

Why eBay Really, Really Matters?
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I. Events Leading Up to eBay

Throughout the 1980s and 1990s, and at what seemed like an exponential rate of discovery, technological advances became increasingly complex. New devices and improvements to standard products in industries across the board were being made at an accelerated rate. Developments in information technology and biotechnology/pharmaceutical sectors simply boomed.

Concurrently, in a world where dominance of the US economy once appeared to be everlasting, endeavors of other jurisdictions around globe began to whittle away at core business practices and attitudes. U.S. market conditions were changing and the shift from being a manufacturing nation had begun. U.S. products customarily produced domestically were sent abroad for more cost efficient manufacture and cheaper labor. The importance of the financial and legal aspects of doing business revitalized. Businesses developed an acute awareness of the value of research and development and having a patent and/or other intellectual property rights covering those developments. The number of patent application filings exploded – all of which resulted in an expensive, lengthy and poor quality examination of patent applications.¹ Meanwhile, the number cases filed in the federal courts continued to rise.² A demand for change surfaced, and the “movement” to do things differently soon followed.

A. The Executive Branch Efforts

1. The Patent Office

By February 2003, with the support of nearly 100 large companies and intellectual property groups, the U.S. Patent and Trademark Office (“USPTO”) submitted to Congress *The 21st Century Strategic Plan*, a five year strategic plan for the patent office “predicated on changes to the way all players in the intellectual property system do business with the USPTO and the way USPTO employees respond.”³ In its own words, the USPTO was “under siege.”⁴ The patent office set out to transform itself through improvement initiatives directed at increasing expectations of the markets and the growing complexity and volume of application work.

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¹ See generally, Oberleitner, R., Acting Deputy Commissioner for Patent Operations, USPTO, Presentation to AIPLA, January 20, 2008.

² See e.g., Levko, *2009 Patent Damages Study: Preliminary Results*, FTC Panel Discussion, February 11, 2009. In this FTC Panel Discussion, data was presented by this member of PricewaterhouseCoopers showing the number of patent cases brought and the number patents granted in the US between 1991 and 2008. On the average, there has been a steady annual rise in both: 3.5 percent for patents cases filed and 5.8 percent of patents granted.

³ *The 21st Century Strategic Plan*, at 3.

⁴ *Id.* at 1, and noteworthy, as revised from the original submission of June 3, 2002, the planned productivity improvement goals have been adjusted for several reasons including the fact that the fee bill was not enacted until 2005 and certain international initiatives were not been fully implemented.

The USPTO's strategic plan was crafted in response to outcries by owners of intellectual property, the patent bar, Congress and the public-at-large for the USPTO to deal with the increasingly high backlog of pending applications and seemingly poor quality and slow turn-around in the patent application examination process. According to the patent office, by 2003, there was an estimated seven million patent applications in the world's examination pipeline, and annual growth rate of applications was estimated to be between 20-30 percent from the previous decade. It was feared that the benefits brought to our national economy by intellectual property rights were in jeopardy because of the patent office's lack of access to all of the fees paid by applicants.

Hence, the USPTO's plan laid out an approach to create an "agile, capable and productive organization."⁵ Most notably, the plan repeatedly called out for legislative and rule changes, many of which were quite specific.⁶

2. The Federal Trade Commission

Subsequently, in October of 2003, the Federal Trade Commission's report *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* issued. This report was based in part on the February 2002 Hearings held by the Federal Trade Commission ("FTC") and the Department of Justice ("DOJ") which expanded over the course of 24 days. Over 300 panelists from small and large business, independent inventors, patent and antitrust organizations and business representatives participated and/or testified. The participations were mostly from high-tech industries: computer hardware and software, and the Internet, or the pharmaceutical and biotechnology sectors. In addition, about 100 written submissions were made to the FTC in connection with this effort.

While this report was directed to "how to promote innovation by finding the proper balance of competition and patent law policy," in its 315 pages, the report made ten recommendations and proposed legislative and regulatory changes to improve patent quality. Without much empirical data, the FTC recommendations were based on the premise that patents of questionable validity slow innovation and raise costs to consumers. Hence, recommendations to modify the patent system were made. The first recommendation was to enact legislation to allow post-grant review and opposition of patents. Other recommendations included changing the standard for invalidity of a patent to a preponderance of evidence, a limitation on the award of treble damages for willful patent infringement, creation of intervening or prior user rights, and the publication of all patent applications at 18 months. Yet another recommendation was to tighten standards as to whether a patent claim is obvious. The FTC Chairman at the time, Tim Muris, stated that "[a]lthough questionable patents can harm competition and innovation, valid patents work well with competition to promote innovation."⁷

⁵ *Id.* at 2. Information technology used in the private sector was way ahead that implemented by patent offices around the world at the time.

⁶ *See Id.* at 2, 3, 9, 11 (post grant review), 12, & 14 (patent term adjustment, restriction practice, third party request for reexamination).

⁷ www.ftc.gov/opa/2003/10/cpreport.shtm

The tenth and final recommendation was to “expand consideration of economic learning and competition policy concerns in patent law decision making.”⁸ The support for this recommendation was rooted in earlier Supreme Court decisions that according to the FTC “make clear...that there is room for policy-orientated interpretation of the patent laws. Indeed, to find the proper balance between patent and competition law, such policy-oriented interpretations are essential.”⁹

3. The National Research Council of the National Academies Report¹⁰

In 2004, after four years of deliberations and sponsored research, the National Research Council published a report that contained recommendations for sweeping changes to the US patent laws directed to harmonizing patent laws, improvements in patent quality, and civil justice for patent litigants. Specifically, this group of economists, academics and patent professionals believed that “subjective elements” such as the willfulness doctrine, the best mode requirement and the unenforceability defense based on inequitable conduct should be removed from patent litigation. They also recommended the first-inventor-to-file and an open review procedure in the USPTO to eliminate wrongfully issued patents.

B. The Private Sector: Coalitions for Patent Reform

Coalitions then formed around patent reform efforts, each coalition having a slightly different platform and agenda. Two major coalitions that have been formed are: the Coalition for 21st Century Patent Reform and the Coalition for Patent Fairness.¹¹

Formed in 2006, the Coalition for Patent Fairness, having a large constituency of information technology businesses, was initially concerned with damage awards, willful infringement and forum shopping. Recently, like the Coalition for 21st Century Patent, this coalition has been publicly supportive of efforts by the Judiciary Committee “in addressing long-overdue reforms to the U.S. Patent System.”¹²

The Coalition for 21st Century Patent emerged out of patent reform efforts by industry. Its focus is to promote a more objective patent law which includes directives to adopt a first-inventor-to-file system, repeal the best mode requirement and eliminate the unenforceability defense of inequitable conduct. It currently has 50 members from 16 diverse industry sectors.¹³

⁸ FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, October 2003, at 17.

⁹ *Id.*

¹⁰ The National Academies comprise four organizations: (1) the National Academy of Sciences, (2) the National Academy of Engineering, (3) the Institute of Medicine and (3) the National Research Council. This organization brings “together committees of experts in all areas of scientific and technological endeavor. These experts serve *pro bono* to address critical national issues and give advice to the federal government and the public.” <http://www.nationalacademies.org/about/>

¹¹ See generally, www.patentsmatter.com and www.patentfairness.org.

¹² See, *Coalition Of Leading Technology Companies Applauds Senators Leahy, Feinstein, Specter and Hatch For Leadership on Reform*, April 2, 2009, <http://www.patentfairness.org/media/press/>.

¹³ www.patentsmatter.com.

This coalition is currently supportive of the on-going efforts by the Judiciary Committee as reported on its website.

While these coalitions have had differences in advocating reform proposals, they share many common initiatives. Most importantly, the common purpose is more public involvement in the patent process - both before and after the issuance of a patent. Neither coalition advocates subjective patent laws. Indeed, both organizations “seek to cut back on their reach.”¹⁴

C. Congressional Efforts

In deciding *eBay*, the Supreme Court eradicated the automatic injunction rule and reiterated that the district court has the power to decide whether injunctive relief is merited - even in patent cases. In hearing this case, the Supreme Court effectively took injunctive relief off the table and removed it as an issue for patent reform. As noted by one patent scholar, the ongoing “legislative logjam” was circumvented, at least in part.¹⁵ Much like the Federal Circuit’s subsequent decision and willfulness opinion in *Seagate*, it soon became apparent that Congress was no longer concerned about injunctive relief. Therefore, to fully understand the impact and influence of the *eBay* decision and the impetus for the associated opinions of the Court, it is helpful to understand the various patent reform legislative bills proposed both before and immediately after this decision.

On October 8, 2004, H.R. 5299, The Patent Quality Assistance Act of 2005, was introduced into the House to amend title 35 of the United States Code and modify certain procedures relating to patents. By November, this bill was referred to the House Judiciary Subcommittee on Courts, Intellectual Property and the Internet. It was then published on April 14, 2005 as the House Judiciary Subcommittee Print of H.R. 5299. Among the proposed provisions of this legislation were post grant opposition proceedings, intervening rights, interpartes reexamination proceeding, and grounds for granting an injunction. Then, on June 8, 2005, another bill, H.R. 2795, the Patent Act of 2005, was introduced in the House. This bill was essentially based on revisions of the Judiciary Subcommittee Print.

On July 26, 2005, the Amendment in the Nature of a Substitute H.R. 2795 (otherwise referred to as the “Smith Draft”) was offered by Senator Lamar Smith of Texas. Subsequently, the Coalition for 21st Century Patent Law Reform prepared a red-line of the Smith Draft. The standard for injunctions presented in the June 8, 2005 version of H.R. 2795 was no longer included in either of the Smith Draft of July 26, 2005 or the Coalition Print (redline).¹⁶

¹⁴ Robert A. Armitage, *The Myth of Inherent and Inevitable “Industry Differences”*: “Diversity” as Artifact in the Quest for Patent Reforms, 13 MICH.TELECOMM. TECH.L.REV. 401, 406 (2007).

¹⁵ Rai, A., *Building A Better Innovation System: Combining Facially Neutral Patent Standards with Therapeutics Regulation*, Houston Law Review, Symposium 2008, Vol. 45, No. 4 at 1042.

¹⁶ The differences between H.R. 2795 Amendment and Coalition’s redline of H.R. 2795 are clearly shown in a chart prepared by the AIPLA. Such chart can be found on the internet at: www.aipla.org/Content/ContentGroups/Legislative_Action/109th_Congress/House1/ChartComparingCoalitionPrint2795Sub.pdf.

On September 15, 2005, there was a hearing before the Subcommittee on Courts, the Internet, and Intellectual Property of the Committee on the Judiciary House of Representatives 109th Congress. In a first session on H.R. 2795, Serial No. 109-53, Mr. Smith and four other witness spoke to the committee and attempted to simplify the complex nature of the negotiations that were going on at this time about patent reform. Specifically, for example, Mr. Smith explained the nature of the redline document and that it would:

require [the] district court to transfer an infringement action to a judicial district or to a division that is a more appropriate forum; that is, to a district or division where one of the parties has substantial evidence or witnesses.

Concerning apportionment, both the substitute and the redline document addresses the matter of determining the true value of an invention in an infringement action. In other words, how much value may be attributable to the inventor's own efforts versus the contributions from other sources, including the infringers.¹⁷

Afterwards, witnesses spoke and gave prepared statements about various provisions and aspects of the red-line of the Smith Draft. The witnesses included Emery Simon, Counsel to the Business Software Alliance, Phillip Johnson, chief patent counsel for Johnson & Johnson on behalf of the Pharmaceutical Researchers and Manufacturers of America, Robert Chess Chairman of Nektar Therapeutics who testified on behalf of Biotechnology Industry Organization (“BIO”) and John Thomas, professor of law at Georgetown. Each of the witness presented very detailed prepared statements and handled questions propounded by various members of the committee regarding the many aspects of patent reform being proposed at the time. Witnesses addressed patent policy from his or her own point of view. For example, Robert Chess argued: “If you allowed courts to weigh equities and balance hardships, our patents would be weakened, and research and development would suffer.”¹⁸

On April 5, 2006, another round of legislation was introduced by the House as H.R. 5096, Patents Depend on Quality (PDQ) Act. H.R. 5096 was not bipartisan and many of the provisions of H.R. 2795 were missing. This bill provided for post grant oppositions, treble damages and transfer of venue. For injunctions, like H.R. 2795, Section 283 of Title 35 of United States Code would be amended by adding at the end the following:

In determining equity, the court shall consider the fairness of the remedy in light of all the facts and the relevant interest of the parties associated with the invention. Unless an injunction is entered pursuant to a nonappealable judgment of infringement, a court shall stay the injunction pending an appeal upon an affirmative showing that the stay would not result in irreparable harm to the

¹⁷ Amendment in the Nature of a Substitute to H.R. 2795, The Patent Act, September 15, 2005, Transcript, at 2. <http://www.access.gpo.gov/congress/house/pdf/109hrg/23434.pdf>.

¹⁸ Rai, A., *Building A Better Innovation System*, *supra*, at 1042, fn. 17.

owner of the patent and that the balance of hardships from the stay does not favor the owner of the patent.

Subsequently, on August 3, 2006 and after the *eBay* decision by the Supreme Court, the Senate released a bill S.3818 the Patent Reform Act of 2006 based in part on the House's efforts. This bill followed the Smith Draft of July 26, 2005 with certain significant exceptions including post grant oppositions (a second window), damages apportionment (directed to novel and unobvious features of the invention), venue provisions (that allowed a plaintiff to bring suit in district in which it resides), and inequitable conduct (limited to certain specified situations). Most relevant to the present discussion, the standard for an injunction was gone and was no longer addressed.¹⁹

II. Amicus Briefs

On November 28, 2005, the Supreme Court granted eBay's writ of certiorari. Subsequently, thirty-one amicus briefs were submitted to the Supreme Court, representing over 130 different parties consisting of individual inventors, professors, bar associations, technical associations, industry alliances, securities and banking associations, IP licensing groups, and manufacturers and corporations.²⁰

As a whole, the arguments presented in the amicus briefs generally fall into the following five categories: (1) the limitations of the patent rights, (2) equitable principles and factors in patent cases, (3) the role of the judiciary versus the legislators, (4) the market impact of presumed injunctive relief and (5) public policy over the right to exclude.

A. Patent Rights are Limited

In large part, the amici seemed to agree that patent rights are conditional and limited. On all sides, a significant number of amici pointed to the historical development of patent laws to support their positions. As a historical matter, parties who filed a brief in support of the Petitioner often argued that patents have always been viewed as a limited right "designed to promote innovation."²¹ A patent, like any government subsidy, is designed to achieve a specific public purpose: "scientific and industrial progress."²² As such, Section 283 recognizes the limitations on the rights of patentees and accordingly provides that a district court may grant, not shall grant, injunctive relief.²³ To truncate consideration of the equitable factors (as the Federal Circuit has done) improperly "conflates the concept of the exclusive "right" with the nature of

¹⁹ In the 110th Congress and now 111th Congress other legislation has been introduced including: H.R. 1908 (110th Congress) and passed by the House on September 7, 2007; S.1145 (110th Congress), now dead; S.3600 (110th Congress), now dead; H.R. 1260 (111th Congress) introduced; S.610 (111th Congress) introduced; and S.515 (111th Congress) reported by committee. Not surprisingly, amendments to section 283 have not been raised in any of this proposed legislation.

²⁰ See Appendix A, attached, a listing of the briefs and the various parties who submitted them.

²¹ See Brief of American Innovators' Alliance as Amicus Curiae in Support of Petitioner, 2006 WL 218967 at 8.

²² Brief of Electronic Frontier Foundation, et al., 2006 WL 235008 at 2.

²³ Brief of Amicus Curiae Nokia Corporation In Support of Petitioner, 2006 WL 235005 at 8.

the remedy.”²⁴ So, while patents are unlike tangible property, “the history and development of the patent statute confirms that the patentee’s right to exclude does not require issuance of injunctions in patent cases.”²⁵ After all, under the original Patent Act, patentees only had a remedy of monetary damages for its right to exclude.²⁶

Conversely, amicus curiae in support of the Respondent argued that the “quid pro quo” is the right to exclude, and without injunctive relief, the right of exclusivity means nothing.²⁷ Patent rights, “like other unique property rights, have historically been protected by injunctions.”²⁸ While patent rights are conditional, there are already enough limitations on such rights as set via legislative and judicial efforts.²⁹ For this property right to achieve its full value, the right should not be enforced in different ways.³⁰ As such, exclusive rights should not be contingent on use. After all, “patent rights are fundamentally different than private rights protected in other civil cases.”³¹ Moreover, use is not and should not be a condition for the grant of an exclusive right to exclude. All patentees should have the right to a permanent injunction.³² Patent rights are not contingent on the ability to practice an invention.³³

B. Equitable Principles and Factors Should be Considered.

Not surprisingly, amicus briefs submitted in support of the Petitioner contain extensive discussions about equitable principles and equitable factors. The supporters of the Respondent, on the other hand, did not seem to have all that much to say about equitable principles or factors. They simply maintained that the presumption in favor of an injunction is consistent with “long standing patent principles” and that hardship to an infringer rarely warrants equitable consideration.³⁴

Petitioner’s supporters maintained that injunctive relief should be granted under the same legal standards as in any other Federal case. They argued that no legal doctrine exists “that makes injunctions routinely available to property owners without a full equitable analysis.”³⁵

²⁴ Brief of Research in Motion, Ltd. as Amicus Curiae in Support of Petitioners, 2006 WL 235007 at 4.

²⁵ Brief of International Business Machines Corporation as Amicus Curiae in Support of Neither Party, 2006 WL 235006 at 2.

²⁶ *Id.*

²⁷ *See e.g.*, Amici Curiae of Martin Cooper et al., 2006 WL 639161 at 3.

²⁸ Brief for General Electric Company, 3M Company, The Procter & Gamble Company, E.I. Du Pont De Nemours Company and Johnson & Johnson Company, 2006 WL 615158 at 6-14.

²⁹ *See* Amicus Brief of Law Professors as Amicus Curiae in Support of Respondent, 2006 WL 236068 at 2.

³⁰ Amicus Brief of Rembrandt IP Management as Amicus Curiae in Support of Respondent, 2006 WL 639163 at 3.

³¹ Brief of Amici Curiae to Qualcomm Incorporated and Tessera, Inc. in Support of Respondent, 2006 WL 639170 at 4.

³² *See generally*, Amicus Brief of Wisconsin Alumni Research Foundation, et al., in Support of Respondent, 2006 WL 639195; Amicus Brief of United Inventors Association and Technology Licensing Corporation as Amici Curiae In Support of Respondent, 2006 WL 622121.

³³ Brief of United Inventors Assn., *supra*.

³⁴ *See e.g.*, Brief of Amicus Curiae Pharmaceutical Research and Manufacturing of America in Support of Respondent, 2006 WL 622122 at 8-23.

³⁵ Brief of Research in Motion, *supra*, at 4.

The idea “that only important public need” justifies withholding injunctive relief circumscribes the range of factors that a district court should consider in accordance with the principles of equity.³⁶ After all, Section 283 clearly provides the trial courts with the equitable power to deny injunctions.³⁷ Moreover, “[t]raditional principles of equity call for flexibility and balancing.”³⁸ Flexibility rather than rigidity is the hallmark of equity.³⁹

C. Discretion of the District Court and the Role of the Judiciary Versus the role of the Legislators: Who Should be Deciding What?

Similarly, when it came to the role of the trial court, amicus curiae in support of the Petitioner insisted that it was the specific intent of Congress to provide the trial court with the discretion over whether an injunction issues. Equitable power by the district court, as they wrote, is expressly reserved by Section 283. Simply put: as a matter of statutory construction and historic principles of equity, the Federal Circuit’s automatic injunction rule for patent cases is wrong.

Supporters of the Respondent, on the other hand, focused argument on the effect of a denial of a permanent injunction rather than stressing the importance of the district’s court power to rule in equity. For example, Respondent’s supporters argued that the scope of power of a trial court does not extend to denying injunctive relief based solely on the patent’s subject matter or the nature of the patentee’s exploitation of its rights. These types of matters are policy determinations reserved for Congress. As such, “Congress has not overlooked the subject of non-use of patented inventions” and we can “assume that Congress has not been ignorant of [foreign limitation of rights based on non-use] nor of its effects.”⁴⁰ Under the circumstances, patent quality concerns are misplaced. Congress, not the courts, should define the remedial system for an infringement of the constitutional right to exclude. The rule requiring an injunction in the absence of exceptional circumstances is consistent with the statutory requirement of Section 283. Such a requirement of good cause avoids ad hoc determinations which invite legal uncertainty.⁴¹

In addition, Qualcomm specifically argued that Petitioners are in effect asking this Court to overrule *Continental Paper Bag* because a final injunction would depend in part on whether the patentee is practicing the invention. In *Continental Paper Bag*, the Supreme Court held that injunctive relief cannot be granted when a patent owner has unreasonably declined to use the patent.

D. Market Impact

³⁶ Brief for the Association of the Bar of the City of New York as Amicus Curiae in Support of Petition, 2006 WL 235009 at 8-9.

³⁷ Brief of Amicus Curiae Yahoo! in Support of Petitioner 2006 WL 2198988 at 14.

³⁸ Brief of Amici Curiae Securities Industry Association, et al., 2006 WL 236066 at 3.

³⁹ *Id.*

⁴⁰ Brief of Biotechnology Industry Organization as Amici Curiae in Support of Respondent, 2006 WL 639162 at 18.

⁴¹ *See*, Brief in Support of Various Law & Economic Professors as Amici Curiae in Support of Respondent, 2006 WL 639164.

In the amicus briefs, the effect on the markets of continuing the automatic injunction rule was argued on both sides. Basically, proponents of such rule maintained that patent owners rely on the “long-settled expectation that the patent grant is presumptively enforceable via a permanent injunction.”⁴² As one party wrote: “For over 150 years, the presumption of injunctive relief has provided inventors and investors a predictable basis on which to make balanced economic decisions.”⁴³ “Narrowing the availability of permanent injunctive relief would harm the economy and undermine the purpose of the Act.”⁴⁴ They argue that the presumption is used to guide investments in research and development and to determine whether patent portfolios or licenses must be acquired. Without such rule, investments, and incentives to continue to invest, will be undermined. For example, “the development of new drugs will slow as the incentive to invent and invest diminishes.”⁴⁵ Given the fact that drugs can be reverse engineered, profits will go to those that steal rather than develop.⁴⁶ Well-funded infringers will be willing to pay limited damages later rather than negotiate with a patent holder now.

In short, Respondent’s supporters argued that increased unpredictability of patent rights greatly diminish the value of such rights.⁴⁷ The value determination of patent rights will be shifted to the courts which may result in late filings by inventors in addition to discouraging investors.⁴⁸ Venture capital markets will be severely stressed and as a result “might well dry up entirely.”⁴⁹ Without the right to exclude, a patent will have no intrinsic value.⁵⁰

An opposing position was taken by amicus curiae for Petitioner. They argued that the presumption of an injunction affords “undue leverage” and actually belongs to a “larger set of interrelated problems that are having a profound, often negative effect on intellectual property practice in the information technology sector.”⁵¹ In actuality, this rule serves to reduce competition to the detriment of consumers because it discourages investments and poses “a significant threat” to the high tech industry and the overall US economy.⁵² By ignoring the broader goal of public benefit, the work of standard-setting organizations is threatened.⁵³ A presumption of injunction imposes costs that are unrelated to the value of the patent infringed, and “as a result gives patentees the leverage to extract vast windfalls.” As is all too familiar, private disputes over patent rights “expose the markets to operational risks.”⁵⁴ In addition, the

⁴² Brief of General Electric Company, et al., *supra*, at 5.

⁴³ Brief of United Inventors Association et al., *supra*, at 9-17.

⁴⁴ Brief of Wisconsin Alumni Research Foundation et al. Supporting Respondent, 2006 WL 639165 at 9.

⁴⁵ Brief of Pharmaceutical Research and Manufacturing of America, *supra*, at 3.

⁴⁶ *Id.*

⁴⁷ See Brief of Biotechnology Industry Organization, *supra*, at 2.

⁴⁸ *Id.*

⁴⁹ Brief for Amicus Curiae Steven M Hoffberg Supporting Respondent, 2006 WL 639166 at 5.

⁵⁰ See Brief of the American Bar Association as Amicus Curiae Supporting Respondent, 2006 WL 639167 at 4.

⁵¹ Brief for Amicus Curiae Computer & Communications Industry & Association, 2006 WL 235011 at 3.

⁵² Brief of American Innovators’ Alliance, *supra*, at 6.

⁵³ Brief of Nokia, *supra*, at 11-12.

⁵⁴ Amicus Brief of Securities Industry Association, et al., 2006 WL 236066 at 10-17.

presumption of automatic injunctive relief creates “an enormous incentive for trolls to generate court-clogging, inefficient litigation that disrupts the ongoing operations of genuine innovators.”⁵⁵ Market realities in combination with an automatic injunction rule create the potential for “hold-ups” where patent owners can extort inflated royalties or even paralyze high tech industries.

E. Public Policy

While public policy and public interests ring throughout every category of arguments, proponents of the equitable power of the trial court argued that the automatic injunction is unnecessary as other remedies are sufficient for protecting innovation.⁵⁶ These amici insisted that the automatic injunction rule can impose significant burdens on consumers and the public interest, and do not serve the goal to promote innovation. *Id.* at 5. But rather, automatic injunctions turn the patent system “on its head.” *Id.* Under the automatic injunction rule, a business can be shutdown no matter how trivial a single patent is, and applying the traditional equitable principles is the best way to cut down on patent abuse. The potential for compulsory licensing should not play a role in the decision.⁵⁷ The automatic injunction rule is so bad that it may tread on free speech, especially when such regulations are imposed on software and internet providers. On the other hand, equitable discretion is consistent with international treaty obligations.

Specifically, some of the strongest arguments (which appear to be heard by the Court) came out of the high-tech sector and included:

Where a minor but nonetheless infringing component is embedded in a complex process in which a firm has invested significant fixed capital, an injunction can force the manufacturer to shut down or retool the entire process, incurring enormous expense. In such circumstances, the threat of an automatic injunction enables patent litigants to leverage patents that themselves have low value into disproportionately valuable settlements.⁵⁸

Patent trolls - entities whose primary purpose is to prey on innovators who actually produce societally valuable products - abuse the patent system by obtaining patents for the purpose of coercing settlements from such innovators. Issuing trolls automatic injunctions upon a finding of infringement allows them to extort settlements that vastly exceed the true economic value of their patents and imposes enormous social costs, particularly in the computer and Internet industries.⁵⁹

⁵⁵ Brief of Yahoo!, *supra*, at 2.

⁵⁶ See, Brief of Time Warner, et al., *supra*, at 26.

⁵⁷ Brief of United Inventors Association, *supra*, 12-15.

⁵⁸ Brief of Time Warner et al., *supra*, at 5.

⁵⁹ Brief of Yahoo!, *supra*, at 2.

The complexities of wireless communication mean that RIMs products, like those of other companies in the telecom and technology industries, require licenses under hundreds of patents. Within these industries, the mutual requirement for patents covering a number of different types of technology and the prospect of potential counterclaims, places natural restraints on industry participants' use of patents and the positions that they advocate in negotiations. Indeed, several organizations formed to develop the wireless communication protocols necessary to require that their members agree to license essential patents on fair, reasonable and non-discriminatory terms.⁶⁰

On the other hand, supporters of Respondent argue that the right to permanently exclude finds its basis in the constitution and this "historically consistent application of traditional equitable principles should not be disturbed."⁶¹

For centuries those principles have held that absent extraordinary circumstances, the remedy against the infringer of a unique property right- be it real, personal, or patent - is an injunction. The historical exegesis offered by Petitioners and their supporting amici in support of a contrary view is seriously flawed....⁶²

....

The Amici believe that a patent holder's presumptive right to an injunction against an adjudged infringer is deeply rooted in the Constitution, the Patent Act and 200 years of judicial precedent.⁶³

Supporters of Respondent argued that Petitioner's arguments were misdirected as a lack of injunctive relief could lead to compulsory licensing, an issue that Congress has heretofore rejected.⁶⁴ Universities argued that the incentive to enter into licensing agreements would be diminished and that university technology transfer efforts promoted by the Bayh-Dole Act would function less effectively without injunctive relief.⁶⁵ They further maintained that Congress passed the Patent Act to "(a) nurture and spur research in the academic sector; and (b) promote university-industry collaborative relationships that would ensure that the fruits of university research reached and benefited the public."⁶⁶ From the view of the independent inventor, it would be "unfair and bad policy to deprive the inventors of the right to a permanent

⁶⁰ Brief of Research in Motion, *supra*, at 1.

⁶¹ Brief of General Electric Company, et al., *supra*, at 1.

⁶² *Id.* at 1.

⁶³ *Id.* at 5.

⁶⁴ See e.g., Brief of Cooper et al., *supra*.

⁶⁵ Brief of Association of American Universities and the National Association of State Universities, 2006 WL 639168 at 2.

⁶⁶ Brief of Wisconsin Alumni Research Foundation et al., *supra*, at 2.

injunction.”⁶⁷ The threat of an injunction, after all, is what brings companies to negotiate and to heed to patent rights.

III. eBay- The Court’s Response to the Outcry for Change

On May 15, 2006, Supreme Court made it clear that, even for patent cases, the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts.⁶⁸ The Court also held that district court’s discretion must be “exercised consistent with the traditional principles of equity, in patent disputes no less than in other cases governed by such standards.”⁶⁹ The traditional “four-factor test” applied by courts of equity also applies to disputes arising under the Patent Act. So, for a permanent injunction to issue, a plaintiff 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 remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.⁷⁰ On the other hand, the Supreme Court took no position on whether injunctive relief should issue in this particular case, or any other dispute arising under the Patent Act.

In writing for the Court in *eBay*, Justice Thomas wrote that neither the Federal Circuit nor the district court “fairly applied equitable principles.” The principles of equity apply to injunctive relief in disputes arising under the Patent Act as well as other cases, and nothing in the Patent Act indicates that Congress intended otherwise. While the Court of Appeals maintains that the right to exclude favors a permanent injunction, “the Patent Act expressly provides that injunctions “may” issue “in accordance with the principles of equity.”⁷¹

As to the District Court’s opinion, he wrote:

Although the District Court recited the traditional four-factor test, it appeared to “adopt certain expansive principles suggesting that injunctive relief could not issue in a broad swath of cases. Most notably it concluded that a “plaintiff’s willingness to license its patents” and “its lack of commercial activity in practicing the patents” would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue. But traditional equitable principles do not permit such broad classifications.

...

⁶⁷ Brief of United Inventors Association et al., *supra*, 3.

⁶⁸ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 126 S. Ct. 1837 (2006).

⁶⁹ *Id.* at 393, 1841.

⁷⁰ *Id.* at 391, 1839.

⁷¹ *Id.* at 392, 1839. The district court held that eBay infringed MercExchange’s business method patent, but would not grant injunctive relief. MercExchange was willing to license the technology and was not using it. On appeal, the Federal Circuit reversed the district court’s decision. The Federal Circuit held that the lower court “did not provide any persuasive reason that this case is sufficiently exceptional to justify the denial of a permanent injunction.” The Federal Circuit relied on the “general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.”

[t]o the extent the District Court had adopted a categorical rule, then, its analysis “cannot be squared with the principles of equity adopted by Congress. The court’s categorical rule is also in tension with *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 422-430, 28 S. Ct. 748, 52 L. Ed. 1122 (1908) which rejected 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.”⁷²

Consequently, patent holders such as universities, researchers or inventors who license technology rather than bring it to market may still satisfy the traditional four factor test. As noted by the Supreme Court: “...we see no basis for categorically denying them the opportunity to do so.”⁷³

Justice Roberts, together with Justices Scalia and Ginsburg, wrote a short concurring opinion pointing out that, from at least the early 19th century, courts have granted permanent injunctions for infringement in the “vast majority of cases,” and that this result was not surprising given the difficulties in protecting the right to exclude through money damages.⁷⁴ His opinion suggests that a showing of irreparable harm under the first two factors should be straight forward, not complicated. Notwithstanding, the fact that even the Federal Circuit has recognized that the historical practice of permanent injunctive relief in patent cases does not justify a *general* rule.⁷⁵ After all, discretion of the district courts is “not a whim.” Moreover, when discretion is limited according to established “legal standards,” this “helps promote the basic principle of justice that like cases should be decided alike.”⁷⁶ “When it comes to discerning and applying those standards, in this area as others, ‘a page of history is worth a volume of logic.’”⁷⁷

While Justice Kennedy agrees that courts should apply the four-factor test, he is not convinced that patent cases of the past are telling of the future as he writes:

[t]o the extent earlier cases establish a pattern of granting an injunction against patent infringers almost as a matter of course, this pattern simply illustrates the result of the four-factor test in the contexts then prevalent. The lesson of historical practice, is most helpful and instructive when the circumstances of a case bear substantial parallels to litigation the courts have confronted before.⁷⁸

⁷² *Id.* at 393, 1840, *emphasis added.*

⁷³ *Id.*

⁷⁴ *Id.* at 395, 1841.

⁷⁵ *Id.*

⁷⁶ *Id.* at 394, 1842.

⁷⁷ *Id.* at 1842 *citing* *New York Trust Co. v. Eisner*, 256 U.S. 345, 349, 41 S.Ct. 506, 65 L.ED. 963 (1921)(opinion for the Court by Homes, J.).

⁷⁸ *Id.* at 1840, 396.

However, the cases currently before the trials courts are “quite unlike earlier cases.”⁷⁹ Both the “nature of the patent being enforced” and the “economic function of the patent holder” present new concerns. *Id.* Equitable discretion of the district court is well suited to allow the courts “to adapt to the rapid technological and legal developments in the patent system,” and that it allows the courts to determine whether “past practice fits the circumstances of the cases before.”⁸⁰

Justice Kennedy’s opinion joined by Justices Stevens, Souter and Breyer specifically addresses the concept of hold-ups and leveraging by patent trolls and other non-practicing entities. While citing the FTC’s 2003 To Promote Innovation report, Justice Kennedy speaks of an entire industry that has developed around “obtaining licensing fees” as opposed to making and selling products. He identifies cases where the patent claim covers only “a small component of the product” and the threat of an injunction is employed for the sole purpose of “undue leverage in negotiations.” His concern in these instances is that an injunction may not serve the public interest. For these types of non-practicing entities, an injunction and violations associated therewith are employed by the patent owner as a bargaining tool to “charge exorbitant fees to companies that seek to buy licenses.”⁸¹

IV. What Is Going On in a Post eBay World - a Very Brief Statistical Summary

As of January of 2009, over 80 district court decisions were rendered either granting or denying an injunction.⁸² During this period, an injunction was denied approximately 25 percent of the time.⁸³ However, in the past year and according to one report, the grant rate has dropped to approximately 60 percent.⁸⁴

The Federal Trade Commission has been conducting a series of public hearings to “explore the changes in intellectual property law, patent-related business models and new learning regarding the operation of the IP marketplace since the FTC issued its October of 2003 Federal Trade Commissions’ report *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*.”⁸⁵ The hearings held on 5 different dates and were held for the purposes of examining an evolving IP marketplace including legal doctrines that affect value and licensing of patents, changes in remedial law, examination of the operation of the markets for IP and technology and impact of patent policies on those markets.

In these hearings before the Federal Trade Commission on 11 & 12th of February 2009, Steve Malin of Sidley Austin LLP in Dallas presented the results of an empirical analysis that he

⁷⁹ *Id.*

⁸⁰ *Id.* at 397, 1842

⁸¹ *Id.* at 1840, 396.

⁸² See Patent Litigation Statistics, “Post eBay Permanent Injunction Rulings By District Courts- to 1/7/09” available at www.patstats.org/Injunction_rulings_post-eBay_to_1-7-09.xls.

⁸³ *Id.*

⁸⁴ <http://www.patstats.org/Patstats3.html> (last visited 4/30/09).

⁸⁵ <http://www.ftc.gov/bc/workshops/ipmarketplace/>.

prepared with the help of others looking at post eBay cases to uncover trends useful in litigation practice. His hearing slide presentation can be found at:

<http://www.ftc.gov/bc/workshops/ipmarketplace/>

The web cast can be found on the FTC web site at:

http://htc-01.media.globix.net/COMP008760MOD1/ftc_web/FTCindex.html#Feb11_09

Post eBay cases were reviewed and a list of factors developed that have been considered by the courts. As a matter of criteria, each case had to be after the Supreme Court's eBay decision and had to have a "substantive discussion of the injunctive question" discussed, not just a "formulated discussion." The factors fell in three categories: (1) patentee and patentee's activities, (2) the infringer and infringer's activities; and (3) third parties and the public. While there were more decisions made on injunctive relief during the time frame, 49 cases made it into his survey decided between May 15, 2006 and December 28, 2008. If a factor was mentioned in more than 25 percent of the cases (or at least 10), it was considered relevant. He also reviewed these cases for the differences in the grant rate of an injunction based on the relevant factor. While the data is enlightening and is recommended for your review, below it is briefly summarized.

According to this study, factors frequently considered by the district courts include whether the patentee is practicing, whether the patentee is a direct competitor to defendant, lost market share or loss sales to defendant, willful infringement, harm to patentee's reputation, harm to defendant's customers, defendant's offer to avoid infringer, public health concern and compliance with injunction. Other important factors that were considered by the courts include whether the market is developing, likely price erosion, refused to license to defendant, and non-infringing alternatives. Mr. Malin remarks that putting on evidence of harm to defendant is a loser. On the other hand, the likelihood of obtaining an injunction improves when the parties are competitors and when there is evidence of lost sales or market share. As the decisions continue to bring to light the important considerations for an injunction, the study should be viewed as a work in progress.

Finally, as part of the February hearings, Aron Levko of PricewaterhouseCoopers presented a patent damages study. His study shows that patent grants are leveling off. However, the number of patent cases brought annually continues to rise and currently about 2700 patent suits are brought annually. Professor Paul Janicke of the University of Houston Law Center noted in his presentation that 86 percent of the cases settle before trial and 8 percent are determined via summary judgment. Only 3 percent of the judgments rendered are on jury verdicts and 2 percent on bench trials. Furthermore, by the time these decisions go up on appeal, only about 90 of the cases each year are really win/lose.

V. Conclusion

The Supreme Court's holding in *eBay* is really important -- but not just because the automatic injunction rule is now gone, or because of the ongoing clarification of which factors

will amount to injunctive relief under which circumstances. Nor is *eBay* really important just because we as patent practitioners (and our clients) now have to deal with the current uncertainties over future royalties for patent infringement when the injunction is not granted. Nor is it really important because of what *eBay* could represent to the rest of the world: a perception that the US is, or may become, a compulsory licensing state.

eBay is really important because it is a perfect example of how the common law system works in the United States. For at least the past 3 to 5 years, the Supreme Court has seemingly been responding to the upheaval in the populace and its outcries for patent reform. Actually, we have seen this quite a bit lately, that is, the Court engaging in what might appear to be policy making. In fact, as noted by one patent scholar, the Court seems to be taking “little nibbles around the edge of the patent system not just in *eBay* but a bunch of little nibbles.”⁸⁶ Call it judicial activism if you must; but, if you do, bear in mind that if the people (Congress) really do not like what the Supreme Court does with the patent laws, they can change it through legislation.

Furthermore, this particular step in the evolution of U.S. patent law should not be cause for panic. While patents are regarded as personal property, our patent laws cannot and will not stand still. In fact, patent laws are not going to be as stationery as the laws of other types of property for several reasons. First, patent grants are provided by the US government to individuals and companies, not for reasons of entitlement, but for a public purpose - to promote technological arts and advances. A patent is not a privilege per se like those provided in our bill of rights. But rather, a patent is a governmental grant that can be invalidated or held unenforceable for several reasons. Furthermore, patent claims do not have explicit boundaries which have been carefully and immutably drawn. But rather, the scope of the claims is often gray and admittedly difficult to decipher. Moreover, there is always a risk that one’s interpretation of the scope of the claim may be wrong or at least be interpreted differently by the Federal Circuit.

Finally, patents are sought for many different reasons and used in many different ways by different types of owners in different industries. New technologies, new types of business, and new patent strategies will undoubtedly generate new public policy in the future. Technological advances will continue to push existing patent laws into question.⁸⁷ In short, *eBay* is really (really) important because it is a paradigm for the way our legal system works and how it is likely to work in the centuries to come.

⁸⁶ Professor Christopher Sprigman, University of Virginia Law School, FTC Hearings, February, 2009.

⁸⁷ For example, it remains to be seen how infinitely small devices will be subject to patent projections as we get farther and farther into the world of nanotechnology.

APPENDIX A

	Amici	Industry or Association	Petitioner /Respondent
1	AIPLA & Fed. Cir. Bar Assn.	Bar Association	Neither
2	Law Professors (3 at Franklin Pierce Law Center)	Academic- Legal	Respondent
3	Pollack & Other Legal Scholars (2 others)	Academic- Legal	Petitioner
4	Bar Association for District of Columbia	Bar Association	Neither
5	Software Alliance, Software and Information Industry Association, & Information Technology Association of America	Hi-Tech Association	Petitioner
6	Teva Pharmaceuticals USA	Pharmaceutical -Generic	Neither
7	American Innovators' Alliance	Hi-Tech Companies	Petitioner
8	Yahoo!	Hi-Tech	Petitioner
9	Nokia Corporation	Hi-Tech	Petitioner
10	IBM	Hi-Tech	Neither
11	RIM	Hi-Tech	Petitioner
12	Electronic Frontier Foundation, Public Patent Foundation, American Association of Law Libraries, American Library Association and Special Libraries Association	Public Interest Associations & Library Association	Petitioner
13	Association of the Bar of the City of New York	Bar Association	Petitioner
14	Time Warner, Amazon, Chevron Corp., Cisco Systems, Inc., Google Inc., IAC/Interactive Corp., Infineon Technologies AG, Shell Oil Company, Visa U.S.A., Inc., and Xerox Corporation	Hi-Tech, Oil & Finance	Petitioner
15	Computer & Communications Industry & Association	Hi-Tech Association	Petitioner
16	Securities Industry Association, The Financial Services Roundtable, Bond Market Association & Futures Industry Association	Securities & Banking Associations	Petitioner
17	United Inventors Association and Technology Licensing Corporation	Independent Inventors Association	Respondent
18	GE, 3M Company, The Protector & Gamble Company, E.I. DuPont De Nemours Company & Johnson & Johnson Company	US Manufacturing Companies and Pharmaceutical	Respondent (via request to affirm)

	Amici	Industry or Association	Petitioner /Respondent
19	United States- Patent & Trademark Office and Department of Justice	US Government	Respondent
20	Pharmaceutical Research & Manufacturing of America	Pharmaceutical Association	Respondent
21	Martin Cooper, Raymond Damadian, Leroy Hood, Nathan Myhrvold, Robert Rines, Burt Rutan, James West, 14 Other Inventors and Intellectual Ventures	Individuals	Respondent
22	Biotechnology Industry Organization	Pharmaceutical/Biotechnology Association	Respondent
23	Rembrandt IP Management	Non-practicing entity	Respondent
24	Various Law & Economics Professors	Academic	Respondent
25	Wisconsin Alumni Research Foundation, American Council on Education	Academic	Respondent
26	Steven M. Hoffberg	IP Lawyer	Respondent
27	American Bar Association	Bar Association	Respondent
28	Association of American Universities & the National Association of State Universities	Academic	Respondent
29	Technology Patents & Licensing, Inc. Expanse Networks, Inc. and Charles A. Eldering	IP licensing	Respondent
30	Qualcomm Incorporated and Tessera, Inc.	Hi-Tech	Respondent
31	52 Intellectual Property Professors	Academic	Petitioner