Has eBay Spelled the End of Patent Troll Abuses?
Paying the Toll: The Rise (And Fall?) of the Patent Troll

Gregory d’Incelli

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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. Why Have Patent Trolls Succeeded and Why Are
      They Bad? ........................................... 345
   B. Not Everyone is Scared of The Big Bad Patent Trolls .... 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. The District Court .................................... 354
    B. The CAFC ........................................... 355
    C. The Supreme Court’s Decision—Justice Thomas’
       Opinion .............................................. 356
    D. Chief Justice Roberts’ Concurrence ................. 357
    E. Justice Kennedy’s Concurrence ..................... 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

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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

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. 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. 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. 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 worldwide had more than three million subscribers in a frenzy that ultimately forced a settlement.

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. But what are patent trolls and why have they succeeded? According to

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5 See id. at 1288–89.
6 See id. at 1291–92.
7 See id. at 1292. The injunction was stayed pending appeal. Id.
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, Burse.com also won a $60 million settlement from Microsoft Corp. See Peter Barrowes, 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. MereExchange
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


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

13 See Myers, supra note 8, at 335.


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., Reifin 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. 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. Therefore, companies are compelled to pay the fees to avoid potential injunctions. Ultimately, this has given trolls significant leverage in settlement negotiations, which has led to criticism of the U.S. Patent System.

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.
First, trolls are “non-practicing entities” (“NPE”) that do not practice their patents within the industry and are, by nature, focused exclusively on enforcement. 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-
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. 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. As a result, individual investors and small companies rarely sought to enforce their patent rights. 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.

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. 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." 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. INTELLECTUAL PRO. 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.


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.” 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.

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. 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. 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.

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.” Patents are property rights and are entitled to the same protection as other property. 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. 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. Actually enforcing the exclusivity conferred by the patent grant (rather than entering into licensing agreements) would simply deprive the NPE of any revenue. Id. See Myers, supra note 8, at 337. See id. at 335. See Gregory, supra note 14, at 296. U.S. CONST. art. I, § 8, cl. 8. "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. The Act attempts to "strike a balance between the promotion of technological innovation and the dissemination of its fruits." 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. 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."

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. The Patent Act provides that a court must award the patent owner damages sufficient to compensate for an infringement. 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. 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." 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.

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4² Cammeyer v. Newton, 94 U.S. 225, 226 (1876) (citation omitted).
4⁵ 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)).
4⁷ 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.").
4⁸ 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.
4⁹ See Myers, supra note 8, at 340.
5¹ 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.\(^5\) Traditionally, a plaintiff seeking permanent injunctive relief must demonstrate:

1. \(T\)hat it has suffered an irreparable injury;
2. \(T\)hat remedies available at law, such as monetary damages, are inadequate to compensate for that injury;
3. \(T\)hat, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and
4. \(T\)hat the public interest would not be disserved by a permanent injunction.\(^5\)

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.”\(^5\) Irreparable harm to the patent owner is presumed and injunctive relief is essentially automatic to a prevailing patentee.\(^5\) The permanent injunction has been an extremely powerful, and oft-criticized,

\(^5\) 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/0/28c7a66a2-4b10-1dc-861a-0000779f2a.html (last visited Feb. 21, 2009).
\(^5\) 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.”).
END OF PATENT TROLL ABUSES?

2009

[Image 0x0 to 614x799]

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[Image 0x0 to 614x799]

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. Furthermore, many argue that the near-automatic rule granting injunction simply does not reflect the current realities of the patent system. Thus far, however, patent trolls have taken shelter under the Court’s holding in Continental Paper. 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.

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. 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 Sipeuie Court’s Decision in eBay Weakens a Patent Remedy, But Trade Law Still Offers Help, LEGAL TIMES, May 22, 2006, available at iipo.org/AM/Template.cfm?Section=Home&Template=/CM/ContentDisplay.cfm&ContentFileID=55201. The realities of patent thicket 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), 2006WL 235011. 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.

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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 iipo.org/AM/Template.cfm?Section=Home&Template=/CM/ContentDisplay.cfm&ContentFileID=55201. The realities of patent thicket 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), 2006WL 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.

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 & Commc’n. Indus. As’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 patent 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. 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. The two parties attempted to reach a licensing agreement, but the negotiations failed. MercExchange then filed a patent infringement suit against eBay and another company, Half.com.

A. The District Court

At trial, a jury found that eBay willfully infringed upon two of MercExchange’s patents. Accordingly, the jury awarded MercExchange $29.5 million in damages. The court recognized the CAFC’s general rule in favor of granting injunctive relief absent sufficient reason for denying it. 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) Whether 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

See id. at *3.

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.”).

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. 89

Ultimately, after considering all four factors, the district court denied MercExchange's motion for a permanent injunction. 89

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

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89 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 715. 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.

70 See id. at 715.
72 Id. at 1339 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).
73 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. 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.

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. 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.” 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. 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.”

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. Justice Thomas criticized the district court’s adoption of “expansive principles suggesting that injunctive relief could not issue in a broad swath of cases.” In particular, he disagreed with the district court’s conclusion that “plaintiff’s

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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.
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. 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.*

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. 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.” 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.”

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. 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. When faced with patent infringement cases,
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.”

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.” 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.” 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.

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. 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. Therefore, the factual circumstances of a particular

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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).
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.\textsuperscript{94} What is not clear, however, is whether \textit{eBay} militates in favor of granting more or fewer permanent injunctions.\textsuperscript{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.\textsuperscript{96} From a general standpoint, the \textit{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.\textsuperscript{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.\textsuperscript{98}

This article endorses Justice Kennedy's approach to injunctive relief and the approach post-\textit{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,\textsuperscript{99} and, second, they do not suffer actual, irreparable harm sufficient to merit an injunction upon a finding of patent infringement.\textsuperscript{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.\textsuperscript{101}

\textsuperscript{94} See \textit{Leading Cases}, supra note 92, at 338. Prior to \textit{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.
\textsuperscript{95} See \textit{id.} at 337.
\textsuperscript{96} See \textit{Fischer}, supra note 54, at 20.
\textsuperscript{97} See generally \textit{id.}
\textsuperscript{99} See Lucardo, 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 turn gives the inventor exclusive rights in that invention for a limited time." \textit{id.}
\textsuperscript{100} See \textit{Myers}, supra note 8, at 337.
\textsuperscript{101} Justice Kennedy described patent licensing companies that do not produce or sell goods and utilize potentially vague and suspect business method patents. See \textit{eBay}, 547 U.S. at 397 (Kennedy, J., concurring).

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.

“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.

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

**VII. The “Market Competition Requirement” Negatively Impacts Patent Trolls, but this (Arguably) is a Good Thing**

Post-\textit{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.\textsuperscript{110} This indicates that courts do not deem patent trolls, or the functions they serve, to be useful,\textsuperscript{111} and has resulted in the systematic denial of injunctive relief to patent trolls.\textsuperscript{112} Accordingly, the new development has arguably created a categorical rule that conflicts with the \textit{eBay} majority.\textsuperscript{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

\textsuperscript{107} Diessel, \textit{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. \textit{See, e.g.}, Commonwealth Scientific & Indus. Research Org. \textit{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 \textit{eBay}, 547 U.S. 388 (2006), in which he expressed concern precisely for such entities. \textit{See supra} note 82.


\textsuperscript{109} \textit{See Hand}, \textit{supra} note 98, at 483–84.

\textsuperscript{110} \textit{eBay}, 547 U.S. at 396–97 (Kennedy, J., concurring).

\textsuperscript{111} \textit{See Jones}, \textit{supra} note 10, at 1069.

\textsuperscript{112} \textit{See Jonathan Muenchel & Eric Lec}, \textit{The eBay Effect}, IPI 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. \textit{See id.}

\textsuperscript{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. \textit{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, \textit{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, injunctive relief would serve only to vindicate the troll's interest in obtaining licensing fees and money damages.116 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.117 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.118

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.121 Under this type of regime, patent trolls can no longer coerce exorbitant settlements122 from alleged infringers, as injunctive relief is no longer the

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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; Hardt, 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. "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."

VIII. CONCLUSION

Patent 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.

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. 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. 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.

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

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123 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.\textsuperscript{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.\textsuperscript{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—i.e., 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.\textsuperscript{131}

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\item \textsuperscript{129} See Beckerman-Rodau, supra note 102, at 657.
\item \textsuperscript{130} See Diessel, supra note 103, at 339; Hand, supra note 98, at 484.
\item \textsuperscript{131} See Hand, supra note 98, at 484.
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