

EBAY V. MERCExchange: LOOKING AT THE CAUSE AND
EFFECT OF A SHIFT IN THE STANDARD FOR ISSUING
PATENT INJUNCTIONS

I.	INTRODUCTION.....	461
II.	<i>EBAY V. MERCExchange</i> : MAJORITY OPINION	466
III.	THE EFFECT OF THE DECISION ON THE VALUE OF PATENTS.	468
IV.	INCREASING PROBLEM OF LICENSING EXTORTION BECAUSE OF NEW TYPES OF PATENTS.	470
V.	PATENT TROLLS AND THEIR EFFECT ON THE SUPREME COURT’S DECISION	472
	A. <i>The Problem of Patent Trolls</i>	473
	B. <i>In Defense of Patent Trolls</i>	475
VI.	CONCURRING OPINIONS SPLIT ON APPLICATION OF TRADITIONAL EQUITY TEST.....	476
	A. <i>The Roberts Concurrence</i>	476
	B. <i>Virtual Reality, Appropriation, and Property Rights in the Kennedy Concurrence</i>	477
VII.	CONFUSION IN THE FALLOUT	479
	A. <i>The Fifth Circuit</i>	479
	B. <i>More Than Just the Fifth Circuit</i>	483
VIII.	CONCLUSION	484

I. INTRODUCTION

On May 27, 2003, a jury returned a verdict finding that eBay, Inc. and Half.com Inc. were liable for \$35 million for willfully infringing United States Patents, Numbers 6,085,176 and 5,845,265, owned by MercExchange.¹ Both patents are “business-

¹ MercExchange, L.L.C. v. eBay, Inc., 275 F. Supp. 2d 695 (E.D. Va. 2003), *aff’d in part and rev’d in part*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006). Patent No. 5,845,265 is for

a system that creates a computerized marketplace for goods using a database on one computer to store digital images, text descriptions, prices and legally binding offers that were previously input into another computer and transmitted across the Internet or a WAN (wide area network). The patent also covers the use of a payment-processing service to allow purchasers to pay for the goods.

Troy Wolverton, *Patent Suit Could Sting eBay*, CNET NEWS.com, Sept. 5, 2002, <http://news.com.com/2100-1017-956638.html>.

Patent No. 6,085,176 “covers a method of using software search agents on Internet-connected computers to comb multiple marketplaces or electronic auctions in search of a

method” patents predominantly related to computer transactions.² The District Court for the Eastern District of Virginia declined to issue an injunction against eBay to stop further infringement.³ On appeal, the Court of Appeals for the Federal Circuit reversed the district court and granted an injunction against eBay.⁴ The controversy was brought before the U.S. Supreme Court to settle the question of what was the proper test to determine whether to grant an injunction in a suit arising under the Patent Act.⁵

Traditionally, courts have had the discretion to choose whether to deny or grant an injunction in any particular case. To guide their choice, the judicial system has developed a four-part balancing test, referred to as “balancing the equities.”⁶ For ninety-eight years, since the 1908 case of *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, patent disputes were an exception to this practice, as the balancing of the equities was not applied to patent disputes.⁷ The Continental Paper Bag Company developed a machine to make a better paper bag, but in doing so, infringed on a patent held by William Lidell.⁸ Lidell had made a business decision not to implement the patented invention. He had weighed the cost of creating new and better paper bag machines against retaining the older, less effective machines and decided it was more cost-effective for him to withhold the invention.⁹ Lidell’s sole purpose in withholding the patent was to make more money, a motive that the Continental Paper Bag Company characterized as a “wrongful purpose.”¹⁰ The *Continental* Court decided that withholding a patent in order to be more cost-effective in producing paper bags did not harm the public enough to overcome Lidell’s right to exclusive use of his patent.¹¹ The Court saw the very essence of Lidell’s ownership of the patent as the right to use or not use his property without questioning his motive.¹² This view of the patent holder’s near-absolute right to exclusion continued to dominate in subsequent patent injunction

particular item.” *Id.*

² *MercExchange*, 275 F. Supp. 2d 695.

³ *Id.*

⁴ *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006).

⁵ *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006); Patent Act, 35 U.S.C. §§ 1-376 (2006).

⁶ Alyson G. Barker, *Patent Permanent Injunctions and the Extortion Problem: The Real Property Analogy’s Preservation of Principles of Equity*, 88 J. PAT. & TRADEMARK OFF. SOC’Y 256, 259 (2006).

⁷ *Cont’l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405 (1908).

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.* at 428.

¹¹ *Id.*

¹² *Id.* at 429.

considerations.¹³

From 1908 to 2006, courts observed a general rule of automatically granting an injunction after a finding of infringement on a patent, except for rare instances when granting an injunction would have been harmful to the public welfare.¹⁴ The great significance of the decision in *eBay, Inc., v. MercExchange, L.L.C.*,¹⁵ was the recognition by the Supreme Court that the long-held presumption in favor of granting an injunction against a patent infringer was no longer valid. Rather, the traditional balancing of the equities test for deciding whether to issue an injunction in other types of cases now also extends to infringement suits arising under the Patent Act.¹⁶

This shift in judicial reasoning has a profound effect on the value of patents. Under the four-part equity test, an infringer has a much better chance of being allowed to continue infringing on a patent, although the infringer will likely be required to pay damages. Since the value of a patent lies in the right to exclude others from using the patent,¹⁷ patent holders have lost the very valuable assurance of being able to exclude infringers from use of the patent. This shift affects licensing–negotiation power, prelitigation bargaining power, and burden of proof considerations at trial.

The *eBay v. MercExchange* decision (“the *eBay* decision”), and its attendant effects on the value of patents, came about in response to dilemmas in the patent system that have been exacerbated in recent years, primarily by the growth and ubiquity of electronic commerce.¹⁸ As part of the electronic commerce boom, an increased number of patents have been awarded for automated business data processing technologies, also termed “business method patents.”¹⁹ The exact parameters of these types

¹³ See, e.g., *Hartford-Empire Co. v. United States*, 323 U.S. 386, 417 (1945); *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923); *United States v. United Shoe Mach. Co.*, 247 U.S. 32, 57 (1918); *Rite-Hite Corp. v. Kelly Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995). A patent “confers ‘the right to exclude others from making, using, offering for sale or selling the invention throughout the United States or importing the invention into the United States’ and its territories. . . .” United States Patent and Trademark Office (“USPTO”), *Nature of Patent and Patent Rights (excerpted from USPTO, General Information Concerning Patents)*, available at <http://www.uspto.gov/web/offices/pac/doc/general/nature.htm> (last visited Apr. 23, 2007).

¹⁴ *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006).

¹⁵ *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006).

¹⁶ *Id.* at 1840.

¹⁷ *Cont’l Paper Bag Co.*, 210 U.S. at 425.

¹⁸ Steven M. Cohen, Case Comment, *Patent Law—Prevailing Patent Owner Presumptively Entitled to Injunctive Relief Against Infringing Use of Patented Invention—MercExchange, L.L.C. v. eBay, Inc.*, 39 SUFFOLK U. L. REV. 879, 883 (2006).

¹⁹ *Id.*

of patents tend to be nebulous and ill-defined, with much overlap between various patents.²⁰ Each patent can end up blocking several others because of the broad scope and incremental nature of developing technology.²¹ This leaves technological innovators particularly vulnerable to the demands of the patent holders of potentially thousands of patents which contribute to a new innovation, as the Continental Paper Bag Company found out in 1908.²²

In *Continental*, when Lidell was granted his injunction against the patent infringer, the grant of the injunction was without regard to whether Lidell chose to utilize or withhold his patent from being implemented to improve the paper bag-making industry.²³ It is this practice that has been under attack in recent decades and was presented for re-evaluation under the *eBay* decision. Under modern debate terminology, Lidell would be accused of being a “Patent Troll”—that is, an entity who creates or collects a patent and withholds the invention in order to garner profits, such as by bargaining for exorbitant licensing fees.²⁴ A more neutral term for those who engage in this practice is a “Non-Practicing Entity” (“NPE”), a broader term encompassing patent holders who do not utilize patents themselves. In an era of poorly defined and overlapping patents, coupled with rapid technological progress, a Patent Troll’s control over technological advances can have much more expensive and stymieing repercussions than in past markets. The influence of Patent Trolls on the modern economy is potent enough to cause the Supreme Court to use the *eBay* decision to hobble a valuable feature of a patent—a virtual certainty of a right to exclude—by replacing it with the uncertainty of judicial discretion.²⁵

The extent of the impact of the Supreme Court’s decision in *eBay* is even more unsettling when the opinions in the decision are examined in depth. The decision was unanimous, yet the majority opinion provides little guidance with which district courts may proceed with confidence, and the concurring opinions reveal splintered reasoning to guide the newly conferred judicial discretion.²⁶

The majority opinion does little more than strike down the

²⁰ FTC, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 6 (2003), <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

²¹ *Id.*

²² *Id.*; *Cont’l Paper Bag Co.*, 210 U.S. at 405.

²³ *Cont’l Paper Bag Co.*, 210 U.S. at 405.

²⁴ FTC, *supra* note 20, at 31 n.220.

²⁵ *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006).

²⁶ *Id.*

reasoning of the two lower court decisions in favor of the traditional four-factor equity considerations for issuance of an injunction. The two concurring opinions take opposite stances on which considerations and factors are to be taken into account and given weight when deciding if an injunction should be granted in a patent dispute. Justice Kennedy's concurring opinion focuses on the character of the litigants, the use of the patent, and the type of patent at issue, all of which place a great burden on a patent holder to show that an injunction is an appropriate remedy in a particular case.²⁷ On the opposite end, Justice Roberts' opinion views the correct emphasis of equity considerations as naturally slanting towards granting injunctions against patent infringers.²⁸ These conflicting views in the concurring opinions reflect the underlying tensions in the case that have evolved because of the changing landscapes of patents since *Continental*.

In the year since the *eBay* decision came down, several patent infringement cases have been decided under the newly imposed standard of equity. These cases have essentially come to a compromise between the views of Justice Kennedy and Justice Roberts, neither foreclosing nor overly embracing the granting of injunctions. Marketplace competition plays a central role in the courts' evaluation, which provides the flexibility needed to deflect strangleholds on technological growth, while still respecting the innate property right within patents. This reasoning represents the beginning of a new, workable standard that can address the concerns which motivated the *eBay* decision.

This Note examines the underlying influences at work behind the opinions in this case. Part II examines the majority opinion in the *eBay* decision. Part III observes the power of the permanent injunction in patent disputes and the effects of *eBay* on the market for use of patents. Part IV discusses the influence of nebulous and over-reaching business method patents in an environment of rapidly evolving technology. Next, Part V observes the growing controversy regarding Patent Trolls and the role that the Patent Troll debate had in the *eBay* decision. A close reading of the concurring opinions in Part VI extrapolates the two proposed versions of how *eBay* should be implemented in future patent disputes. Finally, Part VII examines the fallout of the *eBay* decision on the circuit courts and attempts to draw out the reasoning behind the results.

²⁷ *Id.* at 1842 (Kennedy, J., concurring).

²⁸ *Id.* at 1841 (Roberts, C.J., concurring).

II. *EBAY V. MERCExchange*: MAJORITY OPINION

Justice Thomas authored the majority opinion, which begins with the general rule to be applied in all future litigation concerning injunctions in actions arising under the Patent Act:

According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that 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. The decision to grant or deny permanent injunctive relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion.²⁹

The test set forth in this paragraph changes the standard for permanent injunctions against infringers that arise under the Patent Act from a predisposition to grant injunctions, to a balancing test of equity considerations. The opinion goes on to supply justifications for adopting this standard.

Justice Thomas makes clear that the previous regime, which did not to utilize equity considerations, was not supported by the text of the Patent Act. Section 283 of the Patent Act provides that “courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”³⁰ The Act gives courts the discretion to grant injunctions by using the traditional equity test, which is not the standard that earlier courts had used.

While Justice Thomas finds justification for the shift in standards in the text of the Patent Act, he fails to provide practical guidelines under which lower courts may apply the standard. In addition, the Patent Act states that the equity considerations are to be applied “on such terms as the court deems reasonable,” yet there are no binding principles which show what terms are reasonable to consider in applying the traditional equitable principals to causes of action arising under the Patent Act.³¹

After removing the presumption of granting injunctions upon finding an infringement, the majority opinion addresses a resulting paradox, namely, the problem of patents having the

²⁹ *Id.* at 1839 (majority opinion) (internal citations omitted).

³⁰ Patent Act § 283, 35 U.S.C. §§ 1-376 (2006).

³¹ *Id.*

characteristic of personal property.³² Section 261 of the Patent Act states that “[s]ubject to the provisions of this title, patents shall have the attributes of personal property,” which includes the right to exclude others from making use of the patented matter.³³ The right to exclude makes it appear that injunctions should be granted as a matter of course for violation of this exclusive right. Justice Thomas and the Court, however, disagree, and assert that “the creation of a right is distinct from the provision of remedies for violations of that right.”³⁴ Justice Thomas points out that the Patent Act proclaims that the right to exclusivity on a patent is subject to the other provisions of the Act, which includes the court’s discretion to refuse to issue injunctions.³⁵ As a result, while patents maintain the attributes of personal property, the question of whether a patent holder can maintain exclusivity on a patent can only be known after the matter has been adjudged by a court of law. While this may result in uncertainty as to the rights of the patent holder, this reading of the Patent Act gives the judicial system more flexibility in determining remedies for infringement.

Next, Justice Thomas analogizes the Patent Act to the Copyright Act to bolster the logic that an injunction need not be presumptively granted against an infringer. The Copyright Act uses language similar to that in the Patent Act, in that it states that a court “may grant injunctive relief ‘on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.’”³⁶ Given this language in the Copyright Act, courts have refused to create a general rule of injunction in the face of infringement of a copyrighted work. Justice Thomas asserts that patents may be treated analogously because of the similar phrasing in the statutes. However, this analogy is weak as providing support for increased judicial discretion in granting injunctions against patent infringers. A copyright is only treated as personal property for purposes of transfer of ownership, and nowhere in the Copyright Act are copyrights otherwise referred to as possessing all the attributes of personal property.³⁷ In addition, while an ad hoc

³² *Id.* § 261.

³³ Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

Id. § 154(a)(1).

³⁴ eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1840 (2006).

³⁵ *Id.*

³⁶ *Id.* (quoting 17 U.S.C. § 502(a)).

³⁷ *See* 17 U.S.C. §§ 201(d), 903(b).

system of injunction may suffice for copyright law, there is no justification in the *eBay* decision for assuming that the same system will suffice for patent disputes.

The remainder of the majority opinion is dedicated to disparaging the standards used by the lower courts. The district court is criticized for basing its decision on the “plaintiff’s willingness to license its patents” and “its lack of commercial activity in practicing the patents,” as indicators of whether a patent holder would suffer the requisite irreparable harm needed in order to obtain an injunction under traditional equity considerations.³⁸ The Supreme Court saw these criteria as being over-inclusive in withholding injunctions. Further, such bright-line criteria is in tension with the *Continental* decision, which explicitly rejects the idea that patent holders’ willingness to license should not be the basis of whether an injunction may be granted.³⁹

The majority also disparages the Court of Appeals for adhering to the unique rule for patents that generally grants injunctions once infringement has been established, with rare exceptions to protect the public interest.⁴⁰ The *eBay* decision makes clear that categorical rules that are over or under-inclusive do not comply with a balancing test of traditional equitable factors. Unfortunately for patent holders, such a balancing test also does not provide certainty as to whether an injunction will be granted or withheld, and ultimately undermines the value of the patent.

III. THE EFFECT OF THE DECISION ON THE VALUE OF PATENTS

Justice Thomas’ majority opinion reflects an awareness of the impact that an injunction, or even the threat of an injunction, can have on the value of patents. The opinion specifically points out that the initial suit between the litigants arose from a breakdown in negotiations between the patent holder and the potential licensee.⁴¹ MercExchange was in the business of licensing its patents to several companies, and there was an effort by both parties to come to an agreement. Before the *eBay* decision, MercExchange was in a much better bargaining position as the owner of the patent, since the company thought it could rely on the threat of an injunction to force eBay into complying with more

³⁸ *eBay*, 126 S. Ct. at 1840 (citing *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 712 (E.D. Va. 2003), *aff’d in part and rev’d in part*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006)).

³⁹ *Id.* (citing *Cont’l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405 (1908)).

⁴⁰ *Id.* (citing *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006)).

⁴¹ *Id.*

favorable terms in a licensing agreement. The more bargaining power a patent holder has, the more money that patent holder stands to make in a licensing agreement on the patent. Justice Bryson, who authored the Court of Appeals opinion, viewed the increased bargaining power that an injunction can confer on a patent holder as naturally flowing from the right to exclude on the patent.⁴² As a result of the *eBay* decision, MercExchange and other similarly situated patent holders have lost a valuable bargaining chip, and therefore, part of the value inherent in a patent.

An injunction is a far more powerful remedy than monetary damages. If monetary damages were the sole remedy for infringement, then what would emerge would be a form of judicially induced compulsory licensing scheme.⁴³ A business model could incorporate monetary damages to be paid to a patent holder with whom no agreement on licensing could be reached without fear of having to stop the infringement. A court which only assesses damage remedies would undo any right to exclude others from using a patent. Justice Roberts' concurrence addresses the inadequacy of monetary damages as a lone remedy by stating that injunctions should be granted, "given the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee's wishes."⁴⁴ In line with this reasoning, Congress has repeatedly rejected the compulsory licensing scheme for patents,⁴⁵ and the Patent Act specifically authorizes injunctions as a remedy to protect a patentee's right.⁴⁶

Even though injunctions are an authorized and expected form of remedy, there is a counter concern that injunctions may be too powerful a remedy for some patent disputes, such as when a patent holder's sole motive may be to extort more favorable terms from a potential licensee.⁴⁷ Justice Kennedy's concurrence articulates serious concerns about the excessive bargaining power

⁴² "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 does not intend to compete in the marketplace with potential infringers." *MercExchange*, 401 F.3d at 1339.

⁴³ Mitchell G. Stockwell, *Implementing eBay: New Problems in Guiding Judicial Discretion and Enforcing Patent Rights*, 88 J. PAT. & TRADEMARK OFF. SOC'Y 747, 755 (2006); Howard Susser & Jerry Cohen, *Legal Analysis: Supreme Court Ends Special Treatment for Patent Injunctions*, 50 B.B.J. 9, 9 (2006).

⁴⁴ *eBay*, 126 S. Ct. at 1841.

⁴⁵ Stockwell, *supra* note 43, at 756.

⁴⁶ Patent Act § 283, 35 U.S.C. §§ 1-376 (2006).

⁴⁷ One example of a court's consideration of the extortion problem is illustrated in *Nerney v. New York, N.H. & H.R. Co.*, 83 F.2d 409, 411 (1936) ("[I]t is recognized that the only real advantage to a plaintiff in granting the injunction would be to strengthen its position in negotiating a settlement, an injunction should not issue."). For more discussion of the distortion problem and *Nerney*, see Barker, *supra* note 6.

that an injunction gives to a patent holder, stating that “an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.”⁴⁸ The insistence on using the balancing of equities test is the Supreme Court’s method of acknowledging that the bargaining power of patent holders needs to be limited in some way to provide protection for potential licensees.

The debate between the right to exclude and the desire to protect potential licensees has led to much controversy over how easily a patent holder should be able to obtain an injunction. Technological industries want injunctions to be more difficult to obtain, since their products often make use of hundreds of patented technologies, and the threat of an injunction can be particularly costly given the volume of possible patent holders.⁴⁹ On the other hand, pharmaceutical and biotechnology firms wish to be able to more easily obtain injunctions, since an injunction is a simple way of preserving monopoly power, or of obtaining large fees from infringers, that would allow the companies to recoup initial high research and development costs.⁵⁰ These arguments for and against easily obtainable injunctions go far in explaining the rejection by the Supreme Court of any categorical rule in the *eBay* decision. By undoing the presumption in favor of injunctions on the finding of infringement, the Supreme Court has shifted the balance of power away from a patent holder, thereby giving infringers more room for negotiation and more audacity to infringe.

IV. INCREASING PROBLEM OF LICENSING EXTORTION BECAUSE OF NEW TYPES OF PATENTS

In 1908, at the time of the *Continental* decision, the Supreme Court did not see a need to protect licensees in negotiations with patent holders. Part of the explanation for the increase in the paternalistic impulses of the judicial system is the effect of a newer type of patent that has emerged in recent decades: business method patents. A patentable business method is a method of operating an enterprise, or of processing financial or management data, in a field of economic endeavor.⁵¹ Many business method patents are, in fact, patents on the transfer of a known business

⁴⁸ *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring).

⁴⁹ Barker, *supra* note 6, at 2, 12 n.9.

⁵⁰ *Id.*

⁵¹ ADVISORY COUNCIL ON INTELLECTUAL PROP., REPORT ON A REVIEW OF THE PATENTING OF BUSINESS SYSTEMS 8 (2003), <http://www.acip.gov.au/library/bsreport.pdf>.

method to a software and/or Web-based implementation, so a distinction between innovative business methods and business methods previously known but reinterpreted for an electronic medium is hard to maintain.⁵² A computer-implemented business method will only be patentable if it makes a contribution to the state-of-the-art in a technical field.⁵³

In general, the system for issuing patents does not operate flawlessly. There is a problem with bad patents being issued daily by the under-staffed patent office.⁵⁴ In addition, the advanced nature of modern technology leaves patent lawyers with the complex task of teasing out the patentable innovations from complicated and interdependent systems.⁵⁵ One criticism of the patent system is that some entities “exploit flaws in the patent system by purchasing excessively broad and questionable patents on ubiquitous software and e-commerce technologies.”⁵⁶ Such a critique is exemplary of the blended character of business method patents, Internet patents, and software patents more broadly, at least when making policy recommendations.⁵⁷ The ill-defined and overlapping nature of these patents give a patent holder a broader range of claims for infringement than they would get from a well-defined and self-contained patented innovation.

MercExchange sought injunctions against eBay for eBay’s infringement of two Internet-related business method patents. However, even as the Supreme Court rendered its decision, eBay continued to challenge the validity of these patents before the Patent and Trademark Office (“PTO”).⁵⁸ The suspect nature of the type of patents at issue was taken into consideration in the district court’s opinion. As part of its decision to deny

⁵² Bronwyn H. Hall, *Business Method Patents, Innovation, and Policy 2* (U.C. Berkeley Dep’t of Econ., Working Paper No. E03-331), available at <http://elsa.berkeley.edu/~bhhall/papers/BHH%20on%20BMP%20May03WP.pdf>; see also USPTO, USPTO WHITE PAPERS (2006), <http://www.uspto.gov/web/menu/busmethp/index.html> (providing a history of e-commerce patents).

⁵³ ADVISORY COUNCIL ON INTELLECTUAL PROP., *supra* note 51, at 23.

⁵⁴ 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). For example, there is the crust-free peanut butter and jelly sandwich, U.S. Patent No. 5,567,454 (filed July 13, 1994); a method of exercising a housecat with a laser pointer, U.S. Patent No. 6,701,872 (filed Oct. 30, 2002); and a method for swinging on a swing, U.S. Patent No. 6,368,227 (filed Nov. 17, 2000). *Id.* at 202 nn.120-23.

⁵⁵ Robert A. Armitage, *The Conundrum Confronting Congress: The Patent System Must Be Left Untouched While Being Radically Reformed*, 5 J. MARSHALL REV. INTELL. PROP. L. 267, 275 (2006).

⁵⁶ Terrence P. McMahon, Stephen J. Akerley & Jane H. Bu McDermott, *Who Is a Troll? Not a Simple Answer*, 7 SEDONA CONF. J. 159, 159 (2006) (citing Rita Heimes, *Patent Trolls Prey on SMEs*, THE RECORDER 5 (2001)).

⁵⁷ Hall, *supra* note 52.

⁵⁸ eBay, Inc., v. MercExchange, L.L.C., 126 S. Ct. 1837 n.1 (2006).

MercExchange an injunction against eBay, the district court remarked that the PTO had seen fit to implement a second level of review for business method patents and that Congress had attempted to introduce legislation that would eliminate the presumption of validity for business method patents altogether.⁵⁹ The court of appeals disagreed in that it did not think these indicators of possible invalidity of the subject patents were enough to sway a court's consideration regarding whether to grant an injunction.⁶⁰

While the Supreme Court's majority opinion does not comment on the validity of the business method patents in the *eBay* decision, Justice Kennedy's concurrence does take this consideration into account, in stating that "injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test."⁶¹ For Justice Kennedy, the concerns regarding both the validity and increased economic importance of these enmeshed business method and Internet patents should become part of the test when weighing the balancing of equities. Justice Kennedy's concurrence shows that the new types of patents and their effect on the patent market landscape are at least partly responsible for *eBay*'s shift towards more discretionary, and paternalistic, standards in granting injunctions.

V. PATENT TROLLS AND THEIR EFFECT ON THE SUPREME COURT'S DECISION

The *eBay* decision provides protection for potential licensees from NPE patent holders, who are seen as being particularly guilty of taking advantage of the flaws in the patent system and are invectively termed Patent Trolls for abusing the patent system. In 2001, Peter Detkin coined the term "Patent Troll" while working

⁵⁹ The defendants also argue [that] . . . there is a growing concern over the issuance of business-method patents, which forced the PTO to implement a second-level review policy, *see, e.g.*, Testimony of Q. Todd Dickinson, Tr. 1203:8-1204:22, and caused legislation to be introduced in Congress to eliminate the presumption of validity for such patents, *see, e.g.*, Business Method Improvement Act of 2001, H.R. 1332, 107th Cong., Apr. 3, 2001.

MercExchange, L.L.C. v. eBay, Inc., 275 F. Supp. 2d 695, 713-14 (E.D. Va. 2003), *aff'd in part and rev'd in part*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837.

⁶⁰ "A general concern regarding business-method patents, however, is not the type of important public need that justifies the unusual step of denying injunctive relief." MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1339 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837.

⁶¹ *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring).

as assistant general counsel for Intel Corp.⁶² Detkin defined a Patent Troll as “somebody who tries to make a lot of money off a patent that they [sic] are not practicing and have no intention of practicing and in most cases never practiced.”⁶³ The Federal Trade Commission uses the term NPE instead of Patent Trolls and describes NPEs as “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.”⁶⁴ The common idea is that a Patent Troll does not itself implement the patents it owns, just as Lidell did not use his patent to make a better paper-bag machine. Whether this is an overly harmful practice or a fair exercise of the right to exclude is part of the underlying debate behind the *eBay* decision.

A. *The Problem of Patent Trolls*

The attitude towards Patent Trolls is mostly negative.⁶⁵ As an ideal, patents are designed to reward creativity and innovation,⁶⁶ and a Patent Troll who merely collects money without implementing the patent, has arguably circumvented and polluted this aim.⁶⁷ In *The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy*, James F. McDonough III cites such negative comments as “parasites on successful businesses”⁶⁸ and “patent system bottom feeders,”⁶⁹ and compares Patent Trolls to the “mold that eventually grows on rotten meat.”⁷⁰ Patent Trolls “secretly [wait] for another inventor to develop the same technology,”⁷¹ only to later appear and demand license fees from successful business.⁷² Patent Trolls are said to “place[] a hidden tax on technology that impedes innovation,”⁷³ “clog up the legal system with baseless litigation,”⁷⁴ and “bankrupt the manufactures [sic] of technology” by demanding high licensing

⁶² McMahon, Akerley & McDermott, *supra* note 56, at 4.

⁶³ *Id.*

⁶⁴ FTC, *supra* note 20, at 101.

⁶⁵ McDonough, *supra* note 54, at 196.

⁶⁶ Robert E. Thomas, *Vanquishing Copyright Pirates and Patent Trolls: The Divergent Evolution of Copyright and Patent Law*, 43 AM. BUS. L.J. 689, 690 (2006).

⁶⁷ McMahon, Akerley & McDermott, *supra* note 56.

⁶⁸ McDonough, *supra* note 54, at 196.

⁶⁹ *Id.*

⁷⁰ *Id.*

⁷¹ *Id.*

⁷² *Id.*

⁷³ McMahon, Akerley & McDermott, *supra* note 56 (citing Declan McCullagh, *Ex-Microsoft CTO Claims Patent Problem Is Myth*, CNET NEWS.com, Aug. 23, 2005, http://news.com.com/Ex-Microsoft+CTO+claims+patent+problem+is+myth/2100-1030_3-5842261.html).

⁷⁴ *Id.*

fees.⁷⁵

According to the critics, a Patent Troll demonstrates no genius for invention or generosity to the public benefit, and so it seems logical that the incentives of the patent right, such as injunctions against infringers, should not be available to them. This is the view that Judge Freidman from the district court so heartily embraced. Judge Freidman described MercExchange as a company that “exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them.”⁷⁶ As a result, money damages were deemed by the district court to be a sufficient remedy for infringement, while an injunction against eBay would open a “Pandora’s Box of new problems.”⁷⁷ To Judge Friedman, MercExchange was a Patent Troll who did not deserve injunctive protections.

In the *eBay* decision, the Supreme Court also expressed concern over Patent Trolls impeding technological progress. Justice Thomas approvingly cites *Fox Film Corp. v. Doyal*,⁷⁸ stating “[a] copyright, like a patent, is at once the equivalent given by the public for benefits bestowed by the genius and meditations and skill of individuals, and the incentive to further efforts for the same important objects.”⁷⁹ However, while the Court acknowledges the concern over Patent Trolls, it still chooses not to adopt a bright line rule denying injunctive relief to NPE’s.

Patent Trolls have not only been punished in courts by being denied injunctions, but also in Congress, through proposed revisions to patent law. Section seven of the Committee Print of the Patent Reform Act of 2005 would have changed the patent law by adding the following provision to 35 U.S.C. § 283:

A court shall not grant an injunction under this section unless it finds that the patentee is likely to suffer irreparable harm that cannot be remedied by the payment of money damages. In making such a finding, the court shall not presume the existence of irreparable harm, but shall consider and weigh the evidence that establishes or negates any equitable factor relevant to a determination of the existence of irreparable harm, including the extent to which the patentee makes use of

⁷⁵ *Id.*

⁷⁶ *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 715 (E.D. Va. 2003), *aff’d in part and rev’d in part*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006).

⁷⁷ *Id.* By “new problems,” Judge Freidman meant contentious and ongoing litigation as eBay attempts to design around MercExchange’s patents and MercExchange continues to bring legal action to enjoin such activities and enhanced money damages for post-injunction infringements. *Id.*

⁷⁸ *Fox Film Corp. v. Doyal*, 286 U.S. 123 (1932).

⁷⁹ *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840 (2006) (internal quotation marks omitted).

the invention.⁸⁰

Under this proposed scheme, Congress would have provided some legislative guidelines to steer the judiciary's discretion. Courts would be instructed to consider money damages first, and then to decide if additional remedies, namely an injunction, would be warranted. The determination of whether money damages alone are sufficient would be decided by whether the Patent Troll put the patent into commercial use. The nature of the Patent Troll would be placed front and center as a determining factor, just as Judge Friedman did for the district court's decision. However, this legislative attempt to blockade Trolls from obtaining injunctions was never adopted.

B. *In Defense of Patent Trolls*

There are some commentators who come to the defense of Patent Trolls.⁸¹ To begin with, categorizing which NPEs are Patent Trolls of the type openly condemned by the district court and implicitly recognized in the *eBay* decision can be quite difficult.⁸² Some Patent Trolls are easily identified, such as those who gather patents with the sole hope of tracking down an unwitting infringer in order to extort damages or exorbitant licensing fees.⁸³ Other types of NPEs are more difficult to classify. For example, there are firms who hold patents from inventors who lack the resources to develop and protect a patent on their own, yet these firms do not implement the patents under their own impetus.⁸⁴ These include academic research institutions, whose revenues from licensing fees are poured back into funding research;⁸⁵ companies that develop non-commercially viable patents as part of regular research and development; and companies that both engage in the marketplace and collect patents as part of the business model.⁸⁶ It is unclear to what extent each of these NPEs should be included under the category of Patent Trolls, which hinder technological and industrial growth. There is no easy answer.

Another defense of Trolls is that they behave within the confines of the U.S. patent system. Patent Trolls buy and sell

⁸⁰ H.R. 2795, 109th Cong. (2005).

⁸¹ See McDonough, *supra* note 54; McMahon, Akerley & McDermott, *supra* note 56.

⁸² McMahon, Akerley & McDermott, *supra* note 56.

⁸³ *Id.*

⁸⁴ *Id.*

⁸⁵ Since the implementation of the Bayh-Dole Act, 35 U.S.C. §§ 200-212 (2006), universities have been engaged in the acquisition of patents to an unprecedented degree. In part, the Act gave schools in the United States, small businesses and non-profits, control over the intellectual property of their inventions that resulted from federally funded research. Armitage, *supra* note 55, at 269.

⁸⁶ McMahon, Akerley & McDermott, *supra* note 56.

patents as a commodity created by Congress under the Patent Act.⁸⁷ Patent dealers are said to make the patent market more efficient by maintaining a credible threat of litigation against infringers—which encourages free market exchange by securing value—making patents more liquid, and providing an open market for the equalization of prices.⁸⁸ Arguably, singling out Patent Trolls by limiting their ability to stop an infringer would generally weaken the patent system, a foundation of the U.S. economy.⁸⁹ This alternate view of the beneficial economic role of Patent Trolls balances against the intense concern over the toxic nature of Patent Trolls towards innovation and creativity.

VI. CONCURRING OPINIONS SPLIT ON APPLICATION OF TRADITIONAL EQUITY TEST

The *eBay* decision was motivated greatly by concerns over the abuse of injunction as a remedy in patent disputes, which was exacerbated by the unclear status of business method patents and the rise of Patent Trolls that are abusive to the patent system. While the Thomas majority and the two concurrences all agree that the balancing of equities test, and thereby increased judicial discretion, is the proper way to address these concerns, the majority provides no parameters to guide the judicial discretion. Rather, parameters in determining whether to grant an injunction are the focus in the two concurring opinions, which take conflicting stances on the issue.

A. *The Roberts Concurrence*

The concurrence authored by Justice Roberts is joined by Justices Scalia and Ginsburg. For Justice Roberts, application of the principles of equity as the standard will mean that little will change from the historical slant toward granting injunctive relief. “Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike,”⁹⁰ and “a page of history is worth a volume of logic.”⁹¹ The Roberts concurrence argues that previous cases where injunctions were issued are to be respected as valid precedent, even though the results were reached by using language that looks like a general rule.

⁸⁷ McDonough, *supra* note 54, at 207.

⁸⁸ *Id.* at 211.

⁸⁹ *Id.* at 197.

⁹⁰ *eBay, Inc., v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1841-42 (2006) (Roberts, C.J., concurring) (quoting *Martin v. Franklin Capital Corp.*, 546 U.S. 132 (2005)).

⁹¹ *Id.* at 1842 (quoting *N.Y. Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921)).

Justice Roberts asserts that the inclination of the judicial system towards granting injunctions is a natural result of placing emphasis on the first two factors of the equity test, namely that a plaintiff must demonstrate that it has suffered an irreparable injury and that remedies available at law are inadequate to compensate for that injury.⁹² Further, Justice Roberts sees injunctive relief as a logical remedy since monetary damages for irreparable harm are not sufficient to protect the right to exclude others from use of an innovation protected by patent.⁹³ The focus should remain on both the harm the infringer is causing and whether the harm can be fixed with money; these are the considerations addressed in the first two factors. While there is no entitlement to an injunction under the Roberts line of reasoning, injunctions are expected results of the equities test.⁹⁴

The benefits of Justice Roberts' approach include increased certainty for those dealing with patents and upholding the purpose of a patent as a property right. However, while refusing to examine the business model and the nature of the patent holder seems simple and logical in the abstract, the contentious and harmful nature of some types of Patent Trolls remains unaddressed and unchecked. Also, this approach ignores the reality of the problems currently entangled in business method patents, which are far more complex and uncertain than those involved in cases in the past. The Roberts concurrence embraces precedent, but does not recognize that the current trends of Patent Trolls and changing types of patents may not have a mirror in previous litigation.

B. *Virtual Reality, Appropriation, and Property Rights
in the Kennedy Concurrence*

The concurrence authored by Justice Kennedy is joined by Justices Stevens, Souter, and Breyer. Like the Roberts concurrence, this opinion begins with complete agreement with the Thomas majority that the balancing of equities is the correct test to use.⁹⁵ Justice Kennedy also agrees that history “may” be instructive in applying this test.⁹⁶ However, he quickly and expressly rejects the notion that the four-factor test must naturally

⁹² *Id.*

⁹³ “This ‘long tradition of equity practice’ is not surprising, given the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee’s wishes—a difficulty that often implicates the first two factors of the traditional four-factor test.” *Id.* at 1841.

⁹⁴ “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.” *Id.*

⁹⁵ *Id.* at 1842 (Kennedy, J., concurring).

⁹⁶ *Id.*

lean towards the granting of injunctions based on the right of exclusion and the insufficiency of monetary damages in protecting that right.⁹⁷ Rather, Justice Kennedy notes that

To the extent earlier cases establish a pattern of granting an injunction against patent infringers almost as a matter of course, this pattern simply illustrates the result of the four-factor test in the contexts then prevalent. The lesson of the historical practice, therefore, is most helpful and instructive when the circumstances of a case bear substantial parallels to litigation the courts have confronted before.⁹⁸

The Kennedy concurrence approaches the problem in the opposite manner of the Roberts concurrence, by addressing the problems and case patterns of modern patent concerns as distinct from those of previous decisions. While earlier cases “may” be instructive, they lose their value when distinguished from present day considerations, such as those present in the subject controversy.⁹⁹

In evaluating these new types of cases, the economic function of the patent holder and the type of patent being enforced are to be given weight in the considerations of the equities test.¹⁰⁰ For Justice Kennedy, a Patent Troll is a member of an industry where “firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.”¹⁰¹ This provides a specific definition to help courts decide when the patent holder’s business model may be relevant in applying the equity test. Even though Justice Kennedy’s definition is still quite broad and arguably over-inclusive, it strives to outline guidelines for spotting and stopping harmful Patent Trolls from abusing injunctions.

Justice Kennedy outlines three factors that a court should look for that would help to justify a denial of an injunctive remedy. First, a court should examine whether the firm uses the threat of injunction as a bargaining technique to charge exorbitant fees for licenses.¹⁰² This first factor runs counter to the right to exclude in patents and fails to define an exorbitant fee. Second, a court can take into consideration that the patent being used as leverage comprises only a small part of the product created by the infringer. This factor is designed to help protect the interests of

⁹⁷ *Id.*

⁹⁸ *Id.*

⁹⁹ *Id.*

¹⁰⁰ “In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases.” *Id.*

¹⁰¹ *Id.*

¹⁰² *Id.*

inventors and manufacturers who incorporate patents into a small part of the design but are then held hostage by Patent Trolls, preventing them from contributing to society.¹⁰³ Third, a court may examine the nature of the patent being enforced, recognizing that business method patents have a different economic significance than other types of patents when older precedents were decided. This changed role should affect how injunctions are issued, especially considering the “potential vagueness and suspect validity of some of these patents.”¹⁰⁴ These three guidelines can help lower courts use their discretion and address the realities of modern patent practice, but they also require recognizing the economic and political forces outside the confined sphere of the Patent Act.

VII. CONFUSION IN THE FALLOUT

Ultimately, anyone who wishes for the issuance of patent injunctions to remain unchanged may argue in favor of the Roberts concurrence, while those who do not wish injunctions to be so easily obtained may find refuge in the Kennedy concurrence. In the months that followed *eBay*, several district court decisions have come down that touch upon whether to issue injunctions as a remedy for patent infringements.¹⁰⁵ The district courts seemingly have been split in their reliance on *eBay*. The most illustrative example of this practice can be found in the Fifth Circuit.

A. *The Fifth Circuit*

The first case to decide whether to grant an equitable remedy was *z4 Technologies, Inc., v. Microsoft Corp.*¹⁰⁶ In *z4*, the district court denied an injunction against Microsoft for infringing on a patent held by *z4*. The considerations used in denying the injunction

¹⁰³ In such a case, “[a]n injunction may not serve the public interest.” *Id.*

¹⁰⁴ *Id.*

¹⁰⁵ See *Sundance, Inc. v. Demonte Fabricating Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 158 (E.D. Mich. Jan. 4, 2007); *Transocean Offshore Deepwater Drilling, Inc. v. Globalsantafe Corp.*, Civ. No. H-03-2910, 2006 U.S. Dist. LEXIS 93408 (S.D. Tex. Dec. 27, 2006); *Black & Decker, Inc. v. Robert Bosch Tool Corp.*, No. 04 C 7955, 2006 U.S. Dist. LEXIS 86990 (N.D. Ill. Nov. 29, 2006); *Smith & Nephew, Inc. v. Synthes U.S.A.*, No. 02-2873, 2006 U.S. Dist. LEXIS 91851 (W.D. Tenn. Sept. 28, 2006); *3M Innovative Props. Co. v. Avery Dennison Corp.*, Civ. No. 01-1781, 2006 U.S. Dist. LEXIS 70263 (D. Minn. Sept. 25, 2006); *Litecubes, L.L.C. v. N. Light Prods., Inc.*, No. 4:04CV00485, 2006 U.S. Dist. LEXIS 60575 (E.D. Mo. Aug. 25, 2006); *Paice L.L.C. v. Toyota Motor Corp.*, 2:04-CV-211, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. Aug. 16, 2006); *Telequip Corp. v. Change Exch.*, 5:01-CV-1748, 2006 U.S. Dist. LEXIS 61469 (N.D.N.Y. Aug. 15, 2006); *TiVo Inc. v. EchoStar Commc’ns Corp.*, 446 F. Supp. 2d 664, (E.D. Tex. 2006); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 2006 (E.D. Tex. 2006).

¹⁰⁶ *z4 Techs.*, 434 F. Supp. 2d 437.

followed those factors outlined in the Kennedy concurrence. The court found it particularly relevant that the infringement represented only a small component of Microsoft's product,¹⁰⁷ a point the Kennedy concurrence stressed.¹⁰⁸ In addition, the infringement represented a very small amount of competition in the marketplace. The court reasoned that by not giving an injunction "z4 will not suffer lost profits, the loss of brand name recognition or the loss of market share because of Microsoft's continued sale of the infringing products."¹⁰⁹ z4's patent rights could be adequately compensated with monetary damages since z4 did not personally make use of the patent.¹¹⁰ The court concluded by stating that Microsoft would bear the greater burden if an injunction were to be issued against it, and that shutting down Microsoft's software, when it is so popular in the public usage, would harm the public.¹¹¹ In this first case, the Fifth Circuit appears to have adopted the guiding concerns articulated in the Kennedy concurrence.

A couple months later, *Paice LLC v. Toyota Motor Corp.* was decided.¹¹² While paying lip-service to the Roberts concurrence,¹¹³ the *Paice* decision clearly follows Kennedy's rationale. Toyota was found to be infringing on patents held by Paice in manufacturing Toyota hybrid cars.¹¹⁴ Paice sought an injunction against Toyota, which the district court declined to issue.¹¹⁵ As in *z4*, the court decided that monetary damages would be sufficient to compensate Paice for the infringement. The infringement represented only a small portion of Toyota's overall product.¹¹⁶ In addition, of particular importance was that Paice and Toyota did not compete for the same market shares.¹¹⁷ Paice's market was in licensing their

¹⁰⁷ "However, Microsoft only uses the infringing technology as a small component of its own software, and it is not likely that any consumer of Microsoft's Windows or Office software purchases these products for their product activation functionality." *Id.* at 440.

¹⁰⁸ *eBay*, 126 S. Ct. at 1842.

¹⁰⁹ *z4 Techs.*, 434 F. Supp. 2d at 440.

¹¹⁰ "Accordingly, z4 is not excluded from the use of its intellectual property in a way that cannot be calculated with reasonable certainty in the form of monetary damages, just as the past damages for infringement were calculated at trial." *Id.* at 441.

¹¹¹ *Id.*

¹¹² *Paice L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211, 2006 U.S. Dist. LEXIS 61600 (E.D. Tex. Aug. 16, 2006).

¹¹³ "As noted by Chief Justice Roberts, '[T]here is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate.'" *Id.* at *4 (quoting *eBay*, 126 S. Ct. at 1841 (Roberts, C.J., concurrence)).

¹¹⁴ *Id.*

¹¹⁵ *Id.*

¹¹⁶ "The infringed claims relate to the hybrid transmissions of the accused vehicles, but form only a small aspect of the overall vehicles. The jury's damages award also indicates that the infringed claims constitute a very small part of the value of the overall vehicles." *Id.* at *8.

¹¹⁷ "It is [sic] should also be noted that because Plaintiff does not compete for market share with the accused vehicles, concerns regarding loss of brand name recognition and

patents to others, and the court did not find that this would be affected by Toyota's infringement. Therefore, there was no irreparable harm, and the burden of the injunction would weigh much more heavily on Toyota, since an injunction would require recalling models of cars already for sale.¹¹⁸ Finally, the court noted that Paice attempted to license its patent to Toyota after infringement had been found, and this represented proof that Paice's goal was monetary compensation, not exclusivity on the patent per se.¹¹⁹ Monetary damages could assure that "the Plaintiff's patent rights are vindicated."¹²⁰

While *z4* and *Paice* point toward a regime in which injunctions are more difficult to obtain, the Fifth Circuit then changed direction. The very next day after the *Paice* decision, the Fifth Circuit issued its decision in *Tivo Inc. v. Echostar Communications Corp.*, in which the court granted an injunction against an infringer.¹²¹ *TiVo* cites to both the Roberts and Kennedy concurrences in its reasoning as to whether to issue an injunction; however, the reasoning most closely mirrors the Roberts concurrence. The court finds irreparable harm because there is harm to the plaintiff's market share being caused by direct competition with the infringing defendant.¹²² The strongest echo of Roberts' reasoning is the court's statement that harm cannot be overcome by monetary damages because of the competition in the marketplace, implying that the value of the patent is in the ability to exclude. The public interest is served by enforcing the plaintiff's patent right.¹²³ Nowhere does the opinion address the factors that were elucidated in the Kennedy concurrence, as they had been in the previous two cases.

Visto Corp. v. Seven Networks, Inc.,¹²⁴ decided four months later, also embraces the Roberts line of reasoning. The *Visto* case granted an injunction to the patent holder when the infringer was

market share similarly are not implicated." *Id.* at *14.

¹¹⁸ *Id.*

¹¹⁹ "It is also of note that Plaintiff, throughout post-trial motions, has extended Defendants an offer to license its technology." *Id.* at *15. "This offer further demonstrates the adequacy of monetary relief from Plaintiff's point of view." *Id.* at *16.

¹²⁰ *Id.*

¹²¹ *TiVo Inc. v. EchoStar Commc'ns Corp.*, 446 F. Supp. 2d 664 (E.D. Tex. 2006).

¹²² "Loss of market share in this nascent market is a key consideration in finding that Plaintiff suffers irreparable harm—Plaintiff is losing market share at a critical time in the market's development, market share that it will not have the same opportunity to capture once the market matures." *Id.* at 669-70.

¹²³ "The public has an interest in maintaining a strong patent system. This interest is served by enforcing an adequate remedy for patent infringement—in this case, a permanent injunction." *Id.* at 670.

¹²⁴ *Visto Corp. v. Seven Networks, Inc.*, No. 2:03-CV-333, 2006 U.S. Dist. LEXIS 91453 (E.D. Tex. Dec. 19, 2006).

in direct competition with the patent holder.¹²⁵ The injunction was granted primarily because of the inadequacy of legal damages in protecting the exclusivity of the patent because the litigants were in direct market competition. Again, this is a Roberts oriented opinion.

Eight days later, in *Transocean Offshore Deepwater Drilling, Inc., v. GlobalSantaFe Corp.*, the court again granted an injunction against an infringer who was in direct competition with the patent holder.¹²⁶ “Since a patent grants the right to exclude others from practicing the invention, 35 U.S.C. § 154, the right to exclude remains a relevant issue for courts to consider when weighing the equities for and against an application for permanent injunction.”¹²⁷ This is Roberts’ reasoning at work. The court states:

Nor is the court persuaded that the mere fact that Transocean is willing to consider licensing its invention to GSF and others on “fair grounds” is sufficient to defeat Transocean’s request for a permanent injunction [T]he court is persuaded that if it does not enter a permanent injunction, it will force a compulsory license on Transocean that will not contain any of the commercial business terms typically used by a patent holder to control its technology or limit encroachment on its market share.¹²⁸

This reasoning shows that when the patent holder and the infringer are in direct market competition, it helps to preclude the concerns articulated by Kennedy about excessive bargaining power and harmful Patent Trolls. Showing that the patent holder is in the business of licensing out the patent is subsumed by the need to protect the patent holder’s marketplace activities. When a court forces a patent holder to license out to a marketplace competitor, this is a way of imposing a compulsory license. The court is not concerned with the amount of bargaining power the injunction represents, since the market will be served by the participating patent holder even if no licensing agreement can be reached. By way of example, Transocean is free to dictate terms of licensing in order to preserve its own market share, which preserves the incentives that patents are supposed to represent. Therefore, not only is the integrity of the patent system upheld, but there is also less concern over NPE Patent Trolls strangling the market. Since this case falls under the established pattern of

¹²⁵ *Id.*

¹²⁶ *Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*, Civ. No. H-03-2910, 2006 U.S. Dist. LEXIS 93408 (S.D. Tex. Dec. 27, 2006).

¹²⁷ *Id.* at *11.

¹²⁸ *Id.* at *18-19.

patent cases where business method patents were not at issue, and none of Justice Kennedy's concerns are relevant, the district court employs the reasoning echoing Roberts. The granting of the injunction falls in line with the long tradition of providing equitable remedies for patent protection, as both Roberts and Kennedy approved.

B. *More Than Just the Fifth Circuit*

Beyond the Fifth Circuit, the deciding factor across the board has become whether the infringer has used the infringement to directly compete in the marketplace with the patent holder. The Second, Sixth, Seventh, and Eighth Circuits all have decided cases where the infringer was in direct competition with the patent holder. To protect a patent holder's market share, injunctions are granted under the patent holder's right to exclusivity on the patent.¹²⁹ For example, the Sixth Circuit in *Sundance Inc. v. Demonte Fabricating Ltd.*, denied issuing an injunction because the infringer represented a very small amount of competition to the patent holder.¹³⁰ In fact, since the infringed portion of the defendant's product was only one feature of the plaintiff's product, any loss of sales for the patent holder could not be definitively attributed to the defendant, since it could have been the rest of the product that was inferior for the marketplace.¹³¹ The court saw the plaintiff as the kind of Patent Troll described in the Kennedy concurrence. "Their conduct against DeMonte and others (Aero) indicates an interest only in obtaining money damages against accused infringers."¹³² An injunction would only serve to put the defendant out of business for failing to pay the fees the plaintiff had demanded before bringing suit.¹³³

Money damages were deemed more than adequate for this type of case, where there was almost no direct market competition

¹²⁹ See *Black & Decker, Inc. v. Robert Bosch Tool Corp.*, No. 04 C 7955, 2006 U.S. Dist. LEXIS 86990 (N.D. Ill. Nov. 29, 2006); *Smith & Nephew, Inc. v. Synthes U.S.A.*, No. 02-2873, 2006 U.S. Dist. LEXIS 91851 (W.D. Tenn. Sept. 28, 2006); *3M Innovative Prods. Co. v. Avery Dennison Corp.*, Civ. No. 01-1781, 2006 U.S. Dist. LEXIS 70263 (D. Minn. Sept. 25, 2006); *Litecubes, L.L.C. v. N. Light Prods., Inc.*, No. 4:04CV004852006, U.S. Dist. LEXIS 60575 (E.D. Mo. Aug. 25, 2006); *Telequip Corp. v. Change Exch.*, No. 5:01-CV-1748, 2006 U.S. Dist. LEXIS 61469 (N.D.N.Y. Aug. 15, 2006).

¹³⁰ *Sundance, Inc. v. Demonte Fabricating Ltd.*, No. 02-73543, 2007 U.S. Dist. LEXIS 158 (E.D. Mich. Jan. 4, 2007).

¹³¹ [T]he segmented cover is but one feature of its Quick Draw system. Thus, it cannot be said that Sundance's licensees are losing sales to DeMonte expressly because of its infringement of the segmented cover. It is possible that lost sales are due to a desire for other features of the Quick Draw system or are sales lost to other competitors in the marketplace. Sundance simply cannot tie alleged lost sales to the nature of DeMonte's infringement. *Id.* at *8.

¹³² *Id.* at *9.

¹³³ *Id.*

and it was clear that the plaintiff's only motivation was money, not the preservation of the exclusivity on the patent.¹³⁴ Just as in the Fifth Circuit, other district courts are taking a practical approach in recognizing the need to preserve market shares, but once market shares are not a concern (as with a Patent Troll) the need for an injunction is no longer as pressing.

VIII. CONCLUSION

The circuit courts have successfully begun to use the *eBay* decision as a tool to help weed out the growing concerns over the emergence of Patent Trolls who abuse the weaknesses in the patent system, such as ill-defined business method patents. While the definition of the Patent Troll remains over-inclusive and perhaps unjustifiably negative, the judiciary has taken it upon itself to consider the real-life implications of their existence. These courts have provided a roadblock to Patent Trolls by diminishing the bargaining power they have in licensing negotiations by removing the certainty of injunctive relief.

The *eBay* decision armed the courts with the flexibility to completely fulfill the implications in the congressional mandate to grant injunctions under total equitable solutions. The circuit courts will apply common sense considerations to each case to determine if the litigants fall into the well-established patterns of previous cases or if they represent a new type of concern that tips the scale away from an issuance of an injunction. The *eBay* decision has put forth new factors and considerations to be weighed into the balancing of equities. For those who find themselves with a patent dispute, the greatest protection a patent holder or infringer can have against an unfavorable finding comes down to the commercial activities of the litigants. Direct market competition will protect the patent holder, and an infringer who participates in commercial activities gains some leverage against an extortionist Patent Troll.

*Rebecca A. Hand**

¹³⁴ "Indeed, Sundance licenses the '109 patent to others, and offered to license it to DeMonte prior to filing suit against it, thus demonstrating that money damages are adequate." *Id.*

* J.D. Candidate, 2008, Benjamin N. Cardozo School of Law; B.A., 2005, *cum laude*, Rutgers University. Many thanks to Professor Alan Wolf and Janet Mann for their insightful comments. ©2007 Rebecca A. Hand.