

SUPREME COURT DECISION IN *EBAY V. MERCExchange* ABOLISHES RULE THAT COURTS WILL ISSUE PERMANENT INJUNCTIONS AGAINST PATENT INFRINGEMENT ABSENT EXCEPTIONAL CIRCUMSTANCES

On May 15, 2006, the Supreme Court issued its opinion in *eBay Inc. v. MercExchange, L.L.C.*¹, and thus rebalanced the calculus to be applied in determining whether to grant permanent injunctions in patent cases. The Court unanimously struck down the Federal Circuit's general rule that, once a patent is found to be valid and infringed, an injunction should issue "absent exceptional circumstances." District courts now have equitable discretion in applying the four-factor test used in other civil actions, including consideration of whether monetary damages are adequate to compensate the injury, and the balance of hardships between patentee and infringer.

Background

Founded in 1985, eBay is the operator of a Web site that enables individuals and small businesses to sell goods and services through live auctions or at a pre-determined price. The Web site's "Buy It Now" feature, which allows buyers to purchase items at a fixed price, was at issue in this case. MercExchange provides new digital technology improvements to businesses and owns several patents, including a business method patent for an electronic market. MercExchange tried to negotiate a patent license with eBay, but the parties could not reach an agreement. MercExchange then filed a patent infringement suit against eBay, Half.com, Inc. and ReturnBuy, Inc. based on three patents, U.S. Patent Nos. 5,845,265 (the "'265 patent'"), 6,085,176 (the "'176 patent'"), and 6,202,051 (the "'051 patent'"). Half.com is a wholly owned subsidiary of eBay and operates a Web site on which users search for and buy goods available on other Web sites. During the time this suit was filed, ReturnBuy operated a Web site that was hosted by eBay. Before the trial began, ReturnBuy filed for bankruptcy and settled with MercExchange.

District Court

MercExchange filed suit in the U.S. District Court for the Eastern District of Virginia in 2001. The district court held, on summary judgment, that the asserted claims of the '051 patent were invalid due to an inadequate written description. The rest of the case was heard by a jury that, after a five-week trial, found eBay and Half.com liable for infringing the '265 patent and the '176 patent and awarded damages totaling \$35 million. Subsequently, all parties filed post-trial motions, including MercExchange's motion for a permanent injunction.

¹ *eBay, Inc., v. MercExchange, L.L.C.*, No. 05-130, 2006 WL 1310670, at *2 (U.S. May 15, 2006).

The court stated that, pursuant to 35 U.S.C. § 283, it had the authority to grant a permanent injunction after the patents were deemed valid and infringed. The court further noted that it is the norm for a permanent injunction to issue against a patent infringer, but that the trial judge has discretion in deciding whether to issue such an injunction. The court applied the traditional four-factor test used to determine whether to issue a permanent injunction in any civil action: “(i) whether the plaintiff would face irreparable injury if the injunction does 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 the hardships tips in the plaintiff’s favor.”² Upon considering these factors, the court denied MercExchange’s motion for a permanent injunction because, *inter alia*, MercExchange did not practice its patents and was willing to license or sell its patents and thus would not suffer irreparable harm absent an injunction.³

Federal Circuit

Both parties appealed to the U.S. Court of Appeals for the Federal Circuit and, in 2005, the Federal Circuit, *inter alia*, reversed the district court’s denial of MercExchange’s motion for a permanent injunction. The Federal Circuit relied on the general rule that “courts will issue permanent injunctions against patent infringement absent exceptional circumstances.”⁴ The Federal Circuit noted that courts had denied injunctive relief in patent cases only in rare circumstances to protect the public interest. The Federal Circuit held that the district court should not have denied the motion for a permanent injunction because this case involved no exceptional circumstances. The Federal Circuit thus rejected the district court’s reasoning that MercExchange’s willingness to license or sell its patents meant that it could be adequately compensated by damages and did not need injunctive relief. The Federal Circuit reiterated the long-held principle that injunctions are as available to patent holders who practice their patents as to those who merely acquire and then license their patents.

Supreme Court

The Supreme Court vacated the judgment of the Federal Circuit and remanded to the district court, holding that the traditional four-factor test⁵ in civil actions for granting a permanent injunction applies to patent cases as well.

² *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 711 (E.D. Vir. 2003) (quoting *Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 794 (E.D. Va. 1998), *aff’d*, 185 F.3d 1259 (Fed. Cir. 1999)).

³ The court denied most of the other post-trial motions, but did strike the jury’s award of \$5.5 million for eBay’s inducing ReturnBuy to infringe the ‘265 patent. Thus, the judgment totaled \$29.5 million.

⁴ *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005).

⁵ The Court referenced the following wording of the four-factor test: “A plaintiff 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.”⁵

Writing for the unanimous Court, Justice Thomas explained that “this Court has long recognized ‘a major departure from the long tradition of equity practice should not be lightly implied’”⁶ and that Congress did not intend such a departure under the Patent Act, which provides “that injunctions ‘may’ issue ‘in accordance with the principles of equity.’”⁷ Justice Thomas wrote that, although patent rights include the right to exclude others from using the invention, this does not justify a general rule that a permanent injunction shall automatically issue when a valid patent is found to be infringed.⁸

Justice Thomas wrote that neither the district court nor the court of appeals had appropriately applied traditional equitable principles to determine whether MercExchange was entitled to a permanent injunction. Justice Thomas rejected the district court’s suggestion that injunctions should not be granted where a patent holder is willing to license the patent and is not practicing the patent itself, because in these cases a patent holder would not suffer irreparable harm without an injunction. Justice Thomas noted that “traditional equitable principles do not permit such broad classifications” and that “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.”⁹ These patent holders could satisfy the four-factor test and should *not* be categorically excluded from trying to satisfy the test. However, Justice Thomas also rejected the Federal Circuit’s general rule that a permanent injunction should issue whenever a patent is determined to be valid and infringed, except in exceptional circumstances. Justice Thomas stated that this categorical grant of a permanent injunction, like the categorical denial by the district court, is not in line with traditional equitable principles.

The Court held that the determination whether to grant 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.”¹⁰

eBay, Inc., v. MercExchange, L.L.C., No. 05-130, 2006 WL 1310670, at *2 (U.S. May 15, 2006) (citing *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311-313 (1982); *Amoco Prod. Co. v. Gambell*, 480 U.S. 531, 542 (1987)).

⁶ *Id.* (quoting *Romero-Barcelo*, 456 U.S. at 320).

⁷ *Id.* (quoting 35 U.S.C. § 283).

⁸ Justice Thomas likened the Court’s approach to patents to that relating to copyrights and wrote 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.”⁸ *Id.* at *3.

⁹ *Id.*

¹⁰ *Id.* at *4.

Chief Justice Roberts, joined by Justice Scalia and Justice Ginsburg, wrote a concurring opinion stating that, since the nineteenth century, courts have issued injunctive relief in many patent cases when patent infringement has been found and that history should be taken into account when applying the four-factor test to determine whether to grant an injunction. Chief Justice Roberts quoted another Supreme Court case, stating that “[d]iscretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike.”¹¹

Justice Kennedy, joined by Justice Stevens, Justice Souter and Justice Breyer, wrote a separate concurring opinion stating that, in applying the four-factor test, the history of prior cases involving injunctions and patent infringements might be helpful; however, history is helpful only when the facts of the cases are similar to those of the case currently being decided. Justice Kennedy explained that facts surrounding recent patent cases have been different from those of earlier cases due to the rise of firms that hold patents primarily to license them and do not themselves produce products or provide services under these patents. Justice Kennedy noted that these firms use the threat of an injunction as a bargaining tool in negotiating high license fees. Therefore, Justice Kennedy wrote, if the patented invention at issue is a small portion of a product being developed 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.”¹²

Implications of the Case

The Supreme Court’s decision has abolished the rule that, absent exceptional circumstances, an injunction will automatically issue when a patent is found to be valid and infringed. The decision takes away what is often the most effective threat of “patent trolls,” which threaten litigation to force parties to take licenses to patents the trolls have acquired but do not themselves practice.¹³ In fact, Justice Kennedy’s concurring opinion targets the use of the threat of injunction for “undue leverage” in licensing negotiations, where “an injunction may not serve the public interest.”¹⁴ It is also notable that the Supreme Court has taken this step to limit patent remedies on the heels of the resolution of *NTP, Inc. v. Research in Motion, Inc.*,¹⁵ which received widespread publicity due to the threat that nationwide Blackberry service could be shut down pursuant to an injunction for patent infringement.

¹¹ *Id.* (quoting *Martin v. Franklin Capital Corp.*, 126 S. Ct. 704, 710 (2005)).

¹² *Id.* at *5.

¹³ Jessica Holzer, *Supreme Court Buries Patent Trolls*, FORBES.COM, May 16, 2006, at <http://www.forbes.com/home/businessinthebeltway/2006/05/15/ebay-scotus-patent-ruling-cx_jh_0516scotus.html>.

¹⁴ No. 05-130, 2006 WL 1310670, at *2 (Kennedy, J., concurring)

¹⁵ 418 F.3d 1282 (Fed. Cir. 2005), *on remand to* 397 F. Supp. 2d 785 (E.D. Va. 2005), *cert denied*, 126 S. Ct. 1174 (2006). This suit subsequently settled.

Under *MercExchange*, patent owners still will have the opportunity to prove entitlement to permanent injunctions, but will no longer enjoy the presumption that this remedy will follow any finding that their valid patents have been infringed. In other words, patent owners now stand in the same position as all other claimants in seeking equitable relief under the longstanding principles of equity. This decision thus reduces the “hostage value” of patent licensing demands that are disproportionate to the value of asserted patent rights.

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