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Supreme Court Ends Automatic Injunctions

New standard for granting injunctions against patent infringers

On May 15, the U.S. Supreme Court issued its long-awaited decision on the standards for granting a permanent injunction against a defendant found to be infringing a valid and enforceable patent. *Ebay, Inc. v. Mercexchange, LLC* (No. 05-130). What is most interesting about the decision is that the Supreme Court held that both lower courts applied the wrong standard. And what is perhaps most intriguing about the decision is that it may well raise more questions than it answers.

In vacating the Federal Circuit's appellate decision, the Supreme Court rejected the Federal Circuit's general rule that courts should issue permanent injunctions against patent infringement absent exceptional circumstances. However, rather than reinstate the district court's decision denying the injunction, the Supreme Court ruled that the district court itself erred and should start from scratch, because the district court's decision had suggested that certain categories of patent owners

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were effectively disqualified from the right to obtain a permanent injunction.

Thus, in full effect, the Supreme Court concluded that the district court had made it too difficult for certain patentees to obtain injunctive relief, while the Federal Circuit made it generally too easy. Rejecting both approaches, the Supreme Court held that in patent cases, like other cases, the court should consider the traditional equitable factors: whether the patentee has suffered irreparable injury; whether legal remedies such as money damages are inadequate to compensate for the injury; whether the balance of hardships warrants an injunction; and whether the public interest would be disserved by an injunction.

Of course, only time will tell whether the decision in *Ebay* will lead to more adjudicated infringers escaping a permanent injunction. But it is a good bet that this will prove to be the case. Most district courts have followed the Federal Circuit's rule of granting an injunction almost as a matter of course, and the *Ebay* decision will likely energize many defendants to fight the entry of a permanent injunction under circumstances where such a battle previously might have appeared futile. And if district courts deny injunctions while properly following the *Ebay* formulation, it may be difficult to overturn such denials of injunctive relief on appeal, given the deferential "abuse of discretion" standard which applies to injunctive relief — a standard which the

Supreme Court expressly reaffirmed.

The possibility of adjudicated patent infringers being allowed to continue making and selling the infringing product raises a number of interesting questions, particularly with regard to the issue of willful infringement. It is well-settled that a finding of willful patent infringement can justify an award of up to treble damages under 35 U.S.C. § 284 or an award of attorney fees under 35 U.S.C. § 285, or both. The most common means by which defendants avoid a finding of willful infringement is to demonstrate that they sought, obtained, and relied on an appropriate opinion of patent counsel before embarking on a potentially infringing venture. If that opinion turns out to be wrong but legitimate, the infringer will likely be assessed compensatory damages, but will probably not be subject to the additional sting of increased damages and attorney fees.

But what if an adjudicated infringer convinces a district court to deny a permanent injunction and the infringer continues to make and sell the infringing product? There is little doubt that the patent owner will claim that any continued infringement after the decision against the accused infringer will render that infringer willful from at least that day forward. This could theoretically subject the infringer to an award of increased damages and attorney fees in a second suit brought to obtain damages resulting from infringement that occurred after the initial deci-

sion. If and when this result plays out once or twice, will the mere threat of this occurring become a de facto injunction?

The *Ebay* decision also is likely to raise new questions in connection with preliminary injunctions. Since the early days of its operations, the Federal Circuit has applied a “presumption of irreparable harm” in cases in which the patent owner makes a “clear showing” of infringement and validity. Is that rule likely to change? Since well before the *Ebay* decision, this observer has been of the view that the Federal Circuit’s presumption of irreparable harm was and is bad law and bad policy. See Wepner and Ellis, *The Federal Circuit’s Presumptively Erroneous Presumption of Irreparable Harm*, 6 *Tulane J. of Tech. & Intellectual Prop.* 147 (2004). In the face of the Supreme Court’s decision in *Ebay*, the need to revisit the Federal Circuit’s presumption of irreparable harm may prove to be irresistible.

After all, the Federal Circuit’s rule regarding permanent injunctions, which was rejected in *Ebay*, amounted to a pre-

sumption that an injunction should issue. The presumption of irreparable harm in the context of preliminary injunctions plays a similar role. It is true that the presumption of irreparable harm has always had — at least in theory — a predicate, namely that there be a “clear showing” of infringement and validity. But that standard itself is necessarily somewhat subjective: where exactly does one draw the line between a “showing” of validity and infringement and a “clear showing?”

Under *Ebay*, the test for entry of a permanent injunction in a patent case now largely parallels the traditional test for a preliminary injunction, with one important exception. To obtain a preliminary injunction, the movant must demonstrate a likelihood of success on the merits; in the context of a permanent injunction, this is no longer an issue — the likelihood of success is 100 percent.

Thus, to obtain a preliminary injunction, at least in theory, the patentee will have to make the same showing it would have to make later in seeking a permanent injunction plus a showing of likeli-

hood of success. Accused infringers could argue that it is anomalous to allow a patentee to short-circuit the irreparable harm requirement with a presumption when seeking a preliminary injunction, when the patentee would have to prove real irreparable harm later if the patentee prevails on the merits.

Accordingly, while it is too soon for predictions, the *Ebay* decision may well make it somewhat more difficult for patent owners to obtain preliminary injunctions than is the case today. To be sure, it is unlikely that the situation will revert back to the status quo that existed before the Federal Circuit began operations, when obtaining a preliminary injunction in a patent case was considered well nigh impossible. Some observers have been of the belief that the Federal Circuit swung the pendulum too far in the other direction. One unintended consequence of the *Ebay* decision may be that it restores a sort of equilibrium in the context of preliminary injunctions in patent infringement cases. ■