By Peter Kaplan

WASHINGTON (Reuters) - The U.S. Supreme Court on Monday set aside a patent injunction against online auctioneer eBay Inc. (Nasdaq:EBAY - news), but also rejected a key argument made by the company that could have narrowed the rights of patent holders.

The high court unanimously vacated an appeals court ruling in favor of MercExchange, a developer of e-commerce technology that sued eBay for patent infringement, saying an appeals court had failed to apply the proper legal test in deciding whether MercExchange should be granted an injunction barring eBay from using its technology.

The justices said the appeals court went too far when it found there is a "general rule" that the owners of patents have the right to an injunction against infringers and sent the case back to the trial court for further proceedings.

However, they also rejected a crucial argument advanced by eBay, and embraced by a U.S. District Court that handled the case, that companies can lose their right to an injunction if they have agreed to license out their technology or are not using it to make a product themselves.

"The pendulum has not swung very far with this ruling," said Steve Maebius, a patent lawyer with the firm Foley & Lardner. "There's a little bit of something in here for everyone, but I still think it's not a major departure from what the law was previously."

EBay shares were off 30 cents, or nearly one percent, to $31.19 in afternoon trading on Monday.

MercExchange issued a statement saying it was confident that the district court would impose an injunction on eBay "when it fairly applies the traditional principles of equity set forth in the Supreme Court's opinion ..."
EBay issued a statement praising the Supreme Court ruling and expressing confidence the lower court would rule in its favor.

EBay was found to have infringed on two e-commerce patents that MercExchange said were key to eBay's "Buy it Now" feature, which handles fixed-price scales.

But the U.S. District Court for the Eastern District of Virginia refused to issue an injunction and awarded MercExchange monetary damages instead.

The U.S. Court of Appeals for the Federal Circuit, which hears most patent case appeals in U.S. courts, reversed the decision, citing legal doctrine that gives patent holders the right to an injunction "absent exceptional circumstances."

Some high-tech companies complain a near-automatic injunction allows them to be held ransom by owners of questionable patents who have no intention of actually making a product.

Four of the justices expressed sympathy with those concerns in a concurring opinion written by Justice Anthony Kennedy. Kennedy wrote that the "economic function" of many patent holding companies has changed in recent years since more and more are using patents "primarily for obtaining licensing fees.

"When the patented invention is but a small component of the product the companies seek to produce, and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest," Kennedy wrote.

But three other justices, led by Chief Justice John Roberts, issued a separate concurring opinion citing the courts' long history of granting injunctions "in the vast majority of patent cases."

That history is "not surprising," Roberts wrote, because it's difficult to justify monetary damages as a sufficient remedy for infringement in most cases.

EBay has said that an injunction would not affect its business because of technology changes it made during the course of the case.
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