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CONSTRUCTED AND ENHANCED EQUITIES UNDER *eBAY*: WHOSE RIGHT IS IT ANYWAY?

*Richard S. Gruner**

This article treats the injunction issuance standards announced in *eBay Inc. v. MercExchange, LLC*,¹ as the starting point for patent enforcement planning by sophisticated clients and their patent and corporate attorneys. The *eBay* standards imply a set of circumstances in which a patent holder will be well-positioned to obtain a patent enforcement injunction, circumstances that patent holders may be able to reach through well-crafted strategic moves. This article explores the actions that a pure licensee patent holder can take to improve its position and establish “constructed equities” that will enhance its chances of obtaining a patent enforcement injunction.

I. INTRODUCTION

The Supreme Court’s holding in *eBay*² indicates that the net desirability or “equity” of granting an injunction barring use of a patented invention will govern remedies for patent infringement.³ The Supreme Court identified four factors to be considered by courts in assessing the desirability of a patent enforcement injunction stopping a defendant’s infringing actions.⁴ These factors focus primarily on the circumstances of the patent holder and the infringer in a given case. In

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1. *eBay Inc. v. MercExchange, LLC*, 126 S.Ct. 1837 (2006).
2. *Id.*
3. *Id.* at 1839.
4. *See id.*

particular, three factors—the scope of irreparable harm suffered by the patent holder if infringement continues, the sufficiency of a damage remedy to compensate the patent holder if no injunction is forthcoming, and the relative harm to the patent holder and patent infringer if an injunction is withheld or granted⁵—all depend on the nature of the party seeking patent enforcement and that party’s use of the patented invention. The fourth factor—the impact of an injunction on the public interest⁶—is less dependant on the circumstances of the patent holder and would appear have the same influence on the patent injunction analysis regardless of the identity of the patent holder seeking an injunction and the nature of that party’s use of the patented invention.

Some commentators have speculated that patent holders who are pure licensors of their rights—that is, entities that hold patents but which do not use them to protect product production and sales activities or the offering of a patented service and instead aggressively seek to force other parties to license their patented inventions through actual or threatened litigation—may generally be precluded from obtaining an injunction under the four factor test announced in *eBay*.⁷ These pure licensors—dubbed “patent trolls” by those who would disparage them—may see the value of their patents drop because these parties will only be able to bargain for lesser licensing royalties once their patents lack the ability to stop infringers’ conduct through an injunction.

This article argues that the ability of patent trolls and other pure licensors to obtain patent enforcement injunctions is not so simply evaluated. In particular, the injunction enforcement capabilities of pure licensors of patents may be fluid in two key respects.

First, a pure patent licensor may change its activities and characteristics—either by altering its conduct or by joining with other entities that have other characteristics—and thereby take on features that will qualify it for an injunction. For example, a pure patent licensor may join in a joint venture or exclusive licensing relationship with another party that is a maker or user of the patented invention. If patent enforcement is sought by either this joint venture or exclusive licensee, the characteristics of the joint venture or the exclusive licensee will presumably be the ones considered in the *eBay* analysis. By bringing

5. *Id.*

6. *Id.*

7. See, e.g., Keith E. Broyles & William Hubbard, *Repelling Patent Trolls After eBay*, 18 No. 9 *Intell. Prop. & Tech. L.J.* 5 (2006); Todd Klein, *eBay v. Mercexchange and KSR Int'l Co. v. Teleflex, Inc.: The Supreme Court Wages War Against Patent Trolls*, 112 *Penn St. L. Rev.* 295 (2007).

into the picture a significant production or use of the patented invention, the patent holder may be able to focus the injunction analysis on the impact of infringement on the producer or user of the invention and the need for an injunction to maintain exclusive markets for the use or manufacturing of that invention. Such an equitable position would seem to be substantially stronger under the *eBay* tests—that is, more likely to obtain a patent enforcement injunction—than the position of a mere licensor of the patented invention.

Second, even if a pure patent licensor is seen as lacking the characteristics that would justify an injunction for enforcement of the patent, such an entity may be able to recoup the economic value of injunctive enforcement by simply transferring its patent rights through a patent assignment to a party that will be a maker or user of the patented invention. The use or making of the patented invention by the patent assignee—and that party's enhanced opportunity to obtain an injunction—will probably mean that the assignee will be willing to pay for the assignment at a valuation level that reflects the right to obtain an injunction. In short, if an assignee feels that it will probably be able to enforce a given patent with an injunction, the assignee will be willing to pay a price that reflects the injunction enforcement power of the patent and the original holder will be able to gain the economic value of the patent at these injunction-enforced levels, even though the patent assignor would not have been able to gain an injunction to enforce its patent.

These sorts of manipulations of circumstances that associate patent rights with the making or using of a patented invention are means of giving patent trolls (or their successors) equitable positions that strengthen their arguments in favor of obtaining injunctions in enforcing their patents. Where these types of additional activities are not undertaken as shams but have real economic substance, patent trolls may be able to use these types of “constructed equity” to obtain injunctions under the *eBay* standards.

This article briefly summarizes the potential fluidity of patent enforcement by “patent trolls” in light of these notions of constructed equity and conduct positioning.

II. THE FLUIDITY OF EQUITY FACTORS AFFECTING THE LEGITIMACY OF INJUNCTIONS—REASONS FOR MEASURING *EBAY* FACTORS IN CIRCUMSTANCES PRESENT WHEN INJUNCTIONS ARE SOUGHT

The goals of equity limitations on injunctions—limitations that the *eBay* court indicated should apply to patent-based injunctions in the same manner as to other types of injunctions⁸—suggest that the legitimacy of an injunction in a given case should depend on the then current circumstances of the plaintiff and defendant at issue. This need for consideration of the present circumstances of the parties (as opposed to the earlier circumstances of the original patent holder or inventor) is implied by the goals of equity limitations on injunctions. The need to consider current circumstances of the parties in turn suggests that the governing equities—and, therefore, the likelihood of injunction issuance—are malleable characteristics which patent holders and associated parties can modify to enhance their chances of obtaining injunctions. This section examines the basis for evaluating injunctions based on the evolving circumstances of patent holders and infringers. The next section addresses the means that patent holders and related parties can use to plan for and carry out actions that increase their likelihood of obtaining patent enforcement injunctions.

The need to consider the current circumstances surrounding a patent holder and an alleged infringer in determining whether a patent enforcement injunction should issue is implied by several components of the test endorsed in *eBay*. In particular, current considerations—as opposed to the historical circumstances of the patent holder or infringer—are relevant in considering 1) a plaintiff's need for an injunction in light of the nature of the harm to the plaintiff and the adequacy of other remedies to correct that harm, 2) the relative harm to a patent holder and infringer of granting or withholding a patent, and 3) the level of public harm that will result if a patent enforcement injunction issues.

A. Need for an Injunction to Remedy Otherwise Unaddressed Harm

In part, equitable tests for the issuance of injunctions are aimed at limiting the number of injunctions that issue to those which have a clear justification and which are necessary to further remedial ends that cannot

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

be reached through other remedies.⁹ The desire to avoid both the judicial administrative costs and the potentially overbroad conduct restrictions that may result from issuance of a patent enforcement injunction means that a plaintiff is required to show that the nature of the plaintiff's harm and the features of other remedies indicate that a significant aspect of the plaintiff's injuries will be unremedied if an injunction does not issue.¹⁰

This type of showing of a plaintiff's need for an injunction should depend on consideration of the present circumstances of the plaintiff as those circumstances change. Were a court to consider only past circumstances, a case in favor of a patent enforcement injunction might be made and an injunction might issue where such an injunction was not needed in present circumstances to prevent harm to the patent holder. Conversely, if historical circumstances were controlling, a patent holder with a real present need for an injunction to avoid harm (but no similar case based on its past circumstances) would be forced to be content without an injunction and to suffer the resulting harm produced by its present circumstances. Hence, if the aim of equity considerations of irreparable harm and the adequacy of non-injunctive remedies is to limit injunctions to incidents where injunctive relief serves a necessary, incremental function not attainable through other remedies, the adequacy of non-injunctive remedies must be assessed in light of the current circumstances of the patent holder when infringing actions of a defendant and resulting harm to the plaintiff occur.

B. Comparative Harm to Patent Holder and Infringer

Furthermore, even where there is some justification and need for an injunction to provide a remedy to a given patent holder, *eBay* indicates that the relative impacts of withholding and granting an injunction on the patent holder and infringer should also be considered. Where the benefits to a patent holder from obtaining an injunction are small and the negative impacts on the enjoined party will be large, there is a substantial case in equity for withholding the injunction. This balancing process will typically offset the potential weakening of a patent holder's interest and patent value if only a damage remedy is available against the possibility that the granting of an injunction will affect the restricted party in broad ways unrelated to that party's wrongful actions or will achieve unreasonable harm due to unfair surprise to the restricted party

9. See, e.g., Gene R. Shreve, *Federal Injunctions and the Public Interest*, 51 GEO. WASH. L. REV. 382, 388-89 (1983).

10. *Id.*

about the need to avoid the infringing conduct that is the focus of a proposed injunction.

Remission of plaintiff to a damage proceeding may debase the value of his right, but the issuance of an injunction may exact an exaggerated cost from the defendant. The injunction's purpose is to avert harm to the plaintiff by incapacitating the defendant. Incapacitation poses the threat of adjusting more aspects of the defendant's behavior than those that would wrong the plaintiff if the injunction were not issued. It is difficult if not impossible to so finely adjust an order that it protects plaintiff without impairing defendant's harmless activities or the rights of those who are not represented before the court.¹¹ The net balance of harm to a patent holder and an infringer from the issuance or withholding of a patent enforcement injunction will be an evolving feature. This net figure will depend on the changing circumstances and harm of both the patent holder and infringer. Since the objective of this portion of the *eBay* analysis is to avoid the infliction of new net harm through the issuance of a patent enforcement injunction, the circumstances of the parties at the time an injunction is sought should be considered to determine if new, higher levels of total harm—taking into account the impacts on both the patent holder and infringer—will follow from the issuance of an injunction.

C. Harm to the Public

Finally, the need under *eBay* to consider the impairment of the public interest from an injunction indicates that a patent enforcement injunction should sometimes be withheld even if it is otherwise justified where the public as a whole will suffer in a significant way from the enforcement of the injunction. This implies that harm to the public may trump harm to the individual rights holder, suggesting a second, somewhat different balancing analysis than the comparison of harms to the rights holder and the potentially restricted party.¹² In settings where the enforcement of an injunction will have a particularly adverse impact on some governmental function or will harm public health or some other public interest in a significant way, the private interests of the rights holder must simply give way to the public interest.

However, since this type of reduction of enforcement also diminishes the certainty of rights scope and the value of patent

11. *Id.* at 389 (footnotes omitted).

12. *See id.* at 397-405.

incentives, this type of restriction on patent enforcement injunctions should only be imposed where the public's interest and the adverse impact of an injunction upon it are clear. This further suggests that, to minimize the circumstances where an injunction is withheld and the normal enforcement expectations of a patent rights holder are not fulfilled, the analysis of the public's interest and the implications for the public interest of a patent enforcement injunction should only consider real conflicts between an injunction and the public interest that are concrete and significant at the time that an injunction is sought. Past conflicts that are no longer present or future conflicts that are speculative and may not arise should not be bases for withholding an injunction on public interest grounds since to do so would restrict a patent holder's rights without necessarily advancing the public interest. In short, the essential justification for withholding normal patent incentives and rewards in cases where the public interest demands limited patent enforcement is only present where the public interest gains from limited patent enforcement are clear and immediate. This implies that the current public interest implications of patent injunction enforcement which are measurable with some certainty are the only public interest factors that should figure in the *eBay* analysis and that the past or potential but uncertain future implications of such enforcement should be disregarded.

III. CONSTRUCTED EQUITY—IMPROVEMENT OF LIKELIHOOD OF PATENT INJUNCTION ENFORCEMENT THROUGH TARGETED ACTIONS

There are several means that a pure licensor patent holder can use to improve its likelihood of obtaining a patent enforcement injunction under the *eBay* standard or that such a party can use to realize a commercial value for a patent that takes into account injunctive enforcement powers associated with the patent. This short article will not attempt to survey all such methods. Rather, it will concentrate on three examples: the enhancement of injunctive enforcement rights of a patent holder through 1) a joint venture, 2) an exclusive license, and 3) an assignment of a patent.

A. Patent Enforcement Through a Joint Venture

If a pure licensor patent holder wishes to maintain some ongoing involvement in the decision making leading to requests for injunctive relief against infringers, the patent holder may wish to join with a manufacturer or user of the item to form a joint venture. A joint venture

is a form of partnership having a specified duration¹³ (for example, for the remaining life of a particular patent or a particular commercialization effort) and is governed by partnership law. Where a participant in a joint venture is the holder of a key patent controlling an invention needed by the joint venture, the patent holder may either assign the patent (that is transfer ownership of the patent) to the joint venture or, more commonly, issue an exclusive license to the joint venture designating the latter as the sole party that is authorized to use the patented invention within the joint venture's area of activity.¹⁴ As a patent assignee, the joint venture would have the full ability to enforce the relevant patent; as an exclusive licensee, it would have the ability to seek enforcement to prevent patent infringement within the scope of its exclusive license.¹⁵

Under partnership laws governing joint ventures, unless the authority of the partners (that is, joint venturers) is specially limited in their partnership agreement (which would be the agreement setting up a joint venture in that type of partnership), each of the partners is a general and authorized agent of the partnership for all purposes within the scope and objectives of the partnership.¹⁶ This means that each partner (including the partner assigning a key patent to a joint venture or providing an exclusive license under a patent) will have the authority to take actions carrying out the normal course of the partnership's business. For a partnership holding a patent that protects an important feature of its business, the ordinary business activity of the partnership will probably include initiating actions to enforce the patent, meaning that the original holder of the patent before the joint venture was formed would be in a position to control the enforcement of the patent, but in circumstances where the enforcement of the patent and the scope of injunctive relief that might be obtained will be cloaked with the circumstances of the joint venture, which may include substantial manufacturing or use of the patented invention.

In sum, a patent holder might participate in a joint venture with an invention manufacturer or user, thereby gaining new business characteristics that would alter the patent enforcement injunction analysis under *eBay* while retaining control over how the relevant patent

13. See *Joint Venture Distinguished from Other Relationships*, 46 Am. Jur. 2d Joint Ventures § 5 (2007).

14. See generally Christopher J. Mugel, *Strategic Alliances and Other Joint Development Agreements* in Practising Law Institute, *Patents, Copyrights, Trademarks, and Literary Property Course Handbook* 858 PLI/Pat 365, 394 (2006).

15. See Donald S. Chisum, 8-21 Chisum on Patents § 21.03 (2007).

16. See *Authority and Agency of Partners*, 59A Am. Jur. 2d Partnership § 207 (2007).

is enforced and when injunctive relief is sought. For example, suppose party A is an owner and pure licensor of a specific patent and party B is a party capable of manufacturing the patented item. A and B form a joint venture to manufacture the patented item under commercially reasonable and substantial terms (that is, the transaction is not a sham, but rather is constructed on terms that are typical of such arrangements and have independent economic substance and merit beyond their advantages in patent enforcement). As part of the formation of this joint venture, A contributes ownership of the relevant patent to the joint venture. As an asset of the joint venture, the enforcement of the patent could be controlled by any partner—A for instance—and yet would be undertaken by a party—the joint venture—which has features such as the production of the patented invention that enhance the likelihood that the *eBay* standard will be met and that an injunction will issue. In short, the joint venture has provided a vehicle towards enhanced or “constructed” equity and the increased likelihood of injunction issuance and enforcement.

B. Patent Enforcement In Conjunction with an Exclusive License

It is a well-established rule that an exclusive licensee of a patent has the right to initiate a patent enforcement action to stop infringement within the scope of activity covered by his or her exclusive license.¹⁷ For example, if A holds a patent and grants B an exclusive license to produce the patented invention in the state of New York, B could in turn bring a patent enforcement action to prevent another unlicensed party C from making the patented item in the state of New York. This type of patent enforcement by an exclusive licensee is allowed in recognition that once an exclusive license is in place, the exclusive licensee has the strongest interest in patent enforcement and the licensor may have limited reasons to actively pursue patent enforcement (as opposed to just seeking royalties and contract remedies from the licensee under the exclusive license).

What this arrangement suggests is that a pure licensor patent holder may be able to orchestrate increased injunctive enforcement of a patent by granting strategically targeted exclusive licenses to parties whose production or use activities will conflict with particular infringers. For example, suppose party A is an owner and pure licensor of a particular patent and party C begins infringing that patent. Party A might enter

17. See Donald S. Chisum, 8-21 Chisum on Patents § 21.03 (2007).

into an exclusive license with B under which B is authorized to undertake the type of activity already engaged in by C. B would then have a strong motivation to enforce the patent involved against C. Assuming that B started its own activity under the exclusive license—for example, manufacturing the patented item if this was what the license covered—then B would come to court with many of the features of a patent enforcer that *eBay* suggests would heighten the likelihood that an injunction would issue to stop C's continued infringement. Hence, through the issuance of this sort of exclusive license, A has increased the likelihood of injunctive enforcement of A's patent.

C. Patent Commercialization Through Assignments of Rights to Likely Injunction Recipients

A third way that a pure licensor of a patent might realize the economic advantages of injunctive relief concerning the patent—without actually seeking any patent enforcement injunctions—is by transferring ownership of the patent through an assignment to a holder that is a potential manufacturer or user of the patented invention. Such a new owner of the patent will be likely to qualify for an injunction enforcing the relevant patent and, hence, will be willing to pay a fee for the patent assignment that reflects the availability and economic value of injunctive relief under the patent.

For example, if A is an owner and pure licensor of a patent and B is a party with manufacturing capabilities regarding the patented invention, B would be willing to pay A a fee for the assignment to B of the patent that is computed based on B's estimate of the value of the patent as enforced by injunctions obtained by B to prevent others from making the patented invention. B would value the patent and the patent assignment in this way because B could project that it could use its resources to become a manufacturer of the patented item, qualify for an injunction under the *eBay* factors, and through this type of injunction prevent others from infringing the relevant patent.

This type of arrangement reflects a feature of all assets—a party will pay for an asset based on the buyer's ability to use the asset, not the seller's ability. Where a buyer has features that allow it to use an asset in ways that a seller could not, the transfer price will tend to reflect the value of the asset in its greater range of uses in the hands of the buyer. In the patent context, the type of assignment described here merely transfers the relevant patent into the hands of a party that can use the patent more effectively than the transferor because the recipient can

probably gain an injunction under the *eBay* test even though the transferring party (as a pure licensor patent holder) could not have made the same use of the patent. However, even though the transferor could probably not have gained a patent enforcement injunction, the price that will be paid to that party for transference of ownership of the relevant patent through an assignment will reflect the full ability to gain a patent enforcement injunction. Hence, this type of targeted patent assignment will be a means to capitalize on the economic value of patent enforcement injunctions if not to gain the injunctions themselves. The advantages of this sort of strategy suggest that patent ownership may tend to gravitate towards manufacturers and users of patented inventions and away from pure licensor patent holders. However, the number of patents obtained and enforced through injunctions may not change much.

IV. IS THE BATTLE OVER RELIEF FOR PATENT TROLLS WORTH FIGHTING OR WILL SPRUCED UP TROLLS BE INDISTINGUISHABLE FROM PRODUCTIVE COMPETITORS?

These examples of means that parties can use to construct equities and improve their chances of obtaining patent enforcement injunctions suggests the futility of attempting to limit the business activities of so called “patent trolls”—that is, pure licensor patent holders—through application of the *eBay* factors. The strategic options of a pure licensor patent holder are too fluid and the boundaries between pure licensors and invention manufacturers and users too malleable to effectively draw lines between types of patent interest holders that do or do not merit patent enforcement injunctions.

Two types of complexities will arise if courts seek to use the *eBay* test as a means to “police” “patent trolls” and cut down on injunctive enforcement of patents by “patent trolls”

First, pure licensor patent holders will join in combinations with other parties having more injunction-justifying features under the *eBay* test. This article has profiled some of the combinations—such as joint venture or exclusive licensing arrangements—that clever “patent trolls” will use. This will force courts to resolve difficult questions about what sorts of motivations underlying such combinations and what operating features of the combinations should be taken into account in determining whether a patent enforcement injunction should issue. In essence, courts will need to determine what sorts of new activities in conjunction with a

patent will transform a patent holder that does not merit an injunction under the *eBay* analysis into one that does.

Second, even if a combination of a patent holder with another party is not enough to justify a patent enforcement injunction based on the new activities or characteristics of the combined parties, patent holders will still have the option to transfer their patents by assignments to parties who have the necessary features to gain patent enforcement injunctions. This strategy will give pure patent licensors a means to gain economic returns on their patents that reflect the value of patent enforcement injunctions since recipients of the patents will pay assignment fees that take the availability of injunctions into account. Hence, the economic advantages of injunctive relief, if not the relief itself, will still run to parties that were initially not manufacturers or users of the patented inventions and would perhaps not have qualified for patent enforcement injunctions themselves under the *eBay* standard.

Given these end results—and the substantial transaction costs that courts and parties may suffer to reach these results—it seems doubtful that the *eBay* standard offers a desirable means to change the practices or scope of enforcement activities undertaken (or at least furthered) by “patent trolls.” Rather, the *eBay* criteria simply create a new set of conduct targets which set the stage for new rounds of business gamesmanship as parties plan for and execute the steps needed to position themselves as attractive candidates for patent injunction issuance under *eBay*. Given the ability of parties to work with the *eBay* standard—that is, to work strategically within the *eBay* standard to obtain about the same enforcement results that prevailed before *eBay*—the practical significance of this case in the world of the “patent troll” may ultimately be very small.