

The Supreme Court Rejects Automatic Permanent Injunctions in Patent Cases in *eBay v. MercExchange*

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In *eBay, Inc. v. MercExchange, LLC*, ___ S.Ct. ___ (May 15, 2006), a unanimous United States Supreme Court abrogated the Federal Circuit's "general rule" that a permanent injunction will issue once a patent is adjudged valid and infringed. In a concurring opinion for four of the eight Justices that considered *eBay*, Justice Kennedy singled out cases involving patent trolls and business method patents and distinguished them from traditional patent cases, explaining that the district courts must exercise equitable discretion in deciding whether or not to issue permanent injunctions to account for the different economic and legal considerations raised by these recent cases.

BACKGROUND

MercExchange is an example of what have been colloquially termed "patent holding companies" or, more pejoratively, "patent trolls." 275 F.Supp.2d 695, 712 (E.D.Va. 2003). These companies do not make or sell any products. Rather, their business model is based entirely on deriving revenue from patent licensing and enforcement (e.g., royalties, settlement payments and judgment awards).

After eBay refused licensing terms, MercExchange filed suit against eBay in the United States District Court for the Eastern District of Virginia, alleging infringement of three patents, including U.S. Patent No. 5,845,265, which is directed to a business method for an electronic market to facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants. ___ S.Ct. at ___.

In 2003, a jury found MercExchange's '265 patent valid and infringed and awarded damages. The district court refused, however, to enter a permanent injunction, finding, inter alia, that MercExchange's willingness to license its patents and its lack of commercial activity in practicing its patents showed that MercExchange would not be irreparably harmed and would have an adequate remedy at law in the absence of an injunction. 275 F.Supp.2d at 711-15. On MercExchange's appeal, the Court of Appeals for the Federal Circuit reversed, applying the "general rule" that once a patent is adjudged valid and infringed, "courts will issue permanent injunctions against patent infringement absent exceptional circumstances." 401 F.3d 1323, 1339 (Fed. Cir. 2005).

eBay appealed the Federal Circuit's decision and the United States Supreme Court granted certiorari "to determine the appropriateness of this general rule." ___ S.Ct. at ___.

THE DECISION

Justice Thomas wrote the opinion for the unanimous Court vacating the Federal Circuit's decision and abrogating the "general rule" in favor of injunctions. Justice Thomas explained that the

traditional four-factor test for awarding permanent injunctions applies equally to patent disputes as it does to other cases. Thus, a plaintiff patentee seeking a permanent injunction must demonstrate:

(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

eBay __ S.Ct. at __.

Further, Justice Thomas explained that “[t]he decision to grant or deny permanent injunctive relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion,” and that the Patent Act’s direction that injunctions “may” issue “in accordance with the principles of equity” supports this view. *Id.* at __, citing 35 U.S.C. §283.

Justice Thomas was not persuaded by the Federal Circuit’s reasoning that the “statutory right to exclude alone justifies its general rule in favor of permanent injunctive relief.” *Id.* at __. Rather, Justice Thomas explained that “the creation of a right is distinct from the provision of remedies for violations of that right.” Turning by analogy to the context of injunctions under the Copyright Act, which similarly embodies a statutory right to exclude, Justice Thomas noted that the comparable provision uses the same “may” language as the Patent Act and that the “Court has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed.” *Id.*

Finally, Justice Thomas criticized the analyses of both the district court and Federal Circuit as adopting categorical rules that are not in keeping with the case-by-case analysis required by the traditional four-factor test. For example, Justice Thomas refused to endorse the district court’s holding that a “plaintiff’s willingness to license its patents” and “its lack of commercial activity in practicing the patents” are sufficient to establish a lack of irreparable harm, noting that university researchers and independent inventors may “reasonably” prefer to license their patents rather than bring their works to market themselves, and citing *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U. S. 405, 422-430 (1908), “which rejected the contention that a court of equity has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent.” *Id.* at __. Likewise, Justice Thomas explained that the Federal Circuit’s “general rule” in favor of injunctions — namely, that injunctions should be denied only in the “unusual” case, under “exceptional circumstances” and “‘in rare instances . . . to protect the public interest’” — is equally inappropriate. “Just as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief.” *Id.*, citing *Roche Products v. Bolar Pharmaceutical Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984) (recognizing the “considerable discretion” district courts have “in determining whether the facts of a situation require it to issue an injunction”).

Accordingly, the Federal Circuit's decision was vacated and the case remanded for further proceedings so that the district court may apply the correct standard in the first instance. *Id.* at ____.

THE CONCURRING OPINIONS

Chief Justice Roberts, joined by Justices Scalia and Ginsburg concurred in a separate opinion pointing out the "long tradition of equity practice" of granting injunctions in patent cases upon a showing of validity and infringement. *Id.* at _____. According to Chief Justice Roberts, this tradition "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," but it is insufficient to "entitle a patentee to a permanent injunction or justify a *general rule* that such injunctions should issue." *Id.* (emphasis in original). District courts should, however, be guided by this "long tradition" in exercising their equitable discretion. *Id.* ("[T]here is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate.").

Justice Kennedy, joined by Justices Stevens, Souter and Breyer, also concurred in a separate opinion. Justice Kennedy's opinion explained that the tradition of granting an injunction in patent cases "almost as a matter of course" was a result of applying the four-factor test in the context of the types of patent disputes that historically have been before the courts. *Id.* at _____. However, Justice Kennedy distinguished these from new types of patent cases that have arisen more recently, in which the "nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases." *Id.*

Taking direct aim at patent trolls, for example, Justice Kennedy noted as follows:

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. 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.

Id. at ____ (internal citations omitted). Likewise, Justice Kennedy noted that "injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test." *Id.*

Justice Kennedy thus concurred with the Court's opinion that the district courts must apply the traditional four-factor test and exercise equitable discretion over injunctions in patent cases to "allow courts to adapt to the rapid technological and legal developments in the patent system." *Id.*

CONCLUSION

The debate over automatic permanent injunctions upon a finding of validity and infringement in patent cases has made some strange bedfellows. For instance, the pharmaceutical and biotechnology industries, which rely on injunctions to keep generic competitors off the market, generally sided with MercExchange in an attempt to prevent any limiting of the general availability of permanent injunctions. *See, e.g.,* Amicus Briefs of Pharmaceutical Research and Manufacturers of America and Biotechnology Industry Organization. On the other hand, eBay's position was supported by many high-technology companies that ordinarily favor a strong patent regime, but which recently have been victimized by the aggressive tactics of patent trolls. *See, e.g.,* Amicus Briefs of American Innovators' Alliance and Business Software Alliance *et al.*

The problem of patent trolls has further been cast in high relief by the outcome of the widely followed *NTP v. RIM* case, in which Blackberry maker RIM, facing the possibility of a looming injunction that threatened to shut down its service, settled with NTP, widely regarded as a patent troll, for a sum in excess of \$600 million.

The Supreme Court's decision in *eBay* seemingly seeks to bridge the divide between the pharmaceutical, biotechnology and high-technology industries, while creating a new hurdle for patent trolls. Following *eBay*, it is unlikely that a district court contemplating an injunction in a Hatch-Waxman case, for example, will reach any different conclusion applying the traditional four-factor test than it would have under the Federal Circuit's "general rule." Even in cases where universities or independent inventors attempt to enforce patents that they do not practice, the *eBay* Court's decision would make permanent injunctions available, if not automatic. On the other hand, patent trolls (and to a lesser extent, perhaps, holders of business method patents that are vague or of "suspect validity") will face a more difficult burden to demonstrate that they are entitled, under equitable principles, to a permanent injunction. Absent the threat of a near-automatic injunction, trolls may be left to feed on a more meager diet of reasonable royalties. All patent holders, and their counsel, will follow with great interest the future case law on patent equitable remedies that the *eBay* decision will, no doubt, foster.

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