2007


Jean Carlos Lopez

Follow this and additional works at: http://digitalcommons.law.ou.edu/olr

Part of the Intellectual Property Law Commons

Recommended Citation

This Note is brought to you for free and open access by University of Oklahoma College of Law Digital Commons. It has been accepted for inclusion in Oklahoma Law Review by an authorized editor of University of Oklahoma College of Law Digital Commons. For more information, please contact darinfox@ou.edu.
NOTES


I. Introduction

The American patent system’s success emanates from a symbiotic balance between the incentive to invent and the need to protect intellectual property that occurs when patent holders’ “right to exclude others from making, using, offering for sale, or selling [their] invention” acts as a means “[t]o promote the progress of science and [the] useful Arts.” This balance, however, is destabilized by patent holders who exploit their patent rights, such as the right to exclude, to protect questionable patents or stifle competition. The rapid expansion of technology and the accompanying proliferation of patents that began in the late 1990s facilitated the evolution of such a species of patent holders, commonly known as “patent trolls” or “Non-Producing Entities” (NPEs). Patent trolls “produce no products or services and have the sole purpose of obtaining money by licensing patents they own and winning infringement lawsuits against others.” Patent trolls thrive by accusing others of infringing their right to exclude and then threatening to pursue costly litigation to enforce this right, often resulting in intimidated alleged infringers licensing patents of questionable validity. Patent trolls’ coercive capabilities increased exponentially as a result of the Federal Circuit Court of Appeals’ decision in *MercExchange, L.L.C. v. eBay Inc.*, which created a general rule that in patent infringement cases “a permanent injunction will issue once

---

4. Steve Seidenberg, *Troll Control*, A.B.A. J., Sept. 2006, at 51, 51; see also Fed. Trade Comm’n, *supra* note 3, at 38 (“NPEs [Non-Practicing Entities] obtain and enforce patents against other firms, but either have no product or do not create or sell a product that is vulnerable to infringement countersuit by the company against which the patent is being enforced.”); Terrence P. McMahon et al., *Who Is a Troll? Not a Simple Answer*, 7 Sedona Conf. J. 159, 159 (2006)
5. Seidenberg, *supra* note 4, at 51.
6. See McMahon et al., *supra* note 4, at 160.
infringement and validity have been adjudged.”7 This automatic permanent injunction rule empowered patent holders to enforce the right to exclude as a property right against infringers and to obtain categorical relief for infringement. But, the rule did not provide for consideration of the nature or extent of the infringement or the severe effects of permanent injunctive relief on the infringing party and the public.8

On May 15, 2006, the United States Supreme Court vacated the Federal Circuit Court of Appeals’ automatic permanent injunction rule in eBay Inc. v. MercExchange, L.L.C., rectifying a detrimental imbalance in the American patent system between the rights of patent holders and inventors.9 In rejecting the automatic permanent injunction rule, the Court unanimously held that “the traditional four-factor framework that governs the award of injunctive relief” governs requests for injunctive relief in patent infringement cases.10 The Court stated this traditional four-factor framework as a concise test, requiring a plaintiff seeking injunctive relief to demonstrate: (1) an irreparable injury; (2) that remedies at law, such as monetary damages, are inadequate; (3) that, in light of a balancing of hardships between plaintiff and defendant, a remedy in equity is warranted; and, (4) that a permanent injunction is in the public’s interest.11 By applying this four-factor test to requests for injunctive relief in patent infringement cases, the eBay decision eliminated a dangerous automatic permanent injunction rule that threatened to become a weapon of mass coercion against alleged infringers in favor of the four-factor test that fosters the symbiotic balance between the incentive to invent and the need to protect intellectual property.12

Part II of this note surveys the historical application of the four-factor framework to requests for injunctive relief. Part III follows with a summary of the background, issue, holding, and concurring opinions of the eBay

---

8. Id.
10. Id. at 1841.
11. Id. at 1839.
decision. Part IV analyzes the eBay decision's rationale for applying the traditional four-factor framework to determine injunctive relief requests in patent infringement cases. Part V reviews lower courts’ application of the eBay decision on patent holders’ requests for permanent injunctions, including a recently decided Oklahoma case. This note concludes in Part VI.

II. The Four-Factor Framework for Injunctive Relief

The eBay decision represented a course correction by the United States Supreme Court in reaction to the Federal Circuit Court of Appeals’ holding in MercExchange, L.L.C. v. eBay Inc. that permanent injunctions would automatically issue upon a finding of infringement of a valid patent.13 The Supreme Court rejected this automatic permanent injunction rule as an unjustified departure from historical practice of applying the equitable principles of the four-factor framework to injunctive relief requests.14 Historically, federal courts have been reluctant to grant injunctive relief absent a balancing of the parties’ interests, and have repeatedly refused to create new categorical remedies without explicit congressional authority, refusing to do so even in cases where a clear statutory violation occurred.15 Consistent with this tradition, the Federal Circuit Court of Appeals applied the traditional framework to a request for injunctive relief in a patent infringement case more than twenty years before the eBay decision.16 And, prior to the eBay decision, the United States Supreme Court rejected a categorical rule favoring statutory procedure over substantive policy because such rules fail to fulfill the purpose of the underlying policy.17

A. City of Harrisonville v. W.S. Dickey Clay Manufacturing Co.: The Four-Factor Framework Seventy Years Before the eBay Decision

In 1933, the United States Supreme Court’s decision in City of Harrisonville v. W.S. Dickey Clay Manufacturing Co. applied the four equity-based principles that comprise the eBay decision’s four-factor test to decide whether to grant W.S. Dickey Clay’s request for an injunction against the City of Harrisonville for discharging sewage into a creek on the company’s land.18 In assessing the propriety of injunctive relief, the Court emphasized that

14. eBay, 126 S. Ct. at 1839-40; see also W.S. Dickey, 289 U.S. at 337-38.
15. See Amoco, 480 U.S. 531; Weinberger, 456 U.S. 305; Roche, 733 F.2d 858.
16. Roche, 733 F.2d at 866.
17. Amoco, 480 U.S. at 544.
injunctive relief “is not a remedy which issues as of course,” 19 a principle the eBay decision affirmed by rejecting the automatic permanent injunction rule. 20 The four-factor framework’s requirements that the plaintiff demonstrate an irreparable injury and the inadequacy of remedies available at law were implied by the Court’s statement that “[w]here substantial redress can be afforded by the payment of money . . . equitable relief may be denied . . . .” 21 The Court’s analysis also included a balancing of the parties’ interests, holding that when “an injunction would subject the defendant to grossly disproportionate hardship, equitable relief may be denied . . . .” 22 Applying the framework’s final factor, the Court considered injunctive relief’s effect on the public, and held that when “an important public interest would be prejudiced, the reasons for denying the injunction may be compelling.” 23

The W.S. Dickey decision demonstrates that the eBay decision did not fashion a new test, but was the product of more than seventy years of stare decisis. The Court’s application of the four-factor framework in subsequent cases demonstrated the framework’s applicability to injunctive relief analysis in statutory violation cases.

B. Weinberger v. Romero-Barcelo: The Four-Factor Framework Applied To a Statutory Violation

In 1982, the United States Supreme Court applied the four-factor framework to a request for permanent injunctive relief for a statutory violation in Weinberger v. Romero-Barcelo. 24 The Court considered whether to grant a permanent injunction to the Commonwealth of Puerto Rico against the United States Navy for violations of the Federal Water Pollution Control Act. 25 Echoing the W.S. Dickey decision, the Court emphasized that “an injunction is an equitable remedy.” 26 As in the eBay decision, the Court was presented with a clear statutory violation justifying a permanent injunction, but the Court again rejected the notion of an injunction as “a remedy which issues as of course.” 27

The Weinberger decision demonstrated the efficacy of applying the four-factor framework to requests for injunctive relief for statutory violations,

19. Id.
22. Id.
23. Id.
25. Id. at 307-08.
26. Id. at 311.
27. Id. (quoting W.S. Dickey, 289 U.S. at 337-38) (internal quotation marks omitted).
providing the *eBay* decision with a template for applying the four-factor framework to violations of patent holders’ statutory rights. From a great deal of precedent, the Court distilled that the gatekeeper requirements for injunctive relief have “always been irreparable injury and the inadequacy of legal remedies.”28 The Court clarified the framework’s third factor as a balancing of “the conveniences of the parties and possible injuries to them according as they may be affected by the granting or withholding of the injunction.”29 The Court’s fourth-factor analysis shifted focus beyond the litigants to “the public consequences in employing the extraordinary remedy of injunction.”30 Thus, the *Weinberger* decision not only proved the applicability of the four-factor framework to statutory violation-based injunctive relief cases, but also provided precedent for rejecting categorical rules that limit the courts’ discretion to balance the interests of the parties and the public in such cases.31

The *Weinberger* decision preserved the primacy of the traditional four-factor framework against challenges by modern categorical rules. The Court refused to fashion new and untested remedies, and defended the application of the four-factor framework as “practice with a background of several hundred years of history” while emphasizing that it will “not lightly assume that Congress has intended to depart from established principles.”32 Thus, the *Weinberger* decision preserved the four-factor framework, and most importantly, encouraged its future application to a similar request for injunctive relief from a statutory violation in the *eBay* decision.


In 1984, the Federal Circuit Court of Appeals, the same court that later created the automatic permanent injunction rule in *MercExchange, L.L.C. v. eBay Inc.*, applied the four-factor framework to a request for permanent injunctive relief in a patent infringement case.33 In *Roche Products, Inc. v. Bolar Pharmaceutical Co.*, the court considered Roche Products’ request for

---

28. *Id.* at 312.
29. *Id.* (quoting Yakus v. United States, 321 U.S. 414, 440 (1944)) (internal quotation marks omitted).
30. *Id.*
32. *Id.* at 313 (citing Hecht Co. v. Bowles, 321 U.S. 321, 329 (1944)) (internal quotation marks omitted).
a permanent injunction against Bolar Pharmaceutical for infringing use of Roche Products’ drug patent.\textsuperscript{34} In \textit{Roche}, the court was presented with the issue of whether Bolar Pharmaceutical had infringed Roche Products’ drug patent by using Roche Products’ drug to conduct research related to obtaining FDA approval for a generic version of the drug six months prior to the expiration of the patent.\textsuperscript{35} The Federal Circuit Court of Appeals held that Bolar Pharmaceutical’s testing constituted infringement and that Roche Products was entitled to a remedy.\textsuperscript{36} The court, however, followed precedent established by the \textit{W.S. Dickey} and \textit{Weinberger} decisions and found “[c]ounsel . . . mistaken in their apparent belief that once infringement is established and adjudicated, an injunction must follow.”\textsuperscript{37}

The \textit{Roche} decision demonstrated the effectiveness of applying the traditional four-factor framework to a request for permanent injunctive relief in patent infringement cases. As it would in the \textit{MercExchange, L.L.C. v. eBay Inc.} decision, the court considered a request for injunctive relief for harmful patent infringement, but could not ignore that the infringing activity produced a great public benefit. Although the court recognized “that the economic injury to Roche is, or is threatened to be, substantial,” it held that the Patent Act’s Section 283 “clearly makes the issuance of an injunction discretionary.”\textsuperscript{38} The court commenced its injunctive relief analysis with the framework’s traditional third factor, and held that injunctive relief “depends on the equities of the case.”\textsuperscript{39} In balancing the effects of injunctive relief on the parties, the court considered that in patent cases there are “aspects . . . that might make a tribunal reluctant to select . . . relief along the harsher side of the possible scale.”\textsuperscript{40} The court then applied the framework’s fourth factor and held that “public interest, not the requirements of private litigation, measure the propriety and need for injunctive relief in these cases.”\textsuperscript{41} The court gave substantial consideration to the adverse effects of permanent injunctive relief in patent infringement cases, warning that a permanent injunction against Bolar Pharmaceutical could result in “destruction of [] records of research and tests that may embody information that would contribute to the health and

\begin{itemize}
\item 34. \textit{Id.} at 860.
\item 35. \textit{Id.} at 860-61.
\item 36. \textit{Id.} at 865.
\item 37. \textit{Id.} at 866.
\item 38. \textit{Id.} at 865-66.
\item 39. \textit{Id.} at 865.
\item 40. \textit{Id.} at 866.
\item 41. \textit{Id.} (quoting Hecht Co. v. Bowles, 321 U.S. 321, 331 (1944)) (internal quotation marks omitted).
\end{itemize}
happiness of the human race.”  

Finally, the court addressed the framework’s gatekeeper requirements of irreparable injury and the inadequacy of remedies at law, and held that “the district judge, before getting into the issue of equitable relief, must determine if he can deal with the case by adequate money damages.”  If monetary damages are proper, the framework’s gatekeeper requirements are not satisfied, and “the predicate for equitable relief of a harsh, or even a mild, character is gone.”  

The Roche decision demonstrated the four-factor framework’s applicability to injunctive relief requests in patent infringement cases more than twenty years before the eBay decision declared it the proper test for such cases. In applying the four-factor framework, the Roche decision refused to award injunctive relief as a matter of course for patent infringement. Furthermore, the Roche decision unambiguously affirmed the historical reluctance to depart from tradition to create new forms of injunctive relief when it held that “if Congress wants the federal courts to issue injunctions without regard to historic equity principles, it is going to have to say so in explicit and even shameless language . . . .”  


The eBay decision was not the first United States Supreme Court decision to reject a categorical rule that mechanically enforced statutory procedure over substantive policy. In 1987, the Court rejected such a rule issued by the Ninth Circuit Court of Appeals in Amoco Production Co. v. Village of Gambell.  

In Amoco, the Court considered the propriety of the Ninth Circuit Court of Appeals’ preliminary injunction against Amoco’s petroleum exploration activities allegedly in violation of Section 810 of the Alaska National Interest Lands Conservation Act (ANILCA).  The Ninth Circuit presumed that an irreparable injury had occurred as a result of the statutory violation. Consequently, the Ninth Circuit created a categorical rule that “injunctive relief is the appropriate remedy for a violation of an environmental statute absent rare or unusual circumstances.”  

As it would hold in the eBay decision

42. Id.
43. Id.
44. Id.
45. Id. at 867.
47. Id. at 534.
48. Id. at 541 (quoting People of Gambell v. Hodel, 774 F.2d 1414, 1423 (9th Cir. 1985)) (internal quotation marks omitted).
regarding Section 283 of the Patent Act, the Court held that the statutory procedure in Section 810 of ANILCA did not require issuance of injunctive relief for violations and lacked a “clear indication . . . that Congress intended to deny federal district courts their traditional equitable discretion” in enforcing the statute.\textsuperscript{49}

The Court applied the four-factor framework because “nothing [] distinguished[] [Weinberger] from the instant case.”\textsuperscript{50} The Court rejected the Ninth Circuit’s categorical grant of injunctive relief because it departed from the traditional use of the framework and “erroneously focused on the statutory procedure rather than on the underlying substantive policy . . . .”\textsuperscript{51} The Court’s rejection of a rule that mechanically enforced statutory procedure established valuable precedent for the eBay decision.

\textbf{III. eBay Inc. v. MercExchange, L.L.C.: Statement of the Case}

\textbf{A. Facts and Procedural History}

Founded by Pierre Omidyar in 1995 as AuctionWeb, the Internet site eBay achieved great success through its online auction system that permits private individuals to sell goods to the highest bidder or at a fixed price.\textsuperscript{52} Additionally, eBay owned Half.com, a subsidiary that operated a Web site specializing in instant sales of fixed-price goods.\textsuperscript{53} At the time of eBay’s inception, the Federal Circuit Court of Appeals had yet to decide \textit{State Street Bank & Trust Co. v. Signature Financial Group}, in which it held that business methods were patentable subject matter.\textsuperscript{54} This helps explain why eBay did not patent its online business method at its inception, which later led to its conflict with MercExchange.\textsuperscript{55} In 1998, the year of the \textit{State Street Bank} decision, MercExchange was granted several business method patent applications, including a patent for an electronic market that allowed private individuals to sell goods to other private individuals through use of an electronic market, monitored by a central figure that would engender trust among users.\textsuperscript{56} It is unlikely, however, that eBay was aware of MercExchange’s online auction business method patent, because the United States Patent and Trademark Office’s “practice of periodically publishing

\begin{itemize}
  \item \textsuperscript{49} \textit{Id.} at 544.
  \item \textsuperscript{50} \textit{Id.}
  \item \textsuperscript{51} \textit{Id.}
  \item \textsuperscript{52} Adam Cohen, \textit{The Perfect Store: Inside eBay} 5-10 (2002).
  \item \textsuperscript{53} eBay Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1839 (2006).
  \item \textsuperscript{54} 149 F.3d 1368, 1375 (Fed. Cir. 1998).
  \item \textsuperscript{55} See McMahon et al., supra note 4, at 163-64.
  \item \textsuperscript{56} eBay, 126 S. Ct. at 1839.
\end{itemize}
patent applications did not start until 2001 . . . .”

Aware that eBay’s business methods likely infringed upon its patents, MercExchange initially sought to license its electronic market patent to eBay and Half.com, its regular practice in similar situations. When eBay and MercExchange could not agree, MercExchange filed a patent infringement suit against eBay and Half.com in the United States District Court for the Eastern District of Virginia.

At issue in the trial court and the Federal Circuit Court of Appeals was the eBay and Half.com websites’ feature that allowed customers to purchase items listed on the web-sites for a fixed-price. MercExchange alleged that eBay had infringed three patents for an electronic market controlled by a central figure, in which participants could purchase items for a fixed-price. As part of the remedies sought against eBay’s alleged infringement of the patents, MercExchange sought a permanent injunction against eBay’s infringing activity. After the trial, a jury found eBay and Half.com guilty of infringement and awarded MercExchange $35 million in damages. After several motions by the parties, the trial court denied MercExchange’s request for a permanent injunction, concluding that “a plaintiff’s willingness to license its patents and its lack of commercial activity in practicing the patents would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue.”

Consequently, MercExchange appealed the trial court’s ruling on the permanent injunction to the Federal Circuit Court of Appeals. The Federal Circuit Court of Appeals reversed the trial court’s denial of injunctive relief holding that “[b]ecause the ‘right to exclude recognized in a patent is but the essence of the concept of property,’ the general rule is that a permanent injunction will issue once infringement and validity have been adjudged.”

57. McMahon et al., supra note 4, at 164.
58. Id.
59. eBay, 126 S. Ct. at 1839.
60. Id.
62. Id. at 1325.
63. Id. at 1326.
64. Id.
eBay appealed the Federal Circuit Court of Appeals’ grant of a permanent injunction, arguing that the appropriate standard for determining an award of permanent injunctive relief in patent infringement cases is the traditional four-factor framework.\footnote{68} The United States Supreme Court granted certiorari to determine the propriety of the Federal Circuit Court of Appeals’ automatic permanent injunction rule.\footnote{69}

\textbf{B. The Court’s Opinion}

In \textit{eBay Inc. v. MercExchange, L.L.C.}, the United States Supreme Court considered whether a general rule of awarding permanent injunctions upon a finding of patent infringement was appropriate relief, and whether such a rule adhered to “well established principles of equity . . . .”\footnote{70} In an opinion written by Justice Thomas, the Court unanimously holds that the traditional four-factor test used by federal courts to determine requests for injunctive relief applies to disputes arising under the Patent Act, and, thus, the Court vacated the Federal Circuit Court of Appeals’ judgment.\footnote{71} In its analysis, the Court found that neither the trial court nor the appeals court properly applied the traditional four-factor test used to determine a grant of injunctive relief.\footnote{72} Consequently, the Court vacated the Federal Circuit Court’s order, remanding the case to the trial court to apply the appropriate test.\footnote{73}

\textbf{C. Concurring Opinions}

Chief Justice Roberts’ concurrence approves of the Court’s holding but emphasizes historical practice in favor of granting injunctive relief in patent infringement cases.\footnote{74} Although the Roberts concurrence agrees that “historical practice . . . does not entitle a patentee to a permanent injunction or justify a general rule that such injunctions should issue,” nevertheless, it reminds the Court that since “the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases.”\footnote{75} Chief Justice Roberts found this historical trend instructive, and advises lower courts “discerning and applying” the four-factor test that “a page of history is worth
a volume of logic.

The Roberts concurrence interprets the *eBay* decision as a formal adoption of the four-factor framework in patent infringement cases, and not as a new paradigm for lower courts deciding injunctive relief requests in patent infringement cases.

Justice Kennedy’s concurrence, however, encourages a different application of the *eBay* decision. The Kennedy concurrence focuses on current trends undermining the American patent system’s purpose, particularly the emergence of patent trolls and the harmful effects of their exploitation of patent rights. Justice Kennedy’s concurrence distinguishes past practice from the present context, stating that “[t]o the extent earlier cases establish a pattern of granting an injunction against patent infringers almost as a matter of course, this pattern simply illustrates the result of the four-factor test in the contexts then prevalent.”

Kennedy again distinguishes past from present by noting that, in the present context, courts must heed the “nature of the patent being enforced and the economic function of the patent holder . . . quite unlike earlier cases.”

The Kennedy concurrence’s distinction between past and present emanates from concern over the emergence of patent trolls. Kennedy aptly portrays the patent trolls as “[a]n industry [that] has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.” Kennedy’s portrait of patent trolls does not include those patent holders who prefer to license the intellectual property they develop, but focuses on patent holders who seek to exploit “an injunction, and the potentially serious sanctions arising from its violation . . . as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.”

In response to such patent troll tactics, Kennedy recommends legal damages as “sufficient to compensate for the infringement” in cases “[w]hen 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” or when “an injunction may not serve the public interest.”

Kennedy’s instructions to lower courts applying the *eBay* decision advise that particular consideration be given to “the burgeoning number of patents

---

76. *Id.* at 1842 (quoting N.Y. Trust Co. v. Eisner, 256 U.S. 345, 349 (1921)) (internal quotation marks omitted).
77. *Id.* at 1842-43 (Kennedy, J., concurring).
78. *Id.* at 1842 (emphasis added).
79. *Id.*
80. *Id.*
81. *Id.*
82. *Id.*
over business methods, which were not of much economic and legal significance in earlier times.”83 The Kennedy concurrence instructs the lower courts that “[t]he potential vagueness and suspect validity” of this new class of business method patents, MercExchange’s electronic market patents among them, “may affect the calculus under the four-factor test.”84 The Kennedy concurrence interprets the eBay decision as providing a practical framework for lower courts to address current developments within the American patent system, and not merely the formal adoption of a traditional framework to patent infringement cases.

IV. Analysis of The eBay Decision

Far more than the formal adoption of a four-factor framework or a victory for business technology developers, the eBay decision restores balance between the patent systems’s twin goals of protecting intellectual property and encouraging new invention. By preventing the coercive use of permanent injunctive relief by opportunistic patent holders, the creativity and innovation necessary to maintain the effectiveness of the American patent system is further protected for the twenty-first century. Drawing upon historically established principles of equity, the Court adopts a four-factor framework suited for the task of modern patent disputes, harmonizes patent law remedies with those provided for other forms of intellectual property, and reinforces the principle that categorical rules favoring procedural enforcement of the law should not trump the underlying substantive policy the rules are created to promote.

A. Historical Precedent Guided the Court’s Decision

The eBay decision required the U.S. Supreme Court to determine whether a rule automatically granting permanent injunctive relief to patent holders was a justified departure from traditional principles of equity practice in determining whether to award such relief. In addressing the issue, the Court adhered to a long, historical tradition of applying equitable principles to determine the propriety of an award of injunctive relief, stating 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.”85 The Court did not fashion a new standard, but drew upon

83. Id.
84. Id.
85. Id. at 1839.
previous cases, such as the *Weinberger*, *Roche*, and *Amoco*, that had applied the four-factor test to determine an award of permanent injunctive relief.

Just as in the *Weinberger* decision, the *eBay* decision balances competing interests: MercExchange’s interests in protecting its intellectual property and eBay’s interests in a fair injunctive relief standard. Similar to the *Weinberger* decision, the issue in the *eBay* decision concerned the propriety of an automatic permanent injunction rule that challenged the discretion of federal courts to grant or withhold injunctive relief for violations of the Patent Act. As a result of the *Weinberger* decision’s similar facts and issues, the *eBay* decision confidently adopts the same four-factor framework applied in *Weinberger* as the proper test for requests for injunctive relief in patent infringement cases.

Although not binding precedent, the *Roche* decision provided the Court in *eBay* with direct evidence of the four-factor framework’s applicability to injunctive relief requests in patent infringement cases. The Federal Circuit’s analysis in the *Roche* decision centered on the discretionary nature of injunctive relief, as established by Section 283 of the Patent Act. In exercising this discretion, the Federal Circuit applied the traditional four-factor framework in considering the propriety of injunctive relief in the case. Presented with a similar injunctive relief decision in a patent infringement case, the *eBay* decision adopts *Roche*’s focus on the Patent Act’s provisions as the basis for the Court’s application of the four-factor framework to injunctive relief requests in patent infringement cases, emphasizing that “the Patent Act expressly provides that injunctions may issue in accordance with the principles of equity.”

The Court’s previous *Amoco* decision further supports the *eBay* decision’s application of the four-factor framework. In the *Amoco* decision, the Court rejected a categorical permanent injunction rule because the Ninth Circuit

---

87. *eBay*, 126 S. Ct. at 1839.
88. *Id.*
89. *Id.*
90. *Roche*, 733 F.2d at 865 (“Section 283, by its terms, clearly makes the issuance of an injunction discretionary.”).
91. *Id.* at 865-67.
“erroneously focused on the statutory procedure rather than on the underlying substantive policy . . .”93 The eBay decision rejects a similar rule because the Federal Circuit’s ruling transformed injunctive relief decisions in patent infringement cases from an act of discretion to a mechanical enforcement of patent rights that did not advance the interests of the patent system.94 Although patent holders possess a statutory right to exclude, the eBay decision states that “the creation of a right is distinct from the provision of remedies for violations of that right.”95 According to the Patent Act, the rights conferred by patents do not guarantee injunctive relief but are “subject to . . . the provision that injunctive relief may issue only in accordance with the principles of equity.”96 Presented with similar facts and issues to the Amoco decision, the eBay decision adopts the four-factor framework to a request for injunctive relief because it promotes the underlying policies the Patent Act is designed to effect.97

The eBay decision did not fashion a new test to apply to injunctive relief requests in patent infringement cases because none was necessary. Similarities presented between the facts and issues of the eBay decision and previous cases allowed for and encouraged the application of the four-factor framework to conduct the injunctive relief analysis.

B. The Proper Scope of Injunctive Relief in Patent Infringement Cases

In the eBay decision, the Court rejects the notion of automatic permanent injunction rules because such rules exceed the proper remedies for infringement as provided by Congress in the Patent Act. The Court’s analysis of the Patent Act establishes that the four-factor framework’s “familiar principles apply with equal force to disputes arising under the Patent Act” because the Patent Act’s provisions limit the Court’s discretion to select a new standard.98 The Court determined that the Patent Act’s provisions, particularly Section 283, are delineated by Congress as the proper scope of remedies for violations of patent rights.99 Thus, the Court rejected any invitation to create an automatic permanent injunction because the Patent Act does not indicate

94. eBay, 126 S. Ct. at 1841. The Court rejected the categorical rules created by the trial and appellate courts for failing to fairly consider the interests of both parties involved in a patent infringement case. Id. at 1840-41.
95. Id. at 1840.
96. Id. (quoting 35 U.S.C. §§ 261, 283) (internal quotation marks omitted).
97. Id. at 1839 (citing Amoco, 480 U.S. at 542).
98. Id. “[T]he Patent Act expressly provides that injunctions may issue in accordance with the principles of equity.” Id. (quoting 35 U.S.C. § 283) (internal quotation marks omitted).
99. Id.
that “Congress intend[s] such a departure.” The Court in eBay was reluctant to adopt remedies outside the proper scope of the Court’s authority and echoed the Weinberger decision’s refusal to “lightly assume that Congress has intended to depart from established principles.” The Court also implicitly adopted the Roche decision’s requirement that Congress “say so in explicit and even shameless language” if it desires courts to abandon historical practice.

C. Similar Analysis Applied to Injunctive Relief Requests in Copyright Cases

The Court’s four-factor injunctive relief analysis applied in the eBay decision harmonized patent law with the injunctive relief standard applied to other forms of intellectual property, such as copyrights. Copyrights and patents are substantively similar because the public gives both in exchange “for benefits bestowed by the genius and meditations and skill of individuals, and [as an] incentive to further efforts for the same important objects.” These similarities extend to remedies where the Copyright Act, like the Patent Act, does not provide any categorical remedies for infringement but defers to the courts’ discretion to determine the necessity and propriety of injunctive relief. Just as the Court “has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed,” the Court in eBay rejects the trial and appellate courts’ invitation to replace the four-factor framework with categorical rules alternatively favoring patent infringers and patent holders.

D. Restoring Balance in the American Patent System

The eBay decision stands as the most important patent law decision thus far in the twenty-first century because it eliminates a dangerous automatic permanent injunction rule that encouraged detrimental imbalance in the American patent system. The automatic permanent injunction rule represented

100. Id.
103. eBay, 126 S. Ct. at 1840.
104. Id. (quoting Fox Film Corp. v. Doyal, 286 U.S. 123, 127-28 (1932)) (internal quotation marks omitted).
105. Id. (citing 17 U.S.C. § 502(a) (2000)).
106. Id. at 1840-41.
a potential weapon of mass coercion that empowered patent trolls to threaten innovators and entrepreneurs who refused to enter into licensing agreements, or who chose to challenge the patent trolls’ questionable patents, with the real possibility that the patent troll would seek a potentially disastrous permanent injunction that could cause loss of customers, profits, and market position.\textsuperscript{107} Armed with such immense bargaining power, patent trolls were often able to protect questionable patents and stifle competition.\textsuperscript{108} The \textit{eBay} decision not only eliminates this potential weapon of mass coercion, but also reverses trends in patent law favoring patent trolls that alarmed competition advocates and parties engaged in innovation and invention.\textsuperscript{109} By reasserting that the four-factor framework applies to injunctive relief requests in patent infringement cases, the \textit{eBay} decision drastically decreases the ease of obtaining permanent injunctive relief, promising to greatly reduce the use of coercive tactics to protect questionable patents that stifle competition.\textsuperscript{110}

The balance achieved by the \textit{eBay} decision also simultaneously protects the rights of patent holders and the interests of innovators. In responding to the threat to innovation posed by patent trolls, the Court did not weaken the right of inventors and patent holders to protect and market their patented property. The Court rebukes the trial court’s broad rule, which held “that a ‘plaintiff’s willingness to license its patents’ and ‘its lack of commercial activity in practicing the patents’ would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue.”\textsuperscript{111} The Court’s rejection of the trial court’s categorical rule preserves the ability of

\footnotesize{\textsuperscript{107} See \textit{eBay}, 126 S. Ct. at 1839; NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1282, 1291-92 (Fed. Cir. 2005); Anthony Zeuli, \textit{eBay} v. MercExchange, NAT’L L.J., June 26, 2006, at 13; see also NTP, Inc. v. Research in Motion, Ltd., 392 F.3d 1336 (Fed. Cir. 2004) (explaining that NTP, Inc., employed the threat of a permanent injunction against Research in Motion, providers of the popular BlackBerry service, leading Research in Motion to settle rather than suffer the suspension of the BlackBerry service and the loss of customers and millions of dollars in profits).
\textsuperscript{108} Zeuli, \textit{supra} note 107, at 13.
\textsuperscript{110} Seidenberg, \textit{supra} note 4, at 52.
patent holders lacking the financial resources to practice their patents.\textsuperscript{112} Likewise, it allows those desiring to specialize in research and development, such as universities, to do so without fear of automatically being denied proper relief for infringement because they prefer to license rather than produce.\textsuperscript{113}

In addition to preserving patent holders’ rights to protect their intellectual property, the four-factor test permits innovators to challenge a patent holder’s use of patent rights in a manner contrary to the patent system’s purpose of benefiting the public. In contrast to an automatic permanent injunction rule that would put the alleged infringer on the defensive to prove non-infringement or invalidity of the infringed patent, the four-factor test places the burden on the plaintiff seeking a permanent injunction to prove that the alleged infringer’s activities have caused an irreparable injury that can only be addressed through an equitable remedy, such as a permanent injunction.\textsuperscript{114} The alleged infringer also has the benefits of a balancing of hardships that a permanent injunction could place on the parties and the consideration of the permanent injunction’s effect on the public’s interest.\textsuperscript{115}

\section*{V. The eBay Decision’s Impact on Patent Holders’ Requests for Injunctive Relief}

The eBay decision has influenced lower courts to grant permanent injunctions in favor of parties actively practicing their patents as opposed to solely involved in licensing.\textsuperscript{116} Since the eBay decision, lower courts have centered their injunctive relief analysis on the gatekeeper requirements of the four-factor framework: irreparable injury and inadequacy of remedies at law. Influenced by the Kennedy concurrence, the lower courts’ treatment of these requirements has focused on pragmatic considerations, such as the quantity of patent infringement within the alleged infringer’s products or processes, and whether the infringing activity has resulted in loss of market share, profits, or industry reputation.\textsuperscript{117} In applying the eBay test’s fourth factor, the lower

\begin{footnotesize}
112. Id.
113. Id.
114. Id. at 1839.
115. Id.
courts have especially considered the potential effects of injunctive relief on those economically linked to the alleged infringer and on the general public.\(^{118}\)

The gatekeeper requirements are at the forefront of the United States District Court for the Eastern District of Texas’ application of the *eBay* decision. The Eastern District of Texas is worthy of close study because the court has been “a popular forum for patent infringement suits because of its reputation for favoring plaintiffs . . . .”\(^ {119}\) On June 14, 2006, the court refused a request for injunctive relief in *z4 Technologies, Inc. v. Microsoft Corp.* because of *z4 Technologies’* failure to demonstrate an irreparable harm and the inadequacy of remedies at law.\(^ {120}\) In the *z4 Technologies* decision, the Eastern District of Texas was presented with *z4 Technologies’* claim that several of Microsoft’s software products infringed *z4 Technologies’* product activation technology patents.\(^{121}\) Microsoft’s infringing use of the product activation technology was a small feature of its comprehensive software packages, such as Windows XP and Microsoft Office.\(^ {122}\) Detrimental to *z4 Technologies’* claim of irreparable harm was the fact that Microsoft did not directly compete by producing product activation software based upon *z4 Technologies’* infringement of *z4 Technologies’* patents.\(^ {123}\) In applying the *eBay* test, the court was influenced by Justice Kennedy’s instruction to consider the alleged infringer’s use of the patented invention.\(^ {124}\) Accordingly, the court held that Microsoft’s use of “the infringing technology as a small component of its own software” did not constitute an irreparable harm.\(^ {125}\) Instead of injunctive relief, the court awarded *z4 Technologies* monetary damages because Microsoft’s infringing activity had not caused “lost profits, the loss of brand name recognition or the loss of market share . . . .”\(^ {126}\) Accounting for the public’s interest in injunctive relief cases, the court also held that injunctive relief would adversely affect the “public’s undisputed and enormous reliance on these products” and that such

\(^{118}\) 2d 437, 440-41 (E.D. Tex. 2006).

\(^{119}\) See Paice, 2006 WL 2385139, at *6; *z4 Techs.,* 434 F. Supp. 2d at 442-44.

\(^{119}\) Seidenberg, *supra* note 4, at 54.

\(^{120}\) *z4 Techs.,* 434 F. Supp. 2d at 440-41.

\(^{121}\) *Id.* at 438-39.

\(^{122}\) *Id.* at 440 (“Microsoft only uses the infringing technology as a small component of its own software, and it is not likely that any consumer of Microsoft’s Windows or Office software purchases these products for their product activation functionality.”).

\(^{123}\) *Id.* at 440-41.

\(^{124}\) *Id.* at 441.

\(^{125}\) *Id.* at 440. This follows the suggestion in Justice Kennedy’s concurrence that “[w]hen the patented invention is but a small component of the product the companies seek to produce . . . legal damages may well be sufficient to compensate for the infringement . . . .” *eBay Inc. v. MercExchange, L.L.C.,* 126 S. Ct. 1837, 1842 (2006) (Kennedy, J., concurring).

\(^{126}\) *z4 Techs.,* 434 F. Supp. 2d at 441.
potential negative consequences weighed against z4 Technologies’ request for injunctive relief.\footnote{127} The loss of market share and the effect of injunctive relief on parties outside the litigation continued to inform the Eastern District of Texas’ injunctive relief analysis in Paice LLC v. Toyota Motor Corp.\footnote{128} In the Paice decision, the court was presented with Paice LLC’s claim that several of Toyota’s popular hybrid vehicles infringed upon Paice LLC’s patents for hybrid vehicle transmissions.\footnote{129} In applying the \textit{eBay} test, the court reiterated its analysis in the \textit{z4 Technologies} decision, heeding Justice Kennedy’s instruction to consider the amount of infringing activity in the defendant’s product and the propriety of monetary damages for parties specializing in licensing.\footnote{130} In its four-factor analysis, the court did not find that irreparable harm occurred because Paice LLC failed to demonstrate that Toyota’s infringing activity would cause the failure of its licensing practices, as the two did not compete for market share because one specialized in licensing its technology and the other in automobile manufacturing and sales.\footnote{131} In balancing the effects of injunctive relief on the parties, the court considered that the effects of a permanent injunction often extend beyond the party enjoined to affect “not only [d]efendants’ business but that of . . . dealers and suppliers.”\footnote{132} The public’s interest factored in the court’s analysis significantly as the court also held that a grant of injunctive relief could have the negative impact of stifling “[t]he burgeoning hybrid market . . . as the research and expense of bringing [this] product line to market would be frustrated.”\footnote{133}

Finally, the Eastern District of Texas relied upon a showing of loss of market share and injunctive relief’s effect on the public to grant permanent injunctive relief in Tivo Inc. v. EchoStar Communications Corp.\footnote{134} The Tivo decision’s facts demonstrate the most likely circumstances in which courts applying the \textit{eBay} test will grant permanent injunctive relief for patent infringement. In Tivo, the court considered Tivo’s request for injunctive relief from EchoStar’s infringing manufacture and sale of digital video recorders that contained identical technology to Tivo’s patented digital video recorders and targeted an identical market of customers.\footnote{135} In holding that Tivo suffered an

\begin{footnotes}
127. \textit{Id.} at 444.
129. \textit{Id.} at *5.
130. \textit{Id.}.
131. \textit{Id.}.
133. \textit{Id.}.
134. 446 F. Supp. 2d 664, 669 (E.D. Tex. 2006).
\end{footnotes}
irreparable harm, the court described EchoStar’s infringing digital video recorders as directly competing with Tivo’s digital video recorders and that “[l]oss of market share in this nascent market is a key consideration in finding that [p]laintiff suffers irreparable harm . . . .” 136 The court also held that, absent a permanent injunction, an irreparable injury would occur because EchoStar would be able to “shap[e] the market to [p]laintiff’s disadvantage,” resulting in “long-term customer loss.” 137 In protecting Tivo’s investment of time and resources in developing digital video recording technology, the court also upheld that such protection of patent rights from directly infringing attacks is important because the “public has an interest in maintaining a strong patent system.” 138

The United States District Court for the Western District of Oklahoma also relied upon proof of lost sales, lost market share, and damage to reputation within the industry in holding that injunctive relief is warranted. On July 27, 2006, the court granted a permanent injunction in Wald v. Mudhopper Oilfield Services, Inc. 139 In the Wald decision, the court considered Wald’s claim that the defendants had willfully infringed Wald’s patents for a polymer stick used to treat oil wells. 140 The defendant’s infringement was based on the sale of polymer sticks, called Poly Drill Sticks, that accomplished the same function as the plaintiff’s patented product, and that were marketed to the same customers needing to treat oil wells. 141 The defendant’s infringing activity posed a significant threat to the plaintiff’s patented product, as represented by sales of 14,335 Poly Drill Sticks that occurred for more than a year after the defendant learned of the plaintiff’s patent. 142 Consequently, the court held that a “permanent injunction [was] warranted” because, in addition to the lost sales from defendant’s sale of infringing Poly Drill Sticks, the plaintiffs had demonstrated “lost market share and the opportunity to maintain their [product] as the industry standard.” 143 The Wald decision emphasizes that courts applying the eBay test favor granting injunctive relief to parties actively practicing their patents.

The lower courts’ have focused their injunctive relief analysis on the eBay test’s requirements of irreparable injury and inadequacy of remedies at law to efficiently decide requests for injunctive relief. The lower courts have quickly

---

136. Id. at 669-70.
137. Id. at 670.
138. Id.
140. Id. at *1.
141. Id.
142. Id. at *1, *3.
143. Id. at *5.
adopted Justice Kennedy’s pragmatic approach to injunctive relief analysis, requiring proof of loss of profits, diminished market share, or harm to reputation within the industry to justify injunctive relief. This approach favors parties actively practicing their patents.

VI. Conclusion

The eBay decision successfully restored balance to the American patent system by applying the four-factor test that permits patent holders and innovators to simultaneously promote their interests to achieve a fair result. In applying the four-factor test, the eBay decision eliminated a potentially coercive automatic permanent injunction rule that mechanically enforced patent rights rather than enforcing such rights in order “to promote the progress of science and useful Arts.”

Jean Carlos Lopez