

*EBay Inc. et al. v. MercExchange, L.L.C.*  
(Supreme Court of the United States, 547 U.S., May 15, 2006)

**Case summary**

The Supreme Court in this case decided that patent holders do not have an automatic right to a permanent injunction in case of patent infringement. Instead, the decision whether or not to grant an injunction or an alternative remedy has to be decided on a case-by-case basis taking into account a traditional four-factor test.

**The facts**

The plaintiff (MercExchange) holds a business method patent for the facilitated online sale of products between private individuals. The plaintiff sought to license its patent to the defendant (EBay), as it had previously done with other companies. The parties, however, did not agree on the terms of the license. MercExchange subsequently sued EBay for the infringement of its business patent by using the protected business method for its online sales. A district court found that the plaintiff's patent was valid and infringed. The same court rejected MercExchange's request for a permanent injunction against EBay, arguing that it was inappropriate to grant an injunction in favor of a patent holder that does not itself make the patented product. Instead, the court considered damages for patent infringement the appropriate remedy. Upon appeal, the Court of Appeals for the Federal Circuit (the CAFC) reversed the district court's decision, arguing that in cases of patent infringement, a permanent injunction will issue, as a general rule, and may be denied only in rare circumstances. The Supreme Court pronounced itself on the legal question at issue (see below). It took no decision on the merits of the case but vacated the judgment of the CAFC and remanded the judgment for renewed consideration by the district court.

**The legal issues**

This case concerned the requirements for a permanent injunction in case the holder of the infringed patent is a non-practicing entity (NPE). While the district court had decided that a patent holder's lack of commercial activity in practicing the patent would generally make the granting of a permanent injunction inappropriate, the CAFC expressed the opposite view, arguing that as a general rule, permanent injunctions were the appropriate remedy in cases of patent infringement.

The Supreme Court underlined that the existence of a right to exclude does not automatically translate into the right to prevent others from infringing that right. "[...] the creation of a right is distinct from the provision of remedies for violations of that right."<sup>1</sup> Whether or not to grant a permanent injunction or an alternative remedy such as monetary damages is a question that has to be decided on a case-by-case basis according to the following four criteria, which the plaintiff/patent holder has to demonstrate:

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<sup>1</sup> Opinion of the court, p. 3.

1. The plaintiff through the patent infringement has suffered an irreparable injury;
2. Other remedies, such as monetary damages, are inadequate to compensate for that injury;
3. The rejection of a permanent injunction would cause greater hardship to the patent holder than its granting would cause to the infringer;
4. The public interest would not be disserved by a permanent injunction.

The Supreme Court made clear that patent holders have no automatic right to be granted an injunction. This is similar to the situation under US copyright law.<sup>2</sup> On the other hand, courts cannot deny an injunction just because the patentee is an NPE, as the latter may have valid reasons for licensing their inventions rather than practicing them.

### Points of significance

- This opinion clarifies that the right to prevent others from certain acts under a patent or copyright does not automatically translate into a right to a permanent injunction.
- The holder of an infringed patent seeking an injunction has to demonstrate that a permanent injunction is an appropriate remedy in the particular context of the case at issue.
- Consideration of the public interest is one of the elements a court has to take into account when deciding whether or not to grant an injunction.
- The mere fact that a patent holder does not practice its invention but seeks licensing royalties is not sufficient to reject a permanent injunction.
- In comparison, the US Supreme Court's approach to permanent injunctions is less favorable to NPEs than case law in some other jurisdictions. For instance, the Canadian Federal Court in *AbbVie v. Janssen* decided that permanent injunctions constitute the normal remedy following a finding of patent infringement.<sup>3</sup>
- The four-factor test as applied by the Supreme Court provides judges with sufficient flexibility to grant or reject injunctions as appropriate. While in the past, it was common practice to use a patent for producing and selling goods, now there is a trend in some areas of technology to utilize patents primarily to generate licensing fees. Injunctions may be inappropriate where the patented invention is but a small element of a product that the patent infringer intends to produce. In such cases, a permanent injunction would provide undue leverage to the patent holder to extract excessive licensing fees.<sup>4</sup>
- The denial of an injunction and payment of continuing royalties for the use of the patented product along the lines of *EBay* has been termed a "compulsory license". The Supreme Court in *EBay*, however, did not refer to this term. In a post-*EBay* case, the Court of Appeals for the Federal Circuit (i.e. a specialized intellectual property court in the United States) disagreed whether the award of

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<sup>2</sup> Ibid, p. 4.

<sup>3</sup> See the summary of the *AbbVie* case in this database.

<sup>4</sup> See the concurring opinion by Justices Kennedy, Stevens, Souter, and Breyer in *EBay* (p. 2).

an ongoing royalty for continuous patent infringement is similar to the granting of a compulsory license.<sup>5</sup>

**Key words**

Injunction; monetary damages; ongoing royalty; non-practicing entity.

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<sup>5</sup> See *Paice LLC v. Toyota Motor Corp.*, Nos. 06-1610, -1631 (Fed. Cir. Oct. 18, 2007), available at [https://scholar.google.ch/scholar\\_case?case=11258567835887748472&q=Paice+LLC+v.+Toyota+Motor+Corp.&hl=en&as\\_sdt=2006&as\\_vis=1#r13](https://scholar.google.ch/scholar_case?case=11258567835887748472&q=Paice+LLC+v.+Toyota+Motor+Corp.&hl=en&as_sdt=2006&as_vis=1#r13). The majority view distinguished awards of ongoing royalties from compulsory licenses, as the former are only available to the particular defendant of the case at hand. By contrast, a compulsory license is generally open to any interested party that meets the conditions laid down in the license (paragraph 1313, footnote 13 of the *Paice v Toyota* decision). The minority view, by contrast, stated that "calling a compulsory license an 'ongoing royalty' does not make it any less a compulsory license." (Paragraph 1316 of this decision, by Judge Rader).