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## *eBay, Inc. v. MercExchange, L.L.C.*: Permanent Injunctions For Patent Infringement Are No Longer Automatic

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In May 2006 a unanimous U.S. Supreme Court issued its opinion in *eBay, Inc. v. MercExchange, L.L.C.*, saying that patentees must satisfy the traditional four-factor test before a court can grant permanent injunctive relief for patent infringement. *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1838 (2006). On its face, the ruling seems logical, but the discussion, particularly in a concurrence by Justice Kennedy, casts a shadow over certain patent owners and certain patents. Permanent injunctions will no longer be automatic in patent cases. Instead, courts will look at factors such as the patent owner's business and the type of patents it holds before granting a permanent injunction.

### The eBay Decision

Prior to *eBay*, prevailing in a patent litigation generally entitled the patentee to a permanent injunction. The U.S. Court of Appeals for the Federal Circuit (the court for all patent appeals) long ago concluded that once a patent holder prevailed on infringement and validity in a patent case, a court should enforce the right to exclude

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given by the Patent Act and issue a permanent injunction. The Federal Circuit recognized that there might be circumstances in which a permanent injunction should not issue (such as the need to use an invention to protect the public health), but such a case would be exceptional.

The district court in *eBay* found this case to be exceptional. See *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 711-15 (E.D. Va. 2003), *rev'd*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006). After a five-week trial, a jury found that eBay and its co-defendant had willfully infringed MercExchange's valid patents. *Id.* at 698. MercExchange sought a permanent injunction against eBay, but the district court (quite understandably) was unwilling to shut down the popular Internet site. *Id.* at 715. The district court found that MercExchange's willingness to license the patents, its lack of commercial activity in practicing the patents, and its comments to the media (stating that MercExchange sought royalties, not injunctions) rebutted the presumption of irreparable harm that came with the jury's verdict. *Id.* at 712. The district court also gave weight to the argument that business method patents were the subject of some

controversy and were under review by the Patent Office and Congress. *Id.* at 713-14.

The Federal Circuit, in rejecting the "willingness to license" position of the district court, laid out an owner-neutral injunction criteria:

Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well.

*MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006). The Federal Circuit saw "no reason to depart from the general rule that courts will issue permanent injunctions against patent infringement except in exceptional circumstances." *Id.*

The Supreme Court rejected both the district court's and the Federal Circuit's positions. *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840-41 (2006). The Court declared that just because a patentee licenses its patents and lacks commercial activity in practicing its patents, such does not establish that a permanent injunction should be categorically denied. *Id.* at 1840. The Court likewise stated that a showing of validity and infringement does not establish that a permanent injunction should be categorically granted. *Id.* at 1841. Instead, the Court held that discretion must be exercised consistent with traditional principles of equity in patent disputes no less than in other cases governed by such standards. *Id.* at 1841. The Court vacated the Federal Circuit judgment and remanded for further consideration

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using the traditional four-factor test:

1. that patentee 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.

*Id.* at 1838.

Perhaps more interesting than the Supreme Court's opinion itself were two concurring opinions issued in support of the Court's ruling. Chief Justice Roberts issued a concurrence indicating that permanent injunctions have been granted historically to successful patentees because it is difficult to protect a patentee's right to exclude with monetary remedies. *Id.* at 1841. Roberts found that this difficulty often satisfies the first two factors of the traditional four-factor test. *Id.* at 1841.

In a second concurrence Justice Kennedy argued that more-recent trends in patent law could be distinguished from the historical cases granting injunctions. *Id.* at 1842. He opined that companies using patents primarily to obtain licensing fees as opposed to producing and selling goods were given an unfair negotiating advantage by a permanent injunction – particularly when the patented invention was but a small component of a product. *Id.* Kennedy also noted that the suspect validity of some business method patents may affect the calculus under the test.

#### Permanent Injunctions After *eBay*

The Supreme Court's comments in *eBay* and the subsequent district court opinions suggest that all patent owners and all patents are not to be treated equally. The following are some criteria that one can use to evaluate the likelihood of obtaining a permanent injunction in a patent case:

**1. Patentees generally get injunctions against their competitors.** The district courts have recognized that *eBay* does not change the analysis for suits against competitors. A typical example of post-*eBay* analysis involving competitors is *Smith & Nephew, Inc. v. Synthes (U.S.A.)*, No. 02-2873, slip op. at 5-11 (W.D. Tenn. Sept. 28, 2006). *Smith & Nephew* was a competitor of *Synthes*, and despite having licensed the patents-in-suit to others, *Smith & Nephew* refused to license the patents to *Synthes*. *Id.* at 7. After finding infringement in a bench trial, the court found that “the loss of market share and the resulting lost profit,

and loss of brand name recognition which *Smith & Nephew* suffered because of *Synthes*' continued sale of the infringing products constitutes injuries that are both incalculable and irreparable.” *Id.* at 7.

**2. Licensing companies generally will not get injunctions.** Justice Kennedy warned to “bear in mind ... the economic function of the patent holder” and specifically identified those using patents to obtain licensing fees. *eBay, Inc.*, 126 S. Ct. at 1842. One example of a licensing company denied a permanent injunction is found in *Paice LLC v. Toyota Motor Corp.*, where *Toyota* was found to infringe patents related to transmissions in hybrid automobiles. No. 2:04-CV-211-DF, 2006 WL 2385139, at \*1 (E.D. Tex. Aug. 16, 2006). *Paice* was in the business of licensing its technology, not manufacturing, and the court found that *Paice* did not prove that the absence of an injunction impacted its licensing abilities. *Id.* at \*5.

**3. Universities and “self-made” inventors may be treated differently from other licensing entities.** *eBay* points out that patent holders such as “university researchers or self-made inventors” may prefer to license their inventions yet still satisfy the traditional four-factor test. *eBay, Inc.*, 126 S. Ct. at 1840. At this point, there does not appear to be a published case that recognizes this distinction in licensors. In *Voda v. Cordis Corp.*, an inventor was denied a permanent injunction despite willful infringement of his patents because he could not show irreparable harm. No. CIV-03-1512-L, 2006 WL 2570614, at \*5-6 (W.D. Okla. Sept. 5, 2006). No apparent credit was given for being a self-made inventor.

**4. Component inventions may not justify injunction of a whole unit.** Justice Kennedy also warned that “the nature of the patent being enforced” should be considered. *eBay, Inc.*, 126 S. Ct. at 1842. He pointed out that inventions which serve as a component of a larger product may not justify an injunction. *Id.* One of the first cases to apply the *eBay* decision was *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006). A jury found that *Microsoft* willfully infringed *z4 Tech*'s patents for “product activation” software, but the district court, pointing to Justice Kennedy's concurrence, denied *z4 Tech*'s motion for an injunction in part because *z4 Tech*'s invention was a small component of the *Microsoft* software. *Id.* at 441. This analysis suggests that a change may need to be made in the way some patent claims are drafted. While “compo-

nent” claims may be the most accurate reflection of the invention, end product claims might increase the potential for injunction – e.g., a claim for an automobile with an improved wheel as opposed to a claim for a wheel.

**5. Business method patents may receive special scrutiny for permanent injunctions.** One of the most difficult issues to resolve from the *eBay* decision is Justice Kennedy's comments on business method patents. See *eBay, Inc.*, 126 S. Ct. at 1842. Justice Kennedy said that “the potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.” *Id.* Although there has been much public discussion of business method patents having questionable validity, the injunction evaluation occurs only after invalidity arguments are rejected. It is hard to see how general criticisms of business method patents should impact the injunction analysis of patents subject to litigation scrutiny. To date, no published opinions have denied injunction based upon this factor.

#### Moving Forward

In the six months since *eBay*, there have been a few patent cases that have denied permanent injunctions when injunctions would likely have issued under pre-*eBay* law. The vast majority of cases continue to result in permanent injunctions. Early evaluation should be made by parties involved in patent disputes. If a patent holder or his patent falls into categories unlikely to be enjoined, negotiating positions are drastically changed. An accused infringer may choose to litigate rather than accept a high-royalty license, knowing the worst case is money damages – not business interruption. Similarly, a patent holder may see little upside in expending the cost of litigation, only to end up with a compulsory license.

Other fallout from the *eBay* decision may occur. *eBay* almost certainly impacts preliminary injunction law. Although it has always been difficult to obtain a preliminary injunction, those groups disfavored by *eBay* will have even greater difficulty. The Federal Circuit has presumed irreparable harm upon strong or clear showing of infringement and validity, and this presumption now appears to be inconsistent with *eBay*. Another issue yet to be determined is whether Justice Kennedy's doubtful words regarding business method patents will result in increasing invalidity findings on those patents.