eBay: When should permanent injunctions be denied?

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Petitioning for certiorari, eBay alleged that the Federal Circuit, in MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323 (2005), erred in "setting forth a general rule in patent cases that a district court must, *absent exceptional circumstances,* issue a permanent injunction after a finding of infringement." (Emphasis added.) The Court has accepted the petition. Because the primary aim of eBay and supporting amici appears to be, despite framing of the question, presumptive denial of injunctive relief to non-practicing entities (NPEs), it also directed the parties to address possible reconsideration of its precedents.

The grant of certiorari also specifically flags Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405 (1908), the leading case to deal with relief to NPEs. Although the *Paper Bag* defendant alleged that plaintiff's unexplained nonuse would warrant denial of an injunction, the Court answered, at 429: "that such exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive."

Paper Bag then references congressional awareness of foreign hostility toward nonuse but notes, 210 U.S. 429-30, that aside from briefly imposing forfeiture for aliens' nonuse Congress had not required use. Although, at 430, it recognized that "a court of equity might be justified in withholding relief by injunction," nothing further was offered.

Refusing both equitable and legal relief for misuse as in, e.g., Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488 (1942) is well recognized. But in only one other case, Dawson Chemical Co. v. Rohm and Haas Co., 448 U.S. 176 (1980), did the Court consider limiting a patentee's relief to damages. When defendant urged, because a patent covered the sole known use of an unpatented product, that licenses should be available to all, it disagreed. Again deferring to Congress, 448 U.S. 215 n.21, the Court stated: "Compulsory licensing is a rarity in our patent system, and we decline to manufacture such a requirement….."

In line with that quotation from *Dawson,* the executive branch may have march-in rights or take by inverse condemnation. Yet, such authority is rarely used, and recent refusals to bypass patents on Cipro (anthrax scare) and Tamiflu (risk of a viral pandemic) are respectively illustrative.

Guided by such evidence of legislative and executive judgments, the Court should affirm the Federal Circuit's refusal to compromise patent rights via private inverse condemnation. Precisely because misuse can justify denying all relief to patent owners and executive takings can meet public needs, injunctions should ordinarily issue against private infringers.

An obvious exception is lack of need. Thus, in Fuji Photo Film Co., Ltd. v. Jazz Photo Corp., 394 F.3d 1368, 1380 (2005), the Federal Circuit affirmed denial of an injunction subsumed by relief already provided by the ITC. Despite the capacity for executive intervention, the Circuit has also affirmed, or cited with approval, denial of injunctions on the basis of public interest; *see, e.g.,* Hybritech, Inc. v. Abbott Lab., 849 F.2d 1446, (Fed. Cir. 1988) (affirming exclusion of cancer and hepatitis test kits from a preliminary injunction). The latter exception was cited, but neither public interest nor lack of need influenced the trial court's refusal in *eBay;* 275 F.Supp.2d 695, 713-14 (E.D. Va. 2003).

Three other overlapping factors may also be used to deny permanent injunctions: irreparable harm, adequacy of legal relief, and balance of hardships. If unique property is involved, however, relief is rarely denied except to avoid hardship on nonparties or courts. Thus, Nerney v. New York, N.H. & H.R. Co., 83 F.2d 409, 410 (2d Cir. 1936) stressed inconvenience for other carriers (and the public): "[R]ailroads sending cars over appellant's lines cannot be expected to select those which do not infringe." *Nerney* also distinguished cases involving willful infringement — something the jury explicitly found in *eBay,* 275 F.Supp.2d 698.

Nerney nevertheless played a major role in Foster v. American Mach. & Foundry

Co., 492 F.2d 1317 (2d Cir. 1974) where *Paper Bag,* clearly more relevant, is not cited. Thus, at 1324, *Foster* ends with propositions starkly at odds with the holding of that case: "To grant [the patentee] a compulsory royalty is to give him half a loaf. In the circumstance of his utter failure to exploit the patent on his own, that seems fair."

The district court's opinion in *eBay* likewise fails to cite, much less distinguish, *Paper Bag.* Rather, the opinion,275 F.Supp.2d 712, stresses that "plaintiff does not practice its inventions and exists merely to license its patented technology to others." Moreover, at 713 (irreparable harm) and 714 (balance of hardships) it cites *Foster* as principal authority.

The Federal Circuit's opinion cannot be faulted for rejecting without comment decisions that clearly renege on the patentees' bargain as stated in *Paper Bag* and restated in Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 489 (1974) ("exclusive use in return for disclosure").

Hybritech and *Fuji* demonstrate that the Federal Circuit applies accepted equitable factors. Nothing in *eBay* demonstrates that those factors warrant expansion. The Supreme Court should therefore affirm rejection, 401 F.3d 1339, of the trial court's refusal to issue a permanent injunction.

To find otherwise by targeting NPEs is to deny a multitude of university, government, and independent inventors opportunities for arm's-length bargaining backed up by possible injunctions.