

## COMPUTER LAW

BY RICHARD RAYSMAN AND PETER BROWN

### *'eBay v. MercExchange': Permanent Injunctions in Patent Cases*

In a unanimous ruling in mid-May, the U.S. Supreme Court issued a short and direct opinion in *eBay Inc. v. MercExchange, LLC*, 126 S.Ct. 1837, 2006 US LEXIS 3872 (May 15, 2006), holding that a finding of patent infringement does not necessarily entitle a patentee to a permanent injunction.

In overturning the U.S. Court of Appeals for the Federal Circuit's "general rule" favoring permanent injunctions, the Supreme Court stated that trial judges instead must use the traditional four-factor test historically employed by courts of equity when deciding whether to grant permanent injunctions in patent cases.<sup>1</sup> Having decided this narrow issue, the concurring opinions carved out additional ground and may have broader implications in future patent cases, particularly those involving patent holding companies and business method patents.

#### The Case Below

*eBay v. MercExchange* involved a dispute between the popular Internet auction site, which allows private sellers to list goods they wish to sell<sup>2</sup> and respondent MercExchange, which holds a number of patents, including a business method patent for an electronic



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market designed to facilitate the sale of goods between private individuals. At the district court level, plaintiff MercExchange alleged, among other things, patent infringement against eBay and other defendants. The case went to trial and a jury found in favor of MercExchange, awarding damages. The trial judge, however, refused to grant the plaintiff's request for a permanent injunction.

On appeal to the Federal Circuit, a number of issues by both parties were presented. Among those raised by the defendant eBay involved denial of its motions for judgment as a matter of law and for a new trial. In its cross-appeal, the plaintiff MercExchange sought reversal of summary judgment of invalidity<sup>3</sup> of one of the patents, as well as a reversal of the district court's denial of a permanent injunction, enhanced damages and attorney's fees. With respect to the denial of a permanent injunction, the court reversed the trial court's decision, applying its "general rule" that trial courts will issue permanent

injunctions against patent infringement "absent exceptional circumstances." *MercExchange, LLC v. eBay Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005). On certiorari to the Supreme Court, the sole issue was the appropriateness of the Federal Circuit's general rule of granting permanent injunctions.

#### The Four-Factor Test

In delivering the opinion for the Court, Justice Clarence Thomas noted that under well-established principles of equity from its own jurisprudence, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. 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. *eBay Inc. v. MercExchange, LLC*, 126 S.Ct. at 1839.

Unwilling to make any distinction with respect to patent law, the court stated that the above four equitable principles "apply with equal force to disputes arising under the Patent Act" and that "a major departure from the long tradition of equity practice should not be lightly implied." *Id.* Moreover, the Court noted the explicit language of the Patent Act, which reads, in pertinent part, that

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injunctions “may” issue “in accordance with the principles of equity”<sup>4</sup> indicates that Congress intended no such departure from this tradition.<sup>5</sup> Id. Finally, in reversing the Federal Circuit, the Supreme Court made clear that the decision to grant a permanent injunction rests firmly with the trial court and, absent an abuse of discretion, will not be disturbed. Id.

Although the district court applied the four-factor test when it denied the permanent injunction, it, like the Federal Circuit, did not escape the Supreme Court’s criticism. In particular, the Supreme Court was critical of the trial court’s seemingly expansive adoption of certain principles, namely that injunctive relief might not be available in a broad array of cases (e.g., plaintiff’s lack of commercial activity in practicing the patents or unwillingness to license its patents) where the risk of irreparable harm would supposedly not be present. Id. at 1840. The Court stressed that such broad classifications are inconsistent with traditional equitable principles and expressed its concern that the district court’s approach could be unfair to certain patent holders, such as university researchers or self-made inventors, who might prefer to license their patents for financial or other legitimate reasons rather than bring the invention to market themselves. In such instances, the court surmised that permanent injunctions might be an appropriate remedy. Id. at 1840-41. In closing, the Court indicated that it took no position on whether permanent injunctive relief should issue in the instant case or other disputes arising under the Patent Act, reiterating that such a decision is a fact-specific inquiry that rests with the trial court. Id. at 1841.

### Going Forward

In two separate concurring opinions, the Justices expressed their agreement with Justice Thomas’s opinion, and provided additional commentary on some underlying issues regarding permanent injunctions in patent cases. In the first concurrence, authored by Chief Justice John Roberts and joined by Justices

Antonin Scalia and Ruth Bader Ginsburg, the Chief Justice, while rejecting the Federal Circuit’s general rule granting permanent injunctions against patent infringers, reiterated that district court judges sitting in equity should not substitute “whim” for “discretion.” Id. at 1841-42. The Chief Justice commented that the historical practice to grant injunctive relief in the vast majority of patent cases upon a finding of infringement is instructive. He noted the difficulty of protecting a patentee’s right through an award of monetary remedies only. When considering injunctive relief in such situations, the first two factors of the balancing test in the patentee’s favor might be implicated. Nonetheless, the Justices concluded that even this fact

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alone does not entitle a patentee to a permanent injunction or justify a general rule that such injunctions should issue. Id.

In the second concurrence, authored by Justice Anthony Kennedy and joined by Justices, John Paul Stevens, David Souter and Stephen Breyer, Justice Kennedy did not rely as heavily on the historical tradition mentioned in Justice Robert’s concurrence. Although he agreed that history was instructive in applying the four-part test, he added that

any established pattern of granting injunctions was illustrative of the application of the four-factor test, yet historical perspective was likely useful only in cases that bear substantial parallels to prior litigation. Id. at 1842.

In particular, Justice Kennedy observed that current patent litigation presents considerations quite unlike earlier cases, owing, in many instances, to the “nature of the patent being enforced” and the “economic function of the patent holder.” Id. The concurring justices seemingly indicated their disapproval of what they claimed was a developed industry in the patent field, whereby a noncommercial patent holding company uses its patent portfolio and the powerful threat of a permanent injunction to seek “exorbitant” licensing fees from alleged infringers that produce and sell goods. He continued by noting that “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 may not serve the public interest.” Id.

The Kennedy concurrence seems to hint that the nature of the patentee and its commercial motives may implicate the first two factors of the four-part equitable test for permanent injunctive relief, namely whether the patentee has suffered an irreparable injury and whether there are adequate remedies available at law, such as monetary damages. However, the court’s unanimous opinion authored by Justice Thomas made it clear that “plaintiff’s willingness to license its patents” and “its lack of commercial activity in practicing its patents” are not necessarily bars to a finding of irreparable harm or the issuance of a permanent injunction in a particular case. Id. at 1840. Thus, the middle ground between Justice Thomas’s narrow opinion and Justice Kennedy’s survey of the current patent litigation landscape may provide fodder for future litigants (including, even the current parties when the case is remanded to the

lower court) in arguing whether a certain plaintiff has suffered the requisite irreparable harm or lacks an adequate remedy at law.

In fact, within one month of the Supreme Court's decision, the U.S. District Court for the Eastern District of Texas in *z4 Technologies, Inc. v. Microsoft Corp.*, No. 6: 06-CV-142 (Mem. Op. & Ord. E.D. Tex. June 14, 2006), denied plaintiff's request for a permanent injunction after a jury returned a verdict of patent infringement. *z4 v. Microsoft Corp.* involved patents relating to computer software product activation. Using the four-factor test now required under *eBay v. MercExchange*, the trial court ruled that legal remedies were sufficient to compensate the plaintiff, citing Justice Kennedy's concurrence, which instructed courts to be cognizant of the nature of the patent being enforced and the economic function of the patent holder when applying the equitable factors. *z4*, Mem. Op. & Ord. at P. 6-7.

Equally as notable was Justice Kennedy's specific mention of the relatively new phenomenon of business method patents, which had not attained "much economic or legal significance" until the Federal Circuit's landmark *State Street Bank & Trust Co. v. Signature Financial Group* decision, 149 F3d 1368 (Fed. Cir. 1999), cert. denied, 525 US 1093 (1999), which found business methods<sup>6</sup> to be patentable. The concurrence suggested that the "potential vagueness and suspect validity of some of these patents may affect the calculus under the four-part test." *eBay*, 126 SCt at 1842. In fact, the four Justices may be signaling their future willingness to specifically address the scope of business method patents.<sup>7</sup>

## Conclusion

With the Federal Circuit's general rule of permanent injunctions overturned, trial courts will clearly enjoy some degree of flexibility in granting injunctive relief in future patent infringement cases and successful patentees who attain a finding

of infringement may discover a higher burden to meet before successfully arguing for the issuance of a permanent injunction.<sup>8</sup> Exactly how trial courts will use this flexibility will continue to play out, particularly in light of the concurring opinions and the concerns that the Justices expressed in them. In any event, beyond the immediate implications of this decision, the Court's second concurrence may signal the Court's (or at least several Justices') willingness to address other emerging patent-related concerns as litigation in this area continues to grow, particularly in the computer and technological fields.

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1. The Supreme Court seemingly expressed its desire to maintain uniformity among courts with respect to the applicable rules of procedural law. In fact, this was not the first time during the current term that the Supreme Court disagreed with the Federal Circuit on patent procedural issues. See e.g., *Unitherm Food Systems, Inc. v. Swift-Eckrich, Inc.*, 2006 U.S. LEXIS 916, 126 S. Ct. 980, 163 L. Ed. 2d 974 (Jan. 23, 2006) (concerning the interpretation of Fed. R. Civ. P. 50 to a patent case).

2. At the time the case was commenced in the district court, two other defendants, Half.com and ReturnBuy.com were named. Half.com is a wholly owned subsidiary of eBay, and ReturnBuy.com was a company hosted by the eBay Web site. Prior to trial, ReturnBuy filed for bankruptcy and entered into a settlement agreement with MercExchange.

3. As the Supreme Court noted, at the time of its decision, eBay and Half.com continue to challenge the validity of MercExchange's patent in proceedings pending before the USPTO. 126 S.Ct. 1837, 1839 n.1 (2006).

4. See 35 U.S.C. §283.

5. In further support of its holding, the court also drew an analogy to copyright law, stating that its approach was "consistent with [its] treatment of injunctions under the Copyright Act," which, like the Patent Act, provides that courts "may" grant injunctive relief "on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." 17 U.S.C. §502(a).

6. The term "business method" means—

(1) a method of administering, managing, or otherwise operating an enterprise or organization, including a technique used in doing or conducting business; or processing financial data;

(2) any technique used in athletics, instruction, or personal skills; and

(3) any computer-assisted implementation of a method described in paragraph (1) or a technique described in paragraph (2). HR 5364, 106th Congress, "Business Method Patent Improvement Act of 2000," available at: [http://www.techlawjournal.com/cong106/patent/bus\\_method/berman.asp](http://www.techlawjournal.com/cong106/patent/bus_method/berman.asp) (last visited June 21, 2006).

7. Interestingly, three Justices may have signaled a willingness to readdress business method patents in a future case. While the Supreme Court dismissed the appeal of the "medical method" patent case, *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, as improvidently granted, Justice Breyer, joined by Justices Stevens and Souter, issued a 15-page dissent, touching on the topic of business method patents, stating, "Neither does the Federal Circuit's decision in *State Street Bank* help respondents. That case does say that a process is patentable if it produces a "useful, concrete, and tangible result." But this Court has never made such a statement and, if taken literally, the statement would cover instances where this Court has held the contrary." (citations omitted). *Lab. Corp.*, 2006 U.S. LEXIS 4893 at \*20-21 (June 22, 2006).

8. At least one commentator has said that actions before the International Trade Commission, which regularly grant injunction-like exclusion orders and cease and desist orders, will be more prevalent, likely filed in conjunction with an action for patent infringement in district court. See Brian E. Ferguson and Mark J. Itri, "Patent Injunctions After 'eBay': What Direction Will They Take?" IP Law 360 (May 24, 2006). The ITC has responsibility for investigating matters concerning international trade, such as countervailing duty and antidumping matters, and the power to investigate and remediate unfair practices in import trade under §337 of the Tariff Act of 1930.

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