

eBay Inc., et al. v. MercExchange L.L.C. - An Analysis
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Overview

What is interesting about reading Supreme Court opinions is learning not only what the Supreme Court has to say, but understanding what the Supreme Court is saying taken within the context of the various Amicus Briefs (i.e., “Friend of the Court” briefs) provided to the Supreme Court by interested third-parties. *Ebay Inc., et al. v. MercExchange L.L.C.* reflects this point. Among other things, what yesterday's decision by the Supreme Court in the Ebay case indicates is that the Supreme Court understands our patent system has changed since the days of the Founding Fathers, and one way that it has changed is the rise of patent holding companies, what some refer to as patent trolls.

Synopsis of the Case

In this case MercExchange L.L.C. (“MercExchange”) owned United States Patent No. 5,845,265 (“the '265 Patent”) titled “Consignment Nodes” that covered, among others things, the ability to offer goods for sale over a wide-area network, or, put another way, the selling of things over the Internet. After a number of failed attempts to negotiate a license, MercExchange sued Ebay Inc. (“Ebay”) for infringing the '265 Patent. Eventually the trial court awarded MercExchange \$29.5 million dollars in damages, an amount later reduced to \$5.5 million by the trial court. The trial judge, however, refused to enter a permanent injunction against Ebay.

The Court of Appeals for the Federal Circuit reversed the trial court on the issue of the permanent injunction reasoning that “We therefore see no reason to depart from the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.” (See *MercExchange, L.L.C. V. Ebay Inc., et al.* <www.fedcir.gov/opinions/03-1600.pdf> at pg. 29.) On appeal to the Supreme Court, one of the two questions presented was whether the Federal Circuit erred by applying an automatic rule requiring a permanent injunction to issue upon a finding of patent infringement? The Supreme Court held:

“that the 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.” (See *Ebay Inc., et al. v. MercExchange* <www.law.cornell.edu/supct/html/05-130.ZO.html> (Thomas, J).)

The upshot of this case is that injunctions in patent cases are to be treated like injunctions in most any other case (e.g., copyright) and hence a court is to weight the equities such that 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 dis-served by a permanent injunction. In short, this case reins in the ability of a patent holder to always use the threat of injunction at trial or when negotiating a license.

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The Supreme Court's Reflection on Patent Holding Companies

A number of Amicus Brief were filed in this case. Parties supporting MercExchange included: The United States, Intellectual Ventures and Inventors, GE, L&E Professor's, BIO, PhRMA, 3M, Du Pont, J&J, Qualcomm, Rembrandt IP Management, P&G, University of California and other Research Universities, AAU, United Inventors, American Bar Association (ABA), Franklin Pierce Law Professors, and Hoffberg. Parties supporting Ebay included: Yahoo!, Micron, the Electronic Frontier Foundation, Professors Pollack & Reynolds, Oracle, Computer & Communications Industry Association (CCIA), Intel, Microsoft, Securities Industry, Research-In-Motion, Nokia, Bar of the City of New York, Business Software Alliance (BSA), and Time Warner, et al. (See generally, <http://patentlaw.typepad.com/patent/2006/03/ebay_v_mercexch.html>.).

What is interesting about these various friends of the court is that they did not break down neatly into your typical groups. For example, GE, 3M, and Intellectual Ventures were on one side of the debate, while Microsoft, Intel and RIM were on the other side of the debate. Some of this divide could be attributed to whether a particular company had been on the losing side of patent infringement litigation against a company that merely holds patents without putting the patented idea into production (i.e., a patent holding company). (See e.g., *Eolas Techs., Inc. v. Microsoft Corp.* <www.fedcir.gov/opinions/04-1234.pdf>.) With regard to patent holding companies, Justice Kennedy's comments are interesting:

“In cases now arising trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. See FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, ch. 3, pp. 38–39 (Oct. 2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf> (as visited May 11, 2006, and available in Clerk of Court’s case file). For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. See *ibid.* When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.” (See <www.law.cornell.edu/supct/html/05-130.ZC1.html> (Kennedy, J. concurring.).)

Justice Kennedy's comments are interesting because they seems to say that companies that only use patents to obtain licensing fees would be potentially less entitled to injunctive relief, where they attempt to use the threat of injunction as a bargaining chip. Indeed, Kennedy's comments seem geared towards patent holding companies, given the fact that the Amicus Briefs of companies such as Intellectual Ventures, a patent holding company, attempted to draw a relationship between their activities and those of early inventors in U.S. History. (See *AmiciCuriae-Intellectual Ventures* <www.susmangodfrey.com/news/2006-03-AmiciCuriaeBrief.htm>.) More to the point, Justice Kennedy's concurrence seems to be saying that the case of the patent holding company seeking to enforce their patents is different than the historical example of the small inventor seeking to protect their invention. Bottom line, the patent system has changed, and Justice Kennedy's concurrence leads one to believe that the Supreme Court is becoming aware of this fact.