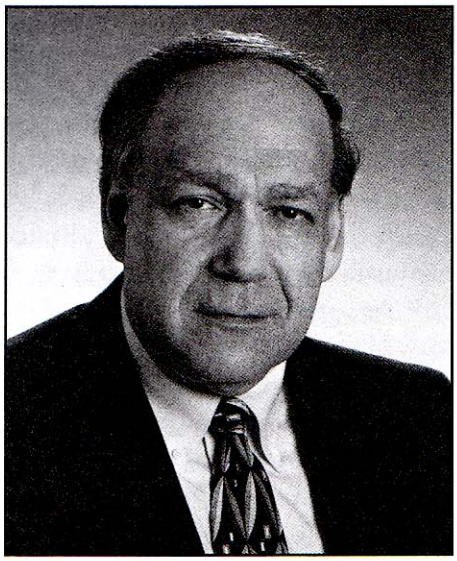
Supreme Court Report



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THE SUPREME COURT HOLDS that injunctions are not to automatically be granted for patent infringement: *e-Bay v. MercExchange.*[1]

The Supreme Court recently decided an important patent case dealing with the extent to which an injunction ought to be presumptively granted where patent infringement is established. The Court itself characterized its decision as "a major departure from the long tradition of equity practice." The High Court held that the decision whether to grant or deny 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."[2]

In so deciding, the Court rejected the Federal Circuit's application of what the Federal Circuit characterized as the "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."[3]

The Supreme Court said that the courts should apply the traditional general equitable four-factor federal court test in determining whether an injunction should be granted, rather than use a general or special rule for patent cases. Under the traditional four-factor test, before a court may grant injunctive relief, the party requesting such relief must demonstrate that:

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

The issue came up because the plaintiff, MercExchange L.L.C., is a patent owner which has no established business in the technology. Some might refer to it pejoratively as a "patent troll" today. MercExchange holds a number of patents, including the patent at issue here, a business method patent for an electronic marketplace designed to facilitate the sale of goods between private individuals. The jury found that the patent is valid and is infringed by the sale of goods in an auction environment, such as that run online by e-Bay, which allows the sale of auction items at a preset price, short-circuiting the auction procedure, resulting in a sale at a price which the seller has indicated it will accept without further bids. This is characterized by e-Bay as the "Buy It Now" feature.

MercExchange is not in the auction business, but is in the business of patent licensing, having sought to license its patent to e-Bay, as it had done with other companies, and upon failing to reach an agreement, brought suit in the United States District Court in Virginia. At trial, the jury found the patent valid, and infringed, and awarded substantial damages. Thereafter the Virginia District Court had denied MercExchange's motion for permanent injunctive relief. While reciting the traditional four-factor test, the District Court concluded that the "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." As noted, the Federal Circuit reversed and granted an injunction under its general rule for patent cases.

The Supreme Court reversed the Federal Circuit's application of a general rule in favor of an injunction, but also, found that the District Court's conclusion was too expansive a statement, which suggested that injunctive relief could not issue in a broad swath of patent cases. The Supreme Court noted that some patent holders such as self-made, independent inventors and university researchers, might reasonably prefer to license their patents, rather than undertake the efforts necessary to secure the financing necessary to market the inventions themselves. The Supreme Court noted that patent holders such as these should not be categorically denied the opportunity to enforce their patent rights through an injunction.

Requiring that the District Court should now apply elements of the traditional four-factor framework, the Supreme Court remanded the case. The Court took no position on whether permanent injunctive relief should or should not issue in this case, or other cases, preferring to let them be decided on a case-by-case basis, under the discretion of the Court, consistent with traditional principles of equity, as in all cases where an injunction is sought.

CONCURRING OPINIONS

CHIEF JUSTICE ROBERTS

Two concurring opinions, joined by most of the justices, provide some guidance of their views for the application of the equitable principles going forward. Chief Justice Roberts, with whom Justices Scalia and Ginsburg joined, noted again that this is a major departure from the longstanding tradition of equity practice in patent cases. He recited that from at least the early 19th century, U.S. courts have granted injunctive relief upon a finding of infringement, in the vast majority of patent cases. Justice Roberts noted for the record that in changing the rules and departing from historic precedence here, the Court is not "writing on an entirely clean slate." He urged that court discretion be exercised in light of the historic application of equity jurisdiction where injunctions were granted, concluding with the statement of Justice Holmes in *New York Trust Co. v. Eisner*,[5] that "a page of history is worth a volume of logic."

JUSTICE KENNEDY

Justice Kennedy, writing a separate concurring opinion with which Justices Stevens, Souter, and Breyer joined, provided a different slant toward allowing the courts to exercise more independent equitable discretion. He asked future courts to "bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. 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."

These factors have changed over time since the early cases in which injunctions were presumptively granted. Justice Kennedy cited the FTC report, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy, ch. 3, pp. 38–39 (Oct. 2003), and noted that for these licensing firms, the threat of an injunction "can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent." The opinion noted that this may create undue leverage in negotiations, particularly where the patented invention is but a small component of the product the companies seek to produce. Justice Kennedy also noted that injunctive relief may have different consequences for different types of patents, and particularly for the burgeoning number of patents covering business methods, and that the "potential vagueness" and what he called "suspect validity" of some of these patents, may affect the calculus of decision-making under the equitable discretion test. Urging perhaps less application of history, because of the change in the economic functions of patents and patent holders, Justice Kennedy thus concurs.

CONCLUSION

It is clear that this case will substantially change the legal landscape with respect to non-competing patent owners' enforcement and licensing of their patents in the future. ⊙

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Endnotes

1. 547 U.S. _____ 206, Case No. 05-130, May 15, 2006.
2. *Id.*
3. *Id.*
4. *See, e.g., Weinberger v. Romero-Barcelo*, 456 U.S. 305, 311-313 (1982); *Amoco Production Co. v. Gambell*, 480 U.S. 531, 542 (1987).
5. 256 U.S. 345, 349 (1921).