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**eBay Rx**

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## EBAY RX

Tracy A. Thomas\*

From a remedial perspective, the decision of the U.S. Supreme Court in *eBay Inc. v. MercExchange, L.L.C.* reopened the age-old question of what it means to award equitable relief.<sup>1</sup> In *eBay*, the Court rejected a permanent injunction issued by the U.S. Court of Appeals for the Federal Circuit to protect a business-method patent that defendant eBay had infringed on its successful auction website.<sup>2</sup> This essay diagnoses the remedial problem in *eBay* as the improper use of presumptions for equitable relief that effectively prioritizes selected legal rights. It offers a prescriptive cure for the problem in the traditional balancing of the equities standard that emphasizes the respective equities of the private parties, including their economic motivations and inequitable conduct. This signifies a return to the historical notion of equity as a legal accommodation of private and public interests in pursuit of justice.<sup>3</sup>

### REMEDIAL DIAGNOSIS

The crux of the remedial problem in *eBay* was the lower courts' use of presumptions to determine injunctive remedies. As the Court previously held, an injunction "is not a remedy which issues as of course," but "only where the intervention of a court of equity is essential in order effectually to protect property rights against injuries otherwise irremediable."<sup>4</sup> Rather than using this traditional, case-by-case approach of determining the appropriateness of injunctive relief, the patent courts had adopted categorical rules for granting injunctions. The district court applied a categorical rule against injunctive relief, finding that damages

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

2. *Id.*

3. *Hecht Co. v. Bowles*, 321 U.S. 321, 329-30 (1944).

4. *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311-12 (1982) (cited as authority in *eBay*) (quoting *Cavanaugh v. Looney* 248 U.S. 453, 456 (1919)).

were generally sufficient to protect a patentee's rights.<sup>5</sup> The Federal Circuit applied a contrary presumption in favor of injunctive relief, finding it appropriate in most cases to enforce the patent holder's right to exclude competitors.<sup>6</sup> Justice Thomas, writing for the *eBay* majority, emphasized repeatedly that the infirmity was the judicial adoption of "categorical" rules.<sup>7</sup> The use of "broad classifications" and "expansive principles" clashed with the Court's concept of equity as a flexible, case-by case approach. Such remedial absolutes of all or nothing at the far ends of the remedial spectrum prevented the achievement of remedial proportionality by which remedies should be carefully tailored to the harm.<sup>8</sup>

The danger of a presumption of injunctive relief in the patent context is the creation of undue leverage tipping the balance of power. As Justice Kennedy explained in his concurrence, "[a]n injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent."<sup>9</sup> The undue leverage requires the defendant to pay excessive fees under threat of going out of business. For example, in the BlackBerry case, a patentee who did not practice the patent extorted \$612.5 million from the leading firm in the wireless e-mail industry (almost 20 times the jury award in the case).<sup>10</sup> The company producing the popular BlackBerry phones paid the outrageous settlement when the district court refused to stay an injunction against it, which would have forced the company to shut down or significantly re-engineer its e-mail service.<sup>11</sup>

For Justice Kennedy, this potential misuse of injunctive relief to garner excessive power in economic negotiations militated against the issuance of injunctions to future patent manipulators.<sup>12</sup> As a subsequent court noted, "[u]tilization of a ruling in equity as a bargaining chip suggests both that such party never deserved a ruling in equity and that

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5. *MercExchange, L.L.C. v. eBay Inc.*, 275 F. Supp. 2d 695, 713 (E.D. Va. 2003).

6. *MercExchange, L.L.C. v. eBay Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005).

7. *eBay*, 126 S.Ct. at 1840-41.

8. See Tracy A. Thomas, *Proportionality and the Supreme Court's Jurisprudence of Remedies*, 59 HASTINGS L.J. 73, 88 (2007) (hereinafter *Remedial Proportionality*).

9. *Id.* at 1842.

10. Mike Hughlett & Eric Benderoff, "BlackBerry Suit Settled," *Chicago Trib.*, Mar. 4, 2006, C1.

11. *NTP, Inc. v. Research in Motion, Inc.*, 397 F. Supp. 2d 785 (E.D. Va. 2005).

12. *eBay*, 126 S.Ct. at 1842. For a discussion that such undue leverage is nothing new, see Gerard Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, 82 NOTRE DAME L. REV. 1809 (2007), discussing the "patent sharks" of the nineteenth century.

money is all that such party truly seeks.”<sup>13</sup> *EBay* presents a prime example of this misuse of equity. The parties were unable to reach an agreement as to the proper payment for eBay’s use of the previously unemployed method. As the district judge noted, he had not seen a more hostile set of parties or failure to negotiate a resolution.<sup>14</sup> The request for an injunction threatened to shut down eBay’s successful Internet auction business, thus providing leverage for MercExchange to derive higher fees for the use of the patent. The facts did not necessarily support such negotiating power. In 2004, MercExchange licensed its “buy-it-now” patent at issue in the case to uBid, an online auction competitor of eBay, for a mere \$150,000 plus potential future royalties from uBid’s profits.<sup>15</sup> In addition, the Patent and Trademark Office (PTO) reexamined MercExchange’s patents, as requested by eBay, and issued non-final actions indicating that both patents were invalid due to prior art.<sup>16</sup> The automatic injunction at the appellate level skewed the negotiating balance between the parties belying the merits or economic efficiency of the underlying facts.

Given these potential problems with injunctions in the patent context, the Supreme Court balked at the adoption of a special rule of equity for patents that prioritized patent rights above other constitutional, statutory, and common law rights. The gumption of the Federal Circuit in unilaterally altering the longstanding common-law principles of equity fueled the Court’s criticism. The traditional principles of equity had been expressly incorporated into the Patent Act by Congress, and yet the patent courts sought to alter this remedial rule of their own accord.<sup>17</sup> Indeed, the Federal Circuit has shown a propensity for developing its own remedial rules, adopting, for example, its own rule for declaratory relief.<sup>18</sup> The Supreme Court in *MedImmune, Inc. v. Genetech, Inc.*,

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13. *MercExchange, L.L.C. v. eBay Inc.*, 500 F. Supp. 2d 556, 582 (E.D. Va. 2007) (citing *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (recognizing that equitable relief in the form of an injunction is “not intended as a club to be wielded by a patentee to enhance his negotiating stance.”)).

14. *MercExchange*, 275 F. Supp. 2d at 714.

15. *MercExchange*, 500 F. Supp. 2d at 561, 570.

16. *Id.* at 560.

17. 35 U.S.C. § 283 (2007) (providing that the “courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”). *Cf.* *CBS Broadcasting, Inc. v. EchoStar Communications Corp.*, 450 F.3d 505, 523 (11th Cir. 2006) (finding that Congress intended to mandate injunctive relief in statute which said the, “court *shall* order a permanent injunction barring the secondary transmission by the satellite carrier.”) (emphasis added).

18. *MedImmune, Inc. v. Genetech, Inc.*, 427 F.3d 958, 964-65 (Fed. Cir. 2005) (holding that a licensee in good standing and not in reasonable apprehension of suit cannot bring a declaratory

unanimously struck down this attempt to carve out special remedial exceptions for patent law, and chided the Federal Circuit for its remedial audacity.<sup>19</sup>

There is value, however, in the Federal Circuit's integrated remedial approach, which recognizes the realist insight that a right is valued only insofar as its enforcement. That is, the remedy makes the right. This concept of a unified right in which right and remedy are intertwined recognizes that remedies are critical to effectively convey the full parameters of the existing right into the real experiences of the parties.<sup>20</sup> If a patent property right contains the right to exclude, by its nature that right should require an injunction to effectuate that exclusion. The Supreme Court, however, has failed to adopt this remedial insight of the unified right, and has instead proceeded down the path of remedial essentialism.<sup>21</sup> Remedial essentialism holds that the remedy is separate and apart from the right and has no impact upon the valuation of that right.<sup>22</sup> This essentialism is seen in *eBay* in the Court's statement that "a right is distinct from the provision of remedies for violations of that right."<sup>23</sup> In other words, equity is a freestanding legal construct that should not be diluted by interaction with the attendant right.

Accordingly, the *eBay* Court emphasized that future patent cases must separately focus on the remedy by returning to the "familiar," "well-established," "traditional" balancing test of injunctions.<sup>24</sup> Except that the balancing test articulated by Justice Thomas is not so familiar. Thomas states the traditional test as requiring the plaintiff to demonstrate:

(1) that it has suffered an irreparable injury;

(2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury;

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action to challenge the patent under which it is licensed); *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376, 1381 (Fed. Cir. 2004) (holding that a patent licensee in good standing cannot establish an Article III case or controversy with regard to validity, enforceability, or scope of the patent because the license agreement "obliterate[s] any reasonable apprehension" that the licensee will be sued for infringement.").

19. *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007); *see also*, *Dickinson v. Zurko*, 527 U.S. 150 (1999) (overruling the Federal Circuit's approach that exempted it from the Administrative Procedure Act and its rule of deference to agency fact finding).

20. Tracy A. Thomas, *Congress' Section 5 Power and Remedial Rights*, 34 U.C. DAVIS L. REV. 673 (2001).

21. Thomas, *Remedial Proportionality*, *supra* note 8, at 76-80.

22. *Id.*

23. *eBay v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1840 (2006).

24. *Id.* at 1839, 1841.

(3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and

(4) that the public interest would not be disserved by a permanent injunction.<sup>25</sup>

Factors one and two of the *eBay* test distinguish “irreparable injury” and inadequacy of monetary damages as two inquiries, although they are essentially the same inquiry.<sup>26</sup> Irreparability is established by proving the inadequacy of damages; thus the second factor merely defines the first. As leading remedies scholar, Professor Doug Laycock explains, the *eBay* test for permanent relief borrows from the four-part test for preliminary relief without recognizing or understanding the difference.<sup>27</sup> As the district court stated on remand in the *eBay* case: “The irreparable harm inquiry and remedy at law inquiry are essentially two sides of the same coin; however, the court will address them separately in order to conform with the four-factor test as outlined by the Supreme Court.”<sup>28</sup>

Despite the new arrangement provided by the *eBay* Court, the general parameters of equitable relief and their component parts are familiar to litigators. This familiar ground helps to more clearly differentiate the first two prongs of the test. The common law requires first, that an injunction be necessary as demonstrated by the imminent threat of future legal harm.<sup>29</sup> This element focuses upon the prospective factual threat of harm to an existing legal right. A claim that a defendant had designed around a patent, or that the patent validity had been

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25. *eBay*, 126 S.Ct. at 1839.

26. DAN B. DOBBS, LAW OF REMEDIES 87 (2d ed. 1993) (“Many cases have listed both inadequate remedy at law *and* irreparable harm as separate prerequisites to coercive relief. This seems to be an erroneous conflation of the two different kinds of cases, remedial and substantive.”); *see also* James M. Fischer, *The “Right” to Injunctive Relief for Patent Infringement*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 1, 10 n.38 (2007); Doug Rendleman, *The Trial Judge’s Equitable Discretion Following eBay v. MercExchange*, at 14, \_\_\_REV. LIT. \_\_\_ (forthcoming) available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1022383](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1022383).

27. Doug Laycock, *Remedies in the Legal System and in the Curriculum*, \_\_\_REV. LIT. \_\_\_ (forthcoming). In the preliminary context, these two factors have a meaningful difference, as plaintiffs must first show likelihood of success on the merits (establishing a threat of *legal* harm) during the pendency of the litigation, and then show the inadequacy monetary remedies. At the stage of permanent relief, the judgment on the merits in favor of plaintiff obviates the need for demonstrating such legal harm.

28. *MercExchange, L.L.C. v. eBay Inc.*, 500 F. Supp. 2d 556, 569 (E.D. Va. 2007) (emphasis in original).

29. DOBBS, *supra* note 26, at 87, 89 (“the irreparable harm formulation is sometimes used, not to compare the legal remedy, but for other purposes, and may be a short (and misleading) way of saying that, if the plaintiff seeks a preventive injunction to forestall harm, the threat of harm must be real.”).

challenged, might defeat the existence of such an imminent threat of legal harm.<sup>30</sup> The second factor of adequacy would focus upon the preference for legal remedies under traditional common law principles. Originating from the historical division between law and equity, modern injunctions are still disfavored in principle because they restrain behavior, thus prohibiting efficient or utilitarian conduct, and carry enhanced penalties from the threat of contempt.<sup>31</sup> The rules are all there in the history and the precedent, but the question remains as to what motivations will guide future courts in their application of the black letter law.

### PRESCRIPTION FOR RELIEF

My prognosis is that the future cases of patent injunctions will emphasize the balance of the equities and relative fairness as between two private parties. Post-*eBay* courts have overemphasized the first analytical factor of “irreparable injury” despite the irrelevance of that factor to the terms of the discussion.<sup>32</sup> Instead, courts should situate their concerns over bad actors, good faith, and private economic consequences within the “balance of hardships” prong. The balance of the equities factor provides analytical room to evaluate the specifics of each party in context. As the Supreme Court noted in *Weinberger v. Romero-Barcelo*, a case it cited in support of its holding in *eBay*, “[w]here plaintiff and defendant present competing claims of injury, the traditional function of equity has been to arrive at a nice adjustment and reconciliation between the competing claims.”<sup>33</sup> This inquiry has the capacity to assess the motivations, economic impact, and good faith of the parties in determining whether equity will respond with a remedy.

The balance of the equities factor as articulated by the *eBay* Court,

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30. *Id.*

31. DOUGLAS LAYCOCK, MODERN AMERICAN REMEDIES: CASES AND MATERIALS 371-73 (3d ed. 2002); *but see generally* DOUGLAS LAYCOCK, THE DEATH OF THE IRREPARABILITY INJURY RULE (1991) (arguing that the doctrinal adherence to the irreparability injury rule is disproven by the practical point that most plaintiffs who request injunctions are awarded such relief).

32. *See, e.g.*, *MercExchange, L.L.C. v. eBay Inc.*, 500 F. Supp.2d 556, 569-582 (E.D. Va. 2007); *see* Jeremy Mulder, Note, *The Aftermath of eBay: Predicting When District Courts Will Grant Permanent Injunctions in Patent Cases*, 22 BERK. TECH. L. J. 67, 81 (2007). Approximately thirty-three percent of the post-*eBay* cases have denied injunctions in patent cases. *See* <http://www.thefireofgenius.com/injunctions> (web log of Professor Joe Miller tracking post-*eBay* cases); *see also*, Darryl J. Adams & Victoria Wicken, *Permanent Injunctions After eBay v. MercExchange: The Year in Review*, 5 TEX. INTELL. PROP. L.J. 417, 422 (2007) (reporting that 6 of 23 post-*eBay* decisions denied requests for permanent injunctions).

33. *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982) (quoting *Hecht Co. v. Bowles*, 321 US 321, 329 (1949)).

requires: “that considering the balance of the hardships between the plaintiff and defendant, a remedy in equity is warranted.”<sup>34</sup> Under traditional equitable principles, this balancing test weighs the plaintiff’s desire and need for injunctive relief against the defendant’s burden from the imposition of the injunction.<sup>35</sup> Burden on the defendant from the injunction that creates economic waste or substantially disproportionate impact can block the issuance of an injunction.<sup>36</sup> A party’s bad faith or inequitable conduct enters the mix as equitable doctrines of unclean hands and estoppel weigh in the balance.

A focus on the specifics of the private parties parallels the Court’s analytical emphasis in other remedial contexts. Remedial proportionality and its requirement of measured relief have become a mantra for the U.S. Supreme Court as it has moved towards a universal standard of remedial precision.<sup>37</sup> In many remedial contexts such as injunctions, civil rights remedies, and punitive damages, the Court has adopted flexible balancing tests of proportionality in assessing the appropriate remedial response. Proportionality demands remedial precision rather than broad, remedial assumptions, and factors in considerations of multiple variables of the particular situation. While on its face, a test of proportionality might connote mathematical notions of objectivity, it is instead colored by significant judicial subjectivity.<sup>38</sup> This subjectivity, as practiced by the Supreme Court, includes an evaluation of the relative merits of the individual players. In these other remedial contexts, it has often been the case that the Court has viewed the story as one in which the wrongdoing defendants are the party to be protected.<sup>39</sup>

Discussions about the relevant private equities are evident in the dueling concurrences in *eBay*. The two concurrences show that seven Justices would resolve future cases of patent injunctions based on the depiction of the merits of the respective parties. Chief Justice Roberts, joined by Justices Scalia and Ginsburg, thought the balance tipped in favor of the patent holders.<sup>40</sup> His concurrence focuses on the typical patent holder who has designed her patent with the intent of practicing

34. *eBay Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1839 (2006).

35. DAVID I. LEVINE, ET AL., *REMEDIES: PUBLIC AND PRIVATE* 96-97 (4th ed. 2006).

36. *Id.* at 97; *see, e.g.*, *Boomer v. Atlantic Cement. Co.*, 257 N.E.2d 870, 872-75 (N.Y. 1970).

37. Thomas, *Remedial Proportionality*, *supra* note 8, at 2.

38. *Id.* at 38.

39. *Id.* at 30.

40. *eBay*, 126 S.Ct. at 1841-42; *see also* John M. Golden, “Patent Trolls” and Patent Remedies, 85 TEX. L. REV. 2111, 2160 (2007) (arguing in favor of a presumption of injunctive relief to patent holders).



the invention. In this case, the law historically has supported the patent holder's right to monopoly by issuing injunctions against infringement. In contrast, Justice Kennedy, joined by Justices Stevens, Souter, and Breyer, thought the equitable balance tipped in favor of the company commercializing the process.<sup>41</sup> For example, he highlights one case of a bad plaintiff—the so-called “patent troll.”<sup>42</sup> The designation is a “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.”<sup>43</sup> Patent trolls “obtain patents, not to make, use, or sell new products and technologies, but solely to force third parties to purchase licenses. Instead of investing capital to develop inventions, patent trolls wait for the industry to utilize a patented technology and then enforce their patents.”<sup>44</sup> In his concurrence, Justice Kennedy recognized 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.”<sup>45</sup> He expressed concern about a remedial rule that created windfalls to these plaintiffs in cases where the patent was only for a business-method patent, and “when the patented invention is but a small component of the product the defendant company seeks to produce.”<sup>46</sup>

Thus, much could turn on whether the plaintiff is cast as a hero or villain, for equity will not aid a bad actor.<sup>47</sup> When the plaintiff is portrayed as a bad actor, like the patent troll, Kennedy suggests no injunction should issue.<sup>48</sup> Conversely, when the plaintiff is the typical good economic actor, like Justice Thomas's examples of the university researcher or self-made inventor, an injunction is likely to issue even

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41. *Id.* at 1842.

42. *Id.*

43. Steve Seidenberg, *Troll Control*, 92 A.B.A. J. 50, 53 (Sept. 2006). The term was first used in 2001 by in-house counsel for Intel Corp. to describe the small companies that were suing Intel for patent infringement. *Id.* The Federal Trade Commission uses the term “Non-Practicing Entity” described as “design firms that patent their inventions but do not practice them or patent assertion firms that buy patents from other companies (particularly bankrupt ones) not to practice but to assert against others.” FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* 31 (2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

44. See Jeremiah Chan & Matthew Fawcett, *Footsteps of the Patent Troll*, 10 INTELL. PROP. BULL. 1, 1 (2005).

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

46. *Id.*; see Seidenberg, *supra* note 43, at 54.

47. See Roger Young & Stephen Spitz, *SUEM—Spitz's Ultimate Equitable Maxim: In Equity, Good Guys Should Win and Bad Guys Should Lose*, 55 S.C. L. REV. 175, 186 (2003).

48. *eBay*, 126 S.Ct. at 1842 (Kennedy, J., concurring); accord, Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 2035-39 (2007).

where the plaintiff does not intend to commercialize the patent.<sup>49</sup> Similar value judgments about the relative merits of the parties are evident in the Patent Act. For example, Congress has limited the remedies for infringement of certain medical process patents, and made special provisions for federally-funded patentees.<sup>50</sup> In this statutory calculus, the infringing defendants are not as bad, and the protected patent not as exclusive, as the typical case.

Yet these characterizations of “good” and “bad” parties in a patent dispute are not always self-evident. For example, Professor James McDonough in his article, *The Myth of the Patent Troll*, has provided an alternative narrative by which the patent troll is characterized as a productive part of the economy.<sup>51</sup> His argument is that “trolls” or patent holding companies can serve a valuable function as intermediaries in an economy by providing increased efficiency to technology markets. Under another view, patent trolls are simply the David to corporate Goliaths. The real bad actors are the “patent pirates” like Microsoft and Intel who steal small inventors’ patents when licensing negotiations between the parties break down.<sup>52</sup> When negotiations fail, the large company proceeds to use the new technology without a license, and the small inventor is left with no intellectual property and the high-cost of patent litigation.<sup>53</sup> Injunctive relief can thus provide the added economic power to even the stakes against the corporate giant.

Thus, the characterization of the defendant also becomes subject to interpretation. The defendant might be an evil monopolist, or merely a humble giant, productively acting in the market economy.<sup>54</sup> For the humble giant, the undue burden or economic waste caused by the injunction to that defendant becomes relevant.<sup>55</sup> An evaluation of the

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49. *eBay*, 126 S.Ct. at 1840.

50. Patentability of Inventions and Grant of Patents, Patent Rights in Inventions Made with Federal Assistance, 35 U.S.C. §§ 200-212, 287(c) (2008).

51. James F. McDonough, III, *The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy*, 56 EMORY L. J. 189 (2007).

52. Seidenberg, *supra* note 43, at 51-54.

53. *Id.*; Grant Gross, *eBay Patent Ruling Gets Mixed Reviews*, InfoWorld, May 16, 2006 (quoting president of the Professional Inventors Alliance as saying the *eBay* ruling will “embolden the patent pirates”).

54. *See, e.g.*, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 518 F. Supp.2d 1197, 1221-22 (C.D. Cal. 2007) (granting injunction despite defendant’s incredulous promises to stop violation because of bad past conduct of “staggering” amounts of infringement, failure to take steps to avoid infringement, and propensity to continue infringement in the future).

55. *See, e.g.*, *Paice L.L.C. v. Toyota Motor Corp.*, 2006 WL 2385139 \*6 (E.D. Tex. 2006) (denying injunction for patent infringement by Toyota in small component part of hybrid system because Toyota was a company of good reputation providing a valuable public service of new hybrid cars and technology).

relative merits of the defendant's conduct and intent facilitates the efficient breach. Where the defendant's use of the patent generates profits in excess of the loss caused to plaintiff, the denial of injunctive relief will allow for that profit-maximizing behavior to continue.<sup>56</sup>

### A DIAGNOSTIC CASE

Decisionmaking that incorporates discussions of the motivations and conduct of the private parties is apparent in the decision of the *eBay* dispute on remand. On remand, the district court denied MercExchange's renewed request for permanent relief on a number of grounds, including the adequacy of damages for a plaintiff who was primarily interested in extorting money for the unpracticed patent.<sup>57</sup> The court subsequently awarded MercExchange \$25 million in damages, which eBay has appealed.<sup>58</sup>

The court's analysis of equitable relief on remand focuses on prong one, the lack of irreparable harm; however, discussions of the parties' motivations, conduct, and status dominate the court's application of the equitable balance. The court used a searching exploration of the private intentions and conduct of the parties to invert the normal David and Goliath story of the small inventor against the giant company. eBay, the court found, could have been viewed as a bad actor due to its position as an infringing market monopolist.<sup>59</sup> The status of monopolist can be a categorical type of bad actor as the monopolist's size and economic power can unfairly dominate the market. eBay's additional willfulness of the infringement also contributed to a negative characterization.<sup>60</sup> The willfulness of eBay's actions, as demonstrated by its continued, post-verdict violation of the injunction, was egregious enough to subject it to enhanced damages available to punish or deter such bad conduct.<sup>61</sup>

Yet, the court found that the nature of eBay's market dominance

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56. The unavailability of restitution for patent infringement, in which the infringer's profits cannot be stripped, supports the desirability of efficient breaches of the law in the patent context. See *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 506-08 (1964); 7 DONALD S. CHISUM, CHISUM ON PATENTS § 20.02[4] (1998).

57. *MercExchange, L.L.C. v. eBay Inc.*, 500 F. Supp. 2d 556, 591 (E.D. Va. 2007). MercExchange appealed the denial of injunctive relief. Notice of Appeal, *MercExchange, L.L.C. v. eBay Inc.*, No. 2:01CV00736 (Sept. 4, 2007).

58. Judgment, *MercExchange, L.L.C. v. eBay Inc.*, No. 2:01CV00736 (Dec. 18, 2007); Defendant eBay's Notice of Appeal, *MercExchange, L.L.C. v. eBay Inc.*, No. 2:01CV00736 (Dec. 31, 2007).

59. *MercExchange*, 500 F. Supp. 2d. at 570.

60. *Id.* at 584 n.25, 579-80.

61. *Id.* at 581 n.23, 583.

was different than the usual market monopolist because it had not flooded the market with a unique product, but rather began its successful business prior to the infringement of the MercExchange patent utilizing other business methods.<sup>62</sup> “[E]Bay is a multibillion dollar corporation whose online marketplace brings together tens of millions of buyers and sellers around the world, and eBay unquestionably has a substantial impact on the United States’ economy, furthermore, eBay’s success pre-dates its infringement.”<sup>63</sup> The burden to eBay from shutting down or redesigning its business that had been created prior to the patent infringement and which involved other technologies aside from the patent appeared significant. Moreover, the court was concerned about the additional unfairness to eBay’s successful business raised by the questionable validity of the buy-it-now patent which was up for review at the PTO.<sup>64</sup>

The district court on remand also characterized the plaintiff, MercExchange, as a bad actor lacking good faith in its dealings with eBay and the court. MercExchange, the court noted, “is a company with two employees that work out of their homes and appear to specialize in litigation and obtaining royalties for licenses based on the threat of litigation.”<sup>65</sup> The company was portrayed as lurking in the shadows, waiting to spring on successful businesses only after they had achieved market success.<sup>66</sup> The court repeatedly employed estoppel-type language to criticize MercExchange for its inconsistent behavior and change of position with respect to the request for an injunction.<sup>67</sup> It noted MercExchange’s failure to request a preliminary injunction, thus allowing eBay to continue its business, and prior actions seeking to license its product to eBay and other companies as inconsistent with a genuine desire to exercise the right to exclude.<sup>68</sup> The court also framed this argument in terms of waiver, stating that “it was MercExchange that

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62. *Id.* at 580, 584 n.25.

63. *Id.* at 587.

64. It also took notice of the U.S. Supreme Court’s opinion in *KSR Int’l. Co. v. Teleflex Inc.*, 127 S.Ct. 1727 (2007), which in the court’s view, cast even further doubt upon the validity of the patent at issue. *MercExchange*, 500 F. Supp.2d. at 574, 584. “Applied to the instant facts, the *KSR* opinion reduces the likelihood that the ‘265 patent will survive reexamination as the PTO’s prior non-final actions were issued *prior to KSR*, which plainly raised the bar as to what qualifies as non-obvious.” *MercExchange*, 500 F. Supp.2d. at 574.

65. *MercExchange*, 500 F. Supp. 2d at 587.

66. *Id.* at 572. “MercExchange’s modus operandi appears to be to seek out companies that are *already market participants* that are infringing, or potentially infringing, on MercExchange’s patents and negotiate to maximize the value of a license.”

67. *Id.* at 569-70, 573 n.14, 582, 585.

68. *Id.* at 582-83.

freely chose to repeatedly indicate that it was willing to *forgo its right to exclude* and license its patents to eBay and others.”<sup>69</sup> The court also mentioned the “suspicious” behavior of MercExchange by “placating” the court by drumming up potential companies on remand as a litigation tactic to try and show irreparable harm to market share.<sup>70</sup> “MercExchange has attempted to disguise its true motivations to the court, claiming that a desire to commercialize guided its decisions, when in reality, litigation guided such actions.”<sup>71</sup> These private equities between the parties were significant to the court, especially when placed in the context of the questionable validity of the MercExchange patents before the PTO and eBay’s claim to have designed around the patent. As illustrated by this case, the balancing of the hardships allows courts to delve into the private motivations and possible inequitable conduct of the parties with respect to the case at issue in order to resolve the injunction dispute as between the two.<sup>72</sup>

Other remedies scholars have located the basis for future action in patent injunction cases within the remedial adequacy prong of factor two. For example, Professor James Fischer has argued that injunctive relief in patent cases should ordinarily be limited to cases when the patentee seeks lost profits.<sup>73</sup> He believes that damages generally are adequate to compensate for certain measures of loss in a patent case, namely the loss of license royalties.<sup>74</sup> Fischer’s framework for individual determination moves beyond the categorical conclusion of the *eBay* district court, which thought that damages might be adequate in *all* patent cases, and tailors it to the specifics of certain kinds of case. This remedial adequacy approach comports with classic remedies principles in which the measurability, adequacy, and speculativeness of damages is determinative of equity, and was appealing to the district court on remand in *eBay*.<sup>75</sup>

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69. *Id.* at 581 (emphasis in original).

70. *Id.* at 570, 577, 584.

71. *Id.* at 577 n. 18.

72. The court rejected express defenses of unclean hands hurled by both sides attacking allegedly improper trial conduct by each party. *Id.* at 587-88. It found “that neither side has particularly clean hands as both have engaged in litigation tactics that at times may have crossed the line; however, neither side has successfully proven the other to be unworthy of a ruling in equity due to unclean hands.” *Id.* at 589. The court noted a comment by MercExchange’s trial counsel that “there is no end to hypocrisy on both sides in litigation, and that is true in every case, and it’s certainly not untrue in this case.” *Id.* at 590.

73. Fischer, *supra* note 26, at 1; see also Michael W. Carroll, *Patent Injunctions and the Problem of Uniformity Cost*, 13 MICH. TELECOMM. & TECH. L. REV. 421, 434 (2007).

74. *Id.*

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

However, the broader remedial picture suggests that concerns over the equitable conduct of the parties and their motivations may ultimately be more persuasive to the Supreme Court reviewing questions of remedial propriety in patent cases. *EBay* provides another piece of the larger remedial puzzle by following the Court's trend towards adopting balancing tests to determine measured, proportionate remedial responses. Using the cases of remedial proportionality as a guide, it is possible to predict that the Court will be searching for a balanced remedial response to patent injunctions as a cure for the disease of categorical relief.

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concurring). ("[L]egal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.").