

L I T I G A T I O N
A L E R TMAY
2006SUPREME COURT DECIDES STANDARD
FOR INJUNCTIONS IN PATENT CASES

An opinion by the United States Supreme Court, released this week, held that the traditional four-factor test applied by courts of equity when considering whether to award permanent injunctive relief to a prevailing plaintiff applies in patent cases. In *eBay, Inc. v. MercExchange, L.L.C.*, No. 05-130, 547 U.S. ___, 2006 U.S. LEXIS 3872 (May 15, 2006), the Supreme Court considered the standard by which federal district courts are to determine whether to grant a permanent injunction to a patentee who obtains a verdict of patent infringement. Justice Thomas wrote the opinion for a unanimous court.

MercExchange, which does not offer a commercial embodiment of its patented invention, sued eBay for patent infringement in the United States District Court for the Eastern District of Virginia, and obtained a jury verdict that upheld the validity of MercExchange's patent, found that eBay had infringed the patent, and awarded damages to MercExchange. The district court refused to issue an injunction, citing MercExchange's "willingness to license its patents" and "its lack of commercial activity in practicing the patents." The United States Court of Appeals for the Federal Circuit reversed the district court's denial of the injunction, applying its "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."

MercExchange argued in favor of the Federal Circuit's general rule, citing the Patent Act for the proposition that a patent "shall have the attributes of personal property," 35 U.S.C. § 261, including "the right to exclude others from making, using, offering for sale, or selling the invention," 35 U.S.C. § 154(1)(1), and that, therefore, an injunction should issue to effectuate the right to exclude, as stated in the statute. However, the Supreme Court did not agree with the Federal Circuit's "general rule." The Court cited the permissive language of 35 U.S.C. § 283, which states that an injunction "may" issue "in accordance with the principles of equity," and that the right to exclude, which does indeed exist, is separate and apart from the remedies courts are authorized to use to enforce and protect that right, which are codified in the statute.

Thus, the Supreme Court held that, pursuant to § 283, traditional equitable principles for preliminary injunctions should apply. Under these principles, a prevailing plaintiff requesting a permanent injunction "must demonstrate: (1) that it has suffered an 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." This

is the so-called “four-factor test” for injunctive relief, and the Supreme Court held that district courts must apply this test in determining whether a permanent injunction should issue upon a verdict of patent infringement. A district court's application of the four-factor test is reviewable on appeal for abuse of discretion.

The Supreme Court, however, did not agree with the seemingly “broad swath” of cases in which, under the district court's analysis, patentees would not deserve an injunction. Thus, in addition to rejecting the Federal Circuit’s “general rule,” the Court also rejected the district court’s position that no injunction should issue in favor of a patentee who willingly licenses its patent and does not commercialize its invention. The Court cited universities and individual inventors as examples of patentees who may, under the four-factor test, have a legitimate reason for not commercializing their inventions and therefore merit a permanent injunction against commercial infringers. Some of the most vocal commentators against the enforcement of patents by non-manufacturing patentees were hoping for such a categorical exemption to the injunction rule, but the Court did not establish such a categorical rule in this case.

Because the Court found the analyses of both the district court and the Federal Circuit to be improper, it vacated the decision of the Federal Circuit, sending the matter back to the district court for a proper application of the four-factor test.

The Court unanimously held that the traditional four-factor test for permanent injunctive relief applied in

patent cases as in any other case in equity. However, the Justices split on when the application of that test should result in an injunction, with three Justices (Roberts, Scalia and Ginsburg) joining a concurring opinion citing history as a precedent for endorsing injunctions in “the vast majority” of patent cases where the patentee wins, four Justices (Kennedy, Stevens, Souter, and Breyer) joining a concurring opinion showing disfavor for injunctive relief for a patentee, such as MercExchange, who readily accepts royalties and does not commercialize its invention, especially in the area of business method patents, and two Justices (Thomas and Alito) not expressing an opinion either way.

This case could have significant impact on patent litigation going forward, most notably in cases involving non-manufacturing patentees who purchase patents with the sole intention of enforcing them rather than using them. However, on remand the district court must apply the four-factor test to determine whether to issue an injunction in this matter, and that eventual decision, should it reach the Federal Circuit or the Supreme Court, may provide yet more guidance on the state of the law of injunctions.

For more information contact:

Ari S. Indik
215-751-2188 or aindik@schnader.com

Ronald E. Karam, Intellectual Property Co-Chair
215-751-2364 or rkaram@schnader.com

Joan T. Kluger, Intellectual Property Co-Chair
215-751-2357 or 302-888-4554 or jkluger@schnader.com

**For more information about Schnader’s Litigation Services Department,
please contact its Chair, Samuel W. Silver, at 215-751-2309 or ssilver@schnader.com**