

STUDENT ARTICLE

An Analysis of *eBay, Inc. v. MercExchange, L.L.C.*: Patenting Gone Awry

By James J. Lisak*

I. Introduction

A patent is no longer what it used to be. The drafters of the U.S. Constitution, who wanted to protect inventors' rights, probably never envisioned that patents would have developed into strategic business tools. Although the types of inventors and inventions have changed since the creation of the Constitution, the Constitution's protections have not. The courts, trying to continue in the spirit of the drafters, attempt to balance the inventors' rights and the public's interests.

This note will analyze if an injunction should be granted automatically when a patent is infringed. Section II will explain the patenting process, the relevant statutes, the courts' interpretation of the statutes, and the trends in case law. Section III will discuss and examine *eBay, Inc. v. MercExchange, L.L.C.*; whereas, section IV will analyze eBay and MercExchange's arguments. The Supreme Court decision will be discussed in section in V. Lastly, section VI will discuss the possible impact of the Supreme Court's decision on consumers and the Supreme Court's other options.

II. Background

To understand how the Supreme Court arrived at its decision in *eBay, Inc. v. MercExchange, L.L.C.*, it is first necessary to understand how the patent process works. Following the overview of the patent process, this section will discuss statutory law, courts' interpretation of the statutes, case ruling trends, and corporations' reac-

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tions to patent problems.

A. An Overview of the Patent Process

A patent provides legal protection of intellectual property, such as inventions.¹ In order to receive a patent the inventor files an application, with one or more claims per idea, with the United States Patent and Trademark Office (“PTO”), a federal agency of the United States Department of Commerce.² After filing a patent application, the PTO evaluates the usefulness, novelty (whether or not there is a new idea) and nonobviousness (advance over an earlier idea) of the invention.³ Upon a determination that these requirements have been satisfied, which most likely will require that the applicant better explain their invention, the PTO will approve the patent application.⁴ As a result of the legal protections, many inventors utilize this application process.

During the past twelve years, the number of patent applications the PTO handles has doubled to nearly 300,000.⁵ Additionally, each single patent application can be filed with more than one claim; in one instance, a single patent had 665 claims.⁶

This increasing amount of patent applications combined with approximately only nine examiners per 1000 applications has created validity problems.⁷ First, each examiner has between eight and twenty-five hours to read and comprehend each application, double check for erroneous claims, workout any problems with the patent and write their conclusions.⁸ Second, the PTO’s interests are aligned with the patentees because the PTO attorneys typically leave work for

¹ JANICE M. MUELLER, AN INTRODUCTION TO PATENT LAW 5 (2006) (providing a comprehensive overview of patents, the patent process, as well as patent litigation).

² U.S. Pat. and Trademark Office, available at <http://www.uspto.gov/web/menu/intro.html>.

³ MUELLER, *supra* note 1 at 40, 117, 167.

⁴ *Id.* at 40-42.

⁵ FED. TRADE COMM’N, TO PROMOTE INNOVATION: A PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 9-10 18 (2003).

⁶ *Patent Quality Enhancement in the Info.-Based Econ.: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary*, 109th Cong. 15 (2006).

⁷ Carl Shapiro, *Patent System Reform: Econ. Analysis and Critique*, 19 BERKELEY TECH. L.J. 1017, 1030 (2004).

⁸ FED. TRADE COMM’N, *supra* note 5, at 10.

the law firms that originally represented the applying inventors.⁹ This has had the effect of increasing the probability that an invalid patent will be validated and overly broad patents will be granted.¹⁰ As a result, nearly 50% of the patents granted will not be able to survive a court challenge.¹¹

B. Statutes

According to Article 1 Section 8 of the Constitution, inventors have the exclusive right to their inventions in order to “promote the Progress of Science and Useful Arts.”¹² Patent holders also have the right to practice their inventions free from competition during the established time period, typically 20 years.¹³ Moreover, pursuant to Title 35 Section 271 of the U.S.C. (derived from the July 19, 1952 Act¹⁴), anyone who makes, sells, or offers to sell a patented invention without authority will be liable as a patent infringer.¹⁵ Finally, according to Title 35 Section 283, courts “. . . may grant injunctions in accordance with the principles of equity . . . on such terms as the court deems reasonable.”¹⁶

C. Courts’ Interpretation of the Statutes

In 1908, in *Continental Paper Bag Co. v. E. Paper Bag Co.* the U.S. Supreme Court held that the purpose of a patent is to restrain others from benefiting from a patentee’s invention and that courts have the power to grant injunctions according to the principles of equity when a patent is infringed.¹⁷ The Court also held that a patent gave the inventor an “absolute property” right to that patent, even if the inventor did not use or let others use his device.¹⁸ Similarly, the

⁹ *Id.* at 12.

¹⁰ Shapiro, *supra* note 7, at 1022.

¹¹ *Id.* at 1028.

¹² U.S. CONST. art. I, § 8, cl. 8.

¹³ 35 U.S.C. § 271(a) (2005).

¹⁴ See July 19, 1952 Act, as amended Pub. L. No. 94-131, 89 Stat. 685 (1975).

¹⁵ 35 U.S.C. § 271 (2005).

¹⁶ 35 U.S.C. § 283 (2005).

¹⁷ *Continental Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 423-26 (1908). Note, this case was heard before Congress enacted 35 U.S.C. 283; however, it was heard under the similar U.S. Comp. Stat. 1901, p. 3395.

¹⁸ *Id.* at 424-25.

Court held that a patentee is entitled to an injunction against an infringer, even though the inventor did not use his invention.¹⁹ Finally, the Court reasoned that it was proper for a lower court to issue an injunction when higher prices and diminished supply were at issue.²⁰

The modern court has upheld the decision in *Continental* in finding a similar interpretation of these statutes in *Smith Int'l, Inc. v. Hughes Tool Co.*²¹ The *Smith* court held that a patent shall have all of the attributes of personal property and that a court may grant an injunction under the principles of equity.²² The Court reasoned that injunctions provide the patent holder with leverage when trying to extract a reasonable value for their product.²³ Finally, the court commented that “public policy favors protection of the rights secured by the valid patent(s)” and that an injunction will be generally granted.²⁴

To determine whether an injunction should be granted, courts of equity apply a four prong test. A court will grant an injunction when: (1) the plaintiff will face irreparable injury if the injunction is not granted; (2) the plaintiff has no adequate remedy at law; (3) the injunction is in the public interest; and (4) the balance of hardship tips in the plaintiff's favor.²⁵

Similarly, the court in *Roche Prod., Inc. v. Bolar Pharm. Co.* advocated for courts to continue to read 35 U.S.C. 283 literally and apply the historical four prong equity test.²⁶ The purpose of equity jurisdiction was to mold relief to the particular case by reconciling public and private interests and taking into account the particular circumstances.²⁷ Finally, the court noted that Congress would have to rewrite 35 U.S.C. 283 if it wanted automatic permanent injunctions for patent infringement.²⁸

¹⁹ *Id.* at 426.

²⁰ *Id.* at 429-30.

²¹ *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1577 (Fed. Cir. 1983).

²² *Id.*

²³ *Id.* at 1577-78.

²⁴ *Id.* at 1578, 1581.

²⁵ Petition for Writ of Certiorari at 8, *eBay, Inc. v. MercExchange, LLC*, No. 05-130 (July 25, 2005) (quoting *Odetics, Inc. v. Storage Technology Corp.*, 14 F. Supp.2d 785, 794 (E.D.Va. 1998)).

²⁶ *Roche Prod., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 866-67 (Fed. Cir. 1984).

²⁷ *Id.*

²⁸ *Id.*

D. Trends in Case Law

Even though the cases illustrate that the courts are torn between the inherent differences involving Article I Section 8 of the Constitution and 35 U.S.C. 283, the courts generally grant permanent injunctions when a party infringed on another's patent.²⁹ Moreover, in order for a court to deny an injunction, a plaintiff needs a very high level of public interest against his cause of action.³⁰ These trends, and the aforementioned problems, have driven corporations to take proactive steps to protect themselves.

E. Corporate Reaction To Patent Problems

Corporations have reacted to the patent problems by shying away from litigation and preferring to pay royalties. Corporations prefer to pay royalties or license the patentees' inventions even though the patent is possibly invalid.³¹ Moreover, corporations fear patent infringement lawsuits because juries are unpredictable regarding patent validity.³² Specifically, in computer development where the patents are numerous and build upon one another creating a "patent thicket," competitors change their business strategy, apply for many patents, and are more likely to surrender to the whim of the patent holders.³³ In some instances, shockingly, some corporations will simply refrain from doing research or entering into a particular field in order to avoid patent problems.³⁴

III. Discussion

Despite trying to avoid patent infringement, corporations are still hauled into court. One of the most recent of disputes, *MercExchange, L.L.C. v. eBay, Inc.*, was filed in Federal District Court in 2001.³⁵ Plaintiff MercExchange was a patent holding company

²⁹ *Smith*, 718 F.2d at 1578, 1581.

³⁰ Brief in Opposition to Petition for Writ of Certiorari at 4, *eBay, Inc. v. MercExchange, L.L.C.*, No. 05-130 (Sept. 26, 2005).

³¹ Patent Quality Enhancement *supra* note 6, at 9-10.

³² *Id.*

³³ FED. TRADE COMM'N, *supra* note 5, at 6-7.

³⁴ *Id.* at 5.

³⁵ *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323 (Fed. Cir. 2005).

founded by a patent attorney.³⁶ Plaintiff did not produce an actual product; rather, it purchased patents from the original patent holders, licensed them, and then sued infringing companies.³⁷ Defendant eBay and its subsidiary Half.com are online auction sites that provide their customers with a forum to auction off their own merchandise by hosting a website for other customers to bid on.³⁸ Defendant also offers a “buy now” service in which customers assign a fixed price for their goods to create a situation which avoids the auction process.³⁹ The Plaintiff alleged that Defendants willfully infringed on their “buy now” technology patents.⁴⁰

A. Court Decisions

The United States District Court for the Eastern District of Virginia found that Defendants willfully infringed on Plaintiff’s patents and awarded damages of \$10.5 million and \$19 million from eBay and Half.com, respectively.⁴¹ However, the judge denied Plaintiff’s motion for a permanent injunction.⁴² Applying the traditional equitable principles for injunction, the district court found there was no irreparable harm because Plaintiff was not producing the product.⁴³ Further, the District Court also reasoned that public interest was in favor of the Defendant due to the negative impact of non-practicing entities (“NPE”), and that the Plaintiff did not seek a preliminary injunction.⁴⁴ Moreover, the District Court reasoned that if the injunction were issued it would only result in additional lawsuits.⁴⁵ Plaintiff and Defendant appealed this decision.

The United States Court of Appeals for the Federal Circuit reversed the district court’s decision not to grant a permanent injunc-

³⁶ Marcia Coyle, *Critical Patent Issue in eBay Case: High Court to Review Injunctions*, 28 NAT’L 27, Mar. 13, 2006.

³⁷ Parker H. Bagley and Robert C. Scheinfeld, *Patent and Trademark Law*, 235 N.Y.L.J. 3, 3 (2006).

³⁸ See eBay Home Page, <http://www.ebay.com> (last visited Oct. 24, 2006) and Half.com Home Page, <http://www.half.com> (last visited Oct. 24, 2006).

³⁹ Bagley, *supra* note 37, at 3.

⁴⁰ *Id.*

⁴¹ *MercExchange*, 401 F.3d at 1326.

⁴² *Id.* at 1339.

⁴³ *Id.*

⁴⁴ *Id.*

⁴⁵ *Id.*

tion.⁴⁶ The Court of Appeals held that a court may deny injunctive relief only when the patentee's non-use of his patent frustrates the public's need for the product, such as when public health is in danger.⁴⁷ Additionally, the Court of Appeals held that the fear of future litigation is not a sufficient basis to deny injunctive relief because even if the injunction were not given, there would likely still be lawsuits from future infringement of the patent.⁴⁸ Finally, the Court of Appeals held that injunctions were not just reserved for those who intended to practice their patents and those who motioned for a preliminary injunction.⁴⁹ Defendants appealed to the United States Supreme Court, who granted the petition for writ of certiorari requesting that the parties expand their question to see if the "Court should reconsider its precedents."⁵⁰

B. Defendant's Argument

Defendant argued that: (1) the Court of Appeals' ruling was inconsistent with 38 U.S.C. 283; (2) property law did not require an injunction; and, (3) public policy favored Defendant.⁵¹

First, Defendant argued that the Court of Appeals' decision created a *per se* rule to grant an injunction automatically after a patent had been infringed.⁵² This decision was inconsistent with 38 U.S.C. 283 because the statute specifically stated that courts "may" grant an injunction, not that they shall grant an injunction.⁵³ Although Defendant conceded that granting an injunction was the general rule, it stressed that there could be no *per se* rule because a *per se* rule would not require plaintiffs to prove the four prongs of the equitable principles injunction test.⁵⁴ Such a *per se* rule would defeat the flexibility that that balancing test of equity requires.⁵⁵ Defendant also stressed that automatically granting an injunction would not protect

⁴⁶ *MercExchange*, 401 F.3d at 1339.

⁴⁷ *Id.* at 1338-39.

⁴⁸ *Id.*

⁴⁹ *Id.*

⁵⁰ *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 733, 733 (2005).

⁵¹ Petition for Writ of Certiorari, *supra* note 25, at iii.

⁵² *Id.* at 13.

⁵³ *Id.*

⁵⁴ *Id.* at 16-17.

⁵⁵ *Id.*

defendants if a patent was subsequently found invalid after the permanent injunction were granted.⁵⁶ Defendant further supported its argument referring to the *Roche* court that held that issuing injunctions is discretionary.⁵⁷ Finally, Defendant argued that it was up to Congress to change the language of the statute to make permanent injunctions automatic.⁵⁸

Second, Defendant argued that property law principles did not mandate automatically issuing a permanent injunction.⁵⁹ Defendant proved its argument that the injunctive right to exclude is a right, not a remedy, because the injunctive remedy has to be appropriate according to equitable standards.⁶⁰ Further, the relief for property right infractions can vary from money damages to injunctions, depending on the amount of substantial harm.⁶¹ Moreover, Defendant cited *Continental* in arguing that patent injunctions were the same as other injunctions and that both required applying equitable principles.⁶²

Third, Defendant argued that a *per se* rule violated public policy because injunctions come with heavy fines that burden businesses, they raise the costs of damages, and they allow the plaintiff to hold subsequent contempt hearings.⁶³ All of these reasons make an injunction a harsh remedy because it has the potential to force businesses to shut down.⁶⁴ Additionally, the complexity of patents and the subsequent lawsuits illustrate that patents themselves are flawed and that automatically granting injunctions would remove a tool that dealt with the patent problems.⁶⁵ Moreover, Defendant argued that granting automatic injunctions would give NPE's more incentive to obtain and license patents, rather than produce a socially beneficial product, and sue companies that infringe the patents.⁶⁶ Thus, *per se* permanent injunctions would only increase licensing costs, create higher costs to consumers, and lower the amount of socially benefi-

⁵⁶ Petition for Writ of Certiorari, *supra* note 25, at 15-16.

⁵⁷ *Id.* at 17-18.

⁵⁸ *Id.* at 18.

⁵⁹ *Id.* at 23.

⁶⁰ *Id.*

⁶¹ Petition for Writ of Certiorari, *supra* note 25, at 23

⁶² *Id.* at 24-25.

⁶³ *Id.* at 25-26.

⁶⁴ *Id.* at 25.

⁶⁵ *Id.* at 26-27.

⁶⁶ Petition for Writ of Certiorari, *supra* note 25, at 27.

cial products.⁶⁷

C. Plaintiff's Argument

Plaintiff argued that: (1) the Court of Appeals' ruling was correct; (2) property law did allow for injunctions; and, (3) public policy favored the patentee.⁶⁸

First, Plaintiff argued that the Court of Appeals correctly overturned the District Court's ruling by not granting a permanent injunction.⁶⁹ Plaintiff argued that the Court of Appeals did not create a *per se* rule, but rather it upheld its previous decisions that granting injunctions was the general rule except for extraneous public circumstances.⁷⁰ Countering the Defendant's argument, Plaintiff argued that the Court of Appeals applied the principles of equity when it distinguished the District Court's ruling, and that irreparable harm and inadequacy of legal remedies (elements of the four prong test) were the natural consequences of violating exclusive rights.⁷¹ Further, Plaintiff argued that injunctions were not reserved just for those who practiced a patent, but they were available to all groups and that patent laws gave the patent holder an exclusive right to their invention.⁷² Moreover, Plaintiff argued that the courts generally look at the policy of the statute, which according to 38 U.S.C. 283 was to protect patentees' interests.⁷³

Second, Plaintiff argued that the right to exclude was a universal property right.⁷⁴ Plaintiff relied heavily on *Continental* because injunctive relief was the essence of the right to exclude.⁷⁵ This right to exclude was based on the principle expressed in *Smith*, that the purpose of the patent's right to exclude was to prevent others from utilizing the discovery.⁷⁶ If there was no right to exclude, then

⁶⁷ *Id.*

⁶⁸ Brief in Opposition to Petition for Writ of Certiorari, *supra* note 30, at iii.

⁶⁹ *Id.* at 1.

⁷⁰ *Id.* at 4.

⁷¹ *Id.*

⁷² *Id.* at 13.

⁷³ Brief in Opposition to Petition for Writ of Certiorari, *supra* note 30, at 16-17.

⁷⁴ *Id.* at 5.

⁷⁵ *Id.* at 3.

⁷⁶ *Id.* at 20.

the purpose of the patent would diminish because a patent's purpose is to allow the inventor to monopolize his idea.⁷⁷

Third, Plaintiff argued that public policy favored ruling for the patent holder because the patent infringer was infringing on the rights of the "innocent property owner."⁷⁸ Moreover, the public did not have any significant interest in being able to buy and sell goods over the internet.⁷⁹ Further, Plaintiff argued that the patent's purpose was to give the patent holder a right to his invention and without a right to an injunction the licensing/selling value of the patent would decrease substantially.⁸⁰ Since the patentee would not receive a fair value for his invention, he would have more incentive to keep his ideas as a trade secret, thus depriving the public of the invention and a socially beneficial product.⁸¹ Finally, Plaintiff challenged the notion that it was an NPE because it tried to commercialize the product, but due to a lack of capital and the rampant patent infringement it was not able to produce the idea.⁸² Plaintiff argued that the rampant infringement on patents gives inventors less incentive to put in the time, effort and money into creating new ideas.⁸³

IV. Analysis

Automatically granting permanent injunctions is not appropriate given the law and the current patent and business environments.

First, statutory law clearly asserts that injunctions do not have to be automatically granted. As Plaintiff argued, the plain language of 38 U.S.C. 283 states courts "may" issue patents when the principles of equity are satisfied.⁸⁴ If Congress wanted automatic injunctions it would have said so; however, the intention of Congress was to give the courts the discretion to choose.⁸⁵ As much as Plaintiff argued that there is a *per se* rule, the courts still apply discretion. Plaintiff's interpretation that injunctions are automatically granted is

⁷⁷ *Id.*

⁷⁸ Brief in Opposition to Petition for Writ of Certiorari, *supra* note 30, at 4-5.

⁷⁹ *Id.*

⁸⁰ *Id.* at 20.

⁸¹ *Id.* at 29.

⁸² *Id.* at 6.

⁸³ Brief in Opposition to Petition for Writ of Certiorari, *supra* note 30, at 6

⁸⁴ 35 U.S.C. § 283 (2005).

⁸⁵ *See Roche*, 733 F.2d at 866-67.

flawed, because it fails to see that courts in rare instances do not issue injunctions. All previous case law, even *MercExchange*, stress that injunctions are not automatically granted.⁸⁶ Specifically, the Federal District Court stated that public health (*MercExchange* case uses the term “public interest”) was an exception to granting injunctions.⁸⁷

As Defendant pointed out, 38 U.S.C. 283⁸⁸ and Article 1 Section 8 of the Constitution⁸⁹ have to be read together. Interpreting these statutes together illustrates that the underlying purposes of patent law is to protect the exclusive property rights of the inventor and to promote scientific progress.⁹⁰ The Court’s current discretion to grant an injunction exemplifies the intent to protect both the inventor’s and public’s interests. Moreover, the purpose of the patent system is to allow ideas to flow publicly and not to be held as trade secrets. As the Plaintiff wrote, removing the NPEs’ and the inventors’ access to injunctions would only encourage them to keep their ideas as trade secrets, thereby undermining the purpose of the patent system.⁹¹ Courts support the inventor’s property rights because they generally grant injunctions. However, the courts sometimes do not grant injunctions because they realize that there are certain situations where the public would be greatly harmed if an injunction were granted.

Second, courts need to use discretion when granting permanent injunctions because of the current patent crisis. As mentioned in Part II(a), the PTO is swamped with patents and 50% of patents are erroneous.⁹² This patent environment strongly supports Defendant’s argument against automatically granting injunctions.

Both Plaintiff and Defendant agree that a permanent injunction is a very strong tool for the inventor to possess and the ability for courts to use their discretion in granting injunctions is critical when trying to overcome problems with poor patents. If a court recognizes that a patent is incorrect and/or if the PTO recognizes that a patent was granted erroneously, granting a permanent injunction would unjustly hurt the alleged patent infringer who is “infringing” on an invalid patent. Moreover, as Plaintiff argued, with very complex prod-

⁸⁶ *MercExchange*, 401 F.3d at 1338.

⁸⁷ *Id.* at 1338-39.

⁸⁸ 35 U.S.C. § 283 (2005).

⁸⁹ U.S. CONST. art. I, § 8, cl. 8.

⁹⁰ 35 U.S.C. § 283 (2005); U.S. CONST. art. I, § 8, cl. 8.

⁹¹ Brief in Opposition to Petition for Writ of Certiorari, *supra* note 30, at 29.

⁹² See *supra* Part II(a).

ucts, such as websites where the product is composed of many patents, if one of the single patents is held invalid, it may have the unjust result of destroying the whole complex product. Defendant countered, that though the inventor has an exclusive right to his invention, automatic injunctions are not proper, because many patentee's are taking advantage the current patent crisis by submitting continuances to entrap possible patent infringers and applying for many claims within one patent. Thus, the discretion of applying the four prong equity test allows the courts to recognize the problems with patents and lessen the problems of patents granted in bad faith or erroneously.

Additionally, Plaintiff overstated that its company, MercExchange, was not a NPE. NPEs take advantage of the patent system by not creating a product and only extorting money from other companies that actually produce a socially beneficial product.⁹³ Even though NPE's take advantage of the system by not producing any socially beneficial product, actual inventors who do not have the large amounts of capital required to produce their idea should not be penalized by having their right to an injunction removed. After all, injunctions provide the inventor with the necessary leverage to negotiate an appropriate value for their invention, further supporting the idea that courts should have the discretion to grant permanent injunctions.

Thus, statutory law upholds discretionary use of injunctions, the Court of Appeals decision did not overturn previous decisions making a *per se* rule, and the current case law allows the courts to use discretion when granting injunctions. Further, the current patent crisis supports courts' discretionary use of injunctions. Accordingly, the Supreme Court ruled that the courts still have the discretion to issue an injunction and are required to apply the traditional principles of equity.

V. Supreme Court Decision

On May 15, 2006, delivering the unanimous opinion of the Court, Justice Thomas vacated the Court of Appeals' judgment in *eBay, Inc. v. MercExchange, L.L.C.* and remanded the case for further proceedings, without overturning previous precedent.^{94, 95} The

⁹³ Petition for Writ of Certiorari, *supra* note 25, at 27.

⁹⁴ *eBay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1841 (2006).

⁹⁵ On the July 6, 2006 remand to the Court of Appeals, the appellate court, without making any findings or holdings, remanded the case back down to the district court for further proceedings consistent with the Supreme Court decision. *MercExchange, L.L.C. v. eBay, Inc.*, No. 03-1600, 2006 WL 2036554, at *1

Court reasoned that 35 U.S.C. 283 did not intend courts to depart from applying traditional principles of equity when deciding whether or not to grant an injunction.⁹⁶ Additionally, the Court reiterated that patents are to have the attributes of personal property, thereby necessitating the application of the principles of equity.⁹⁷ Further, the decision critiqued both the Federal District Court and the Court of Appeals rulings.⁹⁸

The Court held that the Federal District Court incorrectly applied an overly expansive interpretation of the principles of equity.⁹⁹ It reasoned that whether or not a patent holder decided to license or was willing to license did not indicate if the patent holder would suffer irreparable harm if the injunction was not granted.¹⁰⁰ Conversely, the Court held that the Court of Appeals applied an overly narrow interpretation of the principles of equity.¹⁰¹ It reasoned that whether or not an injunction was to be granted did not depend on how unusual, exceptional, or rare the circumstances were.¹⁰² Thus, the Court decided in favor of precedent and required that the traditional principles of equity should be applied when deciding whether or not to grant an injunction after a patent had been infringed.¹⁰³ In addition, the Court clarified when an injunction should or should not be granted.¹⁰⁴

VI. Impact of the Supreme Court's Decision

The Supreme Court could have ruled in one of three ways: (1) requiring automatically granting injunctions after a patent was infringed; (2) eliminating the possibility of granting injunctions after a patent was infringed; or (3) allowing courts to apply the principles of equity to decide when to grant an injunction. Each of one of these rulings would have had a unique affect on businesses, inventors, and consumers. Below are my assessments of what would have occurred

(Fed.Cir. Jul. 6, 2006). The district court has not entered any decisions as of October 25, 2006.

⁹⁶ *eBay*, 126 S.Ct. at 1839.

⁹⁷ *Id.* at 1840.

⁹⁸ *Id.*

⁹⁹ *Id.*

¹⁰⁰ *Id.*

¹⁰¹ *eBay*, 126 S.Ct. at 1841.

¹⁰² *Id.*

¹⁰³ *Id.*

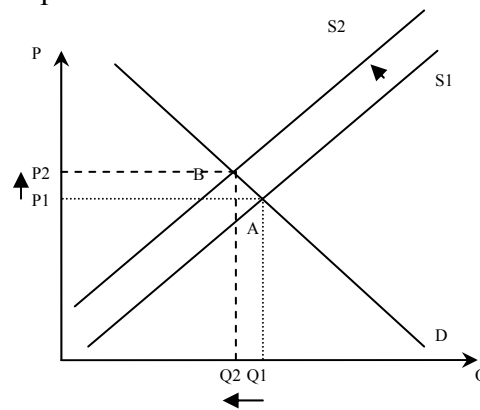
¹⁰⁴ *Id.*

if the Supreme Court had decided to proceed in each of the three ways.

A. Automatically Grant a Permanent Injunction

First, there would have been negative results if the Supreme Court ruled that permanent injunctions had to be automatically granted once a patent was infringed. If the Supreme Court ruled that permanent injunctions were mandatory, the prices of patent dependent goods and patent royalties would have risen because the patent holders would have had more leverage during the negotiating process and would have demanded higher prices.

Applying a typical economic supply and demand graph, before the Court's ruling, points P1 and Q1 are the equilibrium price and quantity demanded, respectively. This rise in licensing prices would result in higher costs of production and line S1, supply of products, would move up to S2. Similarly, if the companies refused to purchase the patents, they would have to spend money to create a work



around patent. This would also increase the cost of production. Such a move would result in an increase in the price of products to point P2 and the quantity demanded for the products would decrease to point Q2.

Currently, the courts grant permanent injunctions nearly automatically, but there is still some discretion. Now, the licensing costs for products add nearly 30% of the sales value to technological products.¹⁰⁵ If injunctions were granted automatically, this additional leverage would allow patent trolling companies to increase royalty prices, thus further increasing the licensing costs per product.¹⁰⁶

The producing power of the U.S. would have been constricted and the economy would have stagnated, as was witnessed after the most recent dot-com crash.¹⁰⁷ With less people demanding the prod-

¹⁰⁵ Alan Cane, *FT Report: Digital Business*, FIN. TIMES. September 20, 2006, 2006 WLNR 16339156. FTREP 2.

¹⁰⁶ Petition for Writ of Certiorari, *supra* note 25, at 27.

¹⁰⁷ F. GERARD ADAMS, *THE E-BUSINESS REVOLUTION & THE NEW ECONOMY: E-ECONOMICS AFTER THE DOT-COM CRASH* 8 (2004).

ucts due to the higher prices, companies would have no choice but to lay off workers, reduce the amount of research and development expenses, and to try to find ways to lower the prices of goods.¹⁰⁸ Moreover, some courts have found that if an injunction would result in laying off employees, they are less likely to grant permanent injunctions.¹⁰⁹ A decision for automatic injunctions without applying the equitable principles would eliminate this discretion¹¹⁰ and result in possible unemployment.¹¹¹ These higher prices would naturally affect the consumer who would be able to purchase fewer goods, assuming that they continued to have the same income.

If the Supreme Court decided to make permanent injunctions a *per se* rule following a patent infringement, the patent holders' advantage in the negotiation process would force corporations to find ways around the patents or force them to enter into areas where patent problems were not as rampant.¹¹² Moreover, if the patentee was provided stronger protections in the litigation process, such as automatic permanent injunctions, they would be more willing to bring suit and the alleged infringer would have less incentive to fight even if the patentee's patent was likely invalid.¹¹³ Such a decision would have illustrated that the Supreme Court was turning its back on a crisis that needed to be resolved.

B. Never Grant a Permanent Injunction

Second, if the Supreme Court completely eliminated permanent injunctions there would also have been negative results. The purpose of patents is to protect the interests of the inventor. Had the Supreme Court eliminated this remedy, the value of the inventor's ideas would have drastically decreased. The inventor's decreased leverage would have resulted in many patent infringements because the only costs to the corporation for infringing on patents would have been litigation costs.¹¹⁴ Moreover, patent holders are not likely to engage in costly patent litigation, because many of the patent holders

¹⁰⁸ *Id.*

¹⁰⁹ HERBERT SCHWARTZ, PATENT LAW AND PRACTICE 178 (2001).

¹¹⁰ 27A AM. JUR. 2D *Equity* § 88 (2006).

¹¹¹ SCHWARTZ, *supra* note 109, at 178.

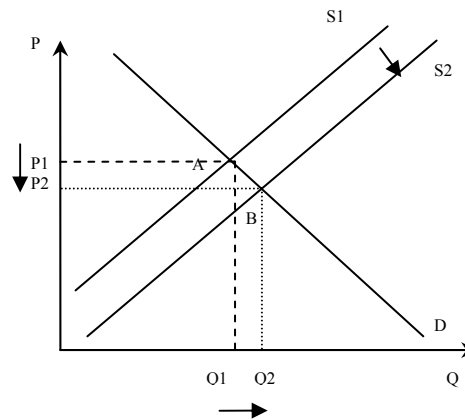
¹¹² FED. TRADE COMM'N, *supra* note 5, at 5.

¹¹³ ADAM B. JAFFE, INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT 177 (2004).

¹¹⁴ *See* Petition for Writ of Certiorari, *supra* note 25, at 24-27.

looking to license do not produce their product due to a lack of capital. To illustrate, it is typical for inventors to work independently, out of their homes, (rather than backed by corporations and outside financing), where as the cost for patent litigation is typically \$100,000.¹¹⁵ Additionally, the decreased protections would give the inventor less incentive to place substantial amounts of money into creating inventions, thereby decreasing innovation. As Professor Mueller commented, if there was no method to prevent “free riders,” then products would be under-produced.¹¹⁶ For example, pharmaceutical companies would not patent their new drug discoveries; rather, they would keep them as trade secrets. However, it is possible that another company could, through reverse engineering, create a similar product, but this would require a substantially higher amount of capital investment than simply copying a product from a patent. Thus, inventors and idea creation would suffer if granting a permanent injunction for patent infringement was not allowed.

In the long run this would negatively affect consumers because there would be a decrease in the development of ideas. Before the Supreme Court’s ruling, points P1 and Q1 would have been the equilibrium price and quantity demanded, respectively. Never granting an injunction would have resulted in the exact opposite reaction from the first situation. The lower costs of production, because of free riding, would increase the supply and cause S1 to move down. Then, there would be a lower price of P2 and this would in turn result in an increase of demand to Q2. The economy would grow quickly and consumers would enjoy low prices. However, this growth would come at the expense of a decline in future development, which would end up stifling the economy and would not promote the purpose of patents to increase scientific progression.



¹¹⁵ Tom Ramstack, *Patent Rulings Trouble Entrepreneurs: Inventors fear problems in defending rights in infringement cases*, C19, WASH. TIMES, September 11, 2006.

¹¹⁶ MUELLER, *supra* note 1, at 7.

C. Discretionary Granting of Permanent Injunctions

In this case, the Supreme Court wisely chose the middle ground. Even though the money spent on royalties will continue to stifle the growing economy, this decision will give the courts time to notice the negative effects of granting permanent injunctions when a company might be unjustly hurt by having to pay high damages when a patent might be held invalid.¹¹⁷ Additionally, this decision will provide time for the recognition that the PTO needs to adjust its low examination standard.¹¹⁸

Further, this decision will decrease the number of patent applications because the market will force the inventors to adjust their behavior. The inventors will realize that the value of their patent is dependent on the probability that it will be held valid. Thus, they will most likely submit correct patents, as opposed to submitting many patent applications just to get numerous invalid patents.

Additionally, this decision will positively affect consumers because the PTO will not be as bogged down trying to correct patents and the PTO will require less federal funding to employ the necessary staff to read through all of the erroneous patents. It will also further science and innovations because, as mentioned earlier, more companies will enter into new fields because they will not be worried of infringing on erroneously granted patents.

Finally, from a public policy stand point, providing judges with the discretion to decide when to grant a permanent injunction based on equity confronts the fact that every case is different. The facts from one infringement can be substantially different from the other. For example, it is possible that in a certain situation the infringer is judgment-proof, so the only possible remedy available is a permanent injunction.¹¹⁹ Moreover, in situations where granting a permanent injunction might harm the public's health, there is more reason to impose greater damages, but not to grant a permanent injunction.¹²⁰ Even if applying equitable principles to each case may be burdensome, applying the principles is the most just method of weighing the costs and benefits of certain type of remedies. Thus, this decision allows the PTO to correct its problem, allows for innovation, and gives judges the discretion to choose when to grant permanent injunctions.

¹¹⁷ See Petition for Writ of Certiorari, *supra* note 25, at 24-26.

¹¹⁸ ADAM B. JAFFE, *supra* note 113, at 162.

¹¹⁹ MUELLER, *supra* note 1, at 382.

¹²⁰ *Id.* at 383.

VII. Conclusion

Patent laws exist to protect the inventor's exclusive rights to his invention and to protect the public's interest in accessing that innovation. The courts have been grappling with this balancing act, but the law currently provides courts with access to decide in favor of the inventor by granting an injunction or in favor of public interest by not granting an injunction. Thus, as the Supreme Court held, courts need to balance the many interests and confront the reality that the patent system is temporarily flawed.