



THE SUPREME COURT'S DECISION IN *EBAY*: WHAT DOES IT MEAN FOR INJUNCTIONS IN PATENT CASES?

Certainly, *eBay v. MercExchange*, which was decided on May 15, was one of the most ballyhooed patent cases to go before the U.S. Supreme Court, if one were to measure “ballyhoo” based solely on the amount of press coverage. But was the Court’s decision really all that big a deal?

The Court of Appeals for the Federal Circuit had ruled that once infringement is found in a patent case, the “general rule” is “that courts will issue permanent injunctions against patent infringement absent exceptional circumstances”; this general rule in application has only “in rare instances” resulted in the denial of a permanent injunction. So, with respect to eBay’s efforts to avoid an injunction against its “Buy It Now” feature, the Federal Circuit saw no “exceptional circumstance” meriting the denial of an injunction. (The trial court, by contrast, had denied MercExchange’s motion for an injunction, on the ground that MercExchange’s prior “willingness to license its patents” and “its lack of commercial activity in practicing the patents” was sufficient to establish that MercExchange would not suffer irreparable harm in the absence of an injunction.)

The Supreme Court held that neither lower court had “fairly applied” the “traditional equitable principles” that govern the issuance of injunctions. Instead, said the Court, trial courts must decide whether to order such equitable relief according to those traditional principles, which are most commonly expressed through a four-factor test: (1) Did the plaintiff suffer irreparable injury? (2) Would remedies at law, like money damages, be inadequate to redress this injury? (3) Does the balance of hardships favor injunctive relief? (4) Would equitable relief serve the public interest? Thus, the Court vacated the Federal Circuit’s decision “so that the District Court may apply that [four-factor] framework in the first instance.”

There is no doubt that *eBay* is going to have some effect on all patent-infringement cases, as it now sets the standard for granting or denying permanent injunctions in patent cases. But did it really change the state of the law? Or did it just use different words to reaffirm the same basic principles long applied by the Federal Circuit?

THE TRIAL-COURT AND FEDERAL CIRCUIT DECISIONS

As almost everyone who uses the internet knows, eBay owns and operates an internet site where private parties can buy and sell goods, either via an auction or by sales made at a fixed price. MercExchange owns patents relating to online-marketing technologies, including the patent that was at issue in this case. That is about all that MercExchange does, though—it is not in the online-marketing business; rather, it is principally in the patent-licensing business. MercExchange tried to negotiate a license with eBay, but those negotiations fell through. So MercExchange sued eBay for infringement, claiming that eBay’s “Buy It Now” feature infringed one or more MercExchange patents.

MercExchange won. A federal jury in Virginia agreed that eBay infringed, and MercExchange obtained an almost \$30 million damage award. But the district court refused to order an injunction. While the district court acknowledged that “the grant of injunctive relief against the infringer is the norm,” it nonetheless held that MercExchange failed to meet the traditional four-part test for permanent injunctive relief, most notably the “irreparable harm” component—because, as noted above, MercExchange does not practice its inventions and does widely license its patented technology to others. The trial court thus concluded that money damages would be sufficient for MercExchange.

The Federal Circuit reversed the lower court, invoking “the general rule . . . that a permanent injunction will issue once infringement and validity have been adjudged.” The reason behind this general rule, said the Federal Circuit, is that the “ ‘right to exclude recognized in a patent is but the essence of the concept of property,’ ” and an injunction is the way that courts give substance to that right to exclude. Thus, according to the Federal Circuit, denying a permanent injunction is appropriate only when there is a “persuasive reason” making the case “sufficiently exceptional” to deny an injunction. eBay asked the Supreme Court to review this decision, which it did.

THE SUPREME COURT’S DECISION

The Supreme Court vacated and remanded, finding fault with both the Federal Circuit’s analysis and the district court’s

analysis. The Court first noted that patents have “the attributes of personal property,” including giving their owners “the right to exclude others from making, using, offering for sale, or selling the invention.” Even so, the Court observed that “the creation of a right is distinct from the provision of remedies for violations of that right,” pointing out that the section of the Patent Act that provides for injunctive relief is drafted permissively—courts “may” grant injunctive relief “in accordance with the principles of equity.” Relying on its decisions under the Copyright Act, the Court therefore ruled that under the Patent Act, permanent injunctions are governed by the traditional four-factor test and are to be granted (or denied) in the equitable discretion of the trial court. Much as the Court did last Term in *MGM Studios, Inc. v. Grokster, Ltd.*, where it drew on patent-law precedents to inform its ruling on an important issue of copyright law, here the Court did the reverse, drawing on copyright precedents to inform its ruling on this patent-law issue.

The four-factor test served to demonstrate why, in the Court’s view, both the Federal Circuit and the district court had missed the mark. Both lower courts applied what the Supreme Court viewed as “categorical” approaches that departed from the more nuanced four-factor balancing test. The district court, which had purported to apply the four-factor test, erred by impermissibly applying a “categorical” rule that would deny injunctions to nonpracticing, licensing patent owners. The Court further held that those two factors, when present, will not always be sufficient to bar injunctive relief. The Federal Circuit similarly erred when it “departed in the opposite direction from the four-factor test” by applying an almost categorical rule favoring injunctions in all cases of patent infringement.

Although the Court’s opinion was unanimous, different sets of justices offered differing views on the factors that the district court had invoked to deny injunctive relief. Justice Thomas’s opinion for the Court observed that patentees who work in university settings (or even in their own garages) often lack the resources to practice and produce their inventions and must rely on licensing to realize the value of their patents. Such patentees should therefore not be categorically denied the opportunity for injunctive relief—which may be the only real value their patents have. At the same time, however, four justices—Justice Kennedy, whose concurring opinion was joined by Justices Stevens, Souter, and Breyer—noted that the modern economics of patents have changed, in that

many patent holders exist solely to leverage their patents for licensing fees, often at “exorbitant” rates. In those cases, the Kennedy concurrence observed, “legal damages may well be sufficient to compensate for infringement and an injunction may not serve the public interest.” (Even then, how is a court to determine what an “exorbitant” licensing fee is?)

The Chief Justice, joined by Justices Scalia and Ginsburg, offered another concurring opinion. The Chief Justice agreed, as a historical fact, that “[f]rom at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases.” This “long tradition of equity practice,” he suggested, was based on the obvious difficulty in protecting a “right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee’s wishes.” And while he (and Justices Scalia and Ginsburg) were willing to agree that this historical practice does not “*entitle* a patentee to a permanent injunction, or justify a *general rule* that such injunctions should issue,” the Chief Justice took pains to note that the four-factor test does not require every case to be approached as though the courts were writing on a clean slate. Because “like cases should be decided alike,” and because “a page of history is worth a volume of logic,” courts may appropriately, in applying the equitable four-factor test, take into account similar cases that have come before.

WHAT *EBAY* MEANS

It may be that the Supreme Court’s opinion is little more than a reminder to lower courts that they must apply the four-factor test for injunctions in all cases. If that is the case, then the results of most cases will not change under *eBay*; the only significant difference will be the way in which the courts explain their results. Given the Chief Justice’s observation that injunctions have been granted in “the vast majority” of cases where infringement has been found over the last 200 years, it seems safe to say that this statistic is unlikely to change too much after *eBay*.

At the same time, though, the *eBay* approach may provide trial courts greater discretion, in appropriate cases, to deny (or grant) injunctions against future infringement. Because the Federal Circuit will not be able to rely as easily on a “general rule” favoring injunctions, that court will have to review district-court decisions granting or denying injunctions by considering whether the facts found by the trial court are

clearly erroneous, and even then, whether the trial court’s balancing of the four factors was an abuse of the equitable discretion conferred on that court. Traditionally, such discretionary decisions based on multifactor tests are considered difficult to reverse on appeal, and that may be one effect that the *eBay* decision has on future injunction practice.

Putting the decision to issue injunctive relief squarely within the discretion of the district court may also allow greater consideration of all competing interests before the grant or denial of injunctive relief. Particularly with respect to the “public interest” inquiry, tension always exists between the patentee’s right to exclude and the public’s need or want for innovative products and services—respect for patent rights and availability of goods and services are each, arguably, in the public interest. Categorical rules, by contrast, tend to deprive courts of the ability to tailor their orders to the facts and circumstances of the particular case. After *eBay*, district courts would appear to have greater leeway to take into account the interests of all those affected by the injunctive remedy—the patentee, the infringer, and the public.

Another open question is whether judges after *eBay* will have a broader power effectively to grant “compulsory licenses” to infringers by granting only monetary damages but not injunctive relief. This puts the court in the position of determining the ongoing value of a patent, rather than leaving it to be set by the parties themselves. If trial courts more aggressively deny injunctions, the balance would tilt more toward defendants, especially with regard to so-called patent trolls, companies and individuals that do not manufacture products under their patents but simply use patent litigation and the threat of injunctions as their main source of income. But, as Justice Thomas’s opinion for the Court noted, one man’s patent troll is another man’s innovator—after all, many major universities create and hold significant patent portfolios but make their money not by making the inventions claimed in those patents, but by licensing their patents to pharmaceutical and laboratory companies, among others.

Viewing *eBay* as allowing for compulsory licensing may cause problems in the international arena, however. According to one *amicus curiae* brief filed in the *eBay* case, compulsory licensing arguably runs afoul of the U.S. obligations under TRIPS (the Agreement on Trade-Related Aspects of Intellectual Property Rights, negotiated at the conclusion of the Uruguay Round of the General Agreement on Tariffs and

Trade, or GATT), which sets forth international minimum standards of intellectual-property protections.

Even beyond that, however, *eBay* may have other repercussions on the international scene: if *eBay* ushers in an era where injunctions are harder to obtain in district courts, some patent owners may turn with greater frequency to actions in the International Trade Commission (“ITC”) under Section 337 of the Tariff Act. Generally speaking, Section 337 allows the ITC to issue exclusion orders prohibiting the importation into the United States of infringing articles. Unlike a motion for a permanent injunction in federal court, however, such exclusion orders are *in rem*; they bind all infringers and potential infringers, including foreign parties; and they are enforced at the border by the U.S. Customs Service. More significant, perhaps, is the fact that ITC exclusion orders are available without the patent owner being required to satisfy the four-part injunctive relief test.

All of this is rank speculation at this point, though, for the *eBay* decision is still too fresh to have yet been considered by many lower courts. Indeed, the various justices themselves could not agree on exactly how the trial courts should go about making such determinations. The Chief Justice’s concurring opinion suggested that he foresees little change in existing practice (at least with respect to the frequency of injunctions), because of the need to use injunctions to protect the statutory right to exclude. Justice Kennedy’s concurring opinion, on the other hand, took on the Chief Justice directly, observing that “[t]he traditional practice of issuing injunctions does not seem to rest on ‘the difficulty of protecting the right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee’s wishes.’ ”

One other open (and controversial) issue was raised in Justice Kennedy’s concurring opinion. He suggested that trial courts may utilize their discretion under the four-factor test to regulate the value of business-method patents, such as the one at issue in *eBay*. As Justice Kennedy put it, “injunctive relief may have different consequences for the burgeoning

number of patents over business methods The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.” How the “calculus” might be affected, however, is anyone’s guess—and fodder for development in the lower courts.

CONCLUSION

As with so many Supreme Court opinions, the true meaning of *eBay* will not become entirely apparent until the lower courts have a chance to apply it in a set of cases, at which time patterns will begin to emerge. There is a possibility that *eBay* was much ado about nothing, and injunctions will be just as difficult for adjudged infringers to avoid as before. At minimum, trial courts will now be afforded the opportunity to apply the four-factor injunction test in a more flexible way, potentially allowing adjudged infringers to avoid the sometimes crippling effect of an injunction, and potentially affording greater protection to the public’s interest in having access to innovative products and services. The real test will be the way the Federal Circuit reviews those decisions on appeal: as that court begins to build up a body of case law applying the *eBay* decision, it will become clearer whether the four-factor injunction standard is truly a more flexible standard that allows for fewer injunctions, or whether it is really just another way of stating the Federal Circuit’s old general rule that injunctions issue unless there are exceptional circumstances counseling toward not granting them.

LAWYER CONTACTS

For further information, please contact your principal Firm representative or one of the lawyers listed below. General e-mail messages may be sent using our “Contact Us” form, which can be found at www.jonesday.com.

Gregory A. Castanias
1.202.879.3639
gcastanias@jonesday.com

Susan M. Gerber
1.216.586.7153
smgerber@jonesday.com

Jones Day publications should not be construed as legal advice on any specific facts or circumstances. The contents are intended for general information purposes only and may not be quoted or referred to in any other publication or proceeding without the prior written consent of the Firm, to be given or withheld at our discretion. To request reprint permission for any of our publications, please use our “Contact Us” form, which can be found on our web site at www.jonesday.com. The mailing of this publication is not intended to create, and receipt of it does not constitute, an attorney-client relationship. The views set forth herein are the personal views of the author and do not necessarily reflect those of the law firm with which he or she is associated.