

Supreme Court Buys eBay's Injunction Argument, But There Is More To Come

In a much anticipated patent law decision, an unanimous Supreme Court (Justice Alito did not participate), rejected the Federal Circuit court "general rule" that a permanent injunction will issue once infringement and validity have been adjudged in patent disputes. *See eBay Inc. v Mercexchange, LLC*, ___ U.S. ___, 126 S. Ct. 1837 (2006). The ruling saved online auction giant, eBay from an injunction which would have shut down its primary business, leaving it time to attempt a licensing arrangement with Mercexchange. eBay infringes Mercexchange's business method patent for "an online electronic market designed to facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants". 126 U.S. at 1839.

The dispute over injunctive relief followed a jury's infringement finding against eBay. The trial court declined to issue an injunction, but the Federal Circuit reversed, ratifying the two centuries old practice in federal courts: injunctions issue to implement patent infringement findings. In its ruling, the Federal Circuit declared that this long-standing practice is the general rule. *See eBay Inc. v Mercexchange, LLC*, 401 F.3d 1323, 1339 (Fed. Cir. 2005). But the Supreme Court reversed again, ruling there is no general rule for injunctive relief following infringement.

While confirming that injunctive relief is available in patent infringement disputes, the Supreme Court declared that such relief can be awarded only under the conventional four part equity test. A plaintiff must demonstrate (1) that it has suffered irreparable harm; (2) that remedies available at law such as monetary damages, are inadequate to compensate for plaintiff's injury; (3) that considering the balance of hardships between the parties, a remedy in equity is warranted; and (4)

the public interest will not be disserved by an injunction. 126 U.S. at 1839.

After rejecting the Federal Circuit's "general rule", the Supreme Court also rejected the trial court's earlier attempt to add a fifth part to the conventional equity test. The eBay trial court had concluded that an injunction against eBay was not warranted because Mercexchange's "willingness to license its patents" and its "lack of commercial activity in practicing the patents" would be sufficient to establish a lack of irreparable harm. 126 U.S. at 1840. Noting that this additional test would undercut the Court's 1908 decision in *Continental Paper Bag Co. v Eastern Paper Bag Co.*, 210 U.S. 405, which holds that that a patent owner's non-use of patented technology is irrelevant to whether or not an injunction should issue, the Court rejected this additional test.

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In sum then, the *eBay* decision rejects injunctive relief as a general rule in patent infringement cases, but that is hardly the end of the matter. Consider the concurring opinions.

Chief Justice Roberts, with Justices Scalia and Ginsburg, agrees with the Court's holding but then makes an appeal to history. The Chief Justice notes that injunctive relief has been the "long tradition of equity practice" since at least the early 19th century and that this tradition should still govern "like cases" going forward. 126 U.S. at 1841-1842. By contrast, Justice Kennedy, joined by Justices Stevens, Souter, and Breyer, argues that the earlier pattern of routinely granting injunctions was applicable only to "the contexts then prevalent. The lesson of the

historical practice, therefore, is most helpful and instructive when the circumstances of a case bear substantial parallels to litigation the courts have confronted before". 126 U.S. at 1842. Justice Kennedy then pointedly notes that in many instances, the present context is very different, particularly where 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". In such cases, Justice Kennedy and his colleagues caution that an injunction or the threat of injunction cannot be used as leverage in negotiation of licensing fees. Legal damages will suffice.

It will be some time, of course, while all of this plays out in the marketplace and the courts. Certainly, the assumption that injunctions follow infringement no longer holds. Further, plaintiffs will have no choice but to wrestle with Justice Kennedy's assertion that the context has changed and that historical practice is no longer instructive. If the context has changed, however, and if legal damages will suffice in lieu of an injunction, damages must nevertheless be sufficient to enforce a patent holder's elemental right to exclude an infringer.

The Patent Act, 35 U.S.C. §154(a)(1), incorporates the express and unequivocal right to exclude infringers from continuing to make, offer, sell, or use a patented invention. Ultimately then, damages must be sufficient to bring parties to common ground under licensing arrangements or to force defendants to abandon infringement. If not, the Court will have no choice but to revisit injunctive relief as the only remedy remaining to give force to the right to exclude infringement. ✧

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