

Patent Ruling Presents Stiff Challenge To eBay

An appeals court rules against eBay in patent-infringement suit and calls for a trial over the online-auction process.

By John Soat, [InformationWeek](#)

March 16, 2005

URL:<http://www.informationweek.com/story/showArticle.jhtml?articleID=159901148>

The controversy over Internet patents is about to heat up again. An appeals court on Wednesday decided in favor of MercExchange LLC in its legal fight with eBay Inc., the online-auction powerhouse.

The court affirmed one of MercExchange's patents, threw out a second, and reinstated the most controversial patent, which had been struck down by an earlier court, over the process of conducting online auctions.

MercExchange, a small online technology vendor, was started by Tom Woolston, an inventor who was granted three patents in 2000 and 2001 related to online auctions and shopping. Woolston filed for his patent for the process of online auctions (No. 6,202,051) several months before eBay started its service in 1995. Woolston claims eBay approached him in 2000 about licensing his patents, then abruptly broke off negotiations. MercExchange subsequently sued eBay.

MercExchange won a district court ruling in 2003 that held that eBay violated its patent for direct online buying (No. 5,845,265) -- as represented by eBay's "Buy It Now" feature -- and its patent for searching the Web for merchandise from other vendors (No. 6,085,176), which is represented by eBay's Half.com subsidiary. The district court threw out MercExchange's patent for the online-auction

process, claiming it wasn't explained well enough.

Both sides appealed, and on Wednesday the appeals court reaffirmed not only the validity of MercExchange's direct-buy patent but that eBay had willfully violated that patent. The appeals court recommended an injunction against eBay over that feature, which means it will have to either stop using it, come up with a different way to do it, or license the MercExchange patent. At the same time, the appeals court denied the validity of the online search patent, effectively ending that litigation.

The appeals court also upheld the district court's order for eBay to pay MercExchange \$25 million for violating the direct-buy patent. In a statement, eBay claimed it was pleased with the appeals court ruling to eliminate one of MercExchange's patents, and that any injunction issued by the district court "will not have an impact on our business because of changes we have made following the District Court's original verdict."

The most surprising result of the appeals court ruling was its decision to reinstate MercExchange's patent on the online-auction process. The appeals court ruled "the [lower] court made a mistake and now we're entitled to a jury trial," says Greg Stillman, lead counsel for MercExchange. A new trial might mean another injunction against eBay, this time over the online-auction process itself.

"Any injunction would be narrowly tailored to avoid 'shutting-down' eBay and may only apply to eBay's 'Buy It Now' feature," says Dennis Crouch, a patent attorney with McDonnell Boehnen Hulbert & Berghoff LLP, in an E-mail. "In addition, there is only a small likelihood that eBay will allow its servers to be shut down rather than settle the case."

Or eBay could license the MercExchange patents--if the owner will let it. "We're not looking to license the patents to anybody else," says Woolston, who's now working with another online-auction site, Ubid.com, a direct competitor of eBay. Ubid licenses Woolston's patents. Copyright © 2004 [CMP Media LLC](#)