

October 10, 2007

U.S. Supreme Court Declares that a Finding of Patent Infringement Does Not Automatically Result in the Issuance of a Permanent Injunction.

SUMMARY

The U.S. Supreme Court (“USSC”) recently clarified the rule governing the issuance of permanent injunctions against patent infringement. A finding of patent infringement does not automatically result in the issuance of a permanent injunction. The four-factor test from equity is the proper test to determine whether a court should issue a permanent injunction upon a finding of patent infringement. In particular, the party requesting the order for a permanent injunction must demonstrate: “(1) that it has suffered an irreparable injury; (2) that remedies available at law 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.”¹

THE ISSUES

In the USSC’s decision *eBay Inc. et al. v. MercExchange, L.L.C.*², eBay appealed to the Supreme Court to clarify the test for ordering injunctive relief under the Patent Act³. MercExchange is a patent holding company that generates revenue solely by licensing its patents. After failing to reach a licensing agreement with eBay, MercExchange successfully sued eBay for patent infringement. However, the District Court denied MercExchange’s request for a permanent injunction against eBay.⁴ The Court of Appeals for the Federal Circuit (“CAFC”) reversed the District Court’s decision.⁵ The CAFC held that upon a finding of patent infringement, a permanent injunction should be issued absent exceptional circumstances. eBay appealed to the Supreme Court arguing that the proper test for injunctive relief under the Patent Act should be the four-factor test from equity.

The case progressed from the District Court all the way to the Supreme Court before returning back to the District Court. While the case traversed the judicial system, several notable events developed. MercExchange pushed on to license its patents to other market participants – notably, uBid. uBid opted to license MercExchange’s patent without obtaining legal counsel to evaluate its case. MercExchange’s officer provided several press interviews expressing MercExchange’s desire to merely recover licensing fees from eBay rather than shutting it down – going to the extent of saying that eBay is the “natural home” for the patents.⁶ eBay claimed to have developed a workaround to MercExchange’s patents. eBay requested the PTO to review MercExchange’s patents. uBid attempted to obtain an exclusive licence from MercExchange in exchange for a 25% stake in uBid. During the review of the patents, the PTO issued non-final office actions indicating that MercExchange’s patents are invalid as obvious. In light of PTO’s preliminary results, uBid cancelled its negotiations with MercExchange for an exclusive licence.

1. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006).

2. 126 S. Ct. 1837 (2006).

3. 35 U.S.C.

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

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

6. *MercExchange, LLC v. eBay, Inc. and Half.com, Inc.*, (E.D. Va. 2007) at 20.

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THE DECISION

The USSC unanimously ruled that a finding of patent infringement does not automatically result in issuance of a permanent injunction. The proper test is the four-factor test from equity. Well-established principles of equity do not allow injunctive relief unless the party requesting the order satisfies the four-factor test. In particular, the party requesting the order must demonstrate: “(1) that it has suffered an irreparable injury; (2) that remedies available at law 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.”⁷ The Patent Act specifically states that the court “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.”⁸ The USSC set aside the CAFC’s decision and remanded the case to the District Court to apply the four-factor test to determine whether to issue a permanent injunction against eBay.

Subsequently, the District Court applied the four-factor test and concluded that: (1) the first two factors favoured eBay; (2) the third factor favoured neither party; and (3) the fourth factor favoured MercExchange slightly.⁹

MercExchange did not suffer irreparable harm because it did not have a product in the market or any intention of placing a product in the market in the future. The court was not convinced that MercExchange’s attempt to partner with uBid was sufficient evidence to demonstrate MercExchange’s interest in developing its patents. Recognizing the plight of entities, such as universities or private inventors, who may not have the resources to develop the invention protected by their patents but may require the clout of an injunction to enforce their patents, the court added that lack of intention to develop the invention protected by the patent does not preclude the patent owner from satisfying the first factor – it just makes it more difficult.

MercExchange failed to demonstrate that remedies available at law are inadequate to compensate for its injury. Since MercExchange is only interested in receiving licensing fees for its patents, an order of monetary damages is not inadequate to compensate for its injury.

The balance of hardship favoured neither party. Injunction would not harm eBay since it claimed to have developed a workaround. Not ordering an injunction would not harm MercExchange since it is only interested in money. The court commented that “If a royalty is what MercExchange seeks, and eBay is both the dominant player in the market and the ‘natural home’ for the patents, it appears that the instant dispute boils down to money.”¹⁰

Public interest slightly favoured MercExchange. The general rule is that public interest favours the patentee because it is in the public’s interest to maintain the integrity of the patent system. However, several reasons lessened MercExchange’s benefits under the general rule. MercExchange’s patents are business method patents which the PTO and the courts currently look askance at. PTO’s preliminary results during the review of the patents are against MercExchange. Public interest favours damages at law rather than an injunction.

7. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006).

8. 35 U.S.C. § 283.

9. *MercExchange, LLC v. eBay, Inc. and Half.com, Inc.*, (E.D. Va. 2007).

10. *MercExchange, LLC v. eBay, Inc. and Half.com, Inc.*, (E.D. Va. 2007) at 38.

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PRACTICAL IMPLICATIONS

The decision introduces some significant changes to how permanent injunctions are ordered upon findings of patent infringement. Previously, injunctions were automatically granted upon findings of infringement. Now, a plaintiff must demonstrate that it is entitled to an injunction because the damages or other remedies are somehow insufficient. In applying the four-factor test, the court will consider, among other things, the parties' conduct during the litigation period. This has significant implications for defendant companies who are targets of so-called "patent trolls" that do not carry on any business other than enforcing patents, as such plaintiffs will now have to demonstrate that they are entitled to injunction.

If you wish to discuss these matters, please contact: Stephen Perry at 416.920.8170 x107 (perry@perry-currier.com) or Andrew Currier at 416.920.8170 x109 (currier@perry-currier.com).

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