

eBay v. MercExchange: Are YOUR Interests Represented? [*]

The eBay Supreme Court decision is likely to have more impact on patent litigation and settlements than any case, or even any legislation, in many years. However, it is highly likely that there will be far-reaching ramifications of this Supreme Court decision for a vast majority of clients who are *not* in the fact positions of the *parties* in this case, and thus not being adequately represented by most of the briefs being filed. The unique facts of this case bear only a partial relation to normal patent infringement litigation.

The importance of the patent system to technological progress and new business investments is not being challenged by anyone in this case. The two issues the Supreme Court wants addressed are the current Federal Circuit's demands for virtually *automatic* immediate post-trial injunctions against almost every losing defendant, and [by the Courts own added specific request] a discussion of the old Sup. Ct. decision of *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908).

Some amicus briefs to date have simply ignored the latter request by the Supreme Court, or missed important distinctions. Almost all briefs to date have ignored another issue that MercExchange and *its* amicus supporters are *likely* to raise – namely, the “exclusive rights” words of the Constitution, art. I, §8, cl. 8. [Presumably they will subsequently respond that the specific, long-uncontested, 1952 Congressional “codification” of what is now 35 U.S.C. §283 meets and controls the Constitutional language interpretation?]

The unambiguous language of 35 U.S.C. §283 makes lower court granting of patent infringement injunctions *discretionary* (“may”) and *mandates* that they be granted “in accordance with the principles of equity . . . on such terms as the court deems reasonable.” Yet, as various prior briefs demonstrate, both that discretion and that consideration of any equitable principles has been *de facto* eliminated by current Federal Circuit case law mandating an *automatic* post-trial injunction, even though CAFC appeals, where obtainable, unusually frequently invalidate the basis for granting such an injunction.

eBay in this case was *very atypically* lucky to have had a District Court judge who *refused* to grant an immediate injunction following unfavorable jury verdicts against it. Thus, eBay was able to appeal to the CAFC, where that injunction refusal was, of course, overruled. But that unusual scenario enabling this further and granted appeal to the Supreme Court. There are some other unusual facts in this case as well, which this author will not go into. Thus, this case has reached the Supreme Court in a posture which does not adequately represent a normal company with a major product held infringed by a lower court. The typical inability to convince a lay jury that all of the patent claims found infringed are invalid [under CAFC based jury instructions of a strong presumption of patent validity including a high imposed burden of “clear and convincing evidence”] will *normally* result in an automatic injunction promptly after trial, without any consideration of any equitable issues. That of course *effectively deprives normal*

* Cite as: Note, *eBay v. MercExchange: Are YOUR Interests Represented?*, Patently-O, January 31, 2006 at <http://www.patentlyo.com>.

Ed: This article was submitted by the author (a patent attorney actively practicing for 42 years) with the usual disclaimers that it these are purely individual pro bono observations, and not the views, policies, or positions of any client or employer, and hence is also being published anonymously. However, comments and questions can be provided to Dennis Crouch, who will then forward them to the author.

defendants of any appeal opportunity by immediately forcing a costly settlement to avoid being put out of business, irrespective of the normally high odds of a CAFC reversal for non-infringement if an appeal had been possible. The Federal Circuit's insistence on *automatic permanent injunctions even pending appeal* is the important issue for *normal* defendants, *but that is not ever addressed in the briefs in this case, because that situation did not occur in this abnormal case.*

* * * *

First, as to the issue of CAFC imposed "automatic" injunctions itself, it is believed that MercExchange will be hard pressed to cite any recent Federal Circuit decisions in which a District Court judge who *withheld* an immediate injunction *pendant lite* has been *sustained* in doing so by the Federal Circuit. The amicus brief in support of certiorari in this case by "35 Intellectual Property Law Professors" states on p. 2 that in the last 20 years the Federal Circuit has *never* permitted a district court to refuse a permanent injunction after a holding of patent infringement and the usual inability to prove invalidity. [There is no requirement to prove patent validity.]

The *only* recent Federal Circuit case which MercExchange previously cited as allegedly on point is "*Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1380 (Fed. Cir. 2005)." However, this is a highly abnormal patent case - a follow-on to a prior ITC proceeding. Because of the unique facts, the Federal Circuit actually had no choice but to sustain the denial of an injunction. First, the requested injunction was *procedurally* defective, the district court having "determined that Fuji's proposed injunction lacked specificity and reasonable detail as required by Fed. R. Civ. P. 65(d)." Secondly, the district court determined that "the parties' discovery stipulation precluded injunctive relief for infringing activity after August 21, 2001." Thirdly, the district court determined that "the ITC's injunctive relief, although not co-extensive with that of the district court, subsumed the relief that Fuji sought from the district court." Finally, the Federal Circuit added, "this case is wrought with issues of proof surrounding the infringement issues." In short, this case has no bearing on normal situations or the normal Federal Circuit position on injunctions in patent litigation. Although the Federal Circuit in this case admitted that it must review a district court denial of a permanent injunction on an "abuse of discretion" basis, its normal case law is self-evidently to the contrary and does not even mention that review standard.

* * * *

Turning now briefly to the extensive *economic impact* arguments being made to the Supreme Court by amici, obviously, for most small companies, and major publicly held companies, to have one's major product blocked from any further manufacture, use, or sale, even for the relatively short time period for a Federal Circuit appeal, is practically impossible. It could destroy the market value of the company or even put the company into bankruptcy. It is also *publicly* detrimental where there is no real substitute product available the public.

Various briefs filed to date have noted that patent infringement injunctions can eliminate the commercial supply of *entire* products even if the patent only covers a *minor portion* or a *single component part* of that product. Nor can the enjoined supplier easily avoid the fatal effect of the injunction by rapidly redesigning the product in many cases. Retooling and marketing disruption costs can be very large. In many cases even attempting to redesign would simply result in more dangerous contempt proceedings or further patent litigation over whether the modified product still allegedly infringes any of the patent claims.

Some briefs have also demonstrated that it has become impossible in many industries to do a new product “right to use” or “infringement clearance” [albeit not using those patent-profession terms] among the many thousands of patents or still-pending patent applications that might later be amended or argued to be infringed by one small part, or a few lines of code out of millions of lines of software code, of complex modern products. [Contrary to a statement made in a Senate hearing by one organization’s representative last year.]

* * * *

As noted, *de facto* preventing appeals is *particularly* illogical in patent cases because the likelihood of a Federal Circuit reversal is *uniquely high* as compared to other circuits [as even district court judges have reportedly complained].¹ Furthermore, discouraging trials to invalidate patents is contrary to prior Sup. Ct. public policy expressions, *infra*. [Of practical concern to readers here, unfairly forced premature settlements also reduce legitimate IP law firm income opportunities!]

Furthermore, irrespective of the unique facts in the present case, any Supreme Court decision in this case *should* particularly take into consideration the effect of this decision on the increasing public concerns over the activities of “patent trolls,” a term now frequently discussed with concern by corporate intellectual property lawyers, and well documented in articles and reports cited in existing briefs in this case. In particular, the activities of shell corporations and contingent fee trial lawyers who acquire previously unasserted patents, even at bankruptcy sales. Such patent trolls have no ability or desire to actually utilize the claimed inventions themselves, merely to extort as high a recovery as possible from various defendants who actually do manufacture or sell products allegedly infringed by the patents. This is a rapidly increasing problem, for unique legal reasons favoring such activities as discussed below. Patent troll contingent fee patent litigation has become so attractive that it has even led to advertisements and media reports on multi-million dollar bidding wars for patents of bankrupt companies! As some of the briefs have also noted, thousands of patent-threatening letters are being sent out to most major U.S. companies by these firms, and patent suits against dozens of companies at once in places like Marshall Texas are becoming common.

These “patent trolls” have learned that since defendants can be effectively deprived of an appeal opportunity by an immediate post-trial injunction, defendants producing actual products are at great risk to *even go to trial* in patent suits. Patent trials are highly unpredictable and often erroneously decided, as demonstrated by their high reversal rates, *id.* Under Federal

¹ Gretchen Ann Bender, “Uncertainty And Unpredictability In Patent Litigation: The Time Is Ripe For A Consistent Claim Construction Methodology”, [8 J. Intell. Prop. L. 175, 203-07 \(2001\)](#) (noting that from the time of Markman I through 2000, the CAFC reversed or modified 65 out of 160 district court claim construction decisions, approximately 40%), and in 2001, the CAFC reversed 41.5% of lower court claim constructions. See *infra* at Part III.C. for a complete analysis of the CAFC cases decided in 2001.)

Christian A. Chu, “Empirical Analysis of the Federal Circuit’s Claim Construction Trends”, 16 Berkeley Tech. L.J. 1075, 1104 (2001) (finding a 44% reversal rate in express reviews of claim construction from 179 cases, further resulting in a 29.6% case reversal, and a 36.6 % reversal rate with summary affirmance decisions added)

Kimberly A. Moore, “Are District Court Judges Equipped to Resolve Patent Cases?”, 15 Harv. J.L. & Tech. 1, 11 (2001) (finding a 33% reversal rate for the five-year period after Markman where district judges had at least one claim construction reversed)

John R. Thomas, (Claim Re-Construction: The Doctrine of Equivalents in the Post-Markman Era”, [9 Lewis & Clark L. Rev. 153, 163 & n.69 \(2005\)](#) (listing claim construction cases with dissents).

Circuit case law the patent owner is only required to prove infringement of only one patent claim, and only by a mere preponderance of the evidence. In contrast, every defendant is faced with a Federal Circuit imposed extremely high burden of “clear and convincing evidence” for almost every possible defense, even undisputed evidence like prior art patents. The patent owner does not have to prove the patent is valid to obtain an injunction. Validity is legally presumed unless the defendant has met the very difficult challenge of convincing a lay jury that the patent is *invalid*, over an instructed presumption of validity, and under an instructed abnormally high burden of “clear and convincing evidence.” Patent suit defendants are also faced with high discovery costs, the likelihood of a judge and jury being confused by arguments over complex technology, the typically convoluted one-sentence language of patent claims, and the visually impressive blue ribbon and seal on the patent. Claim interpretation, even though now done by the judge, is still frequently erroneous, as evidenced by the remarkably high Federal Circuit *de novo* reversal rates on claim interpretation issues noted in the above-cited articles and elsewhere. Likewise, a surprisingly high percentage of issued patent claims are demonstrated to be invalid or overbroad in subsequent USPTO statutory reexamination proceedings, as shown by the USPTO annual statistics, even in *ex parte* reexaminations in which the requesting adverse party is not even allowed to further participate. [Unfortunately, many defendants, such as eBay here, and the BLACKBERRY® products defendant, do not file reexaminations soon enough.]

Patent troll cases are not normal patent suits by those who are themselves, or through their licensees, already providing the public with the patented commercial products. Such real businesses often have good valid equitable reasons to put infringing competitors out of business with injunctions to stop the erosion of the market share and profits to which they are entitled until the patent expires, as well as to extract compensatory damages. The question the Supreme Court should and may address is in what situations does the patent owner *not* have clear statutory equitable grounds for an injunction? In particular, mere patent litigation companies whose sole “business” is making money by threats and lawsuits against existing products of other companies. It should be remembered that buying a patent is essentially buying a government-stamped ticket to sue - a “right to exclude” by lawsuit. Patents are not self-enforcing, and confer no *other* rights or benefits beyond that of any other technical publication. Furthermore, the question the Court should be addressing is the presumably *much weaker ground, if any*, for granting an *automatic* injunction pending appeal in such cases. Appeals effectively prevented by injunctively forced settlements may be judicially economical for the Federal Circuit, but obviously can have severe and unnecessary adverse public consequences. Such consequences may include continued costly suits against *other* companies on patent claims the Federal Circuit might well have found not infringed or invalid [as one patent already was in this very case]. An *immediate* injunction can deprive the public of valuable products or services on patent claims that may be completely eliminated by parallel *in rem* reexamination proceedings conducted by technology expert and claim expert patent examiners evaluating previously undisclosed prior art [as is also occurring in this very case].

Various briefs to date argue that the statutory “principles of equity” do not mandate shutting down the only source of a major commercial product widely used by the public merely to allow a patent troll owner and its contingent fee lawyers to extract very much higher settlement payments than normal patent infringement damages before any possible appeal. Even assuming *arguendo* that the Federal Circuit *had* good arguments for continuing to force *automatic* permanent product injunctions in many situations, how is that alleged right or any public policy defeated by merely *delaying the start* of a product injunction for the relatively short time period needed for a Federal Circuit appeal? Patent trolls have no intention of providing the public with any products of their own, and no need to deprive the public of any products, during

that time period. Supporters of automatic immediate injunctions may argue economic necessity or irreparable damage, but where is their evidence for that in patent troll cases?

The Federal Circuit maintains short dockets, often averaging only a year or less including its many *per curiam* decisions. No one has even argued in this case for any reasons why an injunction cannot be simply *stayed* for the relatively short time period between the trial court decision and the Federal Circuit decision in those situations in which the current patent owner cannot provide an equitable justification for an *immediate* injunction. Nor does the statute, or normal jurisprudence, suggest that the entire *burden of proving* that an immediate injunction should *not* be granted be shifted to the *defendants*, with no burden whatsoever on any plaintiffs to justify an immediate injunction in any case, as the CAFC seems to have done. It also seems incongruous that the payment of damages for patent infringement *is* stayed for an appeal, but the far greater damage caused by injunctions is not.

Merely as a recent example, in *Cross Medical Products Inc. v. Medtronic Sofamor Danek, Inc.*, 424 F.3d 1293, 76 USPQ2d 1662 (Fed. Cir. 9/30/05) a permanent injunction had been automatically granted by the trial court pursuant to the subject Federal Circuit case law. The injunction was granted merely on summary judgment decisions, without even a trial. It permanently enjoined with only a 90 day stay a medical (surgical) device [normally a subject of particular public-interest] for no indicated equitable reason. Yet even that situation did not seem to be of any concern to the Federal Circuit anywhere in this lengthy opinion, even though the basis for that patent injunction was reversed as erroneous on several grounds!

Furthermore, and very importantly, a patent owner who is successful on appeal already has the unusually strong protection of a statutory right to obtain up to *treble damages, attorney fees and accumulated interest* for the defendants *continuing* unjustified infringement in the time period between the trial decision and the appeal decision and thereafter. 35 U.S.C §284 and 35 U.S.C §285. The Respondents prior brief in footnote 4 on page 13 misrepresents the law by saying that petitioners “will be required to pay *only* a reasonable royalty.” [emphasis supplied] In fact, even for a non-producing patent owner who [very strangely] could not easily also prove *willful* infringement for infringement *continuing* after a final appeal judgment, damages are “*in no event less than* a reasonable royalty” - 35 U.S.C §284 [emphasis supplied]. Numerous Federal Circuit decisions have emphasized that “reasonable royalties” in the U.S. are only the *minimum* obtainable damages, and gives juries and judges wide discretion to award much higher amounts (which they often do). Anyone actually commercially using or licensing its patent can of course recover gross profits and other large damages.

U.S. law thus provides powerful and effective actual and punitive damages deterrents to continued genuine infringement of valid patents. The U.S. situation thus greatly differs from what is called a “compulsory license” for certain situations in other countries who lack these and other protections for patent owners. However, “compulsory licensing” is a specter that will undoubtedly be raised in later briefs in this case. But note that it has no relation to mere *pendant lite stays* of injunctions, the particular subject herein of most interest to most defendants.

* * * *

Turning now to *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), as noted, the Court additionally specifically requested arguments on this prior decision. Some of the briefs to date note some distinctions, but seem to have missed some other distinctions. First of all, they fail to note that the current patent statute was expressly written in 1952 as a Congressionally-indicated “codification” of prior case law. Yet, as is obvious from 35 U.S.C.

§283 itself, neither the distinguished codifiers or Congress considered *Continental Paper Bag* to be requiring non-discretionary automatic injunctions. Secondly, those briefs fail to note that this was a *manufacturing* method and apparatus patent, not a *product* patent, not even a product operation or use patent. As stated in the first paragraph: "The claims in suit do not [even] include mechanism for making a complete bag,..". Thus the same or other non-infringing paper bag *products* could *continue to be provided to the public, by any prior apparatus*. That situation is clearly different from vastly more publicly important patents on the *public product itself, and/or the use of the product*, for which the injunction would actually deprive the public of the product itself. That important distinction should be clear, for example, to everyone currently threatened by the shutdown of all BLACKBERRY® products.

Besides being clearly distinguishable on its facts, this nearly century old (early industrial age) *Continental Paper Bag* case may well be considered obsolete. It was decided well before the Supreme Court development of the modern legal *balance* between patents and other important public and economic interests. In particular, the Supreme Court has noted on several occasions subsequent to *Continental Paper Bag* that patents, as government grants of a unique market-exclusionary right to exclude anyone else from making, using, selling or importing anything covered by the issued patent claims, are imbued with a strong public interest. E.g., *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery*, 324 U.S. 806 (1945) "A patent by its very nature is affected with a public interest." Likewise, *Lear v. Adkins*, 395 US 653 (1969); and *Blonder-Tongue Lab. v. University of Illinois Foundation*, 402 U.S. 313 (1971). The immediate enjoining of products for which there is no practical or economic substitute or equivalent, without an effective right to appeal against what may well be non-infringed or invalid patents, should be even more imbued with such public interest and rational balance.

This public interest and rational balance should be especially the case because patents, unlike most other federal agency determinations, are granted so extensively, yet given such uniquely high *in rem* judicial power and respect, as discussed above. More than seven million United States patents have been granted. *Two million* were issued in *just the last 15 years*. 3,075 new patent suits were reported filed in U.S. district courts in 2004, up from 2,484 in 2000. Patents can now be judicially asserted for more than 26 years from their formal U.S. filing date, plus an additional year with an earlier provisional or foreign priority filing. 35 U.S.C. §154 and §286. Until recently, only a small percentage of patent applications have been subjected to any more rigorous agency review before grant than *a few hours of examination* by a *single* (and non-attorney) patent examiner.²

² USPTO Director Jon Dudas told the Federal Circuit Bar Association on October 14, 2005 that the average time spent examining a patent application is [only] 19.7 hours. That encompasses the time the assigned examiner must spend studying the technical specification and all the claims, noting formal errors, preparing detailed written office actions, responding to arguments and amendments, and various procedural matters. Even assuming *arguendo* 100% government employee productivity, there is obviously very little time available for examiner searching of prior art to more accurately determine the *patentable novelty* of patent claims, even if the claim scope is fully appreciated by the examiner. Furthermore, examiner prior art searching time is not increasing even though the amount of prior art *needing* searching is *increasing exponentially*. A significant examination time limitation was inherent in making the U.S. patent system entirely user-fee-funded, and then even allowing Congressional fee diversions. With much higher fees, individual inventors and small businesses could not even afford patent protection, and other companies would have to undesirably divert research funds to increased patenting costs. The large numbers of patents granted annually, as compared to the small number of Board of Appeal reviews, quality reviews, or reexaminations, and the relatively small number of patent examiners as compared to the huge number of patent applications being filed, are all matters of public record in the USPTO Annual Reports, etc.

* * * *

In conclusion, please keep in mind that the importance of the patent system to technological progress and new business investments is not being challenged by anyone. Nor are patent injunctions in normal patent infringement cases being threatened by anyone, with the possible exception of a few extreme academic amicus brief authors not supported here. However, there is a key private and public interest as to normal patent suit defendants in the *pendant lite staying* of permanent injunctions for alleged patent infringement, so as not to *de facto* prevent or deter privately and publicly desirable trials and appellate reviews of patents. That is not adequately represented to date in this case.