

K&LNG Alert

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Intellectual Property eBay Decision Weakens Patent “Trolls”

Injunctions in favor of the winning patent holder are no longer a given in patent infringement litigation. That is the sum of the ruling handed down by the Supreme Court on May 15 in its decision in *eBay, Inc. v. MercExchange, L.L.C.*¹ This Alert will discuss how District Courts will consider motions for permanent injunctions in the wake of the *eBay* decision. It will also discuss the implications of this decision for pending and future patent disputes.

THE BACKGROUND

The Supreme Court was presented with a fairly simple issue. MercExchange had asserted a patent against eBay’s “Buy it now” feature, and a jury found that eBay (and its subsidiary, Half.com) infringed. MercExchange asked the District Court to issue a permanent injunction against eBay’s continued use of the infringing feature, and eBay opposed the motion. The District Court declined to issue the injunction, and MercExchange appealed.

The Federal Circuit overturned the District Court, relying on a “general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.”² The Supreme Court granted eBay’s subsequent petition for *certiorari* on the issue of the appropriateness of the Federal Circuit’s “general rule.”

The Supreme Court overturned the Federal Circuit’s “general rule,” and also disagreed with the analysis

performed by the District Court. As a result, the District Court will reconsider MercExchange’s motion, this time with the benefit of the Supreme Court’s decision.

BACK TO THE FOUR-FACTOR TEST

District Court judges considering permanent injunctions in patent cases should find themselves on familiar conceptual ground. The Supreme Court made it very clear that the appropriate test to employ when considering such motions is the traditional “four-factor” test used in so many other instances where courts are asked to issue an injunction:

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.

The District Court’s decision is reviewable on appeal for abuse of discretion.

Justice Thomas, writing for the unanimous Court, stated that neither the District Court nor the Federal Circuit had applied the correct standards to MercExchange’s motion for a permanent injunction. The District Court, he noted, had concluded that a

¹ 547 U.S. _____, no. 05-130. For a copy of the Court’s decision, visit <http://www.supremecourtus.gov/opinions/05pdf/05-130.pdf>

² *eBay, Inc. v. MercExchange, L.L.C.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005).

“plaintiff’s willingness to license its patents” and “its lack of commercial activity in practicing the patents” could preclude injunctive relief “in a broad swath of cases.”³ “Traditional equitable principles,” Justice Thomas wrote, “do not permit such broad classifications.” He offered by way of example university researchers and self-made inventors, both of whom “might reasonably prefer to license their patents” instead of marketing their own products. “Such patent holders may be able to satisfy the four-factor test.” The District Court’s analysis thus was not “squared away with the principles of equity adopted by Congress.”

The Federal Circuit, on the other hand, had in the Supreme Court’s view gone too far in applying a general rule favoring injunctions in patent infringement cases. Because the Patent Act “expressly provides that injunctions ‘may’ issue ‘in accordance with the principles of equity,’” the Supreme Court held that the decision whether to grant injunctive relief in those cases “rests within the equitable discretion of the district courts,” to be exercised “consistent with traditional principles of equity.”

LOWERING THE TROLL TOLL?

The *eBay* decision wrests some of the *in terrorem* power away from many non-practicing patent owners – sometimes referred to as “Trolls” – whose revenues depend almost entirely on license fees extracted from alleged infringers. One substantial weapon in the arsenal of these licensing entities has been the threat of an almost automatic injunction – on top of damages – at the end of a long and expensive patent infringement lawsuit.

While the threats of both a long and expensive patent lawsuit and substantial damages remain, the Supreme Court in *eBay* has made it much less certain that a patent owner that exists almost exclusively on license fees will be able to convince a District Court judge that it has suffered an irreparable injury that cannot be compensated by monetary damages, or that the balance of hardships favors the patent owner. This is

an important factor to keep in mind when considering whether to take a license from such a non-practicing patent owner.

CONCURRING GUIDANCE

Two concurring opinions accompanied the unanimous majority. Chief Justice Roberts, joined by Justices Scalia and Ginsburg, counseled courts considering injunction motions in patent cases to consider historical precedent, noting that “there is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate.”

A second concurrence, written by Justice Kennedy and joined by Justices Stevens, Souter, and Breyer, responded to the Chief Justice’s concurrence by noting that earlier cases may not provide the help that trial courts need: “in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases.” Justice Kennedy’s concurrence went on to describe an “industry” of licensing entities that exist “primarily for obtaining licensing fees,” for which “an injunction . . . can be employed as a bargaining tool to charge exorbitant fees” to licensees that want to practice the patent.

Justice Kennedy suggested that “[w]hen the patented invention is but a small component of the product,” and the threat of an injunction is used “simply for undue leverage in negotiations,” it may be possible that “legal damages may well be sufficient” and “an injunction may not serve the public interest.” He continued with a frank commentary on business method patents that may foreshadow the Supreme Court’s position on method patents:

[I]njunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.

³ *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 712 (E.D. Va. 2003).

As a result, “it should be recognized that district courts must determine whether past practice fits the circumstances of the cases before them.”

CONCLUSION

Those negotiating with patent licensing firms should bear in mind that injunctive relief is no longer a given. This changes the balance of power, which of course could affect the outcome of both negotiations and any resulting litigation.

For patent litigants, despite the clarity of the overall decision in *eBay*, there is likely to be a period of some confusion while District Courts sort out how to apply the four-factor test when considering whether to issue injunctions in patent cases.

Plaintiff patent owners should carefully consider early on in the case how they are going to support each of the four factors that the trial court will consider when deciding a motion for a permanent injunction. Defendants may want to consider, in view of Justice Kennedy’s concurrence, how they can demonstrate a patent’s “potential vagueness and suspect validity” to a trial judge considering a post-trial motion for a permanent injunction – where presumably the patent in question has been found to be not invalid, its claims construed in the course of a claim construction hearing, and the defendant’s activities in question found to infringe those construed claims.

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