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The Supreme Court Engages in Judicial Activism in Interpreting the Patent Law in *eBay, Inc. v. MercExchange, L.L.C.*

Andrew Beckerman-Rodau*

Almost a century ago the United States Supreme Court held that a patent owner is generally entitled to permanent injunctive relief to prevent ongoing infringement. Lower courts, such as the United States Court of Appeals for the Federal Circuit, consistently applied this rule. Nevertheless, in eBay, Inc. v. MercExchange, L.L.C., *the Court overruled this general rule. Justice Thomas, writing for a unanimous Court, unequivocally repudiated almost a century of precedent in a cursory opinion devoid of any explanation or justification for its action. Precedent—a fundamental tenet of our judicial system that facilitates predictable judicial decisions—is undermined by the eBay decision. Chief Justice Roberts, in a concurring opinion, recognized the importance of precedent but failed to explain why he supported rejecting precedent in this dispute. Justice Kennedy, in a second concurring opinion, likewise recognized the importance of precedent. However, he suggested three somewhat dubious reasons for rejecting precedent in this case.*

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I. INTRODUCTION

The United States Supreme Court decision in *eBay, Inc. v. MercExchange, L.L.C.* is part of a broad attack on the current U.S. patent system.[1] It is clear some patent reform measures are necessary. However, proper reform can only occur if it is based on a correct understanding of the current patent system and the underlying policies and issues that support the current patent law.[2] Unfortunately, much of the public debate about patent law is based on incorrect or misleading information.

Critics of the patent system often decry private ownership of technology because information, including technology, is viewed as public property that should be outside the domain of private property

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1. 126 S. Ct. 1837 (2006); *see* Greg Hitt, *Industries Brace for Tough Battle over Patent Law*, WALL ST. J., June 6, 2007, at A1.

2. *See generally* FTC, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 4-5 (2003), *available at* http://www.ftc.gov/os/2003/10/innovationrpt.pdf (concluding the patent system generally achieves its goals but that some modifications are needed). Currently, patent reform has been difficult because the pharmaceutical and biotechnology industries are seeking only limited changes in the patent law. In contrast, the high technology and financial services industries are seeking a total overhaul of the patent system. Corey Boles, *Broad Patent-Law Overhaul Wins House Panel's Backing*, WALL ST. J., July 19, 2007, at A12; Stephen Heuser, *High Tech, Biotech Clashing on Patent Bill*, BOSTON GLOBE, July 19, 2007, *available at* http://www.boston.com/business/technology/articles/2007/07/19/high_tech_biotech_clashing_on_patent_bill/.

rights.[3] Nevertheless, a basic foundation of the U.S. capitalist economic system requires strong governmental protection of private property rights.[4] This includes both tangible and intangible property such as intellectual property.[5] The Founding Fathers of the United States recognized the importance of protecting intellectual property. They included an express clause in the United States Constitution granting Congress the power to enact a patent statute to grant property protection to inventions.[6] Congress acted promptly and as a result, a property-based patent system has existed in the United States since 1790.[7]

The patent critics' approach of making technological innovation unprotected public property fails to recognize that in a market-based economy a substantial portion of creative energy is driven by a desire for economic gain. Absent patent protection, an inventor would lose the ability to control his invention upon disclosure to the public. The lack of patent protection would be a disincentive for public disclosure of any information about an invention.[8] Patent law relies on human nature and the existence of a market-driven economic system to quash this disincentive.[9] Patent law recognizes this market-driven economy in

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3. *See* Richard Stallman, Speech at Cambridge University, The Danger of Software Patents (Mar. 25, 2002), *available at* http://lpf.ai.mit.edu/Patents/danger-of-software-patents.txt (arguing about the asserted dangers of patenting software). *See generally* The League for Programming Freedom, Against Software Patents (Feb. 28, 1991), *available at* http://lpf.ai.mit.edu/Patents/against-software-patents.html (arguing against patents on software).

4. G.S. Rasmussen & Assocs., Inc. v. Kalitta Flying Serv. Inc., 958 F.2d 896, 900 (9th Cir. 1992), *cert. denied*, 508 U.S. 959 (1993) ("[P]rivate ownership is the principal incentive for the creation and maintenance of commodities, and for their efficient allocation."); RICHARD POSNER, ECONOMIC ANALYSIS OF LAW 10-13 (1st ed. 1972) ("[T]he legal protection of property rights has an important economic function: to create incentives to use resources efficiently."). *See generally* DOMINICK T. ARMENTANO, THE MYTHS OF ANTITRUST 24 (1972) (stating that the U.S. economy primarily utilizes private property); Fay v. City of Springfield, 94 F. 409, 414 (C.C.S.D. Mo. 1899) (holding that the right to private property is a fundamental right).

5. *See generally* White v. Samsung Elecs. Am., Inc., 989 F.2d 1512, 1513 (9th Cir. 1993) (Kozinski, J., dissenting) ("Private property, including intellectual property, is essential to our way of life.").

6. Congress has the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. CONST. art. I, § 8, cl. 8.

7. *See generally* J. THOMAS MCCARTHY, ROGER E. SCHECHTER & DAVID J. FRANKLYN, MCCARTHY'S DESK ENCYCLOPEDIA OF INTELLECTUAL PROPERTY 443-44 (3d ed. 2004) (brief overview of the history of U.S. patent law).

8. *See* FTC *supra* note 2, at 2 ("Because the patent system requires public disclosure [of patented inventions], it can promote a dissemination of scientific and technical information that would not occur but for the prospect of a patent.").

9. "The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and

which individuals are typically spurred to act by the potential of gaining an economic reward for their actions.[10] To harness this individual economic drive, the patent law provides property rights to an invention in return for its public disclosure by the inventor.[11] Such public disclosure benefits the public at large by increasing the public storehouse of knowledge.[12] This results in the spread of knowledge, often triggering improvements to such disclosures.[13] Others may engage in utilization of such innovations to solve other problems, or it may trigger additional innovation.[14]

Removing the grant of property rights would not bring about an end to research and development activities. However, it would certainly reduce such activities. Investments in some research and development activities would decrease, particularly in technology areas such as pharmaceutical development, where large financial investments are required and the resulting product is incapable of being protected as a trade secret.[15] Additionally, some inventions would be maintained in secret and protected by both physical security measures and by trade secret law.[16] Ultimately, this would reduce the innovations that are disclosed to the public.

Patent law detractors clamoring for patent reform often refer to the monopolies that result from the issuance of patents.[17] The term

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useful Arts.'" Mazer v. Stein, 347 U.S. 201, 219 (1954); *see also* Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV 989, 993-94 (1997).

10. *See* sources cited *supra* note 9 and accompanying text.

11. *See infra* notes 212-216 and accompanying text.

12. *See* sources cited *infra* notes 215, 219; *see also* Integra Lifesciences I, Ltd. v. Merck KgaA, 331 F.3d 860, 873 (Fed. Cir. 2003) (Newman, J., dissenting), *vacated*, 545 U.S. 193 (2005).

13. *See generally* Bradford L. Smith & Susan O. Mann, *Innovation and Intellectual Property Protection in the Software Industry: An Emerging Role for Patents?*, 71 U. CHI. L. REV. 241, 263 (2004) (noting that public disclosure of invention by patent enlarges technological know-how that future inventors can utilize).

14. *See infra* notes 216-217 and accompanying text.

15. *See generally* Bradford S. Simon, *Intellectual Property and Traditional Knowledge: A Psychological Approach to Conflicting Claims of Creativity in International Law*, 20 BERKELEY TECH. L.J. 1613, 1626 (2005) (noting that significant development costs for pharmaceuticals require strong patent rights).

16. Most states have adopted the Uniform Trade Secrets Act. *See* Uniform Trade Secrets Act (1985), *available at* http://www.law.upenn.edu/bll/ulc/fnact99/1980s/utsa85.htm; Nat'l Conference of Comm'rs on Unif. State Laws, A Few Facts About the Uniform Trade Secrets Act, http://www.nccusl.org/nccusl/uniformact_factsheets/uniformacts-fs-utsa.asp (last visited Oct. 27, 2007) [hereinafter Nat'l Conference of Comm'rs] (listing adopting jurisdictions).

17. This view represents a misunderstanding of a monopoly. Monopolies are not per se objectionable. United States v. Aluminum Co. of Am., 148 F.2d 416, 429-30 (2d Cir. 1945). Federal antitrust law does not prohibit the existence of a monopoly. 15 U.S.C. § 2 (2000). It forbids *monopolizing*, which is defined as: "(1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power . . . ." United States

"monopoly" conjures up a negative image of a business enterprise that manipulates the marketplace to drive up prices unreasonably. This is a reasonable association because antitrust law makes it a serious crime to intentionally engage in activities that amount to monopolizing the marketplace.[18] However, the use of the term "patent monopoly" is really another way of stating that the patent owner has the right to exclude others from using his invention.[19] This meaning is analogous to a property right, which also gives the property owner the right to exclude anyone from using his property.[20] The reality is that individual patents have little direct impact on competition because most issued patents fail to generate any significant economic return.[21] Either the invention has little or no marketability, or a substitute for the patented invention already exists. The result is that it is improper to assume automatically that most patents afford any degree of market power.[22]

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v. Grinnell Corp., 384 U.S. 563, 570-71 (1966). The exclusive rights granted to patentees are analogous to the exclusive rights granted to owners of tangible property. Additionally, monopolizing requires the existence of monopoly power, which is usually defined as the ability to control price or restrict competition. United States v. E. I. du Pont de Nemours & Co., 351 U.S. 377, 389 (1956) (citing Standard Oil Co. of N.J. v. United States, 221 U.S. 1, 85 (1911)). The mere ownership of a patent does not automatically grant market power. *See generally* 35 U.S.C. § 271(d) (2000) (stating that unlawful patent misuse can only occur if the patentee has market power).

18. 35 U.S.C. § 2 (stating that intentionally monopolizing trade or commerce is a felony with penalties for individuals up to one million dollars and/or up to ten years in prison); *see also id.* § 1 (stating that the statute deems unlawful restraint of trade a felony with penalties for individuals up to one million dollars and/or up to ten years in prison).

19. *See* Seymour v. Osborne, 78 U.S. (11 Wall.) 516, 533 (1870) (holding that patents are property, not a monopoly); United States v. Dubilier Condenser Corp., 289 U.S. 178, 186 (1933), *amended by* 289 U.S. 706 (1933) ("Though often so characterized a patent is not, accurately speaking, a monopoly. . . .").

20. Int'l News Serv. v. Associated Press, 248 U.S. 215, 246 (1918) (Holmes, J., dissenting) ("Property depends upon exclusion by law from interference . . . ."); *id.* at 250 (Brandeis, J., dissenting) ("An essential element of individual property is the legal right to exclude others from enjoying it."); *see also* Moore v. Regents of the Univ. of Cal., 793 P.2d 479, 509 (Cal. 1990) (Mosk, J., dissenting) (holding that property is a bundle of rights including the right to possession of the property, use of the property, exclusion of others from the property, and the right to dispose of the property by sale or gift).

21. Gideon Parchomovsky & R. Polk Wagner, *Patent Portfolios*, 154 U. PA. L. REV. 1, 14, 27-28 (2005) (finding that economic data supports the conclusion that few individual patents have significant economic value, but that large patent portfolios may have economic value); *see also* James Bessen & Michael J. Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1, 8 (2005) (noting that 10% of patents account for 80-90% of economic return on patents).

22. U.S. DEP'T OF JUSTICE & FTC, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007), *available at* http://www.usdoj.gov/atr/public/hearings/ip/222655.pdf (noting that intellectual property rights rarely create monopolies); *see also* FTC *supra* note 2, at 2; *see also* Lemley, *supra* note 9, at 1041 (stating that most patents do not produce any market power).

Nevertheless, granting property rights to an invention, via patent law, may insulate the owner from some degree of marketplace competition. If a market exists for his invention, sales of a product incorporating the invention will not be constrained by competitors selling the same product.[23] This may allow a patent owner to charge a supra-competitive price or restrict availability of the product.[24] However, this only provides a high degree of market power to the patent owner if substitute products do not exist.[25] Conversely, the existence of market power due to a high demand for a unique product creates an incentive for competitors to develop substitute products to capitalize on this existing market demand.[26] This may result in increased competition and development of improved substitute products that ultimately benefit the public at large.[27]

Patent critics also point to large damage awards for patent infringement,[28] which are asserted to be an economic drag on the economy.[29] Despite news reports about large damage awards for patent infringement, very few patents are involved in litigation.[30] Of course, even patents that neither produce any direct revenue nor are involved in

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23. 35 U.S.C. § 154(a)(1) (stating that a patentee has right to exclude others from making, using, selling, or offering for sale the invention in the United States or importing the patented invention into the United States).

24. Phillip Areeda & Donald F. Turner, *Predatory Pricing and Related Practices under Section 2 of the Sherman Act*, 88 HARV. L. REV. 697, 702-03 (1975) ("The monopolist's price is thus higher, and its output lower, than the social optimum . . . .").

25. U.S. DEP'T OF JUSTICE & FTC, *supra* note 22, at 2. *See generally* E. THOMAS SULLIVAN & JEFFREY L. HARRISON, UNDERSTANDING ANTITRUST AND ITS ECONOMIC IMPLICATIONS § 2.03, at 21 (3d ed. 1998) (noting that a monopoly exists when "there is one seller of a good for which there is an absence of acceptable substitutes").

26. JAMES T. GWARTNEY, RICHARD L. STROUP, RUSSELL S. SOBEL & DAVID MACPHERSON, MACROECONOMICS: PUBLIC AND PRIVATE CHOICE 67 (11th ed. 2005) (stating that prices are directly related to production and higher demand leads to higher prices).

27. *See generally infra* note 217 and accompanying text.

28. *See, e.g.*, Mike Hughlett, *Blackberry Suit Settled*, CHI. TRIB., Mar. 4, 2006, § 2, at 1 (describing patent infringement suit that settled for $612.5 million). *See generally* Scott D. Stimpson & Steven D. Chin, *Patent Infringement Litigation: The Patent Holder's Perspective*, INTELL. PROP. TODAY, Jan. 2002, at 28 ("Patent damage awards can be staggering.").

29. Mark Chandler, Senior Vice President and General Counsel for Cisco Systems, Inc., testified before Congress on May 23, 2006, about problems with the current patent system. He noted that the high cost of patent infringement lawsuits and the increasingly large damage awards can deter innovation to the detriment of our economy. *Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Property of the S. Comm. on the Judiciary*, 109th Cong. 41-42 (2006), *available at* http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_senate_hearings&docid=f:24582.pdf.

30. Timothy R. Holbrook, *Possession in Patent Law*, 59 SMU L. REV. 123, 160 (2006) (discussing the value of the doctrine of equivalents in light of the fact that so few patents are ever litigated); Bessen & Meurer, *supra* note 21, at 2 (noting that 180,000 patents were granted in 2000, but only about 3000 (1.6%) were involved in litigation).

litigation may still affect the marketplace. For example, the existence of patents may create a market barrier that causes investors to avoid investing in technologies that might run up against an issued patent. Nevertheless, patent law, like other areas of law, represent a compromise or balance among competing interests—it seeks to promote innovative activities while minimizing marketplace interference.[31] Therefore a certain amount of unavoidable market interference results from issuing patents, while the elimination of patents would hinder innovation.

Issuance of so-called "silly" or "stupid" patents is often used as an example of the problems with the patent system.[32] However, if such patents are truly silly or stupid they are unlikely to have any commercial value and they will be ignored by the marketplace. Additionally, even if they represent an abuse of the patent system, one cannot automatically assume the entire patent system is in serious trouble. A small percentage of people will likely manage to abuse any system. For example, some citizens abuse the judicial system, yet no one would seriously suggest eliminating the court system.[33] Likewise, should the income tax system be abolished because some people engage in abusive tax avoidance? Moreover, the commercial applicability of many innovations may be difficult to predict. Hence, so-called "silly" or "stupid" inventions may end up having unforeseen beneficial uses.

Recently, news reports have trumpeted the problem of patent trolls as an example of the problematic anticompetitive aspects of patent law.[34] Typically, an enterprise that owns patents but fails to make any products

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31. *See* FTC, *supra* note 2, at 1-3 (discussing how patent law must be balanced against competition). *See generally* White v. Samsung Elecs. Am., Inc., 989 F.2d 1512, 1513-14 (9th Cir. 1993) (Kozinski, J., dissenting) (stating that property protection must represent a careful balance because overprotecting property, including intellectual property, can be just as harmful as underprotecting property).

32. Robert A. Armitage, *The Conundrum Confronting Congress: The Patent System Must Be Left Untouched While Being Radically Reformed*, 5 J. MARSHALL REV. INTELL. PROP. L. 268, 268-69 (2006). Books and Web sites collect so-called "silly" patents. *See* TED VANCLEAVE, TOTALLY ABSURD INVENTIONS: AMERICA'S GOOFIEST PATENTS (2001); *see also* Patently Silly Web Site, http://www.patentlysilly.com/ (last visited Oct. 27, 2007). *See generally* Daniel R. Cahoy, *An Incrementalist Approach to Patent Reform Policy*, 9 N.Y.U. J. LEGIS. & PUB. POL'Y 587, 654 (2005/06).

33. *See, e.g.*, Lubna Takruri, *Judge Rules in Favor of Dry Cleaner in $54M Suit over Missing Pants*, LAW.COM, June 26, 2007, http://www.law.com/jsp/article.jsp?id=1182762359671 (describing a customer who sued his dry cleaner for millions of dollars over lost pants; the suit was viewed by the court as abusive and eventually dismissed).

34. *See, e.g.*, Adele Nicholas, *Drug Trolls: Patent Trolls Set Their Sights on the Pharmaceutical Industry*, INSIDE COUNSEL, May 5, 2006, at 20; Patti Waldmeir, *Patent Extortion Is the Cost of Business*, FIN. TIMES, Mar. 17, 2005, at 7.

pursuant to those patents is called a patent troll.[35] When such a patent troll seeks to obtain royalties from a patent infringer that actually makes a product, the patent owner is often portrayed as a parasitic entity without any socially redeeming value who merely drives up the cost of the product sold by the actual producer.[36] This argument has surface appeal but it fails to standup under close scrutiny. For example, computer and electronics companies often complain the most about the problems of trolls.[37] However, the incredibly rapid development of new innovative electronic and computer technologies coupled with increasingly cheaper prices suggests a high level of innovation consistent with the goal of patent law.

Independent inventors and small startup companies often fail to turn a patented invention into a commercial success.[38] Typically, this happens due to the inability of independent inventors and small startup enterprises to raise adequate capital. Additionally, they may lack the marketing expertise and existing business relationships to get the patented invention into the marketplace. Larger established enterprises can more readily turn the invention into a commercial success due to the ability to raise capital, marketing expertise, and existing business relationships.[39] When such larger entities succeed in making a commercial success of the invention, the original inventor will often seek payment from the established enterprise.[40] Frequently, the independent inventor or small startup lacks the enormous resources to bring a patent infringement suit.[41] In such cases, they may assign the patent to an entity that funds the infringement suit in return for a percentage of any recovery.[42] Absent such a funding entity, the independent inventor or small startup would

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35. Steve Seidenberg, *Troll Control: The Supreme Court's eBay Decision Sets Back Pesky 'Patent Trolls' or American Innovation, Depending upon Which Side You're on*, 92 A.B.A. J. 50, 51 (2006) ("'[P]atent troll,' [is] the nefarious term for businesses that produce no products or services and have the sole purpose of obtaining money by licensing patents they own and winning infringement lawsuits against others.").

36. *See generally* Greg Griffin, *Trolling for Patents—The Latest Terror of Corporate America Is the "Patent Troll," a Fearsome Entity that Can Sue a Company Using Its Patents for Millions, or Threaten a Shutdown*, DENVER POST, Mar. 12, 2006, at K-01 (noting patent trolls are sometimes referred to as "patent extortionists").

37. *See, e.g.*, Maggie Shiels, *Technology Industry Hits out at 'Patent Trolls'*, BBC NEWS, June 2, 2004, http://news.bbc.co.uk/1/hi/business/3722509.stm (referencing the chief intellectual property counsel for Intel Corp. complaining about the problem of patent trolls).

38. *See generally* Barrie McKenna, Paul Waldie & Simon Avery, *Patently Absurd: The Inside Story of RIM's Wireless War*, TORONTO GLOBE AND MAIL, Jan. 28, 2006, at B4.

39. *Id.*

40. *See* Nicholas, *supra* note 34; Waldmeir *supra* note 34.

41. Nicholas, *supra* note 34; Waldmeir *supra* note 34.

42. *See* Brief of Rembrandt IP Management, LLC as Amicus Curiae in Support of Respondent at 7-10, eBay Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006) (No. 05-130).

lack any recourse for infringement of his patented invention. These entities are typically referred to as patent trolls by the enterprises from which they seek to obtain payment.[43] Interestingly, the established enterprises that complain about the problem of patent trolls are typically very large and very successful enterprises that could easily pay licensing fees for use of the patented invention.[44] In contrast, the so-called patent trolls are often independent inventors or small startups.[45]

Two recent legal disputes that the news media has utilized as examples of the heinous problem of patent trolls involve eBay[46] and Research in Motion (RIM).[47] Both companies are highly successful enterprises that willfully infringed U.S. patents and then unsuccessfully sought to have the patents invalidated rather than pay licensing fees.[48] The so-called patent trolls that sought recovery from each company were actually independent inventors who unsuccessfully tried to commercialize their patented inventions.[49] Additionally, both independent inventors sought payment of licensing fees for the use of their patented inventions.[50] Neither inventor wanted to suppress the invention.

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43. *See* sources cited *infra* note 81 and accompanying text.

44. For example, on June 6, 2007, Mary Doyle, Senior Vice President and General Counsel for Palm, Inc., a $1.6 billion high technology company, testified before Congress about the problem of patent trolls. *Patent Reform: The Future of American Innovation: Hearing Before the S. Comm. on the Judiciary* 16, 110th Cong. (2007), *available at* http://frwebgate.access.gpo.gov/cgi-bin/geetdoc.cgi?dbname=110_senate_hearings&docid=f:37760.wais.pdf; *see* Shiels, *supra* note 37 (noting a chief intellectual property counsel for Intel Corp. complaining about the problem of patent trolls); *see also* Hitt, *supra* note 1.

45. Joseph N. Hosteny, *Patent Trolls—Or Not?*, INTELL. PROP. TODAY, Feb. 2006, at 8; *see also* Steven Pearlstein, *Big Firms Caught with Their Patents Down*, WASH. POST, Dec. 2, 2005, at D1.

46. Tom Ramstack, *Justices to Hear eBay Patent Challenge; Auctioneer Accused of Software Infringement*, WASH. TIMES, Mar. 29, 2006, at C10 (discussing eBay dispute); *see, e.g.*, David G. Savage & Jim Puzzanghera, *Justices Back eBay in Patent Ruling; Supreme Court Decision Limits the Ability of Judges To Halt the Sale of Products in Dispute*, L.A. TIMES, May 16, 2006, at C1 (discussing eBay dispute).

47. Reed Hundt, *Patently Obvious*, FORBES, Jan. 30, 2006, at 36 (discussing RIM case); James Surowiecki, *Blackberry Picking*, NEW YORKER, Dec. 26, 2005, at 50 (discussing RIM case); *see, e.g.*, Steven Levy, *BlackBerry Deal: Patently Absurd*, NEWSWEEK, Mar. 13, 2006, at 12 (discussing RIM case). *See generally infra* note 230 and accompanying text.

48. NTP, Inc. v. Research in Motion, Ltd., 270 F. Supp. 2d 751, 753-54 (E.D. Va. 2003), *amended by* No. Civ.A. 3:01CV767, 2003 WL 22746080 (E.D. Va. Aug. 5, 2003) (finding RIM willfully infringed patents); MercExchange, L.L.C. v. eBay Inc., 401 F.3d 1323 (Fed. Cir. 2005), *cert. granted*, 546 U.S. 1029, *vacated*, 126 S. Ct. 1837 (2006) (finding eBay willfully infringed patents).

49. Tim Harper, *America's Patent Trolls: Are They Out of Control?*, TORONTO STAR, Feb. 3, 2006, at A1 (discussing RIM dispute); *see* Ellen McCarthy, *Waiting Out a Patent Fight with Ebay*, WASH. POST, Jan. 6, 2005, at E1 (noting eBay dispute).

50. McKenna, Waldie & Avery, *supra* note 38, at B4 (RIM dispute); *see* eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1839 (2006).

Additionally, licensing fees are often based on a percentage of sales.[51] Hence, both inventors had an economic interest in eBay and RIM being successful in marketing the patented inventions. In both cases, the patentees only brought lawsuits after being refused any payments for use of their patented inventions—payments that each company easily could afford.[52]

This Article will explore the history of the *eBay* case including the party briefs and the amicus briefs filed in the Supreme Court. It will then analyze the majority and concurring opinions issued by the Supreme Court in *eBay*. It will conclude that Justice Thomas's majority opinion engages in judicial activism by ignoring longstanding precedent and Congressional intent without providing any justification for such action. Additionally, Justice Kennedy's concurring opinion provides three questionable reasons for ignoring precedent and legislative intent that are critically examined in light of the underlying policies of the patent system discussed above.

II. HISTORY OF THE *EBAY* CASE

In September of 1995, Pierre Omidyar launched an Internet based Web site for buying and selling goods in San Jose, California, called AuctionWeb.[53] The company was subsequently incorporated under the name eBay Inc.[54] Prior to the launch date of AuctionWeb, Thomas G. Woolston filed for a patent that covered both a method and the equipment for an electronic auction site that operates over a computer network.[55] Mr. Woolston's patent application became the basis for a subsequent continuation-in-part application that was eventually divided into two divisional applications.[56]

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51. *See infra* note 59 and accompanying text.

52. *See* sources cited *supra* notes 45-46 (noting the eBay and RIM disputes). The dispute over technology used in the ubiquitous BlackBerry wireless devices is often referred to as an example of how patent trolls are a problem. *See also, e.g.*, McKenna, Waldie & Avery, *supra* note 38. However, the dispute probably could have been resolved for significantly less than the ultimate settlement payment of over $600 million dollars but for the unreasonable stance taken by the company that makes and sells the Blackberry device and accompanying service. *Id.* Even during the litigation process RIM sought to avoid liability by engaging in "egregious" conduct which included an attempt "to confuse and mislead the jury by conducting a demonstration of [a] system which RIM asserted as prior art, by using updated software that did not exist at the time the system was used." *NTP*, 270 F. Supp. 2d at 758.

53. Aron Hsiao, A Brief History of eBay, About.com, http://ebay.about.com/od/ebaylifestyle/a/el_history.htm (last visited Oct. 30, 2007).

54. *See id.*

55. *See* MercExchange, L.L.C. v. eBay, Inc., 271 F. Supp. 2d 784, 785-86 (E.D. Va. 2002) (discussing the prosecution history of Mr. Woolston's three patents).

56. *Id.* at 785-86.

MercExchange, a company set up by Mr. Woolston and his business partners to exploit his patents, attempted to license its patent portfolio to eBay, but the negotiations were unsuccessful.[57] Nevertheless, eBay continued to use the technology covered by the patents.[58] MercExchange then filed a suit against defendants eBay Inc., Half.com, Inc., and ReturnBuy, Inc. for patent infringement.[59] The United States District Court for the Eastern District of Virginia, after a trial on the merits, found the defendants had engaged in willful patent infringement.[60] The court denied issuance of a permanent injunction against the defendants' patent infringement but allowed an award of damages.[61] On appeal, the United States Court of Appeals for the Federal Circuit upheld, in part, the award of damages for willful patent infringement but it reversed the district court's denial of a permanent injunction as a remedy for infringement.[62] Defendants eBay Inc. and Half.com, Inc. filed a Petition for a Writ of Certiorari asking the Supreme Court to answer the following question: "Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement."[63]

The Supreme Court granted certiorari.[64] However, it directed the parties to brief and argue the following question in addition to the above question: "Whether this Court should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, . . . on when it is appropriate to grant an injunction against a patent infringer."[65]

In a cursory six-page majority opinion by Justice Thomas, the Supreme Court held that the usual "four-factor test historically employed by courts of equity" to determine whether a prevailing party in a lawsuit is entitled to permanent injunctive relief applies in patent infringement

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57. eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1839 (2006); McCarthy, *supra* note 49; *see also* Suevon Lee, eBay, Inc., et al. v. MercExchange, L.L.C., MEDILL NEWS SERV., Nov. 28, 2005, http://docket.medill.northwestern.edu/archives/003236.php.

58. *See* Lee, *supra* note 57.

59. MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1325 (Fed. Cir. 2005). Prior to trial, the defendant ReturnBuy filed for bankruptcy and entered a settlement with MercExchange. *Id.* at 1326. Defendant Half.com is currently a subsidiary of eBay, Inc. Carrie Kirby & Verne Kopytoff, *EBay Buying Half.com, the Company*, S.F. CHRON., June 14, 2000, at C2, *available at* http://www.sfgate.com/cgi-bin/article.cgi?file=/chronicle/archive/2000/06/14/BU101313.DTL.

60. *MercExchange*, 401 F.3d at 1326 (finding willful patent infringement).

61. *Id.*

62. *Id.* at 1333, 1339-40.

63. Petition for a Writ of Certiorari at i, eBay Inc. v. MercExchange, L.L.C., 546 U.S. 1029 (2005) (No. 05-130), *available at* http://patentlaw.typepad.com/patent/eBay_Cert.pdf.

64. *eBay*, 546 U.S. at 1029.

65. *Id.* (citations omitted).

disputes.[66] The Court held that a patent owner seeking a permanent injunction as a remedy for patent infringement must establish the following:

(1) that it has suffered an irreparable injury;
(2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury;
(3) that, considering the balance of hardships between the [patentee] plaintiff and [infringer] defendant, a remedy in equity is warranted; and
(4) that the public interest would not be disserved by a permanent injunction.[67]

The Court concluded that "[t]he decision to grant or deny [permanent injunctive] relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion" and that the four-factor test applies "with equal force to disputes arising under the Patent Act."[68]

In light of these principles, the Court concluded that neither the district court nor the Federal Circuit properly applied the law.[69] The district court improperly adopted broad general rules for denial of injunctive relief while the Federal Circuit enunciated a general rule requiring injunctive relief except in limited exceptional circumstances.[70] Justice Thomas, speaking for the Supreme Court, held that the district court must determine the appropriateness of permanent injunctive relief on a case-by-case basis by applying the traditional four-factor test stated above.[71] The Court vacated the decision of the Federal Circuit and remanded the case so the district court could determine whether permanent injunctive relief was appropriate.[72] The Court explicitly held that it was not expressing any opinion with regard to whether injunctive relief was or was not appropriate under the facts of this dispute.[73]

The Court's decision, although unanimous, included two concurring opinions. Chief Justice Roberts opined that application of equitable

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66. eBay Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1839 (2006).
67. *Id.* at 1839.
68. *Id.* (citing Weinberger v. Romero-Barcelo, 456 U.S. 305, 320 (1982)).
69. *Id.* at 1840.
70. *Id.* at 1840-41.
71. *Id.* at 1841.
72. *Id.* The Federal Circuit subsequently remanded the case to the district court. MercExchange, L.L.C. v. eBay, Inc., 188 F. App'x 993, 993 (Fed. Cir. 2006). For subsequent litigation in this case before the district court, see *MercExchange, L.L.C. v. eBay, Inc.*, 467 F. Supp. 2d 608 (E.D. Va. 2006). On remand, the district court again denied permanent injunctive relief for patent infringement. MercExchange, L.L.C. v. eBay, Inc., 500 F. Supp. 2d 556, 591 (E.D. Va. 2007).
73. *eBay*, 126 S. Ct. at 1841.

principles in determining whether a permanent injunction should be the remedy for patent infringement should not be made in a vacuum.[74] He noted that "[f]rom at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases."[75] Therefore, this long historical practice should be relevant with regard to district court determinations of the proper remedy for patent infringement in order to promote predictability in the law.[76]

In a second concurring opinion, Justice Kennedy agreed with Chief Justice Roberts that the traditional remedy for patent infringement is a permanent injunction.[77] He likewise agreed that historical practice is important.[78] However, he also noted that current circumstances differ from the past, and consequently the historical practice of granting permanent injunctions in most cases might no longer be appropriate.[79] The changes he expressly noted were proliferation of business method patents,[80] the development of patent licensing firms that earn revenue

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74. *Id.* (Roberts, C.J., concurring).

75. *Id.*

76. *Id.* at 1841-42 ("'Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike.'" (quoting Martin v. Franklin Capital Corp., 126 S. Ct. 704, 710 (2005))). Interestingly, the news media touts Justice Roberts as someone who believes in "judicial self-restraint" rather than judicial activism. Jess Bravin, *Court Under Roberts Limits Judicial Power*, WALL ST. J., July 2, 2007, at A1. This seems contrary to his decision in *eBay* where Justice Roberts agrees with the majority opinion by Justice Thomas that eliminates over one hundred years of precedent without explaining the reason for the change.

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

78. *Id.* ("The Chief Justice is also correct that history may be instructive in applying . . . [the four-factor] test.").

79. *Id.*

80. *Id.* Traditionally, business method patents were routinely rejected as unpatentable subject matter. *See, e.g.*, Loew's Drive-In Theatres, Inc. v. Park-In Theatres, Inc., 174 F.2d 547, 552 (1st Cir. 1949) ("[A] system for the transaction of business, such, for example, as the cafeteria system for transacting the restaurant business, or similarly the open-air drive-in system for conducting the motion picture theatre business, however novel, useful, or commercially successful is not patentable. . . ."); 1 DONALD S. CHISUM, CHISUM ON PATENTS § 1.03[5] (2007) (noting courts traditionally held methods of doing business unpatentable subject matter); 1 IRAH H. DONNER, PATENT PROSECUTION: LAW, PRACTICE AND PROCEDURE 720-35 (4th ed. 2005) (discussing the evolution of the rule that business methods are not patentable subject matter); ROGER E. SCHECHTER & JOHN R. THOMAS, INTELLECTUAL PROPERTY—THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS § 14.7, at 308 (2003) (noting that historically the patentability of business methods was unclear). However, in *State Street Bank & Trust Co. v. Signature Financial Group*, the court expressly rejected the "business methods" exception to statutory subject matter. 149 F.3d 1368, 1375 (Fed. Cir. 1998). The court stated:

> We take this opportunity to lay this ill-conceived exception to rest. Since its inception, the "business method" exception has merely represented the application of some general, but no longer applicable legal principle . . . . Since the 1952 Patent Act, business methods have been, and should have been, subject to the same legal requirements for patentability as applied to any other process or method.

from licensing fees rather than from making and selling products,[81] and the complex invention problem.[82] According to Justice Kennedy, these changes should be evaluated by district courts to determine whether the historical practice of issuing permanent injunctive relief for patent infringement is still appropriate today.[83]

III. REVIEW OF THE BRIEFS FILED WITH THE SUPREME COURT IN THE *EBAY* CASE

A. Party Briefs

1. MercExchange's Brief

MercExchange, the patent owner asserting infringement, argued that the Federal Circuit correctly determined that a permanent injunction was the proper remedy for patent infringement in this case.[84] The argument was based largely on precedent because permanent injunctive relief had been the typical remedy for patent infringement for more than a century.[85] This was expressly and unequivocally affirmed by the Supreme Court in *Continental Paper Bag Co. v. Eastern Paper Bag Co.* in 1908.[86] Additionally, MercExchange argued that a permanent injunction was necessary to protect the patentee's *exclusive right* to the invention as mandated by the Constitution.[87] Finally, MercExchange asserted that

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Id. (citing *In re* Schrader, 22 F.3d 290, 298 (Fed. Cir. 1994) (Newman, J., dissenting)). *See generally* Rinaldo del Gallo, III, *Are "Methods of Doing Business" Finally Out of Business as a Statutory Rejection?*, 38 IDEA 403 (1998) (discussing the history of the business methods exception to patentable subject matter). Subsequent to the *State Street Bank* case, the patent law was legislatively amended to recognize business method patents as patentable subject matter. *See* 35 U.S.C. § 273 (2000). This section applies to a "method of doing or conducting business." *Id.* § 273(a)(3).

81. eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1842 (2006). Patent licensing firms are also referred to as "nonpracticing entities" or "nonmanufacturing" entities. As stated previously, some commentators use the derogatory term "patent troll" to refer to such entities. Christopher M. Holman, *Biotechnology's Prescription for Patent Reform*, 5 J. MARSHALL REV. INTELL. PROP. L. 318, 336 (2006); Robert E. Thomas, *Vanquishing Copyright Pirates and Patent Trolls: The Divergent Evolution of Copyright and Patent Laws*, 43 AM. BUS. L.J. 689, 721 (2006) ("Patent troll is a derogatory term applied to small, nonproducing inventors and patent-holding companies that file patent infringement claims against info-tech companies in order to reap big payoffs.").

82. I am using the phrase "complex invention problem" to refer to situations where the patent covers only a small component of a larger product or device. *See eBay*, 126 S. Ct. at 1842 (Kennedy, J, concurring).

83. *Id.* at 1842-43.

84. Brief for Respondent at 12, eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006) (No. 05-130).

85. *Id.* at 20-23.

86. 210 U.S. 405 (1908).

87. Brief for Respondent, *supra* note 84, at 33.

neither congressional action nor any other factor supports ignoring many years of consistent precedent, particularly when a jury found eBay to be willful patent infringers after a trial on the merits.[88]

MercExchange noted that limited equitable grounds—based on public interest—have always existed to deny a permanent injunction.[89] However, the patentee argued that the following facts, relied on by the district court to deny an injunction, were inappropriate for that purpose:

- Willingness of MercExchange to license the patents at issue
- Failure of MercExchange to actually practice the invention by making/selling products covered by the patents
- Failure of MercExchange to seek preliminary injunctive relief in this dispute
- Concern over the validity of business method patents in general
- General concern that granting a permanent injunction would result in ongoing contempt proceedings, which would be an economic hardship on the parties and a waste of judicial resources.[90]

2. eBay's Brief

eBay and the other defendants, the patent infringers, argued the law did not mandate a permanent injunction for infringement.[91] Further, eBay argued that the patent law, pursuant to statute, gives courts discretion whether to award permanent injunctive relief.[92] eBay noted that in contrast to equitable situations, the patent law mandates an award of damages for patent infringement and that therefore the district court properly applied the traditional four-factor equity test in denying permanent injunctive relief.[93] Defendants' arguments were based heavily on the fact that the patentee did not practice the invention but rather was engaged solely in the business of licensing the patent to generate revenue.[94]

The defendants argued that under the traditional four-factor test for the grant of a permanent injunction, the patent owner in this case was not

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88. *Id.* at 44-47.
89. *Id.* at 13.
90. *Id.* at 13-14.
91. Brief of Petitioners at 14, eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006) (No. 05-130) (citing 35 U.S.C. § 283 (2000), which states that a court "*may* grant injunctions in accordance with the principles of equity" (emphasis added)).
92. *Id.*
93. *Id.* at 22 (citing 35 U.S.C. § 284 ("[T]he court shall award the claimant damages adequate to compensate for the infringement . . . .")).
94. *Id.* at 24-26.

entitled to an injunction.[95] The defendants made the following arguments with regard to each of the four factors:

Irreparable injury—The defendants argued that the patent owner did not suffer irreparable harm because the patentee was willing to license the patent. Furthermore, the patentee did not actually practice the invention, so licensing the patent was the only way to generate an economic benefit from the patent.[96]

Inadequate remedy at law—Monetary damages were adequate to compensate the patent owner because the patentee was willing to license the patent. The defendants argued this was especially true, because as noted above, MercExchange did not practice the invention and its business model was based on earning licensing revenue from the patent.[97]

Balance of hardships—The balance of hardships favored defendants since they planned to design around the patent, which could lead to numerous contempt proceedings.[98]

Public interest—The patent owner neither practiced nor intended to practice the invention in the future.[99] Hence, permanent injunctive relief would be contrary to the public interest because it would deprive the public of the benefit of the invention.[100]

Finally, the defendants argued that even if the Federal Circuit disagreed with the district court's decision to deny permanent injunctive relief, that decision was only reversible upon a showing that the district court abused its discretion in making the equitable decision to deny permanent injunctive relief.[101] eBay asserted that mere disagreement with the district court decision does not, by itself, support a finding that the lower court abused its discretion.[102] Additionally, the arguments supporting the district court's decision are sufficiently rational to avoid a finding that the district court's denial of injunction relief was an abuse of discretion.[103]

B. Amici Briefs

Numerous amici briefs were filed with the Supreme Court, with an equally large number supporting eBay and MercExchange. A smaller number expressly supported neither party. Each of these categories is

95. *Id.* at 10-11.
96. Brief of Petitioners, *supra* note 91, at 10.
97. *Id.* at 14.
98. *Id.*
99. *Id.*
100. *Id.*
101. *Id.* at 28-29.
102. *Id.*
103. *Id.*

discussed below followed by general comments and observations about the briefs.

1. Amici Briefs Supporting MercExchange

Many of the briefs supporting MercExchange cited the long history of the general rule of providing a permanent injunction as a remedy for patent infringement.[104] They argued that the historical remedy for protecting unique property—both real and personal—is typically permanent injunctive relief.[105] This remedy protects the right to exclude others from one's property, which is the essence of legally protected patent rights.[106] Amici argued that patents are unique property and should be protected from infringement, like other unique property, by permanent injunctive relief.[107] Viewed in light of the importance of predictable legal standards, MercExchange supporters stressed that this history should not be ignored.[108] Several MercExchange supporters argued that any unpredictability with regard to the ability of a patent owner to enforce his exclusive rights will reduce investment in research and development activities to the ultimate detriment of the public.[109] Others argued that permanent injunctions help to level the playing field between small inventors and large business entities.[110] Failure to routinely award permanent injunctions for patent infringement leaves only damages as a remedy, which acts as a de facto compulsory license of the invention to the infringer even though Congress has repeatedly rejected creation of a statutory compulsory license for patents.[111]

Others argued that failure to actually produce the patented product and the particular business model used by a patent owner are both improper grounds for denying permanent injunctive relief for infringe-

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104. *See, e.g.*, Brief of the American Bar Association as Amicus Curiae Supporting Respondent at 5-6, eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006) (No. 05-130); Brief of Wisconsin Alumni Research Foundation et al. as Amici Curiae in Support of Respondent at 8, *eBay*, 126 S. Ct. 1837 (No. 05-130).

105. *See, e.g.*, Brief for General Electric Co. et al. as Amici Curiae Suggesting Affirmance at 9-11, *eBay*, 126 S. Ct. 1837 (No. 05-130).

106. *See, e.g.*, Brief of Amici Curiae Qualcomm Inc. & Tessera, Inc. in Support of Respondent at 4, *eBay*, 126 S. Ct. 1837 (No. 05-130).

107. *See* Brief for General Electric Co. et al., *supra* note 105 at 6.

108. *Id.* at 3.

109. Brief of Biotechnology Industry Organization as Amicus Curiae in Support of Respondent at 2, *eBay*, 126 S. Ct. 1837 (No. 05-130).

110. Brief of the United Inventors Ass'n & Technology Licensing Corp. as Amici Curiae in Support of MercExchange, L.L.C., on the Merits at 2-3, *eBay*, 126 S. Ct. 1837 (No. 05-130).

111. *See, e.g.*, Brief of the American Bar Association, *supra* note 104, at 7-8.

ment.[112] In a free market economic system such as in the United States all property rights, including patent rights, should be capable of being freely transferred.[113] This enables the marketplace to determine the most efficient and best use of property rights.[114] It also recognizes that different people may be the most efficient at the numerous tasks involved in bringing an invention from the idea stage to a commercially marketable invention.[115] Some people excel at innovation while others excel at raising venture capital, efficiently manufacturing a product, or marketing a new product.[116] For example, many universities and nonprofit research institutes engage in significant research activities that result in patented innovations which greatly benefit society.[117] These organizations however usually license their innovations to third parties rather than actually producing commercially marketable products.[118]

Other MercExchange supporters asserted that many of the alleged problems with the patent system and with so-called patent trolls are not supported by any empirical evidence.[119] Hence, these arguments fail to support altering the historical precedent that favors granting permanent injunctive relief for patent infringement. Finally, one brief, filed on behalf of American universities, argued that universities are in a unique position and therefore should be allowed to obtain permanent injunctions for patent infringement without regard to whether other enterprises can obtain permanent injunctions.[120]

2. Amici Briefs Supporting eBay

Many of the briefs focused on the express language of the patent law which states: "The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of

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112. *See, e.g.*, Brief of Wisconsin Alumni Research Foundation et al., *supra* note 104, at 8-12; Brief of Various Law & Economics Professors as Amici Curiae in Support of Respondent at 27-28, *eBay*, 126 S. Ct. 1837 (No. 05-130).

113. *See* Brief of Rembrandt IP Management, LLC, *supra* note 42, at 1.

114. *See* Brief of Various Law & Economics Professors, *supra* note 112, at 27-28.

115. *See* Brief of Rembrandt IP Management, LLC, *supra* note 42, at 7-8.

116. *See, e.g.*, Brief of Various Law & Economics Professors, *supra* note 112, at 27-28.

117. *See, e.g.*, Brief of Wisconsin Alumni Research Foundation et al., *supra* note 104, at 8-10.

118. *Id.*

119. *See, e.g.*, Brief of Qualcomm Inc. & Tessera, Inc., *supra* note 106, at 4-11.

120. *See* Brief of the Ass'n of American Universities & the National Ass'n of State Universities & Land-Grant Colleges as Amici Curiae in Support of Respondent at 2, eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006) (No. 05-130).

equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable."[121]

eBay supporters argued that the express statutory language allows, but does not require, injunctions as a remedy for patent infringement.[122] Furthermore, they argued that granting a permanent injunction is an extraordinary remedy, which must be based on general principles of equity.[123] Therefore, the automatic grant of permanent injunctions by the Federal Circuit upon finding infringement is contrary to patent law.[124]

Many briefs argued that the extraordinary remedy of a permanent injunction should generally be denied for patent infringement in favor of awarding damages.[125] Denial of permanent injunctions in patent infringement cases was portrayed in other amici briefs as a means of avoiding litigation abuse by patent owners[126] and the extraction of excessive license fees from infringers facing the dire business consequences that would result from a permanent injunction.[127] Also, the issuance of a permanent injunction against potentially innocent infringers is inequitable and hence contrary to the patent law, which requires injunctions to be granted in accordance with equitable principles.[128]

Another common theme was the so-called complex invention problem. The threat of a permanent injunction arguably allows a patentee who owns a patent on a minor component of a complex invention, such as a common microprocessor, to extract a significantly

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121. 35 U.S.C. § 283 (2000).

122. Brief of Research in Motion, Ltd. as Amicus Curiae in Support of Petitioners at 4-5, *eBay*, 126 S. Ct. 1837 (No. 05-130).

123. 35 U.S.C. § 283; Brief of Research in Motion, Ltd., *supra* note 122, at 4.

124. *See, e.g.*, Brief of Time Warner Inc. et al. as Amici Curiae in Support of Petitioners at 6-7, *eBay*, 126 S. Ct. 1837 (No. 05-130).

125. One brief argued that because the Federal Circuit has made patents easier to obtain, a permanent injunction as a remedy for patent infringement upsets the balance further and gives a patent owner too much market leverage. Brief of Electronic Frontier Foundation et al. as Amici Curiae in Support of Petitioners at 1-4, *eBay*, 126 S. Ct. 1837 (No. 05-130).

126. *See, e.g.*, Brief for the United States as Amicus Curiae Supporting Respondent at 20, *eBay*, 126 S. Ct. 1837 (No. 05-130). One brief argued the broad venue provisions of the patent law have been used abusively by patent owners to sue in the Eastern District of Texas, which has become a new hub for patent litigation. Brief of Business Software Alliance et al. as Amici Curiae in Support of Petitioners at 4, *eBay*, 126 S. Ct. 1837 (No. 05-130).

127. *See, e.g.*, Brief Amici Curiae of 52 Intellectual Property Professors in Support of Petitioners as at 5-6, *eBay*, 126 S. Ct. 1837 (No. 05-130); *see also* Brief of Time Warner Inc. et al., *supra* note 124, at 4.

128. *See, e.g.*, Brief of American Innovators' Alliance as Amicus Curiae in Support of Petitioners at 20-22, *eBay*, 126 S. Ct. 1837 (No. 05-130).

higher value for the patent from an infringer than is economically justified.[129]

The negative impact of patent owners who do not actually make and sell products resulting from their patents was raised as a serious problem.[130] Such patent owners—variably referred to as nonpracticing entities, patent holding companies,[131] patent litigation firms,[132] or patent trolls—are problematic because they exist solely to extract licensing payments from productive companies via patent infringement litigation or via the mere threat of such litigation.[133] Such entities overburden the court system.[134] They are also an economic drag on the economy because they increase costs for industries producing goods and services even though these entities fail to provide anything beneficial to society.[135]

One brief asserted that permanent injunctions for patent infringement potentially interfere with free speech rights protected by the First Amendment.[136] Another brief argued that permanent injunctions interfere with the ability of high technology companies to engage in interoperability standard-setting activities that are necessary to insure competition and to allow products from different companies to work together.[137]

3. Amici Briefs Supporting Neither Party

A brief jointly authored by a professional association of intellectual property lawyers and a trade association of lawyers who practice before the Federal Circuit argued that the Supreme Court should maintain the status quo, because the general rule that permanent injunctions typically issue for patent infringement has been the settled law for more than 150 years.[138] This general rule reflects a balance of the traditional equitable factors in most cases and is therefore consistent with the current patent

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129. *See, e.g.*, Brief Amici Curiae of 52 Intellectual Property Professors, *supra* note 127, at 6-7.

130. *Id.*

131. *See, e.g.*, Brief of Time Warner Inc. et al., *supra* note 124, at 5.

132. *See, e.g.*, Brief of Business Software Alliance, *supra* note 126, at 4.

133. *See, e.g.*, Brief of Amicus Curiae Yahoo! Inc. in Support of Petitioner at 6, *eBay*, 126 S. Ct. 1837 (No. 05-130).

134. *Id.* at 2.

135. *See, e.g.*, Brief for Yahoo! Inc., *supra* note 133, at 2-4.

136. Brief of Electronic Frontier Foundation et al., *supra* note 125, at 5-15.

137. Brief of Amicus Curiae Nokia Corp. in Support of Petitioners at 4-5, *eBay*, 126 S. Ct. 1837 (No. 05-130).

138. Brief of American Intellectual Property Law Ass′n (AIPLA) & Federal Circuit Bar Ass′n as Amici Curiae in Support of Neither Party at 3-4, *eBay*, 126 S. Ct. 1837 (No. 05-130).

law.[139] Any bright-line rule that bars issuance of a permanent injunction based merely on the patent owner failing to actually make or use the patented invention should be rejected.[140] Such a rule would upset the well-developed balance of rights created by the patent system and would be contrary to Supreme Court precedents.[141]

Teva Pharmaceuticals USA, Inc., a generic pharmaceutical manufacturer, argued that permanent injunctions should continue to be available as a remedy for patent infringement.[142] However, it argued the near automatic grant of permanent injunctions by the Federal Circuit, except in a very narrow set of circumstances, was contrary to the patent law and likely to lead to inequitable results.[143] The brief argued that the decision to grant or deny a permanent injunction should be left to the equitable discretion of the district court.[144]

IBM filed a brief that generally agreed with Teva's stance.[145] The brief asserted that the Federal Circuit's approach to issuing permanent injunctions for infringement has failed to keep pace with changes in business and technology.[146] In light of these changes, IBM argued the grant of a permanent injunction should be based on application of the traditional four-factor equity analysis.[147] Under this test, making and using a patented invention should favor an injunction for infringement, but an injunction should not be favored for a patent owner that does not make or use the patented invention.[148]

Finally, another professional association of lawyers argued that the court should not consider proposed or draft legislation as evidence in the application of the relevant injunction statute.[149] The group underscored the importance of avoiding consideration of proposed legislation because Congress has not yet enacted a requirement for courts to weigh the extent that a patentee uses his invention when considering an injunction.[150]

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139. *Id.* at 4.

140. *Id.*

141. *Id.*

142. Amicus Curiae Brief of Teva Pharmaceuticals USA, Inc. in Support of Neither Party at 1-2, *eBay*, 126 S. Ct. 1837 (No. 05-130).

143. *Id.*

144. *Id.* at 3.

145. Brief for International Business Machines Corp. as Amicus Curiae in Support of Neither Party, *eBay*, 126 S. Ct. 1837 (No. 05-130).

146. *Id.* at 2.

147. *Id.* at 3.

148. *Id.*

149. Brief for Amicus Curiae Bar Ass'n of the District of Columbia–Patent, Trademark & Copyright Section in Support of Neither Party at 3, *eBay*, 126 S. Ct. 1837 (No. 05-130).

150. *Id.* at 8.

4. Comments on Amici Briefs

Several conclusions can be reached based on the amici briefs filed in *eBay*. Small inventors,[151] nonpracticing entities,[152] universities,[153] and university technology licensing offices[154] supported MercExchange. This result is unsurprising and predictable because these parties typically do not manufacture and sell the products protected by their patents. Hence, permanent injunctive relief provides strong protection for their patent rights.

In addition, an industry-specific trend appears from the amici briefs. Generally, the biotechnology[155] and pharmaceutical[156] industries favor permanent injunctions, so they supported MercExchange. In contrast, many high technology enterprises involved in businesses other than biotechnology or pharmaceuticals disfavored permanent injunctive relief for patent infringement and therefore they supported eBay.[157] However, this industry trend is not unanimous. Some high technology companies favored strong injunctions and therefore supported MercExchange[158] while at least one high technology company supported neither party in its brief.[159] Likewise, one generic pharmaceutical manufacturer chose not to support either party in its brief.[160]

Trends among large manufacturing companies in a variety of different industries were not obvious. Such large enterprises are split equally between supporting either MercExchange or eBay.[161]

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151. *See* Brief of the United Inventors Ass'n & Technology Licensing Corp., *supra* note 110; Brief Amici Curiae of Martin Cooper et al. in Support of Respondent, *eBay*, 126 S. Ct. 1837 (No. 05-130).

152. *See* Brief of Rembrandt IP Management, LLC, *supra* note 42; Brief for Technology Patents & Licensing, Inc. et al. as Amici Curiae Supporting Respondent, *eBay*, 126 S. Ct. 1837 (No. 05-130).

153. *See* Brief of the Ass'n of American Universities & the National Ass'n of State Universities & Land-Grant Colleges, *supra* note 120.

154. *See* Brief of Wisconsin Alumni Research Foundation et al., *supra* note 104.

155. *See* Brief for Biotechnology Industry Organization, *supra* note 109.

156. *See* Brief of Amicus Curiae Pharmaceutical Research and Manufacturing of America in Support of Respondent, *eBay*, 126 S. Ct. 1837 (2006).

157. *See, e.g.*, Brief of Business Software Alliance, *supra* note 126; Brief of Nokia Corp., *supra* note 137; Brief of Time Warner, Inc. et al., *supra* note 124; Brief of Research in Motion, Ltd., *supra* note 122; Brief for Yahoo! Inc., *supra* note 133; Brief of American Innovators' Alliance, *supra* note 128.

158. *See*, Brief of Amici Curiae Qualcomm Inc. & Tessera, Inc., *supra* note 106.

159. *See* Brief of International Business Machines Corp., *supra* note 145, at 2.

160. *See* Brief of Teva Pharmaceuticals USA, Inc., *supra* note 142, at 2.

161. *See* Brief for General Electric Co et al., *supra* note 105, at 1 (noting large companies supporting MercExchange); Brief of Time Warner Inc. et al., *supra* note 124; Brief of Amici Curiae Securities Industry Ass'n et al. in Support of Petitioners, eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006) (No. 05-130) (listing large companies supporting eBay).

Academics and professional associations representing attorneys are equally split regarding the appropriate remedy. Some law professors supported eBay,[162] while others supported MercExchange.[163] Likewise, the American Bar Association supported MercExchange,[164] while the Bar Association of the City of New York supported eBay.[165] Additionally, the American Intellectual Property Law Association and the Bar Association of the District of Columbia supported neither party in their briefs.[166]

IV. ANALYSIS OF THE SUPREME COURT DECISION IN THE *EBAY* CASE

The Constitution grants Congress the express power to enact patent law.[167] In light of this, congressional action has resulted in the continuous existence of patent law since 1790.[168] This long history includes many Supreme Court decisions dealing with patent infringement remedy issues. Therefore, the starting point of the analysis should be the Court's prior decisions interpreting patent law within the framework of its constitutional origins.

A. Supreme Court Precedent

In 1908, the Supreme Court in *Continental Paper Bag Co. v. Eastern Paper Bag Co.* addressed whether a nonpracticing entity is entitled to permanent injunctive relief for patent infringement.[169] This case involved a patent on an improvement of a machine for making paper bags used in the retail industry.[170] The patent owner neither used the

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162. Amicus Brief of Malla Pollack et al. Supporting eBay Inc., et al., *eBay*, 126 S. Ct. 1837 (2006) (No. 05-130); Brief Amici Curiae of 52 Intellectual Property Professors, *supra* note 127.

163. *See* Brief of Law Professors as Amicus Curiae in Support of Respondent, *eBay*, 126 S. Ct. 1837 (No. 05-130); Brief of Various Law & Economics Professors in Supporting Respondents, *supra* note 112.

164. *See* Brief for the American Bar Association, *supra* note 104, at 2.

165. *See* Brief for the Ass'n of the Bar of the City of New York as Amicus Curiae in Support of Petitioners, *eBay*, 126 S. Ct. 1837 (No. 05-130).

166. *See* Brief of AIPLA, *supra* note 138; Brief for Bar Ass'n of D.C., *supra* note 149.

167. *See supra* note 6 and accompanying text. For a brief history of the Patent and Copyright clause of the Constitution, see generally WILLIAM H. FRANCIS & ROBERT C. COLLINS, CASES AND MATERIALS ON PATENT LAW: INCLUDING TRADE SECRETS, COPYRIGHTS, TRADEMARKS 78-80 (5th ed. 2002); Graham v. John Deere Co. of Kan. City, 383 U.S. 1, 3 (1966).

168. The first federal patent law, the Patent Act of 1790, was signed into law by President George Washington on April 10, 1790. DONALD S. CHISUM ET AL., PRINCIPLES OF PATENT LAW: CASES AND MATERIALS 18 (2d ed. 2001). This was followed by the Patent Acts of 1793, 1836, 1870, and 1952. *Id.* The 1952 Patent Act forms the basis of current United States patent law. *Id.* at 19-22.

169. 210 U.S. 405, 430 (1908).

170. *Id.* at 406.

patented improvement nor allowed others to use it.[171] Despite a finding that the patent was valid and infringed, the infringer argued the only remedy should be monetary damages.[172] The infringer argued that a permanent injunction should be denied because the patentee did not use nor allow anyone else to use the patented invention.[173]

The Court noted that patent law, in accordance with the Constitution, gives patent owners exclusive rights to patented inventions.[174] The essence of those rights is based in property law and gives the patent owner "the right to exclude others from . . . use [of the invention] for the time prescribed in the statute."[175] Damages are appropriate for past patent infringement but protection of the patentee's right to exclude and thereby prevent future infringement requires issuance of a permanent injunction.[176] Failure to issue such injunctive relief amounts to failing to protect the exclusive rights granted to an inventor by patent law.[177] Accordingly, the Court upheld the permanent injunction issued by the lower court.[178]

The decision in *Continental Paper Bag Co.* is consistent with prior Supreme Court decisions holding that a patent is property entitled to the

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171. *Id.* at 427-28.

172. *Id.* at 406.

173. *Id.* at 422-23.

174. *Id.* at 422-23, 429.

175. Cont'l Paper Bag Co. v. E. Paper Bag Co., 210 U.S. 405, 425 (1908). *See generally* Int'l News Serv. v. Associated Press, 248 U.S. 215, 246, 250 (1918) (Holmes, J., dissenting) ("An essential element of individual property is the legal right to exclude others from enjoying it."). This right to exclude has been codified in the current patent law. 35 U.S.C. § 154(a)(1) (2000); *see also* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 480 (1974) ("The stated objective of the Constitution in granting the power to Congress to legislate in the area of intellectual property is to 'promote the Progress of Science and useful Arts.' The patent laws promote this progress by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development. The productive effort thereby fostered will have a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens.").

176. *See* 210 U.S. at 430.

177. In *Continental Paper Bag Co.*, the Court stated:

> It hardly needs to be pointed out that the [patentee's] right [to exclude others from using his or her invention] can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee. If the conception of the law that a judgment in an action at law is reparation for the trespass, it is only for the particular trespass that is the ground of the action. There may be other trespasses and continuing wrongs and the vexation of many actions. These are well-recognized grounds of equity jurisdiction, especially in patent cases, and a citation of cases is unnecessary.

Id.

178. *Id.*

same protections afforded property in general.[179] The result of these cases is a clear rule of law that a patent owner is entitled to permanent injunctive relief once a patent is adjudicated to be both valid and infringed.[180] The decision of the Federal Circuit in *MercExchange, L.L.C. v. eBay Inc.* is consistent with this precedent.[181] In *MercExchange*, the Federal Circuit held that "the general rule is that a permanent injunction will issue once infringement and validity have been adjudged."[182] Additionally, the Federal Circuit noted that an exception to this rule existed in limited circumstances when denial of an injunction was necessary to protect the public interest.[183] In light of this, the Federal Circuit in *MercExchange* was properly following clearly established Supreme Court precedent when it applied the general rule of issuing a permanent injunction for patent infringement.

The 2006 Supreme Court decision in *eBay* eliminated the Court's own general rule which had existed for almost a century.[184] The Court was cognizant of the *Continental Paper Bag Co.* decision because one of the questions the litigants were asked to address was whether this precedent should be reexamined.[185] Nevertheless, a unanimous decision in *eBay* written by Justice Thomas unequivocally repudiates *Continental Paper Bag Co.* The decision is notable in light of its brevity and breathtaking lack of analysis. The decision neither justifies nor explains the departure from long-established precedent.

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179. *Id.* at 425; Cammeyer v. Newton, 94 U.S. 225, 226 (1877) (citing Seymour v. Osborne, 78 U.S. (11 Wall.) 516 (1870)) (reestablishing that a patent is property that is entitled to protection like any other type of property). Commentators also agree patents are property. *See, e.g.*, George M. Armstrong, Jr., *From the Fetishism of Commodities to the Regulated Market: The Rise and Decline of Property*, 82 NW. U. L. REV. 79, 99 (1987) (noting that the nature of a patent is grounded in property); J.E. Penner, *The "Bundle of Rights" Picture of Property*, 43 U.C.L.A. L. REV. 711, 729 (1996) (stating that a patent right is viewed as a property right by lawyers); *see also* FTC, *supra* note 2, at 2 (noting that patents are property). Supreme Court decisions subsequent to *Continental Paper Bag Co.* have also agreed patents are property. *See, e.g.*, Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722, 730 (2002); Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627, 653 (1999) (Stevens, J., dissenting) (citing Brown v. Duchesne, 60 U.S. (19 How.) 183, 197 (1956)).

180. TERENCE P. ROSS, INTELLECTUAL PROPERTY LAW: DAMAGES AND REMEDIES § 11.04, at 11-49 (2005) (showing that permanent injunctions were granted for patent infringement prior to the Supreme Court *eBay* decision).

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

182. *Id.* at 1338.

183. *Id.* In *Continental Paper Bag Co.*, the Court noted in dicta that such a limited exception might be available. Cont'l Paper Bag Co. v. E. Paper Bag Co., 210 U.S. 405, 430 (1908).

184. eBay Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1840-41 (2006); *see also Cont'l Paper Bag Co.*, 210 U.S. 405.

185. *eBay*, 546 U.S. 1029 (2005).

B. Importance of Precedent

Rules of law, of course, should not be applied merely because they have always been applied in the past. However, a critical underlying policy of a well-respected legal system is adherence to precedent.[186] Precedent provides uniformity and consistency that facilitates planning and decision-making by individuals and business enterprises.[187] Respect for precedent also encourages respect for the law and promotes the use of legal proceedings to solve inevitable disputes.[188] Nevertheless, legal rules may become outdated due to changes that include evolving societal norms, different ways of doing business, and integration of technology into society.[189] Failure to recognize such changes may result in obsolete legal rules that no longer reflect the real world.[190] As a result, the judicial process may be perceived as an inflexible and unfair venue for resolving disputes. This can be summarized as a tension between the underlying goals of uniformity, which facilitates planning, and the need for flexibility, which enables the law to adapt to a changing world.[191] In light of these goals, well-established legal rules should be overturned only if legitimate reasons exist for such a change.[192] This is especially important when well-established rules are radically changed by the Supreme Court. The Court is neither legally bound by prior judicial precedent nor subject

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186. *See generally* 1 ARTHUR L. CORBIN, CORBIN ON CONTRACTS § 1, at 1 (1st ed. 1952) (stating that the underlying purpose of law is best achieved by a judicial system that acts with uniformity). *But see* Terry Carter, *Robert's Court Pressing on Precedent? Campaign Ruling May Be Broader Than It Seems*, A.B.A. J. EREPORT (June 29, 2007), http://www.abanet.org/journal/ereport/jn29campaign.html (illustrating that the current Supreme Court has not always followed precedent).

187. *See generally* David M. Becker, *Debunking the Sanctity of Precedent*, 76 WASH. U. L.Q. 853, 854-55 (1998) (discussing the importance of stability and certainty in law to ensure predictability).

188. *See* Randall v. Sorrell, 126 S. Ct. 2479, 2489 (2006) ("*Stare decisis*, [is] the basic legal principle commanding judicial respect for a court's earlier decisions and their rules of law . . . . Adherence to [precedent] is the norm; departure from it is exceptional, and requires 'special justification,' . . . especially where . . . the principle at issue has become settled through iteration and reiteration over a long period.").

189. *See* Becker, *supra* note 187, at 856 (noting that the common law system permits old rules of law to change and new rules to evolve over time).

190. *See, e.g.*, Minor v. Happersett, 88 U.S. (21 Wall.) 162, 178 (1874) (restricting the right of women to vote); Bradwell v. State, 83 U.S. (16 Wall.) 130, 139 (1872) (denying married women the right to obtain a license to practice law); Johnson & Graham's Lessee v. McIntosh, 21 U.S. (8 Wheat.) 543, 589-90, 603-05 (1823) (restricting the property rights of Native Americans).

191. *See generally* Andrew Beckerman-Rodau, *A Jurisprudential Approach to Common Law Legal Analysis*, 52 RUTGERS L. REV. 269, 288-94 (1999) (discussing tension between the need for predictability in the law and the competing need for flexibility in the law to achieve equitable results).

192. *See Randall*, 126 S. Ct. at 2489 (holding that departure from precedent is an exceptional result requiring specific justification).

to an open democratic process when assessing the continued suitability of an existing rule of law.[193] The Court relies on its own limited ability to do research and the information provided to it by litigants. Nonlitigants may also provide the Court with relevant information via amici briefs. However, the information provided both by the litigants and by amici briefs is presented to advance the economic or personal interests of the parties providing the information. The information is not provided to further the public interest nor is it neutral.[194] Therefore, it is imperative that when the Supreme Court unilaterally eliminates a well-established and long-followed rule of law that it provide clear guidance in its judicial opinion explaining the rationale for its actions. Otherwise the Court's decisions may be viewed as arbitrary or merely catering to changing political interests.

The majority decision in *eBay* failed to provide any explanation for its rejection of almost a century of precedent.[195] The decision merely explains that the four-factor test applies to all decisions, including patent disputes, when deciding whether to issue permanent injunctive relief.[196] Even if the Court's conclusion is correct, it has an obligation to the public to explain why prior decisions of the Supreme Court are incorrect. Did the court in *Continental Paper Bag Co.* simply make a mistake?[197] Has something radically changed since that decision that supports its rejection? Will other long-established patent law precedents subse-

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193. Nevertheless, one noted jurist, retired Supreme Court Justice O'Connor, stated in an interview that the Supreme Court should generally abide by its prior decisions. Hope Yen, *O'Connor: Supreme Court Rulings Shouldn't Differ Based on Who Sits on Court*, LAW.COM, May 23, 2007, http://www.law.com/jsp/article.jsp?id=1179824708333. Additionally, Justice O'Connor said that the law "shouldn't change just because the faces on the Court have changed." *Id.*

194. Attorneys are ethically bound to advance the interests of their clients. *See* MODEL RULES OF PROF'L CONDUCT, Preamble: A Lawyer's Responsibilities (2006) ("As an advocate, a lawyer zealously asserts the client's position under the rules of the adversary system."). *See generally* MODEL RULES OF PROF'L CONDUCT R. 1.2(a) (2006) ("[A] lawyer shall abide by a client's decisions concerning the objectives of representation . . . .").

195. *See generally* J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred Int'l, 534 U.S. 124, 147 (2001) (Scalia, J., concurring) (noting that a prior Supreme Court decision interpreting a provision of patent law is binding on the court in a subsequent dispute before the Court).

196. eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1838-39 (2006). Justice Thomas seems to accept the importance of precedent by noting that "[a]ccording to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief." *Id.* He also notes that any deviation from prior practice related to granting permanent injunctive relief should be resisted. *Id.* Additionally, his opinion seems to suggest that the general rule of granting permanent injunctive relief for patent infringement is based on Federal Circuit precedents rather than Supreme Court precedents. *Id.* This ignores the precedent set by the Supreme Court in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908).

197. 210 U.S. 405.

quently be changed by the Supreme Court?[198] The majority decision in *eBay* fails to answer these questions.

The *eBay* decision applies both to previously issued patents and to patents applied for in the future, which may have profound economic effects. Past business decisions to seek patents and to license patented technology were based, at least in part, on the understanding that patent infringement could be remedied by seeking damages for past infringement and permanent injunctive relief to prevent future infringement.[199] The ability to obtain a permanent injunction enabled a patentee to control who used his invention in the marketplace. However, after *eBay*, a patentee may not be able to control who can use the patented invention. An infringer may be free to use the patented invention with only the risk of paying infringement damages if the patent owner brings a successful patent infringement action. Likewise, the risk that an inventor may lose the ability to control who can and cannot use his invention may cause inventors to consider more reliance on trade secret protection. Of course, trade secret protection cannot protect inventions that can be both reverse-engineered and that will be widely sold.[200] However, many inventions are not easily reverse-engineered. Additionally, inventions such as manufacturing processes may be subject to limited sales and tightly controlled uses that can be maintained in secret.[201] Such reliance on secrecy will deprive the public of the technological knowledge.[202] This is counter to the underlying goal of patent law, which is to facilitate and encourage public dissemination of new technological information.[203]

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198. An inventor loses his or her right to obtain a patent if the inventor publicly uses the invention for more than one year. 35 U.S.C. § 102(b) (2000). However, in *City of Elizabeth v. American Nicholson Pavement Co.*, the Court relied on the judicially-created experimental use doctrine to exclude certain types of public use from being considered public use under the patent law. 97 U.S. 126, 135-36 (1877).

199. *See* Brief of AIPLA, *supra* note 138, at 2.

200. Trade secret protection is provided predominantly by state law based on the Uniform Trade Secrets Act (UTSA), which has been adopted in most states. *See* Uniform Trade Secrets Act (1985), *available at* http://www.law.upenn.edu/bll/ulc/fnact99/1980s/utsa85.htm; Nat'l Conference of Comm'rs, *supra* note 16.

201. *See generally* Andrew Beckerman-Rodau, *The Choice Between Patent Protection and Trade Secret Protection: A Legal and Business Decision*, 84 J. PAT. & TRADEMARK OFF. SOC'Y 371 (2002) (discussing the factors to be considered with regard to reliance on trade secrets law in lieu of patent law).

202. Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 475 (1974) ("The subject of a trade secret must be secret, and must not be of public knowledge or of a general knowledge in the trade or business.").

203. *Id.* at 480; *see also* REPORT OF THE PRESIDENT'S COMMISSION ON THE PATENT SYSTEM, TO PROMOTE THE PROGRESS OF USEFUL ARTS, S. DOC. NO. 90-5, at 11 (1967) ("[A] patent system

C. The Concurring Opinions in eBay

The Supreme Court decision in *eBay* includes two concurring opinions. Interestingly, unlike the majority opinion, both concurring opinions expressly recognize the importance of precedent and that a permanent injunction has long been the remedy for patent infringement.[204] This view, which clearly recognizes the importance of predictability and uniformity in the law, is shared by many judicial luminaries.[205] Likewise, the concurring opinion[206] authored by Justice Kennedy recognizes that a departure from precedent is sometimes necessary in light of changed circumstances.[207] Neither Justice Thomas nor Chief Justice Roberts gave reasons why they abandoned precedent in this case. In contrast, Justice Kennedy suggests three reasons, discussed below, for departing from the general rule of granting permanent injunctions for patent infringement.[208]

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encourages early public disclosure of technological information, some of which might otherwise be kept secret.").

204. eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1841 (2006) (Roberts, C.J., concurring); *id.* at 1842 (Kennedy, J., concurring).

205. *See, e.g.*, Hubbard v. United States, 514 U.S. 695 (1995) (quoting BENJAMIN N. CARDOZO, THE NATURE OF THE JUDICIAL PROCESS 149 (1921)); Burnet v. Coronado Oil & Gas Co., 285 U.S. 393 (1932), *overruled by* Helvering v. Bankline Oil Co., 303 U.S. 362 (1938), and Helvering v. Mountain Producers Corp., 303 U.S. 376 (1938) ("Stare decisis is usually the wise policy, because in most matters it is more important that the applicable rule of law be settled than that it be settled right. . . . This is commonly true even where the error is a matter of serious concern, provided correction can be had by legislation."); N.Y. Trust Co. v. Eisner, 256 U.S. 345, 349 (1921) ("[A] page of history is worth a volume of logic."); 1 CORBIN, *supra* note 186, § 1, at 1 (stating that the underlying purpose of law is best achieved by a judicial system that acts with uniformity); Sanchez-Llamas v. Oregon, 126 S. Ct. 2669, 2704 (2006) (Breyer, J., dissenting) ("[O]ur opinions are entitled to far more than respectful consideration; they are entitled to full *stare decisis* effect."). In a recent interview, retired Supreme Court Justice O'Connor noted the importance of precedent to build public confidence in our legal system. Yen, *supra* note 193. *See generally* County of Allegheny v. ACLU Greater Pittsburgh Chapter, 492 U.S. 573, 668 (1989) (Kennedy, J., dissenting) ("As a general rule, the principle of *stare decisis* directs us to adhere not only to the holdings of our prior cases, but also to their explications of the governing rules of law.").

206. *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring) ("In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases.").

207. *See, e.g.*, Jackson Mun. Airport Auth. v. Evans, 191 So. 2d 126, 128-30 (Miss. 1966) (noting that prior to the existence of aircraft the common law gave a landowner absolute ownership of the airspace above the land). However, this rule became problematic with widespread use of aircraft. *Id.* Consequently, the law changed such that landowners currently only have limited rights to the airspace over their property. *Id.*

208. 126 S. Ct. at 1842.

1. Patent Trolls

The first reason stated by Justice Kennedy is that "[a]n industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."[209] Such enterprises have typically been referred to by the neutral term nonpracticing entities, or the derogatory term patent trolls.[210] Even assuming such entities widely exist, Justice Thomas in the majority decision in *eBay* suggested such entities are not automatically problematic.[211]

a. The Public Disclosure Function of Patents

As a condition of issuance, all patents must state precisely what the invention is, and fully disclose sufficient information so that a person of average or ordinary skill in the relevant technology area can make and use the invention by reading the patent.[212] Additionally, the inventor must disclose in the patent what he believes is the best way of carrying out the invention.[213] Under current patent law, the United States Patent and Trademark Office makes most patent applications publicly available before granting or denying a patent application.[214] The result is that

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209. *Id.*

210. Brief of Time Warner Inc. et al., *supra* note 124, at 5; Brief of Yahoo! Inc., *supra* note 133.

211. *eBay*, 126 S. Ct. at 1840 ("[S]ome patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so."). Some of the loudest advocates of the position that patent trolls are problematic are highly successful enterprises. *See, e.g.*, Shiels, *supra* note 37 (noting comments by David Simon, chief patent counsel for Intel Corporation, saying patent trolls are problematic). Perhaps patent trolls are not a problem to the public but simply an expense these successful enterprises want to avoid. Not everyone agrees patent trolls are a problem. *See, e.g.*, Lee T. Gesmer, *Of eBay, 'Patent Trolls' and the Right to an Injunction*, BOSTON BUS. J., Apr. 28, 2006, at 1, *available at* http://www.gesmer.com/upload/download.php?id_files=50; Declan McCullagh, Ex-Microsoft CTO Claims Patent 'Problem' Is Myth, CNET NEWS.COM (Aug. 23, 2005), http://www.news.com/Ex-Microsoft-CTO-claims-patent-problem-is-myth/2100-1030_3-5842261.html?tag=item (noting that Nathan Myhrvold, the former chief technology officer for Microsoft and co-founder of Intellectual Ventures, a patent holding company, asserts that patent trolls are not a serious problem).

212. 35 U.S.C. § 112 para. 1 (2000) (referring to the "written description" requirement, and the "enablement" requirement, respectively).

213. *Id.* (commonly referred to as the "best mode" requirement).

214. *Id.* § 122(b)(1)(A) (stating that patent applications must be published eighteen months after filing). A patent applicant can request nonpublication of the application if he certifies the invention will not be the subject of a foreign patent. *Id.* § 122(b)(2)(B)(i). All patents become immediately available to the public upon issuance. 37 C.F.R. § 1.11(a) (2000). Both published patent applications and issued patents are available from numerous sources including online at the

public disclosure of patented technology occurs, whether the inventor actually makes and sells the invention, merely seeks to license it, or refuses to allow anyone to utilize the invention. Public disclosure of new technology represents a quid pro quo that justifies a government-granted property right in the form of a patent.[215] Technological advances for the most part are built on prior technology.[216] Inventors may use new technology to improve existing products or they may think of novel ways to combine new technology with preexisting technology.[217] Technology utilized in a particular industry may be adapted for use in a different industry.[218] New technology may solve a problem that enables existing technology to move from the research arena to the marketplace. Hence, any increase in the public storehouse of knowledge works to the overall

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United States Patent & Trademark Office Web site at http://www.uspto.gov/patft/index.html. For more information on patent searching, see Andrew Beckerman-Rodau, Professor of Law and Co-Director IP Concentration, Suffolk University Law School, Patent Searching at http://www.lawprofessor.org/ip/search.html.

215.

> An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the community by adding to the sum of human knowledge. He may keep his invention secret and reap its fruits indefinitely. In consideration of its disclosure and the consequent benefit to the community, the patent is granted. An exclusive enjoyment is guaranteed him for [the term of the patent] . . . , but, upon the expiration of that period, the knowledge of the invention inures to the people, who are thus enabled without restriction to practice it and profit by its use. To this end the law requires such disclosure to be made in the application for patent that others skilled in the art may understand the invention and how to put it to use.

United States v. Dubilier Condenser Corp., 53 S. Ct. 554, 557 (1933) (internal citations omitted); *see* Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 109 S. Ct. 971, 977-78 (1989) ("[T]he ultimate goal of the patent system is to bring new designs and technologies into the public domain through disclosure."); Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262 (1979) ("Patent law . . . promotes disclosure of inventions, to stimulate further innovation and to permit the public to practice the invention once the patent expires . . . ."); Sinclair & Carroll Co. v. Interchemical Corp., 325 U.S. 327, 330-31 (1945) ("The primary purpose of our patent system is not reward of the individual but the advancement of the arts and sciences. Its inducement is directed to disclosure of advances in knowledge which will be beneficial to society; it is not a certificate of merit, but an incentive to disclosure." (citing Hartford-Empire Co. v. United States, 323 U.S. 386 (1945))); Peter Fox, *It's Not Over for the Product of Nature Doctrine Until the Synthetic Super-Heavy Element ("SHE") Sings*, 79 TEMP. L. REV. 1005, 1010 (2006) (stating that a goal of patent law is disclosure of invention to public).

216. *See generally* Smith & Mann, *supra* note 13, at 263 (stating that public disclosure of invention by patent enlarges technological know-how which future inventors can utilize).

217. *Id.* ("[C]ompetitors who are unable to practice a patented invention will often search for new ways to improve their products or solve a problem, and this search itself can result in a further technological advance.").

218. *See, e.g.*, NASA Scientific and Technical Info., Refrigeration Showcases, http://www.sti.nasa.gov/tto/spinoff1997/ch11.html (last visited Nov. 19, 2007) (describing how technology designed to maintain spacecraft in extreme temperatures adapted to supermarket refrigeration systems).

betterment of society by increasing the sum total of available know-how.[219]

b. Business Decisions Should Be Left to the Marketplace

In a modern marketplace economy such as exists in the United States, decisions on to how best utilize assets, including patents, should be considered a business decision.[220] A decision to make and sell a patented invention, or a decision to only license it in return for royalties should not be second-guessed by a court. Under the well-established business judgment rule, courts uphold business decisions made by corporate officers and directors as long as they are made in good faith.[221] The same hands-off approach should be applied to business decisions regarding how to maximize the economic revenue from a patent. Of course all business decisions, including how to maximize the economic value of a patent, are subject to limits. Business decisions and other marketplace activities that unreasonably interfere with competition may run afoul of unfair competition law or antitrust law.[222] Consequently, a decision by a patentee to use a patent only to seek royalties should be evaluated through the lens of unfair competition and antitrust law rather than assuming such a decision is inherently bad.

c. Procompetitive Benefits of Patent Trolls

The innovative and creative skills needed to invent are generally insufficient to successfully inject a new invention into the stream of commerce. Commercially exploiting a novel invention requires the

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219. R.R. Supply Co. v. Elyria Iron & Steel Co., 244 U.S. 285, 293 (1917) (stating that the "'design of the patent laws is to reward those who make some substantial discovery or invention, which adds to our knowledge'" (quoting Atlantic Works v. Brady, 107 U.S. 192, 200 (1883))).

220. *See generally* James E. Malackowski, *The Intellectual Property Marketplace: Past, Present and Future*, 5 J. MARSHALL REV. INTELL. PROP. L. 605, 606 (2006) (arguing that a nonpracticing entity or patent troll is a new type of business model).

221. Froelich v. Senior Campus Living L.L.C., 355 F.3d 802, 810 (4th Cir. 2004) ("The business judgment rule simply requires courts to defer to the decisions of corporate boards unless a challenger produces evidence establishing that the directors acted fraudulently or in bad faith . . . or with gross or culpable negligence . . . ." (citing NAACP v. Golding, 679 A.2d 554, 559 (Md. 1996); Parish v. Md. & Va. Milk Producers Ass'n, 242 A.2d 512, 540 (Md. 1968))); *see also* Hoffman v. Kramer, 362 F.3d 308, 317 n.4 (5th Cir. 2004) (holding that business decisions of corporate directors are given deference by courts under the business judgment rule because directors are in the best position to make business decisions for the enterprise).

222. For example, deceptively passing off a knock-off product for a legitimate product is actionable conduct. Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23, 27 n.1 (2003). Under the Sherman Act, federal antitrust law prohibits agreements that restrain interstate commerce and conduct that results in improperly monopolizing interstate commerce. 15 U.S.C. §§ 1-2 (2000).

ability to raise sufficient capital, the ability to manufacture the invention in a commercially viable form, and the marketing expertise necessary to get the invention into the marketplace.[223] In an efficient economy, different individuals or enterprises excel at each of these areas.[224] For example, venture capitalists and other financial enterprises specialize in raising capital to be invested in new technologies.[225] Manufacturing engineers specialize in creating efficient assembly lines to mass produce the invention so that it can be priced competitively. Finally, marketing expertise is necessary to persuade sellers, such as retail outlets, to sell a new product and to persuade the ultimate customers to buy the new product.

The contributions of persons who possess the creative skills to develop novel technology but lack the ability to raise capital and market the technology should not be treated as less valuable than persons who have such creative skills coupled with access to capital and marketing expertise.[226] Nevertheless, the result that flows from Justice Kennedy's negative view of patent trolls in his concurring opinion in *eBay* is that a patentee who creates a novel invention but who seeks remuneration via licensing may not be entitled to a permanent injunction if someone infringes his patent.[227] Economic consequences for patent infringement (and thereby the negotiating power of the patentee) are reduced, and the result is likely to be lower licensing fees paid to the patentee. In contrast, a patentee who succeeds in making and selling his invention is still likely to be able to obtain permanent injunctive relief for patent infringement. This increases the economic consequences of infringement and correspondingly increases the patentee's negotiating power, which will undoubtedly increase license fees.

Inventions emanating from individual inventors and small startup enterprises need strong patent protection to level the playing field with

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223. *See, e.g.*, ROBERT W. HAMILTON, THE LAW OF CORPORATIONS IN A NUTSHELL 378 (5th ed. 2000); Barnaby J. Feder, *Harvard Is Licensing More Than 50 Patents to a Nanotechnology Start-Up*, N.Y. TIMES, June 4, 2007, at C5.

224. *See generally* HAMILTON, *supra* note 223; Feder, *supra* note 223.

225. *See generally* BRYAN A. GARNER & DAVID W. SCHULTZ, A HANDBOOK OF BUSINESS LAW TERMS 93 (1999) (defining venture capital as "[f]unds invested in a new company or enterprise that has high risk and the potential for a high return").

226. This concept of division of labor, which is an important part of any successful market-based economy, is defined as "[t]he process whereby labour is allocated to the activity in which it is most productive—i.e. in which it can make best use of its skills. As a result no one person carries out all the tasks in the production . . . ." DAVID W. PEARCE, THE MIT DICTIONARY OF MODERN ECONOMICS 113 (4th ed. 1992).

227. eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1842 (2006) (Kennedy, J. concurring).

large publicly traded corporations.[228] Limited capital resources, lack of marketing expertise, and the limited ability to rapidly ramp up production in response to market demand often prevent an individual inventor or startup enterprise from succeeding in the marketplace despite the existence of a good product.[229] This reduces competition by allowing large enterprises to dominate the marketplace.

d. Determining Who Is a Patent Troll

Nonpracticing entities can be small enterprises that have developed innovative technology but have been unable to generate the necessary capital or marketing expertise to compete successfully the marketplace.[230] Alternatively, the existence of a well-established enterprise occupying a dominant market position may create a barrier to entry for smaller competitors. Even if a well-established enterprise has an inferior product its dominant position in the marketplace can be a significant barrier to small enterprises attempting to sell their products. The dominant enterprise will have existing customer relationships, name recognition, and easier access to capital. It may also be able to demand supplier discounts on raw materials and may utilize predatory pricing to drive up the costs for small enterprises. These factors all tend to perpetuate the dominant position of an established enterprise. Hence, in such situations the only avenue available to a small enterprise to recover any economic value is to seek licensing fees for the use of its innovative technology. Nonpracticing entities may also develop innovations that represent a nascent field of technology where it is difficult to raise necessary capital because commercially viable applications of the technology do not yet

228. Antonio Regalado, *Tiny Company Wields Patents Against Giants*, WALL ST. J., Mar. 9, 2001, at B2 (explaining that ownership of patents can help level the playing field between large and small enterprises).

229. Hosteny, *supra* note 45.

230. Some news accounts and editorials have used the patent infringement suit against Research In Motion (RIM) as an example of the problem of patent trolls. *See, e.g.*, McKenna, Waldie & Avery *supra* note 38. In that case, an enterprise whose main assets were several patents sued RIM for patent infringement. *Id.* However, the original patentee was an engineer who unsuccessfully attempted to commercialize his invention. *Id.* Subsequently, he sought licensing fees from RIM when they succeeded in commercializing an e-mail service using some of the same technology as was developed by the patentee. *Id.* A suit was only instituted after RIM would not agree to a licensing arrangement. *Id.* Additionally, the length of the litigation and the resultant legal costs seem to have stemmed from a decision by RIM not to pay licensing fees for using the patented technology. *Id.* Likewise, the patentee in *eBay* also attempted unsuccessfully to commercialize his patented invention. *See* Lee, *supra* note 57. He also only sued eBay for patent infringement after the parties were unable to reach a licensing agreement. *Id.*

exist.[231] University research often falls into this category because it is typically very early stage basic research that may or may not lead to viable commercial products.[232] Additionally, such research institutions generally lack the expertise or ability to engage in creating commercially marketable products based on the technology.[233] Hence, they generally resort to licensing the technology to gain revenue from it.[234] Allowing such enterprises the remedy of permanent injunctive relief for infringement merely enables the inventor to gain the full value of his property via licensing fees that represent the true economic value of the invention in the marketplace.

e. Patents Are Property

Recognition that patents are property enables an individual inventor or a small enterprise to more effectively compete against dominant enterprises.[235] Strong patent rights provide an incentive for enterprises, such as venture capitalists, to provide capital to smaller enterprises in return for a potential profit from the investment.[236] Capital investment often allows the purchase of manufacturing and marketing expertise, among other things, which enables a patented invention to enter the marketplace and compete with dominant enterprises.[237] Alternatively, strong patent rights enable inventors to sell or license their inventions to larger entities that have economic resources, marketing expertise and market power.[238]

Weakening the property rights associated with a patent decreases the economic value of the patent, which can negatively impact the

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231. The field of nanotechnology is one example. *See* Feder, *supra* note 223 (illustrating a nonpracticing entity developing new technology with unknown applications at the time of development, and licensing that technology to a startup).

232. *Id.*

233. *Id.*

234. *Id.*

235. *See* Smith and Mann, *supra* note 13, at 262 (suggesting patents likely facilitate the ability of small enterprises to compete against large established enterprises in the software industry).

236. *See In re* Anthony, 414 F.2d 1383, 1397-98 (C.C.P.A. 1969) (noting the Presidential Commission on patent law found that the key goal of patent system is to stimulate capital investment to further develop and market inventions). *See generally* Mark D. Shtilerman, *Pharmaceutical Inventions: A Proposal for Risk-Sensitive Rewards*, 46 IDEA 337, 366 (2006) (claiming that strong patent rights may increase the ability of small enterprises to get venture capital investments in the development of novel drugs).

237. *See generally* Sari Gabay, *The Patentability of Electronic Commerce Business Systems in the Aftermath of* State Street Bank & Trust Co. v. Signature Financial Group, Inc., 8 J.L. & POL'Y 179, 222 (1999) (claiming that patents enable small startup e-commerce enterprises to raise capital so they can compete with larger established enterprises).

238. *See generally* Feder, *supra* note 223.

willingness of third parties to make capital investments in small enterprises.[239] Consequently, this allows existing dominant enterprises to avoid additional competition. Furthermore, reducing the economic value of a patent increases the incentive of existing enterprises to infringe the patent due to the lower economic penalties for such actions. Hence, weakening patent rights negatively impacts marketplace competition by making it difficult for independent inventors and smaller startup enterprises to get new products into the marketplace.

2. Business Method Patents

Justice Kennedy's second reason was that "[t]he potential vagueness and suspect validity of . . . [business method] patents" may be relevant with regard to whether a permanent injunction is appropriate for infringing such patents.[240] On its face, this statement is illogical because the issue in *eBay* was whether a permanent injunction should be granted for patent infringement after a trial on the merits, not the validity of the underlying patent.[241] The decision to grant a permanent injunction typically only arises after a court has reviewed a patent and determined whether it is both valid and infringed.[242] Hence, the question of patent validity is normally resolved prior to deciding the remedy for infringement.

Alternatively, if Justice Kennedy is referring to whether business method patents should be appropriate subject matter eligible for patent protection, that question has already been resolved. Although precedent suggested that methods of doing business were unpatentable subject matter,[243] the Federal Circuit in *State Street Bank Co. v. Signature Financial Group* clearly repudiated that precedent in 1998.[244] Congress subsequently provided statutory recognition to business method patents.[245]

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239. *See, e.g.*, Shtilerman, *supra* note 236, at 367.

240. eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1842 (2006) (Kennedy, J. concurring).

241. *Id.* at 1839.

242. *See* Cont'l Paper Bag Co. v. E. Paper Bag Co., 210 U.S. 405 (1908).

243. *See* sources cited *supra* note 80 and accompanying text.

244. 149 F.3d at 1368, 1375 (Fed. Cir. 1998); *see* JOHN GLADSTONE MILLS III ET AL., PATENT LAW BASICS § 6.25, at 66-67 (rev. ed. 2006).

245. 35 U.S.C. § 273 (2000) (creating special rules related to remedies for infringement of business method patents).

3. Complex Invention Problem

The third reason stated by Justice Kennedy—the complex invention problem[246]—is best summed up by his statement:

> When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.[247]

This argument is often raised by the software and electronics industries whose products may contain combinations of numerous components and inventions.[248] Clearly, this may make negotiations more complicated and costly, but a patentee should not be barred from obtaining permanent injunctive relief in order to allow him to control who uses the patented invention.

Justice Kennedy also expresses a concern that a patent on a small component of a product may result in "undue leverage" for the patentee.[249] However, in a market-based economy, such as that which predominates in the United States, the economic value of property is defined by its worth to other parties.[250] Things do not have intrinsic value and, therefore, undue economic leverage is a misnomer, just like price gouging, in a market-based economic system.[251] In reality the owner of a

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246. *See supra* note 82 and accompanying text.

247. eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1842 (2006) (Kennedy J., concurring).

248. *See generally* FTC, *supra* note 2, at 6-7.

249. 126 S. Ct. at 1842.

250. This is typically referred to as "fair market value." Dickinson v. Auto Ctr. Mfg. Co., 733 F.2d 1092, 1096 n.2 (5th Cir. 1983) ("'[F]air market value' means what a willing buyer would pay and what a willing seller would accept, neither being under any obligation or compulsion either to buy or sell, and both with full knowledge of all pertinent facts.").

251. Arguably, price gouging by itself is merely taking advantage of an advantageous marketplace position in light of surrounding facts and circumstances. Typically, it is only legally actionable when coupled with illegal restraints of trade such as price fixing or bid rigging, or illegally monopolizing a marketplace in violation of antitrust law. 15 U.S.C. §§ 1- 2 (2007). *See generally* Evan Ackiron, *Patents for Critical Pharmaceuticals: The* AZT *Case*, 17 AM. J.L. & MED. 145, 172 n.187 (1991) (noting that price fixing violates antitrust law but price gouging does not (citing WARD S. BOWMAN, PATENT AND ANTITRUST LAW 57 (1973))). Some states have adopted specific anti-price gouging statutes. However, they tend to have very narrow applicability. *See, e.g.*, TENN. CODE ANN. § 47-18-5101 (2007) ("Pricing of consumer goods and services is generally best left to the marketplace under ordinary conditions, but when a declared state of emergency results in abnormal disruptions of the market, the public interest requires that excessive and unjustified increases in the prices of consumer goods and services should be discouraged."). *See generally* Michael Brewer, *Planning Disaster: Price Gouging Statutes and the Shortages They Create*, 72 BROOKLYN L. REV. 1101 (2000) (arguing against price gouging statutes because they are contrary to economic marketplace principles).

patent on a component may simply be in a strong economic position based on the surrounding facts and circumstances. In contrast, if he was only able to receive minimal licensing fees due to being in a weak economic position the law would not enable the patentee to obtain enhanced fees. Likewise, the law should not lessen the licensing fees a patentee can obtain because the patentee is in a strong economic position. Nevertheless, that is the implication of Justice Kennedy's statement that permanent injunction relief for patent infringement may be inappropriate where the relevant patent only covers a small component of a larger product.[252]

Furthermore, even if a patent only covers a single component of a larger product, the patented component may be the key innovation critical to the product's success. Hence, the patent owner may be entitled to a disproportionate portion of the overall profits generated by the product. In contrast, if the component is a noncritical component the producer of the larger product should be able to replace the component or design around the patent.

In light of the various questions and issues raised above, the marketplace should be allowed to develop any needed solutions. The judiciary is less equipped than the marketplace to analyze complex economic transactions in the ever changing fields of cutting edge technology. Allowing the judiciary to delve into economic transactions in order to determine when a patent owner has undue leverage in a licensing negotiation is likely to lead to both improper results and unintended consequences.

V. *EBAY* AND JUDICIAL ACTIVISM

The *eBay* decision represents clear judicial activism because it ignores well-established precedent, fails to place any importance on constitutional restraints, ignores the status of patents as property, and demonstrates a lack of confidence in the free market.

A. Constitutional Restraints

No constitutional right exists to obtain a patent on an invention. However, the Constitution gives Congress the power to enact patent law.[253] It specifies that any patent law must "promote the progress of science and useful arts."[254] Only Congress can decide what type of law

252. *See eBay*, 126 S. Ct. at 1842.
253. *See supra* note 6 and accompanying text.
254. *Id.*

furthers this stated constitutional goal. The Constitution also allows Congress to define what subject matter is patentable, how long patent rights last, and whether different terms apply to different types of technology.[255] However, the Constitution clearly requires that whatever rights are created, Congress must give an inventor the "exclusive right" to his invention.[256] Exclusivity is the essence of a property right.[257] Accordingly, the Supreme Court has long recognized that patents are property.[258] Congress has expressly recognized the status of patents as property via statute.[259]

Once something is designated as property, a bundle of rights attaches to the property, which can be exercised by the property owner. The bundle includes the right to exclude others from using the property, the right to use the property, and the right to transfer the property.[260] Of course, no property rights are absolute.[261] Regulation of property rights is permitted even though it may impinge on such rights or affect the economic value of the property.[262] But once the right to exclude is taken away, it is difficult to argue that what is left are property rights.

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255. *See* J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc., 534 U.S. 124, 130-31 (2001) (stating that Congress has constitutional role to determine categories of patent eligible subject matter).

256. *See supra* note 6 and accompanying text.

257. *See* sources cited *supra* note 20 and accompanying text.

258. *See, e.g.*, Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627, 642 (1999); United States v. Nat'l Lead Co., 332 U.S. 319, 364 n.1 (1947) (Douglas, J., dissenting); Hartford-Empire Co. v. United States, 323 U.S. 386, 415 (1945) (holding that it has been long settled that patents are property); United States v. Dubilier Condenser Corp., 289 U.S. 178, 187 (1933); Pacific Gas & Elec. Co. v. City of S.F., 265 U.S. 403, 413 (1924); Consol. Fruit-Jar Co. v. Wright, 94 U.S. 92, 96 (1876) ("A patent for an invention is as much property as a patent for land. The right rests on the same foundation, and is surrounded and protected by the same sanctions."). Likewise, lower courts agree. *See, e.g.*, Patlex Corp. v. Mossinghoff, 758 F.2d 594, 599 (Fed. Cir. 1985) ("[It is] beyond reasonable debate that patents are property."). Commentators also agree patents are property. *See* sources cited *supra* note 179 and accompanying text.

259. 35 U.S.C. § 261 (2000) ("[P]atents shall have the attributes of personal property.").

260. *See* sources cited *supra* note 20 and accompanying text.

261. *See* Andrew Beckerman-Rodau, *Prior Restraints and Intellectual Property: The Clash Between Intellectual Property and the First Amendment from an Economic Perspective*, 12 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1, 22-23 (2001).

262. *See, e.g.*, ARIZ. REV. STAT. § 13-3112 (2000) (detailing restrictions on right to carry concealed weapon); REV. CODE WASH. § 9.41.050 (2000) (limiting the right to carry a concealed pistol); Moore v. Regents of the Univ. of Cal., 793 P.2d 479, 509 n.6, 510 nn.7, 10 (Cal. 1990) (Mosk, J., dissenting) (noting that nuisance law, zoning laws and land-use regulations provide limitations on real property rights that are imposed for the benefit of the public, and that restrictions apply to food, guns, alcohol, and prescription pharmaceuticals). *See generally* Pa. Coal Co. v. Mahon, 260 U.S. 393, 413 (1922) ("Government hardly could go on if to some extent values incident to property could not be diminished without paying for every such change in the general law.").

B. De facto Compulsory Licensing

If patent owners are not entitled to an automatic permanent injunction to prevent unauthorized use of their inventions, the remaining remedy for such infringement is an award of damages.[263] This enables a third party to infringe a patent unilaterally and then pay whatever damages are awarded by a court. The patentee thus has lost his right to control who can or cannot use his invention. Additionally, the patentee has lost the ability to freely negotiate licensing fees with a third party to use the patented invention. The result is a de facto compulsory license because the third party decides whether to infringe and, if the decision is made to infringe a court determines the cost of such infringement.[264]

The problem with a judicially created remedy of compulsory licensing is that such a remedy for patent infringement has been clearly rejected by Congress except under very limited circumstances.[265] Compulsory licensing has also been generally rejected as a remedy for infringement or misappropriation of other types of intellectual property.[266]

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263. *See* KEG Tech., Inc. v. Laimer, 436 F. Supp. 2d 1364, 1371 (N.D. Ga. 2006).

264. Cases following the Supreme Court decision in eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006), have both recognized and/or granted a compulsory license in lieu of a permanent injunction for patent infringement. *See* 436 F. Supp. at 1371 (suggesting that a compulsory license is an alternative remedy for patent infringement if a permanent injunction is denied); Finisar Corp. v. DIRECTV Group, Inc., No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 76380, at *4-5 (E.D. Tex. July 7, 2006) (ordering a compulsory license for patent infringement in lieu of a permanent injunction).

265. *See* MCCARTHY, SCHECHTER, & FRANKLIN, *supra* note 7, at 86-87 (stating that compulsory patent licensing is rare in the United States). Failure to use a patented invention by itself is not grounds for compulsory licensing. *Id. See also* Simone A. Rose, *On Purple Pills, Stem Cells, and Other Market Failures: A Case for a Limited Compulsory Licensing Scheme for Patent Property*, 48 HOWARD L.J. 579, 621-22 (2005) (noting some limited statutory compulsory license requirements for patents). Numerous recent legislative attempts to create compulsory licenses for nonuse or suppression of patents have failed. *Id.* Congressional rejection of compulsory licensing has a long history. Special Equip. Co. v. Coe, 324 U.S. 370, 379 (1945) ("Congress has frequently been asked to change the policy of the statutes as interpreted by this Court by imposing a forfeiture or providing for compulsory licensing if a patent is not used within a specified time, but has not done so." (citing Hartford-Empire Co. v. United States, 323 U.S. 386, 433 nn.26, 27 (1945))).

266. *See* Pac. & S. Co. v. Duncan, 744 F.2d 1490, 1499 (11th Cir. 1984) ("[P]ast infringement and a substantial likelihood of future infringements . . . would normally entitle the copyright holder to a permanent injunction against the infringer . . . ." (citing Milene Music, Inc. v. Gotauco, 551 F. Supp. 1288 (D.R.I. 1982))); Superhype Publ'g v. Vasiliou, 838 F. Supp. 1220, 1226 (S.D. Ohio 1993) ("A showing of past [copyright] infringement and a substantial likelihood of future infringement entitles a copyright owner to permanent injunction."); MCCARTHY, SCHECHTER, & FRANKLIN, *supra* note 7, at 88 (stating that compulsory trademark licensing is generally not permitted); 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT: A TREATISE ON THE LAW OF LITERARY, MUSICAL AND ARTISTIC PROPERTY, AND THE PROTECTION OF IDEAS § 14.06(B) (rev. ed. 2007) ("It is uncontroversial that a 'showing of past infringement and a substantial likelihood of future infringement' justifies issuance of a permanent injunction.");

In the few instances when Congress deemed a compulsory license an appropriate remedy it did so expressly via statute.[267] Congress's failure to provide for a compulsory license remedy for patent infringement indicates it did not authorize or approve of such a remedy.[268]

On a theoretical level, rejecting injunctive relief in favor of a compulsory license ignores the fundamental distinction between property law and contract law. Property law, as noted above, is rooted in the principle that a property owner has to the right to exclude others from using his property without permission;[269] and, that the government, via the legal system, will allow the owner to enforce this right to exclude.[270] In contrast, contract law is based on the underlying concept that a contracting party is free to breach a contractual relationship at will.[271] Typically, the only remedy available to the nonbreaching party is a suit for damages.[272] Therefore, a contracting party is always free to breach his legally enforceable agreement by paying damages, which are decided by a court. Consequently, a de facto compulsory license is generally inappropriate for patent infringement in light of the fact that patents have unequivocally been deemed to be property by both case law and by statute.

Douglas Y'Barbo, *On Legal Protection for Electronic Texts: A Reply to Professor Patterson and Judge Birch*, 5 J. INTELL. PROP. L. 195, 218 (1997) (stating that injunctions, when requested, are usually granted for copyright infringement). *See generally* ROSS, *supra* note 180, § 11.02[6], at 11-20 (stating that statutes permit permanent injunctive relief for copyright and trademark infringement, and for trade secret misappropriation under the Uniform Trade Secrets Act). Prior to *eBay* the general rule was that permanent injunctions were granted for patent infringement. *Id.* § 11.04[5], at 11-49.

267. *See, e.g.*, 17 U.S.C. § 115 (2000) (providing for a compulsory licensing of certain copyrighted works); *see also* MCCARTHY, SCHECHTER & FRANKLIN, *supra* note 7, at 88-90 (discussing the limited instances in which the current copyright act provides for compulsory licensing).

268. The failure to require a compulsory license remedy must be considered in light of Congress's ability to modify patent law whenever desirable. *See, e.g.*, 35 U.S.C. § 287(c)(1) (2000) (limiting the remedy available for infringement of a medical or surgical procedure). Additionally, after the Federal Circuit in *State Street Bank & Trust Co. v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998), rejected the long-held rule prohibiting patenting business methods, Congress enacted legislation recognizing business methods as patentable subject matter. 35 U.S.C. § 273.

269. *See* sources cited *supra* note 20 and accompanying text.

270. *See* Felix S. Cohen, *Dialogue on Private Property*, 9 RUTGERS L. REV. 357, 374 (1954).

271. *See* Joseph P. Tomain, *Contract Compensation in Nonmarket Transactions*, 46 U. PITT. L. REV. 867, 901 (1985) ("Contracts law recognizes a party's power to breach as long as they stand ready to accept the consequences by paying damages.").

272. *See id.*

C. Rejection of Market-Based Solutions

The suggestion by Justice Kennedy in his concurring opinion in *eBay* to eliminate the longstanding general rule of granting permanent injunctive relief for patent infringement due to concerns over patent trolls and the complex invention problem demonstrates a lack of faith in the free market system.[273] A predictable and uniform body of law enables the marketplace to develop innovative and market-based solutions calibrated to the effect such a body of law may have on a particular industry.[274] This approach is much more efficient than legislation or judicial changes to the law often made by parties with only a limited understanding of the ramifications of those changes.[275] In contrast, market participants have a higher level of understanding of their industries and the marketplace because they are focused solely on reaching efficient marketplace solutions.[276]

Typically, laws need to be designed for general applicability. This is especially true in an area such as patent law where the essence of the law is to protect new technology. It is not possible to know in advance what patentable inventions will be created. Changes in the domestic and global marketplace, changing consumer tastes, and other intangibles make it extremely difficult to know both what the future technological landscape will look like and how the public will respond. Attempts to carefully tailor legal rules to reflect current marketplace conditions are problematic because the legislative and judicial processes are slow, while both technology and the marketplace change rapidly. Additionally, different industries may require unique and constantly changing rules. For example, the pharmaceutical industry relies heavily on patent rights to protect creation of innovative medicines.[277] The ease with which such

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273. *See generally* FTC, *supra* note 2, at 1 ("Competition through free enterprise and open markets is the organizing principle for most of the U.S. economy.").

274. *See generally* Robert P. Merges, *Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CALIF. L. REV. 1293 (1996) (arguing marketplace works better than compulsory licensing with regard to access to intellectual property rights).

275. *Id.*

276. *Id.*

277. Patents are necessary to protect the significant investment needed for research and development work. Peggy B. Sherman & Ellwood F. Oakley, III, *Pandemics and Panaceas: The World Trade Organization's Efforts to Balance Pharmaceutical Patents and Access to AIDS Drugs*, 41 AM. BUS. L.J. 353, 404-05 (2004) (explaining that it can cost hundreds of millions of dollars to bring a new pharmaceutical to market). *See generally* John A. Vernon et. al, *The Economics of Pharmaceutical Price Regulation and Importation: Refocusing the Debate*, 32 AM. J.L. & MED. 175, 183 (2006) (stating that the lack of patent protection would create a disincentive to make such investments).

products can be reverse-engineered and copied has caused this industry to favor permanent injunctive relief for patent infringement.[278] In contrast, many software and electronic companies produce complex inventions often comprised of many preexisting components.[279] They must often license various patented technologies to produce a new product, creating added work and resultant expense.[280] Consequently, these companies do not favor permanent injunctive relief.[281] Of course, an electronics company that makes novel individual components, which are incorporated into complex products produced by other enterprises, may prefer permanent injunctive relief because it maximizes its bargaining power against anyone who needs its products. Consequently, creating a body of patent law that equitably meets the needs of many different industries may be an impossible task. Constantly altering the patent law to meet the needs of different industries can have long term consequences. First, because words are inherently inexact, all law is ambiguous no matter how carefully it is crafted. The resulting uncertainty makes it difficult for business enterprises to plan and encourages costly litigation in terms of both time and money. Second, it creates a never-ending cycle because changes in the law are unlikely to keep up with changes in technology. Finally, unintended consequences are inevitable. Radically changing long-standing precedent in the manner of the *eBay* court may affect any of the following: the ability of startups to raise capital; financing options available to business enterprises; investment in research and development activities; increases in the use of trade secret law, where applicable, in lieu of patent law; and decreases in competition by making it easier for large entities to maintain market dominance.

VI. CONCLUSION

The Supreme Court's decision in *eBay* represents judicial activism at its worst. It ignores the Court's prior decisions and constitutional limitations while usurping Congress's legislative function.

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278. *See* Brief for Pharmaceutical Research and Manufacturing of America, *supra* note 156 (arguing in favor of permanent injunctive relief for patent infringement); Marney L. Cheek, *The Limits of Informal Regulatory Cooperation in International Affairs: A Review of the Global Intellectual Property Regime*, 33 GEO. WASH. INT'L L. REV. 277, 290 (2001) (stating that a pharmaceutical drug costing millions of dollars to develop can be copied for a fraction of such costs).

279. *See generally* FTC, *supra* note 2, at 6-7.

280. *See* FTC, *supra* note 2, at 6-7.

281. *See* sources cited *supra* note 157 and accompanying text.

More than a century of prior Supreme Court decisions articulated a general rule calling for a permanent injunction as a remedy for patent infringement. Lower courts, including the Federal Circuit, dutifully followed this general rule. Justice Thomas's majority opinion in *eBay* eliminates this general rule in favor of deferring to the discretion of the trial court to decide whether a compulsory license or a permanent injunction is the appropriate remedy for infringement. The opinion ignores a fundamental jurisprudential policy of our legal system—uniform and predictable interpretation of the law. Moreover, it fails to provide any explanation for such a significant change in the law.

Only Congress has the constitutional authority to enact patent law. The relevant language of the Constitution is general in nature but it does contain certain express limitations. It clearly specifies that an inventor shall be given the "exclusive right" in his invention. Such an exclusive right is understood to be a property right. Federal law and numerous Supreme Court decisions affirm that a patent is property and have underscored the notion that the essence of the property right means that the patentee controls who can use the invention. Exclusion in the form of permanent injunction is a necessary remedy to protect such a property right. A compulsory license is completely inconsistent with a property right in the invention because it takes away the patent owner's fundamental right to control who can use his property. Hence, the *eBay* decision is inconsistent with both the Court's prior decisions and the express wording of the Constitution.

The concurring opinion of Justice Kennedy recognizes the importance of the Court's prior decisions but it identifies several specific reasons for departing from the Court's prior general rule. Justice Kennedy raises concerns about issuance of business method patents, the proliferation of nonpracticing entities or trolls, and the complex invention problem that arises when a patent issues on a small part of a much larger product.[282] Even if these were legitimate concerns, the Constitution

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282. The majority of district court decisions subsequent to *eBay* have granted permanent injunctive relief for patent infringement. The following twenty decisions granted permanent injunctive relief: Sanofi-Synthelabo v. Apotex, Inc., 492 F. Supp. 2d 353 (S.D.N.Y. 2007); Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech. Inc., 492 F. Supp. 2d 600 (E.D. Tex. 2007); Brooktrout, Inc. v. Eicon Networks Corp., No. 2:03-CV-59, 2007 U.S. Dist. LEXIS 43107 (E.D. Tex. June 14, 2007); MGM Well Servs., Inc. v. Mega Lift Sys., LLC, No. H-05-1634, 2007 U.S. Dist. LEXIS 30536 (S.D. Tex. Apr. 25, 2007); 800 Adept, Inc. v. Murex Sec., Ltd., No. 6:02-cv-1354-Orl-28DAB, 2007 U.S. Dist. LEXIS 27051 (M.D. Fla. Apr. 12, 2007); O2 Micro Int'l Ltd. v. Beyond Innovation Tech. Co., No. 2-04-CV-32 (TJW), 2007 U.S. Dist. LEXIS 25948 (E.D. Tex. Mar. 21, 2007); Ortho-McNeil Pharm., Inc. v. Mylan Labs. Inc., Nos. 04-1689, 06-757, 06-5166, 2007 U.S. Dist. LEXIS 19494 (D.N.J. Mar. 20, 2007); Novozymes A/S v. Genencor Int'l, Inc., 474 F. Supp. 2d 592 (D. Del. 2007); Innogenetics, N.V. v. Abbott Labs., No.

clearly grants Congress the authority to enact patent law, and Congress has expressly authorized the issuance of business method patents. Moreover, Congress has previously considered but rejected compulsory licensing of patents in general, and has also rejected any requirement that a patentee must actually use his invention in order to receive patent protection. Justifying the *eBay* decision based on the reasons articulated by Justice Kennedy amounts to improperly usurping decisions previously made by Congress pursuant to its constitutional authority.

05-C-0575-C, 2007 U.S. Dist. LEXIS 3148 (W.D. Wis. Jan. 12, 2007); Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp., No. H-03-2910, 2006 U.S. Dist. LEXIS 93408 (S.D. Tex. Dec. 27, 2006); Visto Corp. v. Seven Networks, Inc., No. 2:03-CV-333-TJW, 2006 U.S. Dist. LEXIS 91453 (E.D. Tex. Dec. 19, 2006); Black & Decker Inc. v. Robert Bosch Tool Corp., No. 04 C 7955, 2006 U.S. Dist. LEXIS 86990 (N.D. Ill. Nov. 29, 2006); Smith & Nephew, Inc. v. Synthes, 466 F. Supp. 2d 978 (W.D. Tenn. 2006); Rosco, Inc. v. Mirror Lite Co., No. CV-96-5658, 2006 U.S. Dist. LEXIS 73366 (E.D.N.Y. Sept. 29, 2006); 3M Innovative Props. v. Avery Dennison, No. 01-1781 (JRT/FLN), 2006 U.S. Dist. LEXIS 70263 (D. Minn. Sept. 25, 2006); Litecubes v. Northern Light Prods., No. 4:04CV00485 ERW, 2006 U.S. Dist. LEXIS 60575 (E.D. Mo. Aug. 25, 2006); Am. Seating Co. v. USSC Group, Inc., No. 01-00578, 2006 U.S. Dist. LEXIS 59212 (W.D. Mich. Aug. 22, 2006); TiVo Inc. v. EchoStar Commc'ns Corp., 446 F. Supp. 2d 664 (E.D. Tex. 2006); Telequip Corp. v. Change Exch., No. 5:01-CV-1748 (FJS/GJD), 2006 U.S. Dist. LEXIS 61469 (N.D.N.Y. Aug. 15, 2006); 2006 U.S. Dist. LEXIS 61469; Wald v. Mudhopper Oilfield Servs., No. CIV-04-1693-C, 2006 U.S. Dist. LEXIS 51669 (W.D. Okla. July 27, 2006). The following five decisions denied permanent injunctive relief: MercExchange, L.L.C. v. eBay, Inc., 500 F. Supp. 2d 556 (E.D. Va. 2007); Sundance, Inc. v. DeMonte Fabricating Ltd., No. 02-73543, 2007 U.S. Dist. LEXIS 158 (E.D. Mich. Jan. 4, 2007); Voda v. Cordis Corp., No. CIV-03-1515-L, 2006 U.S. Dist. LEXIS 63623 (W.D. Okla. Sept 5, 2006); Paice LLC v. Toyota Motor Corp., No. 2:04-CV-211-DF, 2006 U.S. Dist. LEXIS 61600, (E.D. Tex. Aug. 16, 2006); Finisar Corp. v. DirecTV Group, Inc., No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 76380 (E.D. Tex. July 7, 2006). However, at least some of Justice Kennedy's reasoning in his concurring opinion seems to have affected these district court decisions. In nineteen of the twenty decisions listed above granting permanent injunctions, the patent owner and the infringer were direct marketplace competitors. In only one case was a nonpracticing entity granted permanent injunctive relief: Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech. Inc., 492 F. Supp. 2d 600 (E.D. Tex. 2007). In four of the five district court decisions denying permanent injunctions, the patent owner was a nonpracticing entity. z4 Techs., Inc. v. Microsoft Corp., 434 F. Supp. 2d 437 (E.D. Tex. 2006) (denying permanent injunctive relief in which patent owner was not a nonpracticing entity).