

## CLIENT ADVISORY



## The Supreme Court Clarifies the Test for Injunctive Relief in Patent Cases

On May 15, 2006, the Supreme Court decided the much-anticipated appeal in *eBay Inc. v. Mercexchange, L.L.C.*, Appeal No. 05-130. The short, unanimous decision clarifies the test for injunctive relief in patent cases and could fundamentally alter the dynamics of patent infringement actions. The *eBay* decision vacating the judgment of the Court of Appeals ordering injunctive relief comes as some surprise to many patent litigators, who came to expect near-automatic permanent injunctions upon a finding of liability.

The Federal Circuit has applied what it called a “general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.” *eBay* Slip Op. at 2 (citation and quotation omitted). Those “exceptional circumstances” justifying denial of injunctive relief have to date generally been limited to cases involving threats to health or safety. See, e.g., *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577 (7th Cir. 1934) (injunction denied where patent covered municipal wastewater treatment process). The Supreme Court held in *eBay*, however, that this presumption of injunctive relief was inconsistent with the Patent Act, which provides that injunctions “may” issue “in accordance with the principles of equity,” 35 U. S. C. § 283, and with Supreme Court precedent holding that “a major departure from the long tradition of equity practice should not be lightly implied.” *eBay* Slip Op. at 3.

As the Court noted: “According to well established principles of equity, 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 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*, slip op. at 2. But according to the Supreme Court, neither the District Court nor Court of Appeals fairly applied the correct test for a permanent injunction. *eBay*, slip op. at 4. Although the District Court recited the proper

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four-part test (*Mercexchange, L.L.C. v. Ebay, Inc.*, 275 F. Supp.2d 695, 711 (E.D.Va. 2003)), it erred in seemingly adopting a categorical rule that a patentee's willingness to license its patents and lack of commercial activity in practicing its patents would preclude injunctive relief. *eBay*, slip op. at 4. The Court noted that the District Court's approach conflicted with Court precedent recognizing a right to refuse to license or use patent rights, particularly the Court's decision in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U. S. 405, 422– 430 (1908), which rejected the argument that a court should deny injunctive relief to a patent owner that has refused to use its patent. However, the Court of Appeals' "general rule" that an injunction should issue in patent infringement cases was equally inconsistent with the four-factor test. "Just as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief." *eBay*, slip op. at 5.

The Court ultimately took no position on whether injunctive relief was appropriate, instead remanding the case to the District Court to apply properly the four-factor test in the first instance.

Perhaps the most interesting parts of the Supreme Court's decision are the two concurring opinions, which provide insight into the Court's potential approaches to future cases

and reflect very different views of intellectual property. The first, authored by Chief Justice Roberts and joined by an unusual coalition of Justices Scalia and Ginsburg, reflects these Justices' concerns that rules for injunctive relief may threaten the patentee's core right, which is the right to exclude, not the right to a reasonable royalty. These Justices believe that the two centuries of jurisprudence granting "injunctive relief upon a finding of infringement in the vast majority of patent cases" reflects "the difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to use an invention against the patentee's wishes. *eBay*, slip op. (Roberts, J., concurring op. at 1) (emphasis in original). This need to protect the patentee's right to exclude implicates the first two factors of the four-part test—irreparable injury and lack of an adequate remedy at law. *Id.*

Justice Kennedy's concurrence, joined by Justices Stevens, Souter and Breyer, reflects greater suspicion of the exclusionary power of patents, or at least some types of patents. Justice Kennedy suggests that historical practice may not be as instructive in instances where "the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases." *eBay*, slip op. (Kennedy J., concurring op. at 2). Justice Kennedy singled out three such examples: (1) firms that use patents

primarily for obtaining licensing fees (sometimes referred to derogatively as "trolls"); (2) instances in which the patented invention is but a small component of the product sought to be enjoined; and (3) business method patents. *Id.* Justice Kennedy also observed that the "equitable discretion over injunctions granted by the Patent Act is well suited to allow courts to adapt to the rapid technological and legal developments in the patent system." (*Id.*).

As a result of the *eBay* decision, patent infringement litigants can now expect much more vigorous briefing on the issue of a permanent injunction than has typically been the case. Whether the *Ebay* decision ultimately results in "business-as-usual," or whether trial courts will accept Justice Kennedy's invitation to use newly strengthened equitable tools to remedy perceived evils in the patent system, will play out in the courts in the coming years.

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