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eBay V. MercExchange: Did The Supreme Court Concurrence Crush Claimants Who Chose Not To Commercialize?

Tuesday, June 20, 2006 --- The Supreme Court recently issued a ruling in the eBay case and gave us some answers with respect to the test for granting permanent injunctions in patent cases. We know the test but unfortunately have conflicting authority as to how to apply it.

Some background: eBay lost a patent infringement suit brought by MercExchange. After a finding of both a valid patent and infringement, MercExchange made a motion for entry of a permanent injunction order. See MercExchange, L.L.C. v. eBay, Inc., 275 F.Supp.2d 695 (E.D. VA. 2003). The district court, faced with this motion, performed the conventional analysis: 1) whether the plaintiff would face irreparable injury if the injunction did not issue; 2) whether the plaintiff has an adequate remedy at law; 3) whether the injunction is in the public interest; and 4) whether the balance of the hardships tips in the plaintiff's favor. The district court denied the motion. MercExchange appealed the decision to the Federal Circuit. The Federal Circuit, typically the final arbiter in patent law cases, applied a different test. See MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323 (Fed. Cir. 2005). The Federal Circuit said that, in general, an injunction should be granted unless there is an issue concerning protecting the public interest. The Federal Circuit perfunctorily reviewed the analysis discussed by the district court and said that none of those factors satisfied such a standard. The court went even further and said that permanent injunctions should be issued absent exceptional circumstances. The Federal Circuit then reversed the denial of the injunction.

The patent community saw the Federal Circuit decision and many were nervous that, with the prospect of a permanent injunction almost assumed if a patentee won a patent infringement case, some types of plaintiffs may use this threat to their advantage. Of particular note, a lot of press has been made of so-called "patent trolls" unfairly leveraging this threat. A common view of a patent troll is a company which simply buys patent assets and uses those assets to extract licensing fees from other companies without performing any research and development of its own. The reality is not black and white and the utility of patent trolls is not always acknowledged. For example, as discussed in the Supreme Court opinion, an individual inventor may be classified as a patent troll because he does not have the money to practice his invention but is interested in licensing his improved technology, i.e., he does not commercialize but wishes to license. Moreover, corporations who simply buy patents to litigate or license them create a market for patent property and thereby provide additional value for a patent. Once again, if an

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individual did not have the opportunity to sell his patent to such an entity, perhaps he would have lesser incentive to perform the necessary research and create his invention. It could be argued that such a result inhibits the progress of science and does not promote it. c.f. U.S. Const., art. I, § 8 (providing authority for a patent system that promotes the progress of science).

eBay appealed the Federal Circuit decision to the Supreme Court. The Supreme Court confirmed the long standing rule that an award of a permanent injunction is an equitable remedy which must satisfy the traditional four-part test, i.e.: 1) that the plaintiff suffered irreparable injury; 2) that remedies available at law, such as monetary damages, 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. See eBay, Inc. v. MercExchange, L.L.C., 126 S.Ct. 1837 (2006). The ruling does not come as much of a surprise. After all, "a major departure from the long tradition of equity practice should not be lightly implied." Id.

The ruling to use the four-part equity test was in the "unanimous" decision of the Supreme Court. However, that opinion was written by a single justice, Justice Thomas. What is more interesting in this case is that seven justices (Roberts, Scalia, Ginsburg, Kennedy, Stevens, Souter and Breyer) issued concurring opinions. Apparently Justice Alito did not join. The concurring opinions, while agreeing that the four-part test should be applied in patent cases, disagreed on the application of that four-part test. For example, Thomas' "majority" opinion criticized the district court for factoring a plaintiff's willingness to license its patents and its lack of commercial activity in practicing the patents. Thomas stated that some patent holders, such as university researchers and self-made inventors, might reasonably prefer to license their patents than to secure the financing necessary to bring the patents to market. Such plaintiffs should still be entitled to the remedy of a permanent injunction.

The first concurrence written by Roberts, Scalia and Ginsberg suggested that even though the four-part equity test should be applied, as an infringer would be allowed to use an invention against a patentee's wishes, the first two factors of the four-part test shall automatically be weighed against a defendant. That is, the plaintiff would suffer irreparable injury and monetary damages are inadequate to compensate the plaintiff - both simply due to ongoing infringement. No commentary was made on particular types of plaintiffs - e.g., those incapable or undesirable of commercially utilizing their invention.

The second concurrence by Kennedy, Stevens, Souter and Breyer disagreed with the first concurrence that a finding of infringement alone implicates some of the factors. However, this second concurring opinion was interested in commenting on how the test should be applied to particular types of plaintiffs. Specifically, the court realized that "[a]n industry has developed in which firms use patents not as a basis for producing and selling goods but, instead,

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primarily for obtaining licensing fees." The second concurrence said that by allowing an injunction, these types of plaintiffs would be able to charge exorbitant fees and use the threat of an injunction as a bargaining tool. When the invention is a small component of a product and the threat of an injunction provides "undue leverage" in negotiations, legal damages would be sufficient to compensate for the infringement and an injunction would not serve the public interest - implicating factors two and four of the equity test and suggesting that those factors be weighed against the plaintiff.

So if the question that you hoped eBay would answer is - what is the standard for reviewing a request for permanent injunction? - that question has been answered: use the four-part equity test. Of more consequence, how does one apply that test? If one is dealing with a particular type of plaintiff, four of the justices (in what appears to be an eight judge opinion) believe that the presence of special plaintiffs affects the calculus of these factors. Specifically, if the plaintiff is not using its patents as a basis for producing and selling goods but primarily for obtaining licensing fees, at least two of the factors should be weighed against him. In contrast, Justice Thomas, who "delivered the opinion of the [unanimous?] court" stated a plaintiff's willingness to license his patents and his lack of commercial activity are irrelevant. We are thus left with conflicting guidance from the Supreme Court. It's likely that the Federal Circuit, now forced to apply the four-part test, will still grant injunctions regularly because it originally felt that injunctions should be granted except in exceptional circumstances. The Federal Circuit has also explicitly stated that injunctions may be awarded for patentees who do not intend to practice their invention. MercExchange, 401 F.3d at 1339. It is not clear how that language in the Federal Circuit decision can be reconciled with, or understood in light of, the four Justice concurring opinion of the Supreme Court decision.

How does one apply the four-factor test if the plaintiff does not intend to commercialize his invention? Are any of the factors automatically affected? Should any of those factors be affected considering that such a plaintiff may not have the resources, may have stumbled upon an invention outside of his conventional area, or may be providing a market for patent property? Suppose the plaintiff is in the industry related to the patent but not commercializing the specific claimed invention; or bought patents in its own industry to defend itself? If the threat of an injunction is simply employed for "undue leverage in negotiations" would monetary damages be sufficient for infringement? What is undue leverage in a negotiation? The answers to these questions were not provided by the Supreme Court and will need to be visited by district courts in the coming months and years.

--By Steve Rubin