



JONES DAY COMMENTARY

SUPREME COURT TO TAKE ANOTHER LOOK AT “AUTOMATIC” INJUNCTIONS FOR PREVAILING PATENT OWNERS IN INFRINGEMENT CASES

On November 28, 2005, the United States Supreme Court agreed to hear a case presenting the question of when and whether a court should grant injunctive relief to redress infringement of a United States patent. The Court's eventual decision in *eBay, Inc. v. MercExchange, L.L.C.*, promises to have far-reaching consequences for patentees and those accused of patent infringement alike.

This case has been closely watched, and eBay's petition for certiorari was supported by numerous *amicus* briefs, filed by a range of interested parties representing industry (America Online, Inc. and Qualcomm Incorporated), academia (35 intellectual property professors), and trade groups (the Business Software Alliance, the Computer & Communications Industry Association, and the Electronic Frontier Foundation). The Court itself lingered over its decision to grant certiorari for a month, considering and reconsidering the petition at four separate conferences from October 28 to November 23.

In granting the petition for a writ of certiorari, the Court agreed to hear the question presented by eBay's petition: namely, whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement. But the Court also added a question of its own, directing the parties to brief and argue “[w]hether this Court should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.” Whatever the outcome, this case is of crucial importance to all companies involved in any kind of patent-infringement litigation, whether plaintiff or defendant.

The remedy of injunctive relief traces its roots back to the earliest U.S. patent laws. Today, the statute authorizing injunctive relief in patent cases provides:

The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

The language of the statute is permissive (“may grant”) and refers to “the principles of equity” as the guideline for determining when injunctive relief should be granted.

But discretionary injunctions are somewhat in tension with the notion that patents confer only one basic right, which is to exclude others from practicing the patented invention. The Supreme Court’s 1908 decision in *Continental Paper Bag*, decided applying a version of the injunction statute similar to the one that applies today, considered this tension between depriving the public of beneficial innovations and enforcing the exclusionary rights of the patentee. The specific question before the Court in *Continental Paper Bag* was whether a patentee was entitled to injunctive relief when the patentee itself failed to make use of the patented invention. The accused infringer had argued that the patentee was not entitled to the equitable remedy of injunctive relief because it had failed to make embodiments of the invention available to the public. The Supreme Court rejected this argument and affirmed the lower court’s injunction, commenting:

From the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee.

While the Court considered the competing interests presented in that case, it specifically declined to pass on whether, in view of the public interest, a court might be justified in refusing to grant injunctive relief.

This tension between public policy and patent rights arises whenever a patentee seeks to exercise the right to exclude all others, but the patentee itself does not make an embodiment of the patented invention available to the consuming public. In lines of cases predating the formation of the U.S. Court of Appeals for the Federal Circuit, the regional Circuit Courts of Appeals carved out an exception for patented inventions bearing on significant public interests. For example, in *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934), the Seventh Circuit refused to grant an injunction to a patent holder because such an order would leave an entire community without sanitary means to dispose of its raw sewage, which was obviously not in the public interest.

Since at least 1989, the Federal Circuit has held to the general rule that a permanent injunction will issue once infringement and validity have been adjudged. In a few instances, the Federal Circuit has recognized an exception to this general rule in order to protect the public interest; those cases are few and far between. Indeed, in the *eBay/MercExchange* dispute, the Federal Circuit reversed the district court’s denial of injunctive relief because the district court did not “provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction.” Thus, under current Federal Circuit jurisprudence, the accused infringer must present evidence of “exceptional circumstances” if it is to avoid the permanent and sometimes devastating economic effects of a permanent injunction.

In its petition for certiorari, eBay argues that the Federal Circuit instead should have applied the traditional four-part test to determine if injunctive relief was warranted: irreparable injury, inadequacy of legal remedies, balancing of parties’ hardships, and whether an injunction would adversely affect the public interest. MercExchange opposed the petition, arguing that the Federal Circuit *did* consider traditional equitable principles in its analysis, but that the district court’s decision to deny the requested injunction was unsupportable on the record. Against this backdrop, the Supreme Court will again consider the clash of public versus private interests.

When the patentee is not in the business of commercializing the patented invention, those accused of infringement argue that injunctive relief works to deprive the public of useful goods and services. When technology introduced by the accused infringer enjoys significant commercial success, members of the consuming public become strong advocates in the fight against the idea of “automatic” injunctions in the absence of “exceptional circumstances.” Similarly, as many industries struggle to achieve uniform operating standards, the licensing of patented technology to ensure compliance with the adopted standards can be thwarted if courts issue injunctions as a matter of course.

On the other hand, the constitutional right conferred upon the patentee is one of exclusion. As the Supreme Court said nearly 100 years ago in *Continental Paper Bag*, that right “can only retain its attribute of exclusiveness by a prevention of its violation.” The threat of a potential injunction is what gives many patents their value. Those hundreds of thousands of U.S. patentees argue that to weaken the certainty of the injunctive remedy would undermine their property rights.

At the same time, however, these sorts of uncertainties—industry-wide economic ramifications and potential detriment to the public interest—may often be driving forces in what would otherwise be a purely private dispute between competitors. For this reason, it is likely that many groups will submit *amicus* briefs on both sides of the issue. Regardless of the Supreme Court’s ultimate decision, the effects will be important to the protection of patent rights across the country.

Briefing in this case should be completed by February 2006, and the case should be set for oral argument in March or April. A decision should come by the end of June but could be complicated by the confirmation of the new Justice, if that process is delayed further. We will continue to monitor developments in this case as it progresses.

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