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Of eBay, 'patent trolls' and the right to an injunction

INSIDER VIEW

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Canadian-based Research in Motion Ltd., known as RIM, recently paid $612 million to avoid the risk that a federal judge would issue an injunction shutting down its Blackberry e-mail service. It paid the money to NTP Inc., a patent holding company that doesn't "practice" its invention, meaning it doesn't sell a product or service using the patented invention.

But NTP obtained a patent infringement judgment against RIM, and as the final step in the court case asked the court to enter an injunction shutting down RIM's service. RIM chose to settle rather than take that risk.

NTP used a powerful weapon to bring RIM to its knees: the threat of a permanent injunction. Because patent law does not provide for "compulsory licensing," RIM was unable to buy its way out of its predicament short of a settlement.

The ability of a successful patent plaintiff to exert this kind of leverage, however, may be about to undergo change — for the first time in almost a century.

Last month the U.S. Supreme Court, in the case of MercExchange v. eBay, heard an appeal suggesting that the court would be willing to reconsider the established doctrine that in almost every instance the courts should grant patent holders a permanent injunction against infringers.

The Supreme Court's pending decision in the eBay case needs to be taken in context: The U.S. patent system is in the midst of profound upheaval. The U.S. Patent and Trademark Office is under attack for issuing weak patents, including many so-called "business method" patents. To correct these problems, Congress is considering a variety of fundamental changes to the patent system.

The sale of patents following the bankruptcies of the dot-com era has resulted in a significant increase in lawsuits brought by businesses known as "patent litigation firms" or, pejoratively, "patent trolls."

These companies buy patents not to produce a product or service, but solely to enforce them in the courts, with NTP Inc. being an typical example. And the small town of Marshall in East Texas, with its patent-friendly courts and "rocket docket," has become notorious as the capital of this new patent universe.

By taking on the eBay case, the Supreme Court stepped into this maelstrom of competing economic self-interests and policy incentives. The sole issue in the eBay case is deceptively straightforward: Should a patent plaintiff who is successful at trial be entitled to an automatic permanent injunction, shutting down the infringer's product?

Legal precedent has made the granting of an injunction against infringers almost automatic. The consequences are that a patent holder may be able to obtain enormous leverage in a variety of situations.

The arguments on either side of this issue are straightforward.

Patent holders argue that a patent is property, and the most fundamental right of a property holder is the right to exclude others from use or possession. Patent holders shrug off the argument that "patent trolls" should be treated as second-class citizens, correctly observing that the patent laws permit the free transfer and sale of patents and that the laws do not require that inventors commercialize their inventions in order to obtain a patent.

In fact, many great inventors, including Thomas Edison — who obtained 1,093 patents — have not "practiced" their patents.

To discriminate against individual inventors and small companies by taking away or reducing the legal threat of an injunction — often their "nuclear weapon" in litigation with large companies — would undermine the very incentives to creativity and invention the U.S. patents laws were designed to encourage. This could further shift the delicate balance of power between large companies (typically the infringers) against small inventors (the patent owners).

Conversely, infringers such as eBay and RIM argue that since an injunction is fundamentally equitable (that is, subject to principles of fairness and assessment of relative harm), the courts should be free to weigh fairness before issuing an injunction. By taking the "parade of horribles" approach, they question whether it is fair that a claim of infringement is made only after a product is released or an industry standard adopted, and the patent claim relates only to one of hundreds of components in a device.

What if, in addition to this, the infringer is "innocent," as that term is used in patent law, and the patent owner doesn't use the patent to produce a product or service? What if an injunction would limit interoperability?

At some point, they argue, the courts' assessment of the balance of harms tilts against an injunction and in favor of court-imposed royalties.

The arguments of their supporters, who have filed many briefs in their support in the eBay case, show that they have the dreaded "patent trolls" squarely in their sights.

All eyes in the patent community are focused on how the Supreme Court resolves this issue.

Will the court reaffirm the 100-year-old doctrine favoring patent owners, or will it loosen the reins and give the lower courts some discretion? If the latter, will the Supreme Court open the door just a crack, or will it swing it wide open and allow the lower courts to develop their own guidelines on the issue?

Expect a decision before the Court's term ends in June. If the Court sides with eBay and alters the status quo, the implications for patent enforcement are likely to be profound.

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