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## CASE COMMENT

### PATENT LAW: REDEFINING EQUITABLE INJUNCTIONS

MercExchange, LLC v. eBay, Inc., 401 F.3d 1323 (Fed. Cir. 2005)

*Joseph R. Sozzani\**

Plaintiff, MercExchange, LLC, an e-commerce technology development company,<sup>1</sup> is the assignee of three computer-implemented business method patents establishing online markets for the sale of goods at auction or at fixed price.<sup>2</sup> Defendants, eBay, Inc. and its wholly owned subsidiary, Half.com<sup>3</sup> operates Internet web sites that allow sellers to list, and buyers to search for and purchase, goods listed on their respective web sites at auction or at fixed price utilizing a feature known as “Buy It Now.”<sup>4</sup> Plaintiff alleged Defendants willfully infringed its patents by

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1. MercExchange—Generating Changes in Dynamic Markets, <http://www.mercexchange.com/index.html> (last visited Oct. 9, 2006).

2. MercExchange, LLC v. eBay, Inc., 401 F.3d 1323, 1325 (Fed. Cir. 2005), *cert. granted*, eBay, Inc. v. MercExchange, LLC, 126 S. Ct. 733 (2005) (No. 05-130, 2005 Term). MercExchange, LLC, is the assignee of the following three patents: Consignment Nodes, 5,845,265 (filed Nov. 7, 1995) [hereinafter ‘265 Patent]; Method and Apparatus for Using Search Agents to Search Plurality of Markets for Items, 6,085,176 (filed Mar. 8, 1999) [hereinafter ‘176 Patent]; and Facilitating Internet Commerce Through Internet-Worked Auctions, 6,202,051 (filed Feb. 19, 1999) [hereinafter ‘051 Patent].

3. Prior to trial, ReturnBuy, Inc. filed for bankruptcy protection and settled with MercExchange, LLC, leaving eBay Inc. and its wholly owned subsidiary Half.com as remaining defendants. *Id.* at 1326.

4. *Id.* at 1325. “Buy It Now” allows a user to “list [their] items at a set price, so buyers can purchase immediately (no bidding).” See eBay, Selecting a Selling Format, <http://pages.ebay.com/help/sell/formats.html> (last visited Oct. 9, 2006). Half.com accepts listings from sellers in a fixed price format only. *Id.* The “Buy It Now” feature allows buyers to search for and purchase goods listed on eBay.com at a fixed price. See *id.* The “Buy It Now” feature is available in listing goods directly on the general listings on the web site or specifically within a seller’s own

utilizing its business methods and brought suit in the U.S. District Court for the Eastern District of Virginia seeking damages and a permanent injunction for infringement.<sup>5</sup> Defendants alleged that the patents were invalid and not infringed, filing motions for summary judgment on all three patents.<sup>6</sup> “[T]he district court granted in part and denied in part the motions for summary judgment holding that the claims of ‘051 patent were invalid for an inadequate written description” leaving the remainder of the case for trial before a jury.<sup>7</sup> The jury found the Defendants liable for willful infringement of the ‘265 patent and the ‘176 patent and awarded the Plaintiff damages.<sup>8</sup> The court refused to grant Plaintiff’s motion for a permanent injunction.<sup>9</sup> On appeal and cross-appeal, the U.S. Court of Appeals for the Federal Circuit affirmed in part, reversed in part, vacated in part and remanded.<sup>10</sup> The Circuit Court reversed the denial of a permanent injunction and vacated the summary judgment of the lower court, in part, holding one patent as invalid and HELD, that the district court improperly denied Plaintiff’s motion for a permanent injunction on insufficient grounds and resolved a dispute of material fact on summary judgment.<sup>11</sup>

Patent law in the United States is the execution of a public policy envisioned by the Framers, having its first expression in the Constitution under Art. 1, § 8, cl. 8.<sup>12</sup> Those who successfully apply for and receive a patent are granted “the [property] right to exclude others from making, using, offering for sale, or selling the invention throughout the United

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“eBay Store” which sellers must register for prior to listing goods on their seller specific web site hosted by eBay.com. *Id.*

5. *MercExchange*, 401 F.3d at 1325-26. For an extended analysis of the Amended Complaint for Patent Infringement filed by MercExchange on Nov. 21, 2001 against eBay, Half.com and ReturnBuy, see PageBox, Software and Business Method Patents—Trial, <http://pagebox.net/bm5.html> (last visited Oct. 9, 2006).

6. *MercExchange*, 401 F.3d at 1326.

7. *Id.*

8. *MercExchange, LLC v. eBay, Inc.*, 275 F. Supp. 2d 695, 698-99 (D. Va. 2003).

9. *Id.* at 715.

10. *MercExchange*, 401 F.3d at 1340.

11. *Id.* at 1339-40. The Court granted eBay’s motion for a stay of the injunction pending petition for certiorari.

12. See U.S. CONST. art. I, § 8, cl. 8. Power is vested in Congress “to promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” *Id.*; see also *id.* cl. 18, or the Necessary and Proper Clause (granting Congress the power to enact legislation in furtherance of these goals). Congress has passed five Patent Acts beginning in 1790, with the last major revision in 1952.

States, as described in the claims of the patent, for a limited term.<sup>13</sup> To this end, the injunction remedy has long been a feature of U.S. patent law<sup>14</sup> and has been used to enforce the right to exclude where infringement and validity are adjudicated.<sup>15</sup>

The Court's grant of injunctive relief has historically been guided by statute and the principles of equity.<sup>16</sup> The provision guiding the issuance of an injunction remedy today, is contained in the Patent Act, 35 U.S.C. § 283, explicitly granting broad equitable discretion in issuing injunctions.<sup>17</sup> Only in rare instances of compelling public interest have the courts exercised their equitable discretion to deny injunctive relief<sup>18</sup> upon a

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13. 35 U.S.C. § 154 (2002). “[P]atents shall have the attributes of personal property. 35 U.S.C. § 261 (1982).

14. In drafting the first Patent Act in 1790, Congress included a provision granting an exclusive monopoly to patentees for a limited period, providing for a remedy at law and equity. Later revisions of the Patent Act contained similar provisions which ultimately resulted in § 4921 of the Patent Act of 1870 (U.S. Comp. Stat. 1901, p. 3395) which vested in the courts having jurisdiction not only the power to award damages to patentees, but also to grant injunctions “according to the course and principles of courts of equity, to prevent the violation of any right secured by patent, . . .” This provision has its modern counterpart in the Patent Act of 1952, under 35 U.S.C. § 283.

15. 35 U.S.C. § 283 (1952).

16. *See, e.g.,* Reebok Intern., Ltd. v. J. Baker, Inc., 32 F.3d 1552, 1557 (Fed. Cir. 1994) (holding that “[t]he patent statute provides injunctive relief [under § 283] to preserve the legal interests of the parties against future infringement which may have market effects never fully compensable with money”); *W. Elec. Co. v. Cinema Supplies*, 80 F.2d 106, 110 (8th Cir.1935) (asserting that the equity court has a duty to protect by injunction, the monopoly granted to patentees); *Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317 (2d Cir. 1974) (stating the equitable remedy of injunctive relief is to be determined by the circumstances); *Nat’l Dryer Mfg. Corp. v. Dryer Co. of Am.*, 130 F. Supp. 912, 913 (D. Pa. 1955) (distinguishing the damages remedy under § 284 from the injunction remedy under § 283 as separate and distinct forms of remediation); *Fisher-Price, Inc. v. Safety 1st, Inc.*, 279 F. Supp. 2d 526, 528-29 (D. Del. 2003) (issuing a permanent injunction and holding that damages were inadequate to redress the loss of market share where infringing products, automotive baby seats, were not medically necessary and could be removed from the stream of commerce without harm to the public); *Jeneric/Pentron, Inc. v. Dillon Co.*, 259 F. Supp. 2d 192, 194-96 (D. Conn. 2003) (holding that irreparable harm is presumed where future infringement is presumed “when a clear showing has been made of patent validity and infringement” and that issuing an injunction is in the public interest in protecting the rights of patentees).

17. 35 U.S.C. § 283. Section 283 provides: “The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.” *Id.*

18. *See, e.g.,* *C.F. Mueller Co. v. A. Zeragas Sons*, 12 F.2d 517 (2d Cir. 1926) (holding that injunctive relief is proper even against accidental infringement).

showing of patent validity<sup>19</sup> and infringement.<sup>20</sup> With few exceptions, the Court of Appeals for the Federal Circuit<sup>21</sup> has issued permanent injunctions as a matter of course.<sup>22</sup>

Courts apply general principles of equity in determining the propriety of granting an injunction in patent<sup>23</sup> and have developed a unique jurisprudence regarding the issuance of the injunction remedy based on a modified version of the standard four factor test.<sup>24</sup> In carrying out its analysis, a court balances all four of the equitable factors.<sup>25</sup> An abuse of discretion standard of review is applied at the appellate level.<sup>26</sup>

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19. In determining validity, the courts have generally given deference to prior court decisions and determinations of the administrative agency responsible for patent grants, the U.S. Patent and Trademark Office (PTO). Prior to the grant of a patent, the PTO conducts an extensive examination of each patent application's involving detailed fact-finding by those skilled in the application specific scientific and technological arts in order to determine a patent's validity.

20. *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995) (“[c]ourts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest.”).

21. The Court of Appeals for the Federal Circuit is the only judicial circuit that has jurisdiction based wholly on subject matter rather than geographical location. It hears the appeals for every district court in the United States holding jurisdiction to hear cases under the Patent Act. The Court was established in 1982 under the *Federal Courts Improvement Act*, 28 U.S.C. 1295, (1982) to promote uniformity and predictability to the various courts having jurisdiction over cases arising under patent law system.

22. *See, e.g., Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 865-66 (Fed. Cir. 1984). “[S]tandards of the public interest, not the requirements of private litigation, measure the propriety and need for injunctive relief.” *Id.* (quoting *Hecht Co. v. Bowles*, 321 U.S. 321, 331 (1944)).

23. *Gordon Johnson Co. v. Hunt*, 109 F. Supp. 571, 574 (1952) (stating that the general principles of equity apply in determining the grant of injunctive relief in patent suits).

24. FED. R. CIV. P. 65 (The ‘four factor’ standard judicial test for the issuance of an injunction is codified under Federal Rule of Civil Procedure 65.).

25. *Mueller v. Wolfinger*, 68 F. Supp. 485, 488-89 (D. Ohio 1946).

“Injunction should be granted or withheld, according as, upon a balancing of convenience and inconvenience, seems necessary to the protection of the rights of the parties” and that “the court may properly take into consideration the relative injury which will result to the parties, respectively, from granting or refusing it.”

*Id.* The modified four factor test includes the following inquiries: (i) whether the plaintiff would face irreparable injury if the injunction did not issue; (ii) whether the plaintiff has an adequate remedy at law; (iii) whether granting the injunction is in the public interest; and (iv) whether the balance of hardships tips in the plaintiff's favor. No single factor is determinative. *Id.*

26. *See Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1380 (Fed. Cir. 2005) (indicating that, on appeal, the abuse of discretion standard applies in reviewing the appropriateness of injunctive relief).

In *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, the Supreme Court was faced with the question of whether an injunction should issue in equity upon the infringement of a patent held in nonuse.<sup>27</sup> The petitioner, a rival paper bag manufacturer, contested the respondent's right to an injunction arguing that respondent's long and unreasonable nonuse of a patent for a novel paper bag folding machine was a restriction on competition and contrary to notions of equity, defeating the public policy underpinning the grant of a patent.<sup>28</sup> The Court held that the right of exclusivity, and thus the right to the injunction remedy, adheres in a patent even where the patentee chooses not to practice his invention.<sup>29</sup> In citing to a long line of cases<sup>30</sup> and through statutory construction,<sup>31</sup> the Court deferred to the wisdom of Congress,<sup>32</sup> reasoning that patents are a form of property and entitled to the same rights and sanctions.<sup>33</sup>

The Court held that the right to exclude is essential<sup>34</sup> to the patent grant, not expansive.<sup>35</sup> Such a right guarantees to the patentee a limited

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27. *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 422 (1908).

28. *Id.* at 422-23. The Petitioner conceded that the patent was not defeated but argued that nonuse warranted the Court's removal of the injunction remedy in equity. The petitioner sought to compel the Court's intervention in allowing its use of the invention, leaving only a remedy at law by arguing that equity should not give aid to the nonuse of an invention where doing so would defeat progress in the useful art to which the invention belonged. *Id.*

29. *Id.* at 430.

30. *Id.* at 426-27.

31. *Id.* at 423-24. The Court looked first to the plain language of the patent statute and its legislative history to determine the rights conferred upon a patentee and the underlying policy it sought to accomplish and safeguard in doing so. *Id.* The Court noted that "at first only a remedy at law was given for a violation of the right, a remedy in equity was given as early as 1819." *Id.* The Court went on to state that there had been no qualification of the right in equity and that "it would seem to need no further explanation than the word of the statute." *Id.* at 424.

32. *Cont'l Paper Bag Co.*, 210 U.S. at 429. The Court stated that Congress required that a patent be "introduce[d] into public use . . . within one year from the issuing" as a requirement of the grant of a patent under the Patent Act 1832 to a foreign resident. *Id.* Under the act, a violation of this provision rendered the patent void. *Id.* However, in 1836 Congress repealed the Act and this requirement. *Id.* In carrying out its statutory construction analysis, the Court inferred that because Congress was aware of patent nonuse, and the policies of foreign states regarding such nonuse, and chose to legislate without the requirement, it intended to do so. *Id.* at 429-30.

33. *Id.* at 425.

34. *See id.* at 429 (citing the reasoning of *Connolly v. Union Sewer Pipe Co.*, 184 U.S. 546 (1902) (stating "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.")).

35. *Id.* at 430. In view of a patent as a property right, the Court held that such a "right can only retain its attribute of exclusiveness by a prevention of its violation." *Id.* Anything but prevention takes away the privilege which the law confers upon the patentee." *Id.*

monopoly<sup>36</sup> over the exclusive use of their invention.<sup>37</sup> The Respondent claimed that his nonuse was reasonable and the Court agreed.<sup>38</sup> A patentee does not hold the position of a “quasi trustee for the public.”<sup>39</sup> However, the Court took notice of a dissenting opinion in the Court of Appeals in its holding,<sup>40</sup> leaving open the question of whether facts might arise justifying the Court’s denial of injunctive relief, in view of the public interest, for a patent held in nonuse.<sup>41</sup>

In *Roche Prods., Inc. v. Bolar Pharm. Co.*,<sup>42</sup> the Circuit read section 283 as granting considerable discretion in determining if an injunction should issue where a patent is being used contrary to public interest.<sup>43</sup> The

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36. *Id.* at 425. The Court cited to *Grant v. Raymond*, stating “[a]nd, for exclusive enjoyment of it during that time, the public faith is forever pledged.” *Grant v. Raymond*, 31 U.S. 218, 242 (1832). The Court also cited *Bloomer v. McQuewan*, stating, “[t]he franchise which the patent grants consists altogether in the right to exclude every one from making, using, or vending the thing patented without the permission of the patentee. This is all that he obtains by the patent.” *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1853).

37. *Cont’l Paper Bag Co.*, 210 U.S. at 424. The grant of exclusive use provides inducement for the disclosure of a discovery that the inventor could very well have kept to himself and thus comports with the policies envisioned by the Constitution and the intent of Congress in drafting the Patent Act. *See id.*

38. *Id.* at 429. It was more profitable for the respondent to continue utilizing the existing machines used by the company in lieu of upgrading or retooling existing machines to the specifications of the machines for which he held a patent. *See id.*

39. *Id.* at 424. “He may withhold [] knowledge of [his patent] from the public, and he may insist upon all the advantages and benefits which the statute promises to him who discloses to the public his invention.” *Id.*

40. *See id.* at 427. (citing *Cont’l Paper Bag Co. v. E. Paper Bag Co.*, 150 F. 741, 742 (1st Cir. 1906) (Aldrich, J., dissenting)).

Simple nonuse is one thing. Standing alone, nonuse is no efficient reason for withholding injunction. There are many reasons for non-use which, upon explanation, are cogent; but when acquiring, holding, and nonuse are only explainable upon the hypothesis of a purpose to abnormally force trade into unnatural channels . . . a hypothesis involving an attitude which offends public policy, the conscience of equity, and the very spirit and intention of the law upon which the legal right is founded—it is quite another thing. This is an aspect which has not been considered in a case like the one here.

*Id.*

41. *Id.* at 430. “Whether, however, as case cannot arise where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction [for a patent held in nonuse], we do not decide.” *Id.*

42. 733 F.2d 858 (Fed. Cir. 1984).

43. *Id.* at 865. “Section 283, by its terms, clearly makes the issuance of an injunction discretionary: the court “may grant” relief “in accordance with the principles of equity.” *Id.* “It is

court determined that the public interest and not the requirements of private litigation is the standard by which to measure the need for injunctive relief.<sup>44</sup> The court explicitly held that injunctive relief does not necessarily follow upon a final adjudication of patent infringement and validity;<sup>45</sup> where money damages are adequate, the necessity for equitable relief is removed.<sup>46</sup>

In *Rite-Hite Corp. v. Kelley Co.*,<sup>47</sup> the Federal Circuit revisited the issue of nonuse, holding that a patentee need not make use of a patent in order to enforce his rights under section 283.<sup>48</sup> The court made clear that protection is granted to patentees under the Act as incentive for their “disclosure of [the] invention, not for [their] use of [it]”<sup>49</sup> but qualified its holding by noting that where nonuse “frustrates an important public need . . . , a court need not enjoin [the] infringement.”<sup>50</sup> In *Rite-Hite*, the defendant argued that injunctive relief contravenes the public policy

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true that it ‘is a principle of general application that courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest.’” *Id.*

44. *Id.* (quoting *Hecht Co. v. Bowles*, 321 U.S. 321, 331 (1944)).

45. *See id.* at 866.

If the patent law precludes substantial damages, there exists a strange gap in the panoply (in its proper meaning, a suit of armor) of protection the patent statutes place around an aggrieved and injured patentee. The district judge, before getting into the issue of equitable relief, must determine if he can deal with the case by adequate money damages. If he can, the predicate for equitable relief of a harsh, or even a mild, character is gone. Counsel are . . . mistaken in their apparent belief that once infringement is established and adjudicated, an injunction must follow.

*Id.*

46. *Id.* at 867. The Federal Circuit went so far as to state “if Congress wants the federal courts to issue injunctions without regard to historic equity principles, it is going to have to say so in explicit and even shameless language. . . .” *Id.*

47. 56 F.3d 1538 (Fed. Cir. 1995).

48. *Id.* at 1547. The patent at issue in *Roche* was a vehicle restraint device. *Id.* at 1542.

49. *Id.* at 1547.

50. *Id.* The Federal Circuit cites several cases where the principles of equity sided with a refusal to enjoin the defendant from practicing a patent on the basis of an overriding public interest. *Id.* at 1548 (citing to *Hybritech, Inc. v. Abbott Labs.*, 1987 U.S. Dist. LEXIS 16768 (D. Cal. 1987) (public interest required that injunction not stop supply of medical test kits that the patentee itself was not marketing), *aff’d*, 849 F.2d 1446, 7 U.S.P.Q.2D (BNA) 1191 (Fed. Cir. 1988); *Vitamin Technologists, Inc. v. Wisconsin Alumni Research Found.*, 64 U.S.P.Q. (BNA) 285 (9th Cir. 1945) (public interest warranted refusal of injunction on irradiation of oleomargarine); and *City of Milwaukee v. Activated Sludge, Inc.*, 21 U.S.P.Q. (BNA) 69 (7th Cir. 1934) (injunction refused against city operation of sewage disposal plant because of public health danger)).

underpinning the Patent Act when issued for a patent in nonuse, stifling competition and impeding progress.<sup>51</sup> The court reiterated the important public interest<sup>52</sup> served by inducing and promoting progress in the useful arts through the grant of a limited monopoly<sup>53</sup> and right to exclude.<sup>54</sup>

In *Richardson v. Suzuki Motor Co.*,<sup>55</sup> the Federal Circuit expanded the injunction remedy, establishing a new standard by which injunctions would issue.<sup>56</sup> The court reversed the District's denial of an injunction where the plaintiff established the validity and infringement of his motorcycle suspension patent.<sup>57</sup> It held that irreparable harm is presumed upon a showing of patent validity and infringement,<sup>58</sup> establishing that an injunction will issue as a general rule "absent a sound reason for denying it."<sup>59</sup>

In the instant case, the Federal Circuit expanded its ruling in *Richardson*, fashioning a new general rule regarding the issuance of injunctions.<sup>60</sup> The plaintiff challenged the lower courts refusal to grant

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51. *Id.* at 1547. Furthermore, the defendant argued "that, as a policy matter, inventors should be encouraged by the law to practice their inventions." *Id.* It was argued that in granting a monopoly to a patentee who does not practice the invention the court effectuates a violation of antitrust law by expanding the limits of the patent grant to unpatented subject matter. *Id.* The court summarily dismissed the argument stating that the plaintiff was asserting his right "to exclude its competitors from making, using or selling a product within the scope of its patent." *Id.*

52. *Rite-Hite*, 56 F.3d at 1547. Protecting the investment of patentees through granting a right to exclude promotes progress by protecting the investment of patentees in developing and bringing an invention to market. *Id.* The right to exclude acts as an inducement for patentees to disclose their inventions by guaranteeing patentees that the invention will remain free from direct competition for a limited time. *Id.*

53. *Id.* (citing to 1 ERNEST B. LIPSCOMB III, WALKER ON PATENTS 65 (3d ed. 1984) ("The patent laws promote the progress in different ways, prominent among which are by protecting the investment of capital in the development and working of a new invention from ruinous competition till the investment becomes remunerative.")).

54. *Id.* "Allowing compensation for such damage will 'promote the Progress of . . . the useful Arts' by providing stimulus to the development of new products and industries." *Id.*

55. 868 F.2d 1226 (Fed. Cir. 1989).

56. *Id.* at 1246-47. "Infringement having been established, it is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from the use of his property. 35 U.S.C. § 261. 'The right to exclude recognized in a patent is but the essence of the concept of property.'" *Id.* (citing *Connell v. Sear, Roebuck & Co.*, 722 F.2d 1542, 1548 (Fed. Cir. 1983)).

57. *Id.* at 1247.

58. *Id.* at 1247 n.29.

59. *Id.* at 1247. "It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it." *Id.* (citing *W.L. Gore & Associates, Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988)).

60. See *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005).

injunctive relief arguing that such relief was appropriate upon adjudication of validity and infringement.<sup>61</sup> The instant court agreed, citing *Richardson*, and adding that an injunction will issue absent “exceptional circumstances,”<sup>62</sup> creating a presumption that an injunction will issue upon the adjudication of patent validity and infringement.<sup>63</sup>

The instant court found the lower court’s reasoning unpersuasive in taking the “unusual step” of denying injunctive relief.<sup>64</sup> Drawing on the reasoning in *Rite-Hite* and *Roche* the instant court noted that the standards by which a denial of injunctive relief are to be measured subsist in public, not private interests.<sup>65</sup> Such exceptional circumstances are met only where there is an important public need for the invention such as the need to protect the public health.<sup>66</sup> The instant court summarily rejected the district court’s reasoning that: 1) the public interest was favored in denying injunctions for business-method patents;<sup>67</sup> 2) defendant’s attempts to design around the patent would result in successive contempt proceedings with resulting additional costs to the parties and a drain on judicial resources;<sup>68</sup> 3) failure to file for a preliminary motion precludes the right to a permanent injunction<sup>69</sup> and; 4) statements indicating a willingness to license the patent vitiates the right to an injunction.<sup>70</sup>

In creating a *sui generis* standard of injunctive relief, the Federal Circuit has established a presumption of irreparable injury and a corollary affirmative right to an injunction remedy where patent validity and infringement are adjudged.<sup>71</sup> Quoting *Continental* the instant court took the position that the statutory right to exclude and the availability of the

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61. *Id.*

62. *Id.* at 1339.

63. *See id.*

64. *Id.*

65. *MercExchange*, 401 F.3d at 1338.

66. *Id.*

67. *Id.* at 1339.

68. *Id.* Were the court to deny an injunction on such grounds, the instant court reasoned, it would not only be in violation of the patentees’ rights but would not change the likelihood of subsequent infringement proceedings. *Id.*

69. *Id.* In dismissing the lower court’s assertion that the plaintiff’s failure to move for a preliminary injunction, “militates against its right to a permanent injunction,” the instant court cites to *Lermer Germany GmbH v. Lermer Corp.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996), where the Federal Circuit distinguished preliminary injunctions and permanent injunctions as having “different prerequisites and serv[ing] entirely different purposes.” *Id.*

70. *MercExchange*, 401 F.3d at 1339.

71. *Id.* at 1338.

injunction remedy persists in patentees regardless of their use, nonuse or willingness to license their patent.<sup>72</sup> Where the availability of the injunctive remedy gives patentees leverage in negotiating a license, it is “a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers.”<sup>73</sup>

The court sought to crystallize the notion that injunctive relief is a right that imbues in the property right to exclude granted in a patent. What is not clear is whether the court has effectively closed the door on the consideration of the traditional equitable factors or if it merely created a new starting point for the courts by creating a rebuttable presumption that an injunction will issue upon adjudication of patent validity and infringement.<sup>74</sup> The latter interpretation would seemingly comport with the statutory language of section 283<sup>75</sup> and precedent<sup>76</sup> in preserving judicial discretion, albeit of a narrower species. The determination of this issue has far reaching consequences for patentees,<sup>77</sup> potential infringers and public policy, especially in the technology sector.<sup>78</sup>

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72. *Id.* at 1338-40.

73. *Id.* at 1338.

74. Brief Amici Curiae of 35 Intellectual Property Professors in Support of the Petition for Certiorari at 2, *eBay, Inc. & Half.com., Inc., v. MercExchange, LLC*, 126 S. Ct. 733 (2005) (No. 05-130). “The Court of Appeals for the Federal Circuit has effectively read the terms “may” and “in accordance with principles of equity” out of the statute. In no case in the last twenty years has the Federal Circuit permitted a district court to apply its equitable powers to refuse a permanent injunction after a finding of infringement.” *Id.*

75. 35 U.S.C. § 283 (1952). One interpretation of the instant court’s holding is that in asserting that a remedy at law is inadequate remediation barring some exceptional circumstance, the court has raised the standard by which equitable factors are to be balanced and considered. In the alternative, the instant court’s holding can also be construed as being entirely in line with both the statutory right to exclude granted in a patent and long-standing case law precedent preserving judicial discretion under § 283.

76. *See supra* text accompanying notes 16-29.

77. There are important public policy ramifications to either interpretation in terms of the effect that this holding will have upon the information technology sector and, in particular, those who seek to develop and patent Internet technology. A stronger right will likely result in more patent applications and portfolio building as the biggest players build bargaining fodder for cross-licensing agreements.

78. This decision has drawn a great deal of attention from the technology and Internet development sector as well as the academic community. The defendant’s petition for a writ of certiorari drew three amicus curiae briefs urging the Supreme Court to grant the petition. The briefs included one from a group of highly respected intellectual property professors and two from nonprofit technology industry groups.

The Circuit's use of qualifying language in applying the reasoning in *Continental* left unclear the scope of the equitable exceptions that might qualify for the denial of an injunction.<sup>79</sup> The court used the phrase "such as" in its holding,<sup>80</sup> which is inclusive, rather than exclusive language. This seems to indicate a broad scope, sufficient to comply with section 283 and inclusive of more than the public health example given by the court as one such exception.

The Federal Circuit was careful to preserve the equitable consideration of public interest in determining the denial of the injunction remedy but left ambiguous the preservation of the remaining equitable factors.<sup>81</sup> This begs the question as to where the courts have drawn the line between exceptional and unexceptional circumstances, public and private interests and property rights versus policy concerns in determining which competing rights are to prevail. Drawing a bright line between these competing rights may not be possible in light of the fact that they are somewhat amorphous. However, the consideration of equitable factors gives the courts the discretion and tools to adjudicate cases with flexibility where they fall into grey areas or deal with subject matter not yet contemplated by the Patent Act. For instance, one might make the argument that the collapse of a large corporation *such as* eBay<sup>82</sup> qualifies as an exceptional circumstance sufficiently within the public interest to preserve. Alternatively, as the Federal Circuit held, the ability to purchase goods on the Internet may not reach such a standard.

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79. See *MercExchange LLC v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005). "Thus, we have stated that a court may decline to enter an injunction when 'a patentee's failure to practice the patented invention frustrates an important public need for the invention,' such as the need to use an invention to protect public health." *Id.* "We therefore see no reason to depart from the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." *Id.* at 1339. It is unclear when courts may decline to issue an injunction for nonuse of a patent. Likewise, the court in *MercExchange* did not define what might qualify as *an important public need*, or *an exceptional circumstance*. Instead, the court refers to the general rule set out in *Richardson* and by using the phrase *such as* to qualify its example of what *would* qualify, leaving open the question of exactly what *exceptional circumstances* would pass muster under the rule.

80. *Id.* at 1338.

81. *Id.* at 1339.

82. eBay is a multinational company which provides a measurable component to the national economy, enabling individuals and small business alike to enjoy economies of scale and scope in participating in the largest virtual marketplace in the world. There are millions of people worldwide that would be adversely effected by its collapse including thousands of eBay employees, stockholders, businesses (whom depend on the site to buy and sell goods) and perhaps even government (such as the IRS and U.S. Post Office).

The injunction remedy is a potent remedy which, as cautioned by the court over a century ago, has the propensity to give patentees a power which could be used to contravene the very policy it was meant to promote. This danger is especially ubiquitous in the realm of complex Internet based business method patents, a new and developing area of jurisprudence not contemplated by the Framers nor the last major revision of the Patent Act.<sup>83</sup> Under the new rule, the leverage afforded to patentees holding a patent in nonuse could conceivably give them the power to hold the fate of a company ransom by exacting a licensing fee far in excess of the patent's actual value.<sup>84</sup> The Federal Circuit's holding seems to pardon such behavior as a just reward for the disclosure of a patentable business method.<sup>85</sup> Such a circumstance, while seemingly inequitable, clearly falls outside of the *exceptional circumstances* described by the court, as judged by standards of public and not private interests. Under the Federal Circuit's rule, the courts will be constrained in denying injunctive relief even if equity demands otherwise. Without judicial flexibility in granting remedies in equity, patentees are free to charge infringers up to the cost of complete restructuring or closing their doors.<sup>86</sup>

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83. Business Method Patents are relatively new subject matter and have not been addressed in any major revisions to the Patent Act. The watershed case in this area of jurisprudence was less than a decade ago. *See State St. Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368 (Fed. Cir. 1998). Because business method patents are inherently conceptual, the property right to exclude is essential to their value.

84. For example, imagine a situation wherein a company developing a complex e-commerce business unknowingly infringes upon a patented business method by incorporating it as one of hundreds of components into its overall, complex business structure. Furthermore, through years of development and enormous investment, the patented business method or function becomes deeply imbedded into existing, patented business methods and those acquired through licensing agreements, incorporated throughout the development of the corporation. Such a company would have a structure built upon a highly complex and intricate network of business methods, all built upon one another, forming the corporate structure. According to the rule fashioned by the instant court, the injunction remedy would allow the patentee to hold up not only the progress of the company and its improvements upon the business method, but would give it the power to collapse the entire business structure by pulling the carpet out from underneath the entire corporation.

85. *MercExchange*, 401 F.3d at 1339. "If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers." *Id.*

86. Brief Amici Curiae of Computer & Commc'ns Indus. Ass'n in Support of Petitioners at 6, *eBay, Inc. & Half.com., Inc., v. MercExchange, LLC*, 126 S. Ct. 733 (2005) (No. 05-130).

[I]f injunctions are automatic, a patent on a single function can suddenly freeze an entire product line. The loss of the product line may well be catastrophic for the

Perhaps, as the District held, the appropriate remedy in such cases is an accounting by the court with damages determined on less onerous terms, according to a hypothetical license agreement. Where infringement is willful, a court has the discretion to grant up to treble damages plus attorney fees.<sup>87</sup> This would seemingly set an ample limit to remediate even the most wanton infringement.

In explicitly establishing a general rule by which permanent injunctions will issue, the Federal Circuit has effectively narrowed the discretion of the lower courts under section 283.<sup>88</sup> Although such a rule would be expected to provide more predictable standards, it may have provided for more questions than answers. The resulting impact of this decision will have far reaching effects throughout the entirety of the patent system, especially in the Internet technology sector, an important and growing field. The Circuit answered a question left open by the Supreme Court in *Continental*, an answer perhaps more appropriately left to a legislative body where the implications of remedial measures in such circumstances can be debated and explored in depth, or by those who left the question open to future interpretation over a century ago, the Supreme Court.<sup>89</sup>

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manufacturer, who faces the burden of extracting infringing functionality once a product has been designed, tested, debugged, packaged, and put on the market.

*Id.*

87. 35 U.S.C. 284 (1999).

88. Because the Federal Circuit holds a unique position as the sole appellate court for the Federal Circuit, its ruling necessarily serves as precedent for all lower courts.

89. eBay's petition was granted by the Supreme Court on November 28, 2005. *eBay*, 126 S. Ct. at 733 (granting cert.). "In addition to the Question presented by the petition, the parties are directed to brief and argue the following Question: "Whether this Court should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 . . . , on when it is appropriate to grant an injunction against a patent infringer." *Id.* The fact that the Supreme Court has taken up this issue would indicate disagreement with, or at least the need clarification of, the decision of the Federal Circuit.

EPILOGUE<sup>90</sup>

In what has been billed as the most important patent case of the decade,<sup>91</sup> the Supreme Court handed down its decision on the *eBay* case on May 15, 2006 vacating the judgment of the Court of Appeals, and remanding the case to the U.S. District Court for the Eastern District of Virginia. Citing the language of the Court's decision in *Weinberger v. Romero-Barcelo*<sup>92</sup> and of 35 U.S.C. § 283, the court HELD that "the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards."<sup>93</sup>

The Court reaffirmed the right to exclude which imbues in the grant of a patent but tempered this assertion by stating that "the creation of [such] a right is distinct from the provision of remedies for violations of that right."<sup>94</sup> Rejecting the lower courts' "invitations to replace traditional equitable considerations with a [general] rule,"<sup>95</sup> the Court analogized its treatment of the *eBay* case to similar cases under the Copyright Act, which like the Patent Act, provides that courts "may grant injunctive relief "on such terms as it may deem reasonable to prevent or restrain infringement."<sup>96</sup> Indeed, the Court refocused the question of whether an injunction should issue for infringement, requiring the district courts to hereto forward, fully consider the traditional four factor test in light of historical precedent in deciding whether to grant injunctive relief.

However, in a separate concurring decision, Justice Kennedy made clear that historical precedent, while instructive in deciding cases "bear[ing] substantial parallels to litigation the courts have confronted before," may not apply to patent cases now arising within the courts in

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90. On May 15, 2006, after this Case Comment was written, the U.S. Supreme Court handed down a decision on *eBay v. MercExchange*. See 126 S. Ct. 1565 (2006); No. 05-130. This epilogue briefly outlines the decision and a separate concurring decision written by Justice Kennedy (with whom Justice Stevens, Justice Souter, and Justice Breyer joined).

91. Emma Schwartz & Tony Mauro, *Firms Buying Their Way Into the High Court Club*, LAW.COM, at <http://www.law.com/jsp/article.jsp?id=1143207012578&rss=newswire/> (last visited Oct. 10, 2006).

92. See *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 320 (1982).

93. *eBay*, 126 S. Ct. at 1841.

94. *Id.* at 1840.

95. *Id.*

96. 17 U.S.C. § 502(a) (1976).

light of the changing landscape of modern patent law practices. To be sure, Justice Kennedy's decision suggests a potential shift in the Court's treatment of those who practice their patent and those who "use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."<sup>97</sup> This differentiation between traditional patentees and so-called "patent trolls" is in recognition of the "potentially serious sanctions"<sup>98</sup> which might arise for the infringement of an otherwise unpracticed patent, making up only a small component of the product the infringing company seeks to produce.

This is especially true where "the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest."<sup>99</sup> Kennedy also specifically targeted business method patents suggesting that "[t]he potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test."<sup>100</sup> The opinion suggests that courts are empowered by the Patent Act to adapt to the changing landscape of patent practice by including additional factors in deciding whether injunctive relief is appropriate. In utilizing not only historical precedent and the four-factor test, but also the consideration of patent use versus nonuse, courts might more equitably determine that damages at law are appropriate in compensating a patentee for infringement, as opposed to the grant of injunctive relief.

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97. *Id.*

98. *Id.*

99. *Id.*

100. *Id.*

