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Litigation Alert

eBay v. MercExchange: Supreme Court Clarifies Test for Permanent Injunction in Patent Cases

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A decision today by the United States Supreme Court is likely to impact the dynamic in many patent litigation lawsuits brought by companies that purchase patents in order to sue other companies for infringing them. The *eBay v. MercExchange* case was closely watched by defendants in infringement cases brought by patent holding companies (sometimes referred to by the disparaging term “patent trolls”), which typically acquire patents not to practice the inventions they claim, but to assert them against the products of other companies. Traditionally, plaintiffs in such cases could rely on the prospect of a near-automatic permanent injunction in the event of a finding of liability, and such a prospect provided enormous leverage to the plaintiffs in post-verdict settlement discussions. An example of this is the \$612 million settlement in the recent *NTP v. Research in Motion* case that the parties reached while the district court was considering whether to permanently enjoin Research in Motion’s BlackBerry wireless email service. The Supreme Court’s ruling today may undermine the availability of this potent weapon to a significant category of patent plaintiffs, although the precise impact will not be known until lower courts have had the chance to interpret and apply the Supreme Court’s precedent.

In ruling for defendant eBay, the Supreme Court clarified that plaintiffs seeking permanent injunctions in patent cases must always satisfy a four-factor equitable test in order to obtain a permanent injunction. Specifically, the patent owner must prove that (i) the plaintiff has suffered an irreparable injury, (ii) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury, (iii) that an equitable remedy such as an injunction is warranted in light of the balance of the hardships between the plaintiff and defendant, and (iv) that the public interest would not be disserved by the granting of an injunction. This approach effectively overrules the prior “general rule” applied to patent disputes by the Federal Circuit (which hears most patent appeals) that injunctions should be issued upon a determination of liability for infringement, except in “exceptional circumstances” and in “rare instances” to protect the public interest.

In the *eBay* case, after a jury found that eBay’s “Buy it Now” feature infringed a business method patent belonging to MercExchange, the district court rejected MercExchange’s request to enjoin eBay’s use of the patented invention. The district court decided that MercExchange would not suffer irreparable harm that would warrant a permanent injunction, because MercExchange did not conduct any commercial activity involving the patented technology other than licensing and because MercExchange apparently saw no need to seek a preliminary injunction earlier in the case. Reversing, the Federal Circuit interpreted its own precedent as calling for permanent injunctions against patent infringement “absent exceptional circumstances.”

The Supreme Court reversed the Federal Circuit, holding that injunctions in patent cases fall within a court’s equitable discretion just like injunctions in all other types of cases, and that ownership of a patent that has been infringed does not create a “right” to an injunction. The Court thus weakened the Federal Circuit’s presumption that a prevailing patentee would obtain a permanent injunction against the defendant.

The Supreme Court did not, however, go as far as the district court had gone. Specifically, the Supreme Court rejected the district court’s determination that the plaintiff’s willingness to license its patents and lack of commercial activity in practicing its patents were necessarily sufficient to show a lack of irreparable harm. For example, according to the Supreme Court, “some patent holders such as university researchers or self-made inventors” might be able to satisfy the four-factor test even though they “might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves,” and they should not be categorically denied the opportunity to seek an injunction.

It may be significant, though, that the Court’s list of examples of patent owners who might be able to satisfy the four-factor test without practicing the patented invention (university researchers or self-made inventors) did not explicitly extend to patent holding companies. Some may see this exclusion

as a between-the-lines message from the Supreme Court that such patent plaintiffs may face greater difficulty in obtaining a permanent injunction.

A concurring opinion written by Justice Anthony Kennedy and joined by three other Justices leans more sharply in favor of defendants in cases brought by patent holding companies. That concurrence urges trial courts to bear in mind in applying the four-factor test that “[a]n industry has developed in which firms use patents not as a basis for producing and selling goods” but “primarily for obtaining license fees,” and that for such firms an injunction can be used as “a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.” In such circumstances, where the patented invention is a small part of the product sold 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.” In addition, according to Justice Kennedy, the “potential vagueness and suspect validity” of some business method patents may affect the calculus under the four-factor test as well.

Conversely, a concurrence by Chief Justice John Roberts, joined by two other Justices, takes a less severe approach toward injunctions. The Chief Justice agreed that the four-factor approach should be applied, but noted that historical practice suggests that injunctive relief is often warranted. The Chief Justice also placed great importance on the right of a patentee to exclude others from using an invention against the patentee’s wishes.

In summary, the *eBay* decision means that injunctions in patent cases are no longer “near-automatic” and that district courts must always consider the four equitable factors. It is not entirely clear, however, how district courts will apply those factors. If district courts take note of Justice Kennedy’s concurrence, some patent holding companies may find it difficult to obtain injunctions. If the district courts take note of the approach outlined by Chief Justice Roberts, the end results may change little from the pre-*eBay* days. Regardless, these considerations are likely to ripple through the negotiating positions taken by litigants in such patent cases, and some plaintiffs may be less confident that they will ultimately have the enormous power of an injunction with which to coerce the defendant into settling for what Justice Kennedy called an “exorbitant” license fee.

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