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## Change it Now: *eBay v. MercExchange*-Business Method Patent Litigation Reaches Critical Juncture Concerning Remedies for Infringement

by Margo E. K. Reder

### ***eBay v. MercExchange*: the Supreme Court's Decision**

The Supreme Court recently considered the appropriateness of the Federal Circuit's general rule that courts are to automatically award permanent injunctive relief against patent infringement absent exceptional circumstances. In a concise opinion, a unanimous Court ruled that well-established principles of equity apply with equal force to disputes arising under the Patent Act, and it rejected calls to replace these considerations of equity with an automatic injunction rule. *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1839 (U.S. 2006). Therefore eBay, even as a conceded willful infringer, may be able to assert that MercExchange's request for permanent injunctive relief is not warranted, especially where the patent in question is of dubious validity. Justice Thomas wrote, "[i]n doing so, we take no position on whether permanent injunctive relief should or should not issue in this particular case, or indeed in any number of other disputes arising under the Patent Act. We hold only 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." *Id.*

Accordingly, the Court reversed the judgment of the Court of Appeals, and remanded the case with directions for the District Court to apply the traditional four-factor framework that governs the award of injunctive relief. Specifically, [35 U.S.C. section 283](#) provides that 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." Justice

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Thomas wrote that while patents are to be treated as personal property, including the right to exclude others, injunctions may issue only in accordance with rules of equity. "According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. 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 disserved by a permanent injunction. These familiar principles apply with equal force to disputes arising under the Patent Act." eBay, 126 S. Ct. at 1839.

So far, the Court has broken no new legal ground. A unanimous Court agreed with these long-standing principles. But this is where the decision becomes interesting. Through the two concurring opinions, seven of the Justices wrote about how they would decide whether to grant equitable relief in future cases to patentees whose valid patents have been infringed. The two concurrences highlight a fault line among the Justices as to whether the historical (and near-automatic grant of) equitable relief rule is appropriate going forward.

Chief Justice Roberts, joined by Justices Scalia and Ginsburg, urged courts to stay the 100-year old course of jurisprudence in which the four-factor analysis, with few exceptions, produces favorable results for patentees, regardless of whether they practice their patents. eBay, 126 S. Ct. at 1841 (Roberts, C.J., concurring). (In 1908, the Court wrote in its *Continental Paper Bag* decision, "the [patent] right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee." Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 430 (1908).) Clearly, Roberts, Scalia, and Ginsberg are concerned that a damages award for patent infringement is an inferior and thus incomplete form of relief.

Justice Kennedy, joined by Justices Stevens, Souter and Breyer, wrote a separate concurrence, agreeing that while the four-factor test applies to equitable relief requests, the historical pattern of a near-automatic grant of an injunction is not necessarily appropriate to modern patent litigation. eBay, 126 S. Ct. at 1842 (Kennedy, J., concurring). Justice Kennedy asserts that much current patent litigation does not bear substantial parallels to past patent litigation; rather it features "considerations quite unlike earlier cases." *Id.* He points out that the present cases may include parties who do not practice their inventions (pejoratively known as patent trolls); where the patent in question is but a small component of a product (which raises the possibility of a hold-up strategy by these patentees); and patents for business methods (which have been under fire for 'potential vagueness and suspect validity'). *Id.* Justice Kennedy suggests that these factors impact "the calculus under the four-factor test." *Id.* In essence, he reasons that the presence of such factors as these, typical in today's patent litigation cases, militate against the near-automatic grant of such powerful permanent relief, when a damages award could perhaps suffice to compensate patentees for infringement.

**The range wars of the internet: inventors, infringers, innovators & the public**

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The patent system exists to foster the creation of inventions and innovations to benefit both the inventor and the public. See U.S. Const. art. I, § 8 (“Congress shall have power . . . To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”). The grant of a patent as well as the term length should ideally balance inventor compensation and infringer deterrence—and avoid inventor *over-compensation* and infringer *over-deterrence*. Currently there are numerous assertions that the patent system is acutely out of balance, because there exists qualitatively different aspects to today’s patents, especially in the technology sector where the patents are for business methods. See Editorial, *Patently Ridiculous*, N.Y. Times, Mar. 22, 2006, at A24; Michael Crichton, Editorial, *This Essay Breaks the Law*, N.Y. Times, Mar. 19, 2006, Section 4, at 13; *A Market for Ideas – A Survey of Patents and Technology*, The Economist, Oct. 22, 2005; Gary L. Reback, *Patently Absurd*, Forbes.com, June 24, 2002. Patenting has different consequences for a business method than for a process featuring a more physical nature. The tech sector relies on network effects, meaning that a system’s usefulness is directly correlated to the number of users—so that the best systems are those with the most users. Therefore, interoperability, compatibility, and common standards are essential—yet at the same time, each of these qualities is at odds with the proprietary nature of patents. Moreover in the tech sector, market share is fundamentally the business model for companies to achieve success. Finally, the pace of change in the tech sector militates against a patenting strategy. The tech sector may respond more efficiently to market disciplines than to the patent model where business methods are statutory subject matter for patents. To the extent that we allow such elemental platform and network-reliant technologies that wield near monopoly market power to be patented, in an environment of rapid change, we risk failing to execute the purposes and design of the patent system.

### **Injunction Calculus**

How to evaluate all of these issues in under the prevailing four-factor test? The Court carefully reiterates existing law, but a question of interpretation remains for future courts: whose vision and rationale to adopt? Chief Justice Roberts’ (in which patentees’ rights are accorded more weight), or Justice Kennedy’s (in which public benefits flowing from inventions and follow-on innovations are accorded more weight)? The problem is only compounded by the apparent difficulty courts have applying the four-factor test in intellectual property litigation. See Ryan McLeod, *Injunction Junction: Remembering the Proper Function and Form of Equitable Relief in Trademark Law*, 2006 Duke L. & Tech. Rev. 0013 (2006) (arguing injunctions are over-issued and written too broadly in the context of trademark law).

The outcome to this question of vision, it seems, is influenced by one’s view of technology and culture, and how companies exploit patents—their own, and others’ patents—for their business models. In Mr. Nathan Myhrvold’s, Intellectual Ventures CEO, May 2006 Congressional testimony, he analogized this range war to 19th century tensions between cattlemen and farmers. “Cattlemen [*think* eBay; Justice Kennedy] wanted to drive their cattle across a frontier unfettered by fences; while farmers [*think* MercExchange; Chief

Justice Roberts] sought the sanctity of private property they could call their own.”

Irreparable injury would be assumed by the Chief Justice, where the patent is a form of property, even for patentees not practicing their patents. But this point of view shortchanges the public to the extent that patentees can leverage their patents beyond their own invention in an interconnected environment and potentially veto further invention and innovation. Justice Kennedy would entertain the possibility of a damages award especially in cases involving patentees who do not practice their patent. While this view possibly advances the public interest, it shortchanges inventors who lack the tools, or the interest to commercially exploit their patents. A court balancing the relative hardships of patentees and infringers would generally find the equities favor patentees. The tech sector is not known for engaging in rigorous patent clearing research. Yet so many of these patents are built on a house of cards—it’s been easy to obtain broad patents, and their validity is open to question, so that it’s hard for tech companies to take seriously competitors’ broad patent claims—witness the PTO’s invalidation of NTP’s patents in the BlackBerry case. See Tom Krazit, *Patent office Issues final rejection of NTP patent*, CNETNews.com, Feb. 22, 2006, [http://news.com.com/Patent+office+issues+final+rejection+of+NTP+patent/2100-1047\\_3-6042049.html](http://news.com.com/Patent+office+issues+final+rejection+of+NTP+patent/2100-1047_3-6042049.html); Tim Scannell, *Patent Office Rejects NTP Patent Claims*, Internetnews.com, Feb. 2, 2006, <http://www.internetnews.com/business/article.php/3582511>; see also USPTO site. Patent Application Information Retrieval System.

The factor receiving the least amount of scrutiny is the question involving the impact of an injunction on the public interest. The patent system is meant to benefit the larger public, as well as individual inventors. Injunctions at once shut down innovation, but may create an unstable legal environment. In essence both concurrences have persuasive arguments—the Chief Justice’s is at the expense of innovation and the public interest; Justice Kennedy’s is at the expense of private property rights. The problem is that we’re no better off under either vision. With one solution, we’ve stopped, or at least interrupted progress; with the other, we’ve forced the parties into a licensing arrangement, necessitating courts to be overly occupied in valuation and oversight. In essence then, whatever relief is granted on remand will fall short because this issue is somewhat beyond the scope of the courts. The remedies issue could be avoided altogether if the PTO more meticulously reviewed patents to ensure the quality and limit the scope of claims. One need only peruse PTO’s home page to recognize the urgency of the situation regarding patent quality; and the site is replete with proposals for improving every aspect of its patent services. Finally Congress could shorten the term length of business method patents since the use of patents as a business model is inefficient for this class of subject matter. Reducing the term length for business method patents was famously advocated as early as March 2000 when Amazon CEO Jeff Bezos wrote, “business method and software patents should have a **much** shorter lifespan than the current 17 years—I would propose 3 to 5 years. This isn’t like drug companies, which need long patent windows because of clinical testing, or like complicated physical processes, where you might have to tool up and build factories. Especially in the age of the Internet, a good software innovation can catch a lot of wind in 3 or 5 years.” Long terms don’t make sense to the extent that the pace of innovation is rapid. The term length for

business method patents should be calibrated to reflect an industry's average rate of innovation. In this way, the term length would reflect the original purpose of the patent system, as it would foster creation, advancement and innovation. In this way, we could maximize the potential of each invention, without unduly hindering follow-on innovations, and future progress.




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