

## LICENSE TO LITIGATE

A closer look at the Supreme Court's 'eBay' decision *by Jeffrey A. McKinney*

**O**n May 15, the Supreme Court, in its decision in *eBay v. MercExchange*, 547 U.S. 206, held that the traditional four-factor test applied by courts of equity when considering whether to award permanent injunctive relief to a prevailing plaintiff applies to disputes arising under the Patent Act.

The holding represented a significant departure from the Federal Circuit's application, in its 2005 holding in the same case (*MercExchange v. eBay*, 401 F.3d 1323), of a "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."

With this chipping away of a patent law cornerstone, parties must be left wondering whether the U.S. patent system has been generally weakened or whether the case merely represents a momentary structural shift that will resettle through practical application. Parties specifically must wonder if the *eBay* decision ushers in a compulsory licensing regime in the United States.

Prior to *eBay*, the Federal Circuit found that the right to exclude is a basic property right and that patent claims in an infringement context are analogous to real property. (See *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989)). Exclusion could only be trumped, therefore, if positioned opposite another more important fundamental right. An ex-

ample of such a right is the public's right to life and the pursuit of a society that is not threatened by serious disease. The Federal Circuit expressed this view in its *eBay* ruling by only noting "imminent danger to public health" as an "exceptional circumstance."

The Federal Circuit's general rule was arguably not outside the framework of the four-factor test for determining whether a permanent injunction should issue, and it can be placed squarely within the test. The four factors are: (1) that a plaintiff has suf-

fered an irreparable injury; (2) that remedies available at law 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. In Federal Circuit parlance, patent infringement is per se an irreparable injury, and the payment of monetary damages cannot remedy it. The hardships are imbalanced in that the plaintiff's only adequate remedy is in equity. Moreover, the public interest can only be disserved where a public health cri-

sis would result from the issuance of a permanent injunction. The Federal Circuit's rule — viewed through the lens applied above — removed utilitarian cost/benefit analyses from the permanent injunction equation. A property right should yield to a more fundamental cause but it should not be abrogated on the basis of a mere economic concern. In other words, general health is more important than one's right to exclude another from his intellectual property. But one's desire to have access to a new electronic device is not.

It is unclear what specific concerns led to the Federal Circuit's rule. One possibility is that the court did not want determinations concerning permanent injunctions to devolve into debates over whether monetary damages could remedy any incident of patent infringement. Once the issue is removed from a comparison of fundamental rights, it may appear to some that a dollar value is applicable in all cases, especially since infringing sales and resulting profit margins can be easily calculated after the fact. That slippery slope leads to a compulsory licensing regime.

To be fair, Supreme Court Justice Clarence Thomas, in his *eBay* opinion, tries to provide guidance to federal courts with respect to situations that may invoke issuance of a permanent injunction. Unfortunately, he only highlights the problem of using an analytical framework based completely on economic factors. First, he chastises the district court that decided the underlying case because "it concluded that a 'plaintiff's willingness to license its

### Will the 'eBay' ruling usher in a compulsory licensing regime in the United States?

*Jeffrey A. McKinney is special counsel in the intellectual property practice group at Sheppard, Mullin, Richter & Hampton.*

patents' and 'its lack of commercial activity in practicing patents' would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue." Justice Thomas then goes on to explain that universities or individual inventors — who cannot or do not want to bring an invention to market — should not be precluded from obtaining an injunction against infringers of their patent rights. By pointing out that the district court's model — which was purely economic — was flawed, he essentially undercuts an application of a true cost/benefit analysis.

The obvious question in view of Justice Thomas' opinion is, why does he make a distinction between universities/individual inventors and other entities, such as patent holding companies? In each case, a patent holder owns intellectual property that has been infringed. And in each case, the patent owner does not have the capability to commercialize a product embraced by its intellectual property. The only clear distinction seems to be that universities and inventors have a direct tie to patented inventions while patent-holding companies do not; companies own inventions because they purchase them rather than by virtue of their ability to discover them.

One problem with such guidance is that the attempt to refocus the permanent injunction test on economic factors has resulted in another fundamental rights inquiry. Patent-holding companies own patents just like universities. They make money purely through out-licensing patent rights. University technology officers perform market analyses just like holding company analysts. Both may attempt to block entry into basic research areas through assertion of their patents. In other words, the basic economic activities and impact of the two entities are similar, if not identical. One can only suppose that university rights are greater than those of patent-holding companies because, in addition to receiving licens-

ing fees, the university supports foundational science and engineering. Such support is viewed as an inherently good and worthy activity that elevates the rights of a non-profit institution over those of a for-profit company.

Chief Justice John Roberts' concurring opinion in *eBay* is concise and hard to argue with. It is also does not provide any guidance regarding how various permanent injunction factors should be weighed. The two-paragraph concurrence can be effectively summarized as follows: tradition is good and adhering to the four-factor test makes for better decisions than not adhering to it. Parties to patent litigation cases can only hope that is true.

A second concurring opinion, written by Justice Anthony Kennedy, is all about explaining the need for tossing the Federal Circuit's general rule. Justice Kennedy discusses changes that have occurred in the economic function of the patent holder, pointing to the emergence of patent-holding companies, the enforcement of patent rights where the covered invention is but a small component of a product, and the rising importance of business-method patents. Implicit in the opinion is the idea that the discussed changes result in economic inefficiencies if such patent holders have access to injunctive relief — i.e., the Federal Circuit's general rule. The inefficiency presumably arises from excess power wielded by the patent holders in licensing negotiations, which results in the acquisition of excessive licensing fees.

Using the analysis presented above, there are at least two ways one can read *eBay*: First, patent holders that obtain excessive negotiation power from having access to a permanent injunction will no longer have the access. The list of such patent holders is small, including patent-holding companies and patent holders having issued claims embracing one component of a multi-component product. Others may be added to the list,

such as business-method patent holders. A party that is not on the list may obtain a permanent injunction against an infringer. Second, one's right to exclude others from infringing upon his patent claims is not a fundamental right. Whether one can obtain a permanent injunction will be primarily determined — taking into account Justice Thomas' unexplained exceptions — using a cost/benefit analysis, and no presumption or rule regarding issuance of a permanent injunction will apply.

The first reading basically reflects the Federal Circuit's general rule, with a few explicit exceptions. Application of this reading will lead to relative certainty regarding permanent injunction determinations and provide a stop-gap measure to address unintended economic consequences of the former Federal Circuit rule as perceived by the Supreme Court. It will not, however, address the Supreme Court's concern regarding rules. Instead, it simply creates a different rule.

The second reading is a drastic departure from prior Federal Circuit law. Its application invites the endless testimony of experts who have created reams of paper containing formulae that would make Isaac Newton proud. It further begs the question: If a permanent injunction determination is primarily calculus, cannot monetary damages remedy any instance of patent infringement?

The possibility of a compulsory licensing regime in the United States can be found within this second reading of the *eBay* decision. Although monetary damages alone cannot render one whole after the violation of a fundamental right, they can cure just about any other violation. If one's right to exclude, as applied to patent claims, is no longer fundamental, then one must wonder whether a permanent injunction resulting from patent infringement litigation is ever possible or even proper. That issue will be the subject of district court cases over the next few years. ❖