

PATENT LAW

‘eBay v. MercExchange’

By Lewis R. Clayton



HOW OFTEN, IF EVER, has a case about the proper scope of remedies for patent infringement engaged the editorial boards of both the *New York Times* and the *Wall Street Journal*? Such a case is *eBay Inc. v. MercExchange LLC*, No. 05-130, in which the U.S. Supreme Court heard argument on March 29.

The central issue before the court is the extent to which trial judges will be afforded discretion to deny injunctions when a patent has been infringed. For partisans of one side, the case tests whether patent “trolls”—patent owners that do not practice (and often have not themselves invented) an invention—are presumptively entitled to injunctions that can shut down ongoing businesses. For the other side, *MercExchange* concerns whether small inventors will be victimized by patent infringers, who will be able to use patented inventions as long as they pay a royalty. It is always hazardous to predict the outcome of a case based on what happens at oral argument. But to the extent the argument is predictive, the court appears reluctant to raise barriers to the grant of injunctions preventing infringement.

Why the MercExchange patents are controversial

The *MercExchange* patents at issue would seem to present easy targets for those who believe the U.S. Patent and Trademark

Office issues too many business-method patents. One of the patents describes the invention as relating to “used and collectible goods offered for sale by an electronic network of consignment stores,” characterizing it as an electronic version of “boards for the sale of used goods” and “the Home Shopping Channel.” A drawing in one of the patents shows a “consignment node,” composed of standard personal computers, bar scanners and printers and a digital camera.

Ruling on post-trial motions, the district court agreed with the defendants that the *MercExchange* patents “offer no business or engineering guidance which the defendants could copy.” During oral argument, Chief Justice John G. Roberts Jr. said, “as I read the invention, it’s displaying pictures of your wares on a computer network and...picking which ones you want and buying them. I might have been able to do that.” Justice Stephen G. Breyer observed, “if this could be patented, maybe A&P could patent their process for a supermarket.”

The reaction of the Virginia jury who heard the case was very different: After a five-week trial, they found willful infringement and awarded \$35 million in damages. The district judge sustained that verdict over

eBay’s post-trial motions. However, the trial court refused to grant an injunction against eBay. While finding that “the grant of injunctive relief against the infringer is considered the norm,” the court exercised what it saw as its discretion to withhold equitable relief. 275 F. Supp. 2d 695 (E.D. Va. 2003).

Applying a traditional test for entitlement to injunctive relief, the court found that *MercExchange* had not been irreparably injured because it did not itself exploit the patents, and had been willing to license them. The court also expressed its skeptical view of business-method inventions, noting the “growing concern over the issuance of business-method patents.” While that factor was not “dispositive,” “it lends significant weight against the imposition of an injunction, particularly...where the patentee does not practice its patents” and has no intention of doing so. *Id.* at 713. And the court believed that issuing an injunction would only lead to further litigation. eBay had argued that it could easily “design around” the patents. The court reasoned that, if an injunction was issued, the parties would inevitably battle in contempt proceedings over whether eBay’s design-around solution continued to infringe.

The U.S. Court of Appeals for the Federal Circuit reversed the denial of the injunction. 401 F.3d 1323 (Fed. Cir. 2005). Allowing that courts have in “rare instances” denied injunctive relief “to protect the public interest”—for example, when an invention must be practiced to protect public health—the Federal Circuit held that the district court “did not provide any persuasive reason [why] this case is sufficiently exceptional” to deny an injunction. *Id.* at 1339.

The trial court’s “concern regarding

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business-method patents” was insufficient, as well as the fact that MercExchange did not practice its inventions. “Injunctions are not reserved for patentees who intend to practice their patents.” If an injunction “gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete...with potential infringers.” Nor was the appellate court convinced by the trial judge’s concern over multiple contempt proceedings: Such a “continuing dispute” is “not unusual in a patent case, and even absent an injunction,” would simply take the form of successive infringement actions. *Id.*

When the Supreme Court took certiorari, the case served to focus debate about the fairness of the patent system. The *New York Times* and the *Wall Street Journal* urged the court to reverse the injunction or grant trial judges discretion to deny injunctive relief. According to the *Journal*, the “Patent Office is issuing an ever-increasing number of patents, and judicial discretion can be a useful constraint on patent abuse, especially when injunctions may cause undue harm to businesses and consumers.” “The Problem with Patents,” *Wall St. J.*, March 29, 2006, at A18.

The case split the business community. Several Internet and technology companies, such as Time Warner Inc., Amazon.com Inc., Cisco Systems Inc. and Google Inc., supported eBay, arguing that an “automatic injunction” rule would unfairly disadvantage businesses that had incorporated minor, but infringing elements into complex products. A group of more conventional companies, including General Electric Co., 3M Co., The Procter & Gamble Co. and E.I. du Pont de Nemours & Co., weighed in on the other side, arguing that “a patent holder’s presumptive right to an injunction...is deeply rooted in the Constitution, the Patent Act and 200 years of judicial precedent.”

Section 283 of the Patent Act provides that district courts “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.” Plainly, the statute does not provide for automatic injunctions, issuable in every case. But how much discretion does it give the district courts? Can a trial court

withhold an injunction because it believes a patent—which is not shown to be invalid or unenforceable—is nevertheless questionable? Can the exercise of equitable discretion to deny an injunction compensate for perceived weaknesses in the patent system as a whole?

Every litigator can point to cases in which judges said one thing at argument and wrote

■ **To the extent that oral argument is predictive, the high court appears reluctant to raise barriers to the grant of injunctions.** ■

something very different in an opinion. But the *eBay* oral argument contains indications that several justices are reluctant to disturb what some see as a strong presumption that patent rights are enforceable through injunctive relief.

Justice Antonin Scalia analogized patent infringement to an unauthorized use of property. The property right conferred by a patent is “explicitly the right to exclude others,” and the plaintiff in a patent case is simply asking to “give [that] property back.” Justice Ruth Bader Ginsburg was concerned that “Congress didn’t provide for compulsory licensing,” and that eBay’s position that the patentee should not be able to stop infringement came close to imposing just such a licensing arrangement.

Responding to eBay’s argument that a patent holder that doesn’t practice the invention is not irreparably injured, Roberts asked why the court should draw a “distinction” between the “sole inventor who needs a patent speculation firm to market his discovery and...somebody else. Why...should he lose the leverage of the normal injunction and have substituted for that a duel of experts over what a reasonable royalty should be?” Breyer, however, questioned how

a district court ought to treat the case of a “troll,” which does not practice the invention and might be able to use the threat of an injunction to recover more than the invention is really “worth.”

In response to the argument that an injunction would embroil a district court in repeated contempt proceedings, Justice Anthony M. Kennedy questioned whether an “injunction hearing” might be “the cheapest, most effective way” to settle infringement issues.

Uniformity appeared to be a concern of the high court

Ginsburg also questioned whether granting trial courts a significant amount of discretion would undermine the goal of uniformity in patent law that Congress had in mind when it created the Federal Circuit. She asked whether the Federal Circuit was “put there not to say that the district judges have no discretion, but to try to rein it in somewhat so that you won’t have wide disparities, which you very well might have” if trial judges are given significant leeway, with “very light review” on appeal.

It appears unlikely that the court will significantly change the landscape of patent enforcement. Allowing district courts to distinguish between different types of patents, or establishing different rules for patent owners who license, rather than practice, arguably would be such a change. Of course, whether it affirms or reverses, lower courts and litigants will look for nuances in the court’s opinion that will influence future injunction proceedings.

And however the court rules, no one should lose sight of the fact that this is an issue of statutory interpretation, where ultimate power rests with Congress. Some of the patent “reform” legislation Congress has considered would change the rules for issuing injunctions. Whichever side is ultimately disappointed will be able to take its case to the legislature.

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