

2020 PATENTLY-O PATENT LAW JOURNAL

eBay, the Right to Exclude, and the Two Classes of Patent Owners¹

Circuit Judge Paul R. Michel (Ret.)² and John T. Battaglia, Esq.³

The entire point of a healthy patent system is on spurring invention and investment, by rewarding inventor and investor alike, big or small, with *exclusive* rights of limited duration, for their inventive risks and contributions. Otherwise, without such patent rights—or with fewer such rights—the incentives to invent diminish, or such inventive resources will re-locate.

Two Different Patent Laws: One for Manufacturers, Another for NPEs

With that backdrop, we address the disparate-treatment problem that currently defines the U.S. patent system. Those entities that manufacture a product claimed by a patent, and successfully enforce that patent in court, often still obtain an injunction, consistent with the “right to exclude others” that Congress granted to “[e]very patent.”⁴ But for nearly 15 years, those entities that invest in invention rights and buy and license patents—be they university research arms or non-practicing licensing entities (NPEs or so-called “trolls”)—often haven’t bothered even seeking injunctive relief in litigation. Why?

¹ Cite as Paul R. Michel and John T. Battaglia, *eBay, the Right to Exclude, and the Two Classes of Patent Owners*, 2020 PATENTLY-O PATENT LAW JOURNAL 11 (2020).

² Judge Michel served for more than 22 years on the Federal Circuit, retiring on May 31, 2010. From Dec. 25, 2004, until his retirement, he also served as chief judge of the Federal Circuit. He was appointed distinguished scholar in residence by the Intellectual Property Owners Education Foundation following his retirement.

³ Mr. Battaglia is a federal trial and appellate attorney, specializing in IP litigation. He has been a federal prosecutor and law clerk at the Federal Circuit and Eastern District of Virginia. In 2006, he was appointed deputy associate attorney general of the U.S.

⁴ See 35 U.S.C. § 154(a) (“Every patent shall ... contain a ... grant to the patentee ... of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States”).

The Supreme Court's *eBay* Ruling Rejected "Categorical" Injunction Rules.

The answer is that the federal courts over time have misunderstood and misapplied the Supreme Court's landmark 2006 decision in *eBay Inc. v. MercExchange, L.L.C.*⁵ In that case, a unanimous Court ruled in a five-page opinion by Justice Thomas that the usual four "equitable" factors apply in determining whether an injunction should issue in a patent case, just as they do in non-patent cases—i.e., the insufficiency of money damages, irreparable harm, the balance of harms, and the public interest.⁶ In so ruling, the Court rejected the Federal Circuit's "general rule" in "automatically" issuing an injunction in nearly every case in which the patentee obtained an infringement judgment, given the statutory right to exclude.⁷ Less appreciated, *eBay* rejected "categorical rules" *against* injunctions, too, including rules that categorically denied injunctions to NPEs who sought to only license their patents:

Most notably, [the district court] 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. ***For example, some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so.... The [district] court's categorical rule is also in tension with Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 422-30 (1908), which rejected the contention that a court ... has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent.***⁸

⁵ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391-94 (2006).

⁶ *Id.*

⁷ *Id.* at 392-94.

⁸ *eBay*, 547 U.S. at 393 (all emphases added unless otherwise noted).

Having knocked-down “categorical” injunction rules, both for and against, *eBay* thereafter declined to put its thumb on the injunctive scale, whether in that case or any other “arising under the Patent Act.”⁹

***eBay* Favorably Cited and Applied *Continental Paper* (1908).**

As seen above, however, the *eBay* majority prominently (and favorably) cited the Court’s 1908 decision in *Continental, supra*, a case that merits attention. There, as noted, the Court more than a century ago upheld an injunction for a patentee even though it didn’t practice its claimed invention.¹⁰ Indeed, the infringer and a judge there had cited the patentee’s non-use as a “public policy” offense, since the un-used patent kept at least some of the competition sidelined.¹¹ The infringer further urged that such a “derelict patentee” could still obtain damages, just not the “extraordinary remedy of an injunction.”¹²

Citing several precedents, *Continental* rejected these and other familiar arguments about injunctive relief for non-practicing patentees.¹³ Foremost, *Continental* emphasized the “[un]qualifi[ed] right to exclude”—“a right so explicitly given and so complete that it would seem to need no further explanation than the word of the statute.”¹⁴ As *Continental* noted, most appellate courts had “decided that as a consequence of the exclusive right of the patentee he is entitled to an injunction against an infringer, even though he (the patentee) does not use the patented device.”¹⁵ And “Congress has not ‘overlooked the subject of non-user of patented inventions.’ *** In some foreign countries the right granted to an inventor is affected by non-use. This policy, we must assume, Congress has not been ignorant of nor of its effects. It has, nevertheless, selected another policy; it has continued that policy through

⁹ *Id.* at 394.

¹⁰ 210 U.S. at 424-30.

¹¹ *Id.* at 427.

¹² *Id.* at 423, 426.

¹³ *Id.* at 424-30.

¹⁴ *Continental*, 210 U.S. at 424.

¹⁵ *Id.* at 426 & n.1b (citing 13 exemplary opinions from six circuits).

many years.”¹⁶

Thus, the patent’s statutory right to exclude justified the patentee’s non-use and alleged misconduct, as well as the injunction.¹⁷ In so holding, the Court rejected notions that a patentee has a “sort of moral obligation to see that the public acquires the right to the free use of the invention as soon as ... possible.”¹⁸ “We dissent entirely from the thought thus urged,” said the Court, as the “[patent] ... **is his absolute property. *** and he may insist upon all the advantages and benefits which the statute promises to” the patentee.**¹⁹

Chief Justice Roberts’ *eBay* Concurrence Relied on Longstanding Precedents.

Back in *eBay*, Chief Justice Roberts authored one of two terse but notable concurrences. While he didn’t cite *Continental, supra*, Roberts referred to precedents dating back a century, indicating patentees should still frequently obtain injunctive relief after proper consideration of the four injunction factors and the statutory right to exclude. “From at least the early 19th century,” wrote the Chief Justice, “courts have granted injunctive relief upon a finding of infringement in the **vast majority of patent cases**. This ‘long tradition of equity practice’ is not surprising, given the difficulty of protecting a right to **exclude** through monetary remedies that allow an infringer to **use** an invention against the patentee’s wishes”²⁰

Justice Kennedy’s *eBay* Concurrence Relied on a New Licensing “Industry.”

In the other concurrence, Justice Kennedy cited no precedent or other legal authority. Rather, he relied on a 2003 Federal Trade Commission report, indicating a new **“industry has developed in which firms use patents not as**

¹⁶ *Id.* at 429.

¹⁷ *Id.* at 424-30.

¹⁸ *Continental*, 210 U.S. at 426 (quoting *United States v. Bell Tel. Co.*, 167 U.S. 224, 249 (1897)).

¹⁹ *Id.* (emphasis in original); *Connolly v. Union Sewer Pipe Co.*, 184 U.S. 540, 546 (1902) (describing statutory right to exclude as the patent’s essential right and that the owner can use or not use it, without question of “motive”).

²⁰ *eBay*, 547 U.S. at 395 (Roberts, C.J., concurring) (emphases partly in original).

a basis for producing and selling goods but, instead, primarily for obtaining licensing fees”:

For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge *exorbitant fees* to companies that seek to buy licenses to practice the patent. When the patented invention is but a small component of the product the companies seek to produce and 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.*²¹

On this basis, reasoned Justice Kennedy, the courts couldn’t necessarily rely on the “long tradition” and precedent cited by Chief Justice Roberts in deciding injunctive relief.²²

The *eBay* Fall-out: Kennedy Wrote a Concurrence?

We’ll state the obvious in saying that concurring opinions, while often insightful and persuasive, are not binding. But as post-*eBay* statistics reflect, the lower federal courts appear to have mistaken Justice Kennedy’s concurrence as if it were binding. First, *eBay* appears to have depressed injunction requests across-the-board, as available statistics since 2010 indicate that, without the “general rule” for an injunction, less than 1% of all patent cases have even involved a contested injunction request. Of those, however, prevailing patentees still fared well on the injunction front—provided they manufactured the patented invention. One study shows, for example, that such post-*eBay* manufacturers obtained an injunction in 84% of the cases in which they sought to enjoin a competitor.²³ But those that don’t

²¹ *Id.* at 396-97 (Kennedy, J., concurring).

²² *Id.*

²³ Christopher B. Seaman, *Permanent Injunctions in Patent Litigation After eBay: An Empirical Study*, 101 Iowa L. Rev. 1949, 1982–83, 2002 (2016) (further reporting an overall pre-*eBay* injunction grant rate of over 80% versus an overall post-*eBay* grant rate of 68%); Lily Lim & Sarah E. Craven, *Injunctions Enjoined; Remedies Restructured*, 25 Santa Clara Computer & High Tech L.J. 787, 798 (2009) (finding “an NPE’s chance of getting an injunction [fell] precipitously after *eBay*” compared to a

manufacture—those part of the alleged new “licensing industry” that Justice Kennedy called out—rarely do: Statistics show that such NPEs were part of an overall prevailing group that had gone from obtaining injunctions more than 80-95% of the time, pre-*eBay*, to a mere 16%, post-*eBay*.²⁴

NPEs, Now and Then—Was Justice Kennedy’s History Wholly Accurate?

These results are untenable in view of the rights expressly granted by law, the nature of the property rights at issue, and history. Let’s start with the last point, history, and Justice Kennedy’s assertion about the new “licensing” industry that purportedly differentiates today’s patent-plaintiffs from those referenced in the *eBay* majority opinion and Roberts’ concurrence.

In short, non-practicing entities appeared as prominent on the patent landscape of the 19th and early 20th Century as today. Famous inventors such as Edison, Howe, and Goodyear all were part-and-parcel of such NPE efforts to rigorously enforce and license their patents.²⁵

And as reflected in *Continental* and other Supreme Court cases of the day, much of the patent-injunction jurisprudence then focused on the question whether a non-practicing entity, such as the one in *Continental, supra*, could still obtain an injunction. And the answer, most often, was yes—regardless of “motive,” a *patent* owner was a *property* owner, and the very nature of property and a “trespass” on it meant that, barring strong countervailing reasons, the property owner warranted an order stopping the “trespass,” i.e., an injunction to enjoin infringement.²⁶

“patentee who directly competes in the marketplace”); *id.* (“Before *eBay*, courts granted patentees injunctions 95% of the time after finding infringement”).

²⁴ Seaman, at 2002, *supra*; accord Lim, at 798, *supra*.

²⁵ *E.g.*, B. Zorina Khan, Trolls and Other Patent Inventions: Economic History and the Patent Controversies in the Twenty-First Century, 21 Geo. Mason L. Rev. 825, 833 (2014) (“The ‘great inventors’ of the nineteenth century, who were responsible for major disruptive technological innovations, were especially likely to be, or to benefit from, ‘nonpracticing entities.’”); Adam Mossoff, The History of Patent Licensing and Secondary Markets in Patents: An Antidote to False Rhetoric, Center for Protection Intell. Prop. (Dec. 9, 2013), <http://cpip.gmu.edu/2013/12/09/the-history-of-patent-licensing-and-secondary-markets-in-patents-an-antidote-to-false-rhetoric/>.

²⁶ *E.g.*, *Continental*, 210 U.S. at 426 & n.1b (recognizing that, in early 20th Century, most appellate courts “decided that as a consequence of the exclusive right of the patentee

The Patentee's *Right to Exclude*—for a Limited Time and to Promote Invention

To make that conclusion all the stronger, the Patent Act since its inception has explicitly defined “every patent” as containing the “right to exclude others” from making, using, selling, or offering to sell their patented invention.²⁷ What is more, the Act’s “right to exclude” emanates directly from the Constitution itself, which spells out Congress’s “Power To ... *promote the Progress of Science ...*, by securing for limited Times to ... Inventors the exclusive Right to their respective ... Discoveries”²⁸

For 230 years now, that constitutional and statutory text has underscored two additional reasons that still militate in favor of enforcing patents via an injunction. For one, the patent “property” right and concomitant “right to exclude” are an expiring asset, granted for only a “limited Time[]” — and accordingly, one that an adjudged infringer shouldn’t be able to delay and exploit by having to pay money damages only (a “cost of business”). Indeed, it is no hypothetical to say that, without an injunction possibility, an infringer such as a massive corporation can run roughshod over small inventors or underfunded NPEs. They may continue forward with their infringement, even post-judgment, perhaps outlasting the patent’s duration or the NPE’s resources.

For another, without these statutorily granted points of “leverage” and the possibility of an injunction, U.S. patent rights have become less attractive and valuable. After all, why bother with the inventive-and-investment effort if it’s known that another can ultimately:

1. steal the invention absent any enforcement effort;
2. wear-down and attack the patentee via protracted and expensive litigation (both in district court and in post-grant proceedings at the Patent Trial and Appeal Board);

he is entitled to an injunction against an infringer, even though he (the patentee) does not use the patented device”) (collecting cases); *Connolly*, 184 U.S. at 546.

²⁷ 35 U.S.C. § 154(a); *accord* 35 U.S.C. § 261 (stating in relevant part that “patents shall have the attributes of personal property”).

²⁸ U.S. Const., Art. I., § 8, cl. 8.

3. use that invention for what at worst amounts to a “compulsory license,” i.e., the legal damages ordered by a court, absent the “right to exclude” and injunctive relief.

Any negotiated license for intellectual property, of course, will come *not* at a market-driven property-based rate, let alone the “exorbitant” rate vaguely mentioned by Justice Kennedy. Rather, given *eBay*’s perverse effects, that patent/property will at best garner a substantially lower amount than it would have if there existed a realistic possibility of an injunction, i.e., the tool to enforce the patent’s “right to exclude.”²⁹ And all of this patent devaluation occurs, of course, because of the misbegotten notion that an entity on the “inventive” side of the economic ledger—as opposed to, say, the manufacturing or distribution side—must *also* manufacture if they want to avail themselves of the same statutory “right to exclude” and enjoin as other U.S. patent owners. The law imposes no such make-or-use requirement, even if courts have misread *eBay* and believe otherwise.

Conclusion

Litigators for NPEs should not shy away from seeking injunctions, given the *eBay* analysis and history highlighted herein. Armed with the right approach, they should be able to effectively pursue such relief before the district courts, given the broad discretion afforded at the trial level and a closer reading of *eBay*’s actual analysis—rather than the presumed one that the bar and courts alike appear to misapprehend. Indeed, and perhaps because of this *eBay* misunderstanding, courts over the last decade-plus have instead created the very thing that *eBay* condemned; *viz.*, a “categorical rule” (or something close to it) that bars NPEs from obtaining injunctions.

It thus bears emphasis that the 9-0 *eBay* opinion left it squarely open for NPEs to pursue—and obtain—injunctive relief, and presumably with more success than a mere 16%. The statutory right to exclude, the centuries-long recognition of a patent as a form of property, its limited duration, and its critical role in promoting innovation are all *still* material points supporting injunctive relief. Conversely, Justice Kennedy’s concurrence appears both

²⁹ *E.g., Smith Intern., Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1577-78 (Fed. Cir. 1983) (“Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.”).

historically overstated—and legally at odds with the rights created by the Constitution, the Patent Act, the centuries-long precedent noted by the Chief Justice’s concurrence, and in cases such as *Continental*.

If seriously considered, as the *eBay* majority and Chief Justice Roberts both advised, the express weighing of these factors and precedents should at minimum counter the Kennedy-based view that money damages alone should suffice. The probabilities on injunctive relief for NPEs should increase accordingly. And that itself is critical if courts are serious about properly valuing U.S. patents and restoring the U.S patent system to its innovation- and economic-driving goals.