

10-1-2006

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Recommended Citation

Leslie T. Grab, *Equitable Concerns of eBay v. Mercexchange: Did the Supreme Court Successfully Balance Patent Protection against Patent Trolls*, 8 N.C. J.L. & TECH. 81 (2006).Available at: <http://scholarship.law.unc.edu/ncjolt/vol8/iss1/5>

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**EQUITABLE CONCERNS OF *eBAY V. MERCEXCHANGE*:
DID THE SUPREME COURT SUCCESSFULLY BALANCE
PATENT PROTECTION AGAINST PATENT TROLLS?**

*Leslie T. Grab*¹

*Within the past decade, companies seeking to purchase intellectual property for the purpose of generating licensing fees have become a major concern for U.S. businesses. These companies are often identified as “patent trolls,” and are perceived to take advantage of successful companies that utilize the technology by demanding often exorbitant licensing fees. The Supreme Court’s recent decision in *eBay v. Mercexchange*² rejected the “automatic injunction” rule and thus weakened one of the patent troll’s leveraging tools, the permanent injunction.*

This Recent Development discusses the effect the Supreme Court’s recent decision in *eBay v. Mercexchange*³ has had on modern patent practice. Part I provides an explanation of the history of patent trolls and their business practices. Part II is a review of the *eBay* decision and cases decided after *eBay* to determine how lower courts are applying the new standard for permanent injunctions. Part III explores the potential effects of the *eBay* balancing test on patentee and patent troll behavior.

In *eBay*, the Supreme Court adopted the traditional four-factor test that courts of equity consider when determining whether a permanent injunction should be issued.⁴ These factors are: (1) whether the plaintiff has suffered irreparable injury; (2) whether the remedies available at law, such as money damages, are inadequate to compensate the plaintiff for the injury; (3) the

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² 126 S. Ct. 1837 (2006).

³ *Id.*

⁴ *Id.* at 1839.

balance of hardships between the plaintiff and the defendant; and (4) whether public interest would be disserved by an injunction.⁵ Application of the four-factor test necessitates the balancing of interests between the plaintiff and defendant to determine whether a permanent injunction or some alternate remedy is warranted.⁶ The adoption of this balancing test overruled the more categorical rule of granting permanent injunctions favored by the Court of Appeals for the Federal Circuit.⁷

A major objective for courts who hear patent infringement cases is to balance the right of the patentee to exclude all others from practicing their invention⁸ with the delivery of new and useful technology to the public.⁹ Cases where the plaintiff is a non-practicing patentee and wishes to exclude others by requesting a permanent injunction may be in conflict with this goal.

The purpose of the four-factor test is to differentiate between those patentees who do not practice their invention because of inadequate capacity or insufficient capital, such as start-up companies or independent inventors, as opposed to patent trolls who exist solely to license the technology to those who use it.¹⁰ Differentiation between these two groups is critical for maintaining the correct balance between “promot[ing] the progress of science and the useful arts”¹¹ and preventing the exploitation of the patent system. With *eBay*, the Supreme Court has provided courts with the tools necessary to maintain the proper balance of the patent system.

⁵ *Id.*

⁶ *Id.*

⁷ *Mercexchange, L.L.C. v. eBay, Inc. (Mercexchange II)*, 401 F.3d 1323 (Fed. Cir. 2005).

⁸ 35 U.S.C. § 154 (2000 & Supp. 2004).

⁹ 35 U.S.C. § 101 (2000 & Supp. 2004).

¹⁰ *eBay, Inc. v. Mercexchange, L.L.C. (eBay)*, 126 S. Ct. 1837 (2006).

¹¹ U.S. CONST. art. I, § 8.

I. HISTORY OF PATENT TROLLS

A. Patent Trolls

What exactly is a patent troll? This is the question Justice Kennedy asked on March 29, 2006,¹² the date the Supreme Court heard oral arguments in *eBay v. Mercexchange*.¹³ At the closing of the argument for *eBay*, Justice Kennedy asked the question, “Well, is the troll the scary thing under the bridge, or is it a fishing technique?”¹⁴ After the laughter in the courtroom died down, *eBay*’s counsel answered for the petitioner that a troll is much like the “scary thing under the bridge.”¹⁵ *eBay*’s experience is not so different than many other companies who have had the unfortunate experience of being threatened by a patent troll.¹⁶

Patent trolls often acquire their intellectual property rights from companies in bankruptcy or other inventors who do not wish to commercially exploit their inventions.¹⁷ These trolls have not

¹² Transcript of Record at 26, *eBay, Inc. v. Mercexchange*, 126 S. Ct. 1837 (2006) (No. 05-130).

¹³ *eBay*, 126 S. Ct. 1837 (2006).

¹⁴ Transcript of Record, *supra* note 12.

¹⁵ *Id.* There is a debate as to whether *Mercexchange* is a true troll or not. See generally Bambi Francisco, *The Rights of a Reformed Patent Troll Commentary: Redemption for Mercexchange?*, MARKETWATCH, Mar. 30, 2006; Ed Burnette, *eBay and the Case of the Possible Troll* (Mar. 15, 2006), <http://uk.buildercom/manage/ip/0,39030143,39302791,00.htm> (search *eBay*; then select “*eBay and the case of the possible troll*” hyperlink under “Features”) (on file with the North Carolina Journal of Law & Technology); Julia Wilkinson, *The eBay Patent Wars: Interview with Mercexchange CEO Thomas Woolston*, <http://www.auctionbytes.com/cab/abn/y04/m09/i30/s01> (search *Mercexchange*; then select “The eBay Patent Wars: Interview with Mercexchange CEO Thomas Woolston” hyperlink) (last visited Oct. 27, 2006) (on file with the North Carolina Journal of Law & Technology).

¹⁶ Research In Motion was sued by an alleged patent troll, NTP. In addition, approximately thirty-five banks have been sued by an alleged troll, DataTreasury. See generally Glen Fest, *Patently Unaware*, BANK TECHNOLOGY NEWS, Apr. 2006, <http://www.banktechnews.com/article.html?id=20060403T76I26I8> (on file with the North Carolina Journal of Law & Technology).

¹⁷ See Lisa Lerer, *Quick Draw*, IP LAW AND BUSINESS, July 2006, at 30. Raymond Niro, founder of TechSearch, L.L.C., purchased a group of patents relating to processor chip technology from International Meta Systems, Inc., which had been forced into bankruptcy. Niro then sued Intel for patent

participated in the research and development of the invention, and do not use the patented technology.¹⁸ A patent troll does not seek to exclude others from practicing the invention, but rather it desires to collect licensing fees from those who do use the technology.¹⁹

Despite being able to list the characteristics of a patent troll, the intellectual property community is far from settling on a common definition of patent trolls.²⁰ However, all agree that the term is meant to be derogatory.²¹ One commentator suggests that the definition of a patent troll is “a patent owner, frequently a small company, which enforces patent rights against accused infringers, but does not manufacture products or supply services based upon the patents in question.”²² Some entities, small companies in particular, argue that this definition sweeps too broadly and includes all patentees who do not practice their invention.²³ Other definitions seek to limit the scope of patent troll only to those companies whose primary purpose is extracting licensing fees.²⁴ What distinguishes patent trolls from companies who purchase patents that complement their existing technology is that trolls do not maintain manufacturing or research operations necessary to

infringement with the goal of receiving some compensation for holding the patents. As a result of this suit, the term “patent troll” was born.

¹⁸ Morag Macdonald, *Beware of the Troll*, THE LAWYER, Sept. 26, 2005, <http://www.thelawyer.com/cgi-bin/item.cgi?id=116783&d=122&h=24&f=46> (on file with the North Carolina Journal of Law & Technology).

¹⁹ Danielle Williams & Steven Gardner, *Basic Framework for Effective Responses to Patent Trolls*, 17 NCPA'S INTELL. PROP. L. SEC. IP LINKS 3, Apr. 2006, available at <http://www.kilpatrickstockton.com/publications/downloads/IPLinksApril2006.pdf> (on file with the North Carolina Journal of Law & Technology).

²⁰ Steve Seidenberg, *Troll Control*, ABA JOURNAL, Sept. 2006, at 51.

²¹ Alexander Poltorak, *On 'Patent Trolls' and Injunctive Relief*, IPFRONTLINE, May 12, 2006, <http://www.ipfrontline.com/depts/article.asp?id=10854&deptid=4> (on file with the North Carolina Journal of Law & Technology).

²² *Id.*

²³ See 35 U.S.C. § 154 (2000 & Supp. 2004). This argument is based on the fact that companies are doing the exact things for which the patent system is designed. For example, the Patent Act grants an exclusionary right to patentees, meaning that they can exclude others from practicing their invention. However, this right is a negative right only, it does not grant the patentee the right to practice their invention nor require them to do so.

²⁴ Williams & Gardner, *supra* note 19, at 1.

exploit the patents.²⁵ Many patent trolls focus their business solely on enforcement of intellectual property rights.²⁶

The term patent troll is used throughout this article to denote a company whose patent portfolio is comprised of patents obtained from other companies or individuals. The trolls themselves have had no part in the development of the technology, nor do they seek to practice the inventions. The business plan of a troll is to utilize its patent portfolio to generate revenue through licensing fees and settlement negotiations. Small companies who do not practice their inventions due to lack of capability or capital are not intended to be swept into the definition of a patent troll for the purposes of this Recent Development.²⁷

A highly publicized contest involved a purported troll suing Research In Motion (RIM), the Canadian company that brought the “BlackBerry” technology to the world.²⁸ RIM and its BlackBerry technology were featured in an article in the Wall Street Journal in 2001.²⁹ The article was noticed by Donald E. Stout, a patent

²⁵ Macdonald, *supra* note 18.

²⁶ Williams & Gardner, *supra* note 19, at 3.

²⁷ The term patent troll was coined by Peter Detkin who, at the time, worked as assistant general counsel at Intel, but now manages Intellectual Ventures, a company many label as a patent troll. In 1999, Intel was being sued by TechSearch, a company that sought to license its technology to Intel, who had already employed the technology. See *TechSearch, L.L.C. v. Intel Corp.*, No. 98-CV-03484, slip op. (N.D. Cal. Jan. 31, 2000). For further information regarding TechSearch and Intel’s legal battles, see Brenda Sandburg, *Trolling for Dollars: Patent Enforcers are Scaring Corporate America, and They’re Getting Rich—Very Rich—Doing it*, THE RECORDER, July 30, 2001. Raymond Niro, TechSearch’s counsel throughout the Intel dispute, tells a different story. He asserts that Intel was engaged in predatory business practices by threatening companies with a freeze out if they used a competitor’s, like TechSearch’s, processor chips. Mr. Niro asserts that TechSearch was simply trying to defend itself against the unethical practices at Intel. See Raymond Niro, *The Patent Troll Myth*, PROFESSIONAL INVENTORS ALLIANCE, Aug. 4, 2005, http://www.piausa.org/patent_reform/articles/raymond_p_niro_08_04_2005 (explaining Mr. Niro’s perspective on Intel’s practices and Techsearch’s position) (on file with the North Carolina Journal of Law & Technology).

²⁸ Research In Motion, <http://www.rim.net> (last visited Oct. 22, 2006) (on file with the North Carolina Journal of Law & Technology).

²⁹ *Pager Maker Gets Patent for E-Mail Delivery*, WALL ST. J., May 18, 2001, at A2.

attorney and co-founder of New Technologies Products, Inc. (NTP).³⁰ NTP was formed in 1992 by Thomas J. Campana, Jr. and Mr. Stout as a holding company for patents relating to wireless technology.³¹ Mr. Campana held some twenty-five patents relating to wireless communications and Mr. Stout was an intellectual property attorney from the Washington, D.C. area.³² The company was run from Mr. Stout's home and its only asset consisted of "a drawer full of dusty patents."³³ These facts caused some to classify NTP as a patent troll, while others assert that Mr. Campana was just a small-time inventor trying to protect his intellectual property.³⁴

RIM failed to acknowledge NTP's correspondence regarding its patents, so NTP sued RIM for patent infringement in federal district court.³⁵ RIM never really took NTP seriously, a mistake that cost it millions of dollars.³⁶ The jury found that RIM had willfully infringed on NTP's patents and awarded \$23 million in damages and a royalty based upon the number of BlackBerry devices sold in the United States.³⁷ However, due to misconduct by RIM at trial, the judge imposed enhanced damages against RIM, increasing damages to \$53 million, legal fees of \$4.5 million, and a royalty rate of 8.55%.³⁸ The judge also ordered an injunction against RIM prohibiting the sale of BlackBerrys in the United States and threatened to shut down all BlackBerry service unless RIM placed \$240 million in escrow.³⁹ By the end of a lengthy

³⁰ Barrie McKenna, Paul Waldie, & Simon Avery, *Patently Absurd: The Inside Story of RIM's Wireless War* (Feb. 21, 2006), <http://www.theglobeandmail.com/servlet/story/RTGAM.20060221.wpatentlyabsured-rim21/BNStory/RIM2006/home?pageRequested=all&print=true> (on file with the North Carolina Journal of Law & Technology).

³¹ NTP, Inc.'s website, <http://www.ntp-inc.com>, has been taken down for maintenance.

³² McKenna, Waldie, & Avery, *supra* note 30.

³³ *Id.*

³⁴ *Id.*

³⁵ *NTP, Inc. v. Research In Motion, Ltd.*, 261 F. Supp. 2d 423 (E.D.Va. 2002).

³⁶ McKenna, Waldie, & Avery, *supra* note 30.

³⁷ *Id.*

³⁸ *Id.*

³⁹ *Id.*

appeal process including a petition denied by the Supreme Court,⁴⁰ a settlement with NTP was reached in early 2006. RIM agreed to pay \$612.5 million to NTP to settle all claims and purchased a fully paid, perpetual license of the technology held by NTP.⁴¹ RIM narrowly avoided a complete shutdown of BlackBerry service in the United States by agreeing to settle for a sum that far exceeded the original demand.⁴²

The RIM case provides an example of how trolls thrived in the United States marketplace prior to *eBay* and became a growing concern for both the business and legal communities.

II. *EBAY, INC. V. MERCEXCHANGE, L.L.C.* AND ITS EFFECTS

A. *Mercexchange—A Troll that Challenged eBay*

Mercexchange sells small electronics and purports to offer business solutions for e-commerce.⁴³ Mercexchange was founded by Thomas Woolson, the inventor of the patents that eBay allegedly infringed.⁴⁴ The patents covered business methods directed at the use of an electronic market to buy and sell goods through a trusted network.⁴⁵ When eBay launched in September of 1995, its online marketplace employed many of the features covered by Mr. Woolson's patents.⁴⁶

⁴⁰ RIM's case went through the federal court system multiple times before RIM ultimately settled with NTP. The Supreme Court denied certiorari (126 S. Ct. 1174 (2006)) after the Court of Appeals for the Federal Circuit refused to review the decision *en banc* (418 F.3d 1282 (2005)).

⁴¹ McKenna, Waldie, & Avery, *supra* note 30; *see also* RIM, Research In Motion and NTP Sign Definitive Settlement Agreement to End Litigation, http://www.rim.com/news/press/2006/pr-03_03_2006-01.shtml (detailing RIM's settlement with NTP) (last visited Oct. 25, 2006) (on file with the North Carolina Journal of Law & Technology).

⁴² *See* RIM, *supra* note 41.

⁴³ For additional information about Mercexchange, *see* <http://www.mercexchange.com/solutions.htm> (last visited Sept. 19, 2006) (on file with the North Carolina Journal of Law & Technology).

⁴⁴ U.S. Patent No. 6,085,176 (filed Mar. 8, 1999) (issued July 4, 2000); U.S. Patent No. 5,845,265 (filed Nov. 5, 1995) (issued Dec. 1, 1998).

⁴⁵ '176 Patent; '265 Patent.

⁴⁶ Ed Burnette, *eBay and the Case of the Possible Troll* (Mar. 15, 2006), <http://uk.buildercom/manage/ip/0,39030143,39302791,00.htm> (search *eBay*;

Mercexchange has been labeled by some, including eBay, as a patent troll. Jason Schultz, an attorney for the Electronic Frontier Foundation⁴⁷ argued that “[i]t appears that Mercexchange was founded as a patent holding company to shake down profitable technology businesses without contributing any significant technology itself to the marketplace.”⁴⁸ eBay’s counsel also referred to Mercexchange as a patent troll at oral arguments before the Supreme Court.⁴⁹

However, Mercexchange characterizes itself as a direct competitor of eBay in the online marketplace business.⁵⁰ Mercexchange bolstered its claim when it began to operate an online marketplace in 2003, selling its products primarily through its licensee, uBid.⁵¹ However, eBay argued that selling items online was not Mercexchange’s primary focus.⁵² Indeed, Mercexchange’s mission statement reflects its focus on licensing technology by indicating that the goal is to improve businesses

then select “eBay and the case of the possible troll” hyperlink under “Features”) (on file with the North Carolina Journal of Law & Technology).

⁴⁷ See Electronic Frontier Foundation, <http://www.eff.org> (last visited Oct. 22, 2006) (on file with the North Carolina Journal of Law & Technology). The Electronic Frontier Foundation filed an amicus brief in *eBay v. Mercexchange* on behalf of eBay urging the court not to adopt the rule of issuing automatic injunctions upon a finding of infringement.

⁴⁸ Bambi Francisco, *The Rights of a Reformed Patent Troll Commentary: Redemption for Mercexchange?*, MARKETWATCH, Mar. 30, 2006.

⁴⁹ See Transcript of Record, *supra* note 12.

⁵⁰ Francisco, *supra* note 48.

⁵¹ See Mercexchange, <http://www.merexchange.com/licensed.htm> (last visited Oct. 22, 2006) (on file with the North Carolina Journal of Law & Technology). uBid became a licensee of Mercexchange in 2003. This marked the first time that Mercexchange began to practice any of the technology that its patents covered. It is interesting that Mercexchange did not utilize its technology until eBay characterized it as a patent troll and Mercexchange was in the middle of litigation with eBay. Jason Schultz of the Electronic Frontier Foundation observed that “[r]etroactively entering a market simply to legitimize your legal status doesn’t change the fact that you haven’t actually promoted America’s scientific progress one iota.” *Id.*

⁵² *Mercexchange, L.L.C., v. eBay, Inc. (Mercexchange I)*, 275 F. Supp. 2d 695 (E.D. Va. 2003).

through its networked environments.⁵³ In fact, Mercexchange enjoyed early success in its licensing scheme by securing AutoTrader.com®, Overture, channeladvisor, and uBid as licensees.⁵⁴ One of Mercexchange's listed licensees, ReturnBuy, was actually forced into bankruptcy and settled with Mercexchange when faced with a suit for infringement.⁵⁵ Emboldened by early licensing success, Mercexchange moved on to its next target: eBay.

B. Mercexchange v. eBay—Decisions by the lower courts

1. Decision of the Federal District Court

Mercexchange sued eBay in the Federal District Court for the Eastern District of Virginia.⁵⁶ The jury found that eBay willfully infringed Mercexchange's patents and awarded Mercexchange \$35 million.⁵⁷ Although the jury found that eBay had willfully infringed on the patents at issue, the court refused to issue a permanent injunction as requested by Mercexchange.⁵⁸

When addressing the issue of a permanent injunction, the district court acknowledged that precedent from the Federal Circuit suggested that granting an injunction was the normal relief following a finding of infringement, but pointed out that the

⁵³ See Mercexchange, Mission Statement, <http://www.mercexchange.com/index.html> ("Mercexchange's mission is to improve businesses through the application of new digital technologies, especially in networked environments. The businesses and products developed by MercExchange address large-scale consumer needs and business inefficiencies, resulting in new ways of doing business, new ways of creating value, and new industry paradigms.") (last visited Oct. 27, 2006) (on file with the North Carolina Journal of Law & Technology).

⁵⁴ For a full list of Mercexchange's current licensees, see <http://mercexchange.com/licensed.htm>. AutoTrader.com is a registered trademark (Serial No. 78530448).

⁵⁵ Burnette, *supra* note 46.

⁵⁶ *Mercexchange I*, 275 F. Supp. 2d 695 (E.D. Va. 2003).

⁵⁷ *Id.* at 698.

⁵⁸ *Id.* at 722. The district court also addressed various issues relating to damages; however, through the appeals process these issues were dropped, leaving only the issue of the injunction.

decision was still within the sound discretion of the trial court.⁵⁹ This reasoning was ultimately validated by the Supreme Court when it endorsed the same four factor test.⁶⁰

Instead of following the pattern of granting an injunction upon a finding of infringement, the trial court looked to the principles of equity in determining whether an injunction was appropriate.⁶¹ These principles require the consideration of several factors: (1) whether the plaintiff would suffer irreparable harm if the injunction did not issue; (2) whether the plaintiff has an adequate remedy at law; (3) whether granting the injunction is in the public interest; and (4) whether the balance of hardships between the plaintiff and the defendant weighs in the plaintiff's favor.⁶² The court applied these factors to the facts of the case in determining whether to issue an injunction.⁶³

The district court weighed each of these factors, but ultimately concluded Mercexchange was not entitled to an injunction.⁶⁴ In reaching this decision, the court relied heavily on evidence that Mercexchange did not practice the technology and only actively sought to license its patents.⁶⁵ The court reasoned that because Mercexchange did not commercially exploit the technology but was willing to license it, Mercexchange could not be irreparably harmed by the denial of an injunction.⁶⁶ In support of this conclusion, the district court cited precedent by the Federal Circuit that the "lack of commercial activity by the patentee is a significant factor in the calculus" of whether the patentee should be

⁵⁹ *Id.* at 711. *See also* W.L. Gore & Assoc. v. Garlock Inc., 842 F.2d 1275, 1281 (Fed. Cir. 1988) (holding that a district court's refusal to grant an injunction is reviewed under an "abuse of discretion" standard).

⁶⁰ *eBay*, 126 S. Ct. 1837, 1839 (2006).

⁶¹ *Mercexchange I*, 275 F. Supp. 2d at 711.

⁶² *Id.* (quoting *Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 794 (E.D. Va. 1998)).

⁶³ *Id.* at 711.

⁶⁴ *Id.* at 715.

⁶⁵ *Id.* at 712.

⁶⁶ *Id.*

granted an injunction.⁶⁷ The Supreme Court rejected this line of reasoning, holding that while lack of commercial activity was probative, it was not determinative of whether the Court should issue an injunction.⁶⁸

The district court also considered public policy factors, later echoed by Justice Kennedy in his concurrence.⁶⁹ While public policy may ordinarily favor a grant of injunction, there are some cases where it is not in the public's best interest to enjoin an infringer.⁷⁰ The defendant raised several arguments in support of denying the injunction. Among these arguments was the questionable nature of business method patents.⁷¹ The United States Patent and Trademark Office (USPTO) has implemented a second level of review for business method patents, and legislation was introduced in Congress to eliminate the presumption of validity for these patents.⁷² The court noted, while these factors alone did not decide the issue, the fact that the patentee did not practice—nor intend to practice—its invention was counter to the public's interest in benefiting from the new technology.⁷³

2. *Decision of the Court of Appeals for the Federal Circuit*

Despite the district court's reasons for denying a permanent injunction, Mercexchange appealed to the Court of Appeals for the Federal Circuit.⁷⁴ The Federal Circuit found the district court's denial of the injunction an abuse of discretion.⁷⁵ The Federal Circuit based its reversal on the grounds that the district court

⁶⁷ *Mercexchange I*, 275 F. Supp. 2d 695, 712 (E.D. Va. 2003) (quoting *High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1556 (Fed. Cir. 1995)).

⁶⁸ *eBay*, 126 S. Ct. at 1840.

⁶⁹ *Id.* at 1842.

⁷⁰ *Id.* at 1840.

⁷¹ *Mercexchange I*, 275 F. Supp. 2d at 713.

⁷² *Id.* at 713–14 (citing Business Method Improvement Act of 2001, H.R. 1332, 107th Cong. (2001)).

⁷³ *Id.* at 714.

⁷⁴ *Mercexchange II*, 401 F.3d 1323 (Fed. Cir. 2005). The Federal Circuit also considered issues relating to infringement and validity of the patents. However, a discussion of those issues is not relevant to the Supreme Court's reasoning, and those issues are not discussed further.

⁷⁵ *Id.* at 1326.

disregarded the general rule that injunctions should be issued once infringement has been determined.⁷⁶ The only departure from the rule, according to the Federal Circuit, occurs in cases where there are “exceptional circumstances,” something the court felt was absent in this case.⁷⁷

The Federal Circuit relied heavily on the reasoning that “the right to exclude recognized in a patent is but the essence of the concept of property,” and the grant of an injunction is the appropriate remedy for infringement.⁷⁸ The court noted it was only in rare instances where courts have acted within their discretion to deny a permanent injunction, and this denial should be in line with protecting the public’s interest.⁷⁹ The court indicated that the current case was not “sufficiently exceptional” to warrant a denial of a permanent injunction.⁸⁰ Essentially, the Federal Circuit applied the general rule: permanent injunctions should be issued in cases where infringement is found, absent some extraordinary factors having a direct effect on public welfare.⁸¹

While the district court was willing to consider the grant of a permanent injunction in light of equitable principles,⁸² the Federal Circuit rejected this reasoning in favor of a general rule granting permanent injunctions following a finding of infringement.⁸³ The rationale behind the general rule of the Federal Circuit stemmed from the desire to protect the patent holder’s property interest above all other concerns.⁸⁴ The different standards put forth by the

⁷⁶ *Id.* at 1338 (citing *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246–47 (Fed. Cir. 1989)).

⁷⁷ *Id.* at 1339.

⁷⁸ *Id.* at 1338 (quoting language from *Richardson* at 1246–47).

⁷⁹ *Id.* The court marginalized the importance of the changes in the USPTO’s practices regarding business method patents and the introduction of legislation to flip the presumption of patent validity for business method patents. *Id.* at 1339.

⁸⁰ *Mercexchange II*, 401 F.3d 1323, 1339 (Fed. Cir. 2005).

⁸¹ *See generally id.* (holding that injunctions should be the norm, but not giving examples of “exceptional circumstances” that *would* give rise to the denial of an injunction).

⁸² *Mercexchange I*, 275 F. Supp. 2d at 714.

⁸³ *Mercexchange II*, 401 F.3d at 1338–39.

⁸⁴ *Id.*

two courts made the issue ripe for resolution by the Supreme Court and generated a great deal of interest within the intellectual property community.⁸⁵

3. *The Intellectual Property Community Takes Sides*

Once the Supreme Court granted certiorari⁸⁶ to hear oral arguments on the case, many amicae briefs were filed on both sides of the issue by leading members of business, government, academia, and non-profit foundations.⁸⁷

The federal government sided with Mercexchange in this dispute after taking the opposite position with Research In Motion in the Blackberry dispute.⁸⁸ Mercexchange also garnered the support of the pharmaceutical and biotechnology industries, who favor strong injunctions to protect the millions of dollars invested in the research and development of new drugs.⁸⁹ Several prominent universities also argued in support of strong injunctions, representing the quintessential “small inventor” who innovates but is generally unable to protect its intellectual property.⁹⁰ Not surprisingly, various companies that own and license intellectual

⁸⁵ Posting of Dennis Crouch to Patently-O: Patent Law Blog, *eBay v. Mercexchange: The Law of Patent Injunctions* (Mar. 13, 2006, 08:44 EST), http://patentlaw.typepad.com/patent/2006/03/ebay_v_mercexch.html (on file with the North Carolina Journal of Law & Technology).

⁸⁶ *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 733 (2005) (granting certiorari).

⁸⁷ See Crouch, *supra* note 85 (identifying a list of briefs filed).

⁸⁸ *NTP, Inc. v. Research In Motion, Ltd.*, 397 F. Supp. 2d 785 (E.D. Va. 2005); Brief of Research In Motion, Ltd. as Amicus Curiae Supporting Petitioners, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

⁸⁹ Brief for Pharm. Research & Mfrs. of Am. as Amicus Curiae Supporting Respondents, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130); Brief for Biotechnology Indus. Org. as Amicus Curiae Supporting Respondents, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

⁹⁰ Brief of Wis. Alumni Research Found. et al. as Amici Curiae Supporting Respondents, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130); Brief of Ass'ns of Am. Universities et al. as Amici Curiae Supporting Respondents, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

property that they do not practice sided with Mercexchange as well.⁹¹

Advocating for weaker injunctions and a more flexible standard, eBay found support among some industry giants, including Yahoo!, Intel, Microsoft, Oracle, and Micron.⁹² The telecommunications and computer communities also sided with eBay in arguing for weaker injunctions.⁹³ In addition, Research In Motion, who had just endured its own encounter with a patent troll, gave its support to eBay.⁹⁴

Other parties that did not express loyalty to either Mercexchange or eBay also filed briefs that argued for or against the practice of granting injunctions for patent infringement.⁹⁵

⁹¹ Brief of Martin Cooper et al. as Amici Curiae Supporting Respondent, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130); Brief of Qualcomm, Inc. et al. as Amici Curiae Supporting Respondent, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130); Brief of Rembrandt IP Mgmt., L.L.C. as Amicus Curiae Supporting Respondent, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130); Brief of United Inventors Ass'n et al. as Amici Curiae Supporting Respondent, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

⁹² Brief of Yahoo! as Amicus Curiae Supporting Petitioners, *eBay Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130); Brief of Am. Innovators Alliance as Amicus Curiae Supporting Petitioners, *eBay Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

⁹³ Brief of the Computer & Commc'n Indus. Ass'n as Amicus Curiae Supporting Petitioners, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

⁹⁴ Brief of Research In Motion, Ltd. as Amicus Curiae Supporting Petitioners, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

⁹⁵ Brief of Am. Intell. Prop. Law Ass'n et al. as Amici Curiae Supporting Neither Party, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130) (supporting a general rule for granting injunctions); Brief of 52 Intell. Prop. Professors as Amici Curiae Supporting Petitioners, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130); Brief of Teva Pharm. USA, Inc. as Amicus Curiae Supporting Neither Party, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130) (arguing against the grant of injunctions); Brief of IBM, Corp. as Amicus Curiae Supporting Neither Party, *eBay, Inc. v. Mercexchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130) (stressing the importance of considering equitable principles in determining whether injunctions should issue).

C. *eBay v. Mercexchange—Decision of the Supreme Court*

1. *Justice Thomas's Opinion*

Although the Supreme Court issued a unanimous decision in the case, the controlling decision is not entirely clear due to the differing methodological approaches of the various Justices. The Court held that the four-factor test generally applied when considering a grant of injunctive relief should also be applied in patent cases.⁹⁶ The factors the trial court must consider when deciding whether to issue an injunction are: (1) whether the plaintiff has suffered irreparable injury; (2) whether remedies available at law, such as money damages, are inadequate to compensate the plaintiff for the injury; (3) the balance of hardships between the plaintiff and the defendant; and (4) whether public interest would be disserved by an injunction.⁹⁷

The Court stressed that there was no evidence in the Patent Act⁹⁸ creating a presumption in favor of issuing an injunction. In fact, the Court stressed the language that injunctions “may” be issued “in accordance with the principles of equity.”⁹⁹ The Court compared the provisions of the Patent Act to those of the Copyright Act governing similar injunctions.¹⁰⁰ The Copyright Act gives copyright owners a right to exclude others from using their property and indicates injunctions may be issued.¹⁰¹ However, courts have treated copyright infringement differently than patent infringement and have granted injunctions in accordance with equitable considerations rather than by application of a mechanical rule.¹⁰²

The Court rejected both the automatic injunction rule set forth by the Federal Circuit as well as the reasoning of the district court that a plaintiff's willingness to license its patent created a

⁹⁶ *eBay*, 126 S. Ct. 1837, 1839 (2006).

⁹⁷ Factors taken from *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311–13 (1987). These are the same factors considered in *Mercexchange I*, 275 F. Supp. 2d 695 (E.D. Va. 2003).

⁹⁸ Codified at 35 U.S.C. §§ 100–376 (2000 & Supp. 2004).

⁹⁹ 35 U.S.C. § 283 (2000 & Supp. 2004); *eBay*, 126 S. Ct. at 1839–40.

¹⁰⁰ 17 U.S.C. § 502(a) (2000 & Supp. 2004); *eBay*, 126 S. Ct. at 1840.

¹⁰¹ 17 U.S.C. § 502(a) (2000 & Supp. 2004).

¹⁰² *eBay*, 126 S. Ct. at 1840.

presumption against an injunction.¹⁰³ The Supreme Court's decision emphasized the trial court should apply the aforementioned factors to the facts at issue in the case to determine whether an injunction is warranted.¹⁰⁴

2. *Chief Justice Roberts's Concurrence—Emphasis on History*

Chief Justice Roberts issued a concurring opinion in which Justices Scalia and Ginsburg joined.¹⁰⁵ While Chief Justice Roberts agreed with the Court's holding that the grant of injunctive relief is grounded in equity, he also indicated that injunctions historically have been given freely where they are found to be warranted.¹⁰⁶ Significantly, Chief Justice Roberts noted the long-standing practice of granting injunctions in patent cases where infringement was found.¹⁰⁷ He reasoned this practice comports with the principles of equity in that monetary relief does not remedy the loss of the right to exclude others from practicing the invention.¹⁰⁸ Monetary relief, according to the Chief Justice, necessarily implicates the first two factors of the balancing test: irreparable harm and lack of remedies at law.¹⁰⁹ While his opinion seems to suggest that most cases will favor granting an injunction, Chief Justice Roberts rejects the notion that satisfaction of the first two factors of the test creates a rule favoring injunctive relief.¹¹⁰

With his focus on historical practice, Chief Justice Roberts's opinion fails to address the dramatic changes to the patent landscape that have occurred over the past decade. However, Justice Kennedy's concurrence directly addresses the issues of patent trolls and business method patents.¹¹¹

¹⁰³ *Id.* at 1840–41.

¹⁰⁴ *Id.*

¹⁰⁵ *Id.* at 1841 (Roberts, C.J., concurring).

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*

¹⁰⁸ *eBay*, 126 S. Ct. 1837 (2006).

¹⁰⁹ *Id.* at 1841.

¹¹⁰ *Id.*

¹¹¹ *Id.* at 1842 (Kennedy, J., concurring).

3. *Justice Kennedy's Concurrence—Modern Patent Landscape*

Justice Kennedy's concurrence garnered the most support from the other members of the Court with Justices Stevens, Souter, and Breyer joining his opinion.¹¹² Justice Kennedy emphasized the major changes patent practice has undergone in the last decade and that trial courts need versatile tools to deal with the ever-changing nature of these cases.¹¹³ Instead of advocating for a mechanical rule that should fit all cases, Justice Kennedy's concurrence urged courts to consider the current practices within patent law and weigh them against the traditional four factors for injunctive relief adopted by the Court.¹¹⁴

While Justice Kennedy agreed with both the Court's holding and Chief Justice Roberts's historical focus, he cautioned courts to be aware of the current practices in patent law and to consider modern patent practices.¹¹⁵ Justice Kennedy acknowledged that patent practice has changed dramatically over the years. Historically, patent disputes involved a patentee suing its licensee for exceeding the scope of the license or two practicing patentees infringing on each other's technology.¹¹⁶ Today, many patent infringement suits involve patentees who do not seek to practice their inventions but rather seek only to license them.¹¹⁷

Without using derogatory terminology, Justice Kennedy gave an accurate representation of the business practice of patent trolls.¹¹⁸ He pointed out that the presumption of an injunction, in the hands of a troll, can be used as a tool to extract "exorbitant fees" from companies who wish to license or practice the

¹¹² *Id.*

¹¹³ *Id.*

¹¹⁴ *eBay*, 126 S. Ct. 1837 (2006).

¹¹⁵ *Id.*

¹¹⁶ Robert H. Resis, Esq., *History of the Patent Troll and Lessons Learned*, INTELL. PROP. LITIG., Winter 2006, Vol. 17, No. 2 at 1.

¹¹⁷ *Id.*

¹¹⁸ *eBay*, 126 S. Ct. at 1842 ("An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.") (citing FTC, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 38-39 (Oct. 2003)).

invention.¹¹⁹ Since these firms rarely practice the invention themselves, granting injunctions can hinder one of the goals of patent law, to put the invention into the hands of the public.¹²⁰

Justice Kennedy also addressed the situation where the infringing technology is only a small part of the infringer's business.¹²¹ In these cases, the infringer does not compete directly with the patentee and the patentee does not suffer loss of profit or name recognition. Hence, the grant of monetary relief may be more appropriate and prevent the public interest from being disserved by the grant of an injunction.¹²²

Justice Kennedy also addressed the concern over another recent development within patent law: the USPTO's practice of granting patents on business methods. He indicated the grant of injunctive relief may pose additional problems when the patent at issue covers a business method.¹²³ Justice Kennedy recognized that these patents are typically vague and their validity suspect.¹²⁴ Often in patent infringement litigation, the defendant may request that the USPTO conduct a reexamination procedure.¹²⁵ The reexamination may confirm the patent was properly granted or may result in finding the patent is invalid and unenforceable.¹²⁶ However, if injunctive relief is granted, the defendant would not be able to practice the invention during the period of reexamination.¹²⁷ Justice Kennedy indicated that these types of situations must be considered when applying the four-factor test to the controversy.¹²⁸

Justice Kennedy's concerns have not gone unnoticed by the rest of the patent community; the concern over these types of patents has prompted the USPTO to add a higher level of scrutiny

¹¹⁹ *Id.*

¹²⁰ *Id.*

¹²¹ *Id.*

¹²² *Id.*

¹²³ *Id.*

¹²⁴ *eBay*, 126 S. Ct. 1837 (2006).

¹²⁵ 35 U.S.C. § 311(a) (2000 & Supp. 2004).

¹²⁶ *Id.*

¹²⁷ A permanent injunction would force the defendant to cease all activity until such time as the patent was declared invalid.

¹²⁸ *eBay*, 126 S. Ct. at 1842.

for business method patents.¹²⁹ In addition, an amendment to the Patent Act¹³⁰ was proposed to change the presumption for validity in cases involving business method patents.¹³¹ Justice Kennedy urged courts to consider these facts when determining the type of relief to award.¹³²

The plurality of the Court¹³³ recognized the historical practice of granting injunctions may not be appropriate in modern patent practice. They advocated for a more flexible approach by courts when determining whether injunctive relief is appropriate.¹³⁴ This type of flexibility is necessary for courts to adapt to “the rapid technological and legal developments in the patent system.”¹³⁵

Thus, the Court’s decision to reject the general injunction rule is appropriate for most cases of patent infringement and should promote a new method of thinking for companies involved in litigation. Rather than counting on an automatic injunction upon a finding of infringement, plaintiffs must now prove the four factors discussed by the Court to receive injunctive relief. While the test outlined by the Supreme Court seems straightforward in its application, it will be up to the lower courts to apply it.

¹²⁹ Jeffery E. Young, Patenting of Financial Business Methods Gains Momentum, http://www.buildingipvalue.com/06US_Can/072_076.htm (last visited Sept. 28, 2006) (on file with the North Carolina Journal of Law & Technology).

¹³⁰ 35 U.S.C. § 283 (2000 & Supp. 2004).

¹³¹ Business Method Improvement Act of 2001, H.R. 1332, 107th Cong. (2001).

¹³² *eBay*, 126 S. Ct. 1837, 1842 (2006).

¹³³ Justices Kennedy, Stevens, Souter, and Breyer.

¹³⁴ See generally *eBay*, 126 S. Ct. 1837 (2006) (indicating that courts need flexible tools to adapt to the changing patent practice).

¹³⁵ *Id.* at 1842.

D. Life After eBay—Application of the Four-Factor Test and Alternative Remedies

Several cases have been decided since the *eBay* decision. Some of these cases are explored in more detail in the following section. Generally, courts have tried to apply the factors as intended by the Supreme Court; however, the result is not always the same. As the following cases suggest, application of the test gives no consistent result as to whether an injunction will be issued. In general, courts have heeded the instruction of Justice Kennedy to consider the business practices of the plaintiff in deciding whether an injunction should be issued.¹³⁶ However, defendants cannot assume that injunctive relief is no longer a threat as they go forward with litigation.¹³⁷

1. *Injunction Denied*

District courts in the post-*eBay* environment have carefully applied the principles set forth by the Supreme Court in balancing each factor of the test as it applies to the plaintiff and defendant.

In the Eastern District of Texas, z4 Technologies (“z4”) sued Microsoft alleging infringement of certain software.¹³⁸ Although the jury found that Microsoft had infringed on z4’s patents, the court refused to issue a permanent injunction.¹³⁹ As with *eBay*, Microsoft was dealing with a purported troll. z4 did not practice their invention but sought to license it for use in larger software

¹³⁶ See *Paice, L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, slip op. (E.D. Tex. Aug. 16, 2006); *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006).

¹³⁷ *Telequip Corp. v. Change Exch.*, No. 5:01-CV-1748, 2006 WL 2385425, 2006 U.S. Dist. LEXIS 61469 (N.D.N.Y. Aug. 15, 2006); *Smith & Nephew, Inc. v. Synthes (U.S.A.)*, No. 2:02-CV-02873, slip op. (W.D. Tenn. Sept. 28, 2006).

¹³⁸ *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006).

¹³⁹ *Id.*

packages.¹⁴⁰ The jury found that Microsoft had willfully infringed on the patents and issued a damage award of \$115 million.¹⁴¹

The plaintiff, z4, then requested that Microsoft be forced to remove the offending software¹⁴² until it could be redesigned so as not to infringe. Microsoft protested and testified that its new software would not have the infringing technology and that an injunction would be devastating to its business.¹⁴³ The court applied the *eBay* factors and determined that z4 was not irreparably harmed and a monetary award was appropriate.¹⁴⁴

The court noted that z4 did not compete directly with Microsoft and thus was unlikely to lose licensing revenue as a result of Microsoft's infringement.¹⁴⁵ The fact that the infringing technology was only a portion of the product was also a factor in denying an injunction.¹⁴⁶ The court's reasoning was heavily based on the public's interest and balance of hardships between the parties, which would not have been a focus before *eBay*.¹⁴⁷ The district court considered Justice Kennedy's admonition to weigh the business practices of the plaintiff and the use of the infringing product in reaching the conclusion that a permanent injunction was not warranted.¹⁴⁸

¹⁴⁰ *Id.* at 439. The technology at issue involved a product activation feature that prevented unauthorized copying of software. The registration information is sent by the software to a remote server which verifies the registration information. Without this authentication process, the product will not work.

¹⁴¹ *Id.*

¹⁴² *Id.* The software at issue included XP products since 2001 and Office products since 2000.

¹⁴³ *Id.* at 442.

¹⁴⁴ *z4 Technologies*, 434 F. Supp. 2d at 444.

¹⁴⁵ *Id.* at 440.

¹⁴⁶ *Id.*

¹⁴⁷ *Id.* at 443.

¹⁴⁸ *See Abbott Labs. v. Andrx Pharm., Inc.*, 452 F.3d 1331 (Fed. Cir. 2006) (applying the four factor test from *eBay* to deny the grant of a preliminary injunction). However, there was a strong dissent from Judge Newman advocating that equitable concerns may weigh in favor of a preliminary injunction in order to maintain the status quo in advance of litigation. *See id.*; *see, e.g., Paice, L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, slip op. (E.D. Tex. Aug. 16, 2006) (illustrating another example of how courts are applying the *eBay* decision by holding that although the patents were infringed,

However, some courts have been reluctant to extend the equitable considerations of the four-factor test beyond the named plaintiff in a suit. In *Voda v. Cordis Corp.*,¹⁴⁹ the court refused to extend the notion of irreparable harm beyond the plaintiff to his exclusive licensee.¹⁵⁰ The court rejected the argument by Voda that he suffered irreparable harm because the infringing activity of Cordis harmed his relationship with Scimed, the exclusive licensee of the technology.¹⁵¹ The court reasoned that the harm to Scimed was irrelevant because it had not elected to join the suit to enforce the patent rights.¹⁵²

The court's refusal to extend the scope of the harm beyond the named plaintiff may have significant implications for inventors and their exclusive licensees in deciding which party wishes to bring suit to enforce the patent rights.¹⁵³

2. *Injunction Granted*

The fears expressed by some that the Supreme Court's decision would essentially prohibit the grant of injunctive relief can be allayed somewhat by the following two decisions in which a permanent injunction was issued.¹⁵⁴

Paice was not entitled to injunctive relief on the grounds that the infringing technology was a small portion of Toyota's hybrid engine technology and that the use of the infringing technology by Toyota did not interfere with Paice's market share or name recognition).

¹⁴⁹ No. CIV-03-1512-L, slip op. (W.D. Okla. Sept. 5, 2006).

¹⁵⁰ *Id.* at 6.

¹⁵¹ *Id.*

¹⁵² *Id.* at 5.

¹⁵³ In cases where there is an exclusive licensee, the patentee and licensee may contract such that the licensee has the right to sue to enforce the patent rights. However, this contractual right does not necessarily confer standing upon the licensee. For example, the Court of Appeals for the Federal Circuit has denied standing to an exclusive licensee when the term of the license did not extend to the whole term of the patent. For a further discussion, see Samantha French, Limited-Term Exclusive Licenses Lack Independent Standing to Sue for Patent Infringement (2006), http://www.bakerbotts.com/file_upload/February2006IPReportFrenchArticle.htm (last visited Oct. 25, 2006) (on file with the North Carolina Journal of Law & Technology).

¹⁵⁴ *Telequip Corp. v. Change Exch.*, No. 5:01-CV-1748, 2006 WL 2385425, 2006 U.S. Dist. LEXIS 61469 (N.D.N.Y. Aug. 15, 2006); *Smith & Nephew v. Synthes (U.S.A.)*, No. 2:02-CV-02873, slip op. (W.D. Tenn. Oct. 2, 2006).

In the first example, Smith & Nephew sued Synthes alleging infringement of patents held by Smith & Nephew concerning certain medical devices.¹⁵⁵ After a finding of infringement, Smith & Nephew requested a permanent injunction prohibiting Synthes from manufacturing or selling the infringing products.¹⁵⁶ Synthes claimed that the infringing products did not compete heavily with Smith & Nephew's products and thus further sales of the infringing products would not significantly affect Smith & Nephew's business.¹⁵⁷ In addition, Synthes argued that because Smith & Nephew had been willing to license its technology to competitors in the past it could be adequately compensated by monetary damages alone.¹⁵⁸ However, the court, applying the *eBay* factors, acknowledged that Smith & Nephew was a smaller company whose market momentum and ability to form customer relationships would be damaged by the continued sale of the infringing products.¹⁵⁹ Even if the lost profits could be calculated to a reasonable certainty, the loss of the market share and ability to form customer relationships made monetary relief inequitable.¹⁶⁰ The court rejected the notion that the plaintiff's willingness to license weighed against injunctive relief.¹⁶¹ The court characterized the *eBay* test as a "balancing test" in which the plaintiff must demonstrate it is entitled to an injunction by a totality of the circumstances weighing in their favor.¹⁶² Smith & Nephew demonstrated that the infringement by Synthes caused irreparable harm that could not be remedied by a monetary award.¹⁶³ In addition, the balance of hardships and the public

¹⁵⁵ *Smith & Nephew*, No. 2:02-CV-02873. The patents involved in the suit (U.S. Pat. Nos. 5,167,663 and 5,312,406) were directed to intramedullary nails and methods used for treating femoral fractures.

¹⁵⁶ *Id.* at 2.

¹⁵⁷ *Id.*

¹⁵⁸ *Id.*

¹⁵⁹ *Id.* at 3.

¹⁶⁰ *Id.* at 7.

¹⁶¹ *Smith & Nephew*, No. 2:02-CV-02873 at 7.

¹⁶² *Id.* at 4.

¹⁶³ *Id.* at 11.

interest weighed in favor of the grant of permanent injunctive relief against Synthes.¹⁶⁴

In the second example, Telequip Corp. (“Telequip”) obtained a default judgment against defendant, The Change Exchange, after the defendant’s failure to respond to the motion detailing the alleged infringing activity.¹⁶⁵ The court considered only the well-pled allegations from Telequip’s complaint ruling that the plaintiff had satisfied the four-factor test set forth in *eBay* and thus was entitled to a permanent injunction.¹⁶⁶

While it is not yet clear how the issue of permanent injunctions will ultimately be treated by the courts, early decisions suggest that courts may be more reluctant to issue permanent injunctions in cases of patent infringement.

3. *Alternative Remedies to Injunctions*

If a patentee fails to meet the burden to show that it is entitled to a permanent injunction, the remedy available is limited to monetary damages.¹⁶⁷ Monetary damages can incorporate several factors including: lost profits, royalties for infringing products sold, compensation for future infringement, and licensing fees.¹⁶⁸ In the case of patentees who do not practice the invention or sell a product, calculation of lost profits and a reasonable royalty becomes less certain or altogether impossible.¹⁶⁹ When there are no profits on which to base a dollar amount for damages, the ultimate result may be a court-ordered or “compulsory license.”¹⁷⁰

“A compulsory license is an involuntary contract between a willing buyer and an unwilling seller imposed and enforced by the

¹⁶⁴ *Id.*

¹⁶⁵ Telequip Corp. v. Change Exch., No. 5:01-CV-1748, 2006 WL 2385425, *1, 2006 U.S. Dist. LEXIS 61469, *1 (N.D.N.Y. Aug. 15, 2006).

¹⁶⁶ *Id.*

¹⁶⁷ *eBay*, 126 S. Ct. 1837 (2006).

¹⁶⁸ Mitchell Stockwell, *eBay: A Changed Legal Landscape*, 185 PAT. WORLD 23 (Sept. 2006), available at <http://www.kilpatrickstockton.com/publications/downloads/Patentworldmstockwellseptember2006.pdf> (on file with the North Carolina Journal of Law & Technology).

¹⁶⁹ *Id.*

¹⁷⁰ *Id.*

state.”¹⁷¹ Compulsory licensing schemes are often used for unblocking dependent patents in cases where a patent is not being used, or “where an invention relates to food or medicine.”¹⁷² Compulsory licensing schemes are in place in many other jurisdictions, including the United Kingdom and continental western Europe.¹⁷³ The compulsory licensing schemes are designed to reduce the leverage of patent trolls within these markets.¹⁷⁴

Compulsory licensing within the United States with regard to patents is governed by 28 U.S.C. § 1498(a), which enables the government to use or authorize the use of a patent without the express permission of the patentee.¹⁷⁵ The statute authorizes the

¹⁷¹ Gianna Julian-Arnold, *International Compulsory Licensing: The Rationales and the Reality*, 33 IDEA: J. L. & TECH. 349 (1993) (quoting P. GORECKI, ECON. COUNCIL OF CANADA, REGULATING THE PRICE OF PRESCRIPTION DRUGS IN CANADA: COMPULSORY LICENSING, PROD. SELECTION, & GOV'T REIMBURSEMENT PROGRAMMES (1981)).

¹⁷² *Id.* at 350. A dependent patent is a patent that cannot be practiced without infringing on an already issued patent. Unblocking may be used when the dependent patent is of much more value than the patent prohibiting its use.

¹⁷³ *Id.* at 352–53. Many countries have ratified the provisions of Article 5 of the Paris Convention, including the United States. For an excellent overview of the countries who subscribe to the Paris Convention and their compulsory licensing schemes, see *id.* at Appendix A. See also Patents Act 1977, 2006, c. 37; § 48 (Eng.), available at <http://www.ukpats.org.uk/patentsact1977.pdf> (on file with the North Carolina Journal of Law & Technology); Regulation (EC) 816/2006, 2006 O.J. (L 157) 1, available at http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_157/l_15720060609en00010007.pdf (on file with the North Carolina Journal of Law & Technology).

¹⁷⁴ *Id.*; see also Sarah Buchner, Trade Law Center for Southern Africa, Compulsory Licensing (Apr. 26, 2004), <http://www.tralac.org/scripts/content.php?id=19> (on file with the North Carolina Journal of Law & Technology). The compulsory licensing schemes are also designed to promote the availability of pharmaceuticals to developing countries. *Id.* Pharmaceutical companies and other research groups are opposed to these schemes arguing that they actually hinder the development of new drugs. *Id.* Their argument is that companies are less likely to invest in expensive research if they may be forced into an unfavorable license by the government. *Id.* However, these compulsory licensing schemes are critically important for maintaining the welfare state in Europe. *Id.*

¹⁷⁵ 28 U.S.C. § 1498(a) (2000 & Supp. 2004).

patentee to recover damages in the form of a reasonable royalty.¹⁷⁶ However, due to intense opposition,¹⁷⁷ this doctrine has not been extended beyond limited use by the government. Historically, compulsory licensing has only been used in the U.S. when a governmental entity claims the use of a patent through its sovereign power¹⁷⁸ or as a remedy in anti-trust cases.¹⁷⁹

Many patentees argue that the only sufficient remedy for infringement is an injunction because it is the only result that adequately protects the right to exclude others under the patent.¹⁸⁰ However, in cases where the plaintiff is a patent troll and its business is licensing patents, this argument is not very compelling.¹⁸¹ On the contrary, the grant of a license and monetary damages are almost identical to the troll's original objectives. Nevertheless, trolls have opposed the compulsory license as a remedy. One reason for this opposition is that the terms of the license are set by the court and not the patentee and, thus, may result in a lower fee than desired.¹⁸²

¹⁷⁶ *Id.*

¹⁷⁷ See Russell Mokhiber & Robert Weissman, *Focus on the Corporation*, 6 EAT THE STATE! 7, Nov. 21, 2001, <http://eatthestate.org/06-07/FocusOnCorporation.htm> (commenting on the United States Government's refusal to exercise its power under § 1498(a) to make the antibiotic Cipro available to the public during the Anthrax scare following the terrorist attacks of 9/11) (on file with the North Carolina Journal of Law & Technology).

¹⁷⁸ 35 U.S.C. § 181 (2000 & Supp. 2004) dictates that any patent containing subject matter that may be of a threatening nature to national security can be made available to the government. A patentee is entitled to compensation under 35 U.S.C. § 183 (2006). 42 U.S.C. §§ 2182, 2457 (2000 & Supp. 2004) also make patents available to the Department of Energy and NASA, respectively.

¹⁷⁹ *Finisar Corp. v. DirectTV Group, Inc.*, No. 1:05-CV-264 slip op. (E.D. Tex. July 7, 2006) is a recent example of how a district court may use a compulsory license to avoid a monopoly.

¹⁸⁰ Raymond P. Niro, *The Patent Troll Myth*, PROF'L INVENTORS ALLIANCE, Aug. 4, 2005, http://www.piausa.org/patent_reform/articles/raymond_p_niro_08_04_2005 (on file with the North Carolina Journal of Law & Technology).

¹⁸¹ Williams & Gardner, *supra* note 19 ("[T]he typical patent troll has only one objective—recovering as much money as possible, as soon as possible. . .").

¹⁸² Compulsory licenses have become an issue within the United States, as evidenced by Rep. Sherrod Brown introducing a measure to grant compulsory

Despite the intense opposition to a compulsory license, at least one court has imposed this remedy upon finding that a permanent injunction was not warranted.¹⁸³ After finding that DirectTV infringed on Finisar's patents, the court ordered DirectTV to pay damages as well as an ongoing royalty for the life of the patent, but allowed DirectTV to continue using the infringing product.¹⁸⁴ An important factor in the court's rationale for granting a compulsory license was that DirectTV and EchoStar were the only businesses employing this technology and granting a permanent injunction against DirectTV would create a de facto monopoly in EchoStar's favor.¹⁸⁵

III. EFFECT OF *EBAY* ON PATENT TROLLS AND PATENT HOLDERS

A. *Patent Trolls*

Given the application of the *eBay*¹⁸⁶ decision by courts thus far, it is clear that the risk of a permanent injunction against defendants is diminished. Depriving the patent trolls of the leverage that a permanent injunction provides may have significant effects on the litigation strategies of both the trolls and their targets.¹⁸⁷ Target companies may be more willing to take their case to court in an attempt to invalidate the patents at issue.¹⁸⁸ If they lose, the result may only be in damages, which ultimately may be lower than the initial demand for a license fee by the troll.¹⁸⁹

licenses of patented inventions in certain health care emergencies. See H.R. 4131, 109th Cong. (2005).

¹⁸³ See *Finisar Corp.* No. 1:05-CV-264.

¹⁸⁴ *Id.*

¹⁸⁵ Posting of Dennis Crouch to Patently O: Patent Law Blog, Injunction Denied—Compulsory License Granted (Aug. 1, 2006), http://www.patentlyo.com/patent/2006/08/injunction_deni.html (on file with the North Carolina Journal of Law & Technology).

¹⁸⁶ *eBay*, 126 S. Ct. 1837 (2006).

¹⁸⁷ Stockwell, *supra* note 168.

¹⁸⁸ Williams & Gardner, *supra* note 19.

¹⁸⁹ Alexander Poltorak, *On 'Patent Trolls' and Injunctive Relief*, 6 PAT. STRATEGY & MGMT. 12 (May 2006), reprinted in IPFRONTLINE (May 12, 2006), available at <http://www.ipfrontline.com/depts/article.asp?id=10854&deptid=4>. (on file with the North Carolina Journal of Law & Technology).

Successful patent trolls often have a well-developed business plan.¹⁹⁰ They seek to acquire patents on technology that is either: (1) used in a wide variety of products; or (2) a critical element of a system already being utilized.¹⁹¹ Obtaining these types of patents has several advantages. First, by targeting well-known companies who already use the technology, the troll may be able to obtain some “high profile” licensees that will serve to increase the visibility and credibility of the troll’s technology.¹⁹² Before *eBay*, if the disputed technology was a component of a widely used or critical system, the threat of injunction may have persuaded companies to accept the license fee offer without much resistance.¹⁹³

Another business strategy employed by patent trolls is to attempt to secure many licensees by requesting modest licensing fees.¹⁹⁴ The licensing fees requested are often less than \$100,000; however, the number of companies targeted may be in the hundreds.¹⁹⁵ The rationale behind this type of licensing scheme is that companies may be willing to pay the modest fee just to make the troll go away.¹⁹⁶ However, this response only serves to strengthen the troll’s position; if trolls are successful with some companies, they can use that success as leverage against future targets.¹⁹⁷ The larger the troll’s roster of licensees, the less able companies will be to resist the troll’s request for a license.¹⁹⁸ However, from the troll’s perspective, because there are many targets, they may be unwilling to pursue a target that simply refuses to pay.¹⁹⁹ In these situations, the cost of litigation could still quickly exceed any benefit the troll may receive from the modest licensing fee.²⁰⁰

¹⁹⁰ Williams & Gardner, *supra* note 19.

¹⁹¹ *Id.*

¹⁹² *Id.*

¹⁹³ *Id.*

¹⁹⁴ *Id.* at 3.

¹⁹⁵ *Id.*

¹⁹⁶ *Id.*

¹⁹⁷ *Id.*

¹⁹⁸ *Id.*

¹⁹⁹ *Id.*

²⁰⁰ *Id.*

Other trolls seek larger licensing fees from a more select group of targets, typically asking for fees between \$200,000 and \$750,000.²⁰¹ Again, the troll must set the licensing fee in order to make it more efficient for the alleged infringer to simply pay the fee rather than litigate.²⁰²

Some trolls are especially greedy; they seek an enormous payoff from a very select number of targets.²⁰³ The licensing fees requested by these trolls have often exceeded \$10 million.²⁰⁴ Often the companies targeted are heavily invested in the use of the technology held by the troll.²⁰⁵ Unlike other demands by trolls, the cost of litigation may actually be lower than paying the fee.²⁰⁶ However, a targeted company risks losing at trial. If the target company decides to defend the action and loses, it risks being permanently enjoined from using the technology, a result that could have devastating effects.²⁰⁷ Trolls may now be forced to change their strategies by lowering the initial licensing fees below the cost of litigation to avoid the exposure of their patents to possible invalidation, a result that would cripple their business.²⁰⁸ Additionally, a target company may be more willing to litigate on patents that are critical to its business now that an injunction does not automatically issue.²⁰⁹

Another possible outcome is that the trolls may alter their business strategies. The trolls whose business plans involve targeting a small number of companies and requesting large licensing fees may find that these companies are more willing to go to trial rather than pay the fee.²¹⁰ During the course of litigation, the target company will have the opportunity to challenge the

²⁰¹ *Id.*

²⁰² *Id.*

²⁰³ *Id.*

²⁰⁴ *Id.*

²⁰⁵ *Id.*

²⁰⁶ *Id.*

²⁰⁷ Brenda Sandburg, *Trolling for Dollars: Patent Enforcers are Scaring Corporate America, and They're Getting Rich—Very Rich—Doing it*, THE RECORDER, July 30, 2001.

²⁰⁸ Williams & Gardner, *supra* note 19, at 4.

²⁰⁹ *Id.*

²¹⁰ *Id.*

validity of the troll's patents.²¹¹ If the patents are declared invalid, the whole business strategy of the troll is destroyed, and it will be unable to continue to license its technology.

However, the Supreme Court's decision is unlikely to affect trolls requesting smaller licensing fees. Companies may still find that paying the licensing fee is the most cost-effective option.²¹² As a result, trolls may adjust fees accordingly to encourage companies to accept the offer for licenses.²¹³ From a cost perspective, paying the licensing fee may be better for a company's bottom line; however, the result may only encourage the troll to select other companies as targets.²¹⁴

The four-factor test set down by the Supreme Court will likely undermine the grant of injunctions to patent trolls.²¹⁵ The factors to consider when deciding whether to grant an injunction are: (1) did the plaintiff show that they suffered irreparable injury; (2) are the remedies available at law, such as damages, inadequate to compensate the plaintiff for that injury; (3) considering the balance of the hardships between the plaintiff and the defendant, is a remedy in equity warranted; and (4) would the public interest be disserved by a permanent injunction?²¹⁶

The quintessential patent troll, one who does not practice an invention but seeks only to license it, will likely have difficulty proving the second prong of the four-factor test. When the patentee, whether it is an inventor or an assignee, does not practice

²¹¹ In patent infringement cases, courts hold a "Markman hearing" prior to trial in which the parties submit their differing interpretations of the claims. The court then construes the language of the claims and defines terms within the claims of the patent for the purpose of the litigation. In some cases the parties may elect to settle after the Markman hearing if one party's interpretation of the claims is deemed to be invalid. *See Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 976 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370 (1996). In addition, companies may petition the U.S.P.T.O. for an "inter partes" reexamination of the patent under 35 U.S.C. § 311. The patent may subsequently be found to be invalid and thus unenforceable.

²¹² *Williams & Gardner*, *supra* note 19, at 3.

²¹³ *Id.*

²¹⁴ *Id.*

²¹⁵ *eBay*, 126 S. Ct. 1837 (2006).

²¹⁶ *Id.* (citing *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311–13 (1987)).

the technology at issue, it is difficult to argue that an injunction is the only appropriate remedy for infringement. For trolls, and perhaps all non-practicing patentees, monetary damages will most likely be appropriate.²¹⁷

Trolls may also have problems with the third prong of the analysis that examines the balance of hardships between the plaintiff and defendant. When dealing with a non-practicing patentee, trolls will be hard-pressed to argue that allowing the defendant to practice its invention would be a hardship.²¹⁸ Additionally, when the technology at issue is a critical component of the defendant's technology, the hardship of an injunction may weigh heavily on the side of the defendant.²¹⁹ This rationale is reflected in Justice Kennedy's concurrence when he addressed situations where the infringing technology is only a part of the defendant's whole business plan.²²⁰

Justice Kennedy's observations were relevant in two recent decisions from the federal district courts.²²¹ In both instances, the defendants' use of the infringing technology was limited to a component of their product.²²² For Microsoft, the authentication software was used to verify the purchase of a Microsoft product and was not incorporated into the day-to-day operation of the program.²²³ In *Toyota*, Paice's technology was incorporated into part of the hybrid drive engines of several of Toyota's hybrid

²¹⁷ Steve Gardner, Partner, Kilpatrick Stockton, L.L.P., Intellectual Property Innovations Class: A Review of 2006 Patent Case Law and Its Implications for In-House Counsel, 2006 Intellectual Property Innovations Series (Aug. 3, 2006) (slide presentation and audio available at <http://www.kilpatrickstockton.com/publications/videos.aspx> (follow hyperlink to article)) (on file with the North Carolina Journal of Law & Technology).

²¹⁸ See *Smith & Nephew v. Synthes (U.S.A.)*, No. 2:02-CV-02873, slip op. (W.D. Tenn. Oct. 2, 2006) (holding that the hardship demonstrated must be separate from the other party's practice of the invention).

²¹⁹ See *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006); *Paice, L.L.C. v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, slip op. (E.D. Tex. Aug. 16, 2006).

²²⁰ *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring).

²²¹ See *z4 Technologies*, 434 F. Supp. 2d 437; *Paice*, No. 2:04-CV-211-DF.

²²² See *z4 Technologies*, 434 F. Supp. 2d 437; *Paice*, No. 2:04-CV-211-DF.

²²³ *z4 Technologies*, 434 F. Supp. 2d at 438.

vehicles.²²⁴ In both instances, the trial court cited the language of Justice Kennedy's concurrence in making the determination that an injunction should not be issued.²²⁵

The *eBay* decision may also inform cases in which business method patents are at issue, such as with the company DataTreasury.²²⁶ Because of the sometimes vague nature of business method patents,²²⁷ courts may be reluctant to grant an injunction because the scope of the patent may not be established at the time of litigation.²²⁸ In addition, an injunction may not be in the best interest of the public, as it would exclude the use of some new method of doing business.²²⁹

Trolls have long relied on the "automatic injunction" rule that existed prior to the *eBay* decision to leverage larger licensing and settlement fees out of their opponents by threatening litigation. Now, instead of receiving a guaranteed injunction if their patents are found to be infringed, trolls will be obligated to prove the elements of the test, which may lead to more defendants challenging the trolls' demands.

B. *Small Businesses/Independent Inventors*

The main focus of the *eBay* decision has been on its effect on patent trolls; however, a real danger exists for small companies or independent inventors that cannot afford to practice their technology. Many of these small businesses must disclose their patented technology to venture capitalists and others in order to

²²⁴ *Paice*, No. 2:04-CV-211-DF at 3.

²²⁵ *z4 Technologies*, 434 F. Supp. 2d 437; *Paice*, No. 2:04-CV-211-DF.

²²⁶ For a description of DataTreasury and its business practices, see Glen Fest, *Patently Unaware*, BANK TECH. NEWS, Apr. 2006, <http://www.banktechnews.com/article.html?id=20060403T76I26I8> (last visited Oct. 27, 2006) (on file with the North Carolina Journal of Law & Technology). It is interesting to note that DataTreasury argues that its patents are architectural in nature and are not business method patents.

²²⁷ See *supra* Section II(C)(3).

²²⁸ But see Stockwell, *supra* note 168 (arguing that the jury will already have passed on the vagueness issue before the motion for a permanent injunction is heard).

²²⁹ Williams & Gardner, *supra* note 19.

obtain the necessary capital to begin manufacture.²³⁰ These small businesses may also disclose their technology to a larger competitor or potential licensee in order to generate revenue.²³¹ However, now that injunctions are not the norm, larger companies will feel free to take the technology knowing that, most likely, they will only have to pay damages and will benefit enormously from the technology.

Since infringers have less reason to fear being enjoined, they may be disinclined to settle the claim, instead challenging the patentees to sue them. For many small, independent inventors, litigation is not an option. Not having enough capital to practice their invention, they certainly do not have enough to pay the enormous legal fees associated with patent litigation.

The four-factor test that will help stem the abuses of trolls can also be a difficult hurdle for small businesses seeking to obtain injunctions against large corporations.²³² Many small businesses, like patent trolls, do not practice their invention, although this may be due to inadequate facilities or capitalization and not part of a deliberate business plan. Independent inventors, like Dr. Voda,²³³ must license their patents to companies that have the capacity to take them to market. If courts, as in the *Voda* case, decline to extend the permanent injunction to licensees of independent inventors, then these inventors will lose the rights conferred by the patent.²³⁴ Larger companies that have the capacity to pay the damage awards will simply take the technology and use it. Because the patentee may not be able to tip the balance of the four-factors in its favor, it may be limited to monetary damages alone.

²³⁰ Mario W. Cardullo, World Intellectual Property Organization, Intellectual Property—The Basis for Venture Capital Investments, http://www.wipo.int/sme/en/documents/venture_capital_investments.htm (last visited Nov. 5, 2006) (on file with the North Carolina Journal of Law & Technology).

²³¹ *Id.*

²³² See *supra* Part II(C).

²³³ *Voda v. Cordis, Corp.*, No. CIV-03-1512-L, slip op. (W.D. Okla. Sept. 5, 2006).

²³⁴ The grant of a patent confers the right to exclude others from practicing the invention. 35 U.S.C. § 154 (2000 & Supp. 2004).

However, even if small companies or independent inventors receive a large monetary award, the permanent damage has been done. Without an injunction, the infringing corporation has full use of the technology and can often manufacture the product on a larger scale and at a cheaper price than the patentee. Because the patentee will now have to compete with a larger, perhaps well-known corporation, it may be ultimately frozen out of the market. This scenario was considered by the district court in *Smith & Nephew*.²³⁵ The court noted that if Synthes were to continue its infringing behavior, the relationships between Smith & Nephew and its surgeon clients would be forever damaged, thus necessitating a permanent injunction against Synthes.²³⁶

IV. CONCLUSIONS

In order for courts to be successful in their application of the *eBay* decision, they must carefully weigh the four factors set forth in the opinion. A large part of this careful consideration must be directed at discerning the relative positions of the plaintiff and defendant. The line between a patent troll and a legitimate patentee can be difficult to draw. In both cases, the court may find that the plaintiff does not practice its invention and only seeks to license its patents. Courts must look beyond these facts and determine whether the plaintiff is a fledgling company seeking to establish itself in the market or if the company simply exists to license the technology with no intentions of practicing the invention.

To make the distinction, courts must consider the overall business plan of the company and whether the infringer will effectively remove any opportunity for the company to succeed in the marketplace if allowed to continue infringing on the company's technology. If the company will be harmed by the continued activity of the infringer through the loss of its market share or existing customers, courts should grant the injunction to prevent an inequitable result. However, if the lawsuit is simply the result of

²³⁵ *Smith & Nephew v. Synthes (U.S.A.)*, No. 2:02-CV-02873, slip op. (W.D. Tenn. Oct. 2, 2006).

²³⁶ *Id.* at 7.

the refusal to pay a licensing fee to a patent troll, equity would dictate that an injunction should not issue.

The integrity of the patent system hinges upon courts making the correct determination. To aid in this determination, the Supreme Court has provided a balancing test that enables courts to adapt to the ever-changing modern patent landscape.

