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Trolls and Titans Take Fight to Top Court

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CONSUMER NEWS

Trolls and Titans Take Fight to Top Court

Ryan Eddings*

Internet auctioneer eBay took its much-anticipated fight with patent-holders to the United States Supreme Court on Wednesday, March 29, 2006. eBay petitioned the Court to address the almost automatic issuance of permanent injunctions in patent-infringement cases heard in the federal court system. The case has drawn the attention of the business, legal, and academic worlds, causing members of each to argue about what the appropriate remedy should be in a patent-infringement case. The Court's ruling should have an enormous impact on consumers, as they will likely bear the costs associated with any remedy.

The Court granted *certiorari* in *eBay, Inc. v. MercExhange, LLC* last year.[1] In addition to the immediate issues presented in the case, it invited the parties to address the question of "[w]hether this Court should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, on when it is appropriate to grant an injunction against a patent infringer."[2]

The original dispute began when MercExchange filed suit against eBay and other internet auction sites for patent-infringement in 2001.[3] MercExchange is labeled a "non-practicing entity" ("NPE"), because it is the assignee of the patents that were infringed, though MercExchange was not actually employing its patented technology at the time the dispute arose.[4] NPEs are often referred to as "patent trolls" by critics, who claim that they hold broad patents

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[1] *EBay, Inc. v. MercExchange, LLC*, 126 S.Ct. 733 (2005).

[2] *Id.* (citations omitted).

[3] *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323 (Fed. Cir. 2005).

[4] *Id.* at 1325.

that should never have been granted in the first place, and then use these patents to sue productive businesses.[5] eBay is an internet auction website that allows buyers and sellers to browse for goods and purchase them either through a live auction or at a fixed price.[6] MercExchange argued that eBay's "buy it now" feature, which allows buyers to purchase an item at a fixed price, infringed on its on patents.[7] A jury agreed and found eBay liable.[8] Damages were fixed at $10.5 million against eBay, and another $19 million against Half.com, a wholly-owned subsidiary of eBay.[9] However, the court did not enter a permanent injunction barring eBay from using the "buy it now" feature in the future.[10] The district court denied the injunction largely because MercExchange does not actually make anything.[11] In the district court's view, permanent injunctions should be issued only to companies that produce a product, not to companies that hold patents without utilizing them.[12] The federal appellate court reversed, noting that there was "no reason to depart from the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."[13]

The fundamental policy behind the issuance of patents is found in the US Constitution. As interpreted by the Supreme Court, "[t]he basic quid pro quo contemplated by the Constitution and Congress for granting a patent monopoly is the benefit derived by the public from an invention with substantial utility."[14] The Constitution grants Congress the power "[t]o 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."[15] Acting

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[5] Mike Hughlett, *Blurry on BlackBerry*, CHI. TRIB., Feb. 19, 2006, at 5-1.

[6] *MercExchange*, 401 F.3d at 1325.

[7] *Id.*

[8] *Id.* at 1326.

[9] *Id.*

[10] Patti Waldmeir, *Get it Now From eBay, Hostage to the Patent Troll*, FIN. TIMES, 15, Mar. 16, 2006, *available at* 2006 WLNR 4375725.

[11] *Id.*

[12] *Id.*

[13] *MercExchange*, 401 F.3d at 1339.

[14] *Brenner v. Manson*, 383 U.S. 519, 534-35 (1966).

[15] U.S. CONST., art I, § 8, cl. 8.

under this mandate, Congress passed the Patent Act ("Act").[16] At the heart of the eBay dispute is one particular phrase found in the Act, which reads that a court "may grant injunctions in accordance with the principles of equity to prevent the violation of any secured patent, on such terms as the court deems reasonable."[17] Equally important to the eBay case is that fact that almost a century ago, the Supreme Court ruled that infringement of a patent could result in an injunction against the infringer, even where the patent holder did not use the patent.[18]

eBay argues that the Act's clause referring to injunctions confers discretion upon the court, and that the federal courts have misapplied the Act by granting injunctions almost as a matter of right.[19] In other words, by using "may" instead of "shall," Congress did not intend for such injunctions to be automatic. eBay has been joined by software and technology companies, who often incorporate pieces of patented technology into their products.[20] Together they claim that by automatically granting injunctions, the courts have given tremendous leverage to NPEs. As an example, they point to the recent dispute between Research in Motion, Ltd., the maker of the BlackBerry handheld device, and NTP, Inc., an NPE.[21] That dispute threatened to shut down the entire BlackBerry network, affecting millions of consumers. A permanent injunction that would have forced consumers to find other similar services could have cost the average consumer $844.[22] In the end, that dispute settled for $612 million.[23] The result of granting permanent injunctions to NPEs, the argument continues, is that consumers end up paying twice for the same technology – once for the initial research and development

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[16] 35 U.S.C. § 1, *et seq.* (2006).

[17] 35 U.S.C. § 283 (2006).

[18] *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429 (1908).

[19] *See* Petition for a Writ of Certiorari at 13, e*Bay, Inc. v. MercExchange, LLC*, 126 S.Ct. 773 (No. 05-130).

[20] Marcia Coyle, *Supreme Court to Look at Critical Patent Issue in eBay Case*, NAT'L L. J., Mar. 13, 2006, *available at* 3/13/2006 Nat'l L.J. 1.

[21] *See* Huglett, *supra* note 5.

[22] Amol Sharma and Mark Heinzl, *BlackBerry Switch Would Be Costly*, WALL ST. J., Mar. 1, 2006, at B2.

[23] Tony Locy, *Justices Weigh In On Patent Rights*, Hous. CHRON., Mar. 30, 2006, *available at* 2006 WLNR 5344992.

costs sustained by the infringer, and second for the royalty fees to NPE.[24]

On the other hand, MercExchange argues that the current patent system encourages development and furthers the public welfare. MercExchange has been joined by universities and pharmaceutical companies.[25] Enforcing patents differently by looking to who holds the patent is a dangerous step, one that will ultimately reduce the incentive for inventors.[26] Supporters of the status quo argue that patent rights create a property right that can function only if the patent is transferable.[27] NPEs fill the gap between inventors who lack the expertise and financing to commercialize their products and the businesses that need the technology to compete.[28] They point out that Thomas Edison had over 1,000 patents, but never manufactured anything.[29]

Others argue that the current dispute does not address the root of the problem, mainly that the US Patent and Trademark Office (USPTO) issues too many questionable patents.[30] This argument was bolstered by Federal Trade Commission report released in 2003, which identified many shortcomings that plague the US patent system.[31] The USPTO is paid when it grants a patent, and the individual patent examiners receive bonuses based on the number of patents granted in a year.[32] The financial incentive to grant patents has lead to an explosion in the number of patents granted. For

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[24] *Patent Quality Enhancement, Before Committee on House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property*, Apr. 6, 2006, *available at* 2006 WLNR 5773257 (Statement of James Balsillie, Chairman and Co-CEO of Research in Motion, Ltd.).

[25] Alan Murray, *War on 'Patent Trolls' May Be Wrong Battle*, WALL ST. J., Mar. 22, 2006, at A2.

[26] Murray, *supra* note 25.

[27] Waldmeir, *supra* note 10.

[28] James Bravin and Mylene Mangalindan, *In Patent Case, EBay Tries to Fight Its Way Out of Paper Bag*, WALL ST. J., Mar. 29, 2006, at B1.

[29] Murray, *supra* note 25.

[30] Mandy Barbara Sueffert, *Soft-Science Examiners at the USPTO: A Non-Obvious Solution to Reduce Erroneous Patent Grants*, 10 MARQ. INTELL. PROP. L. REV. 111, 112 (2006).

[31] Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, Oct. 2003, *available at* http://www.sensortime.com/innovationrpt.pdf (last visited Apr. 9, 2006).

[32] *The Problem with Patents*, WALL ST. J., Mar. 29, 2006, at A18.

example, almost 90 percent of patent applications were granted in 2000, while only 69 percent were granted in 1984.[33] At the same time, the number of patent applications has more than doubled since 1991.[34] These questionable patents eventually lead to costly litigation, and some of that cost is passed onto consumers.[35] In addition, questionable patents prevent competitors from entering the marketplace, and therefore keep prices artificial high.[36] Accordingly, until fundamental changes are made within the USPTO, the problem will persist.

During arguments before the Supreme Court, Justice Breyer seemed sympathetic to eBay's arguments, questioning the fairness of issuing an injunction where the patent holder waited until the patented technology was embedded into another product, and then brought suit under the threat of a permanent injunction, knowing that the threat of a permanent injunction would drive up the price of a settlement demand.[37] On the other hand, eBay received a chilly reception from some of the other members of the Court. Justice Scalia reminded eBay's lawyer that "[y]ou're talking about a property right, and the property right is explicitly the right to exclude others. . . That's what a patent right is . . . give me my property back."[38] Justice Roberts noted that the appeals court "was just reflecting the reality that in a typical case, [an injunction] is what happens."[39] Finally, Justice Ginsburg noted that if courts were given more discretion on when to issue injunctions, the result would be a "tremendous disparity among jurisdictions" in the remedies available in patent-infringement disputes.[40]

Some analysts believe the Court's ruling will not stray from its established jurisprudence. They predict that the Court will remind lower courts that injunctions should be issued only where the public

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[33] *Patently Absurd*, WALL ST. J., March 1, 2006, at A14.

[34] *Id.*

[35] Sueffert, *supra* note 30, at 114.

[36] *Id.*

[37] Jim Puzzanghera, *Supreme Court Weighs In On Auction Giant's Request To Limit Injunctions*, SAN JOSE MERCURY NEWS, Mar. 30, 2006, at 1.

[38] *Justices Question EBay Patent Stance*, SEATTLE TIMES, Mar. 30, 2006, at C2.

[39] *Id.*

[40] Joan Biskupic, *Supreme Court Hears EBay Patent Case*, USA TODAY, Mar. 30, 2006, at 01B.

interest and the hardships to both parties require such a remedy.[41] Such an ad hoc result may actually harm consumers more than help them. Without clearly defined remedies, infringing companies may balk at initial settlement demands from NPEs, believing that the court will not enter a permanent injunction. At the same time, NPEs may believe that a permanent injunction is a realistic possibility, and price their settlement offer accordingly. This could result in more lengthy litigation, the costs of which will undoubtedly be passed onto consumers. Furthermore, if more cases reach the trial phase where permanent injunctions are ordered, the result may be that consumers experience more disruptions to products and services they use. Moreover, if MercExchange is right and a patent regime that is less stringent in its enforcement of patent rights actually decreases innovation, consumers can expect fewer new products to go along with their increased costs.

Supreme Court Unknots Tying Presumptions

The Supreme Court of the United States recently released its opinion in *Illinois Tool Works, Inc. v. Independent Ink, Inc.*,[42] which reversed over forty years of precedent. The Court held that the mere fact that a "tying" product is patented does not create a presumption of market power in that product.[43] The decision was lauded by businessmen and academics, while some consumer groups lamented that the decision may usher in a new era of consumer exploitation.

Tying refers to a process through which a company uses a patented product to increase sales of a non-patented product.[44] The company does this by conditioning the sale of a patented product on the purchase of other non-patented products made by the company at the same time or in the future.[45] A basic example of tying is that of a

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[41] *See* Waldmeir, *supra* note 10.

[42] *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 126 S.Ct. 1281 (2006).

[43] *Id.* at 1293.

[44] James P. Miller, *Lawsuits Over "Tying" Are Knottier After New Ruling*, CHI. TRIB., Mar. 2, 2006, *available at* 2006 WLNR 3563242.

[45] Craig McLaughlin, *Monopoly Power of Patents and Antitrust Law Collide In Patent Tying: A Presumption of Market Power Should Arise From Forcing Consumers To Purchase An Unpatented Good As A Condition of Using The Product*, ORANGE COUNTY LAWYER, Mar. 2006, at 38.