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EBAY V. MERCExchange: TRADITIONAL FOUR-FACTOR TEST FOR INJUNCTIVE RELIEF APPLIES TO PATENT CASES, ACCORDING TO THE SUPREME COURT

*Sue Ann Mota**

I. INTRODUCTION

On May 15, 2006, the U.S. Supreme Court made an important unanimous ruling in *eBay Incorporated v. MercExchange L.L.C.* that the traditional four-factor test applied in courts of equity when determining whether to issue injunctive relief also applies in patent cases, vacating the holding of the U.S. Court of Appeals for the Federal Circuit.¹ This decision will shift the balance of power from patent holders who allege infringement and who may use the threat of an injunction to negotiate excessive royalties² to a balance between patent holders and alleged infringers.

The Patent Act allows the issuance of injunctive relief against a patent infringer.³ The Court in *eBay*, in a landmark decision, however, has moved from the Federal Circuits' general rule in patent disputes that a permanent injunction will be issued once patent validity and infringement have been found⁴ to the traditional case-by-case analysis of the four factors used in other suits—that the plaintiff must show that the plaintiff “has suffered an irreparable injury, that remedies available at law . . . are inadequate to compensate for that injury, that considering the balance of hardships . . . a remedy in equity is warranted, and that the public interest would not be disserved by a permanent injunction.”⁵

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1. *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1838-39 (2006).
2. *Id.* at 1842 (Kennedy, J., concurring).
3. 35 U.S.C. § 283 (2000).
4. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006).
5. *eBay*, 126 S. Ct. at 1839.

While the Court unanimously agreed on the application of the traditional four-part test, the concurrences seemed to differ in the focus of the test. Justice Roberts's concurrence focused on history and traditional equity practice in granting injunctive relief,⁶ while Justice Kennedy's concurrence discussed rapid technological advancements.⁷

This article will examine the *eBay* litigation and landmark Supreme Court decision and its important impact. This decision may temporarily forestall patent reform by removing the threat of near-mandatory injunctive relief if patent infringement and validity is found and will let the court weigh the factors when deciding patent injunctive relief.

II. BRIEF EXAMINATION OF PATENT LAW

The U.S. Constitution authorizes Congress "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."⁸ Pursuant to this, Congress has enacted numerous patent acts, starting with the first U.S. Congress⁹ and, most currently, the Patent Act of 1952, as amended.¹⁰ A utility patent may be granted to whomever invents any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvements thereof.¹¹ The patentable subject matter must be novel,¹² useful,¹³ and non-obvious.¹⁴ A utility patent lasts for twenty years from application.¹⁵

6. *Id.* at 1841 (Roberts, J., concurring).

7. *Id.* at 1842 (Kennedy, J., concurring).

8. U.S. CONST. art. I, § 8.

9. Act of April 10, 1790, ch. 7, § 1, 1 Stat. 109 (1790). *See also* Act of July 4, 1836, ch. 357, § 6, 5 Stat. 117 (1836), and Act of July 8, 1870, ch. 230, § 26, 16 Stat. 198 (1870).

10. 35 U.S.C. § 101 (2000).

11. *Id.* In addition, plant patents may be granted to anyone who "invents or discovers and asexually reproduces any distinct and new variety of plant." 35 U.S.C. § 161 (2000). Fourteen-year design patents may be granted to one who has a new, original, and ornamental design for an article of manufacture. 35 U.S.C. § 171, 173 (2000).

12. 35 U.S.C. § 102 (2000). The invention may not be "known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention by the patent applicant." *Id.* Further, the invention may not "be patented or described in a printed publication in this or a foreign country or in public use or on sale in this country more than one year prior to the date of application in the [U.S.]" *Id.* Additionally, the inventor may not be entitled to a patent if the invention was abandoned or the patent applicant did not invent the subject matter to the patented, among other reasons. *Id.*

13. 35 U.S.C. § 101 (2000).

14. 35 U.S.C. § 103 (2000).

A patent may not be obtained . . . if the differences between the subject matter to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which the subject matter pertains.

A patent's specification must "contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms to enable any person skilled in the art to which it pertains . . . to make and use the same."¹⁶ The specification shall conclude with one or more claims specifically pointing out and distinctly claiming the subject matter of the invention.¹⁷

The Supreme Court has interpreted patentable subject matter broadly. In 1980, in *Diamond v. Chakrabarty*, the Supreme Court held that a live, human-made organism was patentable subject matter.¹⁸ The Court stated that Congress intended statutory subject matter to "include anything under the sun made by man."¹⁹ In 1981, in *Diamond v. Diehr*, the Court held that a process claim that included a computer program was patentable subject matter.²⁰

In 1998, the Court of Appeals for the Federal Circuit held in *State Street Bank and Trust Company v. Signature Financial Group, Incorporated* that an invention is not unpatentable simply because it is directed at a method of doing business.²¹ *State Street Bank* has resulted

Id.

15. 35 U.S.C. § 154 (2000).

16. 35 U.S.C. § 112 (2000). Further, the specification must "set forth the best mode contemplated by the inventor of carrying out the invention." *Id.*

17. *Id.* A claim may be written in independent, dependent, or multiple dependent form. *Id.* "[A] claim in dependent form [must] contain a reference to a claim previously [set out.] and then specify a further limitation of the subject matter claimed." *Id.* An element in a claim for a combination may be expressed as a means or step for performing a specified function without reciting the structure, material, or acts in support." *Id.*

18. 447 U.S. 303, 309-10 (1980).

19. *Id.* at 309 (citing S. REP. NO. 82-1979, at 5 (1979); H. R. REP. NO. 82-1923, at 6 (1952)).

20. *Diamond v. Diehr*, 450 U.S. 175, 187 (1981). "[A] claim drawn to subject matter otherwise statutory does not become non-statutory simply because it was a mathematical formula, computer program, or digital computer." *Id.* at 187.

21. *State Street Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368, 1375 (Fed. Cir. 1998). On appeal, the Federal Circuit reversed the district court and concluded that patent claims for a data processing system used for implementing an investment structure for mutual funds, was statutory subject matter. *Id.* at 1370. See generally, John M. Carson & Eric M. Nelson, *Legal Victory for Electronic Commerce Companies: State Street Bank & Trust v. Signature Financial Group Signals Fall of Last Barrier to Internet Software Patents*, 21 T. JEFFERSON L. REV. 193 (1999); Francis Marius Keeley-Domokos, *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 14 BERKELEY TECH. L.J. 153 (1999); Christopher L. Ogden, *Patentability of Algorithms After State Street Bank: The Death of the Physicality Requirement*, 83 J. PAT. & TRADEMARK OFF. SOC'Y 491 (2001); Joseph Robert Brown, Jr., Note, *Software Patent Dynamics: Software As Patentable Subject Matter After State Street Bank & Trust Co.*, 25 OKLA. CITY U. L. REV. 639 (2000); Sari Gobay, Note and Comment, *The Patentability of Electronic Commerce Business Systems in the Aftermath of State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 8 J.L. & POL'Y 179 (1999); Robert Hulse, Note, *Patentability of Computer Software After State Street Bank & Trust Co. v. Signature Financial Group, Inc.: Evisceration of the Subject Matter Requirement*, 33 U.C. DAVIS L. REV. 491 (2000); Chad King, Note, *Abort, Retry, Fail: Protection*

in a “flurry of patents issued for Internet business models.”²²

Upon issue, a patent is presumed to be valid.²³ “Whoever actually induces infringement of a patent is liable as an infringer.”²⁴ Defenses in a patent infringement or validity suit include: non-infringement, absence of liability for infringement or unenforceability, an invalidity of the patent or any claim on any specified condition of patentability, and a failure to comply with other requirements of the Patent Act.²⁵ Patents have the attributes of personal property,²⁶ including the right to exclude others from making, using, or selling the invention.²⁷

If infringement is proven either by actual or contributory infringement or under the doctrine of equivalents,²⁸ “the court shall

for Software-Related Inventions in the Wake of State Street Bank & Trust Co. v. Signature Financial Group, Inc., 85 CORNELL L. REV. 1118 (2000); Colin P. Marks, Note *Opening the Door to Business Methods: State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 37 HOUS. L. REV. 923 (2000); Claus D. Merlati, Note, *State Street Bank & Trust Co. v. Signature Financial Group, Inc.: Ought the Mathematical Algorithm and Business Method Exceptions Return to Business as Usual?*, 6 J. INTELL. PROP. L. 359 (1999); Ann Marie Ruzzo, Note and Comment, *The Aftermath of State Street Bank & Trust v. Signature Financial Group: Effects of United States Electronic Commerce Business Method Patentability on International Legal and Economic Systems*, 50 DEPAUL L. REV. 313 (2000).

22. William D. Wiese, *Death of a Myth: The Patenting of Internet Business Models after State Street Bank*, 4 MARQ. INTELL. PROP. L. REV. 17, 17 (2000). *State Street Bank* has been called a “sweeping . . . departure from precedent.” Leo J. Raskind, *The State Street Bank Decision: The Bad Business of Unlimited Patent Protection for Methods of Doing Business*, 10 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 61, 61 (1999). The case has also been referred to as “neither an anomaly in law nor a decision by an aberrant panel of the Federal Circuit without strong precedential significance.” Gregory J. Maier & Robert Mattson, *State Street Bank in the Context of the Software Patent Saga*, 8 GEO. MASON L. REV. 307, 336 (1999). The article was dedicated to the memory of the author of the *State Street Bank* opinion and his vision of patent law as applied to software-related inventions. Judge Rich passed away in 1999 shortly after his 95th birthday. *Id.* at 307 n.1.

23. 35 U.S.C. § 282 (2000). If the Patent and Trademark Office rejects any claims, or if the rejection has been made final, the patent applicant may appeal to the Board of Patent Appeals and Interferences in the Patent and Trademark Office. 35 U.S.C. § 134 (2000). An appeal may be taken to the Court of Appeals for the Federal Circuit, 35 U.S.C. § 141 (2006). This court was created, among other reasons, by Congress in 1902 to hear patent appeals, Federal Courts Improvement Act, Pub. L. No. 97-164, 96 Stat. 25 (1982), and has exclusive jurisdiction over patent appeals. 28 U.S.C. § 1295(a)(1), (4) (2000).

24. 35 U.S.C. § 271(b) (2000).

25. 35 U.S.C. § 282 (2000).

26. 35 U.S.C. § 261 (2000).

27. 35 U.S.C. § 154(a) (2000).

28. 35 U.S.C. § 271(b-c). See *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushikihilo*, 535 U.S. 722, 733 (2002) (“The doctrine of equivalents allows the patentee to claim those insubstantial alterations that were not captured in drafting the original patent claim but could be created through trivial changes.”). For more on *Festo*, see Sue Ann Mota, *The Doctrine of Equivalents and Prosecution History Estoppel: The Supreme Court Supports Flexibility Over Certainty in Patent Cases in Festo v. SMC*, 9 RICH. J.L. & TECH. 1 (2002). In 1997, the Supreme Court held that the doctrine of equivalents still existed after the 1952 Patent Act. *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 26-28, 41 (1997).

award . . . damages adequate to compensate for the infringement, . . . but no less than a reasonable royalty.”²⁹ The court may increase damages up to three times the amount found.³⁰ A court may also grant an injunction.³¹

A. *eBay v. MercExchange*

1. Background

Inventor, electrical engineer, and patent attorney Thomas Woolston filed his first patent application involving online marketing technology in 1995.³² Woolston’s goal was to build an operating business that would practice his inventions, and he founded MercExchange and assigned his patent rights to it.³³

Mr. Woolston assigned U.S. Patent number 6,202,051 (the ‘051 patent) for facilitating internet commerce through internetworked auctions to MercExchange.³⁴ In the family of inventions, Mr. Woolston also assigned U.S. patent number 6,085,176 (the ‘176 patent) for a method and apparatus for using search agents to search a plurality of markets to MercExchange.³⁵ The patent at issue in the Supreme Court

29. 35 U.S.C. § 284 (2000). See John J. Barnhardt, III, *Revisiting a Reasonable Royalty as a Measure of Damages for Patent Infringement*, 86 J. PAT. & TRADEMARK OFF. SOC’Y 991, 991 (2004). Interest and costs may also be granted by the Court. *Id.*

30. 35 U.S.C. § 284. While there is no *per se* test for willfulness to enhance damages, the Court of Appeals for the Federal Circuit has recognized several factors to be weighed:

[W]hether the infringer deliberately copied the ideas or design of another; whether the infringer, . . . kn[owing] of the . . . patent [holder’s] protection, investigated . . . [and had] a good faith belief that [the patent] was invalid or . . . not infringed; . . . the infringer’s behavior as a party to the litigation[;] . . . [d]efendant’s size and financial condition[;] [c]loseness of the case[;] [d]uration of defendant’s misconduct[;] [r]emedial action by the defendant[;] defendant’s motivation for harm[;] and [w]hether the defendant attempted to conceal its misconduct.

Read Corp. v. Bortec, Inc., 970 F. 2d 816, 826-27 (Fed. Cir. 1992) (internal citations omitted). Attorney’s fees may also be awarded. 35 U.S.C. § 285 (2000).

31. 35 U.S.C. § 283 (2000).

32. Brief for Respondent at 1, *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

33. *Id.* at 3.

34. U.S. Patent No. 6,202,051 (filed Feb. 19, 1999). The invention is “an electronic ‘market maker’ for collectible and used goods, a means for electronic ‘presentment’ of the goods for sale, and an electronic agent for hard-to-find goods.” *Id.* col.1 l.15-18 (Background of the Invention).

35. U.S. Patent No. 6,085,176 (filed Mar. 8, 1999). The first claim is for a method of searching a plurality of electronic markets to locate an item; comprising, receiving, and formatting a search request at the first computer; transmitting the search request to plurality of other computers; and receiving the results from at least one other computer back at the first computer. *Id.* col.20 l.33-47. The fifth claim is the method of claim one wherein the first computer executes a program that

case was number 5,845,265 (the '265 patent) for consignment nodes assigned to MercExchange.³⁶ The '265 patent consists of:

A method and apparatus for creating a computerized market for used and collectible goods . . . in a legal framework that establishes a bailee relationship and consignment contract with a purchaser of a good . . .

generates search requests; the sixth claim is the method of claim five wherein the first computer generates a search request wherein at least one of the plurality of markets searched is dominant electronic market for the predetermined category of goods. *Id.* col.20 1.59-63. Claim twenty-nine is a computer-implemented method of searching, comprising, and receiving input identifying an item and instructing a software search agent to search. *Id.* col.22 1.59-66. Claims thirty-one, thirty-two, and thirty-four are methods of claim twenty-nine wherein the software search agent formats and issues search requests to electronic markets on a separate node. *Id.* col.23 1.6-13, 18-20. Claim thirty-five is the method of the prior claim where the computer network comprises the Internet. *Id.* col.23 1.21-22. Claim thirty-six is the method of claim twenty-nine comprising receiving human user input, and claim thirty-seven is the method of claim thirty-six where this human user's inputs is on a computer remote from another computer. *Id.* col.23 1.23-26. Claim thirty-eight is the method of claim thirty-seven comprising transmitting the human user's input from the first to the other computer. *Id.* col.23 1.31-34. Claim thirty-nine is the method Claim thirty-seven further comprising receiving and displaying the search results to the human user on the first computer. *Id.* col.23 1.35-40.

36. U.S. Patent No. 5,845,265 (filed Nov. 7, 1995). Claim one is a system for presenting a data record of a good for sale to a market for goods having an interface to a communication network for offering and presenting goods for sale to a purchaser, a payment clearing means, a database means, and a communications means. *Id.* col.20 1.23-32. The system comprises: a digital image means; a user interface; a bar code scanner and printer; a storage device; a communications means; and a computer locally connected. *Id.* col.20 1.33-58. Claim four is the apparatus of claim one wherein the image input is a digital camera. *Id.* col.21 1.7-8. Claim seven is the apparatus of claim one wherein the communicating means is via the Internet. *Id.* col.21 1.13-14. Claim eight is a market apparatus comprising: a communications means; a post/de-post communications handler; a storage device for the data record of the sale; a presentation mapping module; a transaction processor; and a notification means. *Id.* col.21 1.15-60. Claim ten is the market apparatus of claim eight wherein the data storage device is a relational database. *Id.* col.22 1.1-2. Claim eleven is the market apparatus further comprising a world wide web server. *Id.* col.22 1.3-10. Claim thirteen is the market apparatus where the post/de-post handler generates a unique tracking number. *Id.* col.22 1.18-23. Claim fourteen is the market apparatus wherein a relationship exists between the market apparatus and a user of the posting terminal apparatus. *Id.* col.22 1.24-29. Claim fifteen comprises: the communication interface; a posted-post communications handler; a storage device; a presentation mapping module; a transaction processor; and a notification means. *Id.* col.22 1.30-col.23 1.10. Claim seventeen is the market apparatus of claim fifteen wherein the storage device is a relational database. *Id.* col.23 1.18-19. Claim eighteen is the market apparatus further comprising a connected world wide web server. *Id.* col.23 1.20-27. Claim twenty is the market apparatus wherein the post/de-post communications handler generates and sends a unique tracking code. *Id.* col.23 1.35-40. Claim twenty-one is the market apparatus of claim fifteen wherein a relationship exists between the market apparatus and the user. *Id.* col.23 1.41-46. Claim twenty-two is the market apparatus wherein the notification means is via e-mail. *Id.* col.23 1.47-48. Claim twenty-three is a system for presenting a data record of a good for sale to a market for goods comprising: a digital camera; a user interface; a printer; a storage device; a communication interface; and a computer locally connected. *Id.* col.23 1.49-col.24 1.15. Claim twenty-six is an electronic market comprising: a communication interface; a posting communications handler; a storage device; a presentation mapping module; a transaction procession; and a notification module. *Id.* col.24 1.30-col.25 1.12.

that allows . . . the purchaser to speculate on the price . . . while assuring the safe and trusted physical possession of a good with a vetted bailee.³⁷

MercExchange filed suit in district court against eBay, Incorporated, Half.com Incorporated, and Return Buy, Incorporated for patent infringement.³⁸ MercExchange alleged that eBay willfully infringed the '265, '176, and '051 patents.³⁹ eBay is a cyber-forum for selling more than 45,000 categories of merchandise and hosting about 254,000 online stores worldwide.⁴⁰ eBay has more than 180,000,000 registered users and generates revenues through listing and selling fees and through advertising.⁴¹ MercExchange alleged that Half.com willfully infringed the '265 and the '176 patents.⁴² Half.com is a wholly-owned subsidiary of eBay.⁴³ MercExchange alleged that Return Buy, Incorporated willfully infringed the '265 patent.⁴⁴ Return Buy owned and operated a website that directed its customers to eBay's web site where the customers could purchase Return Buy's goods, but Return Buy filed for bankruptcy protection and settled with MercExchange, which granted a non-exclusive license to Return Buy.⁴⁵

In 2002, the district court held a *Markman* hearing⁴⁶ and granted in

37. *Id.*

38. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1325 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006).

39. *Id.*

40. *Hoover's In-Depth Company Records: eBay, Inc.*, HOOVER'S INC., May 10, 2006. eBay was created in 1995, incorporated in 1996, and was named eBay in 1997. *Id.* eBay's subsidiaries include Pay Pal, Inc., Shopping.com Ltd., and Skype Technologies. *Id.*

41. *Id.*

42. *MercExchange*, 401 F.3d at 1325.

43. Brief of Petitioner at ii, *e-Bay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

44. *MercExchange*, 401 F.3d at 1325.

45. Brief of Petitioner at 4 n.1, *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130). The district court entered a consent decree between MercExchange and Return Buy which stated that the '265 patent is valid and enforceable and Return Buy practiced at least one of the patent's claims. *MercExchange, L.L.C. v. eBay, Inc.*, 68 Fed. Appx. 182, 182 (Fed. Cir. 2003). Further, Return Buy agreed and stipulated that any person in concert with Return Buy who had actual notice of the consent judgment was permanently enjoined from infringing the '265 patent claims. *Id.* eBay objected, and the district court added to the consent judgment that "nothing in this order shall be construed as affecting, in any way, the claims or defenses that are currently being litigated between eBay, Half.com and MercExchange in this case." *Id.* MercExchange appealed, but in an unpublished nonprecedential decision, the Federal Circuit granted eBay's motion to dismiss MercExchange's appeal. *Id.* at 183.

46. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 370 (1976). *See generally* Sue Ann Mota, *Markman v. Westview Instruments, Inc: Patent Construction is Within the Exclusive Province of the Court under the Seventh Amendment*, 3 RICH. J.L. & TECH. 3 (1997).

part and denied in part eBay's motions for summary judgment that the claims of the '051 patent were invalid for an inadequate written description.⁴⁷

In 2003, after a five-week trial, the jury found that neither the '265 nor the '176 patent were invalid,⁴⁸ that eBay had willfully infringed claims of the '265 patent⁴⁹ and had induced Return Buy to infringe claims of the '265 patent,⁵⁰ and that Half.com had infringed claims of the '265⁵¹ patent as well as the '176 patent.⁵² The jury found eBay liable for \$10.5 million for infringing the '265 patent and \$5.5 million for inducing Return Buy to infringe the '265 patent; Half.com was found liable for \$19 million for infringing both the '176 and the '265 patents.⁵³ Both parties made various post-trial motions.⁵⁴

2. District Court – Too Expansive in Denying an Injunction, According to the Supreme Court

The district court in 2003 ruled on the parties' post trial motions.⁵⁵ eBay and Half.com's motions for judgment as a matter of law on infringement and invalidity for obviousness of the patent claims, as well as the defendants' request for a new trial, were denied.⁵⁶

MercExchange's motion for the entry of a permanent injunctive

47. *MercExchange, L.L.C. v. eBay, Inc.*, 271 F. Supp. 2d 789, 796-97 (E.D. Va. 2002), *vacated in part by*, 401 F.3d 1323 (Fed. Cir. 2005). The court also denied in part and granted in part MercExchange's motions that the claims of the '051 patent were valid. *Id.* at 797. The court denied Half.com's motion that claims of the '176 patent were invalid. *Id.*

48. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1326 (Fed. Cir. 2005).

49. *Id.* The jury found that eBay willfully infringed claims 8, 10, 11, 13, 14, 15, 17, 18, 20, 21, 22, and 26 of the '265 patents. *Id.* See *supra* note 36.

50. *MercExchange*, 401 F.3d at 1326. The jury found that eBay induced Return Buy to infringe claims 1, 4, 7 and 23 of the '265 patent. *Id.* See *supra* note 36.

51. *MercExchange*, 401 F.3d at 1326. The jury found that Half.com willfully infringed claims 8, 10, 11, 13, 15, 17, 18, 20, 22, and 26-29 of the '265 patent. *Id.* See *supra* note 36.

52. *MercExchange*, 401 F.3d at 1326. The jury found that Half.com willfully infringed claims 1, 5, 6, 29, 31, 32, and 34-39 of the '176 patent. *Id.* See *supra* note 35.

53. *MercExchange*, 401 F. 3d at 1326.

54. *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 699 (E.D. Va. 2003), *affirmed in part, reversed in part by*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006). Both eBay and Half.com moved for a judgment notwithstanding the law and new trial on the '265 patent; Half.com moved for the same covering the '176 patent, among other motions. *Id.* MercExchange moved for entry of a permanent injunction and for enhanced damages and attorney fees, among other motions. *Id.*

55. *Id.* at 722.

56. *Id.* at 699-709. The court found that there was no willfulness on the indirect infringement of the '176 patent claims. *Id.* at 702. The damages were supported by substantial evidence, even though the amount was greater than what the plaintiff asked for. *Id.* at 710.

order was also denied.⁵⁷ Once validity and infringement of the patents have been established, the district court may issue a permanent injunction against the infringer.⁵⁸ While the grant of injunctive relief against the infringer is the norm, and an injunction should be issued unless there is sufficient reason for denying it,⁵⁹ the district court recognized that the discretion remains with the trial judge.⁶⁰

The district court reviewed the four-part traditional equitable test utilized when issuing injunctive relief: whether the plaintiff would suffer irreparable injury if the injunction did not issue; whether the plaintiff has an adequate remedy at law; whether granting an injunction is in the public interest; and whether the balance of hardships tips in the plaintiff's favor.⁶¹ In reviewing each of the factors, the district court believed that the plaintiff would not suffer irreparable harm if the injunction did not issue.⁶² The district court further found that monetary damages were an adequate remedy at law, another factor weighing against the injunction.⁶³ The public interest prong of the test supported both the granting of an injunction to protect the plaintiff's patent rights as well as the denying of an injunction to protect the public's right to a patented business method that the patent holder does not practice.⁶⁴ Finally, the balancing of the hardships tipped in the defendants' favor,⁶⁵ and the district court denied MercExchange's motion for a permanent injunction.⁶⁶

57. *Id.* at 715.

58. 35 U.S.C. § 283 (2000) (stating "The 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.").

59. *W. L. Gore & Assoc., Inc. v. Gorlack, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988).

60. *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 711 (E.D. Va. 2003), *affirmed in part, reversed in part by*, 401 F.3d 1323 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006).

61. *Id.* (citing *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982)).

62. *Id.* at 712. While the plaintiff stated that it would be harmed in a number of ways, this established a presumption of irreparable harm which could be rebutted. *Id.* While the defendants argued in rebuttal that they did not practice the claims of the '176 and '265 patents, the jury disagreed. *Id.* There was substantial evidence, however, that MercExchange did not practice its inventions and merely licensed them to others, which is a significant factor on whether there is irreparable harm. *Id.* The district court also noted that an attorney for MercExchange stated that the goal was just compensation, not to put eBay out of business. *Id.* at 712 n.13.

63. *Id.* at 713.

64. *Id.* at 714.

65. *Id.* "[MercExchange] exists solely to license or sue to enforce its patents, and not to . . . commercialize them." *Id.* If an injunction were granted, a "Pandora's Box" of new problems would be opened, and the battle would continue, by the defendants designing around the patents. *Id.* "This case has been one of the more, if not the most, contentious cases that this court has ever presided over." *Id.*

66. *Id.* at 715. The plaintiff's motions for enhanced damages under 35 U.S.C. § 284 and

3. Federal Circuit Court of Appeals – Too Narrow in Granting a Permanent Injunction Under the “General Rule,” According to the Supreme Court

The defendants appealed and the plaintiff cross appealed.⁶⁷ The Court of Appeals for the Federal Circuit in 2005 in *MercExchange, L.L.C. v. eBay, Inc.* held that the district court improperly denied MercExchange’s motion for a permanent injunction.⁶⁸ On eBay and Half.com’s appeals, the Court of Appeals for the Federal Circuit held that substantial evidence supported the jury’s verdict on the validity and infringement of the ‘265 patent⁶⁹ but reversed the district court’s judgment on the infringement of the ‘176 patent holding its claim invalid⁷⁰ and also reversed the jury’s verdict that eBay induced Return Buy to infringe the ‘265 patent.⁷¹

On the issue of the injunction, the Court of Appeals for the Federal Circuit gave the general rule that a permanent injunction will issue once infringement and validity have been adjudged,⁷² with the discretion of the court in rare instances to deny injunctive relief.⁷³ In *MercExchange*, the court of appeals stated that the district court did not provide any persuasive reason to believe that the case was sufficiently exceptional to justify the denial of injunctive relief.⁷⁴ Without reciting the four-part test, the Court of Appeals for the Federal Circuit stated that a general

attorney’s fees under 35 U.S.C. § 285 were denied. *MercExchange*, 275 F. Supp. at 721-22. See also *supra* note 30 and accompanying text (discussing 35 U.S.C. §§ 284, 285).

67. Zhichong Gu, Note, *MercExchange v. eBay: Should Newsgroup Postings be Considered Printed Publications as a Matter of Law in Patent Litigation?*, 35 GOLDEN GATE U. L. REV. 225, 235 (2005). “In addition, upon eBay’s request, the PTO ordered a reexamination of MercExchange’s patents on June 4, 2004.” *Id.* See Betsy Johnson, Comment, *Plugging the Holes in the ExParte Reexamination Statute: Preventing a Second Bite at the Apple for a Patent Infringer*, 55 CATH. U. L. REV. 305, 305-07 (2005).

68. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1326 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006). The Federal Circuit, however, upheld the district court’s holding denying enhanced damages and attorney fees. *Id.* See *supra* note 65. The summary judgment of invalidity of the ‘051 patent was also reversed. *MercExchange*, 401 F.3d at 1337. See *supra* note 46 and accompanying text.

69. *MercExchange*, 401 F.3d at 1327-30. The appellate court found “that MercExchange introduced sufficient evidence to permit the jury to find that eBay’s system infringed the ‘265 patent.” *Id.* at 1329. Further, “there was substantial evidence to support the jury’s finding of nonobviousness.” *Id.* at 1331.

70. *Id.* at 1333. The claims were anticipated by the prior art. *Id.* at 1335.

71. *Id.* at 1333. According to the court of appeals, there was insufficient evidence that eBay intended to induce Return Buy to infringe the claim of the ‘265 patent.

72. *Id.* at 1338 (citing *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989)).

73. *Id.* (citing *Rite-Hite Corp. v. Kelley, Inc.*, 56 F. 3d 1538, 1547 (Fed. Cir. 1995)).

74. *Id.* at 1339.

concern over business method patents is not a sufficient public purpose to deny injunctive relief.⁷⁵ MercExchange's failure to move for a preliminary injunction does not remove its right for a permanent injunction as preliminary⁷⁶ and permanent injunctions are distinctive forms of equitable relief that serve entirely different purposes.⁷⁷ Applying the general rule, the denial of the permanent injunction was reversed.⁷⁸

4. U.S. Supreme Court – “May” Means “May”

The U.S. Supreme Court granted the petition for writ of certiorari to decide whether the Federal Circuit erred in setting forth the general rule in patent cases that a district court must, absent exceptional

75. *Id.* See *supra* note 63 and accompanying text. Similarly, contentious litigation and the likelihood of continuing disputes was also “not a sufficient basis to deny injunctive relief.” *MercExchange*, 401 F.3d at 1339. See *supra* note 64. The public statements that MercExchange's goal was to license its patents also were insufficient. *MercExchange*, 401 F.3d at 1339. See *supra* note 61.

76. A patent holder must demonstrate that the following four factors favor the grant of a preliminary injunction:

- (1) whether the patent owner will have an adequate remedy at law or will be irreparably harmed if a preliminary injunction does not issue;
- (2) Whether the patent owner has at least a reasonable likelihood of success on the merits;
- (3) Whether the threatened injury to the patent owner outweighs the threatened harm that the injunction may inflict upon the alleged infringer; [and]
- (4) Whether the granting of a preliminary injunction will serve the public interest.

Ramsey Shehadeh & Marion B. Stewart, *An Economic Approach to the “Balance of Hardships” and “Public Interest” Tests for Preliminary Injunction Motions in Patent Infringement Cases*, 83 J. PAT. & TRADEMARK OFF. SOC'Y 341 (2001). See also Bryan E. Webster & Steven Walmley, *Unclean Hands and Preliminary Injunctions: The Effects of Delay in Bringing Patent Infringement Cases*, 84 J. PAT. & TRADEMARK OFF. SOC'Y 291, 291-96 (2002). A preliminary injunction in a case involving a business method patent was vacated by the Court of Appeals for the Federal Circuit in *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343 (Fed. Cir. 2001). See Sue Ann Mota, *Internet Business Method Patents – The Federal Circuit Vacates the Preliminary Injunction in Amazon.com v. Barnesandnoble.com*, 19 J. MARSHALL J. COMPUTER & INFO. L. 523, 523 (2001). eBay itself was granted a motion for a preliminary injunction to stop Bidder's Edge from using an automated query program, robot, web crawler, or other device to access eBay's computer systems or networks to copy any part of eBay's auction database. *eBay, Inc. v. Bidder's Edge, Inc.*, 100 F. Supp. 2d 1058, 1073 (N.D. Col. 2000). This was not a patent case; eBay based its motion on nine causes of action: trespass, false advertising, federal and state trademark dilution, computer fraud and abuse, unfair competition, misappropriation, interference with prospective economic advantage, and unjust enrichment. *Id.* at 1063.

77. *MercExchange*, 401 F. 3d at 1339 (citing *Lerner Germany GmbH v. Lerner Corp.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996)).

78. *Id.* Petitions for panel rehearing and a rehearing en banc were denied. *MercExchange, L.L.C. v. eBay, Inc.*, Nos. 03-1600, 03-1616, 2005 U.S. App. LEXIS 10220 (Fed. Cir. Apr. 26, 2005).

circumstances, issue a permanent injunction after a finding of infringement.⁷⁹ Further, the Court directed the parties to brief and argue the question of whether the Court should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*⁸⁰ on when it is appropriate to grant an injunction against a patent infringer.⁸¹

The U.S. Supreme Court unanimously held on May 15, 2006 that the traditional four-factor test used by courts of equity when determining whether to issue permanent injunctive relief also applies to disputes arising under the Patent Act.⁸² Writing for the Court, Justice Thomas stated that the decision to grant or deny permanent equitable injunctive relief is an act of equitable discretion by the district court.⁸³ The plaintiff seeking a permanent injunction must satisfy a four-factor test,⁸⁴ and these principles apply with equal force to disputes under the Patent Act,⁸⁵ consistent with the treatment of injunctions under the Copyright Act.⁸⁶ The Patent Act,⁸⁷ like the Copyright Act,⁸⁸ states that the court “may” issue injunctive relief, and, to paraphrase the Court, “may” means “may.”⁸⁹ The Court thus once again rejected a rule that an injunction automatically follows; and rather, it sided with traditional equitable principles.⁹⁰

The Supreme Court concluded that both the district court and the Court of Appeals for the Federal Circuit incorrectly applied the four-part test.⁹¹ The district court applied the four-part test too expansively, beyond what equitable principles would suggest; this would erroneously deny injunctive relief in a broad category of cases, according to the Court.⁹² The Court of Appeals for the Federal Circuit erred in the other

79. *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1839 (2006).

80. 210 U.S. 405 (1908).

81. *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 733 (2005) (granting certiorari).

82. *eBay*, 126 S. Ct. at 1838-39.

83. *Id.* at 1839 (citing *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 320 (1982)).

84. *See supra* note 5 and accompanying text.

85. *eBay*, 126 S. Ct. at 1839.

86. *Id.* at 1840 (citing *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932)).

87. *See supra* note 31 and accompanying text.

88. 17 U.S.C. § 502(a) (2000).

89. *eBay*, 126 S. Ct. at 1839.

90. *Id.* at 1840 (citing *New York Times Co. v. Tasini*, 533 U.S. 483, 505 (2001); *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 (1994)). This argument is found in the Petitioner’s Brief. Brief for Petitioner at 17-18, *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130).

91. *eBay*, 126 S. Ct. at 1841.

92. *Id.* at 1840. The district court stated that MercExchange’s lack of commercial activity and willingness to license were factors to consider. *Supra* note 64. According to the Court, university researchers and self-made inventors might also prefer to license their works. *eBay*, 126 S. Ct. at

direction, denying permanent injunctions only under exceptional circumstances.⁹³ Thus, its judgment was vacated by the Court, which took no position on whether permanent injunctive relief should issue in this case.⁹⁴

Chief Justice Roberts, joined by Justices Scalia and Ginsburg, concurred and looked back at a long tradition of equity practice of granting injunctive relief upon a finding of infringement in the vast majority of patent cases.⁹⁵ This historical practice is important to remember, although it neither entitles a patent holder to a permanent injunction nor justifies the Federal Circuit's general rule.⁹⁶

Justice Kennedy, joined by Justices Breyer, Souter, and Stevens, concurred and stated that Chief Justice Roberts is correct that history may be important and instructive in applying the four-part test.⁹⁷ This concurrence also acknowledged that current patent cases may not be like prior cases, as an industry now exists in which firms use patents primarily for licensing fees.⁹⁸ An injunction could be used by these firms as leverage to negotiate excessive and exorbitant fees.⁹⁹ Thus, the Federal Circuit's general rule perhaps better suited courts facing rapid technological and legal developments under patent law.¹⁰⁰ Thus, whether for historical reasons¹⁰¹ or current technological and industry practices, all members of the Court agreed that flexibility under the four-factor test is the standard to be used, rather than the predictable "general

1840. The district court's rationale, according to the Court, does not "square with principles of equity adopted by Congress" or the Court in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 422-30 (1908). *Id.* at 1840.

93. *Id.* at 1841.

94. *Id.*

95. *Id.*

96. *Id.* See *supra* note 67 and accompanying text (stating the general rule).

97. *eBay*, 126 S. Ct. at 1842.

98. *Id.* (citing FTC, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY ch. 3, pp. 38-39 (Oct. 2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>). This report was cited in the amicus brief of the U.S. Brief for the United States as Amicus Curiae Supporting Respondent at 2 n.1, *eBay, Inc. v. MercExchange L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130). The specific pages of the FTC Report cited by the concurrence refer to non-practicing entities which obtain and enforce patents against other firms, but either have no product or do not create or sell a product. *Id.* at 38. They can threaten patent practicing entities with patent infringement and an injunction. *Id.* In the corporate hardware industry, three types of non-practicing entities include non-practicing design firms, professional patent companies that purchase patents including from bankrupt firms and then assert them against practicing entities, and patent miners that assert their portfolios against other businesses. *Id.*

99. *eBay*, 126 S. Ct. at 1842.

100. *Id.*

101. See *supra* notes 94-95 and accompanying text.

rule” the Federal Circuit employed.¹⁰²

III. CONCLUSION

The U.S. Supreme Court reached a balance in *eBay v. MercExchange* that the traditional equity four-factor test be applied in patent infringement cases.¹⁰³ The Patent Act states that an injunction may be granted,¹⁰⁴ and the courts have resigned in discretion to apply the factors when deciding whether to issue a permanent injunction in a patent case. This decision brings patent cases into conformity with permanent injunction standards in other cases including copyright cases.¹⁰⁵ The Court struck an appropriate balance, reading “may” back into the Patent Act’s working.¹⁰⁶

Although the decision in *eBay* was unanimous, the concurrence by Chief Justice Roberts stressed the importance of history and tradition in granting permanent injunctions,¹⁰⁷ while Justice Kennedy’s concurrence stressed the importance of flexibility when addressing patent cases involving new technologies and business methods.¹⁰⁸ These different emphases can be viewed as either divergent or complementary. Justice Kennedy’s concurrence does acknowledge the current climate where non-practicing patent holders attempt to negotiate settlements with patent infringers,¹⁰⁹ such as the \$612.5 million settlement secured by NTP, Incorporated with Research in Motion (RIM), the BlackBerry manufacturer.¹¹⁰ NTP sued RIM for patent infringement, and the jury found that RIM’s BlackBerry system infringed NTP’s patents and awarded damages of nearly \$54 million.¹¹¹ The district court awarded a permanent injunction, but stayed the injunction pending appeal.¹¹² The Court of Appeals for the Federal Circuit vacated the damage award and injunction, but affirmed other aspects of the decision and remanded the

102. See *supra* notes 96-98 and accompanying text.

103. *eBay*, 126 S. Ct. at 1839.

104. See *supra* note 31.

105. See *supra* note 85 and accompanying text.

106. The *eBay* decision is broadly reminiscent of *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabashiki Co.*, in which the Court in 2002 unanimously held to a flexible rule that prosecution history estoppel doesn’t bar suit against every equivalent of every amended claim, vacating the judgment of the Federal Circuit. 535 U.S. 722, 740 (2002). See *supra* note 28.

107. See *supra* notes 94-95 and accompanying text.

108. See *supra* notes 96-98 and accompanying text.

109. See *supra* note 97.

110. Mark Heinzl, *BlackBerry Case Could Spur Patent-Revision Efforts*, WALL ST. J., Mar. 6, 2006, at B4.

111. *Id.*

112. *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1292 (Fed. Cir. 2005).

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case.¹¹³

The dispute between eBay and MercExchange may not be over, as the Court vacated and remanded, stating that it takes no position on the merits of the case.¹¹⁴ eBay may have won in the Supreme Court and on remand as well, as an eBay press release states that the U.S. Patent and Trademark Office decided that, upon reexamination, the '265 patent is obvious.¹¹⁵

113. *Id.* at 1326. On remand, RIM's motion for a stay of proceedings pending reexamination of NTP's patents was denied in 2005, before the settlement. *NTP, Inc. v. Research in Motion, Ltd.*, 397 F. Supp. 2d 785, 788-89 (E.D.Va. 2005). Research in Motion filed an amicus curiae brief in support of petitioners' eBay and Half.com in *eBay v. MercExchange*. Brief of Research in Motion, Ltd. as Amicus Curiae in Support of Petitioners, *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130). The brief concluded that while those engaged in activities that most clearly promote the progress of useful arts are most likely to be harmed irreparably unless they can enjoin others, injunctive relief should not be available in every case. *Id.* at 28. Most recently at the time of this publication, Research in Motion again has been sued for patent infringement, this time by Visto, on May 1, 2006. Arik Hesseldahl, *RIM's Latest Patent Problem; The Maker of the BlackBerry Wireless E-Mail Service is Being Sued Once Again for Patent Infringement*, BUS. WK. ONLINE, May 2, 2006, available at 2006 WLNR 7476245. Visto had just prevailed in a patent infringement suit against Seven Networks, and is requesting an injunction and monetary damages for RIM's alleged infringement of claims of four of Visto's patents, three of which were involved in the suit against Seven. *Id.* RIM may be aided in this suit or any settlement by *eBay v. MercExchange*, decided two weeks after this case was filed.

114. *See supra* note 96.

115. eBay, eBay Applauds Supreme Court Ruling, <http://investor.ebay.com/releasedetail.cfm?ReleaseID=197425> (last visited Jan. 27, 2006).