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Patent Law: Four Factors to Injunctions in the Wake of eBay, eBay, Inc. v. MercExchange, L.L.C.

Nathan A. Skop

CASE COMMENTS

PATENT LAW: FOUR FACTORS TO INJUNCTIONS IN THE WAKE OF *eBAY*, eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837 (2006)

Nathan A. Skop[*]

Respondent MercExchange, L.L.C., a patent holding company, held various patents, including a business method patent for an electronic marketplace in which "the sale of goods between private individuals" was facilitated through the establishment of "a central authority to promote trust" amongst market participants.[1] Petitioner eBay operated an "Internet web site" that allowed private parties to list merchandise for sale "through an auction" or for "a fixed price."[2] Respondent sought to license its patent to Petitioners, but the parties failed to reach a licensing agreement.[3] Respondent filed a patent infringement suit against Petitioners in the U.S. District Court for the Eastern District of Virginia.[4] A jury found that Respondent's patent was valid, that Petitioners had infringed the patent, and that an award of damages was appropriate.[5] The district court subsequently denied the Respondent's motion for permanent injunctive relief.[6] Respondent appealed to the Court of Appeals for the Federal Circuit which reversed, "applying its 'general rule' 'that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.'"[7] The U.S. Supreme Court granted certiorari to determine the appropriateness of the "general rule" applied by the Federal Circuit.[8]

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* J.D., University of Florida, Levin College of Law, 2006; M.B.A., Rensselaer Polytechnic Institute, 1996; B.S. Aerospace Engineering, University of Florida, 1991.

1. eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1839 (2006); *see also* U.S. Patent No. 5,845,265 ("the '265 patent").

2. *eBay*, 126 S. Ct. at 1839. "Petitioner Half.com, now a wholly owned subsidiary of eBay, operated a similar Web Site." *Id.*

3. *Id.* Respondent had previously sought to license the '265 patent to other companies. *Id.*

4. *Id.* The U.S. District Court for the Eastern District of Virginia is known as the "Rocket Docket" for its expeditious adjudication of cases.

5. *eBay*, 126 S. Ct. at 1839. Petitioners continue to challenge the validity of Respondent's patent in proceedings currently pending before the U.S. Patent and Trademark Office. *Id.* n.1.

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

7. *See eBay*, 126 S. Ct. at 1839 (quoting MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1339 (Fed. Cir. 2005)).

8. *Id.* (citing *eBay*, 126 S. Ct. at 733).

The unanimous Court, concluding that both lower courts incorrectly applied the proper framework for injunctive relief, vacated and remanded the judgment of the Federal Circuit allowing the district court to apply the proper framework in the first instance, and that the traditional four-factor test applied by courts of equity when considering whether to award permanent injunctive relief to a prevailing plaintiff applies to disputes arising under the Patent Act.[9]

"According to well-established principles of equity," the moving party seeking to obtain "a permanent injunction must satisfy a four-factor test before a court may grant such relief."[10] The moving party seeking to obtain 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 [parties], a remedy in equity is warranted; and (4) that the public interest would not be disserved by issuing a permanent injunction.[11]

With respect to granting injunctive relief under patent law, section 283 of the Patent Act authorizes courts to enforce the exclusionary right of a patent holder by exercising their discretion to grant permanent injunctive relief if patent infringement is found.[12] However, the congressional grant of power within the Patent Act, expressly provides that courts "may" issue injunctions "in accordance with the principals of equity."[13] The Patent Act further declares that "patents shall have the attributes of personal

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9. *See id.* at 1841. The Supreme Court took no position on whether permanent injunctive relief should have or should not have issued in the case. *Id.* The Court "[held] only that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with the traditional principles of equity," and such standards equally applied to disputes arising under the Patent Act. *Id.*

10. *Id.* at 1839.

11. *Id.* at 1839 (citations omitted). "The decision to grant or deny permanent injunctive relief is an act equitable discretion by the district court, reviewable on appeal for abuse of discretion standard." *Id.*

12. *See* 35 U.S.C. § 283 (2005) (stating that, "[t]he several courts having jurisdiction of cases under this title 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.").

13. *Id.*

property,"[14] including "the right to exclude others from making, using, offering for sale, or selling the invention."[15]

Likewise, the approach of granting injunctive relief under copyright law is historically consistent with the treatment of granting permanent injunctions under the Patent Act, requiring that injunctions issue according to the well-established principles of equity.[16] Section 502(a) of the Copyright Act provides that courts "may [grant injunctive relief] on such terms as it may deem reasonable to prevent or restrain infringement of a copyright."[17] The U.S. Supreme Court addressed the application of a strict rule that permanent injunctions should issue automatically upon a determination of copyright infringement in *New York Times Co. v. Tasini*.[18] In *Tasini*, respondent authors' filed suit in the U.S. District Court for the Southern District of New York alleging that their copyrights had been infringed by the inclusion of their articles in databases of the petitioner publishers.[19]

Petitioners asserted the defense of privilege of reproduction and distribution under section 201(c) of the Copyright Act.[20] The district court granted summary judgment in favor of petitioners.[21] Respondents appealed and the Second Circuit reversed, holding that petitioners were not protected under section 201(c) of the Copyright Act and had infringed the copyrights.[22] Granting certiorari, the U.S. Supreme Court affirmed.[23] With respect to the specific issue of granting a permanent injunction upon the determination of copyright infringement, the Court articulated that there was no hard requirement for an injunction to issue and left the matter open to the equitable discretion of the district court.[24]

In the instant case, the U.S. Supreme Court effectively abrogated the "general rule" that the Federal Circuit had adopted in its approach to

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14. *Id.* § 261.

15. *Id.* § 154(a)(1).

16. *eBay*, 126 S. Ct. at 1840. "Like a patent owner, a copyright holder possesses 'the right to exclude others from using his property.'" *Id.* (quoting Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932)).

17. 17 U.S.C. § 502(a) (2007).

18. *See* 533 U.S. 483, 505 (2001).

19. *See Tasini*, 533 U.S. at 488-91.

20. *Id.* at 487-88.

21. *Id.* at 492.

22. *Id.*

23. *Id.* at 493.

24. *See Tasini*, 533 U.S. at 505 (stating that, "it hardly follows from today's decision that an injunction against the inclusion of these Articles in the Databases (much less all freelance articles in any databases) must issue") (citations omitted).

issuing permanent injunctions in patent infringement cases, holding that the traditional four-factor test for issuing permanent injunctive relief according to well-established principles of equity applied equally to disputes arising under the Patent Act.[25] In reaching its unanimous decision, the instant Court first explored how injunctions issue according to well-established principles of equity.[26] The Court reiterated that "according to well-established principles of equity," the moving party seeking to obtain "a permanent injunction must satisfy a four-factor test" before a court can grant injunctive relief.[27] To satisfy the four-factor test, the moving party seeking to obtain a permanent injunction must demonstrate:

> (1) that [the party] 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 [parties], a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.[28]

Next, the Court articulated that the same equitable principles apply with equal force to disputes arising under the Patent Act.[29] The Court recognized that, "a major departure from the long tradition of equity practice should not be lightly implied."[30] Continuing its analysis, the Court turned its attention to the specific language within various provisions of the Patent Act.[31] The Court noted that creation of a statutory-based property right is separate and distinct from the provision of remedies for violations of the right; contrary to the Federal Circuit assertion that the statutory right to exclude under the Patent Act justified its "general rule" in favor of granting permanent injunctive relief upon the finding of patent infringement.[32]

Noting that the approach of granting injunctive relief under copyright law was historically consistent with the treatment of granting permanent injunctions under the statutory language of the Patent Act, the instant Court cited *Tasini*, reiterating that the instant Court "has consistently rejected

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25. *See* eBay, Inc. v. MercExchange, L.L.C., 126 S. Ct. 1837, 1839 (2006).
26. *Id.*
27. *Id.*
28. *Id.* (citations omitted).
29. *Id.*
30. *eBay*, 126 S. Ct. at 1839 (quoting Amoco Prod. Co. v. Gambell, 480 U.S. 531, 542 (1987)).
31. *Id.* at 1839-40.
32. *Id.*

invitations to replace traditional equitable considerations with a general rule that an injunction automatically follows a determination that a copyright has been infringed."[33]

Completing its analysis, the Court concluded that both of the lower courts incorrectly applied the proper framework for injunctive relief.[34] With respect to the district court, the instant Court noted that "[a]lthough the [d]istrict [c]ourt recited the traditional four-factor test, it appeared to adopt certain expansive principles suggesting that injunctive relief could not issue in a broad swath of cases."[35] The Court rejected the categorical rule of the district court, stating the district court's "analysis could not be squared with the principles of equity adopted by Congress," and that there was no basis for denying university researchers or self-made inventors the opportunity to meet the requirements of the four-factor test.[36] Furthermore, with respect to the Federal Circuit, the instant Court noted that the "general rule" adopted by the Federal Circuit was not in accord with the statutory language of the Patent Act and infringed upon the discretion of the district court to issue permanent injunctions.[37] Accordingly, the instant Court vacated and remanded the judgment of the Federal Circuit, allowing the district court to apply the proper framework in the first instance, and held that the traditional four-factor test applied equally to disputes arising under the Patent Act.[38]

The unanimous holding of the Court harmonized the manner in which permanent injunctions issue across the various bodies of law. Requiring that permanent injunctions issue according to the four-factor test promotes uniformity of outcomes while abrogating the perceived extension of law created by the "general rule" adopted by the Federal Circuit. In this regard, the concurring opinion written by Chief Justice Roberts, with whom Justice Scalia and Justice Ginsburg joined, places great emphasis on adhering to well-established principals of equity expressed in previous

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33. *Id.* (citing *Tasani*, 533 U.S. at 505).

34. *Id.* at 1840.

35. *eBay*, 126 S. Ct. at 1840. Specifically, the district court erroneously "concluded that a 'plaintiff's willingness to license its patents' and 'its lack of commercial activity in practicing the patents' would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue." *Id.* (citations omitted).

36. *Id.* The Court also noted that the rule was in tension with the holding in *Continental Paper Bag Co. v. East Paper Bag Co.*, 210 U.S. 405. Continental "rejected the contention that a court of equity has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent." *See* Cont'l Paper Bag Co. v. E. Paper Bag Co., 210 U.S. 405, 422-30 (1908).

37. *eBay*, 126 S. Ct. at 1840.

38. *See id.* at 1841.

opinions of the Court.[39] Furthermore, the concurring opinion written by Justice Kennedy, with whom Justice Stevens and Justice Breyer joined, addresses the recent problems faced by the patent courts, noting that the equitable discretion over injunctions under the four-factor test "is well suited to allow courts to adapt to the rapid technological and legal developments in the patent system."[40]

The unanimous holding of the Court in *eBay* standardized the manner in which permanent injunctions issue across the various bodies of law. While a sound decision, the abrogation of the "general rule" adopted by the Federal Circuit and the implementation of the four-factor test may result in unintended problems.[41] Specifically, the district courts may initially split as to what meets the presumption of irreparable harm.[42] Additionally, the use of compulsory licensing as an alternative to issuing a permanent injunction may result in increased willingness of the parties to engage in prolonged patent infringement litigation.[43]

39. *See id.* at 1841-42 (Roberts, J., concurring).

40. *See id.* at 1842-43 (Kennedy, J., dissenting).

41. *See generally* Mitchell G. Stockwell, *Implementing eBay: New Problems in Guiding Judicial Discretion and Enforcing Patent Rights*, 88 J. PAT. & TRADEMARK OFF. SOC'Y 747 (2006).

42. *See id.* at 744, 749-51.

43. *See id.* at 755-56.