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SUPREME COURT TO REVIEW RIGHT TO AUTOMATIC INJUNCTION IN PATENT CASES

by
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The current Supreme Court term has four patent cases with grants of *certiorari*. This represents the highest level of patent cases at the Supreme Court in forty years. Of those cases, the single most important patent case is *eBay v. MercExchange*, where the fundamental right of a patentee to exclude others through almost automatic injunctive relief is being challenged. This would eliminate a fundamental right that has existed under the patent laws for nearly one hundred years.

The facts of the case present a fairly straightforward patent dispute. MercExchange and eBay have been embroiled in a patent dispute for many years, with MercExchange receiving a jury verdict of infringement in the United States District Court for the Eastern District of Virginia. As is typically the case, the district court granted MercExchange's request for an injunction, even though MercExchange is essentially a licensing company that does not practice the technology in the patents at issue. The U.S. Court of Appeals for the Federal Circuit affirmed the findings of infringement and injunction. In July, 2005, eBay filed a petition for writ of *certiorari*, asking the Supreme Court to consider the question of whether the appellate court erred by setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement. In granting *certiorari*, the Supreme Court raised the additional question of whether Supreme Court precedent on this issue, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908) should be reconsidered. According to eBay, the patent holder's failure to practice the invention should not result in an automatic permanent injunction against an infringer such as eBay. MercExchange responded by arguing that a failure to issue the injunction would wrongfully result in compulsory licensing.

Certiorari was granted November 28, 2005. What is interesting about this case is that the issue raised by the parties has previously been considered by the Supreme Court, albeit many years ago. Prior to the 1908 *Continental Paper Bag* decision, certain federal courts attempted to precondition an infringement remedy on the patentee's use of a patent. This view was based on equitable considerations, the philosophy being that a patentee who receives a limited monopoly should either be required to use a patent or allow others to use it on equitable terms. The Supreme Court squarely rejected this viewpoint and instead ruled that patents conferred more of a property right: "As to the suggestion that competitors were excluded from the use of a new patent, we answer that such exclusion may be said to have been of the very essence of the right conferred by the new patent, as it is the privilege of any owner of property to use or not to use it, without question of motive."

The Supreme Court's decision to take the case has surprised many, since the Justices rarely reconsider such long-standing precedents. The injunction issue, however, is of prime importance to certain industry sectors that have witnessed an increase in patent litigation over the past decade.

In fact, the Business Software Alliance was successful in having a proposed legislative provision included in House Resolution 2795, also known as the "Patent Reform Act of 2005." Currently, courts are authorized to grant injunctions "in accordance with the principles of equity ... on such terms as the court deems reasonable." The proposed legislative change adds that in assessing the fairness of an injunction courts should consider the facts and circumstances of all associated parties. *See* H.R. 2795, Section 7. This would allow companies accused of patent infringement to argue that, in fairness, the fact that a patentee does not practice a patent should militate against issuance of a permanent injunction.

A ruling for eBay at the Supreme Court would bring the software industry the relief it has been seeking through patent reform in Congress. In addition, this would make it much easier for the industry to deal with patent challenges presented by so-called "patent trolls," or those who enforce patents without ever practicing them through manufacturing the goods covered by the patents.

The oral hearing for the eBay case is scheduled for March 29, 2006 and the Court is expected to issue its opinion by the last week of June 2006.

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