The Journal of Appellate Practice and Process

Volume 8 | Issue 2 Article 14

2006

Ebay v. Mercexchange as a Sign of Things to Come: Is the Supreme Court Still Reluctant to Hear Patent Cases?

Peter O. Huang

THE JOURNAL OF APPELLATE PRACTICE AND PROCESS

PRACTICE NOTE

EBAY V. MERCEXCHANGE AS A SIGN OF THINGS TO COME: IS THE SUPREME COURT STILL RELUCTANT TO HEAR PATENT CASES?

Peter O. Huang*

I. INTRODUCTION

Several years ago, I wrote a short practice note for this journal,[1] suggesting in it that the United States Supreme Court's then-recent decision in *The Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*[2] indicated that appellate litigators should consider whether the Federal Circuit remained the only—or indeed the best—option for appeals in cases that include patent claims. I write again for similar reasons: to put appellate lawyers on notice that patent appeals appear more likely to end

* The author, who concentrates his practice on litigation and intellectual property matters, is a lawyer in the Newport Beach, California, office of Wang, Hartmann & Gibbs. This article does not necessarily represent the views of Wang, Hartmann & Gibbs or its clients. Any errors or omissions are the author's alone.

1. Peter O. Huang, The Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.: *The Return of Patent Appeals to the Regional Circuits?* 5 J. App. Prac. & Process 197 (2003).

2. 535 U.S. 826 (2002).

up in the Supreme Court today than has been the case for almost a generation.

On May 15, 2006, the Supreme Court rendered its decision in *eBay Inc. v. MercExchange L.L.C.*, vacating and remanding a decision from the Federal Circuit that addressed requests for injunctions in patent cases.[3] This case was carefully watched by the patent bar, for the issues it involved were of significant importance to both patent lawyers and their clients. But the decision is also of interest to every appellate lawyer who might eventually handle an appeal in a patent case.

As I explain in this note, *eBay* is of particular concern to appellate lawyers because it may mark a change in the Supreme Court's historical interaction with the Federal Circuit. For many years, the Supreme Court regularly deferred to the Federal Circuit in patent cases, and indeed, that court was established in part to specialize in patent appeals.[4] However, *eBay* is among the latest, and it is perhaps the most controversial, in a string of recent decisions in which the Supreme Court has reversed or remanded patent decisions from the Federal Circuit.[5]

Is *eBay* representative of a fundamental change in the Supreme Court's relationship with the Federal Circuit in patent cases, or is it an anomaly? Only time will tell, but *eBay* tells us at least that times may be changing.

II. BACKGROUND

A. Two Decades of Supreme Court Deference to the Federal Circuit

When Congress created the Federal Circuit in 1982, it gave the new court nationwide appellate jurisdiction over patent appeals.[6] For the next two decades, the Supreme Court seemed

3. 126 S. Ct. 1837, 1839, 1841 (2006).

4. *See* 28 U.S.C 1295(a)(l), 1338 (available at http://www.uscode.house.gov).

5. *See KSR Intl. Co. v. Teleflex, Inc.*, ___ U.S. ___, 2007 U.S. LEXIS 4745 (2007); *Microsoft Corp. v. AT&T Corp.*, ___ U.S. ___, 2007 U.S. LEXIS 4744 (2007); *MedImmune, Inc. v. Genentech, Inc.*, ___ U.S. ___, 127 S. Ct. 764 (2007).

6. 28 U.S.C. 1295(a); *see also, e.g.*, Jay I. Alexander, *Cabining the Doctrine of Equivalents in* Festo*: A Historical Perspective on the Relationship Between the Doctrine of*

almost to have delegated final review of patent cases to the Federal Circuit, "render[ing] itself well nigh invisible in modern substantive patent law."[7] Indeed, the Federal Circuit had by 2001 "become the de facto supreme court of patents,"[8] for, as one commentator put it, "[i]n those rare patent cases when the real Supreme Court has materialized, the Court has left behind a largely uninspiring jurisprudence. When winnowed down to those cases dealing directly with substantive patent issues, the jurisprudence is paltry indeed."[9]

The Supreme Court decided only ten patent cases between 1982 and 2000,[10] an average of approximately one decision every two years. Furthermore, as Professor Janis's 2001 analysis indicates, only three of those cases involved "substantive" patent issues, an average of approximately one substantive patent case on the Supreme Court's docket every six years.[11] In the relatively recent past, then, it was fair to say that the Supreme Court appeared remarkably reluctant to review patent cases. The Court seemed content instead to stand aside and allow the Federal Circuit to be the final arbiter of most patent matters.

B. The Waning of the Supreme Court's Deference to the Federal Circuit

By 2003 there were suggestions of a shift in the Supreme Court's attitude towards the Federal Circuit. One observer noted that the Court's "initial deference to the Federal Circuit" had by then "been replaced by a more critical view of the Federal

---

Equivalents and Prosecution History Estoppel, 51 Am. U. L. Rev. 553, 592 n. 318 (2002) (citing Federal Courts Improvement Act of 1982, Pub. L. No. 97-154, 96 Stat. 25 (codified as amended in scattered sections of 28 U.S.C.)).

7. *See* Mark D. Janis, *Patent Law in the Age of the Invisible Supreme Court*, 2001 U. Ill. L. Rev. 387, 387.

8. *Id.*

9. *Id.* at 387-88 (citations omitted).

10. *See Nelson v. Adams USA, Inc.*, 529 U.S. 460 (2000); *Fla. Prepaid Post-Secondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627 (1999); *Dickinson v. Zurko*, 527 U.S. 150 (1999); *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55 (1998); *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17 (1997); *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996); *Cardinal Chem. Co. v. Morton Intl., Inc.*, 508 U.S. 83 (1993); *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661 (1990); *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800 (1988); *Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809 (1986).

11. Janis, *supra* n. 7, at 388 n. 2 (referring to *Pfaff*, *Warner-Jenkinson*, and *Medtronic*).

Circuit's decisions and its decision-making processes,"[12] and applauded the emergence of the trend, asserting that the Court had "correctly abandoned its deferential mindset toward the Federal Circuit."[13] The Supreme Court's track record in patent cases in the years since 2001 seems to support that analysis.

From 2001 to 2006, the Supreme Court decided five patent cases, [14] which yields an annualized total of patent cases almost double that on its docket in each year of the first two decades in the Federal Circuit era. Three of those five arguably involved substantive patent issues,[15] which amounts to approximately one substantive case every two years, or roughly triple the pace of the Court's review of substantive cases during the first two decades of the Federal Circuit's existence.

III. A SHORT HISTORY OF *EBAY V. MERCEXCHANGE*

A. The District Court Decision

MercExchange sued eBay for infringement of its patents,[16] prevailed after a jury trial, and requested a permanent injunction.[17] After applying the traditional four-factor test,[18] the district court denied this request, concluding that the issuance of an injunction would be inappropriate.[19]

---

12. Debra D. Peterson, Student Author, *Can This Brokered Marriage Be Saved? The Changing Relationship Between The Supreme Court and Federal Circuit in Patent Law Jurisdiction*, 2 J. Marshall Rev. Intell. Prop. L. 201, 201 (2003).

13. *Id.* at 201-02.

14. *eBay*, 126 S. Ct. 1837; *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193 (2005); *Vornado*, 535 U.S. 826 (2002); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 535 U.S. 722 (2002); *J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred International, Inc.*, 534 U.S. 124 (2001).

15. *See Merck*, 545 U.S. 193 (2005); *Festo*, 535 U.S. 722 (2002); *J.E.M. AG Supply*, 534 U.S. 124 (2001).

16. *MercExchange L.L.C. v. eBay Inc.*, 275 F. Supp. 2d 695, 698 (E.D. Va. 2003).

17. *Id.* at 710-11.

18. *Id.* at 711-15 (analyzing the existence of "irreparable harm," the availability of an "adequate remedy at law," the impact of the "public interest," and the "balance of hardships" between the parties).

19. *Id.* at 715.

B. The Federal Circuit Decision

The Federal Circuit reversed the district court as to the denial of a preliminary injunction,[20] recognizing the "general rule . . . that a permanent injunction will issue once infringement and validity have been adjudged."[21] It acknowledged that courts have in "rare instances exercised their discretion to deny injunctive relief in order to protect the public interest,"[22] but held that "the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction."[23]

C. The Supreme Court Decision

The Supreme Court vacated the Federal Circuit decision and remanded the case for further proceedings.[24] Writing for a unanimous Court, Justice Thomas noted that the traditional four-factor test applies even to patent cases, which are comparable to the copyright cases in which it has long been employed,[25] and then rejected both the approach taken by the district court and that of the Federal Circuit.[26]

The Supreme Court acknowledged that the district court recited the correct test, [27] but rejected its apparent adoption of certain additional principles that would preclude the issuance of permanent injunctions.[28] The Court was particularly concerned about the suggestion in the lower court's analysis that a patentee choosing to license its patents instead of exploiting the patented technology itself might not be entitled to seek a permanent injunction against an infringer.[29] Interestingly, however, the Court also rejected the Federal Circuit's reasoning, which

20. *MercExchange L.L.C. v. eBay Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005).
21. *Id.* at 1338 (citation omitted).
22. *Id.* (quoting *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995)).
23. *Id.* at 1339.
24. *eBay*, 126 S. Ct. at 1841.
25. *Id.* at 1840.
26. *Id.*
27. *Id.*
28. *Id.* at 1840-41.
29. *Id.* at 1840.

suggested the existence of a general rule favoring the grant of permanent injunctions to patentees who prevail at trial.[30]

The Chief Justice concurred, admonishing the lower courts to review the history of injunctive relief in patent cases.[31] Justice Kennedy concurred as well, commenting on the changing nature of patent enforcement.[32] He also pointed out that application of the four-factor test will be affected by both the relatively new practice of using patents as leverage to extract licensing fees from others, and the vagueness of many business-method patents.[33]

IV. CONCLUSION

The Supreme Court's willingness to decide *eBay* is particularly interesting because *eBay* was a controversial case by patent litigation standards: According to the Supreme Court's online docket, six amicus curiae briefs were filed even before the Court granted certiorari in the case, and thirty-one amicus briefs were filed after the grant.[34] The amici included a variety of major players in the patent arena, such as the federal government, corporate giants like IBM, and legal organizations like the American Bar Association.[35] In fact, *eBay* was of such widespread interest that even the mainstream business magazines took note of the case; one business reporter summed up its importance this way:

> The long-anticipated eBay . . . case gets to the heart of the debate over so-called patent trolls—companies that obtain patents only to license them, often using the threat of an injunction to extract a high price from infringers. The auction giant wants the high court to overturn the Federal Circuit Court's prohibition of its use of MercExchange technology. Lawyers for eBay and its allies say injunctions have become all-too-routine, upsetting a centuries-old

30. *Id.* at 1841.

31. *Id.* at 1841-42 (Roberts, C.J., Scalia, & Ginsburg, JJ., concurring).

32. *Id.* at 1842-43 (Kennedy, Stevens, Souter, & Breyer, JJ., concurring).

33. *Id.* at 1842.

34. *See eBay Inc. v. MercExchange L.L.C.*, No. 05-130, http://www.supremecourtus.gov/docket/05-130.htm (docket entry).

35. *Id.*

> principle that such strict remedies should be reserved for cases where money damages are inadequate.[36]

Professor Janis's "invisible" Supreme Court might have shied away from tackling such a technical—albeit critical—patent issue, allowing the Federal Circuit to have its way. Instead, this newly interested Supreme Court addressed the *eBay* injunction issues head on, and even rejected the reasoning of the patent specialists on the Federal Circuit. The *eBay* case may thus be significant evidence of a twenty-first century Supreme Court reinvigorated in its appreciation for the importance of patent issues, and no longer hesitant about tackling high-stakes patent cases.

It may take years for the full consequences of the *eBay* decision to unfold, and a substantive discussion of its implications is beyond the scope of this brief practice note. But to the appellate lawyers who read this journal, *eBay* means at least that their patent appeals are now more likely to be of interest to the Supreme Court.

36. Lorraine Woellert, *eBay Takes on the Patent Trolls*, http://www.businessweek.com/technology/content/mar2006/tc20060330_581975.htm?campaign_id=rss_daily) (accessed Feb. 6, 2006; copy on file with Journal of Appellate Practice and Process).