

## NOTE

### We Can't Stay This Way: Changing the Standard for Staying Injunctions Pending Appeal After *eBay*

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#### INTRODUCTION

On August 11, 2009, the United States District Court for the Eastern District of Texas ordered Microsoft to stop selling its ubiquitous word processing software, Microsoft Word.<sup>1</sup> Two months earlier, a jury had determined that Microsoft's Word 2003 and Word 2007 products infringed a patent held by i4i, a software company, and awarded i4i \$200 million in damages.<sup>2</sup> In a subsequent bench trial, a judge issued an injunction that would have stopped Microsoft from selling its Word products until the company could redesign the products to no longer infringe i4i's patent.<sup>3</sup>

Microsoft filed a motion to stay the injunction, the granting of which would have allowed it to continue selling Word while Microsoft appealed the district court's decision to the United States Court of

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<sup>1</sup> *i4i Ltd. P'ship v. Microsoft Corp.*, 670 F. Supp. 2d 568, 598, 600–02 (E.D. Tex. 2009), *aff'd*, 598 F.3d 831 (Fed. Cir. 2010).

<sup>2</sup> *Id.* at 573.

<sup>3</sup> *Id.* at 573, 600–02.

Appeals for the Federal Circuit.<sup>4</sup> However, the district court denied Microsoft's motion, and ordered Microsoft to stop infringing i4i's patent within sixty days of the district court's August 11 order.<sup>5</sup> Thus, Microsoft would have had sixty days to redesign Word so that it no longer infringed the patent, or it would have had to stop selling the product altogether.<sup>6</sup> At trial, Microsoft's expert witness testified that it would take five months to accomplish such a feat, meaning Word would be off the shelves for approximately three months.<sup>7</sup>

Having been denied relief in the district court, Microsoft immediately appealed to the Federal Circuit and filed a similar motion requesting that the Federal Circuit stay the district court's injunction pending appeal.<sup>8</sup> The Federal Circuit granted the motion, allowing Microsoft to continue selling Word pending the outcome of the appeal.<sup>9</sup>

The decision whether to stay the injunction carried tremendous implications for both the parties and the public. For example, without the stay, Microsoft faced the possibility of its flagship product being taken off the shelves for months, which would result in lost profits, unrecoverable costs for redesigning the product, and diminished goodwill from Microsoft's customers and distributors.<sup>10</sup> On the other hand, i4i owned a patent that Microsoft was infringing, and without enforcing the injunction, every sale of Microsoft Word—part of which directly competed with i4i's product—was one step closer to rendering i4i's product obsolete.<sup>11</sup> Moreover, various members of the public, from customers purchasing Microsoft Word to distributors and retailers, had an interest in whether the Federal Circuit stayed the injunction.<sup>12</sup> Despite the enormous implications of the decision and the complex interrelations of those implications, the Federal Circuit summarily granted the stay in only one sentence: "Without prejudicing the ultimate determination of this case by the merits panel, the court determines based upon the motion papers submitted that Microsoft has

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<sup>4</sup> *Id.* at 602–03.

<sup>5</sup> *Id.* at 603.

<sup>6</sup> *Id.*

<sup>7</sup> *Id.* at 601, 603.

<sup>8</sup> Emergency Motion to Stay Permanent Injunction Pending Appeal at 1, *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831 (Fed. Cir. 2010) (No. 2009-1504).

<sup>9</sup> *i4i Ltd. P'ship v. Microsoft Corp.*, 343 F. App'x 619, 619 (Fed. Cir. 2009) (per curiam).

<sup>10</sup> Emergency Motion to Stay Permanent Injunction Pending Appeal, *supra* note 8, at 18.

<sup>11</sup> *i4i*, 670 F. Supp. 2d at 599.

<sup>12</sup> Emergency Motion to Stay Permanent Injunction Pending Appeal, *supra* note 8, at 19–20.

met its burden to obtain a stay of the injunction.”<sup>13</sup> Microsoft was free to continue selling Word, but it was unclear from the order why the Federal Circuit ruled the way it did.

Three months later, the Federal Circuit affirmed the district court’s decision, finding Microsoft liable for infringement and reinstating the injunction to be effective five months from the district court’s order.<sup>14</sup> The Federal Circuit pushed back the effective date of the injunction from the original sixty days ordered by the district court to five months based on the testimony of a Microsoft employee who indicated that it would take five months for Microsoft to redesign Word so as to no longer infringe i4i’s patent.<sup>15</sup> Thus, by pushing back the effective date of the injunction, the Federal Circuit effectively allowed Microsoft to continue infringing i4i’s patent until Microsoft developed a way to redesign Word.<sup>16</sup>

*i4i Ltd. Partnership v. Microsoft Corp.*<sup>17</sup> illustrates the drastic impact that an injunction, and the staying of an injunction, can have on parties involved in patent litigation and on the public in general. It also illustrates the lack of guidance that brief orders regarding such stays give for trying to anticipate the outcome of future cases. In fairness to the courts, the orders are often brief by necessity, as many of these motions require consideration and resolution in an extremely brief amount of time.<sup>18</sup> However, as discussed above, the decision of whether to stay an injunction can have enormous implications for both parties and the public.<sup>19</sup> Given these implications, the brief orders fall short of ensuring that the court gives ample consideration to the present case and of providing guidance for decisions in future cases.

This Note proposes a new framework for courts to use when deciding whether to stay an injunction pending appeal in patent cases.

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<sup>13</sup> *i4i*, 343 F. App’x at 619.

<sup>14</sup> *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831, 864 (Fed. Cir.), *cert. granted*, 131 S. Ct. 647 (2010). Word users need not panic. Microsoft has released a patch which purportedly brings Word in line with the permanent injunction. See Dennis Crouch, *Patently-O Bits and Bytes No. 308*, PATENTLY-O (Dec. 28, 2009, 2:31 PM), <http://www.patentlyo.com/patent/2009/12/patently-o-bits-and-bytes-no-308.html>.

<sup>15</sup> *i4i*, 598 F.3d at 863–64.

<sup>16</sup> See *id.*

<sup>17</sup> *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831 (Fed. Cir.), *cert. granted*, 131 S. Ct. 647 (2010).

<sup>18</sup> See Dennis Crouch, *T Minus 50: Microsoft Requests Emergency Stay of Injunctive Relief*, PATENTLY-O (Aug. 21, 2009, 3:47 PM), <http://www.patentlyo.com/patent/2009/08/t-minus-50-microsoft-requests-emergency-stay-of-injunctive-relief.html>.

<sup>19</sup> See *supra* notes 10–12 and accompanying text.

The new framework would allow the court to clearly and quickly articulate the reasons for its decision while still taking into account the interests of all parties and the public. More important, even if the court continues to issue brief, conclusory orders like the one in the *i4i* case, the new framework would be structured so that the legal community could infer fairly easily how the court came to its conclusion. Further, the new framework would rely on recent changes in the law as well as the current state of the patent landscape to create a more workable solution.

The proposed framework requires a court to stay an injunction pending appeal according to one of two distinct standards. Under the first standard, a court must grant a stay pending appeal whenever the stay applicant demonstrates (1) a high likelihood that the district court erred with respect to a close or complex question of claim construction, and (2) that the applicant will succeed on appeal once that error is resolved. If the stay applicant cannot satisfy the first standard, the second standard requires a court to grant a stay pending appeal when the stay applicant demonstrates (1) a high likelihood that the district court erred with respect to any other close or complex question of law (other than claim construction), (2) that the applicant will succeed on appeal once the error is resolved, and (3) that a balancing of the interests of all parties overcomes a rebuttable presumption that the stay should not be granted.

Part I of this Note provides a background of the tests used for granting and staying injunctions in patent law and describes how the test for staying an injunction is duplicative of the test for granting the injunction in the first place. Part II discusses the current patent landscape, including two issues of importance: (1) the relationship between claim construction errors and the high reversal rate of patent infringement cases at the Federal Circuit, and (2) the increasing number of nonpracticing entities—companies that own patents but do not manufacture any actual products. Part II also discusses the importance of these two issues when determining whether the court should stay an injunction pending appeal. Part III discusses previously proposed changes to the law governing stays of injunctions and describes the shortcomings of these proposals. Part IV proposes a new framework for staying injunctions pending appeal in patent cases, applies the framework to the *i4i* case, and addresses possible criticisms of the framework.

## I. BACKGROUND

### A. *Injunctions in Patent Law, Generally*

When a court determines that a party infringed a valid patent, the court may issue a permanent injunction, effectively ordering the party to stop infringing the patent.<sup>20</sup> The injunction can prevent the infringing party from, among other things, making, using, advertising, selling, or importing any product that infringes the patent.<sup>21</sup> Thus, if a court issues an injunction, the infringer may have to discontinue the sale of its product permanently, or at least until the infringer can develop another design for the product that does not infringe the patent.

A court's decision to grant, deny, or stay an injunction may affect the parties in several ways. For example, depending on the importance of the infringing product to the infringer's business model, an injunction may detrimentally affect the continued viability of the business as a whole, and may result in employee layoffs, insolvency, and even extinction.<sup>22</sup> Conversely, if a court does not issue an injunction and the infringer is allowed to continue infringing the patent, the infringer may be able to steal market share and profits at the patentee's expense, possibly rendering the patentee's product, and maybe even the patentee, obsolete.<sup>23</sup>

The court's decision to grant, deny, or stay an injunction also directly affects the public. For example, an injunction can negatively affect the public by taking a valuable product off the market.<sup>24</sup> Although ensuring that a valuable product remains on the market is clearly within the public interest, the proper functioning of the U.S. intellectual property system is a countervailing public interest. Indeed, the Constitution itself provides the foundations for intellectual property protections: "To promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the *exclusive* Right to their . . . Discoveries."<sup>25</sup> Thus, as the Constitution implies, the pub-

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<sup>20</sup> 35 U.S.C. § 283 (2006).

<sup>21</sup> *See id.* § 271(a).

<sup>22</sup> *See, e.g., Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 897 F.2d 511, 515 (Fed. Cir. 1990).

<sup>23</sup> *See, e.g., i4i Ltd. P'ship v. Microsoft Corp.*, 670 F. Supp. 2d 568, 599 (E.D. Tex. 2009).

<sup>24</sup> *See, e.g., City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934) (denying injunction where the injunction would have prevented the use of a sewage plant, effectively "leaving the entire community without any means for the disposal of raw sewage other than running it into Lake Michigan, thereby polluting its waters and endangering the health and lives of that and other adjoining communities").

<sup>25</sup> U.S. CONST. art. I, § 8, cl. 8 (emphasis added).

lic has an interest in incentivizing technological progress through the courts' enforcement of this exclusive right.<sup>26</sup>

Because of their potential effects on the parties and the public, injunctions play a significant role in licensing negotiations between the parties. For example, in many patent infringement suits the patentee and the potential infringer may attempt to negotiate a settlement in order to forgo a trial.<sup>27</sup> During the negotiations, the parties may try to agree on a licensing fee that the potential infringer will pay to the patentee in order to continue selling or making the allegedly infringing product.<sup>28</sup> However, if the parties cannot agree on a price for the licensing fee, a patent infringement suit usually follows.<sup>29</sup> If the court determines that the defendant infringes the patent and issues an injunction, the patentee may be able to use the injunction as leverage in future licensing negotiations and obtain a higher licensing fee than the infringer was originally willing to pay.<sup>30</sup> That is, faced with the certainty of a court-ordered injunction, an infringer likely will be willing to settle the suit by paying the patentee a higher price to practice the claimed invention.<sup>31</sup> As a result, a court's decision to grant or deny an injunction in patent infringement cases may have a profound effect on the infringer, the patent owner, and the general public.<sup>32</sup>

If a court issues an injunction, an infringer has options to temporarily delay the effects of the injunction while appealing the decision of the district court. For example, the infringer may file a motion in the district court to stay the injunction pending the appeal of the patent infringement case to the Federal Circuit, effectively allowing the infringer to continue infringing the patent while the case is being appealed.<sup>33</sup> If the district court denies the motion, the infringer can then file a similar motion in the Federal Circuit to stay the injunction pend-

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<sup>26</sup> See *id.*

<sup>27</sup> See Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1995 (2007).

<sup>28</sup> See *id.* at 1995–96.

<sup>29</sup> See *id.* at 1996.

<sup>30</sup> See *id.*

<sup>31</sup> See *id.*

<sup>32</sup> The discussion of *i4i* in the Introduction of this Note illustrates the effect that injunctions can have on all parties. See *supra* text accompanying notes 1–16. Similarly, in *Verizon Services Corp. v. Vonage Holdings Corp.*, 228 F. App'x 986 (Fed. Cir. 2007), the Federal Circuit stayed an injunction pending appeal that would have otherwise crippled Vonage's voice-over-internet-protocol business, leaving its customers without an internet telephone carrier. See Dennis Crouch, *CAFC Stays Permanent Injunction Against Vonage Pending Appeal*, PATENTLY-O (Apr. 25, 2007, 3:30 PM), [http://www.patentlyo.com/patent/2007/04/vonage\\_gets\\_sta.html](http://www.patentlyo.com/patent/2007/04/vonage_gets_sta.html).

<sup>33</sup> See FED. R. APP. P. 8(a)(1).

ing the appeal.<sup>34</sup> The current standards for determining whether to grant an injunction and whether to subsequently stay the injunction are discussed in the following sections.

*B. The eBay Test for Granting Injunctions in Patent Cases*

Prior to 2006, the Federal Circuit, which has exclusive appellate jurisdiction over patent infringement cases,<sup>35</sup> applied a “general rule that courts [should] issue permanent injunctions against patent infringement absent exceptional circumstances.”<sup>36</sup> Thus, once a patent owner could show that his patent was valid and infringed, an injunction issued almost as a matter of right.<sup>37</sup> This general rule was grounded in the notion expressed by the Supreme Court that intellectual property owners are entitled to the same set of rights as other property owners, including the right to exclude.<sup>38</sup> After all, if a court decided that Smith, and not Jones, owned Greenacre, one would expect the court to prevent Jones from further using Greenacre without Smith’s permission.

However, in its 2006 *eBay, Inc. v. MercExchange, L.L.C.*<sup>39</sup> decision, the Supreme Court unanimously struck down the Federal Circuit’s general rule and held that permanent injunctions in patent cases can only issue after weighing several equitable factors.<sup>40</sup> Specifically, the Court held that a patentee seeking a permanent injunction must 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;
- (3) that, considering the balance of hardships between the plaintiff and defendant, a

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<sup>34</sup> *Id.* 8(a)(2).

<sup>35</sup> 28 U.S.C. § 1295(a)(1) (2006) (granting exclusive appellate jurisdiction to the Federal Circuit over all matters for which the district court has jurisdiction pursuant to 28 U.S.C. § 1338); *id.* § 1338 (granting United States district courts original jurisdiction over any claim relating to patents).

<sup>36</sup> *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005), *vacated*, 547 U.S. 388 (2006).

<sup>37</sup> *See id.* at 1338.

<sup>38</sup> *See* *Cont’l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 425 (1908); *see also* 35 U.S.C. § 261 (2006) (“[P]atents shall have the attributes of personal property.”). As discussed earlier, the right to exclude also has constitutional support: “To promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the *exclusive* Right to their . . . Discoveries.” U.S. CONST. art. I, § 8, cl. 8 (emphasis added).

<sup>39</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

<sup>40</sup> *Id.* at 391–93.

remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.<sup>41</sup>

A common-sense comparison of the Federal Circuit's general rule and the Supreme Court's four-factor test reveals that *eBay* made it more difficult for a patentee to successfully obtain an injunction. In fact, one study shows that this was precisely the case, as courts granted injunctions in ninety-five percent of cases before *eBay* and in only seventy-two percent of cases thereafter.<sup>42</sup> Thus, by making injunctive relief more difficult to obtain, *eBay* weakened the rights of patent owners.

Although the *eBay* decision was unanimous, two Justices filed separate concurring opinions, each articulating a slightly different approach for applying the *eBay* four-factor test.<sup>43</sup> Chief Justice Roberts's concurrence recognized that since the nineteenth century, courts have been granting injunctions in the vast majority of patent cases.<sup>44</sup> While acknowledging that the finding of infringement does not entitle a patentee to an injunction, the Chief Justice stated that when determining what standard should be applied, "like cases should be decided alike" and "a page of history is worth a volume of logic."<sup>45</sup> Thus, the Chief Justice suggested that even without a general rule of granting injunctions in all cases, injunctions should continue to issue in most cases, consistent with historical precedent.<sup>46</sup> The sharp decline in the rate of injunctions being granted after *eBay*,<sup>47</sup> however, indicates that the district courts are not heeding the Chief Justice's advice.

On the other hand, Justice Kennedy indicated that the rapidly changing patent landscape requires a departure from the Federal Circuit's general rule and a focus on the more flexible four-factor test.<sup>48</sup> Specifically, Justice Kennedy warned of an increasing number of companies that were using patents "not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."<sup>49</sup> These firms, commonly referred to as nonpracticing entities,<sup>50</sup> can use the

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<sup>41</sup> *Id.* at 391.

<sup>42</sup> Lily Lim & Sarah E. Craven, *Injunctions Enjoined; Remedies Restructured*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 787, 798 (2009).

<sup>43</sup> *eBay*, 547 U.S. at 394–97.

<sup>44</sup> *Id.* at 395 (Roberts, C.J., concurring).

<sup>45</sup> *Id.* (internal quotation marks omitted).

<sup>46</sup> *See id.*

<sup>47</sup> *See supra* note 42 and accompanying text.

<sup>48</sup> *eBay*, 547 U.S. at 395–97 (Kennedy, J., concurring).

<sup>49</sup> *Id.* at 396.

<sup>50</sup> For a more detailed discussion of nonpracticing entities and the conflicting views of academic scholars as to their relative virtues and vices, see *infra* Part II.



mere threat of an injunction as leverage to extract exorbitant licensing fees from potential infringers.<sup>51</sup> Thus, Justice Kennedy concluded that when the patented invention is only a small component of a larger product being sold, and the threat of injunction is only being used by the patentee to extract higher licensing fees, courts should award damages and should not issue an injunction.<sup>52</sup>

Studies show that district courts appear to be taking Justice Kennedy's concurrence to heart when deciding whether to grant injunctions.<sup>53</sup> For example, one study of the decisions following *eBay* revealed that courts overwhelmingly and explicitly considered one or more of the following three factors when applying the *eBay* test to determine whether to grant an injunction: (1) "the existence or lack of direct competition," (2) whether the patentee was a nonpracticing entity, and (3) the relative contribution of the patented component to the infringing device.<sup>54</sup> Another study of twenty-eight post-*eBay* decisions concluded that the existence of competition and the status of the patentee as a practicing entity were by far the most determinative factors in a court's decision to issue an injunction.<sup>55</sup> For example, in almost every case where the patentee was a practicing entity engaged in direct competition with the infringer, an injunction was granted.<sup>56</sup> On the other hand, in almost every case where the patentee was a nonpracticing entity, an injunction was denied.<sup>57</sup> These considerations, although not explicitly set forth in the test announced by the majority opinion in *eBay*, suggest that the courts are aligning themselves with the analysis in Justice Kennedy's concurring opinion.<sup>58</sup>

In view of the above, two things are clear. First, the test announced in *eBay* weakened the rights of patent owners by overruling the Federal Circuit's general rule that injunctions should be issued in most cases. Second, the district courts' applications of *eBay*, which embrace Justice Kennedy's concurrence, have even further weakened the patent rights of nonpracticing entities. Any change in the law for

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<sup>51</sup> *eBay*, 547 U.S. at 396 (Kennedy, J., concurring).

<sup>52</sup> *Id.* at 396–97.

<sup>53</sup> See, e.g., John M. Golden, "Patent Trolls" and Patent Remedies, 85 TEX. L. REV. 2111, 2113 (2007).

<sup>54</sup> Bernard H. Chao, *After eBay, Inc. v. MercExchange: The Changing Landscape for Patent Remedies*, 9 MINN. J. L. SCI. & TECH. 543, 545 (2008).

<sup>55</sup> Andrew Beckerman-Rodau, *The Aftermath of eBay v. MercExchange*, 126 S. Ct. 1837 (2006): A Review of Subsequent Judicial Decisions, 89 J. PAT. & TRADEMARK OFF. SOC'Y 631, 657 (2007).

<sup>56</sup> *Id.* at 654–55.

<sup>57</sup> *Id.*

<sup>58</sup> See *supra* notes 48–52 and accompanying text.

staying an injunction pending appeal should take these realities into account.

C. *The Standard Havens Test for Staying an Injunction Pending Appeal*

If, upon considering the *eBay* factors, the court issues an injunction, the infringer can move to stay the injunction pending appeal.<sup>59</sup> The current standard applied by the Federal Circuit and district courts for determining whether to stay an injunction pending appeal was announced long before *eBay* and considers many of the same factors as the *eBay* test.<sup>60</sup> Specifically, in determining whether to stay an injunction pending appeal, the court considers:

- (1) whether the stay applicant has made a strong showing that he is likely to succeed on the merits;
- (2) whether the applicant will be irreparably injured absent a stay;
- (3) whether issuance of the stay will substantially injure the other parties interested in the proceeding; and
- (4) where the public interest lies.<sup>61</sup>

While announcing this four-factor test in *Standard Havens Products, Inc. v. Gencor Industries, Inc.*,<sup>62</sup> the Federal Circuit recognized that the last three factors could be merged into a single consideration, effectively transforming the test into a two-factor analysis for the courts: (1) assess the stay applicant's chances for success, and (2) weigh the equities affecting the parties and the public.<sup>63</sup> However, each of the four factors in the *eBay* test are specifically directed to weighing the equities affecting the parties and the public, making all but the first factor of the *Standard Havens* test duplicative of the considerations in *eBay*.<sup>64</sup>

In other words, by the time an adjudged infringer moves to stay an injunction, the district court has already weighed the equities affecting the parties and the public, and determined that the equities weigh in favor of an injunction.<sup>65</sup> Despite the fact that these tests are

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<sup>59</sup> FED. R. APP. P. 8(a)(1).

<sup>60</sup> See *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 897 F.2d 511, 512 (Fed. Cir. 1990).

<sup>61</sup> *Id.* (internal quotation marks omitted).

<sup>62</sup> *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 897 F.2d 511 (Fed. Cir. 1990).

<sup>63</sup> *Id.* at 513.

<sup>64</sup> See *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

<sup>65</sup> Several district courts have recognized the duplicative nature of the *eBay* and *Standard Havens* tests and have concluded that the same reasons for determining that an injunction is warranted also support the decision to deny a stay. See, e.g., *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, No. 04-1371-JJF, 2008 WL 5210843, at \*1-2 (D. Del. Dec. 12, 2008);

duplicative, and that by the time the motion to stay the injunction is filed in the Federal Circuit, the district court below has considered the exact same motion,<sup>66</sup> the Federal Circuit considers the motion without giving deference to the district court's ruling.<sup>67</sup> By refusing to give any deference to the district court's weighing of the equities between the parties, the Federal Circuit is taking this determination out of the hands of the trial court, whose first-hand experience and more abundant resources naturally place it in a better position to make such determinations.

Further complicating the Federal Circuit's decision of whether to stay an injunction pending appeal is its failure to articulate its reasoning in many cases. Generally, most motions to stay an injunction are granted or denied in a matter of sentences, without providing any insight into the analysis applied by the court.<sup>68</sup> For example, the order in the *i4i* case provides about as much information as the Federal Circuit generally offers: "Without prejudicing the ultimate determination of this case by the merits panel, the court determines based upon the motion papers submitted that Microsoft has met its burden to obtain a stay of the injunction."<sup>69</sup> Although the lack of time and resources often dictates the brevity of the order,<sup>70</sup> the decision of whether to stay an injunction can have enormous implications for both parties and the public.<sup>71</sup>

Any new framework to replace the *Standard Havens* test should eliminate the redundancy with the *eBay* test and do at least one of two things: (1) allow courts to quickly but clearly articulate the reasoning behind their decisions to grant a stay, or (2) even if the court does not articulate its reasons, the framework should include criteria that is

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Transocean Offshore Deepwater Drilling v. GlobalSantaFe Corp., No. H-03-2910, 2006 WL 3813778, at \*10–11 (S.D. Tex. Dec. 27, 2006); TiVo, Inc. v. EchoStar Commc'ns Corp., 446 F. Supp. 2d 664, 666 (E.D. Tex. 2006).

<sup>66</sup> See FED. R. APP. P. 8(a)(1) (requiring a party to move for a stay of injunction in the district court prior to doing so in an appellate court in most cases).

<sup>67</sup> See, e.g., E.I. DuPont de Nemours & Co. v. Phillips Petrol. Co., 835 F.2d 277, 278–79 (Fed. Cir. 1987) (staying an injunction pending appeal after the district court had denied such a stay by considering all four factors announced in *Standard Havens* without giving any deference to the district court's decision to deny the stay).

<sup>68</sup> See, e.g., Lincoln Nat'l Life Ins. Co. v. Transamerica Life Ins., Nos. 2009-1403, 2009-1491, 2009 WL 2903594, at \*1 (Fed. Cir. Sept. 1, 2009) (denying stays in such a manner); iLight Techs., Inc. v. Fallon Luminous Prods. Corp., No. 2009-1342, 2009 WL 1939187, at \*1 (Fed. Cir. July 1, 2009) (same); Interactive Health, L.L.C. v. King Kong USA, Inc., Nos. 2009-1141, 2009-1155, 2009 WL 1228489, at \*1 (Fed. Cir. May 1, 2009) (same).

<sup>69</sup> *i4i Ltd. P'ship v. Microsoft Corp.*, 343 F. App'x 619, 619 (Fed. Cir. 2009) (per curiam).

<sup>70</sup> See Crouch, *supra* note 18.

<sup>71</sup> See *supra* notes 10–12 and accompanying text.

specific enough so that the public can easily infer why the court ruled the way it did.

## II. CURRENT PATENT LANDSCAPE

Justice Kennedy's concurring opinion in *eBay* suggested that the changing patent landscape required a rejection of the Federal Circuit's general rule for issuing an injunction.<sup>72</sup> Any suggestion for modifying the standard applied to stay an injunction should consider this landscape. Two issues of particular concern are the effect of claim construction issues on reversal rates in the Federal Circuit and the increasing prevalence of nonpracticing entities. A discussion of each topic and its relevance to the issues of staying injunctions pending appeal in patent cases follows.

### A. *The Effect of Claim Construction Issues on Federal Circuit Reversal Rates*

As discussed above, the only factor of the *Standard Havens* test that is not duplicative of the *eBay* test considers the stay applicant's likelihood of success on appeal.<sup>73</sup> Thus, determining an alternative to the *Standard Havens* test requires an understanding of why district court decisions in patent cases are reversed by the Federal Circuit. Perhaps the most significant factor affecting the reversal rates in the Federal Circuit is claim construction errors made by the district courts.<sup>74</sup>

Every patent has "one or more claims."<sup>75</sup> The claims are the most important part of the patent because they define the scope of the invention and thus the extent to which a patentee can exclude others from practicing the invention.<sup>76</sup> Each claim consists of a single sentence written in English, but because of the complex nature of many inventions, claims often employ technical vocabulary, the meaning of which is not always clear from reading the claims on their own.<sup>77</sup>

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<sup>72</sup> See *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396–97 (2006) (Kennedy, J., concurring).

<sup>73</sup> See *supra* notes 61–64 and accompanying text.

<sup>74</sup> See David L. Schwartz, *Practice Makes Perfect? An Empirical Study of Claim Construction Reversal Rates in Patent Cases*, 107 MICH. L. REV. 223, 250 (2008); George M. Sirilla, William P. Atkins & Stephanie F. Goeller, *Will eBay Bring Down the Curtain on Automatic Injunctions in Patent Cases?*, 15 FED. CIR. B.J. 587, 606–07 (2006).

<sup>75</sup> 35 U.S.C. § 112, para. 2 (2006).

<sup>76</sup> ALAN L. DURHAM, *PATENT LAW ESSENTIALS: A CONCISE GUIDE* 51, 135 (Praeger Publishers, 2d ed. 2004) (1999).

<sup>77</sup> *Id.* at 51.

However, through a process called claim construction, courts determine the meaning of the claims by considering various sources such as the plain meaning of the words, the specification of the patent, and the arguments made to the United States Patent and Trademark Office by the patent attorney during the application process.<sup>78</sup>

For example, a claim for an in-line roller skate may read: “[A]n in-line roller skate having . . . a non-rigid shoe portion adapted to receive a skater’s foot . . . and a base portion [having in-line rotatable wheels] . . . , said non-rigid shoe portion being *permanently affixed* to said base portion.”<sup>79</sup> In this example, the meaning of “permanently affixed” is not readily apparent; after all, how permanent is permanent?<sup>80</sup> Does permanently affixing something require adhesive, a rivet, a screw, a bolt, or something in between?<sup>81</sup> In *K-2 Corp. v. Salomon S.A.*,<sup>82</sup> the Federal Circuit faced just this issue when trying to construe the meaning of the claimed term “permanently affixed.”<sup>83</sup> The patent in question included the claim discussed above, while the allegedly infringing in-line skate connected the shoe portion to the base portion with a rivet in the toe and a removable bolt in the heel.<sup>84</sup> After determining the general meaning of the term “permanently affixed” and looking to both the specification of the patent and the patentee’s arguments made in front of the United States Patent and Trademark Office, the Federal Circuit concluded that “permanently affixed” required an *unremovable* connection, and thus a removable bolt could not be permanently affixed.<sup>85</sup> Therefore, the court found that the in-line skate with a removable bolt did not infringe the patent.<sup>86</sup>

Because of the importance of the claims to a patentee’s right to exclude others from practicing the invention, claim construction is often hotly contested at trial and the particular way in which the judge construes the claims often makes or breaks the entire litigation.<sup>87</sup> For

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<sup>78</sup> *Id.* at 51–52.

<sup>79</sup> In-Line Roller Skate, U.S. Patent No. 5,437,466 col.14 ll.11–53 (filed July 19, 1993). Claim 1 in this Patent is over 300 words long and has been shortened significantly for illustration purposes.

<sup>80</sup> See *K-2 Corp. v. Salomon S.A.*, 191 F.3d 1356, 1360–61 (Fed. Cir. 1999).

<sup>81</sup> See *id.* at 1365.

<sup>82</sup> *K-2 Corp. v. Salomon S.A.*, 191 F.3d 1356 (Fed. Cir. 1999).

<sup>83</sup> *Id.* at 1361.

<sup>84</sup> *Id.* at 1360–61.

<sup>85</sup> *Id.* at 1363–66.

<sup>86</sup> *Id.* at 1366.

<sup>87</sup> Schwartz, *supra* note 74, at 228.

example, before a court can determine whether a claim is valid<sup>88</sup> and infringed, it must construe the claim.<sup>89</sup> Often, the two critical legal determinations of validity and infringement turn on the claim construction that the court adopts, and an improper claim construction can distort the validity and infringement analysis.<sup>90</sup> For example, in the illustration above, the patentee urged the court to construe “permanently affixed” to require only that the shoe portion did not slide in a horizontal plane relative to the base portion.<sup>91</sup> If the court had adopted the patentee’s proposed claim construction, which did not include the court’s “removable” requirement, the accused infringer likely would have been found liable.

Claim construction is a question of law that is determined by a judge rather than a jury,<sup>92</sup> and the Federal Circuit reviews the judge’s claim construction *de novo*.<sup>93</sup> This gives the Federal Circuit great discretion in reviewing issues of claim construction, which, combined with district court errors, has led to high claim construction reversal rates.<sup>94</sup>

In fact, a statistical study shows that claim construction reversals have a drastic effect on the reversal rates of the cases before the Federal Circuit.<sup>95</sup> For example, for each year from 2003 to 2007, the Federal Circuit reversed only about 13% of all district court decisions.<sup>96</sup> However, in cases that involved claim construction issues, the reversal

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<sup>88</sup> To be “valid,” the claimed invention must be, among other things, new, useful, and nonobvious. *See* 35 U.S.C. §§ 101–103 (2006).

<sup>89</sup> *Lemelson v. Gen. Mills, Inc.*, 968 F.2d 1202, 1206 (Fed. Cir. 1992).

<sup>90</sup> *Bausch & Lomb, Inc. v. Barnes-Hind/Hydrocurve, Inc.*, 796 F.2d 443, 450 (Fed. Cir. 1986).

<sup>91</sup> *Salomon*, 191 F.3d at 1365.

<sup>92</sup> *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996).

<sup>93</sup> *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1454–55 (Fed. Cir. 1998).

<sup>94</sup> *See Schwartz, supra* note 74, at 229.

<sup>95</sup> *See id.* at 250.

<sup>96</sup> STATISTICS DIV., ADMIN. OFFICE OF THE U.S. COURTS, 2004 JUDICIAL BUSINESS OF THE UNITED STATES COURTS 117 tbl.B-8 (2004), available at <http://www.uscourts.gov/uscourts/Statistics/FederalJudicialCaseloadStatistics/2004/tables/B08Mar04.pdf>; STATISTICS DIV., ADMIN. OFFICE OF THE U.S. COURTS, 2005 JUDICIAL BUSINESS OF THE UNITED STATES COURTS 143 tbl.B-8 (2005), available at <http://www.uscourts.gov/uscourts/Statistics/FederalJudicialCaseloadStatistics/2005/tables/B08mar05.pdf>; STATISTICS DIV., ADMIN. OFFICE OF THE U.S. COURTS, 2006 JUDICIAL BUSINESS OF THE UNITED STATES COURTS 147 tbl.B-8 (2006), available at <http://www.uscourts.gov/uscourts/Statistics/FederalJudicialCaseloadStatistics/2006/tables/B08Mar06.pdf>; OFFICE OF THE U.S. COURTS, 2007 JUDICIAL BUSINESS OF THE UNITED STATES COURTS 147 tbl.B-8 (2007), available at <http://www.uscourts.gov/uscourts/Statistics/FederalJudicialCaseloadStatistics/2007/tables/B08Mar07.pdf>.

rates of cases soared to anywhere between 19.6% and 41.6% during the same time period.<sup>97</sup>

This elevated reversal rate is an important factor to consider when determining a rule for when a court should stay an injunction pending appeal. For example, when a district court determines that the defendant infringed a patent and enjoins the defendant from further infringement, the defendant can no longer sell his product.<sup>98</sup> Imagine a case where the defendant's motion to stay the appeal is denied, but the court then reverses the claim construction on appeal and the defendant is not found to infringe the patent, which occurs as much as 41.6% of the time. During the appeal, the defendant would be unfairly precluded from selling his product, which would later be determined *not* to infringe the patent. That such a mistake happens in as many as 41.6% of appeals is unfair; denying a stay in these situations only exacerbates the unfairness by extending the effect of the injunction.

As discussed above, the only factor in the *Standard Havens* test that is not duplicative of the *eBay* test considers the stay applicant's likelihood of success on appeal. Thus, any modification of the *Standard Havens* test should still take into account the applicant's likelihood of success on appeal in some way. Further, because claim construction errors significantly increase the reversal rate of patent infringement cases in the Federal Circuit, a stay applicant who can demonstrate a district court's claim construction error has a higher likelihood of success on appeal. Therefore, such a modification should give special treatment to cases where the stay applicant demonstrates that the district court made a claim construction error.

### B. *Nonpracticing Entities and the Holdup Problem*

A nonpracticing entity is a firm that uses its patents "not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."<sup>99</sup> Included within this broad characterization, however, are a variety of different institutions that function quite differently. For example, at one end of the spectrum are the pejoratively termed "patent trolls"—companies that purchase issued patents and target companies that use the technology covered by the patents in an effort to extract exorbitant licensing fees by using the threat of litiga-

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<sup>97</sup> Schwartz, *supra* note 74, at 250.

<sup>98</sup> See *supra* notes 20–21 and accompanying text.

<sup>99</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring).

tion.<sup>100</sup> On the other end of the spectrum are research institutions that do not manufacture products, but instead rely on licensing fees from the inventions they patent as a means of keeping the institutions solvent and allowing them to continue making contributions to society.<sup>101</sup> Because of the diverse nature of nonpracticing entities, scholars have expressed widely divergent viewpoints regarding the amount of protection such entities should be given under the patent laws. Two opposing views are discussed below.

Professors Lemley and Shapiro argue that courts should limit the amount of injunctive relief available to nonpracticing entities in some situations.<sup>102</sup> The argument is based, at least in part, on the holdup problem alluded to in Justice Kennedy's *eBay* concurrence.<sup>103</sup> The holdup problem occurs when a patentee owns a patent directed to a small part of a larger product but refuses to grant the manufacturer of that product a license.<sup>104</sup> The patentee in this case is presuming that by "holding up" the production and sales of the product, he will be able to coerce the manufacturer into paying higher licensing fees than the patent is actually worth.<sup>105</sup>

To prevent such a situation, Professors Lemley and Shapiro argue that when the patentee is a nonpracticing entity and the patent is directed to a small component of a larger product, courts should routinely deny or stay any injunction granted to the patentee.<sup>106</sup> Moreover, the authors argue that if the costs that the infringer would spend to redesign the product so as to not infringe the patent are high in proportion to the value that the patented invention adds to the product, then the injunction should be denied outright.<sup>107</sup> On the other hand, if the redesign costs are not prohibitively expensive, the injunction should be granted but subsequently stayed for a period of time sufficient to allow the infringer to design around the patent.<sup>108</sup>

A competing view expressed by Professor Denicolò argues that Professors Lemley and Shapiro's policy is overly broad and would pe-

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<sup>100</sup> Robin M. Davis, Note, *Failed Attempts to Dwarf the Patent Trolls: Permanent Injunctions in Patent Infringement Cases Under the Proposed Patent Reform Act of 2005 and eBay v. MercExchange*, 17 CORNELL J.L. & PUB. POL'Y 431, 437–39 (2008).

<sup>101</sup> Vincenzo Denicolò et al., *Revisiting Injunctive Relief: Interpreting eBay in High-Tech Industries with Non-Practicing Patent Holders*, 4 J. COMPETITION L. & ECON. 571, 587 (2008).

<sup>102</sup> See Lemley & Shapiro, *supra* note 27, at 2036–44.

<sup>103</sup> *Id.* at 2008–09.

<sup>104</sup> *Id.*

<sup>105</sup> *Id.*

<sup>106</sup> *Id.* at 2036.

<sup>107</sup> *Id.* at 2037.

<sup>108</sup> *Id.* at 2038.



nalize the holders of the most valuable patents by allowing infringers more time to design around the patents.<sup>109</sup> Professor Denicolò also argues that Professors Lemley and Shapiro, and the current trend in caselaw, are too harsh on nonpracticing entities and warns that treating all nonpracticing entities as trolls with intentions of holdup does a great disservice to research-oriented companies, especially in high-tech industries.<sup>110</sup>

These institutions, Professor Denicolò argues, are vital to the economy because they help to modularize different parts of the production process (i.e., research, development, production, marketing, etc.), which leads to increased efficiency in terms of product design and production.<sup>111</sup> One of Denicolò's examples drives home his point: In the semiconductor industry, there are firms that develop and market computer chip designs but do not make the chips.<sup>112</sup> Instead, they protect their designs through intellectual property by licensing out their rights to allow other firms, which specialize in chip manufacturing, to actually test and produce the chips.<sup>113</sup> This allows both the chip designing firm and the chip manufacturing firm to enter the market at lower costs because they only have to make initial investments in part of the process.<sup>114</sup> It also allows each firm to focus on what it does best.<sup>115</sup> Thus, in this case, nonpracticing entities lower barriers to entry, thereby increasing competition and efficiency.<sup>116</sup>

Further, Professor Denicolò's study concludes that there is a lack of evidence to support Professors Lemley and Shapiro's assumption that the holdup problem is widespread, and that the evidence actually supports a conclusion to the contrary.<sup>117</sup> Specifically, Professor Denicolò addresses classic examples of alleged patent holdup cited by Lemley and Shapiro, including the infamous RIM/NTP settlement,<sup>118</sup> and explains how the circumstances surrounding each example indi-

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<sup>109</sup> Denicolò et al., *supra* note 101, at 596.

<sup>110</sup> *Id.* at 574–75.

<sup>111</sup> *Id.* at 585–86.

<sup>112</sup> *Id.* at 586–87.

<sup>113</sup> *Id.*

<sup>114</sup> *Id.*

<sup>115</sup> *Id.*

<sup>116</sup> *Id.* at 586.

<sup>117</sup> *Id.* at 574–75, 596–600.

<sup>118</sup> In 2006, BlackBerry manufacturer RIM agreed to pay \$612.5 million to NTP, a patent holding company, to settle a long-running dispute involving RIM's alleged infringement of NTP's wireless e-mail technology. See Rob Kelley, *Blackberry Maker, NTP Ink \$612 Million Settlement*, CNNMONEY.COM (Mar. 3, 2006, 7:29 PM), [http://www.money.cnn.com/2006/03/03/technology/rimm\\_ntp/](http://www.money.cnn.com/2006/03/03/technology/rimm_ntp/).

cate that the recurring patent holdup problem may not have been present even in these examples and, more importantly, may not exist at all.<sup>119</sup> Thus, Professor Denicolò suggests that courts should not routinely deny injunctive relief to patent holders, but should instead weigh the equities in accordance with the majority opinion in *eBay*.<sup>120</sup>

Professors Lemley and Shapiro and Professor Denicolò provide insight into the relative merits and harms that nonpracticing entities present to the patent system, and any law that shapes the standards for stays of injunctions pending appeal must be sensitive to these issues. However, as discussed in Part I, the district courts are already applying the *eBay* test more strictly against nonpracticing entities, often denying them injunctive relief because they do not practice the claimed invention.<sup>121</sup> This factor, too, must be considered in determining whether to stay injunctive relief pending appeal.

### III. PREVIOUSLY PROPOSED SOLUTIONS

Other authors and proposed legislation have provided alternative approaches for determining when courts should grant stays pending appeal. This section describes two such approaches and explains their shortcomings.

#### A. *Staying Injunctions for Close or Complex Questions of Law*

George Sirilla and his coauthors offer one solution: after analyzing Federal Circuit and district court decisions, they suggest that an injunction should be stayed whenever there is a close or complex question of law.<sup>122</sup> Examples of close or complex questions of law that Sirilla and his coauthors give include close or complex questions of claim construction, validity, infringement, laches, or estoppel.<sup>123</sup> Although these authors suggest that injunctions should be stayed for *all* close or complex questions of law,<sup>124</sup> one of the exemplary cases they cite, *C.R. Bard, Inc. v. Medtronic, Inc.*,<sup>125</sup> provides support for why

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<sup>119</sup> *Id.* at 597–600.

<sup>120</sup> *Id.* at 601. Although Professor Denicolò appears to agree with Justice Kennedy's warning to give consideration to whether a company is a nonpracticing entity, he states that the majority opinion does not support any categorical denials of injunctions against nonpracticing entities simply because they do not manufacture a product. *Id.*

<sup>121</sup> *See supra* notes 55–57 and accompanying text.

<sup>122</sup> Sirilla, Atkins & Goeller, *supra* note 74, at 612–14.

<sup>123</sup> *Id.* at 612 n.156.

<sup>124</sup> *Id.* at 613.

<sup>125</sup> *C.R. Bard, Inc. v. Medtronic, Inc.*, No. 99-1475, 2000 WL 868581, at \*6 (Fed. Cir. June 29, 2000).

courts should be especially willing to stay injunctions when there is a question of claim construction. In that case, the district court adopted a first claim construction but then revised it in favor of a second claim construction.<sup>126</sup> Based on this second claim construction, the jury found infringement and the court granted a permanent injunction, but stayed the injunction pending appeal, noting that there was a close issue of claim construction.<sup>127</sup> On appeal, the Federal Circuit reversed the second claim construction, noting that the first abandoned claim construction was correct, and remanded the case to the district court.<sup>128</sup> Thus, anticipating that there was a high likelihood of reversal based on claim construction, the district court judge was correct to stay the injunction pending appeal.

Although Sirilla suggests that stays might be granted whenever there is a close or complex question of law, this Note argues that the caselaw supports a narrower approach—that stays should be granted whenever there is a close or complex claim construction issue.<sup>129</sup> Such an approach is supported by the discussion in Part I, which provided statistical evidence of the drastic effect that claim construction has on reversal rates in the Federal Circuit.<sup>130</sup> Thus, focusing on claim construction targets the most significant factor in Federal Circuit reversal rates.

Moreover, considering only claim construction implicitly takes into account the other questions of law to some extent. For example, as discussed above, a court must construe the claims before it can determine other questions of law such as invalidity and infringement.<sup>131</sup> In fact, these other questions of law often turn on the claim construction that is adopted by the court, and an improper claim construction can greatly distort further legal analysis.<sup>132</sup> Because other questions of law are highly dependent on claim construction, this narrower approach of only considering claim construction would simplify the pro-

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<sup>126</sup> *Id.* at \*2.

<sup>127</sup> *C.R. Bard, Inc. v. Medtronic, Inc.*, No. C.A. 96-589-SLR, 1999 WL 458305, at \*15 (D. Del. June 15, 1999), *aff'd in part, vacated in part*, 250 F.3d 760 (Fed. Cir. 2000).

<sup>128</sup> *C.R. Bard, Inc.*, No. 99-1475, 2000 WL 868581 at \*2–6.

<sup>129</sup> Claim construction questions are just one subset of the various different questions of law that might arise in a patent case. For example, other questions of law include validity, infringement, laches, and estoppel. *See supra* note 123 and accompanying text.

<sup>130</sup> *See supra* notes 95–97 and accompanying text.

<sup>131</sup> *Lemelson v. Gen. Mills, Inc.*, 968 F.2d 1202, 1206 (Fed. Cir. 1992).

<sup>132</sup> *Bausch & Lomb, Inc. v. Barnes-Hind/Hydrocurve, Inc.*, 796 F.2d 443, 450 (Fed. Cir. 1986); *see also supra* notes 80–91 and accompanying text (discussing the importance of claim construction to an infringement analysis using *K-2 Corp. v. Salomon S.A.* as an example).

cess while effectively covering the other legal issues that Sirilla considers.<sup>133</sup>

### B. *The Patent Reform Act of 2005*

Section 7 of the Patent Reform Act of 2005 proposed another solution for determining when courts should grant stays pending appeal.<sup>134</sup> Section 7 aimed to change two aspects of injunctions in patent law. First, it eliminated the Federal Circuit's general rule that injunctions should issue upon a finding of infringement by instead requiring a court to "consider the fairness of the remedy in light of all the facts and the relevant interests of the parties associated with the invention."<sup>135</sup> Indeed, such an amendment sounds strikingly similar to a shortened version of the four-factor test later announced by the Court in *eBay*, which similarly abandoned the Federal Circuit's general rule in favor of a balancing of the equities.<sup>136</sup>

The second change required a court to "stay the injunction pending an appeal upon an affirmative showing that the stay would not result in irreparable harm to the owner of the patent, and that the balance of hardships from the stay does not favor the owner of the patent."<sup>137</sup> Thus, the Patent Reform Act of 2005 proposed first to make it more difficult for a patentee to obtain an injunction, and second to make it easier for an infringer to stay the injunction pending appeal. In fact, the proposed changes did not require the adjudged infringer to make any showing that he was likely to succeed on appeal.<sup>138</sup>

This piece of legislation was proposed, in large part, because of alleged abuse of the litigation process by nonpracticing entities (i.e., the holdup problem).<sup>139</sup> However, as discussed above, Professor Denicolò's study demonstrates that the holdup problem is not as prevalent as previously thought and that instead, nonpracticing entities contribute real, substantial benefits to the inventive process.<sup>140</sup> Additionally,

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<sup>133</sup> See *supra* note 90 and accompanying text.

<sup>134</sup> Patent Reform Act of 2005, H.R. 2795, 109th Cong. § 7 (as submitted to H. Comm. on the Judiciary, June 8, 2005). Although this section was never adopted, it still merits discussion, because, as discussed below, one of its two proposals bore a striking resemblance to the rule that was later adopted by the Supreme Court in *eBay*.

<sup>135</sup> *Id.*

<sup>136</sup> *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391–93 (2006).

<sup>137</sup> H.R. 2795 § 7 (as submitted to H. Comm. on the Judiciary, June 8, 2005).

<sup>138</sup> See *id.*

<sup>139</sup> See Davis, *supra* note 100, at 440.

<sup>140</sup> See *supra* notes 109–18 and accompanying text.

as discussed above, studies indicate that after *eBay*, nonpracticing entities are routinely being denied injunctions in almost all cases,<sup>141</sup> suggesting that these companies no longer pose a holdup threat.

Without proof of these problems and in light of the virtues of many nonpracticing entities, the legislation goes too far. The legislation would even further limit the rights of patent holders by lowering the standard for staying an injunction pending appeal. Moreover, the legislation is particularly biased against nonpracticing entities based on a false premise that these companies create a holdup problem without contributing to the inventive process.

In summary, although each of the proposed solutions discussed above provides guidance for crafting a comprehensive framework for staying injunctions pending appeal, each goes too far. The first solution broadly proposes staying an injunction for all close or complex questions of law, instead of focusing on the question of law with the greatest impact on reversal rates—claim construction. Narrowing the focus to consider only claim construction would streamline the analysis while focusing on the least common denominator in most patent cases. The second solution, embodied by the Patent Reform Act of 2005, significantly lowers the standard for staying an injunction pending appeal, further weakening patent rights and unfairly discriminating against nonpracticing entities. A solution that provides a streamlined approach while more fairly considering the interests of all parties is in order.

#### IV. SOLUTION

##### A. *The Proposed Solution*

###### 1. *Overview*

In consideration of the above, this Note proposes a modification of the court's analysis for staying an injunction pending appeal that would take into full consideration the rights of the patentee, the adjudged infringer, and the public in general. This modification is suggested in the wake of the *eBay* decision, which, as discussed above, has significantly weakened patent rights by making it more difficult to obtain an injunction, tipping the scales in favor of the adjudged infringers when courts are considering injunctions. Further, this solution would recognize the redundancy between the *eBay* test for granting an injunction and the *Standard Havens* test for determining whether to stay the injunction.

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<sup>141</sup> See *supra* notes 55–58 and accompanying text.

This Note proposes a framework in which the court would have to stay an injunction pending appeal according to one of two different standards. Under the first standard, the court would be required to grant a stay pending appeal whenever the stay applicant demonstrates (1) a high likelihood that the district court erred with respect to a close or complex question of claim construction, and (2) that the applicant will succeed on appeal once that error is resolved. If the stay applicant cannot satisfy the first standard, the second standard would require a court to grant a stay pending appeal when the stay applicant demonstrates (1) a high likelihood that the district court erred with respect to any other close or complex question of law (other than claim construction), (2) that the applicant will succeed on appeal once that error is resolved, and (3) that a balancing of the interests of all parties overcomes a rebuttable presumption that the stay should not be granted. Each standard is discussed in more detail below.

## 2. *Description of the First Standard*

According to the first standard, the stay applicant would have the burden of making two different showings: (1) establishing a high likelihood that the district court erred in a close or complex question of claim construction, and (2) that correcting this error would allow the Federal Circuit to reverse the decision of the district court.<sup>142</sup> Upon such a showing, the court would be required to automatically stay the injunction. Replacing the equitable test in *Standard Havens* with a per se rule may seem striking, but this rule would only apply in the limited instances of close or complex claim construction errors and not for all legal errors. Moreover, the adoption of a per se rule in these instances is supported by the drastic effect that claim construction has on the reversal rates in the Federal Circuit, and thus on an applicant's chances of success on appeal.<sup>143</sup>

The notion of a "close or complex" question of claim construction in the first part of the test requires further definition.<sup>144</sup> For example, a question of claim construction would be considered "close" if (1) each party were arguing for a different claim construction, both of

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<sup>142</sup> For example, simply demonstrating a high likelihood that a claim construction error was made would not be enough, because in some cases the Federal Circuit may still affirm the district court's finding of validity and infringement based on even the new claim construction. Thus, it is imperative that the stay applicant also show that the correct claim construction will lead the Federal Circuit to find in his favor and reverse the district court.

<sup>143</sup> See *supra* notes 95–97 and accompanying text.

<sup>144</sup> Sirilla uses this term throughout his analysis without explicitly providing a definition. See Sirilla, Atkins & Goeller, *supra* note 74, at 612–14.

which were directly supported by the specification of the patent or other intrinsic evidence; or (2) neither construction were directly supported by the specification of the patent or other intrinsic evidence, but both constructions were likely to be consistent with the specification. A question of claim construction would be considered “complex” if, for example, (1) it involved a complex technology, (2) determining the meaning of the claim terms required expert testimony from one of ordinary skill in the technology and each party’s expert testified as to conflicting meanings, or (3) the record contained a large amount of patent prosecution estoppel or extrinsic evidence that frustrated a straightforward claim analysis.

Many contested claim constructions would likely qualify as either “close” or “complex” under these standards, but this would not be a problem. The purpose of this prong of the test is to weed out any nominal challenges to claim construction that are raised only as arguments to obtain a stay of injunction. Moreover, the second part of the standard, which would require that these close or complex questions of claim construction be decisive in the Federal Circuit’s finding in favor of the stay applicant, would raise the bar for stay applicants succeeding under this first standard.

### 3. *Description of the Second Standard*

If the stay applicant could not satisfy the first standard, this Note proposes a second circumstance in which the court should grant a stay pending appeal. The second standard would require the stay applicant to establish (1) a high likelihood that the district court erred in a close or complex question of law, (2) that correcting this error would allow the Federal Circuit to reverse the decision of the district court,<sup>145</sup> and (3) that a balancing of the interests of all parties overcomes a rebuttable presumption that the stay should not be granted.

In considering the third part of this standard, the court should apply a rebuttable presumption that the balancing of these interests supports denying the stay and keeping the injunction intact.<sup>146</sup> The rebuttable presumption is warranted because the district court already

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<sup>145</sup> As with the first prong regarding claim construction, satisfying the second prong of this test is crucial. For example, if multiple claims are asserted in a patent infringement suit and the stay applicant asserts that a legal error has been made with respect to the validity of one, but not all, of the asserted claims, then success on that question of law will not compel the Federal Circuit to rule in the stay applicant’s favor on appeal.

<sup>146</sup> As discussed in Part I, the Federal Circuit currently does not give any consideration to the district court’s decision and instead considers the issues practically de novo on the merits of the motion briefs. *See supra* note 67 and accompanying text.

determined that a balancing of the interests weighed in favor of an injunction when it applied the *eBay* test to grant the injunction in the first place, and, as discussed above, *eBay* has made it harder to obtain the initial injunction.<sup>147</sup> To overcome this presumption, the stay applicant would have to show that the district court committed clear error in determining that the balance of the equities weighed in favor of the patentee. Such an approach differs from the *Standard Havens* approach in that it would give deference to the decision of the district court, which, because of its resources and involvement in the actual trial, is in a better position than the Federal Circuit to assess the interests of each party.

As a general rule, the rebuttable presumption could only be overcome in narrow circumstances when the stay applicant demonstrates that its interests in granting the stay *clearly outweigh* the interests of the patentee in denying the stay. For example, these narrow circumstances might include, but would not be necessarily limited to, a case in which the patentee is a nonpracticing entity whose patent only contributes a very small portion of a larger product and there is actual evidence that the patentee is contributing to a holdup problem by trying to extract unreasonable royalties, i.e., royalties that exceed the relative contribution of the patent to the larger product. Another circumstance that might overcome the presumption, and therefore warrant a stay, would be when an applicant could show evidence that its business would be decimated without a stay, whereas the patentee's business would only be harmed slightly and in a way that could be compensated with monetary damages.

The Federal Circuit may determine other narrow circumstances that satisfy this general rule for overcoming the rebuttable presumption, but it is important to note that the standard would be high so as to recognize that the district court already weighed the equities between the parties and determined that the balance weighed in favor of an injunction.

The court should apply the two standards above to all motions to stay an injunction pending appeal. If a stay applicant satisfies either of these standards, the stay should be granted. Otherwise, the stay should be denied.

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<sup>147</sup> See *supra* note 42 and accompanying text.



B. *Applying the Solution to i4i Ltd. Partnership v. Microsoft Corp.*

The interests of each of the parties and of the public in the *i4i Ltd. Partnership v. Microsoft Corp.* case were discussed in the Introduction of this Note. However, to accurately apply the proposed framework to this case, a more detailed description of the legal issues surrounding the case must be provided.

i4i sued Microsoft for infringement of U.S. Patent No. 5,787,449 (“’449 Patent”).<sup>148</sup> The invention claimed in the ’449 Patent is an improved method for editing documents containing markup languages such as XML.<sup>149</sup> Microsoft Word has a function that allows users to edit XML tags.<sup>150</sup> i4i also sells a product that is an add-on for Microsoft Word and gives the user greater XML editing capabilities.<sup>151</sup>

The improvement involves storing the text of the document separately from the XML tags and then creating a metacode map that maps the tags to their respective text.<sup>152</sup> Specifically, the claims in the ’449 Patent require that the metacode map be stored in a storage means that is “distinct” from the storage means where the text was stored.<sup>153</sup> At trial, Microsoft argued that the term “distinct” must be construed to require that: (1) the text and the metacode map are stored in *separate files*, and (2) the text and the metacode map can be *edited independently* and without access to each other.<sup>154</sup> However, the district court refused to adopt Microsoft’s claim construction and instead construed “distinct” to only require that the text be stored in a portion of a memory that was separate from the metacode map.<sup>155</sup> Based on this construction, the district court found that the ’449 Patent was valid and infringed by Microsoft Word’s XML editing feature, and the court therefore granted an injunction against Microsoft.<sup>156</sup>

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<sup>148</sup> *i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831, 839–40 (Fed. Cir.), *cert. granted*, 131 S. Ct. 647 (2010).

<sup>149</sup> *Id.* XML and other mark-up languages use “tags” to give a computer more information about different parts of text in a document. For example, some tags may instruct the computer to display the text in a certain format or font. Other tags may give information about the text’s content, such as identifying certain text as a person’s name or address. These tags are stored in a “metacode,” which essentially acts as an instruction book for the computer as it interprets the text in a document. *Id.*

<sup>150</sup> *Id.* at 840.

<sup>151</sup> *Id.* at 839.

<sup>152</sup> *Id.* at 840.

<sup>153</sup> *Id.*

<sup>154</sup> *Id.* at 842.

<sup>155</sup> *Id.*

<sup>156</sup> *Id.* at 840–41.

In its brief supporting the motion to stay the permanent injunction pending appeal, Microsoft argued that it was likely to succeed on appeal because of several legal errors committed by the district court.<sup>157</sup> Microsoft's most extensive and compelling argument was that the district court erroneously construed the claim term "distinct," and that under a correct construction, Microsoft did not infringe the '449 Patent.<sup>158</sup> Regarding the interests of each party, Microsoft argued that the stay would (1) irreparably injure Microsoft by forcing it to spend money to redesign Word and by diminishing its goodwill from its retail and industrial customers, (2) not irreparably harm *i4i* because *i4i* could be adequately compensated with monetary damages, and (3) harm the public interest because there was not an adequate substitute for Word, and an injunction would leave the public without an alternative set of software.<sup>159</sup> As discussed in the Introduction, the Federal Circuit granted Microsoft's motion to stay the injunction.<sup>160</sup>

If the Federal Circuit had applied the framework proposed here, it would have also stayed the injunction pending appeal, but it would have been able to quickly apply the framework in a way that provided more insight into why the court stayed the injunction. For example, Microsoft's brief in support of its motion to stay the injunction provides compelling arguments that the district court erred with respect to its construction of the term "distinct" and that the resolution of this error would likely lead to a finding that Microsoft did not infringe the '449 Patent.<sup>161</sup> Moreover, the claim construction of the term "distinct" qualified as both close (neither *i4i*'s nor Microsoft's proposed constructions of "distinct" were directly supported by the specification, and although either construction may have been possible, only after thoroughly consulting the specification and the prosecution history was the Federal Circuit able to determine that there was not enough support in the specification and the record to support Microsoft's construction)<sup>162</sup> and complex (the XML technology at issue was complex and statements made during the prosecution of the '449 Patent appeared to provide some support for Microsoft's position that "distinct" required independent manipulation).<sup>163</sup> Therefore, the Federal

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<sup>157</sup> Emergency Motion to Stay Permanent Injunction Pending Appeal, *supra* note 8, at 9.

<sup>158</sup> *Id.* at 13–17.

<sup>159</sup> *Id.* at 17–20.

<sup>160</sup> *i4i*, 598 F.3d at 839.

<sup>161</sup> See Emergency Motion to Stay Permanent Injunction Pending Appeal, *supra* note 8, at 13–17.

<sup>162</sup> See *i4i*, 598 F.3d at 842–44.

<sup>163</sup> See *id.* at 844.

Circuit would have only had to apply the first step of the test to determine that the court should grant an injunction. The court's order could have stated that, because Microsoft established a high likelihood that the district court's claim construction was in error, and that resolution of that error would require reversal of the district court's finding of infringement, the stay would be granted.<sup>164</sup> Although such a statement is not any longer than the Federal Circuit's actual order in this case, it is also not nearly as nebulous, and it provides a clearer reason for why the court stayed the injunction. Further, even if the court were to grant the stay without providing any explicit reason, all parties would at least have the benefit of a better-defined framework to understand how the court likely reached its conclusion.

### C. Possible Criticisms

Some may criticize this approach for giving the patentee too much power. For example, supporters of the Patent Reform Act of 2005 or of Professors Lemley and Shapiro's approach may argue that this Note's solution would give nonpracticing entities too much power by not automatically staying an injunction, and would instead propose staying the injunction whenever a patentee is a nonpracticing entity. However, this argument is unfounded for two reasons.

First, the evidence presented above indicates that many of the nonpracticing entities are unable to obtain an injunction in the first place under the district courts' application of the *eBay* test.<sup>165</sup> Thus, most of Professors Lemley and Shapiro's concerns are already being taken into account by the district courts. This Note's approach would recognize that and would encourage the Federal Circuit to give more deference to the district courts, which have had the benefit of an entire trial to assess the relative merits of each party's claim. Further, as Professor Denicolò's study shows, there is a lack of real evidence that holdup problems are as prevalent as once thought, which would support equal treatment of nonpracticing entities.<sup>166</sup>

Second, this approach would still provide protection in cases in which the nonpracticing entity is behaving egregiously and the district

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<sup>164</sup> It is interesting to note that in this case, the proposed framework would have stayed the injunction, even though Microsoft eventually lost the claim construction issue on appeal. *See id.* at 843–44. This is because the first part of the first standard requires the stay applicant to show a “high likelihood” that the district court erred with respect to claim construction, rather than to show actual error. A requirement of actual error would require the Federal Circuit to reach the merits of the case before hearing the appeal, which would overburden the court.

<sup>165</sup> *See supra* notes 54–55 and accompanying text.

<sup>166</sup> *See supra* notes 117–18 and accompanying text.

court missed this point or was unreasonably pro-patentee. For example, under the proposed test, the stay applicant could still prevail if he could show that the patentee was trying to extract unreasonable royalties that exceeded the relative contribution of the patent to a larger product. However, this test would increase the stay applicant's burden by recognizing that the stay applicant already failed to satisfy a lower burden below.

On the other hand, those who suggest that the court automatically stay an injunction for all close or complex questions of law may argue that the first step of this test is too narrow because it would only require an *automatic* stay for a close or complex question of claim construction. However, the single issue of claim construction was shown above to have drastic effects on the reversal rates in the Federal Circuit.<sup>167</sup> Moreover, because most of the other issues of law suggested by Sirilla, such as validity and infringement, are highly dependent on resolution of the preliminary issue of claim construction,<sup>168</sup> this Note's proposed approach would streamline and simplify the inquiry for determining whether the court should grant a stay by focusing on the most significant factor first. Additionally, this framework would not foreclose the possibility of a stay applicant succeeding upon showing that a close or complex question of law other than claim construction existed. It would simply require the stay applicant to make the additional showing that the balance of the equities clearly lies in his favor, as required by the second standard of the proposed framework.

#### CONCLUSION

When determining whether to stay an injunction pending appeal, courts currently apply a balancing test that weighs many of the same interests that have already been considered in determining whether to grant the injunction in the first place, making the test redundant. Moreover, courts have provided little guidance or explanation for their decisions in these cases. The framework proposed in this Note would remove the redundancies between this test and the *eBay* test for granting injunctions. The more defined approach that this framework takes would make it easier for courts to explain their ruling clearly and quickly, providing more certainty in the process of staying an injunction pending appeal. Although the court orders issuing from this framework would likely remain brief, they would be created

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<sup>167</sup> See *supra* note 74 and accompanying text.

<sup>168</sup> See *supra* notes 89–91 and accompanying text.

within a more well-defined framework that would allow all parties to understand how the court reached its conclusion, as opposed to the black box approach used when applying the *Standard Havens* equitable factors test. Finally, because the interests of all the parties have already been considered in determining whether to grant the injunction in the first place, the fact that these interests would play a smaller role in the new framework is acceptable. Thus, this framework would provide judicial efficiency and clearer results while still considering the interests of all parties.