

The Reach of *eBay Inc. v. MercExchange, L.L.C.*: Not Just for Trolls and Patents

By Thomas L. Casagrande

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When the United States Supreme Court issued its decision in *eBay Inc. v. MercExchange, L.L.C.*,¹ patent lawyers eagerly read it to determine whether the Supreme Court would take the opportunity to make it harder for “patent trolls” to exact license fees from accused infringers. The term “patent troll” is generally understood to mean a person or entity that owns one or more patents and tries to license them to companies practicing in the patents’ fields, yet does not actually practice the inventions in the patents, or, in fact, make anything at all. They are thus pejoratively termed “trolls” because the license fees they demand and frequently get are like paying fairy tale trolls to cross a bridge. “Patent trolls” have become the bane of many businesses—particularly retailers and other businesses that conduct substantial business over the Internet—through their assertion of “business-method” patents, which describe ways of doing business, rather than a tangible product. Business method “patent trolls” try to persuade defendants who they claim are doing business in a manner falling within the patent to pay license fees to practice the method claimed in the patent. Frequently, when the target business refuses to pay for a license, the troll sues to enforce its patent rights.

In *eBay*, a plaintiff was denied a permanent injunction after winning his trial essentially because he was a patent troll. Instead of issuing a ruling specifically directed at such plaintiffs, the Supreme Court surprised many patent lawyers with a short-and-sweet opinion simply re-confirming basic, historical equitable principles. The opinion did not mention the word “troll” even once, or even refer to trolls indirectly. More important, on closer inspection, the *eBay* decision, because of its generality, appears not only to have implications for all types of patent cases, but also extends into trademark and copyright law, and even beyond intellectual property law altogether.

A. The *eBay v. MercExchange* Decision

Technically, the *eBay* case presented the question of whether there should be a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of patent infringement. After a full trial, the district court refused to grant the victorious patent owner, MercExchange, a permanent injunction, primarily on the ground that a party that is willing to license its patents to others and does not actually make anything under the patent generally is not entitled to permanent injunctive relief.² The United States Court of Appeals for the Federal Circuit—which has appellate jurisdiction over patent appeals³—reversed the district court, based on its general rule in favor of permanent injunctions to victorious patentees.⁴ When the Supreme Court granted *certiorari*, intellectual property lawyers took it as a sign that the Court wanted to address the swelling criticism of “patent trolls” and carve out a special rule to make it harder for patent trolls to target businesses.

The Supreme Court, however, issued a succinct decision that stuck to general principles, saying nothing specific about “patent trolls” or any other characteristics of patentees. It explained that:

According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.⁵

The Supreme Court further stated that “a major departure from the long tradition of equity practice should not be lightly implied.”⁶ The Court noted that “the Patent Act expressly provides that injunctions ‘may’ issue ‘in accordance with the principles of equity,’”⁷ and pointed out that under the Copyright Act—which provides that courts “may” grant injunctive relief “on such terms as it may deem reasonable to prevent or restrain infringement of a copyright”⁸—the Supreme Court “has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed.”⁹

Applying these general principles, the Supreme Court held that both the district court and the Federal Circuit wrongly applied general rules either favoring or disfavoring permanent injunctions, noting that “traditional equitable principles do not permit such broad classifications,”¹⁰ and concluding that “neither court below correctly applied the traditional four-factor framework that governs the award of injunctive relief.”¹¹ In closing, the Supreme Court stated:

[T]he 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 traditional principles of equity, in patent disputes no less than in other cases governed by such standards.¹²

While the Supreme Court's decision was unanimous, the concurring opinions of Chief Justice Roberts and of Justice Kennedy went further and addressed how courts might apply these traditional principles of equity in patent cases. Indeed, Justice Kennedy's concurring opinion, joined by Justices Stevens, Souter, and Breyer, specifically addressed application of the traditional test to parties that "use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees," who at times use the threat of injunctions "as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent"¹³—that is, patent trolls.

B. What Statutory Language is Subject to *eBay*?

The *eBay* decision requiring strict application of the four-part traditional equity test for a permanent injunction explicitly applies to Patent Act cases. Given the Supreme Court's specific reference to cases under the Copyright Act, it clearly applies under the Copyright Act as well. But does it apply beyond these two areas of law? The answer, as explained below, is clearly, "yes."

1. The Patent and Copyright Acts

Examining the injunction language in the Patent and Copyright Acts is instructive in determining what other statutes are affected by *eBay*. The Patent Act provides that courts "may grant injunctions in accordance with the principles of equity" to prevent infringement.¹⁴ Similarly, the Copyright Act provides that courts "may . . . grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright."¹⁵ So it is clear that any statute employing language substantially similar to these statutes similarly should be subject to the traditional four-part test.

2. Application of *eBay* to the Lanham Act

Although the *eBay* decision expressly applied to the Patent Act, and referred explicitly to the Copyright Act,¹⁶ what about the other body of law in the trinity of intellectual property: trademark law under the Lanham Act?¹⁷ With language similar to the Patent Act, the Lanham Act provides that courts "shall have the power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable . . ."¹⁸ Given this explicit statutory reference to "principles of equity," it would seem beyond argument that *eBay* applies with equal force in Lanham Act trademark cases.¹⁹

3. Other Statutory Language Subject to "Traditional Equitable Principles"

Moreover, *eBay* is not expressly limited to intellectual property cases. To determine what other kinds of statutes to which *eBay* may apply, it is helpful to review the prior Supreme Court decisions analyzed in the *eBay* decision. Upon review, a general pattern emerges. In its analysis, the *eBay* Court cited its decisions in *Amoco Production Co. v. Village of Gambell*²⁰ and *Weinberger v. Romelo-Barcelo*.²¹ In *Weinberger*, the question was whether a permanent injunction was mandatory for all violations of the Federal Water Pollution Control Act (FWPCA).²² The FWPCA provided "for appropriate relief, including a permanent or temporary injunction, for any violation . . ."²³ The Supreme Court held that this language "contemplates equitable consideration" to determine whether an injunction or some other "appropriate relief" was needed.²⁴ It thus vacated the First Circuit's ruling that a violation of the FWPCA automatically requires an injunction.

The *Amoco Production* decision is instructive because the statute in that case did not mention injunctions. In *Amoco Production*, the issue was whether, if a violation of Alaska National Interest Lands Conservation Act (ANILCA) is found, "irreparable damage is presumed" and, "absent rare or unusual circumstances," an injunction should enter.²⁵ Although ANILCA does not provide for injunctive relief, the Supreme Court held that it was bound to follow *Weinberger* and held that "[t]here is no clear indication . . . that Congress intended to deny federal district courts their traditional equitable discretion in enforcing [ANILCA], nor are we compelled to infer such a limitation."²⁶

Finally, although the *eBay* Court did not cite to its 1944 decision in *Hecht Co. v. Bowles*,²⁷ *Hecht* formed the foundation of the 1982 *Weinberger* decision, upon which the *eBay* Court relied explicitly and heavily. *Hecht* concerned the Emergency Price Control Act of 1942, which provided for legal actions against violators and that, "upon a showing . . . that such person has engaged or is about to engage in any such acts or practices a permanent or temporary injunction, restraining order, or other order shall be granted without bond."²⁸ Despite the use of the word "shall" in the statute, the Court refused to infer that Congress had revoked the applicability of the traditional test for injunctive relief, primarily based on the language "or other order" immediately after mentioning injunctive relief.²⁹ This phrase indicated that district courts need not enter injunctions in all cases, and may instead enter some "other order." Consequently, the Court found room for the exercise of equitable discretion on the part of the court.³⁰

Based on these precedents, it is therefore clear that the traditional four-part test for the entry of an injunction is required under federal statutes containing the following kinds of language:

- Statutes under which injunctions “may” be granted “in accordance with the principles of equity”;
- Statutes under which injunctions “may” be granted “on such terms as [the court] may deem reasonable”;
- Statutes providing “for appropriate relief, including a permanent or temporary injunction, for any violation . . .”;
- Statutes providing that “a permanent or temporary injunction, restraining order, or other order shall be granted”; and
- Statutes not mentioning injunctions at all.

4. Statutes to Which *eBay* Has Been Held Not to Apply

Although *eBay* is less than a year old, at least one court has refused to apply *eBay* to a particular statutory scheme. In *CBS Broadcasting, Inc. v. EchoStar Communications Corp.*³¹ the United States Court of Appeals for the Eleventh Circuit declined to apply *eBay* to the Satellite Home Viewer Act of 1988 (SHVA).³² The SHVA provides that, upon finding a “pattern or practice” of violations, “a court shall order a permanent injunction barring the secondary transmission by the satellite carrier, for home private viewing, of primary transmissions of any primary network station affiliated with the same network.”³³ The Eleventh Circuit held that *eBay* did not apply to the SHVA’s injunctive provision because this language provided a clear indication of Congressional intent to remove the courts’ equitable discretion and required entry of a permanent injunction upon a finding of a pattern or practice of violations.³⁴

C. How Should *eBay* Work In Practice?

Once a court determines that *eBay* applies, it must decide *how* to apply it. In *eBay*, the Supreme Court rejected the Federal Circuit’s “*general rule* that courts will issue permanent injunctions against patent infringement absent exceptional circumstances,”³⁵ holding that traditional equitable principles do not permit such “broad classifications,” “general rule[s],” or “categorical” statements.³⁶

1. Whither the Familiar “Presumption of Irreparable Harm”?

A logical question, then, is what other kinds of “general rules” may fall within the reach of *eBay*. One rule of law familiar to intellectual property lawyers is the “presumption of irreparable harm” flowing from a finding of infringement. Indeed, the Federal Circuit’s “general rule that a permanent injunction will issue once validity and infringement have been adjudged”³⁷—which the Supreme Court specifically rejected in *eBay*—flows directly from this presumption.³⁸ Such presumptions also have been held to apply in copyright³⁹ and trademark cases.⁴⁰ Since such a “presumption of irreparable harm” is at the root of the “general rule” that the Supreme Court rejected in *eBay*, *eBay* casts substantial doubt on whether courts in any intellectual property case (whether under the Patent Act, the Copyright Act, or the Lanham Act) can continue to apply a presumption of irreparable harm under a traditional test that requires that “the plaintiff must demonstrate” irreparable harm as one of the four traditional equitable factors.⁴¹ Indeed, in *Amoco Production Co. v. Gambel*, relied upon by the *eBay* Court, the Supreme Court expressly rejected the lower court’s holding that “irreparable damage is presumed when an agency fails to evaluate thoroughly the environmental impact of a proposed action,” holding that such a presumption was “contrary to traditional equitable principles”⁴²

2. Permanent and Preliminary Injunctions?

Because the *eBay* decision came after a full trial and on an application for a permanent injunction, another question is whether *eBay* forecloses use of “a presumption of irreparable harm” or other general rule concerning injunctive relief on applications for *preliminary* injunctions. Again, however, *Amoco Production Co. v. Gambel* appears to provide the answer. In that preliminary injunction case, the Supreme Court stated that traditional equitable principles applied regardless of whether the injunction sought was a preliminary injunction issued at the beginning of a case or a permanent injunction issued after a full trial.⁴³ It therefore appears that *eBay*, read with the cases on which it rested, may preclude presumptions of irreparable harm in the preliminary injunction context as well.

3. Applying *eBay* in Patent Cases

There is also the question of how *eBay*’s “four part test” will be applied to the range of facts that show up in patent cases. So far, there are three reported decisions applying *eBay* in patent infringement cases out of the Eastern District of Texas alone. Two appear fairly uncomplicated. In *Paice LLC v. Toyota Motor Corp.*,⁴⁴ the district court denied a permanent injunction to a prevailing plaintiff that appeared to be a “patent troll.” In denying the injunction, the court noted that the plaintiff had not demonstrated that its licensing program would be irreparably harmed without an injunction, that monetary relief in the form of licensing fees would be an inadequate remedy, or that the balance of

harms favored the injunction.⁴⁵ In contrast, the Eastern District, in *TiVo Inc. v. EchoStar Communications Corp.*, granted a permanent injunction in favor of a patentee who was a direct competitor with the infringing defendant.⁴⁶

In a closer case, however, the court in *z4 Technologies, Inc. v. Microsoft Corp.* denied the prevailing patentee a permanent injunction. While z4 Technologies actually produced a product under the patent, the court held that it had failed to prove irreparable harm without a permanent injunction.⁴⁷ In support, the court noted that there was no proof that any customers had been dissuaded from purchasing the patentee's product because of the defendant's infringing activities, explaining that Microsoft did not actually sell the infringing software separately, but only used it as a very small part of its Microsoft Windows and Office software packages.⁴⁸ The court also concluded that the patentee had not demonstrated that money damages were inadequate,⁴⁹ that the damage the injunction would cause to Microsoft outweighed the damage to the patentee without it,⁵⁰ and that an injunction would adversely affect the public interest because so many people relied on Microsoft's products.⁵¹ More so than the *Paice* and *TiVo* decisions, the *z4 Technologies* case suggests how *eBay* likely will make it more difficult to obtain permanent injunctions in patent cases by requiring proof of all four traditional equitable factors.

D. Conclusion

While many were disappointed that the Supreme Court did not provide specific guidance about how courts should deal with "patent trolls," its decision in *eBay* is likely to have much broader and more lasting impact precisely because of its generality. It reinforces that courts must think long and hard before dispensing with strict compliance with the traditional four-factor test for injunctive relief, before or after trial. Courts initially should determine whether the statute under which the injunction is sought is one of the apparently rare statutes where Congress has clearly restricted their equitable discretion. If not, courts should determine whether the applicant has proved the four factors, paying close attention to whether any rules it might consider applying in a given case conflict with strict compliance with these four factors.

Tom Casagrande is a partner in the Houston office of Howrey LLP. His practice focuses on litigation of trademark, trade dress, copyright, patent, and trade secret disputes.

The views expressed in this article do not necessarily represent the views of Howrey LLP or its clients.

Endnotes

1. 126 S. Ct. 1837 (2006).
2. *See id.* at 1840.
3. *See* 28 U.S.C. § 1295(a)(1).
4. 126 S. Ct. at 1839.
5. *Id.* (citing *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982); *Amoco Production Co. v. Gambell*, 480 U.S. 531 (1987)).
6. *Id.* (citations omitted).
7. *Id.* (citing 35 U.S.C. § 283).
8. *See* 17 U.S.C. § 502(a).
9. *eBay*, 126 S. Ct. at 1840 (citations omitted).
10. *Id.*
11. *Id.* at 1841.
12. *Id.*
13. *Id.* at 1842 (Kennedy, J., concurring) (citation omitted).
14. 35 U.S.C. § 283.
15. 17 U.S.C. § 502(a).
16. *See also* *Disney Enterprises, Inc. v. Delane*, Civ. No. DKC 2005-1291, 2006 WL 2264656, at *4 (D. Md. July 28, 2006) (applying *eBay* to a copyright case); *Lava Records, LLC v. Ates*, Civ. No. 05-1314, 2006 WL 1914166, at *3 (W.D. La. July 11, 2006) (same).
17. 15 U.S.C. § 1051 *et seq.*
18. 15 U.S.C. § 1116(a); *cf.* 35 U.S.C. § 283 (courts in patent cases "may grant injunctions in accordance with the principles of equity" to prevent infringement).
19. *See* *Reno Air Racing Ass'n, Inc. v. McCord*, 452 F.3d 1126, 1137-38 (9th Cir. 2006) (applying *eBay* to a Lanham Act trademark case).
20. 480 U.S. 531 (1987).
21. 456 U.S. 305 (1982).
22. *Id.* at 307.
23. 33 U.S.C. § 1319(b) (1976 ed., Supp. IV).
24. 456 U.S. at 317-18.
25. 480 U.S. at 541.
26. *Id.* at 544. The *Amoco Production* case was not the first case in which the Supreme Court faced the issue of when injunctions are appropriate under a statute that does not mention injunctions at all. In *Rondeau v. Mosinee Paper Corp.*, 422 U.S. 49 (1975), the Court held that courts determining whether to enter injunctions for violations of section 13(d) of the Securities Exchange Act of 1934, 15 U.S.C. § 78m(d)—which made no mention of injunctions to enforce its provisions—were required to insist upon satisfaction of "the traditional prerequisites of extraordinary equitable relief by establishing irreparable harm." *Id.* at 61.
27. 321 U.S. 321 (1944).
28. *Id.* at 322.
29. *Id.* at 328.
30. *Id.*
31. 450 F.3d 505 (11th Cir. 2006).
32. Codified at 17 U.S.C. § 119 *et seq.*
33. 450 F.3d at 526 (citing 17 U.S.C. § 119(a)(7)(B)(i)).
34. *Id.* at 527 n.32.
35. 401 F.3d 1323, 1339 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006).
36. 126 S. Ct. at 1841, 1842.
37. *See id.* at 1841, quoting 401 F.3d at 1338.
38. *E.g.*,

Richardson v. Suzuki Motor Co., 868 F.2d 1226, 1247 (Fed. Cir. 1989). **39.***E.g., Fisher-Price, Inc. v. Well-Made Toy Mfg. Co.*, 25 F.3d 119, 124 (2d Cir. 1994); *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294 (S.D.N.Y. 2000). **40.***DaimlerChrysler v. The Net, Inc.*, 388 F.3d 201, 208 (6th Cir. 2004); *Abbott Labs. v. Mead Johnson & Co.*, 971 F.2d 6, 18 (7th Cir. 1992); *but see Southern Monorail Co. v. Robbins & Myers, Inc.*, 666 F.2d 185, 187-88 (5th Cir. 1982) (noting that the Fifth Circuit, unlike other circuits, has not yet ruled whether it should adopt this presumption). **41.***See* 126 S. Ct. at 1839. **42.***Amoco Production Co. v. Gambell*, 480 U.S. 531, 545 (1987). **43.***Id.* at 546 n.12. **44.** No. 2:04-CV-211-DF, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006). **45.***Id.* at *4 - *6. **46.** No. 2:04 CV 1 DF, 2006 WL 2398681, at *5 - *6 (E.D. Tex. Aug. 17, 2006). **47.** 434 F. Supp. 2d 437, 440 (E.D. Tex. 2006). **48.***Id.* **49.***Id.* at 441. **50.***Id.* at 442-43. **51.***Id.* at 443-44.