



Licensing in the Boardroom 2007

Living with *eBay v MercExchange*
Freshfields Bruckhaus Deringer

A supplement to **Intellectual Asset Management** magazine
www.iam-magazine.com

iam

Living with *eBay v MercExchange*

By **Andrea Lensing-Kramer, Peter Ruess** and **Bernhard Arnold**, Freshfields Bruckhaus Deringer, Düsseldorf

The Supreme Court of the United States has shown increased interest in recent years in patent cases, an attitude diametrically opposed to the restraint practised after the creation of the United States Court of Appeals for the Federal Circuit in 1982. This tendency is not only of interest to patent owners practising their patents themselves, but also increasingly relevant for intellectual property owners who choose to license their technology.

Just before the Court had examined the question of when a licensee can sue in *Medimmune Inc v Genentech Inc*, it had turned its attention to the – probably even more relevant – issue of granting permanent injunctions in patent cases in *eBay v MercExchange LLC*.

To understand the scope and impact of this decision, and to assess properly its consequences for patent owners, it is necessary to briefly outline the litigation.

Case review

Petitioner eBay operates an online auction site that allows buyers and sellers to search for products online, and to purchase them by either participating in live auctions with bids or buying them at a fixed pre-determined price (the buy it now function). This buy it now function accounts for roughly 30% of eBay's business. The plaintiff (and respondent at Supreme Court level), MercExchange, owns patents that it claims cover the technology underlying the buy it now function.

In 2000, the parties initiated negotiations aimed at eBay acquiring MercExchange's patent portfolio pertaining to a relevant online auction technology. Following the failure of these negotiations,

MercExchange sued eBay for patent infringement in the US District Court for the Eastern District of Virginia. The court (Judge Friedman) found wilful infringement of the patents by eBay. MercExchange then sought a permanent injunction to prevent eBay's use of the technology in question.

The District Court refused to enter such permanent injunction, stating that MercExchange did not intend to use the patents itself but was planning to license them to third parties for royalty payments. It went on to state that public interest favours denial of such injunctions in view of "a growing concern over the issuance of business method patents which forced the PTO to implement a second level review policy and caused legislation to be introduced in Congress to eliminate the presumption of validity for such patents".

Judge Friedmann also voiced concern that a permanent injunction would motivate the defendants to design around the invention, which would be likely to result in "contempt hearing after contempt hearing requiring the Court to essentially conduct separate infringement trials to determine if the changes to the defendant's system violates the injunction", and in "extraordinary costs to the parties as well as considerable judicial resources".

MercExchange appealed, arguing, among other things, that the District Court should have entered a permanent injunction. The US Court of Appeals for the Federal Circuit (Judge Bryson) agreed with regard to its established case law in *Richardson v Suzuki Motor Co*, which says that the "right to exclude" recognised in a patent is but the essence of the concept of property and that the general rule is thus that a permanent injunction will issue once infringement and validity have been adjudged. The court cited its case law pertaining to the fact that, in rare instances, courts have exercised their discretion to deny injunctive relief to protect

the public interest (such as *Rite-Hite Corp v Kelley Inc*) and concluded that the case at hand was not sufficiently exceptional to justify the denial of a permanent injunction.

The Federal Circuit voiced clear disapproval with regard to the District Court's obvious issue with an action for a permanent injunction for infringement of technology not used by the patentee itself, as opposed to for infringement of technology when the technology was to be licensed. In the appellate opinion, Judge Bryson clearly stated that the fact that a patent owner "may have expressed willingness to license its patents should not, however, deprive it of the right to an injunction to which it would otherwise be entitled". The court stated that there is a "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances".

The Supreme Court reversed, stating that nothing in the Patent Act eliminated the traditional reliance on the principle of equity, namely the four factor test ("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").

Justice Thomas, writing for the unanimous court, especially disagreed with the Federal Circuit's holding that the "statutory right to exclude alone justifies [the] general rule and favor of permanent injunctive relief", and noted that "the creation of a right is distinct from the provision of remedies for violations of that right". The Supreme Court thus did not follow the line previously taken as granted by courts and commentators alike, who often viewed injunctions as justified by the nature of the patent right as a right to exclude.

One could take the position that, even under the four factor test, the nature of the patent right could be advanced by stating that irreparable harm (first factor) is always caused if property rights are violated. At the other extreme, one could argue, as the District Court did – using *MercExchange's* "willingness to license its patents" and "its lack of commercial activity in practicing the patents" – that no irreparable harm in the absence of an injunction was suffered. It is noteworthy that the Supreme Court took a middle route with Justice Thomas expressing

concern for the District Court's reasoning, which he felt would discharge courts from granting injunctive relief to entities such as university researchers, who might otherwise satisfy the four factor test.

Concurring opinions were filed by the Chief Justice and Justice Kennedy. Although the Chief Justice's concurring opinion (joined by Justices Scalia and Ginsburg) was generally supportive of an injunction, it seems fair to say that the pure property approach taken by the Federal Circuit was, as such, put aside. This is even more true taking into account Justice Kennedy's concurring opinion, which expressed concern about "firms [that] use patents not as a basis for producing and selling goods but, instead, primarily for obtaining license fees".

Given that patent law is a very international subject and many patent owners are structuring and developing their portfolios on an international basis, it is worthwhile to consider the implications of what appears to be a shift in the US Supreme Court's general attitude towards patent owners, most likely motivated by the fear of so-called patent trolls – owners that have not participated in the research and development of the invention. But what is likely to be greeted as an appropriate action by those who defend themselves against patent trolls (eg, in the IT industry) may well be viewed with scepticism by those who invest billions in research of a single product that may or may not reach the status of a patent (eg, in the pharmaceutical industry).

Consequences and European perspective

In the US, the opinion is likely to lead to cases being decided with less focus on the property issue and thus with more risk for patent owners. This is something that first examples demonstrate: the US District Court for the Eastern District of Texas held in its recent opinion in *Technologies Inc v Microsoft Corp* that damages for patent infringement had to be paid but no permanent injunction was to be entered, as none of the four factors was fulfilled.

In Europe, the *MercExchange* decision has been greeted with great surprise. The possibility of obtaining a permanent injunction forms part of the main characteristics of an exclusive right such as a patent. It is the main incentive for a potential infringer to seek a licence. Although there are differences in detail between the European jurisdictions, a broad level of harmonisation has been achieved by the European Patent Convention and the

Community Patent Convention (although the latter has not entered into force, member states refer to it to harmonise their patent regimes).

Looking at Germany as the most popular venue for European patent litigation, a permanent injunction is granted as the standard remedy for any patent infringement. Traditionally, the behaviour of the patentee is of no relevance whatsoever for the question of remedies, although there have been exceptions, one of which is outlined below in the Outlook section. The constitution of claims for permanent injunction, information, damages and destruction of the infringing goods is regularly granted by courts once patent infringement has been found. This is considered the consequence of the patent being intellectual property and ties in with the precedents cited by the US Court of Appeals for the Federal Circuit above. In the *Klinische Versuche (Clinical Trials)* case (see German Constitutional Court, NJW 1998, 3092 (1998)), the German Constitutional Court, as the highest judicial authority, confirmed its previous rulings and stated that patented inventions enjoy protection as property.

The pure property concept does not exist without good reason: when a patent no longer provides exclusivity, it is reduced to a mere participation right – participation in the profit instead of exclusion of offers. This compromises the tradability of patents because remedies then differ depending on who owns the patent. The authors know of a case in which a multinational client abstained from restructuring its patent portfolio because of the perceived risk that the proposed new patent owner could, with a view to the US Supreme Court decision, end up having difficulties in asserting the patents.

Looking at the motivation for potential infringers, it must be seen that damages often do not constitute a sufficient threat. Calculation of damages is usually a lengthy and cumbersome process. In particular, in the absence of the US concept of triple damages (which are unknown throughout the EU), the potential infringer has a good chance of paying no more damages than it would have to pay as a licensee. Such a situation is not likely to motivate it to play by the rules and seek a licence.

For these reasons, German courts are likely to continue to disregard the behaviour of the patentee regarding the invention in determining remedies for patent infringement. It is an established principle that patent infringement triggers a

permanent injunction without further preconditions.

Outlook

Patents and technical standards (eg, ETSI – European Telecommunications Standards Institute) have become a hot topic in recent times. In a recent decision, the most important patent litigation court in Europe, the Regional Court (*Landgericht*) of Düsseldorf (which handles about half of all patent infringement proceedings pending throughout Europe) refused to enter a permanent injunction because the patentee was under an obligation to grant a licence to the infringer (*LG Düsseldorf, Siemens v Amoy*, not yet published (2007)). The patent relates to mobile phone technology that is essential to participating in the mobile phone market. The infringer had sought a licence and was offered a licensing agreement, including a royalty-free reverse licence. The court found that the ETSI rules require a licence to be offered on appropriate terms, which excludes a royalty-free reverse licence.

The case is not suitable as a general precedent, as it is tailored to ETSI policies. Nevertheless, there is a political tendency to find a new regime for situations where patentees gain more market power than was intended by the patent grant due to *de facto* or formal standards. It is likely that this discussion will weaken the position of the patentee rather than strengthen it.

The issues covered in *Siemens v Amoy* differ from those in *MercExchange* in an important way: while *MercExchange* looks at the concrete behaviour of a patentee in its own exploitation of the invention, the standards discussion is about finding a balance in a situation that is, in general, very favourable. A patent that becomes essential to a technical standard is, obviously, more profitable than other patents.

The bottom line is that there is little indication that the relevant courts in Europe will follow the Supreme Court's decision. The question of whether patentees exploit the invention by licensing only or by their own activities is likely to remain irrelevant for permanent injunctions. This is good news for all patent owners – including patent trolls, of course.

This problem is to all intents dealt with on the validity side. If the protection provided by patents is felt to be too broad, the patent claims have to be narrowed, not the remedies for patent infringement. In the

well-known case of *RIM v Inpro*, which was litigated in several countries, the German Federal Patent Court (competent for validity) decided accordingly and invalidated the patents in suit.

If validity is likely to be an issue in litigating a patent, patentees tend to choose jurisdictions where validity is addressed in separate proceedings (bifurcated systems), such as Germany. When the infringement court renders its judgment, the nullity

proceedings initiated by the Defendant are often not completed. In this case, the infringement court regularly grants an injunction unless the invalidity of the patent is apparent. This timing is very favourable for patent owners – and the prospect of achieving a permanent injunction without an additional four-factor test will cause patent owners more often to choose Europe as a patent litigation venue as compared to before the Supreme Court decision.



Andrea Lensing-Kramer is a partner in the Düsseldorf office of Freshfields Bruckhaus Deringer. She specialises in trademark law, unfair competition, information technology and media, including licence and distribution agreements, product launches and related marketing campaigns, advertising clearance, IP-driven transactions and global trademark policy issues. Andrea regularly advises multinationals on a worldwide basis on trademark policy issues and is an active member of the International Trademark Association, serving on one of its committees.

Andrea Lensing-Kramer
Partner
Email: andrea.lensing-kramer@freshfields.com
Tel: +49 211 49 79 161

**Freshfields Bruckhaus Deringer –
Düsseldorf office**
Germany
www.freshfields.com



Peter Ruess is an associate in the Düsseldorf office of Freshfields Bruckhaus Deringer and focuses on IP litigation and licensing. He holds a law degree and a doctorate in law from Bayreuth University and an LLM in IP law from George Washington University Law School. During his LLM, Peter served as an intern for The Hon Randall R Rader at the US Court of Appeals for the Federal Circuit. Peter regularly speaks and publishes both nationally and internationally on IP-related subjects.

Peter Ruess
Associate
Email: peter.ruess@freshfields.com
Tel: +49 211 49 79 376

**Freshfields Bruckhaus Deringer –
Düsseldorf office**
Germany
www.freshfields.com



Bernhard Arnold is an associate in the Düsseldorf office of Freshfields Bruckhaus Deringer. His specialisations include patent litigation and licensing, copyright law and technology transfer with a particular sector focus on the IT industry. Bernhard holds a law degree from the University of Passau. Before working as a lawyer, he owned an IT company occupied with software development and IT services. In 2005, he was granted a doctorate in law by the University of Cologne, based on his doctorate thesis on copyright law and unfair competition law. He is invited as a speaker on his areas of specialisation to pertinent conferences.

Bernhard Arnold
Associate
Email: bernhard.arnold@freshfields.com
Tel: +49 211 49 79 166

**Freshfields Bruckhaus Deringer –
Düsseldorf office**
Germany
www.freshfields.com

Freshfields Bruckhaus Deringer – Düsseldorf office

Feldmühleplatz 1,
40545 Düsseldorf, Germany

Tel +49 211 49 790

Fax +49 211 49 79 103

Web www.freshfields.com

Other offices Amsterdam, Barcelona, Beijing, Berlin,
Bratislava, Brussels, Budapest, Cologne, Dubai, Frankfurt,
Hamburg, Hanoi, Ho Chi Minh City, Hong Kong, London,
Madrid, Milan, Moscow, Munich, New York, Paris, Rome,
Shanghai, Tokyo, Vienna, Washington