

Keywords: permanent injunction, damages, equity, 4-factor test

eBay Inc. v. MercExchange LLC
78 U.S.P.Q. 2d 1577 (U.S. Supreme Court)
Decided May 15, 2006

I. Facts

At the district court level, MercExchange sued eBay and Half.com (which was later acquired by eBay) for infringement of two of its business method patents. Neither patent was found to be invalid, and both defendants were found to have willfully infringed the patents. The district court, however, denied MercExchange's motion for a permanent injunction, enhanced damages, and attorneys' fees. In denying the permanent injunction, the District Court recited the traditional four-factor test which requires a defendant to demonstrate that: (1) it has suffered irreparable injury; (2) remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and the defendant, a remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction. However, the district court appeared to adapt certain "expansive principles" suggesting that injunctive relief could not issue, most notably concluding that a "plaintiff's willingness to license its patents" and "its lack of commercial activity in practicing the patent" would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue.

On appeal, the Federal Circuit reversed the district court's denial of a permanent injunction. In doing so, the Federal Circuit applied its "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."

II. Issues

1. Does the traditional four-factor test applied by courts of equity in considering whether to award permanent injunctive relief to a prevailing plaintiff apply to disputes arising under the Patent Act, instead of the "general rule" announced by the Federal Circuit, and, if so, do any "expansive principles" or "categorical rules" apply to the four-factor test?

III. Discussion

The Supreme Court granted certiorari in this case to determine the appropriateness of the "general rule" of permanent injunctions followed by the Federal Court. The Supreme Court began by noting that a plaintiff seeking permanent injunction must satisfy the four-factor test before a court may grant such relief according to well-established principles of equity. A decision to grant or deny permanent injunctive relief is an act of equitable discretion by the district court, reviewable upon appeal for abuse of discretion. The Supreme Court found that nothing in the Patent Act indicates that Congress intended to part from these principles. To the contrary, the Patent Act expressly provides that injunctions "may" issue "in accordance with the principles of equity." 35 U.S.C. § 283. While the Supreme Court also noted that the Patent Act also declares that "patents shall have the attributes of personal property," including "the right to exclude others from making, using, offering for sale, or selling the invention," the Supreme Court further found that such attributes were subject to the other provisions of Title 35, which include the provision that injunctive relief "may" issue.

In discussing the district court's treatment of MercExchange's motion for permanent injunction, the Supreme Court stated that traditional equitable principles do not permit district courts to make broad classifications regarding the types of plaintiffs that may or may not be entitled to injunctive relief. For example, some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the

financing necessary to bring their works to market themselves. Yet such patent holders may be able to satisfy the traditional four-factor test, and the Supreme Court saw no basis for categorically denying such patent holders an opportunity to do so.

Similarly, in regard to the Federal Circuit's reversal, the Supreme Court found that, just as the district court had erred in this categorical denial of this injunctive relief, the Federal Circuit erred in its categorical grant of such relief. Because neither court correctly applied the traditional four-factor test to determine whether MercExchange was entitled to permanent injunctive relief, the Supreme Court vacated the judgments and remanded the case to the district so that it could apply the proper test to determine whether permanent injunctive relief was available.

This case further included two concurring opinions. In the first concurring opinion authored by Chief Justice Roberts, the concurring justices noted that from at least the early 19th century, courts have traditionally granted injunctive relief upon a finding of infringement and that this "long tradition of equity practice" is not surprising given the difficulty in protecting the right to exclude through monetary remedies that allow an infringer to use the invention against the patentee's wishes – a difficulty that often implicates the first two factors of the traditional four-factor test. Although such historical practice does not entitle a patentee to a permanent injunction as a general rule, the concurring justices suggested that discretion should be limited according to legal standards which help promote the basic principle that like cases should be decided alike.

In the second concurring opinion authored by Justice Kennedy, the concurring justices not only agreed with the principles set forth in the majority opinion, but also with the Chief Justice's observation that history may be instructive in applying the four-factor test. However, the concurring justices noted that the historical pattern simply illustrates the result of applying the four-factor test in the context then prevalent. In cases now arising, trial court should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases, because an industry has developed in which firms (trolls) use patents not as a basis for producing and selling goods, but for obtaining license fees. The concurring justices noted that for such firms (trolls), an injunction and its associated sanctions can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the invention. In such situations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.