

Intellectual Property & Technology Law Journal

Edited by the Technology and Proprietary Rights Group of Weil, Gotshal & Manges LLP

ASPEN PUBLISHERS

VOLUME 18 • NUMBER 9 • SEPTEMBER 2006

The Non-Practicing Patentee's Right to a Permanent Injunction Restraining Patent Infringement: Going Once, Going Twice, Gone? 1

The US Supreme Court's recent decision in *eBay v. MercExchange* rejected the general rule that, absent exceptional circumstances, a permanent injunction restraining further infringements should issue once patent validity and infringement have been determined. In doing so, the Supreme Court made clear that, under the patent injunction statute, permanent injunctions should not automatically issue on a finding of liability, but instead should be granted only "in accordance with the principles of equity" as applied in non-patent cases.

As explained in this article by **Nina Medlock, Robert Resis, and Joslyn Barritt** of Banner & Witcoff, Ltd., that holding has caused a stir within the intellectual property community, and some might argue that it has literally turned patent law on its head. The authors point out that, before it had been considered the norm that a permanent injunction would issue whenever a patent was found to be valid and infringed, that result is far less certain now and may depend on who the patentee is, the nature of that patentee's activities, and even the forum in which the patentee prevails.

Repelling Patent Trolls After *eBay*. 5

Keith E. Broyles and **William Hubbard** of Alston & Bird further the analysis of the Supreme Court's *eBay* decision by first examining the possibility of legislative reform, which they find unlikely, and then discussing what manufacturers now can do when facing patent infringement suits by patent trolls.

The authors also discuss why Justice Kennedy's concurrence may suggest new defenses against patent trolls.

China Pushing Forward with IP Protection 12

Intellectual property protection has recently become a hot topic in China, as numerous Chinese industrial executives, legal scholars, and government officials have begun to col-

laborate on how to strengthen the country's IP protection. A driving force behind this collaboration is the need to further stimulate and safeguard the country's continuously growing economy. The Chinese central government in Beijing, in conjunction with various provincial governments, has predicted that IP protection would be an indispensable and necessary component in guaranteeing the country's economic growth for decades to come. As a result, China's Patent Law has begun its third round of changes since the promulgation of the Patent Law in order to further balance private and public interests.

James M. Wu of Thelen Reid & Priest LLP reviews recent developments and discusses how things ultimately might get resolved.

Beyond Borders: How US Patent and Copyright Laws Can Reach Transactions That Occur Entirely Outside US Borders 15

Historically, the patent and copyright laws had no extraterritorial effect and could not be used to reach conduct occurring entirely outside the United States. Over time, however, as the global marketplace has expanded, economic activity beyond our borders has had an increasingly greater impact on the economy within our borders. In response, **Robert J. Benson** of Hogan & Hartson explains in this article that statutory amendments and judicial precedent have gradually extended the reach of US law to encompass conduct outside the US contributes to the infringement of intellectual property rights within the US.

As US patent and copyright law extend their reach beyond US borders, foreign companies that sell products abroad are increasingly finding themselves threatened with liability for sales that occur entirely outside the United States. Plaintiffs can sometimes reach upstream and seek damages or injunctive relief against foreign manufacturers several steps removed from the US market. Accordingly, Mr. Benson concludes, foreign manufacturers must be increasingly aware of what conduct could give rise to liability under US law if they are to minimize their potential exposure arising from commerce in other parts of the world.

The Non-Practicing Patentee's Right to a Permanent Injunction Restraining Patent Infringement: Going Once, Going Twice, Gone?

By Nina Medlock, Robert Resis, and Joslyn Barritt

Just a few months ago if you asked almost any patent practitioner, he or she would have said that the chances of securing a permanent injunction to prevent an adjudged infringer from continuing to infringe were excellent. In fact, the patent practitioner may even have gone so far as to say that the issuance of a permanent injunction following a finding of patent validity and infringement was all but certain. Today, that same practitioner's views likely are very different.

This past term, the Supreme Court issued its decision in *eBay v. MercExchange*,¹ rejecting the general rule that, absent exceptional circumstances, a permanent injunction restraining further infringements should issue once patent validity and infringement have been determined. In doing so, the Supreme Court made clear that, under the patent injunction statute,² permanent injunctions should not automatically issue on a finding of liability, but instead should be granted only "in accordance with the principles of equity" as applied in non-patent cases.

That holding has caused a stir within the intellectual property community, and some might argue that it has literally turned patent law on its head. Before it had been considered the norm that a permanent injunction would issue whenever a patent was found to be valid and infringed, but that result is far less certain now and may depend on who the patentee is, the nature of that patentee's activities, and even the forum in which the patentee prevails. Thus, while an on-going commercial business actively engaged in commercializing its inventions will likely encounter little difficulty in obtaining an injunction, an injunction may not be as readily granted to an independent inventor. And, so-called patent trolls who use their patents solely as a means for obtaining licensing fees may have little or no chance of obtaining an injunction at all.

Nina Medlock and **Robert Resis** are principal shareholders with the intellectual property law firm of Banner & Witcoff, Ltd., and **Joslyn Barritt** is on staff at the firm. Ms. Medlock and Ms. Barritt are resident in the firm's Washington, DC, office; Mr. Resis is resident in the firm's Chicago office.

The eBay Case

The *eBay* case stemmed from a long-running dispute between eBay and MercExchange involving eBay's popular online marketing site. At issue in the case was eBay's "Buy It Now" feature, which allows customers to purchase items listed on eBay's Web site for a fixed, listed price, bypassing the bidding process. In 2000, MercExchange entered into licensing negotiations with eBay relating to its three business-method patents.³ Those negotiations broke down, and in 2001, MercExchange sued eBay and two other companies, Half.com and ReturnBuy,⁴ for patent infringement in the US District Court for the Eastern District of Virginia.⁵

The District Court Proceedings

After a five-week trial, a jury found eBay and Half.com liable for patent infringement and awarded damages totaling \$35 million to MercExchange. Both sides filed post-verdict motions, including a motion by MercExchange for a permanent injunction restraining future infringement by eBay.

The district court denied MercExchange's motion for a permanent injunction, holding that issuance of an injunction following a verdict of infringement is not automatic and is governed by traditional equitable principles, which require consideration of four factors:

1. Whether the plaintiff will suffer irreparable harm if an injunction does not issue;
2. Whether the plaintiff has an adequate remedy at law;
3. Whether granting the injunction is in the public interest; and
4. Whether the balance of the hardships tips in favor of the plaintiff.⁶

Considering each of these factors in turn, the district court concluded that MercExchange's public statements regarding its willingness to license its patents to eBay, lack of commercial activity in practicing the patents, and failure to move for a preliminary injunction established

that MercExchange would not suffer irreparable harm if an injunction did not issue.⁷ The court reasoned that MercExchange's willingness to license its patents also showed that the remedy at law, that is, monetary damages, would adequately compensate for eBay's infringement.⁸ The district court was further persuaded that the public interest favored denial of a permanent injunction in view of "a growing concern over the issuance of business-method patents, which forced the PTO to implement a second level review policy" and "caused legislation to be introduced in Congress to eliminate the presumption of validity for such patents."⁹ Finally, the court found that the balance of the hardships tipped in eBay's favor, making the grant of an injunction inappropriate.¹⁰

The Federal Circuit Decision

On appeal, the Federal Circuit reversed the district court's denial of MercExchange's motion for a permanent injunction, applying a "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."¹¹

The Federal Circuit refused to recognize a "general concern" regarding business method patents as an appropriate basis for the "unusual step" of denying injunctive relief against an adjudged infringer. The Federal Circuit also rejected the notion that a patentee's willingness to license its patents, failure to practice the patents, or failure to seek a preliminary injunction should deprive it of the right to a permanent injunction. Finding no "exceptional circumstances" to justify denial of an injunction, the Federal Circuit held that the district court had erred in refusing to grant MercExchange's motion.¹²

The Supreme Court Proceedings

On eBay's petition, the Supreme Court granted *certiorari* to consider (1) whether the Federal Circuit had erred in setting forth a general rule favoring the issuance of permanent injunctions and (2) whether the Supreme Court should reconsider its own precedent in *Continental Paper Bag*.¹³

In its unanimous decision,¹⁴ the Supreme Court held that the Federal Circuit had erred in its categorical grant of injunctive relief. Noting that the Patent Act expressly provides that an injunction "may" issue in accordance with the principles of equity, the Supreme Court held that the traditional four-factor test applies to disputes arising under the Patent Act and must be used to determine when injunctive relief is appropriate.¹⁵

The Supreme Court concluded that, although the district court had recited the proper four-factor test, it had erred in applying that test.¹⁶ More particularly, the

Supreme Court held that neither a patentee's willingness to license its patents nor its lack of commercial activity in practicing the patents is sufficient to preclude a finding of irreparable harm. The high court recognized that some patent holders, including universities and self-made inventors, might reasonably choose to license their patents rather than practice the invention themselves, and that such actions should not categorically preclude them from satisfying the four-factor test and obtaining an injunction.¹⁷

Without taking any position on whether a permanent injunction should issue, the Supreme Court thus vacated the judgment of the Federal Circuit and remanded the case to the district court for a determination of whether MercExchange would be entitled to an injunction under the proper standard.¹⁸

What Does the eBay Decision Really Mean?

The *eBay* case was unquestionably among the most closely watched in recent years, as many companies in technology and industry looked to the Supreme Court for clarity in defining the role that injunctions should play in patent enforcement. Yet few would disagree that the Supreme Court did not provide the district courts with the strong guidance in dealing with patent infringement matters that court watchers had hoped for and expected. Importantly, although the *eBay* decision was unanimous, two decidedly different concurring opinions, one authored by Chief Justice Roberts (with whom Justices Scalia and Ginsburg joined) and the other by Justice Kennedy (with whom Justices Stevens, Souter and Breyer joined), demonstrate a fundamental disagreement among the justices regarding whether and when an injunction should issue against an adjudged infringer.

Chief Justice Roberts' concurrence observes that, from at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases. Chief Justice Roberts noted that this "long tradition of equity practice" is not surprising "given the difficulty of protecting a right to exclude through monetary remedies."¹⁹ Thus, while he acknowledges that historical practice does not justify a general rule that injunctions should issue, Chief Justice Roberts admonished against the district courts exercising their equitable discretion on "a whim" and observed that, when applying the four-factor test, "a page of history is worth a volume of logic."²⁰ In other words, even if the four-factor test is applied, a permanent injunction should follow a finding of patent infringement in most cases.

Justice Kennedy appears to take a more restrictive view of a patentee's right to an injunction. Justice

Kennedy thus instructed the lower courts to consider “the nature of the patent being enforced” and “the economic function of the patent holder” in evaluating the traditional four-factor test. In doing so, he cautioned against granting injunctive relief to patentees who “use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees,” that is, today’s so-called patent trolls. Justice Kennedy added that the consequences of injunctive relief for business-method patents must be considered, and the “potential vagueness and suspect validity” of some of these patents also may affect the calculus under the four-factor test. He further observed that, when the patented invention is merely a small component of a larger product, monetary damages may well adequately compensate the patent holder, while an injunction may not serve the public interest. Thus, in Justice Kennedy’s view, a lower court evaluating the traditional four-factor test will be faced with considerations not present in some earlier cases, considerations that may make an injunction more difficult for a patentee to obtain.²¹

Where Will Courts Go from Here?

It likely will be several years before the full impact of the Supreme Court’s *eBay* decision is realized. Only then will we know if the case is the watershed in the patent law that it appears to be or a mere blip as courts mechanically apply the four-factor test only to find the test satisfied in virtually every case. Meanwhile, inventors, patent practitioners, and industry can reasonably speculate that injunctions will be harder to obtain and that it will be easier for companies to market their products without the risk of their businesses being shut down by the courts.

It also appears likely from Justice Kennedy’s concurrence that the nature of the patent owner and the extent of its commercial activities will take on new significance and directly affect the patentee’s ability to obtain an injunction. Thus, when the inventor or its company is successfully providing the patented invention to the public, a court likely will grant an injunction. On the other hand, a non-practicing patentee who is perceived to be using the threat of an injunction to leverage excessive royalties from companies providing valuable goods and services to the public will likely find itself with no choice but to collect royalties for the use of its patented inventions. Also, without the guarantee of an injunction, the non-practicing patentee’s ability to recover reasonable license fees from other companies for use of its patents may be significantly reduced as alleged infringers may be more willing to take their chances in court.

Indeed, had the *eBay* decision been available earlier, it might well have changed the outcome of the dispute

between Research in Motion, Ltd. (RIM), maker of the popular BlackBerry wireless messaging device, and non-practicing patentee NTP, Inc. (NTP). That case was settled with RIM’s agreeing to pay NTP more than \$600 million. The validity of NTP’s patents in reexamination was in serious question; yet, it was the threat of a permanent injunction’s shutting down the BlackBerry service that forced RIM to settle.

At the very least, the *eBay* decision virtually guarantees that patentees will have to focus on the ability to obtain injunctive relief and the evidence required to meet the four-factor test from the very start. Patentees who want to improve their chances of obtaining an injunction have even more incentive to commercialize their inventions themselves or license their patents to others.

The *eBay* decision also is likely to affect patentees’ litigation strategy in other ways. For example, it may lead to increased forum-shopping, as patentees seek to file suit in jurisdictions perceived to be injunction-friendly. The decision also may influence the number of filings in the US International Trade Commission, where no damages are available and the remedy against an adjudged infringer is an exclusionary order that is in the nature of an injunction. There also may be an increase in the number of preliminary injunctions sought, as patentees attempt to build a record of irreparable harm at the very beginning of the case.

In one of the first post-*eBay* decisions to issue, the Eastern District of Texas refused to grant an injunction against Microsoft in *z4 Technologies, Inc. v. Microsoft Corporation*, despite a jury finding that Microsoft had willfully infringed z4’s patents.²²

Applying the four-factor test mandated by *eBay*, the court concluded that z4 would not suffer lost profits, the loss of brand name recognition, or loss of market share—the type of injuries that would be considered irreparable—if an injunction did not issue and that monetary damages would adequately compensate z4 for Microsoft’s infringement.²³ The court also concluded that the balance of hardships tipped in Microsoft’s favor and that an injunction was not in the public interest.²⁴

Referencing Justice Kennedy’s concurrence, the district court treated as significant that the infringing product activation component was “a very small component of the Microsoft Windows and Office products that the jury found to infringe z4’s patents. . . . Accordingly, Justice Kennedy’s comments support the conclusion that monetary damages would be sufficient to compensate z4 for any future infringement by Microsoft.”²⁵

The district court seemingly also was influenced in its ruling by the commercial success of Microsoft’s Windows and Office products. Considering the balance

of hardships between the parties, the court concluded that Microsoft would suffer significant harm from an injunction in that it would be required to redesign its Windows and Office products at substantial cost, both in terms of the time, resources, and expense required for such an undertaking and the loss of sales during the re-engineering period; on the other hand, the only harm suffered by z4 would be the loss of its exclusive property right.²⁶ Also, reasoning that Microsoft's Windows and Office software products are likely the most popular software products in the world, being used by millions of individuals, governments, businesses, and educational institutions worldwide, the court concluded that the removal of these products from the market would have a detrimental effect on software users and the retailers that sell Microsoft products; therefore, an injunction was not in the public interest. This has led at least one commentator to remark that the way to avoid an injunction is to be a "very successful infringer."²⁷

More recently, the court in *Finisar Corp. v. The DirecTV Group, Inc.* declined to enter an injunction after finding that the patent-in-suit was invalid and infringed. Instead, the court imposed a compulsory license of the patent and ordered the defendants to pay an on-going royalty to the plaintiff for the remaining life of the patent.²⁸ In the future, such compulsory licenses may well become common.

Conclusion

There can be no doubt but that the Supreme Court's *eBay* decision has taken a powerful weapon out of the hands of patent owners who do not practice their patented inventions themselves. Stripped of the "automatic" injunction, these patentees likely will face a higher burden of proof to obtain an injunction and will need to begin building their cases for injunctive relief even before suit is filed. Although the full effect of the *eBay* decision will not be known for years, it is clear that the patent litigation landscape has been substantially altered.

Notes

1. *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S.—, 126 S. Ct. 1837 (2006).
2. 35 U.S.C. § 283.
3. These patents, US Patent No. 6,202,051, entitled "Facilitating Internet Commerce Through Internetworked Auctions;" US Patent No. 6,085,176, entitled "Method and Apparatus for Using Search Agents to Search Plurality of Markets for Items;" and US Patent No. 5,845,265, entitled "Consignment Nodes," were directed to methods for conducting online sales.
4. Half.com is a wholly owned subsidiary of eBay and owns and operates an Internet Web site that allows users to search for and purchase goods posted on other Internet Web sites. At the time that the suit was brought, ReturnBuy owned and operated an Internet Web site hosted by the eBay Web site. Before trial, ReturnBuy filed for bankruptcy and entered into a settlement agreement with MercExchange.
5. MercExchange brought suit on all three patents, but the '051 patent was invalidated prior to trial.
6. *MercExchange, L.L.C. v. eBay, Inc.*, 275 F.Supp. 2d 695, 710-715 (E.D.Va. 2003).
7. *Id.* at 712.
8. *Id.* at 712-713.
9. *Id.* at 713-714.
10. *Id.* at 714-715.
11. *MercExchange L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338-1339 (Fed. Cir. 2005).
12. *Id.*
13. In *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), the Supreme Court concluded that a patentee's nonuse of its patent did not justify withholding injunctive relief against infringement.
14. *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S.—, 126 S. Ct. 1837 (2006).
15. *eBay*, 547 U.S. at—, 126 S. Ct. at 1839.
16. *eBay*, 547 U.S. at—, 126 S. Ct. at 1840.
17. *Id.*
18. *eBay*, 547 U.S. at—, 126 S. Ct. at 1841.
19. *eBay*, 547 U.S. at—, 126 S. Ct. at 1841 (Roberts, C.J., concurring).
20. *Id.*
21. *eBay*, 547 U.S. at—, 126 S. Ct. at 1842 (2006) (Kennedy, J., concurring).
22. *z4 Techs., Inc. v. Microsoft Corp.*, No. 6:06-CV-142, slip op. (E.D. Tex. June 14, 2006).
23. *Id.* at p. 5-6.
24. *Id.* at p. 8-12.
25. *Id.* at p. 6-7.
26. *Id.* at p. 8-9.
27. See, "eBay Casualty: E.D. Texas Denies Injunctive Relief to Halt Microsoft's Infringing Activities," <http://patentlaw.typepad.com/patent/> (June 19, 2006).
28. *Finistar Corp v. The DirecTV Group, Inc.*, Case No. 05-CV-264 (E.D. Tex. July 7, 2006) (Final Judgement).