

eBay: The Final Word?

August 2, 2007

A year has passed since the Supreme Court issued its ruling in *eBay, Inc. v. MercExchange, L.L.C.* ("*eBay*") directing district courts to use the traditional four-factor test¹ to determine whether an adjudicated infringer should be permanently enjoined from future infringement.² Because the Supreme Court remanded the *eBay* case for a decision by the district court, there has been much speculation as to whether, nearly four years after the jury verdict and close to six years after the litigation commenced, MercExchange would prevail on its original motion for a permanent injunction. Judge Jerome Friedman put this question to rest on July 27, 2007, denying MercExchange's motion and holding, in a lengthy opinion, that the four-factor test weighs against a permanent injunction.³ Judge Friedman's holding is squarely in line with the approximately 30 other reported decisions dealing with post-*eBay* injunctions in which, with few exceptions, the general trend has been to award a permanent injunction only when the patentee and infringer are direct, horizontal competitors.⁴

IRREPARABLE HARM

Judge Friedman began his discussion by asking whether a finding of infringement of a valid patent leads to a presumption that the patentee has suffered irreparable harm.⁵ While acknowledging that he "is not blind to the reality that the nature of the right protected by a patent, the right to exclude, will frequently result in a plaintiff successfully establishing irreparable harm in the wake of establishing validity and infringement[,]" nevertheless, he found that this conclusion is no longer

¹ The four factors are: (1) the patentee has suffered an irreparable injury; (2) remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and defendant, an injunction is warranted; and (4) the public interest is not disserved by a permanent injunction. *eBay*, 126 S. Ct. 1837, 1841 (2006).

² For a more complete recitation of the *eBay* case see Simpson Thacher & Bartlett LLP Memorandum, *The Changing Landscape of Patent Remedies After eBay* (June 2007) ("*Changing Landscape*") available at <http://www.simpsonthacher.com/siteContent.cfm?contentID=4&itemID=80&focusID=618>.

³ *MercExchange, L.L.C. v. eBay, Inc.*, No. 2:01-CV-736, 2007 U.S. Dist. LEXIS 54642 (E.D. Va. July 27, 2007).

⁴ See *Changing Landscape* available at <http://www.simpsonthacher.com/siteContent.cfm?contentID=4&itemID=80&focusID=618>.

⁵ *MercExchange*, 2007 U.S. Dist. LEXIS 54642, at *31.

presumptive, and “*the onus [is] on the plaintiff* to prove irreparable harm”⁶ MercExchange failed to do so.

Judge Friedman focused on MercExchange’s licensing activities: “MercExchange . . . publicly announced its willingness to license its patents to eBay before, during, and after trial, but it failed to establish that an injunction is necessary to protect its brand name, market share, reputation, goodwill, or future research and development opportunities.”⁷ MercExchange’s position as a licensing entity, as opposed to one that practices its patents, was not dispositive given the Supreme Court’s observation that certain patent holders such as university researchers and self-made inventors who choose only to license their patents could still obtain injunctive relief.⁸ Yet Judge Friedman differentiated MercExchange from those patentees who seek to develop their patents: “MercExchange’s modus operandi appears to be to seek out companies that are *already market participants* that are infringing, or potentially infringing, on MercExchange’s patents and negotiate to maximize the value of a license, entered into as a settlement to, or avoidance of, litigation.”⁹ In other words, the court found that MercExchange “has utilized its patents as a sword to extract money, rather than as a shield to protect its right to exclude or its market-share, reputation, goodwill, or name recognition, as MercExchange appears to possess none of these.”¹⁰

Even though, post-*eBay*, this licensing activity has, with one exception (*CSIRO*),¹¹ led district courts to deny a permanent injunction,¹² Judge Friedman carefully heeded the Supreme Court’s admonition to avoid categorical rules, and bolstered his analysis with other facts demonstrating MercExchange will not suffer irreparable harm if denied an injunction. These additional facts include:

⁶ *Id.* at *32 (emphasis in original).

⁷ *Id.* at *34-35.

⁸ *eBay*, 126 S. Ct. at 1840; see also *Commonwealth Sci. and Indus. Research Org. v. Buffalo Tech., Inc.*, No. 6:06-CV-324, 2007 U.S. Dist. LEXIS 43832 (E.D. Tex. June 15, 2007) (“*CSIRO*”) (holding that the principal scientific research organization of the Australian Federal Government was entitled to a permanent injunction even though it licensed, rather than practiced, its patents). For a more complete discussion of the *CSIRO* case, see *Changing Landscape*, available at <http://www.simpsonthacher.com/siteContent.cfm?contentID=4&itemID=80&focusID=618>.

⁹ *MercExchange*, 2007 U.S. Dist. LEXIS 54642, at * 41.

¹⁰ *Id.* at *41-42.

¹¹ 2007 U.S. Dist. LEXIS 43832.

¹² See *Changing Landscape*, available at <http://www.simpsonthacher.com/siteContent.cfm?contentID=4&itemID=80&focusID=618>.

MercExchange's public and private actions indicating its desire to obtain royalties from eBay; MercExchange's failure to seek a preliminary injunction against eBay; and the asserted patent being a business method patent relying upon a "unique combination of non-unique elements present in prior art . . ."¹³ The last fact is perhaps unusual for the court to discuss because the patent has been found to be valid and enforceable.¹⁴ Nevertheless, the court noted a "growing concern over the issuance of business-method patents" citing to Justice Kennedy's concurrence in *eBay*, which recognized the "suspect validity" of some business method patents.¹⁵ Judge Friedman also cited to the Supreme Court's recent *KSR* decision that "highlighted the need for caution in granting a patent based on the combination of elements found in the prior art because such a combination is likely to be obvious when it does no more than yield predictable results."¹⁶ These recent Supreme Court decisions led Judge Friedman to conclude that the nature of a valid and infringed patent can provide additional factors weighing against a finding of irreparable harm.¹⁷

The court dismissed MercExchange's two other arguments offered in support of a permanent injunction: that eBay's continued infringement will harm MercExchange's ability to license others, and that eBay is a monopolist who should not be able to continue infringing.¹⁸ The first argument was rejected because, in the court's view, the best relief for MercExchange's inability to license others is monetary relief from eBay itself.¹⁹ The court noted that if MercExchange is simply seeking revenue from its patent, then it should not matter whether that revenue is derived from eBay in the form of damages or royalties from a separate licensee.²⁰ Moreover, the court expressed skepticism concerning MercExchange's unsuccessful exclusive license discussions with an eBay competitor – begun shortly after the Supreme Court decision and cited by MercExchange to demonstrate the necessity of enjoining *eBay* – describing them as "suspicious" and "likely to be an effort to placate

¹³ *MercExchange*, 2007 U.S. Dist. LEXIS 54642, at *42-53.

¹⁴ *Id.* at *48.

¹⁵ *Id.* at *48-49 (quotation marks and citations omitted).

¹⁶ *Id.* at *49 (quotation marks and citations omitted). For an expanded discussion of the *KSR* decision, see Simpson Thacher & Bartlett LLP Memorandum, *KSR v. Teleflex: A New Flexible Regime for Obviousness* (June 5, 2007) available at <http://www.simpsonthacher.com/siteContent.cfm?contentID=4&itemID=80&focusID=608>.

¹⁷ *MercExchange*, 2007 U.S. Dist. LEXIS 54642, at *50-51.

¹⁸ *Id.* at *53-71.

¹⁹ *Id.* at *60-61.

²⁰ *Id.*

the court.”²¹ The court was similarly unpersuaded by MercExchange’s “cry [of] monopolist” as eBay’s alleged dominance dates prior to its infringement, and eBay’s infringement does not eliminate the demand for competitors’ products because buyers and sellers can easily switch to a competitor “with little or no sunk costs”²²

ADEQUATE REMEDY AT LAW

Judge Friedman’s analysis of the adequate remedy at law factor largely mirrored his analysis of the irreparable injury factor: these two factors are “essentially two sides of the same coin”²³ Again, he focused on MercExchange’s use of its patents “primarily as a sword to aid in litigation or threatened litigation against infringers or potential infringers” and concluded that MercExchange is simply seeking an injunction to extract a larger royalty payment from eBay.²⁴ This troubled the court: “Utilization of a ruling in equity as a bargaining chip suggests both that such party never deserved a ruling in equity and that money is all that such party truly seeks, rendering monetary damages an adequate remedy in the first instance.”²⁵ It is telling that MercExchange sought to license others and made attempts to sell off its entire patent portfolio, revealing its “consistent desire to obtain royalties in exchange for a license to its intellectual property.”²⁶ Moreover, because eBay was already found to be a willful infringer and subject to enhanced damages intended to punish or deter egregious conduct, the court noted that “it is possible that the monetary award . . . will actually over compensate MercExchange . . . thus making monetary damages more than adequate as a remedy.”²⁷

BALANCE OF THE HARSHIPS

Judge Friedman wrote that this factor favors neither party.²⁸ On the one hand, eBay is an adjudicated infringer, and “one who elects to utilize a business method found to infringe cannot be heard to complain if an injunction against continuing infringement destroys the business so

²¹ *Id.* at *56-57.

²² *Id.* at *68-70.

²³ *Id.* at *33 n.11.

²⁴ *Id.* at *74.

²⁵ *Id.*

²⁶ *Id.* at *76-77 (emphasis in original).

²⁷ *Id.* at *78-79.

²⁸ *Id.* at *79.

elected.”²⁹ Moreover, eBay represented to the court that it designed around the patent at issue, and if true, then eBay would suffer no harm from an injunction.³⁰ On the other hand, as the court noted, MercExchange’s business model is to obtain licensing fees through threatened litigation, and it would not suffer a hardship by receiving license fees from eBay’s continued infringement.³¹ Even admitting that “forced royalties are an imperfect solution[.]” the court was persuaded that they are the most equitable solution.³² The court was also mindful of the fact that the PTO may invalidate the patent, and if so, an injunction would cause eBay irreparable harm by “impeding millions of transactions, only to later discover that the . . . patent was never valid and eBay always had the legal right to utilize such functionality.”³³ However, because “the future [is] so speculative in this continually-developing, complex scenario, the court [could not] confidently determine in which party’s favor the balance of hardship tips.”³⁴

PUBLIC INTEREST

The court found that this factor “weighs slightly against entry of an injunction.”³⁵ The court was mindful that “the public-interest factor often favors the patentee, given the public’s interest in maintaining the integrity of the patent system” but noted that this policy goal “cannot be allowed to dominate such analysis” particularly given that “MercExchange has never sought to defend its right to exclude” and to put “credence in such claim at this late stage would not serve the public interest.”³⁶ And while eBay’s infringement does not involve public safety concerns such as medical devices – the type of infringement that courts have routinely found supports denying an injunction – eBay nevertheless is “a multi-billion dollar corporation whose online marketplace brings together tens of millions buyers and sellers around the world and eBay unquestionably has a substantial impact on the United State’s economy”³⁷

²⁹ *Id.* at *79-80 (quotation marks and citation omitted).

³⁰ *Id.* at *80.

³¹ *Id.* at *80-82.

³² *Id.* at *83.

³³ *Id.* at *85.

³⁴ *Id.* at *85-86.

³⁵ *Id.* at *86.

³⁶ *Id.* at *86-87, *93.

³⁷ *Id.* at *89-90.

CONCLUSION

Judge Friedman crafts an opinion that is consistent with our conclusions about the clear trend found in post-*eBay* jurisprudence: non-practicing patentees have a high burden to show why a permanent injunction should be granted. Indeed, with one exception – a government sponsored research entity³⁸ – no non-practicing entity has been able to obtain permanent injunctive relief after *eBay*. It should not be surprising, then, that MercExchange – the plaintiff in the case that brought this issue to the fore – is likewise denied this relief.

For further information concerning the *eBay* decision, please feel free to contact members of the Firm's Intellectual Property Department, including:

George M. Newcombe (650-251-5050 gnewcombe@stblaw.com)

Henry B. Gutman (212-455-3180 hgutman@stblaw.com)

Robert A. Bourque (212-455-3595 rbourque@stblaw.com)

Kerry Konrad (212-455-2663 kkonrad@stblaw.com)

Jeffrey E. Ostrow (650-251-5030 jostrow@stblaw.com)

Lori Lesser (212-455-3393 llesser@stblaw.com)

Harrison J. Frahn IV (650-251-5065 hfrahn@stblaw.com)

Patrick E. King (650-251-5115 pking@stblaw.com)

³⁸ *CSIRO*, 2007 U.S. Dist. LEXIS 43832.