

eBay Inc. v. MercExchange, LLC

U.S. Supreme Court No. 05-130 (May 15, 2006)

Remedies for Patent Infringement, Permanent Injunctions and Patent Trolls

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A. Attributes of a Patent

Patents are transferable in the sense that they can be freely bought, sold and licensed. In the United States, owners of a patent do not have to commercialize or practice their invention in order to enforce the patent. Patent owners are entitled to charge any amount they wish as a royalty to anyone that wants to make, use or sell the patented invention. Patent owners are also free *not* to license or make use of the patent.

B. Remedies for Patent Infringement

The remedies available to a patent owner, if successful in a suit for infringement, are (1) money damages (in an amount not less than a reasonable royalty for use of the invention by the infringer, or potentially lost profits if the patent owner makes and sells the invention) and (2) injunction (where the court orders the infringer to cease and desist from further infringing activities).

The patent owner will ordinarily request the court to grant both (money) damages and an injunction. The general rule of the Federal Circuit (unique to patent cases) was that once a patent owner shows infringement of a valid patent, an injunction should issue “absent special circumstances.”

35 U.S.C. §284 Damages

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringement, together with interest and costs as fixed by the court.

When the damages are not found by jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. ...

35 U.S.C. §283 Injunction

The several courts having jurisdiction of cases under this title 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.

C. Patent Trolls and Patent Holding Companies

“Patent troll” is a phrase coined by a former Intel assistant general counsel in 2001 to describe entities that broadly assert patents across an industry for the purpose of generating royalty payments. Instead of actively developing a technology, a “patent troll” will acquire a patent in order to enforce the patent against potential infringers, and pursue opportunities for license agreements. When the “patent troll” is unable to reach a licensing agreement with a company, it might threaten to sue for patent infringement. To avoid litigation, companies often choose to settle by purchasing a license (nuisance value settlement).

Today, “patent troll” is used to describe any number of businesses using similar patent strategies. Most commonly, the term refers to any company that attempts to license and enforce patents, but does not itself perform research or produce products

D. Empowered by the Threat of Injunction

An award of money damages alone (based on a reasonable royalty) may hardly restrain infringing activity, especially if there is a good faith belief that the patent is not infringed (so as to avoid treble damages). This is because the soon to be accused infringer knows that the patent owner has to (1) bring a law suit, (2) obtain a verdict that its patent is infringed, and (3) survive an appeal before any money changes hands. Even in that case, the general rule is that the patent owner is entitled to a “reasonable” royalty, namely, what the patent owner was entitled to in the first place.

However, the specter of an injunction raises the stakes for the accused infringer. If found to infringe, in addition to money damages the court may also order an injunction. This could include an order to remove infringing goods and machines from the market, as well as an order to cease infringing activities. That is, an injunction can have the effect of excluding a competitor from the market, or at a minimum, forcing that competitor to redesign its product so as not to infringe. Injunction is a potentially powerful remedy, and the threat of injunction can prompt settlement of a patent dispute on terms favorable to the patent owner.

1. Blackberry Case

For example, the threat of injunction in the recent Blackberry case, which would have shut down RIM's Blackberry service to some 3 million RIM customers in the United States (until it could implement a non-infringing redesign), no doubt was a major factor in the patent owner's ability to extract a huge settlement.

The primary asset of the patent owner (NTP Inc.) in the Blackberry case is a portfolio of about 50 U.S. patents in the fields of wireless e-mail and RF antenna design. NTP is in the business of buying and asserting patents against would be infringers, and demanding royalties for use of its patents, even though NTP Inc. itself does not practice these patents.

In 2000, NTP sent notice of their wireless e-mail patents to a number of companies and offered to license its patents to them. None of the companies took a license. NTP therefore selected one of the companies, RIM, and brought a patent infringement suit against RIM in the U.S. District Court for the Eastern District of Virginia. The jury returned a verdict finding the NTP patent valid and infringed, and furthermore, that the infringement had been "willful." The jury assessed damages in the amount of \$23 M. The judge increased the damage award to \$53 M as a punitive measure because the infringement had been willful. The judge also instructed RIM to pay NTP's legal fees of \$4.5 M and issued an injunction ordering RIM to cease and desist from further infringement of the patents. The net effect would have been to shut down Blackberry systems in the United States.

RIM appealed the judgment of the court. The injunction and other remedies (money damages) were stayed pending the outcome of the appeal.

During the appeals process in March of 2005, NTP and RIM attempted to negotiate a settlement (amount of \$450M), but the settlement negotiations broke down. Also during this time, RIM had filed a number of reexamination requests against the asserted NTP patents, with some success.

RIM lost its appeal, and the matter was returned to the trial court. The previously granted injunction preventing all RIM sales in the U.S. and use of the Blackberry device might have been enforced by the district court judge had the two parties not been able to reach a settlement.

In November of 2005, the U.S. Dept. of Justice filed a brief requesting that RIM service continue because of the large number of BlackBerry users in the Federal Government. In February of 2006, the U.S. Dept. of Defense filed a brief stating that the BlackBerry was crucial for national security given the large number of government users.

Also in February 2006, RIM announced that it had developed software that would work around and not infringe the NTP patents. NTP further announced that it would implement the workaround if the injunction were to be enforced.

In March 2006, after a warning from the judge (advising that he would impose an outcome that neither of the parties would be satisfied with), RIM and NTP settled their dispute. RIM agreed to pay NTP \$612.5 M for full and final settlement of all claims.

2. Leverage to Induce Settlement

As you can see, it is the threat (and availability) of an injunction which gives “patent trolls” or patent holding companies huge leverage to induce settlement on its terms, and that the settlement amount can exponentially increase as a lawsuit progresses. For example, a patent troll may threaten a business with a permanent injunction at the end of the patent case, threatening to halt the sale of a critical product or to close down a production facility. Even if the chance of the patent troll winning is

low, the troll's cost is modest, perhaps several million dollars. In contrast, a the business targeted by the patent troll faces potential financial ruin if it can no longer sell a key product.

E. Supreme Court to Set Standards for Issuing an Injunction – the eBay Case

1. Background

The eBay case, discussed below, concerns a patent holding company (MercExchange LLC) which charged auction company eBay of infringing its patent covering the “buy-it-now” feature of Bay’s auction website (accounting for almost 1/3 of eBay’s \$12 billion revenue through the sale of goods in 2004). MercExchange claims that eBay stole the feature after licensing talks between the two did not yield results. MercExchange then filed suit. In May 2003, the trial court awarded MercExchange a judgment of \$25M after it found eBay guilty of infringing the patent. However, MercExchange wants eBay to stop using the technology entirely, and asked the district court to order a permanent injunction which the court refused to do. eBay contends that MercExchange is not using the technology, and an injunction would allow MercExchange too much power over its invention. MercExchange appealed the district court’s denial of a permanent injunction. A three judge panel of the Federal Circuit reversed, holding that eBay must stop using the technology if MercExchange wants it to.

We ... see no reason to depart from the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.

The Supreme Court agreed to hear the case and determine the proper standards for issuing an injunction. The “buy-it-now” feature continues to operate, pending the case’s final outcome.

2. District Court Proceedings

(i) Patents and Parties

MercExchange LLC, an invention holding company, sued eBay Inc. (and it subsidiary Half.com Inc.), alleging infringement

(and inducement to infringe) of several of its patents relating to electronic commerce.

eBay owns and operates a website on the Internet that allows buyers and sellers to search for goods and to purchase them by participating in live auctions or by buying them at a fixed price. At issue was the “buy it now” purchasing feature of eBay’s website.

(ii) Jury Trial and Post Verdict Motions

Following a five-week trial, the jury found MercExchange’s ‘265 patent valid and willfully infringed, and found eBay liable for money damages for past infringement. The district court then considered post-trial motions, including MercExchange’s request for a permanent injunction which the court denied.

(iii) District Court Ruling on Permanent Injunction

The district court stated that, under Federal Circuit case law, “an injunction should issue once infringement has been established unless there is sufficient reason for denying it.” The district court nevertheless recognized that “the decision to grant or deny injunctive relief remains within the discretion of the trial judge.” The district court separately analyzed four factors that traditionally govern equitable relief:

- (i) whether there will be irreparable injury absent an injunction;
- (ii) whether monetary damages will be inadequate to make the patent owner whole;
- (iii) how the hardships between the patent owner and the infringer balance out; and
- (iv) whether the public interest will be harmed by imposition of an injunction.

With respect to (i) and (ii) above, “irreparable harm is presumed” because MercExchange had established both the validity of its patent and the likelihood of continuing infringement. Nevertheless, the district court reasoned that MercExchange’s willingness to license its patents, its lack of commercial activity in practicing the patent, and its comments to the media as to its intent to seek money damages rather than an injunction were sufficient

to rebut any presumption that MercExchange would suffer irreparable harm if an injunction did not issue. The district court concluded that money damages were adequate, emphasizing that MercExchange had licensed its patent to others in the past and indicated its willingness to license the patents to eBay as well.

As to (iv) the court stated that the public interest in maintaining the patent system usually favors equitable enforcement (injunction) of a patent owner's right to exclude. However, the court expressed concern that in this case, the infringed patents were "business-method patents" which the court described as being a growing concern to the public (the concern relating to validity of business patents and impact on commerce). That fact, the court determined, tended to weigh against the issuance of an injunction, particularly because MercExchange itself did not practice the patents.

As to (iii) above, the court further concluded that the "balance of the hardships" favored eBay. The court concluded that money damages would adequately compensate MercExchange for any future infringement and that an injunction would "open a Pandora's box of new problems," including "contempt hearing after contempt hearing," as eBay attempted to reconfigure its systems to avoid infringement.

3. Appeal to the Federal Circuit

On appeal before a three-judge panel, the Federal Circuit affirmed the jury's finding of validity and willful infringement, but reversed other aspects of the verdict. Most significantly, the Federal Circuit reversed the district court's denial of a permanent injunction. Meanwhile, eBay has requested reexamination of the MercExchange patents. The USPTO has granted reexamination (i.e., the PTO found that the prior art raises a substantial new question of patentability), and the claims presently stand rejected.

(i) Specifics as to Permanent Injunction

On appeal, the Federal Circuit found error in the district court's refusal to grant a permanent injunction, and specifically, took issue with the district court's reasoning of "a growing concern over the issuance of business-methods patents" and their validity. According to the Federal Circuit:

A general concern regarding business-method patents ... is not the type of important public need that justifies the unusual step of denying injunctive relief.

Also, the Federal Circuit did not agree that the denial of a permanent injunction was proper to avoid continuing disputes stemming from the defendants' future attempts to design around the patents. According to the Federal Circuit:

A continuing dispute of that sort is not unusual in a patent case.

Furthermore, the Federal Circuit was of the view that MercExchange should not have been denied a permanent injunction because it had publicly stated a willingness to license the patents.

Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license.

MercExchange was therefore entitled to enforce its statutory right to exclude, even if only to increase its leverage in license negotiations. According to the court:

Such leverage is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers.

Accordingly, the Federal Circuit adhered to:

the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances

and reversed the district court's denial of MercExchange's motion for a permanent injunction.

4. Supreme Court Review Granted

The Supreme Court agreed to hear the case, asking:

Whether, upon a finding of patent infringement, a court must issue a permanent injunction unless it finds exceptional circumstances.

Whether the Court (Supreme Court) should reconsider its precedent in *Continental Paper Bag Co.*, holding that a court may enjoin patent infringement even when the patent owner itself chooses to not practice the invention.¹

The Supreme Court heard oral argument on March 29, 2006.

5. eBay Position

eBay argues that a litigant should not be able to “automatically” get an injunction. In the case of MercExchange, which ceased doing its on-line business in 2000, the company was not actively practicing its patent and therefore should not be able to use the threat of a shutdown as a blunt tool against a business. The attorney for eBay argued that the company had already been forced to pay a “whopping” amount for infringing the patent. He further urged that there was no need for an injunction because eBay is planning to install a work-around that would allow the feature to function without infringing the patent. He said that the issue was of patent trolls who have no plans of practicing the patent, but who rather try to make money through settlements from those who infringe the patent. According to eBay, “The time has come for this court to say, “No, this is not what the Patent Act protects.”

¹ Even when confronted with the argument that nonuse of a patented invention fails to promote the useful arts, and a situation where the purpose of nonuse was to make more money with existing, old complicated machines, the Supreme Court in this early 1908 case affirmed the patent owners’ absolute right to exclude others from making, using or selling the patented invention. According to the Court, “The inventor is one who has discovered something of value. It is his absolute property. He may withhold the knowledge of it from the public, and he may insist upon all the advantages and benefits which the statute promises to him who discloses to the public his invention.”

6. MercExchange Position

MercExchange argues that it practices its patent by licensing it to other companies. “We compete with eBay every day without licensees,” including Ubid.com and Autotrader.com. eBay should not be able to continue infringing on patents without a license. “If the Supreme Court says ‘yes’ to the injunction, they will be saying ‘yes’ to competition.” MercExchange denies that this is a patent troll case because MercExchange was in talks with eBay earlier to sell the technology. In MercExchange’s view, the problem lies in the bullying of giants like eBay that refuse to pay patent holders for their intellectual property. MercExchange argues that, without easy access to injunctions, small inventors would be helpless against the likes of eBay. According to MercExchange, any suggestion of uncertainty (in the availability of an injunction) would destabilize settled law and the investment-backed expectations of inventors large and small.

- Willingness to license - According to MercExchange, it is “extraordinarily strange” to think that a patent holder’s willingness to license would be an indication that money damages may be adequate (for example, you may allow your friends on your property, but may still want to exclude your enemies).
- Business method patents - Congress should address this issue
- Pending reexamination of MercExchange patents - According to MercExchange, this issue “is not properly before the court.”
- Non-practice of the invention - MercExchange licenses its invention, which is as good as practicing it.
- CAFC’s “usual rule” - According to MercExchange, the CAFC’s “usual rule” has been mischaracterized by eBay as an “automatic injunction.” Rather, the courts have discretion to deny injunctions. The “usual rule” MercExchange argues flows naturally because it is only in “rare cases” that “any balance of hardships or the public interest favor the adjudged infringer.”

Rather, “in most cases those factors will strongly favor the patent holder.”

- Contempt proceedings - The threat of contempt proceedings against eBay for violating an injunction should not stop the court from issuing an injunction.

7. Supreme Court Hears Argument

One justice reportedly likened patents to a property right, the property right being the right to exclude others, where all MercExchange is asking for is “Give me my property back.” The justice inquired of eBay’s attorney as to why the free market could not deal with the problem (of patent trolls). Another justice asked why patent holders should be given less protection for not making a product. Yet another justice remarked that if injunctions were decided on a case by case basis (as suggested by the government, see below), there would be no benchmark for future cases. Another justice noted that MercExchange’s patents stand rejected on reexamination, and asked MercExchange’s attorney how the district court should take that into account.

8. U.S. Government Amicus Brief

The government brief sides with MercExchange.

- The solicitor general disputes eBay’s claim that the Federal Circuit applied a “nearly automatic” injunction instead of allowing the district court to exercise its discretion.
- The solicitor general is also of the view that the district court erred in accepting eBay’s argument that because MercExchange was willing to license its patents, it would not suffer irreparable harm if eBay continued to infringe. Because a patent confers a statutory right to exclude, continuing infringement will normally result in irreparable injury that cannot be adequately compensated by a court-imposed “reasonable royalty” for future use of the invention.
- However, according to the solicitor general, irreparable injury will not be present in every case, and the

decision as to whether an injunction is appropriate must be decided on a case-by-case basis (by applying the above four-part equitable test).

9. Pharmaceutical Industry

PhRMA (industry group including pharmaceutical research companies) argues that the billions spent on R&D is predicated on assurances that the resulting IP rights will be strongly protectable. The eBay case is said to threaten those assurances. PhRMA also notes that if a hardship balance is considered, the infringer's hardship should not be considered when that hardship results from its obligation to stop infringing.

10. GE, 3M, P&G, Du Pont and J&J

This industrial group supports the strong presumption of a right to an injunction.

11. Supreme Court Opinion

- Unanimous decision - May 15, 2006
- Reversed Federal Circuit general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances
- Patent owner seeking an injunction must satisfy the traditional four-factor test before a court may grant an injunction
- Both trial court and the Federal Circuit wrongly applied the law
- Although the district court applied the four-factor test, it did so too liberally. That is the Supreme Court disagreed with arguments that a patentee's willingness to license or failure to engage in commercial activity would be sufficient to establish a lack of irreparable harm if an injunction did not issue.

- On the other hand, university researchers or self-made inventors (probably sole inventors) who might reasonably prefer to license rather than to engage in commercial manufacture may be able to satisfy the four-factor test.
- Also, the district court's decision was at odds with Supreme Court precedent (Continental Paper Bag Co. case) which rejected the notion that a court had no jurisdiction to grant an injunction to a patent owner who (unreasonably) declined to practice the patent
- The Federal Circuit went too far in the opposite extreme, by articulating a general rule unique to patent disputes that an injunction will issue once infringement and validity have been adjudged (absent exceptional circumstances)
- A standard between the two court opinions, allowing courts some leeway in issuing injunctions, was correct.
- Ordered lower court to review the eBay case once again to decide whether an injunction is appropriate
- Concurring Opinion – Chief Justice Roberts: acknowledged that the long standing practice of awarding injunctive relief upon a finding of infringement in the vast majority of patent cases was not surprising, given the difficulty of protecting the right to exclude through a damages award (which allows an infringer to use an invention against the patentee's wishes). Nevertheless, such historical practice does not entitle a patentee to a permanent injunction *per se* or justify a general rule that such injunctions must issue in the usual course
- Effect of Supreme Court Decision: A patent owner who seeks an injunction must be prepared to offer proof under each of the four prongs of the traditional injunction test, and can no longer rely on the long-standing practice of simply establishing infringement.