eBay Revisited

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Under 35 U.S.C. § 293, courts may grant injunctions "in accordance with the principles of equity" and "on such terms as the court deems reasonable."

On June 8, 2005, Representative Lamar Smith introduced H.R. 2795. Section 7 of that bill would have added two sentences to § 293. Compared to measures such as abolishing the best mode requirement, the effect on present law seemed trivial. But many, apparently seeing § 7 to endorse refusal to enjoin in MercExchange, L.L.C. v. eBay Inc., 275 F.Supp.2d 695, 698 (E.D. Va. 2003), protested. Section 7 was deleted on July 26th.

The scope and depth of controversy are probably best demonstrated by the number of amici who later sought to influence the Supreme Court's disposition of *eBay*. Indeed, given that, it is surprising that the majority opinion, 126 S.Ct. 1837 (2006), is less than three pages long. Also because *Paper Bag,* 210 U.S. 405 (1908), was referenced in the grant of certiorari, it is surprising to find no mention of that Court's pointed refusal, 210 U.S. at 429, to grant a compulsory license.

Rather, *eBay* cites dicta in three copyright cases suggesting that injunctions may be denied on the basis of "traditional equitable considerations." 126 S.Ct. 1837, at 1840. As for patents, the opinion describes *Paper Bag* as rejecting "the contention that a court of equity has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent." 126 S.Ct. at 1840-41. But how the last quoted clause might apply to MercExchange was not explained. Nor was much else when the Court held: "Because we conclude that neither court below correctly applied the traditional four-factor framework that governs the award of injunctive relief, we vacate…." 126 S.Ct. at 1841.

Justice Roberts' two-paragraph concurrence acknowledges that infringers have

long been enjoined "in the vast majority of patent cases;" *id.* It nevertheless chides the Federal Circuit for implying that patentees are *entitled* as a *general rule* to injunctions; *id.* (emphasis in opinion).

Justice Kennedy's slightly longer concurrence notes that traditional approaches may not be useful when circumstances change. For evidence of that, it echoes an FTC report that: "An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees." 126 S.Ct. at 1842 (citation omitted).

Despite Justice Robert's chiding and Justice Kennedy's anxiety about exorbitant fees, no opinion suggests a general presumption against injunctions — even as to all "non-practicing entities" (NPEs). Indeed, the majority states: "[S]ome patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than… bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so." 126 S.Ct. at 1840.

It is unfortunate that no opinion notes a key difference between the circumstances in *Paper Bag*, on one hand, and those reported by the FTC or allegedly present in *eBay,* on the other. The *Paper Bag* owner was literally an NPE, but an injunction was sought not "as a bargaining tool to charge [any, much less] exorbitant fees." The owner sought instead to preserve investments in its patent and existing plant.

Such differences may have supported the observation in Fromson v. Western Litho Plate and Supply Co., 853 F.2d 1568, 1574 (Fed. Cir. 1988), that injunctions in favor of *individual,* non-manufacturing patentees are routinely denied. The observation was rhetorical, however. Fromson may not have competed with

defendant, but he did practice his invention. As for injunctions, the patent had already expired.

Fromson cites no authority, but the court — as the trial judge clearly did in *eBay* — may have had Foster v. American Machine & Foundry Co., 492 F.2d 1317 (2d Cir. 1974), in mind. At 1324, *Foster* says: "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."

That seems inapplicable in situations akin to *Paper Bag,* as well as in others where exclusivity is central to the value of patents. The frequency of such situations appears to have, for example, prompted the Bayh-Dole Act twenty-five years ago; *see* House Report 109-409 (2006). Continued interest in exploiting federal research investments may also have prompted governmental support for MercExchange.

Prior to *eBay,* a general rule favored permanent injunctions once validity and infringement had been established. It may still, but, barring congressional intervention, that rule will be challenged more frequently and aggressively. Lest exceptions gobble up whatever remains, more attention must be given to identifying circumstances where exclusivity is critical to promoting innovation.

That will also be needed lest other countries be encouraged to retain, if not expand, opportunities for compulsory patent licenses. That objective, too, surely prompted the governmental support for MercExchange — as well as that of many firms who, like the *Paper Bag* patentee, may prefer not to license at all.