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Availability of Injunctive Relief in Patent Cases: *eBay, Inc. v. MercExchange, L.L.C.*

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Summary

The most significant legal right that patent law confers on the patent holder is "the right to exclude others" from making, using, or selling the patented invention. Injunctive relief is the usual remedy that courts authorize to prevent violation of this patent right. However, as the recent BlackBerry patent infringement litigation demonstrated, the desirability of an injunction in patent cases could be questioned in certain circumstances, such as when an injunction's disruptive effects to the public may outweigh the interest in enforcing the intellectual property rights of the patent holder.

In another closely watched case concerning injunctive relief for patent infringement, eBay was accused of patent infringement for its website's "Buy It Now" fixed-price purchase feature. Although a jury found eBay liable for willful infringement, the district court refused to issue a permanent injunction order against eBay because it had determined that the principles of equity favored such a decision. The Court of Appeals for the Federal Circuit, however, reversed the denial, as it was unpersuaded by the district court's reasons for not giving injunctive relief to the patent holder. According to the appellate court, the "general rule" is that courts must issue permanent injunctions against patent infringement, absent exceptional circumstances. The United States Supreme Court granted certiorari in the case to consider two questions: (1) whether the Federal Circuit erred in setting forth its general rule and (2) whether the Supreme Court should reconsider its precedents on when it is appropriate to grant an injunction against a patent infringer. On March 29, 2006, the U.S. Supreme Court heard oral argument in the case of *eBay, Inc. v. MercExchange, L.L.C.*

This report will be updated after the Supreme Court issues its decision.

Introduction

One of the primary purposes of patent law is to provide individuals and institutions with economic incentives to engage in research and development that lead to new products or processes. The U.S. Constitution empowers Congress to confer on "inventors

the exclusive right to their ... discoveries."[1] By enjoying this limited monopoly[2] over their inventions, patent holders may be able to receive a return on investment from their creations. Without such patent protection, competitors could "free ride" on the inventor's research and development efforts and easily duplicate or otherwise practice the new inventions without having incurred the costs to develop them.[3]

Under U.S. patent laws, patents have the attributes of personal property.[4] A patent holder has the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States, or importing the protected invention into the United States.[5] Whoever performs any one of these five acts during the term of the invention's patent, without the patent holder's authorization, is liable for infringement.[6] To prevent the violation of any right secured by a patent, the Patent Act provides that a federal court "may grant injunctions in accordance with the principles of equity."[7] Without this power to order injunctive relief, "the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research."[8]

Each application for a patent consists of two primary parts: (1) a "specification," which is a written description of the invention enabling those skilled in the art to practice the invention, and (2) one or more claims that define the scope of the subject matter which the applicant regards as his invention.[9] Therefore, these claims define the scope of the patentee's rights under the patent.[10] Careful scrutiny of the claims is crucial to any infringement lawsuit, as patent infringement will not be adjudged unless the alleged infringer's actions have been determined to fall within the patent claims. Every patent infringement case thus involves a "two-step" analysis[11] of each asserted patent claim: first, an interpretation and construction of the patent claim, which is a matter of law within the province of the court,[12] and second, whether the claimed invention is being made, used, offered for sale, sold, or imported by the alleged infringer, which is a question of fact.[13]

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[1] U.S. CONST. art. I, §8, cl. 8.

[2] This time period is generally 20 years from the date of filing the patent application for most inventions. 35 U.S.C. § 154(a)(2).

[3] ROGER SCHECHTER & JOHN THOMAS, PRINCIPLES OF PATENT LAW 9-13 (2d ed. 2004).

[4] 35 U.S.C. § 261.

[5] 35 U.S.C. § 154(a)(1). However, there is no statutory requirement that a patentee make, use, or sell its invention. Rite-Hite Corp. v. Kelley Co., Inc., 56 F.3d 1538, 1547 (Fed. Cir. 1995).

[6] 35 U.S.C. § 271(a).

[7] 35 U.S.C. § 283.

[8] Smith Int'l, Inc. v. Hughes Tool Co., 718 F.2d 1573, 1578 (Fed. Cir. 1983) (citation omitted).

[9] 35 U.S.C. § 112.

[10] 3-8 DONALD S. CHISUM, CHISUM ON PATENTS § 8.01 (2006).

[11] Std. Oil Co. v. Am. Cyanamid Co., 774 F.2d 448, 452 (Fed. Cir. 1985).

[12] Markman v. Westview Instruments, 517 U.S. 370 (1996).

[13] Bai v. L&L Wings, Inc., 160 F.3d 1350, 1353 (Fed. Cir. 1998).

The BlackBerry Litigation

On March 3, 2006, Research In Motion, Ltd. (RIM) and New Technologies Products, Inc. (NTP), reached a settlement that ended a contentious legal dispute that had endured for more than four years and sparked considerable public attention.[14] At issue was RIM's BlackBerry service, a popular communication service that enables users to wirelessly receive and transmit electronic mail (e-mail) through radio frequencies rather than through a traditional landline Internet connection. A jury had found RIM guilty of willful infringement of NTP's patents concerning wireless e-mail communication services, a judgment affirmed by the U.S. district court[15] and U.S. Court of Appeals for the Federal Circuit.[16] Once the U.S. Supreme Court declined to grant RIM's petition for writ of certiorari in late January 2006,[17] many BlackBerry subscribers faced the unsettling prospect of an imminent cessation of service pursuant to a court-ordered injunction to enforce NTP's patent rights. However, prior to the district court's decision on issuing a permanent injunction, NTP and RIM signed a $612.5 million licensing and settlement agreement, leading to the court's dismissal of the litigation and ensuring uninterrupted operation of the BlackBerry service.[18] Although RIM avoided an injunction by reaching this agreement with the patent holder, its strength in the settlement negotiations was potentially compromised by the Federal Circuit's "general rule" that courts are obliged to follow in patent infringement cases: upon a finding of infringement, a permanent injunction will issue, except in rare instances when an important public need is involved.[19]

eBay, Inc. v. MercExchange, L.L.C.

The patent at issue before the Supreme Court in the *eBay* case "pertains to a system for selling goods through an 'electronic network of consignment stores.'"[20] According to the district court, the holder of the patent, MercExchange, L.L.C., is an entity that "does not practice its inventions and exists merely to license its patented technology to others."[21] However, a patent holder that licenses its invention is still entitled to relief for infringement under federal law.[22] The defendant eBay operates a website that allows sellers to list products for sale and buyers to purchase those goods either through an auction system or at a fixed price. MercExchange alleged that eBay's "Buy It Now"

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[14] *See, e.g.,* Jane Spencer & Jessica E. Vascallaro, *Imagining a Day Without BlackBerrys,* WALL ST. JOURNAL, Jan. 25, 2006, at D1.

[15] NTP, Inc. v. Research In Motion, Ltd., 261 F. Supp. 2d 423 (E.D. Va. 2002).

[16] NTP, Inc. v. Research In Motion, Ltd., 418 F.3d 1282 (Fed. Cir. 2005).

[17] Research In Motion, Ltd. v. NTP, Ltd., 126 S. Ct. 1174, 2006 U.S. LEXIS 1053 (2006).

[18] Research In Motion, BlackBerry Press Releases, *Research In Motion and NTP Sign Definitive Settlement Agreement to End Litigation, available on Apr. 26, 2006 at* [http://www.blackberry.com/news/press/2006/pr-03_03_2006-01.shtml].

[19] MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1338 (Fed. Cir. 2005).

[20] *Id.* at 1327. The patent is U.S. Patent No. 5,845,265 ("the '265 patent").

[21] MercExchange, L.L.C. v. eBay, Inc., 275 F. Supp. 2d 695, 712 (E.D. Va .2003).

[22] 35 U.S.C. § 271(d).

functionality on its website, which permits users to buy items at fixed prices rather than bid for them, comes within the claims of its patent, and filed a lawsuit in September 2001.

The District Court's Opinion. On May 27, 2003, a jury returned a verdict finding that eBay had willfully infringed MercExchange's patent and holding eBay liable for $10.5 million in damages.[23] The district court reduced the damage amount to $5.5 million but upheld the jury's finding of willful infringement. However, the court refused to issue an injunction against the Internet auctioneer.[24] In making this decision, the district court considered the four equitable factors that traditionally govern the appropriateness of injunctive relief: (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 the balance of hardships tips in the plaintiff's favor, and (4) whether an injunction is in the public interest.[25] First, the court believed that MercExchange would not be irreparably harmed in the absence of an injunction because the plaintiff was willing to license its patent, and because the plaintiff had made several comments to the media that it desired to obtain damages rather than an injunction. Second, the court noted that there was an adequate remedy at law (monetary damages) because MercExchange had indicated its willingness to license the patents to eBay in this case. Third, the balance of hardships tipped "slightly" in eBay's favor because, in part, "the plaintiff exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them. Any harm suffered by the plaintiff by the defendant['s] infringement of the patents can be recovered by way of damages."[26] The court also noted that since eBay would probably attempt to "design around" the patents, any injunction would "be opening a Pandora's box of new problems" at considerable litigation cost to the parties, as well as a strain on judicial resources. Finally, the court stated that the public interest factor equally supports both parties. The court identified "a growing concern over the issuance of business-method patents" within the Congress and the U.S. Patent and Trademark Office that have called into question the validity of such patents. Although the court acknowledged that this fourth factor usually favors the patentee out of a public interest in maintaining the integrity of the patent system, this public interest would not necessarily be furthered in this case, "where the patentee does not practice its patents."[27]

The Federal Circuit Court's Opinion. On appeal and cross-appeal of the case, the U.S. Court of Appeals for the Federal Circuit unanimously affirmed the jury's verdict on the patent's validity and the finding of infringement.[28] However, the appellate court ruled that the patent holder was entitled to an injunction to prevent further infringement by eBay, finding inadequate the district court's reasons for refusing to issue an injunction.[29] The Federal Circuit court stated, "Because the right to exclude recognized in a patent is but the essence of the concept of property, the general rule is that a

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[23] *eBay*, 275 F. Supp. 2d at 698.

[24] *Id.* at 715.

[25] Weinberger v. Romero-Barcelo, 456 U.S. 305, 312 (1982).

[26] *eBay*, 275 F. Supp. 2d at 714.

[27] *Id.*

[28] MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1329 (Fed. Cir. 2005).

[29] *Id.* at 1339.

permanent injunction will issue once infringement and validity have been adjudged."[30] Although the court recognized a rare exception to that "general rule," such as "when a patentee's failure to practice the patented invention frustrates an important public need for the invention,"[31] it concluded that the district court had failed to offer "any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction."[32] The Federal Circuit deemed irrelevant the district court's general concern for the validity of business-method patents or the likelihood of continuing litigation in this case. The court of appeal also viewed as inappropriate the district court's numerous references to MercExchange as an entity that only exists to license its patents, because such a business strategy does not diminish the plaintiff's patent rights: "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."[33] The Federal Circuit held that the case lacked "exceptional circumstances," and thus "the general rule" should apply in favor of an injunction.

Arguments Before the U.S. Supreme Court. The U.S. Supreme Court granted certiorari to review the case, on two related questions: (1) whether the Federal Circuit erred in setting forth its "general rule" and (2) whether the Supreme Court should reconsider its precedents on when it is appropriate to grant an injunction against a patent infringer.[34] In oral arguments held on March 29, 2006, the petitioner in the case (eBay) argued that courts should have the ability to apply the traditional four-factor equitable factor test in deciding whether to grant injunctive relief. In eBay's opinion, the Federal Circuit's "general rule" amounts to a "near-automatic injunction rule" that deprives courts of the express discretion conferred on the courts by statute (35 U.S.C. § 283).[35] As to the second question before the Court, eBay favored the overruling of an earlier Supreme Court case, *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), which may have suggested a near-automatic injunction rule in patent cases. This precedent, eBay argued, cannot be upheld in the face of the plain language of § 283 and intervening developments of the law and case law; furthermore, "patent injunctions have vastly different, injurious consequences to the economy that did not exist in 1908."[36]

The respondent MercExchange countered that the Federal Circuit's "general rule" is not accurately called an "automatic" or "near-automatic" rule, because courts still retain

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[30] *Id.* at 1338 (citation and internal quotations omitted).

[31] Although courts usually grant injunctions against patent infringers, one noted exception is the 1934 decision of *City of Milwaukee v. Activated Sludge*, 69 F.2d 577 (7th Cir. 1934). The court in this case refused to issue an injunction against the city of Milwaukee for its infringement of a patented method for sewage treatment. Had injunctive relief been granted, Milwaukee would have been forced to dump raw sewage into Lake Michigan, thereby potentially endangering "the health and the lives of more than half a million people." *Id.* at 593.

[32] *eBay*, 401 F.3d at 1338-39.

[33] *Id.* at 1339.

[34] eBay, Inc. v. MercExchange, L.L.C., 26 S. Ct. 733, 2005 U.S. LEXIS 8572 (2005).

[35] Brief of Petitioners, at 14, eBay, Inc. v. MercExchange, L.L.C., No. 05-130 (January 2006).

[36] *Id.* at 16.

discretion to deny injunctions. Instead, the respondent argued that the rule is "fully consistent" with traditional principles of equity and the "long history of robust enforcement of statutory rights to exclude" in patent cases, including *Continental Bag*.[37] Furthermore, the respondent argued, the Federal Circuit correctly ruled that the district court had abused its discretion in denying the injunction. The patent holder's willingness to license its invention is not an indication that money damages are an adequate remedy at law, the respondent asserted. MercExchange also objected to characterizations that the patent owner "does not practice its patents," noting that licensing, for all relevant purposes, constitutes "use."[38] Finally, MercExchange rejected the suggestion that the concern over business method patents was a legitimate consideration for the district court, and instead offered that the validity of such patents is a matter for Congress to address.[39]

A decision in the case is expected by the end of the Court's term in June 2006.

The Patent Reform Act of 2005 (H.R. 2795)

35 U.S.C. § 283 permits a court to "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." The Patent Reform Act of 2005 (H.R. 2795), currently being considered by the House Subcommittee on Courts, the Internet, and Intellectual Property, would, among other matters,[40] amend this injunction provision to require that a court, in determining equity, "consider the fairness of the remedy in light of all the facts and the relevant interests of the parties associated with the invention." Although such express language is supported by the information technology industry, the pharmaceutical industry favors the status quo.[41] Pharmaceutical companies consider injunctions to be critical to stopping infringement and encouraging investment in new drug research and development. However, typically only one or two patents cover a drug, whereas a computer chip or other advanced technology products often incorporate hundreds or thousands of patented inventions. A technological product in which one "relatively insignificant component" is found to be infringing on a patent may be withdrawn from the market, or the company that supports the product may be compelled to pay an expensive settlement to preserve its business.[42] During any legislative consideration of H.R. 2795, Congress may face these divergent opinions over injunctive relief held by interested parties in different sectors of the economy.

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[37] Brief of Respondent, at 15-34, eBay, Inc. v. MercExchange, L.L.C., No. 05-130 (March 2006).

[38] *Id.* at 40.

[39] *Id.* at 39.

[40] For a detailed analysis of many of the reforms proposed by H.R. 2795, *see* CRS Report RL32996, *Patent Reform: Innovation Issues*, by Wendy H. Schacht and John R. Thomas.

[41] For a comparison of patent protection in the these two industries, *see* CRS Report RL33367, *Patent Reform: Issues in the Biomedical and Software Industries*, by Wendy H. Schacht.

[42] Brief of Business Software Alliance et al., at 4, eBay, Inc. v. MercExchange, L.L.C., No. 05-130 (January 2006).