

# FAILED ATTEMPTS TO DWARF THE PATENT TROLLS: PERMANENT INJUNCTIONS IN PATENT INFRINGEMENT CASES UNDER THE PROPOSED PATENT REFORM ACT OF 2005 AND *EBAY V. MERCEXCHANGE*

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## INTRODUCTION

Rather than resembling the tall-haired toy that was popular with American children during periods of the 1960s, 70s, and 80s,<sup>1</sup> patent trolls are quite distinct from everything cute or cuddly. Far from embraceable toys, patent trolls are individuals or corporations that hoard patents for the sole purpose of collecting licensing fees and damage awards from patent infringement suits, rather than their intended purpose—protection of an exclusive, profitable technology.<sup>2</sup>

Patent trolls typically purchase patents from defunct companies in bankruptcy proceedings or through venues that allow them to accumulate potentially valuable intellectual property without subjecting the patents

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<sup>1</sup> See Jennifer Sharipa, *Troll Dolls Raise Hair; Become Fad Again*, THE DAILY COLLEGIAN ONLINE, Oct. 20, 1992 <http://www.collegian.psu.edu/archive/1992/10/10-20-92tdc/10-20-92dnews-7.asp>

<sup>2</sup> See ADAM B. JAFFE & JOSH LERNER, INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT 15 (2004).

to industry scrutiny and valuation processes.<sup>3</sup> Generally, patent trolls do not intend to manufacture products based on their patents.<sup>4</sup> Instead, trolls target other companies that use technology or patents in the same area as the troll's patent.<sup>5</sup> The trolls send letters to these companies, threatening to sue for infringement of their patent unless the other company pays a substantial licensing fee.<sup>6</sup> Conveniently, the licensing fee is calculated to be less than the cost of a legal defense.<sup>7</sup> Patent trolls gamble that those rare companies that refuse to pay licensing fees will lose against them in court,<sup>8</sup> thereby granting patent trolls large damage awards when their patents are held both valid and infringed.

The practice of patent trolling grew substantially after independent inventor Jerome Lemelson successfully enforced his patents against various companies in the 1970s and 1980s—most famously his patent on the barcode reader<sup>9</sup>—and was awarded over \$1.5 billion in licensing fees.<sup>10</sup> However, the term “patent troll” was coined years later when Peter Detkin, Intel's then-Assistant General Counsel, pejoratively used the term after the semiconductor giant was attacked by a litigious-minded, IP-holding company.<sup>11</sup> In this Note, “patent troll” is not used with derogatory intent, but merely to describe entities that engage in certain litigious behavior patterns.

It is well accepted that there exists tension in intellectual property law between rewarding innovation and preventing non-inventors from engaging in their own profitable activities.<sup>12</sup> The U.S. Constitution recognizes that patents protect and encourage American developments in science and technology.<sup>13</sup> Nowhere did the Framers indicate that they

<sup>3</sup> David V. Radack, *Patent Trolls: Pay Up or Fight?*, 8 NO. 16 LAWYERS J. 3, 3 (Aug. 4, 2006).

<sup>4</sup> See Robert P. Merges, *Brief of Amicus Curiae Yahoo! Inc. in Support of Petitioner*, 21 BERKELEY TECH. L.J. 999, 1002 (2006).

<sup>5</sup> See *id.*

<sup>6</sup> See JAFFE & LERNER, *supra* note 2, at 15.

<sup>7</sup> See Merges, *supra* note 4, at 1008–09.

<sup>8</sup> See *id.* at 1009.

<sup>9</sup> See generally *Symbol Technologies, Inc. v. Lemelson Medical*, 277 F.3d 1361 (Fed. Cir. 2002).

<sup>10</sup> See Teresa Riordan, *The Lemelson Foundation, Named for a Prolific Inventor, Aims to Reward Inventions that Help Poor Countries Develop*, N.Y. TIMES, Apr. 26, 2004, at C4. Among other charitable activities, the Lemelson Foundation supports the Lemelson-MIT prize to reward outstanding American inventors. Lemelson-MIT Awards for Invention and Innovation, <http://web.mit.edu/invent/a-faq.html> (last visited Feb. 18, 2008). Mr. Lemelson also founded the Lemelson Center for the Study of Innovation and Invention at the Smithsonian Institution. See also Alexandra Bandon, *The Lives They Lived; Make It New*, N.Y. TIMES, Jan. 4, 1998, at 640.

<sup>11</sup> See Raymond P. Niro & Paul K. Vickrey, *The Patent Troll Myth*, 7 Sedona Conf. J. 153, 153 (2006).

<sup>12</sup> JAFFE & LERNER, *supra* note 2, at 3.

<sup>13</sup> U.S. CONST. art. 3, §1.

intended to extend greater protection to technology-generating entities that manufacture patented goods themselves than to those entities that simply hold patents to enforce them.<sup>14</sup> Consequently, many scholars argue that the behavior of patent trolls is perfectly within the realm contemplated by Congress throughout the development of U.S. intellectual property law.<sup>15</sup> However, others claim that the “primary purpose [of a patent troll] is to tax rather than to engage in innovation.”<sup>16</sup> All three branches of the U.S. government perceived patent law as a protection for inventors, aimed at enabling them to recoup research and development costs,<sup>17</sup> not as a means for investors to exploit the non-productive enforcement of speculative patent purchases.<sup>18</sup>

If a patentee in a patent infringement lawsuit is victorious, the court grants the patentee a permanent injunction.<sup>19</sup> Permanent injunctions were granted to patentees as a matter of course prior to the Supreme Court’s recent decision in *eBay, Inc. v. MercExchange, L.L.C.*<sup>20</sup> The *eBay, Inc.* decision restructured the equitable considerations which judges balance in deciding whether to grant injunctions in patent infringement suits.<sup>21</sup> Injunctions prevent the enjoined party from producing any products that require the use of the technology covered by the infringed patent.<sup>22</sup> Consumers are deprived of these goods for the duration of the trial where there is a preliminary injunction, and indefinitely if a permanent injunction is granted.

Prior to *eBay, Inc.*, the “automatic injunction rule” meant that patent trolls were placed in enhanced bargaining positions in settlement negotiations.<sup>23</sup> Under the “automatic injunction rule,” any prevailing patentee plaintiff in an infringement suit would be granted a permanent injunction.<sup>24</sup> This system allowed plaintiffs to extract large settlements whenever defendants preferred to settle potentially meritorious claims rather than risk the prospect of both preliminary and permanent injunctions, which would result in a loss of the defendant’s currently profitable enterprise.<sup>25</sup> Additionally, patent owners relish the ensuing presumption of

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<sup>14</sup> See Katherine E. White, *Preserving the Patent Process to Incentivize Innovation in Global Economy*, 2006 Syracuse Sci. & Tech. L. Rep. 1 (2006).

<sup>15</sup> See Ian Austen and Lisa Guernsey, *Huge Blackberry Settlement Is Grist for Holding Company*, N.Y. TIMES, May 2, 2005, at C1.

<sup>16</sup> See Merges, *supra* note 4, at 1001.

<sup>17</sup> See JAFFE & LERNER, *supra* note 2, at 23.

<sup>18</sup> See Amy L. Landers, *Let the Games Begin: Incentives to Innovation in the New Economy of Intellectual Property Law*, 46 Santa Clara L. Rev. 307, 312 (2006).

<sup>19</sup> See Merges, *supra* note 4, at 1001.

<sup>20</sup> See *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1840 (2006).

<sup>21</sup> See *id.*

<sup>22</sup> See Merges, *supra* note 4, at 1002.

<sup>23</sup> See *id.* at 1001.

<sup>24</sup> See *id.*

<sup>25</sup> See *id.* at 1002.

irreparable harm following the grant of a preliminary injunction because it leads to enhanced damages at the close of a full infringement trial.<sup>26</sup>

Congress has examined a variety of potential options for reducing the negative influence of patent trolls in American industry.<sup>27</sup> Representative Lamar Smith introduced the Patent Reform Act of 2005 (PRA) as “the most comprehensive change to U.S. patent law since Congress passed the 1952 Patent Act.”<sup>28</sup> Overall, the bill was designed to eliminate legal gamesmanship that rewarded system abusers over legitimate, creative participants.<sup>29</sup> In the PRA provisions directed towards reforming injunctions, the PRA’s drafters contemplated modifying the process to stymie the success of patent trolls.<sup>30</sup> Unfortunately, the PRA never became law, so courts have not implemented its guidelines for granting injunctions in infringement cases.<sup>31</sup>

Both *eBay, Inc.* and the PRA propose ways to restrict the grant of preliminary injunctions in patent cases.<sup>32</sup> The *eBay, Inc.* decision mandates that judges apply the four-factor test utilized in other civil cases to requests for permanent injunctions in patent lawsuits.<sup>33</sup> Suggesting a different approach, the PRA recommended courts consider the fairness of an injunction and would have required that a court “shall stay the injunction pending an appeal upon an affirmative showing that the stay would not result in irreparable harm to the owner of the patent and that the balance of hardships from the stay does not favor the owner of the patent.”<sup>34</sup>

Although praiseworthy, the new standard for issuing injunctions established by *eBay, Inc.* is not as effective of a limit on the activities of

<sup>26</sup> See *id.*

<sup>27</sup> See Doug Harvey, *Comment: Reinventing the U.S. Patent System: A Discussion of Patent Reform Through an Analysis of the Proposed Patent Reform Act of 2005*, 38 *TEX. TECH. L. REV.* 1133, 1137 (2006).

<sup>28</sup> *Id.* at 1136.

<sup>29</sup> See Jeremiah Chan & Matthew Fawcett, *Footsteps of the Patent Troll*, 10 *INTELL. PROP. L. BULL.* 1, 7 (2005).

<sup>30</sup> See *id.*

<sup>31</sup> The PRA of 2005 and the PRA of 2006 were never passed by Congress. See Patent Reform Act of 2006, S. 3818, 109th Cong. §7 (as submitted to the Senate Comm. on the Judiciary on August 3, 2006); Patent Reform Act of 2005, H.R. 2795, 109th Cong. §7 (as submitted to the H.R. Comm. on the Judiciary on June 8, 2005).

<sup>32</sup> See *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1840 (2006); Patent Reform Act of 2005, H.R. 2795, 109th Cong. § 7 (2005).

<sup>33</sup> See *eBay, Inc.*, 126 S.Ct. at 1839 (“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.”).

<sup>34</sup> See Patent Reform Act of 2005, H.R. 2795, 109th Cong. § 7 (2005).

patent trolls as the proposed PRA. It is unclear whether the four-factor test required by *eBay, Inc.* adequately instructs courts on how to weigh the equities of granting a patent injunction and therefore, it is likely not capable of the same deterrent effects on patent trolls envisioned by the legislative drafters of the PRA. Notably, in his concurrence in *eBay, Inc.*, Chief Justice Roberts suggests that “a page of history is worth a volume of logic”—meaning that the automatic grant of injunctions may proceed despite the new test, as part of the inherent nature of patent law.<sup>35</sup> This Note will examine the four-factor equitable test for granting injunctions established by the Supreme Court in *eBay, Inc.* and will compare it to the standard suggested by the PRA. Part I of this Note provides a history of patent trolls and the role of injunctive relief in patent litigation. Part II examines the PRA’s proposed solution to the problems posed by patent trolls. Part III examines the solution adopted by the Supreme Court in *eBay, Inc.* Part IV compares these solutions and tries to predict their relative efficacy.

## I. BACKGROUND

### A. HISTORY OF INJUNCTIVE RELIEF IN PATENT LAW

A permanent injunction is the ultimate equitable remedy and is generally available in civil suits only when the plaintiff satisfies a four-factor test.<sup>36</sup> The four equitable factors that are traditionally considered are: (1) whether a plaintiff has suffered an irreparable injury; (2) whether there are no remedies available at law that are adequate to compensate for the injury; (3) whether, considering the balance of the hardships between the plaintiff and defendant, an equitable remedy is warranted; and (4) whether the public interest would be served by issuing a permanent injunction.<sup>37</sup> The district court judge reviews these factors and grants or denies the injunction at his or her discretion, with appellate courts reviewing district court decisions only for abuse of discretion.<sup>38</sup>

Since Congress gave exclusive patent appeal jurisdiction to the Federal Circuit Court of Appeals in 1982,<sup>39</sup> the standards for obtaining an injunction in patent cases have been in constant flux. Initially, injunctions in patent cases were granted according to the same four-factor test applied in other areas of the law.<sup>40</sup> However, the Federal Circuit modi-

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<sup>35</sup> See *eBay, Inc.*, 126 S.Ct. at 1841 (Roberts, C.J., concurring).

<sup>36</sup> See *id.* at 1839.

<sup>37</sup> See, e.g., *Amoco Production Co. v. Gambell*, 480 U.S. 531, 542 (1987); *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311–13 (1982).

<sup>38</sup> See *Weinberger*, 456 U.S. at 320.

<sup>39</sup> See JAFFE & LERNER, *supra* note 2, at 104; Federal Courts Improvement Act of 1982, 28 U.S.C. § 1295 (2007).

<sup>40</sup> See *eBay, Inc.*, 126 S.Ct. at 1840.

fied the traditional inquiry to include an automatic presumption of irreparable harm to the patentee in cases with a finding of patent infringement.<sup>41</sup> Once irreparable harm was added to the analysis of the four equitable factors, the “automatic injunction rule” was born. The “automatic injunction rule” meant that a successful plaintiff was granted an injunction in patent infringement cases as a matter of course.<sup>42</sup> Thus, over the last three decades, patent owners have sued for infringement with the assurance that, if they are victorious, they will obtain an injunction to shut down their infringing competition.

There are few exceptions to the general rule that successful plaintiffs in patent infringement cases will automatically be granted an injunction against opposing parties. There is a limited public interest exception made in cases where requiring the infringing party to obey an injunction would detrimentally affect the public.<sup>43</sup> In *City of Milwaukee v. Activated Sludge, Inc.*, the Seventh Circuit held that the defendant’s sewage treatment process infringed the plaintiff’s patent, but nevertheless declined to impose a permanent injunction.<sup>44</sup> The Seventh Circuit reasoned that a permanent injunction would have resulted in the closing of the only sewage plant in Milwaukee, and consequently, raw sewage would be dumped directly into Lake Michigan.<sup>45</sup> This would have created a health and environmental hazard with the potential to harm over 500,000 people.<sup>46</sup> The Seventh Circuit determined that this posed an unacceptable risk of danger to the public and awarded the plaintiff a monetary remedy, rather than the injunction that, absent these unusual circumstances, it would have received.<sup>47</sup>

Thus, the Federal Circuit’s grant of a permanent injunction in *MercExchange, L.L.C. v. eBay, Inc.*, the decision that was later reversed by the Supreme Court, was in line with precedent.<sup>48</sup> Rather than considering the four equitable factors, the Federal Circuit merely observed that since there was no public interest at stake militating against granting a permanent injunction, it would adhere to the automatic injunction rule.<sup>49</sup> Furthermore, the Federal Circuit emphasized that MercExchange’s general willingness to license its patent to eBay should not prevent it from receiving a permanent injunction because:

<sup>41</sup> See JAFFE & LERNER, *supra* note 2, at 112.

<sup>42</sup> See *id.*

<sup>43</sup> See *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995); *Roche Prod. Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 865–66 (Fed. Cir. 1984).

<sup>44</sup> See *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934).

<sup>45</sup> See *id.*

<sup>46</sup> See *id.*

<sup>47</sup> See *id.*

<sup>48</sup> See *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005).

<sup>49</sup> See *id.* at 1339.

Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well. If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers.<sup>50</sup>

## B. THE HISTORY OF “PATENT TROLLS”

The mere use of the term patent troll suggests animosity towards non-manufacturing patent holders which is not wholly justified. For the purpose of this Note, it may be best to view non-manufacturing patent owners as falling into two general categories: “patent pioneers” and “patent trolls.” A “patent pioneer” is a company that licenses its patents to others at a reasonable royalty rate with a primary interest in recouping its research and development costs.<sup>51</sup> For example, most research universities, think tanks, and independent inventors fall within this category. Patent pioneers also include patent enforcement firms that represent small inventors who desire assistance in the licensing process because they lack the experience and contacts to market their inventions to interested manufacturers.<sup>52</sup> Generally, patent pioneers license patents to help inventors who lack the production resources to deliver their ideas to the public.<sup>53</sup>

Conversely, as the cornerstone of their business model, patent trolls exploit their patent licensees.<sup>54</sup> Acacia Research Corporation, a commonly cited and prolific patent troll, is regarded as a model to many others.<sup>55</sup> It holds 32 patent portfolios, comprising 120 U.S. patents, and is responsible for filing half of all cases involving patent trolls.<sup>56</sup> Acacia’s business plan is paradigmatic of a patent troll—it purchases patented technology as cheaply as possible from bankrupt companies and then licenses it out within the pertinent industries.<sup>57</sup> After acquiring a patent, the corporation then sends a letter to a competitor in the patent’s

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<sup>50</sup> *Id.*

<sup>51</sup> See Terrence P. McMahon, Stephen J. Akerley & Jane H. Bu, *Who Is a Troll? Not a Simple Answer*, 7 SEDONA CONF. J. 159, 162 (2006).

<sup>52</sup> *See id.*

<sup>53</sup> *See id.*

<sup>54</sup> *See id.* at 160–61.

<sup>55</sup> *See id.* at 161–62.

<sup>56</sup> *See id.* at 161.

<sup>57</sup> *See id.* at 161–62.

technology area and offers a license at a pre-established price.<sup>58</sup> If licensing negotiations do not ensue, litigation frequently follows and often results in a settlement rather than a full test of the patent's claims.<sup>59</sup> However, once a patent troll successfully litigates an infringement suit on the merits, it can demand a much higher royalty price from future licensees because the validity of the patent has been judicially determined, making the threat of an injunction real.<sup>60</sup>

The questionable business practices of patent trolls extend beyond simple exploitation of general patents for excessive licensing fees. Patent trolls are experts at taking advantage of continuation patents. A continuation patent is a subsequent patent that utilizes the same priority date and pertains to the same basic material as the initial patent, but adds new, different claims to the original patent specification.<sup>61</sup> The result of effective continuation practice can be a patent on very recent technology that is judged by the Patent and Trademark Office (PTO) according to standards laid out in prior art from an earlier time.<sup>62</sup> However, continuation patents may be pending at the PTO for a long period of time, and when they do take effect upon allowance, they may be used to upset the rest of the industry.<sup>63</sup> Patent trolls sometimes use these unanticipated continuation patents, called submarine patents, to threaten major industry players who invest large sums of money in products that eventually become covered by the submarine patent.<sup>64</sup>

Most patent trolling behavior thrives on the inequities of enforcing patent rights without contributing anything to either the invention or production of new technologies.<sup>65</sup> Patent trolls drive down the fair market value of intellectual property when they buy patents of specious value sight-unseen.<sup>66</sup> Their licensing practices drive up the price of new consumer technology because manufacturing corporations forced to take licenses on a troll's patents often pass the costs of royalty payments and patent litigation along to consumers.<sup>67</sup>

Finally, patent trolls have no incentive to resolve patent disputes through cross-licensing arrangements. The cross-licensing of patents is a common solution for patent-owning manufacturers who face risk from

<sup>58</sup> See *id.*

<sup>59</sup> See Katherine E. White, *Preserving the Patent Process to Incentivize Innovation in Global Economy*, SYRACUSE SCI. & TECH. L. REP., Spring 2006, at 11–12, <http://www.law.syr.edu/students/publications/sstlr/framesets/archive/archived/spring06/white.pdf>.

<sup>60</sup> See *id.* at 19–20.

<sup>61</sup> See MANUAL OF PATENT EXAMINATION PROCEDURE § 201.07 (8th ed. 2006).

<sup>62</sup> See *id.*

<sup>63</sup> See Merges, *supra* note 4, at 1004–06.

<sup>64</sup> See *id.* at 1006, 1009.

<sup>65</sup> See *id.* at 1009.

<sup>66</sup> See *id.*

<sup>67</sup> See *id.* at 1007–09.

competitors in the same technology market.<sup>68</sup> Instead of proceeding through infringement litigation, these companies settle for a reasonable royalty rate to allow each unimpeded use of the other's technology in what is known as a process of mutually assured destruction.<sup>69</sup> For a patent troll who does not manufacture any products and thus never needs to obtain a license, there is no incentive to reach an amicable cross-licensing solution in a patent infringement dispute.<sup>70</sup>

As mentioned earlier, patent trolling became increasingly prevalent following the successful enforcement litigation of Jerome Lemelson and his early patents on bar code reading devices.<sup>71</sup> Trolls are eager to enter the courtroom, where multimillion dollar verdicts for willful infringement are the norm. And, without any production or industrial components to support, patent trolls may write off the cost of pursuing an infringement action against a large judgment in the company's books.<sup>72</sup> The average cost of pursuing a patent action is between \$2 and \$4.5 million.<sup>73</sup> The stakes are high and the risks are great, but monetary rewards are readily available for a patent troll.<sup>74</sup>

With regard to permanent injunctions, however, most patent trolls could not care less whether one is granted.<sup>75</sup> Their goal is purely financial, not equitable.<sup>76</sup> Consequently, the automatic grant of injunctions in infringement cases harms defendants without providing any desired benefit to the plaintiff patent troll.

## II. THE PATENT ACT OF 2005

The U.S. Code provision on injunctive remedies, 35 U.S.C. § 283, governs violations of patent rights and has remained unchanged since July 19, 1952.<sup>77</sup> Under this provision, injunctions are to be granted "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."<sup>78</sup> However, as case law has developed under the Federal Circuit Court of

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<sup>68</sup> See Vernon M. Winters, *If It's Broke, Fix It: Two Suggestions and One Note About Patent Reform*, FED. LAW., Sept. 2006, at 6.

<sup>69</sup> See *id.*

<sup>70</sup> See *id.*

<sup>71</sup> See generally *Symbol Technologies, Inc. v. Lemelson Medical*, 277 F.3d 1361 (Fed. Cir. 2002).

<sup>72</sup> See Ian Austen & Lisa Guernsey, *A Payday for Patents 'R' Us; Huge Blackberry Settlement is Grist for Holding Company*, N.Y. TIMES, May 2, 2005, at C1.

<sup>73</sup> See JAFFE & LERNER, *supra* note 2, at 68 (statistics pertaining to large patent suits with over \$25 million at stake); Merges, *supra* note 4, at 1008.

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

<sup>75</sup> See generally *Symbol Technologies, Inc.*, 277 F.3d at 1361.

<sup>76</sup> See *id.*

<sup>77</sup> See 35 U.S.C. § 283 (2006).

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

Appeals, the actual application of 35 U.S.C. § 283 culminated into the automatic injunction rule favoring patentees.<sup>79</sup>

Section 7 of the Patent Reform Act of 2005, as initially referred to by the House of Representatives Committee on the Judiciary, sought to modify 35 U.S.C. § 283 to undo the Federal Circuit's automatic injunction rule.<sup>80</sup> By placing the burden to seek an injunction on the patentee, these modifications were designed to hamper the abusive litigation practices of patent trolls and to ensure that advances in technology were swiftly made available to the public.<sup>81</sup> This proposed provision met with such controversy that Section 7 was ultimately dropped from the PRA when it was submitted to the House Committee on the Judiciary in a revised format in September 2005.<sup>82</sup>

Even though at its introduction, the Patent Reform Act of 2005 was heralded as “the most comprehensive change to U.S. patent law since Congress passed the 1952 Act,”<sup>83</sup> the provision's efforts to restrict patent trolls' legal gamesmanship were impeded during hearings by the House of Representatives Committee on the Judiciary.<sup>84</sup> Criticism characterizing the approach of Section 7 successfully removed such efforts from congressional consideration by emphasizing its potential to disrupt the carefully balanced distribution of power in U.S. intellectual property laws or to improperly sweep non-troll, non-manufacturing patent holders into their purview.<sup>85</sup>

Section 7 envisioned an injunction as a reward for inventive behavior.<sup>86</sup> It was comprised of two sentences to be appended to the end of 35 U.S.C. § 283.<sup>87</sup> The first sentence of Section 7 eliminated the automatic grant of an injunction under 35 U.S.C. § 283, as instituted by the Federal Circuit Court of Appeals, without curtailing a prevailing patentee's entitlement to injunctive relief altogether.<sup>88</sup> It required that an injunction be

<sup>79</sup> See JAFFE & LERNER, *supra* note 2, at 112.

<sup>80</sup> See Patent Reform Act of 2005, H.R. 2795, 109th Cong. §7 (as submitted to the H. Comm. on the Judiciary on June 8, 2005).

<sup>81</sup> See Harvey, *supra* note 27, at 1158–59.

<sup>82</sup> See Patent Reform Act of 2005, H.R. 2795, 109th Cong. (as revised before the H. Comm. on the Judiciary Sept. 15, 2005).

<sup>83</sup> Doug Harvey, *Reinventing the U.S. Patent System: A Discussion of Patent Reform Through an Analysis of the Proposed Patent Reform Act of 2005*, 38 TEX. TECH. L. REV. 1133, 1136 (2006) (quoting Congressman Lamar Smith).

<sup>84</sup> See Patent Reform Act of 2005, *supra* note 79.

<sup>85</sup> See generally *Hearing on the Patent Act of 2005 Before the Subcomm. on Courts, the Internet and Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. (2005) (statement of Hon. Howard L. Berman) [hereinafter *Hearings*]; Patent Reform Act of 2005, *supra* note 79.

<sup>86</sup> See *Hearings*, *supra* note 87, at 48.

<sup>87</sup> See Patent Reform Act of 2005, H.R. 2795, 109th Cong. §7 (as submitted to the H. Comm. on the Judiciary on June 8, 2005).

<sup>88</sup> See *Hearings*, *supra* note 87, at 48.

granted only when the court “consider[s] the fairness of the remedy in light of all the facts and the relevant interests of the parties associated with the invention.”<sup>89</sup> Under this broad language, if a court feels that a patent holder lacks a genuine interest in the invention for any reason, it can use this evidence to weigh against the grant of an injunction.<sup>90</sup> Thus, injunctions might be denied in situations where a patent is wielded offensively to collect licensing fees or where an important piece of technology would be restricted from public access because the patentee is a non-manufacturing entity.<sup>91</sup> Under the automatic injunction rule, these considerations were irrelevant except in those rare cases where granting an injunction would generate a public safety problem.<sup>92</sup>

Critics of Section 7 of the PRA objected to the expanded equitable factors mandated by the first sentence of Section 7 because they have the potential to undercut the basic source of strength of a patent holder’s intellectual property rights.<sup>93</sup> A patentee has a right to an exclusive monopoly on his or her patented invention for the duration of the patent term.<sup>94</sup> Patents are granted as a reward for invention rather than as a reward for manufacturing.<sup>95</sup> These critics anticipated that implementation of Section 7 would cause injunctions to be denied in many cases where the patent owner was more a patent pioneer than a patent troll.<sup>96</sup> If patent pioneers such as independent inventors and universities are, in effect, penalized for their lack of manufacturing capabilities, then patents held by patent pioneers may be devalued relative to identical patents held by manufacturing entities.<sup>97</sup>

The second sentence of Section 7 protected parties in patent infringement cases from the biases of district judges that may affect the balance of equities that controls the grant of an injunction.<sup>98</sup> The proposed provision would have stayed any injunction granted by the district court while the enjoined party appeals whenever that party makes “an affirmative showing that the stay would not result in irreparable harm to the owner of the patent and that the balance of hardships from the stay

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<sup>89</sup> See Patent Reform Act of 2005, H.R. 2795, 109th Cong. §7 (as submitted to the H. Comm. on the Judiciary on June 8, 2005).

<sup>90</sup> See *Hearings*, *supra* note 87, at 48.

<sup>91</sup> See *id.*

<sup>92</sup> See *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934).

<sup>93</sup> See *Hearings*, *supra* note 82, at 5 (statement of Gary L. Griswold).

<sup>94</sup> See 35 U.S.C. § 271 (2006).

<sup>95</sup> See Philip S. Johnson, *Patent Reform Legislation: An Introductory Note*, SM024 A.L.L.–A.B.A. COURSE OF STUDY 47, 88 (Sept. 28–29, 2006).

<sup>96</sup> See *Hearings*, *supra* note 82, at 14 (statement of Gary L. Griswold).

<sup>97</sup> See *id.*

<sup>98</sup> See *Hearings*, *supra* note 82, at 55 (statement of Hon. Darrell Issa).

does not favor the owners of the patent.”<sup>99</sup> This effectively eliminated the presumption of irreparable harm formerly granted to all prevailing patent infringement plaintiffs as part of the Federal Circuit’s automatic grant of injunctions.<sup>100</sup> Thus, under Section 7, courts would have had to consider whether the patentee was actually employing its patented technology to make technological advancements available to the public.<sup>101</sup> This consideration was designed to “tip[ ] the scales against issuing an injunction where the plaintiff is not a competitive entity with a business, as opposed to [having a] purely financial interest in its lawsuit.”<sup>102</sup> Overall, Section 7’s proposed modification of the standard for granting injunctions in patent cases was a comprehensive attempt to prevent non-manufacturing patent-holding entities, such as patent trolls, from blocking the public’s access to important technological innovations.<sup>103</sup>

Critics of Section 7 of the PRA rightly object that the proper balance of intellectual property rights should err in favor of granting an injunction to the patentee once infringement has been determined.<sup>104</sup> It is in the interest of the judicial system to aggressively protect what remains of the plaintiff’s weakened patent-based monopoly in the technology.<sup>105</sup> Courts should not protect the business interests of the defendant, a party which has allegedly violated a patent, merely because there is no showing that an injunction will not cause irreparable harm.<sup>106</sup> In many cases, making this affirmative showing may be impossible due to the patent holder’s status as a non-manufacturing research entity or because of an unavoidable delay in bringing the patented product to market.<sup>107</sup> This irreparable harm standard is too high for legitimate patent pioneers to satisfy.

However, the part of Section 7 allowing enjoined parties to stay injunctions pending the result of an appeal would have benefited the accuracy of patent infringement judgments on the whole by giving the Federal Circuit an opportunity to ensure that the trial court was correct prior to hindering the economic behavior of either party.<sup>108</sup> District court verdicts in patent infringement lawsuits are frequently overturned on ap-

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<sup>99</sup> See Patent Reform Act of 2005, H.R. 2795, 109th Cong. §7 (as submitted to the H. Comm. on the Judiciary on June 8, 2005).

<sup>100</sup> McMahon, Akerley & Bu, *supra* note 50, at 167.

<sup>101</sup> See *id.*

<sup>102</sup> Chan & Fawcett, *supra* note 29, at 9.

<sup>103</sup> See *Hearings*, *supra* note 82, at 36–37 (statement of Daniel B. Ravicher).

<sup>104</sup> See *id.* at 18 (statement of Carl E. Gulbrandsen).

<sup>105</sup> See *id.*

<sup>106</sup> See *id.*

<sup>107</sup> See *id.*

<sup>108</sup> See McMahon, Akerley & Bu, *supra* note 50, at 167.

peal.<sup>109</sup> Many improperly granted injunctions are reversed on appeal and often the harm to an innocent defendant's business is irreparable. Section 7's provision, staying an injunction pending appeal, would have reduced these error costs.

Mandating, rather than encouraging like Section 7, a stay of injunction pending Federal Circuit Court of Appeals, could also improve the accuracy of district court infringement verdicts. This would improve accuracy because Federal Circuit judges are deemed experts in patent law by virtue of their outstanding experience in the field.<sup>110</sup> To further improve accuracy of verdicts, separate methods should be employed to better inform district court judges and juries on the technical facets of patent cases to reduce error costs.<sup>111</sup> Adoption of a federal venue provision that funnels all patent infringement cases to certain expert district courts would create expert patent judges at the trial court level.<sup>112</sup> Currently, none of these suggestions has been incorporated in any congressional legislation.<sup>113</sup>

### III. THE U.S. SUPREME COURT'S HOLDING IN *EBAY, INC. V. MERCEXCHANGE, L.L.C.*

MercExchange owns several U.S. Patents covering electronic business practices similar to the online auction environment and "Get it Now" features of eBay and Half.com, eBay's subsidiary and co-plaintiff.<sup>114</sup> In *eBay, Inc. v. MercExchange, L.L.C.*, MercExchange employed patent troll tactics by suing to enforce intellectual property rights that it was not actively using.<sup>115</sup> The patents were construed by a district court, and the jury found that certain claims in MercExchange's patent were both valid and infringed.<sup>116</sup> However, the district court proceeded to deny MercExchange's motion for a permanent injunction.<sup>117</sup> In accordance with the automatic injunction rule, the Federal Circuit Court of Appeals reversed the district court's denial of injunctive relief and enjoined eBay and Half.com per MercExchange's request.<sup>118</sup> Since "the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunc-

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<sup>109</sup> See James Bessen and Michael J. Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 Lewis & Clark L. Rev. 1, 19 (2005).

<sup>110</sup> See *Hearings*, *supra* note 82, at 55 (statement of Hon. Darrell Issa).

<sup>111</sup> *Id.*

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

<sup>113</sup> See Patent Reform Act of 2005, *supra* note 79.

<sup>114</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1839 (2006).

<sup>115</sup> *Id.*

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

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

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

tion,”<sup>119</sup> the defendants were perfectly positioned to bring the Federal Circuit’s automatic injunction rule up on appeal before the Supreme Court.

The Supreme Court used *eBay, Inc. v. MercExchange, L.L.C.* to unanimously strike down the automatic injunction rule in patent infringement cases.<sup>120</sup> Emphasizing that deviation from the traditional consideration of equitable factors “should not be lightly implied,”<sup>121</sup> the Supreme Court highlighted the language of the Patent Act of 1952, which explicitly states that injunctions “may” issue “in accordance with the principles of equity.”<sup>122</sup> The Court held that the four traditional equitable factors by which a court measures the principles of equity must be explicitly weighed by a court determining whether to grant injunctive relief to a prevailing patent infringement plaintiff.<sup>123</sup>

To meet the requirements for a permanent injunction, a plaintiff must show:

- (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.<sup>124</sup>

The Court’s holding in *eBay, Inc. v. MercExchange, L.L.C.* does not specify how exactly the equitable factors should be applied. Other areas of law have established that no one factor is to be considered dispositive in any case but rather, each factor must be independently measured and weighed against the others.<sup>125</sup> This new view directly contradicts the Federal Circuit’s automatic injunction rule that presumes irreparable harm where infringement and patent validity are clearly proven.<sup>126</sup>

Presently, there is very little case law illustrating the application of the *eBay, Inc.* equitable factors. However, the first few district courts deciding patent cases following that decision granted injunctions to patent owners in the majority of cases, at a rate of approximately two-to-one.<sup>127</sup>

<sup>119</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005).

<sup>120</sup> *eBay, Inc.*, 126 S.Ct. at 1841.

<sup>121</sup> *Id.* at 1839 (quoting *Weinberger v. Romeo-Barcelo*, 456 U.S. 305, 320 (1982)).

<sup>122</sup> 35 U.S.C. § 283 (2006).

<sup>123</sup> *eBay, Inc.*, 126 S.Ct. at 1841.

<sup>124</sup> *Id.* at 1839.

<sup>125</sup> *Amazon.com v. Barnesandnoble.com, Inc.*, 239 F.3d 1343 (citing *Hybritech, Inc. v. Abbott Labs*, 849 F.2d 1446).

<sup>126</sup> *Reebok Int’l v. J. Baker, Inc.*, 32 F.3d 1552, 1554 (Fed. Cir. 1994).

<sup>127</sup> See generally *Paice, L.L.C. v. Toyota Motor Corp.*, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006); *Z4 Technologies, Inc. v. Microsoft Corp.*, 434 F.Supp.2d 437 (E.D. Tex.

Irreparable harm, the first equitable factor identified by the *eBay* Court, is “often suffered when the injury can[not] be adequately atoned for in money . . . or when the district court cannot remedy [the injury] following a final determination on the merits.”<sup>128</sup> In combination with the second factor, adequacy of monetary damages as a remedy, irreparable harm contemplates problems that would befall the plaintiff if an injunction were not issued. Harm to industry reputation, market share in a competitive market, and other intangible business assets are frequently considered under these factors.<sup>129</sup> For example, a permanent injunction was denied and monetary damages were deemed an adequate remedy in *Paice, L.L.C. v. Toyota Motor Corp.*<sup>130</sup> The plaintiff in *Paice* was unable to show how other potential licensees would be less likely to license the plaintiff’s patent if monetary damages were awarded instead of an injunction.<sup>131</sup>

Conversely, the plaintiff was able to show irreparable harm in *Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*<sup>132</sup> In that case, the defendant countered infringement charges by introducing testimony from its customers that the defendant’s use of the plaintiff’s patented technology did not influence customers’ decisions to do business with the defendant.<sup>133</sup> Even after this testimony, however, the court held that the direct competition between plaintiff and defendant created a likelihood of irreparable harm that favored enjoining the defendant.<sup>134</sup>

The third factor entails a consideration of the balance of hardships to be endured by each party if an injunction either is or is not granted.<sup>135</sup> From the defendant’s perspective, only those hardships that are separable

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2006); *Voda v. Cordis Corp.*, 2006 WL 2570614 (W.D. Okla. 2006); *Tivo Inc. v. EchoStar Communications Corp.*, 446 F.Supp.2d 664 (E.D. Tex. 2006); *Tillery v. Leonard & Sciolla L.L.P.*, 437 F.Supp.2d 312 (E.D. Pa. 2006); *Smith & Nephew, Inc. v. Synthes (USA)*, 2006 WL 3543274 (W.D. Tenn. Sept. 28, 2006); *Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*, 2006 WL 3813778 (S.D. Tex. 2006); *Black & Decker, Inc. v. Robert Bosch Tool Corp.*, 2006 WL 3446144 (N.D. Ill. 2006); *Sundance, Inc. v. DeMonte Fabricating Ltd.*, 2007 WL 37742, (E.D. Mich. 2007); *Telequip Corp. v. The Change Exchange*, 2006 WL 2385425 (N.D.N.Y. 2006); *Visto Corp. v. Seven Networks, Inc.*, 2006 WL 3741891 (E.D. Tex. 2006); *Canadian Lumber Trade Alliance v. United States*, 441 F.Supp.2d 1259 (CIT 2006); *3M Innovative Properties Co. v. Avery Dennison Corp.*, 2006 WL 2735499 (D. Minn. 2006); *Wald v. Mudhopper Oilfield Services, Inc.*, 2006 WL 2128851 (W.D. Okla. 2006); *Rosco, Inc. v. Mirror Lite Co.*, 2006 WL 2844400 (E.D.N.Y. 2006).

<sup>128</sup> *Smith & Nephew, Inc.*, 2006 WL 3543272 (quoting from *Wald*, U.S. Dist. LEXIS 51669).

<sup>129</sup> *Id.*

<sup>130</sup> *Paice, L.L.C.*, 2006 WL 2385139 at \*5.

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

<sup>132</sup> See *Transocean Offshore Deepwater Drilling*, 2006 WL 3813778.

<sup>133</sup> See *id.* at \*6.

<sup>134</sup> See *id.*

<sup>135</sup> See *eBay, Inc. v. MercExchange*, 126 S.Ct. 1837, 1839 (2006).

from the proper enforcement of the plaintiff's rights are to be considered.<sup>136</sup> Thus, efforts by a defendant to design around the plaintiff's patent or to cease infringing operations are not properly considered hardships to the defendant.<sup>137</sup> However, the effects of an injunction on related research being conducted by a defendant, a defendant's sales representatives, or a defendant's dealers who have already sold the infringing product for some time are relevant.<sup>138</sup> When the court examines the plaintiff's hardships if the injunction is denied, the plaintiff's continuing ability to market, sell, or license its patented invention are among the pertinent considerations.<sup>139</sup>

Consideration of the final equitable factor, public interest, is meant to ensure that the public is given access to new and useful technological advances. Generally, the public interest also favors protecting the rights of the patent owner. However, if the patent owner does not engage in commercial activities, as is the case for many patent trolls, then consumers would be denied access to new inventions if an injunction were granted in the particular case.<sup>140</sup>

The Supreme Court did not resolve *eBay, Inc. v. MercExchange, L.L.C.* without considering patent trolling behavior.<sup>141</sup> Justice Thomas's majority opinion stated that district court determinations that a plaintiff (1) is willing to license its patents to the defendant and (2) did not actively practice its patented inventions in commerce are insufficient to show that the patent owner will suffer no irreparable harm if permanent injunctive relief is denied.<sup>142</sup> The analysis required by traditional equitable principles involves a detailed inquiry into the specific facts of each situation.<sup>143</sup> The majority highlighted that caution must be exercised to prevent unfair bias against certain non-manufacturing patent owners, such as universities and independent inventors.<sup>144</sup>

The holding in *eBay, Inc. v. MercExchange, L.L.C.* calls into question another decision often heralded by the opponents of patent trolls in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*<sup>145</sup> Although the

<sup>136</sup> See *Smith & Nephew, Inc. v. Synthes (USA)*, 466 F.Supp. 978, 894–95 (W.D. Tenn. 2006).

<sup>137</sup> See *id.* at 894.

<sup>138</sup> See *Paice, L.L.C. v. Toyota Motor Corp.*, 2006 WL 2385139, at 5 (E.D. Tex. Aug. 16, 2006).

<sup>139</sup> See *Z4 Technologies, Inc. v. Microsoft Corp.*, 434 F.Supp.2d 437, 442–43 (E.D. Tex. 2006).

<sup>140</sup> See *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 424 (1908).

<sup>141</sup> See *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1840 (2006).

<sup>142</sup> See *id.*

<sup>143</sup> See *id.*

<sup>144</sup> See *id.*

<sup>145</sup> See *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 422–30 (1908).

case was decided before the implementation of the Patent Act of 1952's statute on injunctive relief, *Continental Paper Bag* considered the reasonableness of a patentee's use or nonuse of the manufacturing rights granted to it by a patent.<sup>146</sup> *Continental Paper Bag* ultimately declined to qualify the exclusive right granted to patentees and refused to require that a patentee's nonuse of its patent be reasonable to qualify the patentee for equitable relief, such as an injunction.<sup>147</sup> The Patent Act of 1952 and the Federal Circuit's automatic injunction rule ultimately became the governing standards cited to by courts considering injunctions in patent infringement cases.<sup>148</sup> Now, after *eBay, Inc. v. MercExchange, L.L.C.*, the considerations underlying *Continental Paper Bag* appear to be irrelevant to a proper equitable inquiry pursuant to a motion for a permanent injunction.

#### IV. THE LITIGATION LANDSCAPE FOR PATENT TROLLS AFTER *EBAY* AND IN THE ABSENCE OF THE PATENT REFORM ACT OF 2005

At the very least, a patentee's behavior will be subject to additional scrutiny prior to the grant of injunctive relief under the four-factor test established in *eBay, Inc. v. MercExchange, Inc.*<sup>149</sup> Still, the *eBay* opinion offers little guidance on how the four equitable factors should be applied to patent cases and how special difficulties attendant to patent cases should be incorporated into the traditional analysis of equitable factors.<sup>150</sup>

Writing an *amicus curiae* brief on behalf of Yahoo, Inc. and in favor of petitioners eBay and Half.com, Professor Robert P. Merges identified that one of the most helpful measures that the Supreme Court could provide to the patent law community would be specific guidance as to how patent trolls are to be identified and treated in infringement litigation.<sup>151</sup> Specifically, Professor Merges advocated a rule granting patent trolls no more than a reasonable royalty after prevailing in any infringement lawsuit.<sup>152</sup> Under Professor Merges's schema, compensatory damages measured by lost profits, treble damages as punishment for willful patent

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<sup>146</sup> See *id.*

<sup>147</sup> See *id.* at 429–30.

<sup>148</sup> See, e.g., *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323 (Fed. Cir. 2005).

<sup>149</sup> See *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1839 (2006).

<sup>150</sup> See Steve Seidenberg, *Tougher Road Ahead for Patent Holders: Follow Same Test for Injunctions as Everyone Else, High Court Says*, 5 No. 20 A.B.A. J. E-REPORT 2, May 19, 2006, <http://www.abanet.org/journal/ereport/my19ebay.html>.

<sup>151</sup> See Merges, *supra* note 4, at 1013.

<sup>152</sup> See *id.* at 1014–15.

infringement, and permanent injunctive relief should only be available to manufacturing, non-troll patent entities.<sup>153</sup>

In many cases, an automatic restriction on equitable remedies or damages available to non-manufacturing patent holders could be just as prejudicial as the Federal Circuit's automatic injunction rule.<sup>154</sup> True, patent trolls would likely be discouraged from litigating infringement cases where they would be unlikely to ever cover their own expenses, let alone turn a profit.<sup>155</sup> However, these factors would similarly discourage patent pioneers from seeking a courtroom resolution to their patent infringement disputes.<sup>156</sup> If there are no enhanced damages measures available to punish egregious conduct, then legitimate non-manufacturing patent holders would be less likely to sue for patent infringement because of the lesser damages available and would become easy targets for willful patent infringement.

In his *amicus curiae* brief, Professor Merges suggested that a trial court should look into two broad categories: (1) the business purposes of the patent holder and (2) strategic "troll-like" behavior.<sup>157</sup> The business purposes of the patent holder would allow courts to prevent trolls who "exist primarily to tax innovation rather than engage in it"<sup>158</sup> from exerting undue influence over the commercial behavior of manufacturing entities via injunctions. Professor Merges considers strategic "troll-like" behavior to encompass many types of business moves calculated to prevent a manufacturing entity from escaping an encounter with a troll without great expense.<sup>159</sup> Factors that may indicate such "troll-like" behavior include:

- (a) an abnormally long time to publicize the claim,
- (b) a series of continuations and amendments that reflect post-application developments by firms that develop actual products, and
- (c) other actions by the patent holder, possibly involving other patents, confirming that the focus of the business is extracting settlements based on dubious patent infringement claims.<sup>160</sup>

Professor Merges's suggestions encompass only one possible mechanism for identifying patent troll behavior. Since the Supreme Court declined to implement this or any other mechanism for separating patent troll behavior from the regular interactions of commercial parties, district

<sup>153</sup> See *id.*

<sup>154</sup> See Merges, *supra* note 4, at 1001–02.

<sup>155</sup> See *id.*

<sup>156</sup> See Harvey, *supra* note 27, at 1140, 1167.

<sup>157</sup> See Merges, *supra* note 4, at 1013–15.

<sup>158</sup> See *id.* at 1013.

<sup>159</sup> See *id.* at 1015.

<sup>160</sup> *Id.*

courts are left to limit the destructive behavior of patent trolls through the equitable factors.<sup>161</sup> Instead of adopting Professor Merges's suggestion, the Supreme Court relied on the discretion of district judges to properly weigh the equitable factors.<sup>162</sup> Although some language in the decision hinted at the Court's recognition of the inequities of patent trolling behavior, the majority failed to elaborate on the need for any special consideration of "the motives and business plans of patentees seeking injunctions."<sup>163</sup>

The concurring opinions in *eBay, Inc. v. MercExchange, L.L.C.* are jumping off points for criticism of *eBay's* changes to the injunctive review process in patent cases. In his concurrence, Justice Kennedy asserted that he prefers that a violation of a certain right lead to a consideration of several remedies from among a variety of available, appropriate choices.<sup>164</sup> Justice Kennedy's concurrence rejected Chief Justice Roberts's assertion that, in the minds of the patent law community, a violation of a certain right should invariably lead to the grant of a particular remedy.<sup>165</sup> Kennedy acknowledged the destructive potential for patent trolls to use the threat of an injunction to press manufacturing entities into paying exorbitant licensing fees.<sup>166</sup> He specifically noted how undesirable the behavior is when the potentially infringing device is but a minor component of a larger, more complex, commercially-marketed product.<sup>167</sup> Kennedy's concurrence advocated for the award of monetary damages rather than injunctive relief when manipulation by a patent troll governs the actions of the parties.<sup>168</sup> However, he suspected that a majority of the patents that employ these tactics may fall victim to challenges to their specificity and validity prior to an infringement determination.<sup>169</sup> Most importantly, he preferred that courts be left with the discretion to apply the four equitable factors and therefore with freedom to accommodate both the fast-advancing nature of modern technology and the goals of the Patent Act.<sup>170</sup>

Chief Justice Roberts found that the majority's alterations to the injunction standard in patent cases, although laudable, did not go far

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<sup>161</sup> See *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1839 (2006).

<sup>162</sup> See Robert P. Merges, *Introductory Note to Brief of Amicus Curiae in eBay v. MercExchange*, 21 BERKELEY TECH. L.J. 997, 997 (2006).

<sup>163</sup> See *id.* at 998.

<sup>164</sup> See *eBay, Inc.*, 126 S. Ct. at 1842 (Kennedy, J., concurring).

<sup>165</sup> See *id.* at 1841–42 (Roberts, C.J., concurring), 1842–43 (Kennedy, J., concurring).

<sup>166</sup> See *id.* at 1842 (Kennedy, J., concurring).

<sup>167</sup> See *id.*

<sup>168</sup> See *id.*

<sup>169</sup> See *id.*

<sup>170</sup> See *id.* at 1842–43.

enough.<sup>171</sup> Decades of operation under the automatic injunction rule created certain biases in the patent law community.<sup>172</sup> Combined with expectations that “like cases will be decided alike,”<sup>173</sup> these biases may mean that the majority’s holding in *eBay* will mandate an in-depth analysis of equitable factors but will fail to deter courts from granting injunctions.

Chief Justice Roberts noted that “there is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate.”<sup>174</sup> If injunctions are granted in most cases, patent trolls will have little incentive to curtail their aggressive litigation tactics despite the dissolution of the automatic injunction rule.<sup>175</sup> The first few cases following the *eBay* decision indicated a lower grant rate for permanent injunctions in district court decisions,<sup>176</sup> but the Federal Circuit Court of Appeals has yet to weigh in and apply the four-factor equitable balancing test. Absent a meaningful balance of factors in which a party’s non-manufacturing, hyper-litigious status is hinders a patent troll’s access to injunctive relief, it is likely that Chief Justice Roberts’s admonition that “a page of history is worth a volume of logic”<sup>177</sup> may prove accurate.

In total, the majority opinion and concurrences in *eBay, Inc. v. MercExchange, L.L.C.* left many gaps in the law and provided no indication as to whether trolling behavior should be viewed unfavorably under

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<sup>171</sup> See *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1841–42 (Roberts, C.J., concurring).

<sup>172</sup> See *id.* at 1841.

<sup>173</sup> See *id.*

<sup>174</sup> *Id.*

<sup>175</sup> See Winters, *supra* note 67, at 6, 19.

<sup>176</sup> See generally *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 WL 37742 (E.D. Mich. Jan. 4, 2007); *Transocean Offshore Deepwater Drilling, Inc. v. Global-SantaFe Corp.*, No. H-03-2910, 2006 WL 3813778 (S.D. Tex. Dec. 27, 2006); *Visto Corp. v. Seven Networks, Inc.*, No. 2:03-CV-333-TJW, 2006 WL 3741891 (E.D. Tex. Dec. 19, 2006); *Black & Decker Inc. v. Robert Bosch Tool Corp.*, No. 04 C 7955, 2006 WL 3446144 (N.D. Ill. Nov. 29, 2006); *Rosco, Inc. v. Mirros Lite Co.*, No. CV-96-5658 (CPS), 2006 WL 2844400 (E.D.N.Y. Sept. 29, 2006); *3M Innovative Props. Co. v. Avery Dennison Corp.*, No. 01-1781 (JRT/FLN), 2006 WL 2735499 (D. Minn. Sept. 25, 2006); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614 (W.D. Okla. Sept. 5, 2006); *Paice, L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139 (E.D. Tex. Aug. 16 2006); *Telequip Corp. v. The Change Exch.*, No. 5:01-CV-1748 (FJS/GJD), 2006 WL 2385425 (N.D.N.Y. Aug. 15, 2006); *Wald v. Mudhopper Oilfield Servs., Inc.*, No. CIV-04-1693-C, 2006 WL 2128851 (W.D. Okla. July 27, 2006); *Z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006); *TiVo Inc. v. EchoStar Commc’ns Corp.* 446, F. Supp. 2d 664 (E.D. Tex. 2006); *Tillery v. Leonard & Sciolla L.L.P.*, 437 F. Supp. 2d 312 (E.D. Pa. 2006); *Smith & Nephew, Inc. v. Synthes (U.S.A.)*, 466 F. Supp. 2d 978 (W.D. Tenn. 2006); *Canadian Lumber Trade Alliance v. U.S.*, 441 F. Supp. 2d 1259 (Ct. Int’l Trade 2006).

<sup>177</sup> *eBay, Inc.*, 126 S. Ct. at 1842 (quoting *N.Y. Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921)).

the four equitable factor analysis.<sup>178</sup> Justice Kennedy's concurrence comes closest to adopting the protective provisions against patent trolls urged by many in the intellectual property community, including Professor Merges. Although Kennedy did not insinuate that all non-manufacturing patent owners should be proscribed from injunctive relief, he recognized the great potential for harm to high-technology industries and consumers if monetary damages are not viewed as adequate remedies for the litigious patent troll.<sup>179</sup>

Nowhere in either the concurrences or majority opinion did the Supreme Court provide the lower courts with any guidance for identifying and discouraging the abusive practices of patent trolls.<sup>180</sup> Although Kennedy referred to the exploitation of commercial manufacturers through excessively high licensing fees, he provided no guidelines or factors to assist district courts in identifying patent trolls.<sup>181</sup> Of course, setting a checklist of patent troll features may prove counterproductive because the trolls could merely reorganize to ensure that they lack certain characteristics. Rather, a more ideal solution would be to provide the district court with broad categories of inquiry when considering whether to enjoin the defendant, as laid out in Section 7 of the PRA of 2005.<sup>182</sup>

A solution similar to Section 7 of the PRA of 2005<sup>183</sup> is the ideal resolution to these difficulties. Courts could tailor damages to precisely respond to demonstrated patent trolling behavior or innocent research and licensing practice by allowing consideration of the nature of the patent holder and permitting the court to examine the reasons for their manufacturing or non-manufacturing status.<sup>184</sup> Section 7 of the PRA is more closely aligned with the true goals of equitable remedies than either the *eBay* decision or Professor Merges's suggestions. However, if the trial judge had the broad discretion to consider the fairness factors and interests of each party granted under Section 7 of the PRA of 2005, individual judges would be free to include Professor Merges's indicators for "troll-like" behavior in their equitable analyses.<sup>185</sup>

At the very least, Section 7 of the PRA of 2005 required such significant changes to the injunctive review process that the automatic injunction rule could not survive. A mandatory consideration of "the fairness

<sup>178</sup> See *id.* at 1837; Merges, *supra* note 4, at 997.

<sup>179</sup> See *eBay, Inc.*, 126 S.Ct. at 1842.

<sup>180</sup> See *id.* at 1837.

<sup>181</sup> See *id.* at 1842.

<sup>182</sup> See Patent Reform Act of 2005, H.R. 2795, 109th Cong. §7 (as submitted to the H.R. Comm. on the Judiciary on June 8, 2005).

<sup>183</sup> See *id.*

<sup>184</sup> See Merges, *supra* note 4, at 1002–03.

<sup>185</sup> See Patent Reform Act of 2005, H.R. 2795, 109th Cong. §7 (as submitted to the H.R. Comm. on the Judiciary on June 8, 2005).

of the remedy in light of all the facts and the relevant interests of the parties associated with the invention”<sup>186</sup> would invariably require the court to assess the over-eager, litigious behavior of a patent troll. Furthermore, because the injunction would be stayed until it could be correctly modified on appeal,<sup>187</sup> there would be no harm done to the defendant manufacturer even if a district court were to ignore evidence of patent troll-like behavior in its equitable considerations under Section 7. If the Supreme Court truly wants to move away from the automatic injunction rule, then it should have adopted an injunction review process more like that of the proposed PRA’s Section 7.

### CONCLUSION

The decision of *eBay, Inc. v. MercExchange, L.L.C.* puts the patent community on notice that injunctions in infringement cases will be subject to a new variety of equitable scrutiny.<sup>188</sup> However, it remains unclear whether the four equitable factors imported from other areas of law will alter the rate injunctions are granted in patent cases.<sup>189</sup> Certainly, there is no indication that the *eBay* Court sought to protect manufacturers from the extortion tactics of patent trolls. Although time will tell whether trial courts utilize the equitable factors to weed out the disruptive influence of patent trolls on U.S. commerce, the Supreme Court took a pass on its opportunity to give lower courts specific guidelines for identifying trolling behavior.

Since the Supreme Court failed to meaningfully restructure the injunctive grant process in its *eBay* rejection of the Federal Circuit’s automatic injunction rule, the need for legislation such as Section 7 of the PRA of 2005 is renewed rather than removed. Unfortunately, Congress has similarly forgone its opportunity to halt the proliferation of patent trolls by failing to implement a standard of review for injunctions that particularly instructs district judges to consider the overriding interests of parties to a litigation matter during the injunction review process.<sup>190</sup> Instead of discarding the broad revisions to patent law from Section 7 of the PRA of 2005, Congress should return to the drafting table and refine the original proposed language to ensure patent troll-like behavior is identified and considered prior to the grant of an injunction.

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<sup>186</sup> *Id.*

<sup>187</sup> *See id.*

<sup>188</sup> *See eBay, Inc.*, 126 S.Ct. at 1838–39.

<sup>189</sup> *See id.* at 1841–42 (Roberts, C.J., concurring).

<sup>190</sup> The PRA of 2005 and the PRA of 2006 were never passed by Congress. *See* Patent Reform Act of 2006, S. 3818, 109th Cong. §7 (as submitted to the Senate Comm. on the Judiciary on Aug. 3, 2006); Patent Reform Act of 2005, H.R. 2795, 109th Cong. §7 (as submitted to the H.R. Comm. on the Judiciary on June 8, 2005).