporate America alongside the crusading white-collar prosecutor and the zealous class-action attorney. The latest predator to terrorize boardrooms is a creature called the 'patent troll.' This is a patent-holding company that collects licensing fees from users of its technology and sues those who won't pay."); *Patently Ridiculous*, *supra* note 2, at A24 ("[P]rofiters, including lawyers and hedge funds, have turned the very purpose of patent rights—to encourage people to invent and produce—on its head, using them to tax, blackmail and even shut down productive companies unless they pay high enough ransoms. These so-called patent trolls have emerged as the villains in this intellectual property debate.").

²⁹ See, e.g., Raymond P. Niro, *Who is Really Undermining the Patent System—"Patent Trolls" or Congress?*, 6 J. MARSHALL REV. INTELL PROP. L. 185, 197 ("[N]o one benefits when people use derogatory terms like 'patent troll' or 'patent parasite.' Individual inventors and small companies that cannot afford to commercialize their inventions should not be defamed for choosing to enforce their patents, nor should the lawyers who defend large companies in patent infringement suits."); Gregory, *supra* note 14, at 309 ("The Patent Troll label is an inflammatory and offensive term that has no real meaning."); See generally Jones, *supra* note 10, at 1036-39 (averring that the term "patent troll" unfairly vilifies the actions of NPEs).

³⁰ See Magliocca, *supra* note 16, at 1818; Jones, *supra* note 10, at 1037.

³¹ See Jones, *supra* note 10, at 1037.

³² See Magliocca, *supra* note 16, at 1818.

³³ See, e.g., Jones, *supra* note 10, at 1036 n.7 (citing Steve Seidenberg, *Troll Control: The Supreme Court's eBay Decision Sets Back Pesky 'Patent Trolls' or American Innovation, Depending upon Which Side You're On*, A.B.A.J., Sept. 2006, at 51); see also James F. McDonough III, Comment, *The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy*, 56 EMORY L.J. 189, 202 (2006).

³⁴ Brief for Rembrandt IP Management, L.L.C., as Amicus Curiae Supporting Respondent at 2-3, *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (No. 05-130) [hereinafter Rembrandt].

specialized acquisition, licensing, and enforcement functions of patent trolls promote invention and disclosure by freeing up the inventor while the patent troll “assumes for itself the risks and potential additional rewards of monetizing the intellectual property in the market.”³⁵ Additionally, supporters claim that the biggest benefit is to the public because without patent trolls, inventors would not have the time, support, and incentive to come up with inventions. Furthermore, patent trolls have every incentive to make inventions available to the public precisely because they do not manufacture or sell products.³⁶

There are many proponents and opponents of the patent troll business model. However, it is clear that certain activities considered trolling are legitimate, such as when university researchers or small, independent inventors license their inventions.³⁷ In contrast, many entities exploit the system in attempting to extract exorbitant licensing fees from either manufacturers or service providers based on alleged infringement of questionable patents.³⁸ Regardless of how one feels about patent trolls, it is indisputable that their recent proliferation has been spurred on by certain features of the current patent system and has subsequently changed the landscape of patent enforcement.³⁹

II. THE CONSTITUTION AND THE PATENT ACT OF 1952

The Constitution empowers Congress to enact law 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.”⁴⁰ Patents are property rights and are entitled to the same protection as other property.⁴¹ The Patent Act of 1952 is the current law

Through purchasing and licensing, patent trolls help make markets in which inventors can profit from their patents. They do so by increasing liquidity by acting as the middlemen who facilitate transactions by centralizing exchange processes, thereby lowering transaction costs. Jones, *supra* note 10, at 1047.

³⁵ Rembrandt, *supra* note 34, at 7–8. Regular enforcement of patents by patent trolls increases and deters exploitation, or “free-riding” of patents—copying without compensating inventors. See Jones, *supra* note 10, at 1044.

³⁶ Rembrandt, *supra* note 34, at 9. Actually enforcing the exclusivity conferred by the patent grant (rather than entering into licensing agreements) would simply deprive the NPE of any revenue. *Id.*

³⁷ See Myers, *supra* note 8, at 337.

³⁸ See *id.* at 335.

³⁹ See Gregory, *supra* note 14, at 296.

⁴⁰ U.S. CONST. art. I, § 8, cl. 8.

⁴¹ “Holders of valid letters-patent enjoy, by virtue of the same, the exclusive right and liberty of making and using the invention therein secured, and of vending the same to others to be used, as provided by the act of Congress; and the rule of law is well settled, that an invention so secured is property in the holder of the patent, and that as such the right of the holder is as much entitled to

governing patents.⁴² The Act attempts to “strike a balance between the promotion of technological innovation and the dissemination of its fruits.”⁴³ Thus understood, the Act strikes a balance between society and the public good benefit from the invention but allows the inventor (or patent holder) to retain all of the rights as a reward for his or her expenditure of time, effort, and money.⁴⁴ One of the rights associated with a patent is “the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States.”⁴⁵

The right of exclusion is amongst the most powerful of those conferred by the patent, and encourages further innovation by giving patent owners certain remedies, at law, for infringement.⁴⁶ The Patent Act provides that a court must award the patent owner damages sufficient to compensate for an infringement.⁴⁷ However, the Patent Act also recognizes that pecuniary damages are not necessarily adequate and that the patent owner often wishes to halt the infringing activity.⁴⁸ Therefore, the Patent Act provides that courts “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.”⁴⁹ Without the right of an injunction, the patent system would effectively force patent owners to license their patents whenever another entity infringes. Such a compulsory licensing system would run counter to the right of exclusion enshrined in both the Constitution and the Patent Act.⁵⁰

protection as any other property, during the term for which the franchise or the exclusive right or privilege is granted.” *Cammeyer v. Newton*, 94 U.S. 225, 226 (1876) (citation omitted).

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

⁴³ DONALD S. CHISUM ET AL., *PRINCIPLES OF PATENT LAW CASES AND MATERIALS* (Robert C. Clark et al. eds., Foundation Press 2d ed. 2001) (1998).

⁴⁴ *See* *Cont’l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 424 (1908) (stating that “the inventor could have kept his discovery to himself; but, to induce a disclosure of it, Congress has, by its legislation, made in pursuance of the Constitution, guaranteed to him an exclusive right to it for a limited time, and the purpose of the patent is to protect him in this monopoly[,] not to give him a use which he did not have before, ‘but only to separate him an exclusive use.’”) (quoting *United States v. American Bell Teleph. Co.*, 167 U.S. 224, 239 (1897)).

⁴⁵ 35 U.S.C. § 154(a)(1) (2000).

⁴⁶ *See* *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1548 (Fed. Cir. 1983) (“Under the statute . . . a patent is a form of a property right, and the right to exclude recognized in a patent is but the essence of the concept of property.” (citing *Schenck v. Nortron Corp.*, 713 F.2d 782 (Fed. Cir. 1983)).

⁴⁷ 35 U.S.C. § 284 (2000). “Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.” *See id.*

⁴⁸ *See* *Myers*, *supra* note 8, at 340.

⁴⁹ 35 U.S.C. § 283 (2000).

⁵⁰ *See* *Myers*, *supra* note 8, at 335.

III. THE PERMANENT INJUNCTION PRACTICE PRIOR TO eBay—THE PRESUMPTION IN FAVOR OF THE PERMANENT INJUNCTION

The Patent Act states that courts may, in accordance with the principles of equity, use their discretion to enter a permanent injunction as a remedy for infringement.⁵¹ Traditionally, a plaintiff seeking permanent injunctive relief must demonstrate:

(1) [T]hat it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate 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.⁵²

However, in practice, the general rule under the Patent Act, as articulated by the CAFC, has been that absent an unusual case, exceptional circumstances, or in rare instances where necessary to protect the public interest, “a permanent injunction will issue once infringement and validity have been adjudged.”⁵³ Irreparable harm to the patent owner is presumed and injunctive relief is essentially automatic to a prevailing patentee.⁵⁴ The permanent injunction has been an extremely powerful, and oft-criticized,

⁵¹ 35 U.S.C. § 283 (2000).

⁵² *eBay*, 547 U.S. at 391 (2006).

⁵³ *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005) (citing *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246–47 (Fed. Cir. 1989)). “The traditional law—which did not worry much about patent trolls—essentially held that the injunctive relief came as of right when the defendant practiced the invention, licensed the invention to others, or warehoused the invention in order to make better use of some other patented invention within its portfolio.” Richard Epstein, *Two Minds on Injunctive Relief*, FIN. TIMES, Aug. 15, 2007, <http://www.ft.com/cms/s/2/8e7a66a2-4b10-11dc-861a-0000779fd2ac.html> (last visited Feb. 21, 2009).

⁵⁴ This general rule has been criticized. By assuming irreparable harm from infringement, the general rule all but nullifies the traditional rule that equitable relief (e.g., an injunction) is not granted unless the plaintiff shows that the remedy at law (e.g., monetary damages) is inadequate. James M. Fischer, *The “Right” to Injunctive Relief for Patent Infringement*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 1, 10–11 (Nov. 2007); see also, Yahoo!, *supra* note 16, at 21 (stating that awarding an automatic injunction to an entity that does not produce socially valuable products, and whose focus is monetizing patents through litigation, permits it to extort settlements in excess of the true economic value of the infringed patent by enabling NPEs to threaten to shut down the production of socially useful products even where the patent owner would suffer no irreparable harm); see also *eBay*, 547 U.S. at 1841 (2006) (Roberts, J., concurring) (“This historical practice, as the Court holds, does not entitle a patentee to a permanent injunction or justify a general rule that such injunctions should issue.”).

arrow in the patent troll's quiver.⁵⁵ In turn, this has generated criticism that the courts frequently fail to account for equitable factors and have wrongly applied a presumption of irreparable harm.⁵⁶ Furthermore, many argue that the near-automatic rule granting injunction simply does not reflect the current realities of the patent system.⁵⁷ Thus far, however, patent trolls have taken shelter under the Court's holding in *Continental Paper*.⁵⁸ The Court took the opportunity to review its *Continental Paper* holding that an injunction may issue despite non-use of the patent, as well as the federal Circuit's general rule for granting permanent injunctions when it granted certiorari in *eBay*.⁵⁹

IV. EBAY

The *eBay* case involved a claim by MercExchange—the owner of a business method patent for an electronic market designed to facilitate sale of goods among private citizens—that eBay was violating its patent.⁶⁰

⁵⁵ As two commentators put it, “the threat of injunctive relief has hung like the sword of Damocles over accused infringers’ heads, giving settlement leverage to patent holders.” Rodney R. Sweetland III & Michael G. McManus, *Patently Better Odds the Supreme Court’s Decision in eBay Weakens a Patent Remedy, But Trade Law Still Offers Help*, LEGAL TIMES, May 22, 2006, available at ipo.org/AM/Template.cfm?Section=Home&Template=/CM/ContentDisplay.cfm&ContentFileID=55201. The realities of patent thickets and submarine patents combined with the threat of injunction-backed exorbitant royalties may undermine effective competition, raise costs for consumers and frustrate innovation. See, e.g., Brief for Nokia Corp. Inc. as Amicus Curiae Supporting Petitioner at 18, *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (No. 05–130).

⁵⁶ See Chisum, *supra* note 1, at 348. Some scholars disagree, arguing that the CAFC’s general rule provided much-needed clarity and predictability. See, e.g., Jones, *supra* note 10, at 1051.

⁵⁷ Brief for Computer & Comm’n. Indus. Ass’n as Amicus Curiae Supporting Petitioner at 17, *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (No. 05–130), 2006 WL 235011 (“The patent system itself has expanded to address a far greater variety of subject matter, a far greater range of inventive activity, and a far greater scope of market conditions. By advancing a general rule of injunctive relief subject only to rare exceptions, the Federal Circuit embraces a static vision of a patent system rooted to old paradigms.”).

⁵⁸ *Cont’l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 429–30 (1908) (stating that “it is the privilege of any owner of property to use or not use it, without question of motive” and holding that a court of equity has jurisdiction to grant injunctive relief where a patent owner has declined to use its patent). The Court in *Continental Paper*, however, ended its opinion by stating that there could be situations where, in view of the public interest, a court of equity might be justified in withholding relief by injunction. See *id.* at 430.

⁵⁹ *eBay*, 547 U.S. at 393–94.

⁶⁰ *eBay*, 547 U.S. at 390; see Brief for Respondent at *1–2, *eBay*, 547 U.S. 388 (No. 05–130), 2006 WL 622506 [hereinafter Brief for Respondent]. The Respondent’s Brief details that the patent in question was filed by Thomas Woolston, an electrical engineer, patent attorney, and the founder of MercExchange, L.L.C. See *id.* at *1. Woolston filed his first patent application involving online marketing technology in April 1995, months prior to the creation of eBay. See *id.* The Brief goes on to note that “[t]he family of patents that issued from this parent application includes the only patent of

Although it developed a business plan and took steps to commercialize, MercExchange never practiced its patent and ultimately focused on its licensing program.⁶¹ eBay was aware that parts of the technology it was using as part of its “Buy it Now” feature were covered by MercExchange’s patents.⁶² The two parties attempted to reach a licensing agreement, but the negotiations failed.⁶³ MercExchange then filed a patent infringement suit against eBay and another company, Half.com.⁶⁴

A. The District Court

At trial, a jury found that eBay willfully infringed upon two of MercExchange’s patents.⁶⁵ Accordingly, the jury awarded MercExchange \$29.5 million in damages.⁶⁶ The court recognized the CAFC’s general rule in favor of granting injunctive relief absent sufficient reason for denying it.⁶⁷ Despite the presumption in favor of granting equitable relief, the court applied the traditional four-factor test to determine whether injunctive relief was appropriate:

- (i) [W]hether the plaintiff would face irreparable injury if the injunction did not issue, (ii) whether the plaintiff has an adequate remedy at law, (iii) whether granting the injunction is in the public

concern here, the 265 patent. The 265 patent describes an ‘electronic market’ for the sale of goods. In such a market, sellers can display goods by posting pictures, descriptions, and prices of goods on a computer network, such as the Internet. Prospective buyers can electronically browse the goods on sale by connecting to the network. After selecting an item, a buyer can complete the purchase electronically, with the ‘electronic market’ mediating the transaction, including payment, on the buyer’s behalf. The seller is then notified that the buyer has paid for the item and that the transaction is final. A central authority within the market can police the obligations and performance of sellers and buyers over time, thereby promoting trust among participants.” *See id.* at *3.

⁶¹ *See id.* at *4. eBay is a “popular Internet Web site that allows private sellers to list goods they wish to sell, either through an auction or at a fixed price.” *eBay*, 547 U.S. at 390.

⁶² *See* Brief for Respondent, *supra* note 60, at *3 (explaining that “from October 1998 through February 2002, eBay repeatedly acknowledged the 265 patent’s significance by filing 24 patent applications referring to the 265 patent as prior art.”).

⁶³ *See eBay*, 547 U.S. at 390.

⁶⁴ *See id.* Half.com is a wholly owned subsidiary of eBay that operates a similar Web site. *See id.*

⁶⁵ *See 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, and remanded*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated and remanded*, 547 U.S. 388 (2006).

⁶⁶ *MercExchange*, 275 F. Supp. 2d at 722.

⁶⁷ *See id.* at 711 (internal quotation marks omitted) (quoting *W.L. Gore & Assoc., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988)).

interest, and (iv) whether the balance of the hardships tips in the plaintiff's favor.⁶⁸

Ultimately, after considering all four factors, the district court denied MercExchange's motion for a permanent injunction.⁶⁹

B. *The CAFC*

On appeal the Federal Circuit reversed the district court's decision denying the permanent injunction.⁷⁰ The CAFC deferred to the general rule and granted a permanent injunction based upon a finding of validity and infringement.⁷¹ After criticizing the district court's findings,⁷² the court went

⁶⁸ *MercExchange*, 275 F. Supp. 2d at 711. While applying the four factors, the court noted that validity and infringement establish a presumption of irreparable harm, but that MercExchange's lack of commercial activity in practicing the patents, its willingness to license, its statements to the media regarding enforcement, and its failure to seek a preliminary injunction all weighed against the first two factors (irreparable harm and inadequacy of monetary damages). *See id.* at 712. Although the court commented that monetary damages are typically inadequate, it merely labeled the case at bar "atypical" without further explanation, and held that the plaintiff had an adequate remedy at law. *See id.* at 713. With regard to the third factor, the court found that "the public interest factor equally supports granting an injunction to protect the plaintiff's patent rights, and denying an injunction to protect the public's interest in using a patented business-method that the patent holder declines to practice." *See id.* at 714. Finally, in its examination of the fourth factor, "Balance of the Hardships," the court noted that the case was among the most contentious it had ever presided over, but nonetheless found that the scales tipped slightly in favor of eBay. *See id.* In coming to this conclusion, the court recognized that injunctions generally serve the public interest in maintaining the integrity of the patent system, but also recognized mounting concern over the growing issuance of business-method patents. *See id.* at 713-14. The court then acknowledged that the public does not benefit from patentees who obtain a patent, yet decline to allow the public to benefit from the inventions contained therein. *See id.* at 714. Because MercExchange exists solely to license or sue to enforce its patents, damages would be sufficient to compensate it for any damages. *Id.* at 713. Finally, granting an injunction would lead to extraordinary costs and possibly ongoing contempt hearings as a result of any eBay design-around strategies. *Id.* at 714.

⁶⁹ *See id.* at 715.

⁷⁰ *MercExchange*, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1339 (Fed. Cir. 2005), *vacated and remanded*, 547 U.S. 388 (2006).

⁷¹ *Id.* at 1338 There, the court noted:

[T]he general rule is that a permanent injunction will issue once infringement and validity have been adjudged. To be sure, courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest. Thus, we have stated that a court may decline to enter an injunction when a patentee's failure to practice the patented invention frustrates an important public need for the invention, such as the need to use an invention to protect public health.

Id. (internal citations omitted) (internal quotation marks omitted).

⁷² *See id.* at 1339 ("In this case, the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction.").

on to hold that concerns over business-method patents and costs related to the likelihood of continuing disputes are not the type of important public needs that justify the unusual step of denying injunctive relief.⁷³ The court then ultimately concluded that MercExchange's choice not to practice its patent and its willingness to license did not deprive it of a valid right to an injunction.⁷⁴

C. The Supreme Court's Decision—Justice Thomas' Opinion

Justice Thomas delivered the brief, unanimous opinion of the Court, which vacated the CAFC's judgment and remanded.⁷⁵ The Court rejected the Federal Circuit's general rule and held that permanent injunctions in patent cases should be evaluated under the traditional four-factor test, noting that "a major departure from the long tradition of equity practice should not be lightly implied."⁷⁶ Justice Thomas criticized the Federal Circuit's finding that the statutory right to exclude alone justified the general rule in favor of permanent injunctive relief.⁷⁷ The Justice added that "the creation of a right is distinct from the provision of remedies for violations of that right," and that nothing in Section 283 of the Patent Act indicates that Congress intended a departure from the provision that "injunctions may issue only in accordance with principles of equity."⁷⁸

The Court then applied this reasoning to find that neither the district court nor the court of appeals properly applied traditional equitable principles in deciding whether to grant the permanent injunction.⁷⁹ Justice Thomas criticized the district court's adoption of "expansive principles suggesting that injunctive relief could not issue in a broad swath of cases."⁸⁰ In particular, he disagreed with the district court's conclusion that "plaintiff's

⁷³ See *id.*

⁷⁴ See *id.* This case bears a strong resemblance to the Supreme Court's holding in *Continental Paper*, as the CAFC makes its point that injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. *Id.* Rather, 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. See *id.*

⁷⁵ See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006).

⁷⁶ *Id.*

⁷⁷ See *id.* at 392–93.

⁷⁸ *Id.* at 392. Justice Thomas' position is consistent with the treatment of injunctions under the Copyright Act. See *id.* at 392–93 ("[A]s in our decision today, this Court has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed.").

⁷⁹ See *id.* at 393.

⁸⁰ *Id.*

willingness to license its patents and its lack of commercial activity in practicing the patents” was sufficient to establish a lack of irreparable harm.⁸¹ Justice Thomas also admonished the district court’s adoption of a categorical rule denying injunctive relief to patent holders who chose to license their patents rather than commercialize them, noting it could not be squared with equitable principles or the Court’s decision in *Continental Paper*.⁸²

D. Chief Justice Roberts’ Concurrence

The Chief Justice, joined by Justices Scalia and Ginsburg, began by agreeing that injunctive relief should be based on traditional standards of equity.⁸³ However, the Chief Justice noted that the long-standing tradition of granting injunctive relief upon a finding of infringement is justified “given the difficulty of protecting a right to *exclude* through monetary remedies,” which often “implicates the first two factors of the traditional four-factor test.”⁸⁴ According to Chief Justice Roberts, this historical practice does not justify a general rule that injunctions should automatically issue. Instead, “there is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate.”⁸⁵

E. Justice Kennedy’s Concurrence

Joined by Justices Stevens, Souter, and Breyer, Justice Kennedy argued that, contrary to the Chief Justice’s argument, the traditional practice issuing injunctions “does not seem to rest on the difficulty of protecting a right to *exclude* through monetary remedies” and that the right to exclude does not dictate the remedy for a violation of that right.⁸⁶ Justice Kennedy advised that the historical practice of granting an injunction merely reflects “the results of the four-factor test in the contexts then prevalent” and that this practice is only instructive, today, when courts are confronted with a case that is substantially similar.⁸⁷ When faced with patent infringement cases,

⁸¹ See *id.* (quoting *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 712 (E.D. Va. 2003)) (internal quotation marks omitted).

⁸² See *eBay*, 547 U.S. at 393. Specifically, the court expressed concern that such a rule would deny patent holders, such as university researchers or self-made inventors, who may still be able to satisfy the traditional four-factor test the opportunity to obtain injunctive relief. See *id.*

⁸³ See *id.* at 394 (Roberts, J., concurring).

⁸⁴ See *id.* at 395.

⁸⁵ *Id.*

⁸⁶ *Id.* at 396 (Kennedy, J., concurring) (citing *id.* at 395 (Roberts, J., concurring) (internal quotation marks omitted)).

⁸⁷ *Id.* at 396 (Kennedy, J., concurring).

today's courts must "bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present consideration quite unlike earlier cases."⁸⁸

Therefore, according to Justice Kennedy, under certain circumstances monetary damages are a sufficient remedy. One such case occurs when "firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."⁸⁹ These firms may only hold the patent for a small component of the whole product, and use the threat of injunction "as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent."⁹⁰ In addition, Justice Kennedy found that because of "the potential vagueness and suspect validity" of business patents, the "calculus under the four-factor test" may be different in light of the different consequences that may follow from injunctive relief in such cases.⁹¹

V. ANALYSIS

Although it is a unanimous decision, *eBay's* two concurrences provide interesting subtext to an otherwise brief opinion. The decision harmonizes the test for issuing a permanent injunction in patent cases with that employed in other areas of the law.⁹² Further, Justice Thomas' divorce of the right to exclude from the remedy for a violation of that right, makes manifest that injunctive relief may only issue where the patentee satisfies the four-factor test.⁹³ Therefore, the factual circumstances of a particular

⁸⁸ *Id.*

⁸⁹ *Id.* This description no doubt refers to patent trolls.

⁹⁰ *Id.*

⁹¹ See *id.* Business method or process patents are criticized because they protect a process or method of doing something, rather than the thing itself. Criticism arises from the fact that it is difficult to limit the patentable scope of a process or method and also because there is a scarcity of prior art regarding these patents. See DONALD S. CHISUM, CHISUM ON PATENTS §1.03[1] (2002).

⁹² *The Supreme Court, 2005 Term-Leading Cases*, 120 HARV. L. REV. 332, 337 (2006).

⁹³ See *eBay*, 547 U.S. at 392. Justice Kennedy's concurrence suggests that at least four Justices may not view the nature of the right to exclude as dispositive in selecting a remedy. However, courts may still consider the nature of the patent right invaded when deciding in favor of an injunction. They can do so for the following reasons: the fact that the nature of patent right violations can aid in selection of the proper remedy, the Court's expressed support for the *Continental Paper* decision, the well-established principle that the nature of the patentee's right militates in favor of an injunction, the Chief Justice's concurrence expressed clear support for the proposition that the nature of the right to exclude affects the remedy for its violation, and the Court's acknowledgment that a "patent holder who has unreasonably declined to use the patent" may nevertheless be entitled to an injunction. See generally *Leading Cases*, *supra* note 92, at 333–41.

infringement case, and not the nature of the patent right itself, play the greater role in justifying injunctive relief.⁹⁴

What is not clear, however, is whether *eBay* militates in favor of granting more or fewer permanent injunctions.⁹⁵ The rejection of a categorical rule in favor of, or against, injunctive relief reaffirms the role of district courts to exercise their discretion consistently with equitable principles on a case-by-case basis.⁹⁶ From a general standpoint, the *eBay* decision does not recalibrate the existing preference that favors patentees. However, because the majority opinion did not address the application of the traditional test, district courts must rely on the two concurrences for guidance.⁹⁷ Therefore, courts aiming to maintain the status quo in the issuance of patent injunctions may rely on the Roberts concurrence, while those seeking to make obtaining injunctions more difficult may find refuge in Kennedy's concurrence.⁹⁸

This article endorses Justice Kennedy's approach to injunctive relief and the approach post-*eBay* district courts have begun to take for two reasons touched on above. First, patent trolls exploit patent rights without truly conferring any benefit upon society,⁹⁹ and, second, they do not suffer actual, irreparable harm sufficient to merit an injunction upon a finding of patent infringement.¹⁰⁰ The sections below argue that, to the extent that courts are confronted with patent holders of the sort Justice Kennedy describes, courts may deny injunctive relief, thus curbing the mighty patent troll.¹⁰¹

⁹⁴ See *Leading Cases*, *supra* note 92, at 338. Prior to *eBay*, the remedy flowed directly from the nature of the right invaded. The fact that the patentee's right to exclude was violated gave great and often dispositive weight in favor of injunctive relief as opposed to a monetary damages. See *id.* at 338–39.

⁹⁵ See *id.* at 337.

⁹⁶ See Fischer, *supra* note 54, at 20.

⁹⁷ See generally *id.*

⁹⁸ See Rebecca A. Hand, *eBay v. MercExchange: Looking at the Cause and Effect of a Shift in the Standard for Issuing Patent Injunctions*, 25 CARDOZO ARTS & ENT. L.J. 461, 479 (2007).

⁹⁹ See Luxardo, *supra* note 14, at 796. “The patent quid pro quo is that an inventor gives something to society by disclosing an invention and society in turns gives the inventor exclusive rights in that invention for a limited time.” *Id.*

¹⁰⁰ See Myers, *supra* note 8, at 337.

¹⁰¹ Justice Kennedy described patent licensing companies that do not produce or sell goods and utilize potentially vague and suspect business method patents. See *eBay*, 547 U.S. at 397 (Kennedy, J., concurring).

VI. POST-*EBAY* DISTRICT COURT CASES SHOW THE EMERGENCE OF THE "MARKET COMPETITION REQUIREMENT" AND PATENT PRACTICE AS THE DETERMINATIVE FACTORS IN OBTAINING INJUNCTIVE RELIEF

Despite the difficulties that the divergent standards advocated for by the *eBay* concurrences allow, post-*eBay* district courts continue to grant permanent injunctions in the majority of cases.¹⁰² Direct market competition has now become a dispositive factor in obtaining injunctive relief. This means that commercialization and competing in the marketplace with a patented invention is a necessary precondition to successfully seek an injunction.¹⁰³ Several scholars have tested the hypothesis that market competition is the key to obtaining an injunction by examining patent cases in which permanent injunctions were granted and denied post-*eBay*.¹⁰⁴ While repeating that exercise is beyond the scope of this article, what is clear is that the case law shows that only direct market competition is predictive of whether a court will grant injunctive relief for patent infringement.¹⁰⁵

Plaintiffs who were awarded injunctions tended to practice their patents and functioned as market competitors with the defendants.¹⁰⁶ This requirement of market competition in order to obtain an injunction has

¹⁰² For a broad examination of post-*eBay* cases, see Andrew Beckerman-Rodau, *The Aftermath of eBay v. MercExchange*, 126 S. Ct. 1837 (2006): *A Review of Subsequent Judicial Decisions*, 89 J. PAT. & TRADEMARK OFF. SOC'Y 631, 653–57 (Aug. 2007); Andrei Iancu & W. Joss Nichols, *Balancing The Four Factors In Permanent Injunction Decisions: A Review of Post-EBay Case Law*, 89 J. PAT. & TRADEMARK OFF. SOC'Y 395, 397–404 (May 2007).

¹⁰³ See Benjamin H. Diessel, *Trolling for Trolls: The Pitfalls of the Emerging Market Competition Requirement for Permanent Injunctions in Patent Cases Post-eBay*, 106 MICH. L. REV. 305, 309–10 (2007). In fact, courts granting injunctions have focused on lost sales to the plaintiff or a loss in market share as the irreparable injury. See *id.* at 326.

¹⁰⁴ See, e.g.; *id.*; see generally Beckerman-Rodau, *supra* note 102; Iancu & Nichols, *supra* note 102.

¹⁰⁵ "Factors including inventive area, jurisdiction, [willingness of patent owner to license], and willfulness do not sufficiently distinguish the cases granting and denying injunctions such that one can tell, given these factors alone, whether an injunction will issue." Diessel, *supra* note 103, at 315. See also Beckerman-Rodau, *supra* note 102, at 653–55.

¹⁰⁶ See, e.g., *Wald v. Mudhopper Oilfield Servs., Inc.*, No. CIV-04-1693-C, 2006 WL 2128851 (W.D. Okla. July 27, 2006); *Brooktrout, Inc. v. Eicon Networks Corp.*, No. 2:03-CV-59, 2007 WL 1730112 (E.D. Tex. June 14, 2007); *Telequip Corp. v. Change Exch.*, No. 5:01-CV-1748, 2006 WL 2385425 (N.D.N.Y. Aug. 15, 2006); *TiVo Inc. v. EchoStar Commc'ns Corp.*, 446 F. Supp. 2d 664 (E.D. Tex. 2006); *Floe Int'l. Inc. v. Newmans' Mf. Inc.*, No. 04-5120 (DWF/RLE), 2006 WL 2472112 (D. Minn. Aug. 23, 2006); *3M Innovative Props. Co. v. Avery Dennison Corp.*, No. 01-1781 (JRT/FLN), 2006 WL 2735499 (D. Minn. Sept. 25, 2006); *Black & Decker Inc. v. Robert Bosch Tool Corp.*, No. 04 C 7955, 2006 WL 3446144 (N.D. Ill. Nov. 29, 2006); *Novozymes A/S v. Genencor Int'l. Inc.*, 474 F. Supp. 2d 592 (D. Del. 2007); *800 Adept, Inc. v. Murex Sec., Ltd.*, No. 6:02-cv-1354-Orl-28DAB, 2007 WL 1101238 (M.D. Fla. Apr. 12, 2007).

been remarkably consistent in cases granting injunctions.¹⁰⁷ Predictably, plaintiffs denied injunctions typically were not market competitors but were willing licensors.¹⁰⁸ This recent trend bodes poorly for the patent troll, whose sole business is licensing and, thus, does not directly compete in the marketplace.¹⁰⁹

VII. THE “MARKET COMPETITION REQUIREMENT” NEGATIVELY IMPACTS PATENT TROLLS, BUT THIS (ARGUABLY) IS A GOOD THING

Post-*eBay*, it is clear that the district courts have relied more heavily on Justice Kennedy’s concurrence, which advocates judicial hostility toward NPEs or patent trolls.¹¹⁰ This indicates that courts do not deem patent trolls, or the functions they serve, to be useful,¹¹¹ and has resulted in the systematic denial of injunctive relief to patent trolls.¹¹² Accordingly, the new development has arguably created a categorical rule that conflicts with the *eBay* majority.¹¹³ Further, it begs the question of whether the requirement of market competition justifiably satisfies the discretionary application of traditional principles of equity, or, whether it is simply intended to carry out

¹⁰⁷ Diessel, *supra* note 103, at 321. There does, however, appear to be a slight aberration or exception to this general rule such that non-profit enterprises like universities and research institutes may be able to obtain injunctive relief despite being NPEs. See, e.g., *Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech. Inc.*, 492 F. Supp. 2d 353 (S.D.N.Y. 2007) (granting permanent injunction to non-profit research institute whose business model involved licensing and was not a direct market competitor). This comports with Justice Thomas’ opinion for the majority in *eBay*, 547 U.S. 388 (2006), in which he expressed concern precisely for such entities. See *supra* note 82.

¹⁰⁸ See, e.g., *z4 Technologies v. Microsoft*, 434 F. Supp.2d 437 (E.D. Tex. 2006); *Paice v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614 (W.D. Okla. Sept. 5, 2006); *Finisar Corp. v. DirecTV Group, Inc.*, No. 1:05-CV-264, 2006 WL 2709206 (E.D. Tex. Sept. 1, 2006); *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 WL 37742 (E.D. Mich. Jan. 4, 2007).

¹⁰⁹ See Hand, *supra* note 98, at 483–84.

¹¹⁰ *eBay*, 547 U.S. at 396–97 (Kennedy, J., concurring).

¹¹¹ See Jones, *supra* note 10, at 1069.

¹¹² See Jonathan Muenkel & Eric Lee, *The eBay Effect*, IPL NEWSLETTER (Am. Bar Ass’n), Fall 2006, at 20. Patent trolls have been unable to demonstrate irreparable harm or inadequate relief through damages because they are not direct marketplace competitors. See *id.*

¹¹³ This is based on the argument that direct market competition is a broad classification and has led to the type of categorical rule that Justice Thomas warned could not be squared with traditional equitable principles. See *eBay*, 547 U.S. at 392–93. Benjamin Diessel argues that these broad classifications have caused courts to “selectively apply an impossible standard to non-market-competing plaintiffs causing them to flunk the irreparable injury and inadequacy of damages prongs of the four-part test.” Diessel, *supra* note 103, at 324.

the Supreme Court's underlying goal of denying injunctions to patent trolls.¹¹⁴

This article's stance is that the market competition requirement, and the systematic denial of injunctions to patent trolls, is simply the consequence of applying the four-factor test to patent troll behavior that itself militates against injunctive relief.¹¹⁵ Where a district court encounters plaintiffs of the patent troll-type Justice Kennedy describes in his concurrence,¹¹⁶ injunctive relief would serve only to vindicate the troll's interest in obtaining licensing fees and money damages.¹¹⁷ By applying the market competition requirement, district courts are taking a practical approach in recognizing the need to preserve market shares. However, once market shares are not a concern, which is the case with patent trolls, the need for an injunction is no longer as pressing.¹¹⁸ Therefore, because patent trolls are willing licensors and non-practicing entities that can be made whole by damages, district courts can properly exercise their discretion to deny injunctive relief.¹¹⁹

Furthermore, the direct market competition requirement and its application by district courts leads to desirable results. These include awarding injunctions to plaintiffs that are market competitors and are losing market share to infringers, while keeping trolls at bay by denying injunctions to attempts to use patents only as part of a profit-making holdup scheme.¹²⁰ Under this type of regime, patent trolls can no longer coerce exorbitant settlements¹²¹ from alleged infringers,¹²² as injunctive relief is no longer the

¹¹⁴ See Diessel, *supra* note 103, at 323 n.132 (citing DOUGLAS LAYCOCK, MODERN AMERICAN REMEDIES 45 (3d ed. Supp. 2006) for the proposition that "The only hint of what should have been the real issue in *eBay* comes in the penultimate paragraph of Justice Kennedy's concurring opinion."). Not surprisingly, that paragraph discusses patent trolls.

¹¹⁵ See Muenkel et al., *supra* note 112, at 20; *but cf.* Diessel, *supra* note 103, at 328 ("Courts apply a lenient standard when plaintiffs are market competitors and apply a standard that is impossible to meet when plaintiffs are not market competitors, resulting in an essentially per se denial of injunction to them.").

¹¹⁶ See *eBay*, 547 U.S. at 395–96 (Kennedy, J., concurring).

¹¹⁷ The right of exclusive use is justified on the grounds that it spurs innovation. However, care must be taken to ensure that the rights of the patentee are balanced against the larger public good. Granting injunctive relief to patent trolls that seek only money, and not to preserve the exclusivity of the patent, does not serve the public good. See Fischer, *supra* note 54, at 28; Hand, *supra* note 98, at 484.

¹¹⁸ Hand, *supra* note 98, at 484.

¹¹⁹ Diessel, *supra* note 103, at 330.

¹²⁰ *Id.* at 333. The classic holdup problem occurs where one party threatens another along the lines of, "I will do something that hurts you more than it helps me unless you pay me not to." *Id.*

¹²¹ Where an injunction is the anticipated remedy, patent trolls often seek damages equivalent to the amount of losses the defendant would avoid if such an injunction, which can lead to major production and work stoppage, was granted. See *id.* at 335.

¹²² This outcome is desirable because it prevents socially and economically harmful license-seeking behavior from attempting to undermine the patent system. See Luxardo, *supra* note 14, at

likely outcome in litigation initiated by patent trolls.¹²³ “In this way, the market competition requirement can be seen as a gatekeeper that lets through only those plaintiffs who would not engage in socially costly holdup if they were awarded an injunction.”¹²⁴

VIII. CONCLUSION

[P]atent law has always been a dynamic system that seeks to balance the right of exclusive use that accrues to the patentee with the larger societal goals of encouraging innovation and productive use of science and technology for the public good.¹²⁵

This article has examined the rise of the patent troll as a product of a flawed patent system and the Federal Circuit’s former *per se* rule granting injunctive relief. The proliferation of these NPEs, along with well-publicized cases such as the Blackberry case, however, created a strong backlash and the vilification of patent trolls. Ultimately, this led to *eBay* and the Court’s reexamination of, in particular, the remedy of injunctive relief.

In *eBay*, the Supreme Court avoided treating injunctive relief as an entitlement or a preferred remedy.¹²⁶ Instead, the Court rejected the *per se* rule granting injunctive relief and reestablished the duty of federal district courts to apply the four-factor test and exercise their discretion to determine the appropriateness of injunctive relief on a case-by-case basis.¹²⁷ District courts have successfully begun using the *eBay* decision, in particular Justice Kennedy’s concurrence, to weed out the growing concerns over the emergence of patent trolls, who abuse the weaknesses in the patent system.¹²⁸

Although permanent injunctions are still granted in the majority of patent infringement cases, they are issued to plaintiffs that are direct market

796–98.

¹²³ This, in turn, will relieve alleged infringers who are undeservingly harmed by the threat of exorbitant licensing fees on patents that, if litigated, would be ultimately unenforceable. *See id.* at 801.

¹²⁴ Diessel, *supra* note 103, at 336. Diessel, however, also criticizes the market competition requirement for its over-inclusiveness, which he says supplants the gains by possibly ensnaring would-be competitors such as small-scale inventors, by wrongly classifying them as patent licensors. *See id.* at 337–38. This problem could be resolved if district courts are more prudent in applying the market competition requirement and make sure not to classify wrongly entities that are unlikely to engage in holdup as patent trolls.

¹²⁵ Fischer, *supra* note 54, at 28.

¹²⁶ *See id.* at 29.

¹²⁷ *See eBay*, 547 U.S. at 393–94.

¹²⁸ *See Hand, supra* note 98, at 484.

competitors and typically denied to patent owners acting as patent trolls.¹²⁹ While the term patent troll may be over-inclusive and district courts should attempt to ensure that entities are not mislabeled as patent trolls, the developing judicial approach has been a reaction to the real-life implications that the existence of patent trolls presents. This article contends that this is a positive development in the law, which reflects our dynamic patent law system, and has provided a roadblock to patent trolls by removing the certainty of injunctive relief.¹³⁰

Without question, the aftermath of *eBay* has turned the patent troll's world on its head. The direct market competition requirement now appears to have become an entrenched doctrine at the district court level, and the blade of the patent troll's mighty sword—injunctive relief—is dulled. Patent protection now hinges on the presence of commercial activity and direct market competition. Only time will tell whether the patent troll's reign has in fact come to an end.¹³¹

¹²⁹ See Beckerman-Rodau, *supra* note 102, at 657.

¹³⁰ See Diessel, *supra* note 103, at 339; Hand, *supra* note 98, at 484.

¹³¹ See Hand, *supra* note 98, at 484.