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# Almost Quiet On The Copyright Front: eBay's False Alarm

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# ALMOST QUIET ON THE COPYRIGHT FRONT: *EBAY*'S FALSE ALARM

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The production to which the protection of copyright may be accorded is the property of the author and not of the United States. But the copyright is the creature of the federal statute passed in the exercise of the power vested in the Congress. And this court has repeatedly said, the ***Congress did not sanction an existing right, but created a new one***.[1]

## I. INTRODUCTION

[1] In the current digital millennium, intellectual property law is constantly besieged by new technologies, threatening various patent, trademark, and copyright protections. Though intellectual property law shields individual rights on the one hand, on the other hand the overarching purpose of this protection was not to espouse a regime of private ownership, but to imbue the Founders' intent within a legal framework by "promot[ing] the Progress of Science and the useful Arts," through "secur[ing] for limited Times to Authors and Inventors the

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[1] Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932) (emphasis added).

exclusive Right to their respective Writings and Discoveries."[2] The grant of a copyright was merely a means to serve the general public's end, with that end being the dissemination of ideas and inventions to an increasingly sophisticated populace. The supposition was that giving an author exclusive rights provided an incentive for his or her further contribution to the arts and sciences within the public domain. Ironically, this exclusive endowment of a right both restricts and expands the availability of these new ideas to the general public, by inhibiting the availability of certain works to the public (by giving an author exclusive rights) in order to incentivize the authors to produce additional creative works. Understandably, such a system begot a pair of warring brothers in Authorial Rights and the Public Good, two nemeses constantly vying for absolute authority, yet only one competitor has the Constitution on its side. Although Authorial Rights may not like it, the Public Good is the true theory upon which the intellectual property rights were founded.

[2] The jurisprudence predating and following the case *eBay v. MercExchange* personifies such a struggle. *eBay v. MercExchange* involved the infringement of a patent, however the conclusion handed down by the Supreme Court contained significant repercussions for copyright law.[3] In *eBay*, the United States Supreme Court examined one of patent law's most formidable weapons, the permanent injunction, and extended its application to copyright lawsuits.[4] The Supreme Court's general advice pointed lower courts towards a case-by-case analysis in determining whether or not a permanent injunction should be granted in both patent and copyright cases.[5] The overarching, yet unspoken, policy argument behind this decision was to dissuade "licensing fee holdups" by nefarious "patent trolls."[6] Patent trolls are individuals and businesses

[2] U.S. CONST. art. I, § 8, cl. 8.

[3] eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1840 (2006); *see generally* Thomas L. Casagrande, *The Reach of* eBay, Inc. v. MercExchange, L.L.C.*: Not Just For Trolls and Patents*, HOUS. LAW., Dec. 2006, at 10, 11 (discussing the broader implications of the eBay decision across the intellectual property field).

[4] *eBay*, 126 S. Ct. at 1840.

[5] *See generally* John H. Barr, Jr. & Jeffrey I. Wasserman, *Controlling Patent Trolls:* eBay *Decision Limits Strategic Advantages for Businesses That Own and License Merely for Fees*, 237 N.Y. L. J., Apr. 23, 2007, at S6 (stating that the lesson learned from the *eBay* case was that "[patent and copyright] cases should be decided on a case-by-case basis.").

[6] A "patent troll" is a term used to describe people who "try to make a lot of money off a patent they are not using and have no intention of using." Barr & Wasserman, *supra* note

which utilize the permanent injunction as a "bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent."[7]

[3] The *eBay* decision significantly overturned the Federal Circuit's trend in granting near-automatic injunctive relief in patent infringement cases,[8] yet did not seem to have much of a general effect on the actions of other courts, which were already following equitable principles. Justice Kennedy's concurrence in the *eBay* case enunciated the situation the court sought to avoid in articulating the rule that patent cases—like all other types of cases—should employ a proper analysis of the traditional four-factor test in determining whether or not an injunction is necessary.[9] The majority opinion ended the Federal Circuit's habit of treating patent cases as "special exceptions" to the traditional standard involved in awarding injunctions.[10] The Court cited *Weinberger v. Romero-Barcelo* as the case which properly identified those four factors used to determine an award of injunctive relief:

> A plaintiff must demonstrate: (1) that it has suffered 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 interested would not be disserved by a permanent injunction.[11]

Under a proper construction of these traditional equitable principles, courts must apply their own discretionary judgment in determining whether or not an injunction is appropriate in both patent and copyright law contexts.[12] Though, at first glance, *eBay* might sound an alarm

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5, at S6 (quoting Peter Detkin in Brenda Sandburg, *A Modest Proposal*, RECORDER, May 5, 2005, at 1).

[7] *eBay*, 126 S. Ct. at 1842.

[8] *Id.* at 1839.

[9] *Id.* at 1842 (Kennedy, J., concurring).

[10] *Id.* at 1840.

[11] eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1839 (2006) (citing Weinberger v. Romero-Barcelo, 456 U.S. 305, 311-13 (1982)).

[12] *Id.* at 1841.

heralding the unavailability of permanent injunctive relief, *eBay*'s future policy implications do not disrupt current equitable practices in copyright law as much as one may think.

### A. SCOPE AND PURPOSE

[4] This note contains four parts. The first part entails an analysis of the historical background pre-dating the eBay decision, and a description of how case law in the copyright context provided the backdrop for the Supreme Court's decision in *eBay*. This section also showcases several different scenarios encountered in the context of considering an injunction within a copyright case. The second part explains the facts of *eBay*, and the respective goals of the majority and concurring opinions. The third section discusses several cases in copyright and patent law since the *eBay* decision, and what future implications these rulings might have on copyright and patent law in the digital age. Finally, the fourth part concludes with thoughts on the possible impact the *eBay* decision might have in the future, and what the *eBay* holding could mean in various circumstances.

### B. HISTORICAL BACKGROUND

#### 1. DEFINITION OF AN INJUNCTION

[5] According to Black's Law Dictionary, an injunction is "a court order commanding or preventing an action."[13] To acquire an injunction, a plaintiff must "show that there is no plain, adequate, and complete remedy at law and that an irreparable injury will result unless the relief is granted."[14] A permanent injunction may be granted by a judge in certain cases after a hearing on the merits, but permanent injunctions need not always last "forever."[15] Under the Patent Act, a court "may" issue an injunction "in accordance with principles of equity."[16] Likewise in copyright cases, the Copyright Act provides that a "court 'may' grant injunctive relief 'on such terms as it may deem reasonable to prevent or

[13] BLACK'S LAW DICTIONARY (8th ed. 2004).
[14] *Id.*
[15] *Id.*
[16] 35 U.S.C. § 283 (1952).

restrain infringement of a copyright.'"[17] In constructing this purposive language, Congress ensured the discretionary power of courts in making the decision of whether to grant or deny an injunction.[18]

2. JUDICIAL AUTHORITY AND PRECEDENTS INVOLVING INJUNCTIVE RELIEF

[6] The Supreme Court in *eBay* relied on several of its own precedents in reaching the conclusion that courts should exercise discretion on a case-by-case basis in determining whether or not injunctive relief is appropriate in patent and copyright cases.[19] The Supreme Court based its holding in *eBay* on general principles of equity in overruling the Federal Circuit's previous determination that infringement merits almost inevitable permanent injunctive relief.[20] The *Weinberger* case paved the way for this finding.

[7] In *Weinberger v. Romero-Barcelo*,[21] the Supreme Court developed the four-part test for determining whether or not a court should issue an injunction in any type of case. The factors which a plaintiff must demonstrate are:

> (1) that it has suffered 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 interested would not be disserved by a permanent injunction.[22]

*Weinberger* involved an injunction to enjoin the U.S. Navy from using a portion of land for training purposes. Though on a completely different

[17] 17 U.S.C. § 502(a) (1976).
[18] *See* H.R. REP. NO. 94-1476, at 81 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5695 (maintaining the courts' discretion in awarding various types of injunctions).
[19] *See generally* Barr & Wasserman, *supra* note 5 (stating that the lesson learned from the *eBay* case was that "[patent and copyright] cases should be decided on a case-by-case basis.").
[20] eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1840 (2006).
[21] Weinberger v. Romero-Barcelo, 456 U.S. 305, 311-13 (1982).
[22] *eBay*, 126 S. Ct. at 1839 (citing Weinberger v. Romero-Barcelo, 456 U.S. 305, 311-13 (1982)).

topic, the Court articulated the generally applicable principle that "a major departure from the long tradition of equity practice should not be lightly implied," meaning that equity principles should apply across various types of cases, regardless of their issues.[23]

### 3. COPYRIGHT CASES BEFORE THE *EBAY* DECISION

[8] Many courts hinted in opinions preceding *eBay* that judge-made licenses or awards of damages might be better alternatives to permanent injunctions in copyright suits.[24] Many of these cases espoused the key concepts of *eBay* (that cases should consider traditional equitable principles, and outcomes should be determined based on the unique factual scenarios in a given instance) before the *eBay* Court stepped in to limit the award of permanent injunctive relief.

#### A. DERIVATIVE WORKS AND SMALL COMPONENT PARTS

##### I. *ABEND V. MCA, INC.*

[9] Several different cases entail situations where the infringing party claimed that its rendition of the copyrighted material was protected under the doctrine of fair use[25] as a derivative work. In *Abend v. MCA*, the plaintiff sued MCA over copyright infringement of the idea behind the successful movie, *Rear Window*.[26] The Ninth Circuit examined the relevance of the infringer's "fair use" of the copyrighted work (a fictional story) in relation to the infringer's creation of a derivative work in film media in deciding whether or not injunctive relief was appropriate. The Ninth Circuit's ruling found support in Professor Nimmer's theory that "where great public injury would be worked by an injunction, the courts might…award damages or a continuing royalty instead of an injunction in such special circumstances."[27] The Federal Circuit closely echoed this very language in its 2006 decision in *eBay* by stating that an injunction in

[23] *Id.* at 1838 (citing *Weinberger*, 456 U.S. at 320).
[24] *See* discussion *infra* Part I.B.3.
[25] See 17 U.S.C. § 107 (2000), for an articulation of the "fair use doctrine," which states that "fair use of a copyrighted work…for the purposes such as criticism, comment, news reporting, teaching…scholarship, or research, is not an infringement of copyright."
[26] Abend v. MCA, Inc., 863 F.2d 1465 (9th Cir. 1988).
[27] *Id.* at 1479.

patent cases should issue "absent exceptional circumstances."[28] However, in the *Abend* case, the Ninth Circuit did find a special circumstance where the award of a permanent injunction would have caused "great injustice for the owners of the film," since such an action would "foreclose defendants from enjoying legitimate profits derived from exploitation of the 'new matter' comprising the derivative work, which is given express copyright protection by section 7 of the 1909 Act."[29] In this case, the Ninth Circuit denied a permanent injunction based on equitable principles and the application of the four-factor test referenced in *Weinberger*.[30] Though not the exact same situation as that in *eBay*, one may understand the close parallel between an aspect of a derivative work in copyright law and the component part of a business method patent[31] as requiring similar considerations in determining whether or not injunctive relief might be appropriate. Here, the Ninth Circuit determined that statutory damages were an adequate remedy and that injunctive relief was not merited under a proper analysis of equitable factors. Though the *Abend* court did not refer specifically to the *Weinberger* factors, the court underscored the importance of the "public interest" factor by stating that an injunction could cause "public injury by denying the public the opportunity to view a classic film for many years to come."[32] The public good would have been disserved by an injunction in this case, so the court decided that an alternate remedy was appropriate.

## II. *DUN V. LUMBERMEN'S CREDIT ASSOCIATION*

[10] *Dun v. Lumbermen's Credit Association*[33] demonstrates another instance of the "component part concept" in copyright law. In that case, plaintiff Dun discovered the theft of parts of a reference book by defendant Lumbermen, a producer of a much larger and more specialized

[28] MercExchange v. eBay, 401 F.3d 1323, 1339 (Fed. Cir. 2006).
[29] *Abend*, 863 F.2d at 1479. *But cf.* Woods v. Universal City Studios, Inc., 920 F. Supp. 62, 65 (S.D.N.Y. 1996) (declining to consider an infringer's financial loss as a factor militating against an award of a permanent injunction).
[30] *Id.* at 1478-81.
[31] This was the type of patent infringed in *eBay*. eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006).
[32] Abend v. MCA, Inc., 863 F.2d 1465, 1479 (9th Cir. 1988).
[33] Dun v. Lumbermen's Credit Ass'n, 209 U.S. 20 (1908).

reference collection for the lumber industry.[34] Though the Supreme Court did not specifically articulate the four considerations of equitable relief,[35] it used several of them (most notably, the "balance of hardships" and the "irreparable injury" factors) in its determination that "when we take note of the character of the items alleged to be appropriated on the one hand and the consequences of granting the injunction prayed for, it would be an unwarrantable use of the power of the court to do so."[36] Furthermore, the Court explained that "the proportion [of infringement] is so insignificant compared with the injury from stopping appellees' use of their enormous volume of independently acquired information, that an injunction would be unconscionable."[37] This language insinuates the "balance of interests" factor of the equitable considerations and implies the court's recurrent concern with "the public good" in finding that the completeness of a reference collection (which would be available to the general public) is of primary importance.

[11] The Court's holding in *Dun* conforms with the Constitutional doctrine of "promot[ing] the Progress of Science & the useful Arts."[38] The fourth and chief factor[39] under the *Weinberger* factors is the "public interest" factor. The Supreme Court's concern in *Abend,* that "the public interest [should] not be disserved by a permanent injunction,"[40] resurfaces throughout Supreme Court copyright jurisprudence both before and after *eBay*. Thus, though *eBay* may appear to have changed the terrain of

[34] *Id.* at 21.
[35] *eBay*, 126 S. Ct. at 1840.
[36] *Dun*, 209 U.S. at 22-23.
[37] *Id.* at 23.
[38] U.S. CONST. art. I, § 8, cl. 8.
[39] I use "chief factor" only because, in many subsequent and previous Supreme Court opinions, the Court's preoccupation with the "public interest" factor echoes the basic intent of the Constitution, which is to disseminate new ideas and inventions to the public. The Supreme Court returns to the "public interest" consideration again and again, thus it may be inferred that this factor is of primary concern. *See, e.g.,* New York Times Co. v. Tasini, 533 U.S. 483, 519 (2001) (Stevens, J., dissenting) ("[T]he primary purpose of copyright is not to reward the author, but to secure the 'the general benefits derived by the public from the labors of authors.'") (quoting Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932)); Campbell v. Acuff-Rose, 510 U.S. 569, 578 n.10 (1994) (stating that "where 'there may be a strong public interest in the publication of the secondary work [and] the copyright owner's interest may be adequately protected by an award of damages for whatever infringement is found.'").
[40] MercExchange v. eBay, 401 F.3d 1323, 1339 (Fed. Cir. 2006).

copyright jurisprudence, the outcome instead upholds a constant theme of serving the public interest, which the 1908 *Dun* Court clearly enunciated.

### B. FILE-SHARING NETWORKS AND DATABASES

#### I. *UNIVERSAL CITY STUDIOS, INC. V. REIMERDES (2000)*

[12] In *Universal City Studios, Inc. v. Reimerdes*, motion picture studios brought an action against producers of digital copyright-infringing software (termed "DeCSS"),[41] which facilitated grand-scale decryption of copyright-protected movies on digital versatile disks ("DVDs").[42] This action arose under the Digital Millennium Copyright Act ("DMCA") with the motion picture studios requesting injunctive relief in order to stop the infringement of their copyrights.[43] After the infringer was caught, he attempted to thwart injunctive relief efforts by supporting links to other websites which enabled the download of his illegal system software (the function of this software was to essentially "de-code" digital protection shields designed to prevent illegal copying of DVDs).[44] Reimerdes willfully infringed in this situation, and the court believed that such a flagrant disregard for copyright laws merited a permanent injunction.[45]

[13] In many instances, willful infringement may be the only circumstance still able to revive the "now-extinct" automatic permanent injunction post-*eBay*. Indeed, the courts do not take situations of willful infringement lightly. In *Woods v. Universal City Studios, Inc.,* the Southern District of New York rejected the Defendant's contention that "great public injury" would result from an injunction halting the distribution of an unredacted version of its infringing film, *12 Monkeys*.[46] Instead, the court instructed: "Copyright infringement can be expensive. The Copyright Law does not condone a practice of 'infringe now, pay later.' Copyright notification and registration put potential infringers on notice that they must seek permission to copy a copyrighted work or risk

[41] Universal City Studios, Inc. v. Reimerdes, 111 F. Supp. 2d 294, 308 (S.D.N.Y. 2000) (explaining the definition and purpose of DeCSS software).
[42] *Id.* at 303.
[43] *Id.*
[44] *Id.* at 312.
[45] *Id.* at 344-45.
[46] Woods v. Universal City Studios, Inc., 920 F. Supp. 62, 65 (1996).

the consequences."[47] Many courts both before and after *eBay* have expressed a similar disdain for the willful infringer.

## II. *N. Y. TIMES V. TASINI*

[14] In *N.Y. Times v. Tasini*, freelance authors of previously published articles filed a claim of copyright infringement against the owners of electronic databases that had included the articles within their databases.[48] The Supreme Court decided that it was best for both parties to enter into a licensing agreement, rather than to grant the plaintiffs' claim for permanent injunctive relief against the databases.[49] The Court stated that "it hardly follows from today's decision that an injunction against the inclusion of these Articles in the Databases (much less all freelance articles in any databases) must issue."[50] The Court indicated that an injunction should not be automatic, but left the ultimate question of whether or not a permanent injunction was to be given to the lower court.[51] Yet, the Court advances what its own course of action might be: A compulsory court-made license fashioned for the two parties.[52] Though this case was decided pre-*eBay*, its holding draws upon a similar situation paralleling the patent case scenario in *eBay*. Both cases underscore one of the main concerns regarding infringement: a larger infringing company may be able to seize individual authors' and inventors' copyrights and patents without the threat of a permanent injunction. The public interest in having access to a great amount of ideas and copyrightable works overrides the interests of the individual author in this context. Though this may seem slightly offensive to authorial rights supporters, the Supreme Court's suggestion reinforces the Constitutional paradigm of furthering "Science and the Useful arts."[53]

[15] The decisions in *Abend*, *Dun, Reimerdes, and Tasini* discussed several different scenarios which might or might not merit permanent injunctive relief and the considerations which courts took into account

[47] *Id.*
[48] New York Times Co. v. Tasani, 533 U.S. 483, 487 (2001).
[49] *Id.* at 505.
[50] *Id.*
[51] *Id.* at 505-06.
[52] *Id.* at 505.
[53] U.S. Const. art. I, § 8, cl. 8.

before the *eBay* decision. Understandably, in cases of willful infringement, courts have been less likely to deny permanent injunctive relief yet are more likely to deny an injunction in cases involving a small component of a grander derivative work, such as a motion picture. This circumstance is analogized by the fact pattern in *eBay*, where a business method patent entailed only a small amount of the company's larger money-making product.[54] Though *eBay* involved patent infringement, its conclusions of law extend to copyright cases as well.

## II. THE FACTS OF *EBAY V. MERCEXCHANGE*

[16] In *eBay v. MercExchange*, the owner of a patent for a business method involving online purchases sued an auction website operator for patent infringement.[55] Petitioner eBay runs an online auction website, where buyers and sellers can list and purchase items they wish to sell, either through the bidding process or at a fixed price.[56] Respondent MercExchange held (and continues to hold)[57] a valid patent for an online purchase method designed to "facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants."[58] Ebay and MercExchange entered into negotiations on a licensing agreement involving several of MercExchange's patents, including U.S. Patent No. 5,845,265 ("the '265 patent"), which is the primary patent at issue in this case.[59] However, neither party was able to

[54] eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1839 (2006).
[55] *Id.*
[56] *Id.*
[57] As of the creation of this note, eBay and MercExchange were still involved in proceedings before the United States Patent and Trademark Office concerning the validity of the '265 patent. *eBay*, 126 S. Ct. at 1839 n.1; *see also* Linda Greenhouse, *Justices Order Rethinking of eBay Case,* N.Y. TIMES, May 16, 2006, at C1. After the case was remanded to the trial court, however, the district court "granted a stay for the '051 patent, but denied the '265 patent, due to 'vastly differing procedural postures.'" MercExchange v. eBay Remand—Injunction Denied, Partial Stay Granted, http://271patent.blogspot.com/2007/07/mercexchange-v-ebay-remand-injunction.html (July 30, 2007, 12:43 EST).
[58] *eBay*, 126 S. Ct. at 1839; U.S. Patent No. 5,845,265; *see also* Linda Greenhouse, *Justices Order Rethinking of eBay Case*, N.Y. TIMES, May 16, 2006, at C1. This feature, commonly known as the "Buy It Now" feature, allows an individual to bypass the bidding process by placing a direct payment on an item. For a more detailed description of the "Buy It Now" feature, see http://pages.ebay.com/help/newtoebay/glossary.html#B.
[59] *See eBay*, 126 S. Ct. at 1839 n.1.

reach an agreement.[60] Subsequently, MercExchange sued eBay, alleging infringement of its '265 patent.[61] MercExchange requested statutory damages and a permanent injunction on eBay's use of its business method patent.[62]

[17] MercExchange brought its action requesting statutory damages and a permanent injunction under section 283 of the Patent Act.[63] That section of the Patent Act states that injunctions "may" issue "in accordance with the principles of equity,"[64] and "courts may grant injunctions … to prevent the violation of any right secured by [a] patent, on such terms as the court deems reasonable."[65] The trial court found MercExchange's patent was valid, and it had been infringed.[66] The trial judge awarded damages to MercExchange for eBay's infringement of the patent but denied permanent injunctive relief upon an evaluation of the four-part test used in determining injunctive relief.[67]

[18] By contrast, the Court of Appeals for the Federal Circuit held that injunctive relief should be granted almost by default in all patent infringement cases.[68] The Federal Circuit invalidated the trial court's rendering of the four-part injunctive relief test on several accounts. First, the Federal Circuit criticized the district court in stating that its "general concern regarding business method patents" was not the "type of important public need that justifie[d] the unusual step of denying injunctive relief."[69] Second, the district court's concern with continuing litigation should not have been a factor influencing its grant or denial of an injunction. Third, the Federal Circuit explained that MercExchange's purported openness to negotiating license agreements should not have "deprive[d] it of the right to an injunction to which it would otherwise be

[60] *Id.* at 1839.
[61] *Id.*
[62] *Id.*
[63] *Id.*
[64] *Id.*
[65] 35 U.S.C. § 283 (1952).
[66] *eBay*, 126 S. Ct. at 1839.
[67] *Id.*
[68] MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1339 (Fed. Cir. 2005).
[69] *Id.*

entitled."[70] Finally, the Federal Circuit disagreed with the trial court's reasoning that MercExchange's failure to move for a preliminary injunction should "militate against its right to a permanent injunction."[71] Following this evaluation of the district court's decision, the Federal Circuit concluded that the district court did not properly follow "the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."[72] In reaction to the Federal Circuit's reiteration of a unique standard in awarding permanent injunctive relief in patent suits, the Supreme Court granted certiorari.[73]

## III. ANALYSIS

### A. THE SUPREME COURT'S *EBAY* DECISION

[19] In *eBay*, the Supreme Court determined whether the Federal Circuit's standard of awarding permanent injunctions "by default" in patent suits was proper.[74] Though the succinct decision handed down by the Court was unanimous, a pair of equally concise concurring opinions underlined competing theories on how the case at bar—in addition to future cases—should be handled. Justice Thomas, writing for the majority, began by summarizing broad instructions for the future treatment of permanent injunctions across the intellectual property field.

#### 1. JUSTICE THOMAS'S MAJORITY OPINION

[20] In the Court's majority opinion, Justice Thomas detailed the inherent principles within a proper construction of the traditional four-factor test used in issuing a permanent injunction in all cases not just patent disputes.[75] The thrust of his enumeration and application of these four factors was to point out to lower courts (and the Federal Circuit in particular) that the Patent Act did not create any special exceptions in its description of how equitable relief should be given.[76] The majority cites

[70] *Id.*
[71] *Id.*
[72] *Id.*
[73] eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1839 (2006).
[74] *Id.*
[75] *Id.*
[76] *Id.* (citing Weinberger v. Romero-Barcelo, 456 U.S. 305, 320 (1982)).

its purpose in granting certiorari, as a need to determine the appropriateness of the Federal Circuit's "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."[77]

[21] Justice Thomas referenced section 283 of the Patent Act, which stated that courts "may" issue permanent injunctive relief in patent cases,[78] in support of the conclusion that the Federal Circuit's construction of the four-factor test for granting injunctions was too broad.[79] The majority opinion criticized the Federal Circuit for applying too much of a "property analysis" when the Patent Act specifically limits the application of injunctions by differentiating them from traditional property-related concepts. The Patent Act does state that patents shall have the attributes of personal property[80] but tempers the statement with the supplementary phrase, "subject to the provisions of this title."[81] In its pronouncement that "the creation of a right is distinct from the provision of remedies for violations of that right,"[82] the Supreme Court rendered the Federal Circuit's long trail of near-automatic permanent injunction precedents virtually erroneous.

[22] Subsequently, the Court extended this reading of the Patent Act to actions arising under the Copyright Act. The Copyright Act contains the same operative language of the Patent Act in its statement that courts "may" grant injunctive relief "on such terms as [they] may deem reasonable to prevent or restrain infringement of a copyright."[83] Throughout the majority opinion, the Court reiterated the importance of the "reasonableness factor" within a court's decision of whether to award injunctive relief.[84] Indeed, the majority opinion went on to state that it had

[77] *Id.* at 1839 (citing MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1339 (Fed. Cir. 2005)).
[78] 35 U.S.C. § 283 (1952).
[79] *See* eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1841 (2006). The Supreme Court also stated that the district court's rendering of the Patent Act's principles under the four factors of the *Weinberger* test was, by contrast, too narrow a construction, and that the district court erred in its grant of injunctive relief. *See eBay*, 126 S. Ct. at 1841.
[80] *eBay*, 126 S. Ct. at 1840.
[81] *Id.* (citing 35 U.S.C. § 261 (1952)).
[82] *Id.*
[83] *Id.* (citing 17 U.S.C. § 502(a) (1952)).
[84] *Id.* at 1839-41.

"consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed."[85] This part of the opinion clearly explicated the holding's relevance to copyright law and reinforced the determination that those courts involved in deciding intellectual property disputes must adhere closely to principles of equity in all circumstances. [86]

[23] Finally, the majority opinion briefly stated several situations under patent law, which would not merit a permanent injunction. In criticizing the district court's opinion, Justice Thomas pointed out that whether a patent holder may be actively utilizing his patent should not bear on a court's decision to award or deny injunctive relief.[87] In fact, the Court stated that such a conclusion was in tension with its ruling in *Continental Paper Bag Co. v. Eastern Paper Bag Co.* "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."[88] In reaching back to older precedents, the Supreme Court further underlined its desire to uphold the standard that traditional principles of equity must apply in determining whether or not to award a permanent injunction in intellectual property cases.[89]

### 2. CHIEF JUSTICE JOHN ROBERTS' CONCURRING OPINION

[24] Chief Justice John Roberts' concurring opinion, in which Justices Scalia and Ginsburg joined, rested upon an appeal to history in its statement that "[f]rom at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases."[90] Justice Roberts continued in explaining that the historical practice of granting equitable relief in patent cases does not automatically "entitle a patentee to a permanent injunction or justify a general rule that

[85] *Id.* at 1840.
[86] *Id.* at 1840-41.
[87] *Id.* at 1840.
[88] *Id.* at 1840-41 (citing Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 422-30 (1908)).
[89] *Id.* at 1841.
[90] *Id.* at 1837 (Roberts, J., concurring).

such injunctions should issue."[91] Because Justice Roberts' concurring opinion, much like the majority opinion, offered only general advice on applying precedent, it is difficult to discern a bright line rule of law from his statements. However, when one reads the combined axioms of Roberts' concurrence as a whole, the opinion seems to suggest that the denial of an injunction should be an unusual occurrence in a situation such as that of the *eBay* case.[92]

### 3. JUSTICE KENNEDY'S CONCURRING OPINION

[25] In Justice Kennedy's concurring opinion, in which Justices Stevens, Souter, and Breyer joined, Justice Kennedy cautioned against a judicial methodology which might cling too tightly to historical practices.[93] Justice Kennedy initially lauded the finding of both the majority opinion and Chief Justice Roberts' concurrence that an appeal to history offers a proper construction of equitable principles.[94] However, Justice Kennedy also suggested that courts must exercise vigilance in dealing with cases which comprise an entirely new fact pattern.[95] Though Justice Kennedy did not specifically use the words "patent troll" in his analysis, his explanation that some permanent injunctions "can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent" clearly alluded to a situation involving a patent troll.[96] In fact, Justice Kennedy explained that "an industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."[97] The gist of Justice Kennedy's concurrence was to further support the majority's observation that trial courts must exercise discretion in deciding whether or not to grant an injunction. Justice Kennedy, however, offered more explicit guidance for lower courts to follow in their awards and denials of permanent injunctions than did the majority opinion, while also

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[91] *Id.*
[92] *See* Linda Greenhouse*, Justices Order Rethinking of eBay Case,* N.Y. TIMES, May 16, 2006, at C1. This note interprets Chief Justice Roberts' statements—along with those of Justice Kennedy—as applicable across the copyright as well as patent law fields.
[93] eBay, Inc. v. MercExchange, L.L.C.*,* 126 S. Ct. 1837, 1842 (2006).
[94] *See id.*
[95] *Id.*
[96] *Id.*; *see also* Casagrande, *supra* note 3, at 12.
[97] *eBay*, 126 S. Ct. at 1842.

insinuating that a decrease in the availability of permanent injunctive relief could have a significant effect on current and future intellectual property litigation.[98]

## IV. THE FUTURE EFFECTS OF THE *EBAY* DECISION

[26] Immediately following the *eBay* decision, scholars wondered if significant changes might occur. However, courts were, for the most part, uninterrupted in their set system of applying a case-by-case analysis in both patent and copyright contexts. Several cases and policy rationales underline the very small change, if any, *eBay* may have made in the intellectual property field.

### A. CASE LAW FOLLOWING THE EBAY DECISION

#### 1. PATENT LAW

##### A. *Z4 TECHNOLOGIES, INC. V. MICROSOFT CORP.*

[27] The *z4 Technologies* case involved a claim against a software manufacturer, which infringed a small component of a larger patented software protection scheme.[99] In this case, permanent injunctive relief was deemed inappropriate as a remedy for Microsoft's infringement.[100] The district court cited to *eBay* in construing the four-part test yet found that under factors (3) and (4)–the "balancing of hardships between the plaintiff and defendant" factor and "the public interest" factor—permanent injunctive relief was inappropriate.[101] Even the possibility of computer colossus Microsoft shutting down or temporarily canceling its systems was enough to dissuade the court from authorizing a permanent injunction.[102]

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[98] *See* Christopher Cotropia, *Intellectual Property and Injunctions: The Post-eBay's Environment*, at 5 (Mar. 9, 2007) (unpublished article and findings presented to Greater Richmond Intellectual Property Law Association) (on file with author).
[99] z4 Technologies, Inc. v. Microsoft, Corp., 434 F. Supp. 2d 437, 437 (E.D. Tex. 2006).
[100] *Id.* at 444-45.
[101] *Id.* at 444.
[102] *Id.*

[28] *z4 Technologies* was a victory for large corporations in the patent infringement sphere.[103] Holdings such as those in the *z4 Technologies* case show that permanent injunctions are not the standard result of patent infringement post-*eBay*, and though the *eBay* decision was welcome relief for those plagued with the situation of "licensing fee holdups," the flip side of the coin might have spelled doom for small companies, which often lack the funding to exercise patents on their own, and operate entirely on licensing fees.[104] With permanent injunctions no longer a standard remedy in fending off true infringement by large companies (and not the licensing holdup situation), small companies and individual inventors might suffer in the post-*eBay* patent law environment.[105]

### 2. COPYRIGHT LAW

#### A. *DISNEY ENTERPRISES, INC. V. DELANE*

[29] In *Disney Enterprises, Inc. v. Delane*, a motion picture studio sued an individual who operated a peer-to-peer file-sharing network, which facilitated the infringement of the motion picture studio's copyrights on several television shows.[106] The district court of Maryland granted Disney a permanent injunction in that case barring the infringer from any future use of the copyrighted material.[107] Before the *eBay* case, that district had routinely entered permanent injunctions once copyright infringement had been proven.[108] Yet, the *Disney* court recognized that the traditional four factors should now be examined prior to the award of an injunction.[109] The *Disney* court then applied the four factors, but reached the same conclusion as it would have prior to the *eBay* ruling—that a permanent

[103] *See* Yixin H. Tang, *The Future of Patent Enforcement After eBay v. MercExchange*, 20 HARV. J.L. & TECH. 235, 250 (2006) (stating that "[l]arge corporations can afford the financial risk of willfully infringing others' patents.").
[104] *See* Steve Seidenberg, *Troll Control*, 92 A.B.A.J. 51, 51 (2006) (stating that some "trolls" are actually small inventors, truthfully trying to protect their intellectual property from infringing corporations).
[105] *See id.*
[106] Disney Enters., Inc. v. Delane, 446 F. Supp. 2d 402, 404 (D. Md. 2006).
[107] *Id.* at 408.
[108] *Id.* at 407 (citing M.L.E. Music v. Kimble, Inc., 109 F. Supp. 2d 469, 472-73 (S.D.W. Va. 2000)).
[109] *Id.* at 408.

injunction was appropriate.[110] The opinion explained, under the test, (1) that Delane had caused an irreparable injury to Disney Enterprises in his willful infringement, (2) that further infringement was a possible threat if an injunction was not granted, (3) that Delane had facilitated many other possible instances of infringement through his actions, and that (4) there was greater benefit to the public in securing the integrity of plaintiff's copyrights than in allowing Delane to make Disney's copyrighted material available to the public.[111]

[30] Because Delane purposefully infringed, the penalties within the district of Maryland seemed to be harsher,[112] thus comporting with proper equitable policies. Disney's arguments in that case also underlined that "digital piracy has a continuing financial impact on the entire motion picture industry."[113] Indeed, Disney supported its contentions with a declaration from Dean C. Garfield, the Vice-President and Director of Legal Affairs Worldwide Anti-Piracy for Motion Picture Association, in stating that even Delane's facilitation of the infringement of ten television shows "impacted DVD/home video revenues and rental revenues."[114] Understandably, the motion picture industry has a huge interest in the policy implications of the *eBay* decision, which might affect copyright law.

## B. POLICY IMPLICATIONS OF THE *EBAY* DECISION IN BOTH PATENT AND COPYRIGHT LAW

### 1. PATENT LAW

[31] The *eBay* decision purposefully limited the patent troll's ability to excise settlement agreements from large companies "infringing" its patent.[115] Patent trolls function by attempting to negotiate nuisance license fees, which are no more than a type of blackmail an allegedly

[110] *Id.*
[111] *Id.*
[112] *Id.* at 406 (citing Hamil Am., Inc. v. GFI, 193 F.3d 92, 97 (2d Cir. 1999), and N.A.S. Import Corp. v. Chenson Enters., Inc., 968 F.2d 250, 252 (2d Cir. 1992) as precedent (within the District of Maryland) for supporting harsher penalties for infringers).
[113] *Id.*
[114] *Id.* at 407.
[115] *See* Barr & Wasserman, *supra* note 5.

"infringing" company pays to the troll for the sole purpose of avoiding court.[116] Though this situation does exist in today's business world, the big corporation is not always the "innocent infringer," and the patent troll may not always be "the bad guy."[117] In fact, Justice Thomas's majority opinion in *eBay* cautioned against the complete annihilation of the permanent injunction in intellectual property suits, because "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."[118]

[32] Some observers fear that the results of the *eBay* decision will bear upon America's ability to innovate.[119] Richard Lang, founder and CEO of Burst.com, a company which survives on licensing its patents, foresees that a lack of injunctive relief could mean a lack of protection for small inventors' patent rights.[120] He worries that "if small inventors go to large companies [seeking to partner with them or license their inventions], the companies can steal their inventions with impunity. If small inventors create their own businesses [to commercialize their inventions], large companies can steal the inventions and put them out of business."[121] The impact of the *eBay* decision in the realm of patent law could mean increased lawsuits with increased time periods in order to battle out monetary remedies in court, as well as decreased incentives for inventors to innovate on their own.[122] Either way, "the death of the troll" does not necessarily foreshadow a better time for American invention.

### 2. COPYRIGHT LAW

[33] When construing the *eBay* decision against the backdrop of copyright law, one must ask what effects such an outcome might have on one of copyright's most affluent fans, the entertainment industry. There are two typical scenarios which copyright holders might face and the *eBay*

[116] *Id.*
[117] *See* Seidenberg, *supra* note 104, at 51.
[118] eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1840 (2006).
[119] Seidenberg, *supra* note 104, at 52.
[120] *Id.* at 51.
[121] *Id.* at 52.
[122] *Id.*

decision could impact. First, a situation arises in which a court interferes unnecessarily into business dealings between two parties and declares the necessity of a court-mandated license. This type of compulsory licensing existed pre-*eBay* but may be more prevalent post-*eBay*.[123] Second, the decreased availability of permanent injunctive relief might be a boon to documentary filmmakers. The documentary film industry is hyper-alert to risk aversion (since an infringing film could mean a major halt in production), and *eBay*'s ruling may decrease the risks associated with possible (and often accidental) infringement in that industry, even if only to a minimal degree.

[34] The main point from *N.Y. Times v. Tasini*,[124] a case predating *eBay*, certainly found further support for its earlier ruling in the *eBay* decision. There, the court underlined the availability and importance of licensing agreements[125] hinting that such options were available and perhaps preferable to an award of a permanent injunction. The ruling propounded the "case-by-case" mentality needed in analyzing copyright cases, and *eBay* reinforced that idea again in stating that injunctions should not be the presumptive remedy for infringement.[126] Though the licensing fee holdup situation in *eBay* will be avoided in circumstances such as these, the court will now be serving a function that the marketplace was originally designed to handle. This interference into business relations now carries the stamp of judicial authority and could be something that further complicates the already-complex issues arising at the negotiation table.

[35] The film industry's tendency for risk aversion is pronounced, so much so that the general philosophy of many motion picture studios is to "license, not litigate."[127] One scholar coined this as the "better safe than

[123] A compulsory license is explained as "not entailing the transfer of copyright ownership." Further, under a grant of a compulsory license, "at most, the secondary work producer receives the equivalent of a nonexclusive license under which it is financially liable to the copyright owner." Alice Haemmerli, *Take It, It's Mine: Illicit Transfers of Copyright By Operation of Law*, 63 WASH. & LEE L. REV. 1011, 1020 (2006).
[124] New York Times Co. v. Tasini, 533 U.S. 483 (2001).
[125] *See* discussion *supra* Part I.B.3.
[126] *See* eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1839-40 (2006); *see also* discussion *supra* Part III.B.
[127] *See* James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882, 890-91 (2007).

sued"[128] mentality. Within this paradigm, one of the most vulnerable realms of media production is the documentary industry. Because these second-users take so much copyrighted material from everyday culture, it becomes especially taxing and expensive for these individuals and companies to obtain licenses for every piece of their overall production schema.[129] For example, a filmmaker shooting a documentary on street life in New York City must secure licenses on everything from the song a homeless man sings in the background, to a famous landmark appearing momentarily across the screen.[130] The question then becomes, how might *eBay* affect filmmakers' hyper-tendencies to seek licensing agreements?

[36] *eBay* could potentially be a first step towards curing the licensing paranoia currently plaguing the documentary film industry. *eBay*'s holding that permanent injunctions should not be presumptively automatic after a finding of infringement, dictates that courts should be less-inclined to award permanent injunctive relief depending on the circumstances of the case.[131] Given this determination, it seems that one of the judicial remedies used "to strike fear into the heart of [potential film media]

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[128] *Id.* at 884.

[129] Gibson, *supra* note 127, at 888.

[130] I am referencing a scenario created within Professor Gibson's article, cited in footnote 127, *supra*. Professor Gibson explains how concerns regarding already-copyrighted material arise post-production when a documentary filmmaker realizes the very large quantity of copyrighted information appearing in her final product. The scene is as follows:

> In post-production, as the filmmaker edits this clip into the documentary, she notices the singular features of Cleveland's Rock and Roll Hall of Fame looming in the background of the shot. The singing worker is also holding a copy of *Newsweek*, the cover of which is clearly visible. The thought crosses her mind: Does she need permission to include the building in her film? The photograph on the magazine cover? For that matter, what about the two lines from the Springsteen song [that the worker is singing]?

Gibson, *supra* note 127, at 888. This situation portrays the myriad of details any documentary filmmaker must take into account before even beginning to copyright and complete her own product.

[131] *See* discussion *supra* Part III.B.

investors,"[132] the permanent injunction, has been somewhat tamed, if only in a very theoretical sense. Though it is unlikely that these types of actors will change their behavior significantly, *eBay* appears to be a step in a positive direction for documentary filmmakers, who will have one less risk to worry about.

## V. CONCLUSION

[37] In the various intellectual property cases decided after *eBay*, it seems that in many instances, the "little guy" (represented by "authorial rights") might suffer. For instance, in *z4 Technologies*, the court states that one reason why permanent injunctive relief is not appropriate is because "z4 is only excluded from selling or licensing its technology to Microsoft."[133] However, if its activation technology was good enough for Microsoft to infringe it, would not Microsoft have been the very entity to whom z4 would have liked to market its technology? Of course, the decision in *z4 Technologies* to avoid permanent injunctive relief comported with the equitable principle that the public would be disserved by a hypothetical system-wide shutdown of Microsoft under a permanent injunction. The problem arises in evaluating the greater incentives that larger companies might now have to infringe rather than to pay licensing fees to legitimate small inventors (not including patent trolls). In *z4 Technologies*, there was no incentive. Because a "reasonable royalty" (read: compulsory license) would not harshly impact Microsoft, it seems that Microsoft might now possess even more ultimate power over smaller companies and might not have to answer to the law for possible purposeful infringement in the wake of the *eBay* decision. Permanent injunctions were at least a viable threat to enact deterrence.

[38] Yet, in copyright cases, *eBay* does not seem to have changed much. Courts in copyright cases were already in the practice of fixing compulsory licenses. The decisions both pre- and post-*eBay* hinged upon proper analysis of the *Weinberger* factors, though not always specifically articulated. It is also important to note that *eBay* did not completely wipe out permanent injunctive relief—it merely paved the way for the "public

[132] Gibson, *supra* note 127, at 894.
[133] z4 Technologies, Inc. v. Microsoft, Corp., 434 F. Supp. 2d 437, 441 (E.D. Tex. 2006).

interest" to be disserved in more cases than usual if the infringer is a corporation like Microsoft, or a large production studio, upon which the public is largely dependent for technology, education, or entertainment. *eBay* has probably not altered the law significantly, but at least for now we know that patent trolls must go back into hiding, and copyright owners must return to the bargaining table—all in the spirit of promoting the public good.