

No. 05-

IN THE
Supreme Court of the United States

EBAY INC. AND HALF.COM., INC.,
Petitioners,

v.

MERCExchange, L.L.C.,
Respondent.

**Petition for a Writ of Certiorari
to the United States Court of Appeals
for the Federal Circuit**

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

PARTIES TO THE PROCEEDINGS

In addition to the parties named in the caption, ReturnBuy, Inc. was initially a defendant in this action. Prior to trial, ReturnBuy, Inc. filed for bankruptcy protection and settled with respondent MercExchange, L.L.C.

Petitioner eBay Inc. has no parent corporation, and no other publicly held corporation owns more than 10% of its stock. Petitioner Half.com, Inc. is a wholly owned subsidiary of Petitioner eBay Inc., which is a publicly held corporation.

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PETITION FOR CERTIORARI

Petitioners eBay Inc. and Half.com, Inc. (“eBay”) respectfully seek a writ of certiorari to the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The opinion of the Federal Circuit (App. 1a-28a) was entered on March 16, 2005, and is reported at 401 F.3d 1323 (Fed. Cir. 2005). The order denying the Petition for Panel Rehearing and Rehearing en Banc (App. 77a-78a) was entered on April 26, 2005 and is unreported. The decision of the district court (App. 29a-74a) was entered on August 6, 2003, and is reported at 275 F. Supp. 2d 695 (E.D. Va. 2003).

JURISDICTION

The court of appeals entered its judgment in this case on March 16, 2005 and denied the Petition for Rehearing en Banc on April 26, 2005. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Section 283 of the Patent Act, 35 U.S.C. § 283, provides that:

The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

STATEMENT OF THE CASE

This case presents an important question of federal patent law with significant implications for the Nation’s economy.

A permanent injunction in the context of patent law is a potent remedy. The enjoined defendant is faced with tough choices: redesign its product or the product's functionality to eliminate reliance on the patent, negotiate a license on possibly onerous terms, or cease production or use altogether. Recognizing that this powerful and coercive remedy is not always appropriate, Congress has expressly authorized district courts to use their equitable discretion in granting injunctions in patent cases. In particular, § 283 of the Patent Act provides that an injunction may issue to prevent future violations only when the relief comports with the principles of equity. 35 U.S.C. § 283.

The Federal Circuit has decided to ignore this rule. And in its place, the court of appeals has authored its own variant of § 283, replacing equitable discretion with a virtually irrebuttable presumption that permanent injunctions will issue absent the exceptional circumstance where injunctive relief would pose a harm to the public interest by endangering the public health.

The consequences of this rule are clear. Injunctions will issue even when, as in this case, the district court has decided that the balance of the equities requires otherwise. Plaintiffs who will suffer no irreparable injury, because their future losses are fully compensable by ordinary money damages, nevertheless would receive a patent injunction. Indeed, the Federal Circuit's rule compels the grant of an injunction even if a trial court determines that an injunction would cause more hardship to the defendant than the plaintiff. Moreover, denials of permanent injunctions are no longer reviewed for abuse of a court's equitable discretion; courts must instead offer a "persuasive reason" to the reviewing court showing why its case "is sufficiently exceptional to justify the denial of a permanent injunction." App. 26a.

Such a drastic restriction on equity is fundamentally incompatible with this Court's precedents, which have long taught that the federal courts retain their equitable powers

absent a contrary indication from Congress. *Amoco Prod. Co. v. Village of Gambell, Alaska*, 480 U.S. 531 (1987); *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982); *Hecht Co. v. Bowles*, 321 U.S. 321 (1944). Given that the clear language of § 283 indisputably imbues district courts with discretion, and does not rely upon any wooden presumptions, these rulings cast serious doubt on the holding below and thus warrant this Court's further review.

In light of the dramatic rise in patent litigation, the Federal Circuit's automatic injunction rule will have a significant and detrimental impact on innovating companies. Between 1994 and 2004, the district courts have seen a fully 90 percent increase in the number of filed patent cases. See L. Mecham, Admin. Office of the U.S. Courts, Archive of Annual Reports, *Judicial Business of the United States Courts* tbl. C-2A (1997-2004), <http://www.uscourts.gov/judbususc/judbus.html>. Given the Federal Circuit's rule, permanent injunctions will issue in virtually every case where infringement is found, even if § 283 and equitable principles counsel otherwise.

By transforming an extraordinary remedy into one that issues by default, the Federal Circuit has imposed substantial and unwarranted costs on innovating companies. Injunctions subject defendants to all the civil contempt powers that a federal court has to coerce compliance. This can present a grave risk to companies in the patent context, where the defendant's sunk costs may be substantial and the boundary lines of a patent may not be clear. Indeed, as the Federal Circuit itself acknowledged, it is not unusual for there to be numerous post-trial disputes as to the definition of a particular patent. App. 27a. Owing to these uncertain liabilities and unclear patent definitions, a permanent injunction produces tremendous leverage for the plaintiff in ensuing license negotiations. By directing courts to confer permanent injunctions even when § 283 and equitable principles may counsel otherwise, the Federal Circuit's "general rule" transforms injunctive relief from a remedy designed "to

protect a patent against infringement” into “a club to be wielded by a patentee to enhance his negotiating stance.” *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974).

These *in terrorem* license fees are especially troubling given the rise of “patent assertion” companies, which buy patents not to practice an invention, but to assert infringement claims against other companies. As the district court found, entities such as MercExchange exist for no other purpose but to threaten infringement suits in hopes of securing a profitable license through litigation or settlement. App. 54a. These firms do not practice their often purchased inventions; they litigate. To such companies, the permanent injunction is not a remedy for patent protection, but instead serves as a strategic means to extract a higher licensing fee. It also supplies a mechanism for endless litigation over the meaning of the injunction, which serves as a serious drain on limited judicial and litigant resources. It is therefore ironic that the sole exception to the Federal Circuit’s *per se* rule concerns harm to the public interest, albeit only in the narrow sphere of public health. By commanding district courts to issue permanent injunctions as a matter of course, the Federal Circuit’s rule will impose tremendous costs on innovation. In light of the pressing importance of this issue, this Court should review the Federal Circuit’s decision.

A. Statutory Background

Rooted in the Constitution, Art. I, § 8, cl. 8, patent protection has long been essential to the development of innovation. But the rights attendant to patent ownership by no means have been absolute. Rather, the patent laws, including their remedial scheme, reflect a careful balancing of countervailing interests. In particular, the remedies available for patent infringement suits aim to strike a balance between compensation and overdeterrence. While the value of a patent depends on effective enforcement, setting the penalties for infringement too high will deter companies from

innovating for fear of crippling liability. As Justice Stevens has observed, “[f]ederal interests are threatened, not only by inadequate protection for patentees, but also when overprotection may have an adverse impact on a competitive economy.” *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627, 650 (1999) (Stevens, J., dissenting) (citing *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 162-63 (1989)).

Congress’s several modifications to the patent law’s remedial scheme reflect this balance—a balance which the Federal Circuit’s *per se* rule upsets. The First Congress’s Patent Act of 1790 did not contain the express authority for federal courts to grant injunctive relief. It was not until 1819 that Congress conferred equitable jurisdiction in patent cases, using language that remains nearly untouched to this day. Act of Feb. 15, 1819, ch. 19, 3 Stat. 481, 481-82 (granting federal courts “upon any bill in equity . . . authority to grant injunctions, according to the course and principles of courts of equity . . . on such terms and conditions as the said court may deem fit and reasonable”). Similarly, while the Patent Act of 1870 added a provision permitting the recovery of a defendant’s profits, Act of July 8, 1870, ch. 230, § 55, 16 Stat. 198, 206, Congress eliminated that form of equitable relief 76 years later. Act of Aug. 1, 1946, ch. 726, 60 Stat. 778. Aside from these changes, the remedial scheme under the Patent Act has remained settled.

Courts can select from a range of remedies in enforcing the patent laws. Upon a finding of infringement, a court “shall award the claimant damages adequate to compensate for the infringement,” which recovery shall be “in no event less than a reasonable royalty for the use made of the invention by the infringer.” 35 U.S.C. § 284. Patentees that actually practice their patent can seek lost sales and profits resulting from the infringement. See *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1544 (Fed. Cir. 1995) (en banc). In contrast, patentees like MercExchange that do not make use of their patent can

receive “reasonable royalt[ies],” which are calculated according to a “hypothetical negotiation between the patentee and the infringer at the time before the infringing activity began.” *Integra Lifesciences I, Ltd. v. Merck KgaA*, 331 F.3d 860, 869 (Fed. Cir. 2003), *vacated on other grounds*, No. 03-1237, 2005 WL 1383624 (U.S. June 13, 2005).

In addition to compensatory damages, a court can issue punitive or “enhanced” damages for willful infringement of a patent. 35 U.S.C. § 284 (“the court may increase the damages up to three times the amount found or assessed”); *Sensonics, Inc. v. Aerosonic Corp.*, 81 F.3d 1566, 1573 (Fed. Cir. 1996). Moreover, in exceptional cases, a court may award attorney’s fees to the prevailing party. 35 U.S.C. § 285.

Like the enhanced damages and the fee-shifting provision, the statute provides that courts have the discretion, but are not obligated, to award injunctive relief, either preliminarily or at the end of a trial. *Id.* § 283. Under § 283, courts are directed to consider the principles of equity and not mechanically to issue the “extraordinary remedy of [an] injunction.” *Romero-Barcelo*, 456 U.S. at 312. In light of the potentially crippling consequences to the defendant of an injunction, Congress’s choice to accord district courts with the equitable discretion to grant or deny injunctive relief is eminently sensible.

B. The Underlying Dispute

Petitioner eBay operates a website on the Internet that allows sellers to list, and buyers to search for and purchase, goods either through an auction-style format or at a fixed price. Petitioner Half.com, a wholly-owned subsidiary of eBay, operates a website on the Internet that allows sellers to list, and buyers to search for and purchase, goods at a fixed price and that formerly provided users with a price comparison for certain items offered for sale on other websites. In particular, as the court of appeals observed, “[a]t issue in this case is the fixed-price purchasing feature of eBay’s website, which allows customers to purchase items

that are listed on eBay's website for a fixed, listed price." App. 2a.

The three patents at issue in this litigation were assigned to respondent MercExchange, L.L.C. ("MercExchange"), which, as the district court found, "does not practice its inventions and exists merely to license its patented technology to others." App. 54a. The three patents include U.S. Patent Nos. 5,845,265 ("the '265 patent"), 6,085,176 ("the '176 patent"), and 6,202,051 ("the '051 patent"). *Id.* at 1a. MercExchange filed a suit in the United States District Court for the Eastern District of Virginia, alleging infringement of all three patents. MercExchange sued eBay, Half.com, and ReturnBuy, Inc., ("ReturnBuy"), which owned and operated an Internet website that directed its customers to eBay's website where they could purchase ReturnBuy's goods.¹

The district court granted in part and denied in part eBay's motion for summary judgment as to the '051 patent, leaving the '265 and '176 patents for trial. At the end of the trial, the jury concluded that eBay did not overcome the presumption that the '265 and '176 patents were valid and further determined that those patents had been infringed. In particular, the jury found that eBay had willfully infringed the '265 patent and induced ReturnBuy to do the same. Further, the jury concluded that Half.com had willfully infringed the '265 and the '176 patent. The jury held eBay liable for \$10.5 million for infringement of the '265 patent and \$5.5 million for inducement of ReturnBuy. Half.com was found liable for \$19 million for infringing the '176 patent and the '265 patent.

After the close of the trial, the district court considered various motions by the parties, including eBay's motion for a judgment as a matter of law and MercExchange's motion for a permanent injunction.

¹ Prior to the trial, ReturnBuy filed for bankruptcy protection and executed a settlement with MercExchange.

C. The District Court's Opinion

The district court declined to set aside the jury verdict against eBay for inducement of ReturnBuy, and denied eBay's motion to set aside the remaining findings of infringement. App. 51a. With respect to the '265 patent, however, the district court reduced the jury award by \$5.5 million, concluding that the jury's award for both direct infringement and inducement amounted to a double recovery. *Id.* Despite the finding of willfulness by the jury, the court declined to award enhanced damages or attorneys' fees. The district court also rejected MercExchange's motion for a permanent injunction. The court noted that while "the grant of injunctive relief against the infringer is considered the norm . . . the decision to grant or deny injunctive relief remains within discretion of the trial judge." *Id.* at 52a Accordingly, the court analyzed whether an injunction was appropriate using the traditional four-part test.

"Issuance of injunctive relief against [the defendants] is governed by traditional equitable principles, which require consideration of (i) whether the plaintiff would face irreparable injury if the injunction did not issue, (ii) whether the plaintiff has an adequate remedy at law, (iii) whether granting the injunction is in the public interest, and (iv) whether the balance of the hardships tips in the plaintiff's favor."

Id. at 53a (alteration in original) (quoting *Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 794 (E.D. Va. 1998)).

The court found that MercExchange would not suffer irreparable injury in the absence of a permanent injunction. In arriving at this conclusion, the court observed that the

evidence of the plaintiff's willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent with respect to enforcement of its patent rights, are

sufficient to rebut the presumption that it will suffer irreparable harm if an injunction does not issue.

App. 55a. Moreover, the district court noted that despite MercExchange's claim that it would suffer irreparable injury without an injunction, it had not moved for a preliminary injunction. "This fact, while certainly not dispositive of the issue, lends additional weight in support of the defendants' arguments that the plaintiff will not be irreparably harmed absent an injunction." *Id.*

With respect to whether there was an adequate remedy at law, the district court first observed that "evidence showing that the patent holder is willing to license his patent rights 'suggests that any injury suffered by [the patent holder] would be compensable in damages assessed as part of the final judgment in the case.'" App. 56a (alteration in original) (quoting *High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1557 (Fed. Cir. 1995)). While the court recognized that money damages ordinarily would be considered an inadequate remedy for any continuing infringement, it concluded that it was dealing with "an atypical case" and found that MercExchange did have an adequate remedy at law. *Id.*

The court noted that the public interest weighed in favor of both eBay and MercExchange. Although the court recognized that there was a public interest in the integrity of the patent system, it doubted the utility of injunctive relief when the patentee did not practice its inventions. App. 58a.

Lastly, the court concluded that the balance of hardships weighed "slightly" in favor of eBay. The court noted that "[w]hile it is important to respect the rights of the patent holder, in this case, the plaintiff exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them." App. 58a. Noting that it had the authority to punish any continuing infringement with enhanced damages, and that any injunction would lead to

additional costly and burdensome litigation both to the parties and more importantly to the court, the district court concluded that a balancing of the hardships tipped in eBay's favor. *Id.* at 58a-59a.

Accordingly, the district court denied MercExchange's motion for a permanent injunction. App. 59a.

In denying eBay and Half.com's motions for a new trial and judgment as a matter of law, the district court also held, *inter alia*, that providing the terms "trusted network" and "legal ownership" to the jury without the explicit construction of the patent terms adopted by the district court before trial was not erroneous. App. 39a-40a; see also *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996) (holding that the construction of a patent's claims "is exclusively within the province of the court").

eBay appealed and MercExchange cross-appealed the district court's order to the Federal Circuit.

D. The Federal Circuit's Opinion

The court of appeals concluded that the claims with respect to the '176 patent were invalid and accordingly directed judgment for Half.com, thereby setting aside the jury's associated award of \$4.5 million. App. 3a. Further, the court held that there was no substantial evidence to support the charge that eBay induced ReturnBuy to infringe the '265 patent, and therefore reversed the district court's judgment in that regard. *Id.*

By contrast, the court found that substantial evidence supported a finding of infringement and validity with respect to the remainder of the '265 patent claims. With respect to remedies, the court of appeals held that the district court did not abuse its discretion in denying MercExchange enhanced damages and attorneys' fees. But, the court reversed the district court's determination that a permanent injunction was not warranted. The court of appeals held that "[b]ecause the

‘right to exclude recognized in a patent is but the essence of the concept of property,’ the general rule is that a permanent injunction will issue once infringement and validity have been adjudged.” App. 26a (quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989)). In light of this general rule, the court of appeals concluded 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.” *Id.*

The court of appeals rejected the reasons the district court cited to support its denial of the injunction. First, the Federal Circuit stated that “[i]n its post-trial order, the district court stated that the public interest favors denial of a permanent injunction in view of a ‘growing concern over the issuance of business-method patents.’” App. 26a (quoting App. 57a). The court reasoned that “[a] general concern regarding business-method patents, however, is not the type of important public need that justifies the unusual step of denying injunctive relief.” *Id.* Second, the court took issue with the district court’s finding that granting an injunction would result in more litigation, reasoning that continuing disputes are not unusual in patent cases. *Id.* at 27a. The court of appeals also held that the “fact that MercExchange 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*.” *Id.* (emphasis added). Lastly, the court of appeals held that nothing turned on MercExchange’s choice not to seek a preliminary injunction because preliminary and permanent injunctions are different, noting that the two types of relief have different requirements. *Id.* at 27a-28a.

The court recognized a narrow exception to its categorical rule requiring injunctive relief. “To be sure, ‘courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest.’” App. 26a (quoting *Rite-Hite Corp.*, 56 F.3d at 1547). “Thus we have

stated that a court may decline to enter an injunction when ‘a patentee’s failure to practice the planned invention frustrates an important public need for the invention,’ such as the need to use an invention to protect public health.” *Id.* (quoting *Rite-Hite Corp.*, 56 F.3d at 1547). According to the Federal Circuit’s holding, absent public health risks, the ordinary rules governing equitable relief do not apply to patent law.

The Federal Circuit also affirmed the district court’s decision not to instruct the jury in accord with the claim construction adopted by the district court after its *Markman* hearing. Thus, the court upheld the instructions requiring the jury to determine without guidance what constituted a “trusted network” and what is necessary to “transfer *legal* ownership.” App. 8a (“it was not necessary for the court to include excerpts from its *Markman* order in the jury instructions”).

The Federal Circuit denied eBay’s petition for rehearing en banc without opinion. App. 77a-78a. On May 11, 2005, however, it granted eBay’s motion for a stay of the mandate pending the outcome of eBay’s petition to this Court for a writ of certiorari. *Id.* at 75a-76a.

REASONS FOR GRANTING THE PETITION

The Federal Circuit’s sweeping holding in this case is a fundamental misconstruction of the law authorizing patent injunctions. It departs from the statute’s plain language, which provides that a court “may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.” 35 U.S.C. § 283. The decisions of this Court have forcefully rejected previous efforts to judicially restrict the equitable powers of the federal courts. Given that this error, which goes to the heart of patent enforcement, could undermine the patent law’s promotion of

innovation and certainly will lead to protracted and wasteful litigation, review by this Court is necessary.

Moreover, the Federal Circuit's exclusive appellate jurisdiction over patent disputes, 28 U.S.C. § 1295(a)(4), ensures that the issue raised in this case will not be further vetted in the lower courts. Accordingly, this Court is the only forum available to correct the fundamental departure from statutory construction embodied in the holding below.

I. THE FEDERAL CIRCUIT'S PER SE RULE IS FUNDAMENTALLY INCONSISTENT WITH THE PLAIN LANGUAGE OF § 283 AND THIS COURT'S RULINGS.

The prerequisites for the grant of equitable relief have remained largely unchanged for centuries. See *Hecht Co.*, 321 U.S. at 329-30 (“We are dealing here with the requirements of equity practice with a background of several hundred years of history.”). Injunctions “should issue only where the intervention of a court of equity ‘is essential in order effectually to protect property rights against injuries otherwise irremediable.’” *Romero-Barcelo*, 456 U.S. at 312 (quoting *Cavanaugh v. Looney*, 248 U.S. 453, 456 (1919)). “Thus, the usual basis for injunctive relief [is] ‘that there exists some cognizable danger of recurrent violation.’” *Rondeau v. Mosinee Paper Co.*, 422 U.S. 49, 59 (1975) (quoting *United States v. W.T. Grant Co.*, 345 U.S. 629, 633 (1953)).

In deciding whether to issue an injunction, courts have traditionally considered four factors: irreparable injury; inadequacy of legal remedies; balancing of parties' hardships; and, whether an injunction would adversely affect the public interest. *Romero-Barcelo*, 456 U.S. at 312-13. The burden of showing these factors rests with the party seeking the injunction. Cf. *Rondeau*, 422 U.S. at 63 (finding that plaintiffs in securities actions are not “relieved of the burden of establishing the traditional prerequisites of relief.”). After

careful consideration of these factors, the district court in this case found that an injunction was unwarranted.

The Federal Circuit has, however, jettisoned the familiar principles of equity in favor of a “general rule” that requires the issuance of a permanent injunction as a matter of course, absent an exceptional circumstance. App. 28a. Although there are scattered Federal Circuit cases that note a court’s discretion to grant or deny a permanent injunction, there is a clear pattern of decisions in the Federal Circuit that have stripped away that discretion. See, e.g., *Metabolite Labs., Inc. v. Laboratory Corp. of Am. Holdings*, 370 F.3d 1354, 1372 (Fed. Cir. 2004) (“[T]he district court properly granted the injunction because [the defendant] was found to infringe.”), *petition for cert. filed*, 73 U.S.L.W. 3298 (U.S. Nov. 3, 2004) (No. 04-607); *Lermer Germany GmbH v. Lermer Corp.*, 94 F.3d 1575, 1577 (Fed. Cir. 1996) (“A permanent injunction issues to a party after winning on the merits and is ordinarily granted upon a finding of trademark infringement.”); *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) (“It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it.”); *W.L. Gore & Assocs. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) (same); but see *Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 772 (Fed. Cir. 1993) (“district courts are . . . given broad discretion . . . to determine whether the facts of a case warrant the grant of an injunction”); *Windsurfing Int’l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1002 (Fed. Cir. 1986) (same). Indeed, in over two decades of patent cases, the Federal Circuit has not once considered all of the traditional equitable factors—irreparable injury; inadequacy of legal remedies; balancing of parties’ hardships; and, whether an injunction would affect adversely the public interest—in deciding whether a permanent injunction was proper.

The consequence of ignoring these prerequisites is the issuance of unnecessary and unwise injunctions. Patentees

who would otherwise be adequately compensated through the payment of money damages would nevertheless enjoy the additional leverage inherent in a permanent injunction. Further, the Federal Circuit's general rule would also compel a district court to close its eyes to potential hardship to the defendant. For instance, the Patent and Trademark Office ("PTO") is authorized to conduct a reexamination of a patent and ultimately reject some or all of the claims associated with that patent. See 35 U.S.C. §§ 303-305.² This reexamination can occur at any time during litigation, including after the finding of validity and infringement at the trial court level. A defendant may be subject to a permanent injunction for years

² Patent reexamination is an administrative revocation proceeding, in which any person may request that the PTO revisit its initial finding of patentability. Upon a request for patent reexamination, a PTO examiner preliminarily determines whether a substantial new question of patentability exists. 35 U.S.C. § 303(a). After further examination, the PTO issues the "first office action," in which the patent examiner declares whether or not the patent is valid. The patent owner then has the opportunity to refute the rejections or narrow its claims by amendment. *Id.* § 304; 37 C.F.R. § 1.550. If the PTO ultimately finds that a patentee's claims remain invalid, the agency will issue a "final office action" pursuant to 37 C.F.R. § 1.570, which determination a patentee may challenge before the Board of Patent Appeals. 35 U.S.C. § 306. If the Board affirms the PTO's finding of invalidity, a patentee can appeal to the Federal Circuit or to the United States District Court for the District of Columbia. *Id.* §§ 141, 145. Any determination by the PTO or by the Board of Patent Appeals during reexamination, including claim rejections, is nevertheless *not* a final adjudication on patent validity until the appeals process has concluded. *Id.* § 307(a); *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 953 F.2d 1360, 1366 n.2 (Fed. Cir. 1991).

Here, subsequent to the district court's final judgment, the PTO granted eBay's request to reexamine each of the three patents at issue in this case. While the Federal Circuit took judicial notice of the fact that reexamination was ordered for all three patents, it later declined to take judicial notice of the PTO's first office action rejecting the claims in the '265 reexamination. At present, all of the claims in all of the patents at issue stand rejected. The PTO reexamination proceeding will continue independently of the instant litigation.

only to have the PTO subsequently conclude that the patentee's claims were invalid *ab initio*. Meanwhile, that defendant may have been forced to redesign its product or, barring that, shut down its business altogether. While the potential hardship imposed upon a defendant could not be more acute, the Federal Circuit's general rule would nevertheless compel a district court to grant a permanent injunction.

Accordingly, plaintiffs in patent cases need no longer demonstrate that the four traditional prerequisites for permanent injunctions weigh in their favor. Nor do plaintiffs need to show that a permanent injunction is necessary to protect against a patent violation. Rather than having a burden at all, plaintiffs who prevail in infringement actions enjoy a virtually irrebuttable presumption that an injunction is appropriate, and it is the defendant that evidently bears the burden of showing that the remedy would be adverse to the public interest.

Not only has the Federal Circuit shifted the burden of showing the need for a permanent injunction, it has effectively revised the applicable standard of review. The Federal Circuit's decision notably omits any mention of the established rule that courts of appeals examine a district court's decision to grant or deny equitable relief for abuse of discretion. See, e.g., *Brotherhood of Locomotive Eng'rs v. Missouri-Kan.-Tex. R.R.*, 363 U.S. 528, 535 (1960); *United Fuel Gas Co. v. Public Serv. Comm'n*, 278 U.S. 322, 326 (1929). That "necessarily narrow" standard of review, *Sears, Roebuck & Co. v. Mackey*, 351 U.S. 427, 440 (1956) (Frankfurter, J., concurring in part and dissenting in part), is consonant with the flexibility and balancing that equity requires, which is precisely the standard Congress adopted in § 283. It also respects the fact that the trial court has presided over extended proceedings and is better situated to decide how to resolve the equities between the litigants. Here, the Federal Circuit reversed the district court for "not provid[ing]

any persuasive reason to believe that this case is sufficiently exceptional to justify the denial of a permanent injunction.” App. 26a. The essence of the “abuse of discretion” standard is, however, not to persuade the reviewing court; it is to act within reason. See, e.g., *Deitchman v. E.R. Squibb & Sons, Inc.*, 740 F.2d 556, 563 (7th Cir. 1984).

Notably, the Federal Circuit’s heightened standard of review attaches only to denials of an injunction. By contrast, the Federal Circuit has held that to justify the grant of an injunction, a court need only say that it “finds no sound reason for denying the injunction.” See *Metabolite Labs.*, 370 F.3d at 1372 (“While this statement [by the district court] does not explicitly set forth detailed reasons [for the issuance of an injunction], the district court properly granted the injunction because LabCorp was found to infringe.”).

The Federal Circuit’s reworking of equity would be justifiable had Congress authorized such a departure. For instance, this Court read the Endangered Species Act of 1973 as obligating district courts to enjoin violations. *TVA v. Hill*, 437 U.S. 153 (1978). However, Congress in § 283 has plainly stated that district courts are to exercise their equitable discretion. 35 U.S.C. § 283.

The Patent Act could not be clearer in this regard. Section 283 provides that courts (1) “may” grant injunctions to prevent patent violations, and that the courts have the discretion to do so (2) “in accordance with the principles of equity” and only to (3) “prevent the violation of any right secured by patent, on such terms as the court deems reasonable.” *Id.* While any one of these phrases taken alone fairly signals that Congress has called for the judicious exercise of equitable discretion, the provision as a whole mandates that conclusion. Indeed, the Federal Circuit, in its early days, recognized that “[s]ection 283, by its terms, clearly makes the issuance of an injunction discretionary.” *Roche Prods., Inc. v. Bolar Pharm. Co.*, 733 F.2d 858, 865 (Fed. Cir. 1984) (emphasis added), *superseded on other*

grounds by statute, 35 U.S.C. § 271(e), *as recognized in W.L. Gore & Assocs. v. C.R. Bard, Inc.*, 977 F.2d 558 (Fed. Cir. 1992).

Since we hold that there is infringement, Roche is entitled to a remedy. We are not in a position, however, to decide the form of that remedy.

. . . The trial court thus has considerable discretion in determining whether the facts of a situation require it to issue an injunction. . . .

. . . In short, if Congress wants the federal courts to issue injunctions without regard to historic equity principles, it is going to have to say so in explicit and even shameless language

Id. at 865-67. Given the unmistakable clarity of § 283, the Federal Circuit’s *volte-face* in this case—announcing a “right to an injunction” to which all prevailing plaintiffs are “entitled”—is not an interpretation of the statute; it is a rewrite of it.

Ignoring the term “may” in the provision, the court of appeals has directed the district courts mechanically to issue permanent injunctions absent “rare” and “exceptional circumstances.” Compare *Jama v. Immigration & Customs Enforcement*, 125 S. Ct. 694, 703 (2005) (“The word ‘may’ customarily connotes discretion.”), with App. 26a (“[T]he general rule is that a permanent injunction *will* issue once infringement and validity have been adjudged.” (emphasis added)). When Congress wanted to use more mandatory language in the Patent Act, it knew how to do so. The provision authorizing compensatory damages for infringement contains far less discretionary language. See 35 U.S.C. § 284 (“Upon finding for the claimant the court *shall* award damages adequate to compensate for the infringement” (emphasis added)). As this Court has held, “[w]here Congress includes particular language in one section of a statute but omits it in another . . . , it is generally presumed

that Congress acts intentionally and purposely in the disparate inclusion or exclusion.” *Keene Corp. v. United States*, 508 U.S. 200, 208 (1993) (internal quotation marks omitted) (alteration and omission in original).

Nothing in this Court’s jurisprudence supports the Federal Circuit’s limitation on equitable powers without textual warrant. Over a series of cases, this Court has held resoundingly that it is Congress, and not a court of appeals, that may restrict a court’s traditional equitable discretion.

In *Hecht Co. v. Bowles*, this Court considered a remedial provision of the Emergency Price Control Act of 1942. 321 U.S. 321 (1944). That section provided that upon a showing by the Price Administrator that a person was engaged or about to be engaged in a violation of the Act, “a permanent or temporary injunction, restraining order, or other order shall be granted without bond.” *Id.* at 322. The court of appeals held that an injunction or other order should issue as a matter of course upon a finding of a violation. This Court reversed. It first recognized that a mandatory injunction rule conflicted with venerable principles of equitable discretion. “[I]f Congress had intended to make such a drastic departure from the traditions of equity practice, an unequivocal statement of its purpose would have been made.” *Id.* at 329. Notwithstanding the use of the term “shall,” this Court found that neither “the history [n]or the language of § 205(a) compel[led]” such a “major departure from that long tradition.” *Id.* at 330.

Similarly, nothing in the language of the patent injunction provision or its legislative history justifies the Federal Circuit’s virtual elimination of equitable discretion. Indeed, unlike in *Hecht*, § 283 does not contain a mandatory term such as “shall”; rather, as noted above, the provision contains “may” and expressly directs district courts to analyze the propriety of injunctive relief in accordance with the principles of equity.

In *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982), the district court found that the United States Navy had violated the Federal Water Pollution Control Act, but the court nevertheless declined to issue a permanent injunction, concluding that “an injunction was not necessary to ensure suitably prompt compliance by the Navy.” *Id.* at 310. The First Circuit disagreed, holding that the statute obligated district courts to enjoin any violation of the Act.

This Court reversed. As in *Hecht*, this Court first noted that the extraordinary remedy of an injunction “is not a remedy which issues as of course.” 456 U.S. at 311 (quoting *Harrisonville v. W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 337-38 (1933)).

The grant of jurisdiction to ensure compliance with a statute hardly suggests an absolute duty to do so under any and all circumstances, and a federal judge sitting as chancellor is not mechanically obligated to grant an injunction for every violation of law.

Id. at 313. This Court noted that Congress is “assuredly well aware” that injunctions are based on a showing of irreparable injury, the inadequacy of legal remedies, balancing of hardships to the parties, and consequences of the injunction to the public interest. *Id.* at 312-13.

Accordingly, “Congress may intervene and guide or control the exercise of the courts’ discretion, but we do not lightly assume that Congress has intended to depart from established principles.” *Id.* at 313. Searching for a signal that Congress had limited the courts’ equitable discretion, this Court looked to the language and structure of the Act, along with its legislative history. Having found, as here, nothing that would justify the court of appeals’ restriction of equitable discretion, this Court concluded that a court’s traditional power to grant or deny an injunction was not foreclosed.

Similarly, in *Amoco Production Co. v. Village of Gambell, Alaska*, 480 U.S. 531 (1987), this Court held that the Ninth

Circuit had impermissibly constrained the equitable discretion of the district court. The case involved environmental impact issues related to § 810 of the Alaska National Interest Lands Conservation Act. The court of appeals had reversed the district court's denial of a preliminary injunction, applying a *per se* rule that bears a striking resemblance to that set forth by the Federal Circuit. Compare *People of Village of Gambell v. Hodel*, 774 F.2d 1414, 1423 (9th Cir. 1985) (“injunctive relief is the appropriate remedy for a violation of an environmental statute absent rare or unusual circumstances”), with App. 28a (“the general rule [is] that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.”). This Court reversed. *Amoco Prod.*, 480 U.S. at 544. As in *Romero-Barcelo*, there was “no clear indication in [the statute] that Congress intended to deny federal district courts their traditional equitable discretion . . . , nor [was this Court] compelled to infer such a limitation.” *Id.*

Most recently, this Court found that the Controlled Substances Act did not limit a district court's equitable discretion. Because “the District Court's use of equitable power is not textually required by any ‘clear and valid legislative command,’ the court did not have to issue an injunction.” *United States v. Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 496 (2001) (citing *Hecht*, 321 U.S. at 329).

Although not directly in conflict because only the Federal Circuit hears patent appeals, it is clear that other courts of appeals would have rejected the Federal Circuit's wooden approach to injunctive relief. Those courts, following the approach of this Court in *Hecht* and its progeny, have interpreted similar statutory provisions authorizing injunctions as conferring discretion on the trial courts. For instance, under § 34 of the Lanham Act, a district court has the “power to grant injunctions, according to the principles of equity and upon such terms as the court may deem

reasonable.” 15 U.S.C. § 1116(a). Courts have held that § 34 does not mandate permanent injunctions; instead they “will be granted only upon proof of the likelihood that purchasers of the product may be misled in the future.” See *Burndy Corp. v. Teledyne Indus., Inc.*, 748 F.2d 767, 772 (2d Cir. 1984).

Similarly, the Copyright Act authorizes courts to “grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.” 17 U.S.C. § 502(a). Emphasizing the term “may” in the provision, this Court has observed that § 502 does not require the automatic grant of an injunction. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994) (holding that “that the goals of the copyright law, ‘to stimulate the creation and publication of edifying matter,’ are not always best served by automatically granting injunctive relief” (citation omitted)); see also *Silverstein v. Penguin Putnam, Inc.*, 368 F.3d 77, 84 (2d Cir.) (noting that under § 502 “injunctive relief to enforce a copyright is not compelled”) (citing *Dun v. Lumbermen’s Credit Ass’n*, 209 U.S. 20, 23-24 (1908)), *cert. denied*, 125 S. Ct. 815 (2004); *New Era Publ’ns Int’l, APS v. Henry Holt, Co.*, 884 F.2d 659, 661 (2d Cir. 1989) (Miner, J., concurring in denial of petition for rehearing and en banc consideration) (“All now agree that [an] injunction is not the automatic consequence of infringement and that equitable considerations always are germane to the determination of whether an injunction is appropriate.”). Thus, but for the exclusive jurisdiction of the Federal Circuit, it is clear that patent defendants would not face a categorical rule imposing injunctive relief for patent violations. The principles of the above decisions apply directly here. Having no basis in the text of the patent laws, the Federal Circuit’s *per se* rule, which impermissibly restricts the equitable discretion of the district courts to rare and exceptional circumstances, warrants this Court’s review.

II. PROPERTY LAW DOES NOT JUSTIFY THE FEDERAL CIRCUIT'S DEPARTURE FROM § 283.

The Federal Circuit supported its general rule that a permanent injunction follows a finding of infringement by observing that “the ‘right to exclude recognized in a patent is but the essence of the concept of property.’” App. 26a (quoting *Richardson*, 868 F.2d at 1246-47). But the Federal Circuit confused a right with a remedy. While the right to exclude is indeed a basic element of property law, there is no “right to an injunction” to which patentees are “entitled.” *Id.* at 27a. Rather, an injunction is appropriate when it comports with the principles of equity. 35 U.S.C. § 283.

Indeed, injunctions do not invariably attend trespasses to property. While a trespass surely violates the landholder’s right to exclude others, that violation can be remedied by ordinary compensatory damages or a nominal award in the absence of any substantial harm. But a single instance of a trespass certainly does not justify enjoining the trespasser from ever setting foot on the land again. See, e.g., *United States v. Zenon*, 711 F.2d 476, 478 (1st Cir. 1983) (“A court has power to enjoin a trespass if it would cause irreparable injury, or if there are *repeated* instances of trespassing, and a single injunction might forestall a ‘multiplicity’ of legal actions.”) (Breyer, J.); accord 42 Am. Jur. 2d *Injunctions* § 109 (2004) (“In considering the availability of injunction against trespasses, the courts draw a distinction between single or occasional acts of trespass and those that are continuing or repeated. Equity has, in most cases, no jurisdiction over simple acts of trespass.” (footnote omitted)). This principle applies with equal force in other areas of intellectual property, including copyright and trademark. See *Silverstein*, 368 F.3d at 84 (holding that injunctive relief does not automatically follow a violation of copyright); *American Bd. of Psychiatry & Neurology, Inc. v. Johnson-Powell*, 129 F.3d 1, 6 (1st Cir. 1997) (upholding denial of injunction in trademark suit based on unlikelihood of future violation).

Thus, property law is not exempt from the venerable rule that injunctions are inappropriate when “there is no showing of any real or immediate threat that the plaintiff will be wronged again.” *City of Los Angeles v. Lyons*, 461 U.S. 95, 111 (1983).

Accordingly, the right to exclude in property law is upheld by several forms of relief, including money damages. Contrary to the Federal Circuit’s observation, plaintiffs are not entitled to an injunction as a matter of course. Indeed, nothing in the common law, including property law, obligates a court to award equitable relief. When this Court has recognized a right to an injunction, it has been because Congress announced a departure from traditional principles of equity using unmistakably clear language: “One would be hard pressed to find a statutory provision whose terms were any plainer” *Hill*, 437 U.S. at 173 (holding that a violation of the Endangered Species Act obligated the issuance of an injunction); see also *Romero-Barcelo*, 456 U.S. at 314 (“The purpose and language of the statute under consideration in *Hill*, not the bare fact of a statutory violation, compelled that conclusion.”).

Here, nothing in the relevant provision remotely supports a right to an injunction. 35 U.S.C. § 283. Rather, Congress has clearly left the issue of the propriety of injunctive relief to the discretion of the trial court. Indeed, in the context of patent injunctions, this Court observed long ago:

If the conception of the law that a judgment in an action at law is reparation for the trespass, it is only for the particular trespass that is the ground of the action. There may be other trespasses and continuing wrongs and the vexation of many cases. These are well-recognized grounds of equity jurisdiction, *especially in patent cases*, and a citation of cases is unnecessary.

Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 430 (1908) (emphasis added). In other words, this

Court has acknowledged that patent injunctions are no different than injunctions awarded in other contexts: they are dependent on a continuing wrong that the injunction aims to deter.

III. PROPER INTERPRETATION OF 35 U.S.C. § 283 IS A QUESTION OF EXCEPTIONAL IMPORTANCE TO THE PATENT SYSTEM AND TO THE NATION'S ECONOMY.

The Federal Circuit's erroneous interpretation of § 283 threatens to undermine the patent system's promotion of invention. Innovation, especially in the economy's high-technology sector, depends critically on patent protection that is both strong and flexible, taking into account the equities in a particular case. As noted at the outset, the patent remedies enacted by Congress reflect a balance between patent protection and overprotection. Rather than mandating permanent injunctions, Congress has expressly granted courts the discretion to enjoin companies only when necessary to prevent future violations, and only when the relief comports with equitable principles. By commanding district courts to issue permanent injunctions absent an exceptional circumstance, the Federal Circuit's rule plainly and impermissibly upsets this careful legislative balance.

It does so at tremendous cost to the Nation's economy. Permanent injunctions are extraordinarily powerful remedies, which have the potential of forcing businesses to shut down, or to pay any fee necessary to avoid that fate. The Federal Circuit's decision ignores this basic fact. The district court correctly observed that granting an injunction to MercExchange would only lead to subsequent contempt proceedings and contentious litigation with its attendant costs and waste. App. 58a-59a. In response, the Federal Circuit noted that patent cases often yield continuing disputes with or without injunctions. *Id.* at 27a. This may be true; but it assumes that a permanent injunction imposes the same costs

on a defendant as money damages. This assumption is mistaken.

Permanent injunctions undeniably raise the stakes of patent cases. Absent an injunction, any subsequent infringement action would involve a money damage remedy, including the possibility of enhanced damages. By contrast, when a court issues a permanent injunction, the continuing dispute over infringement can trigger a contempt proceeding. In such an action, the contemnor would be subject to the panoply of coercive remedial devices available to a court, including severe fines. It is not enough to say that a defendant can avoid the risk of contempt sanctions simply by not infringing. The Federal Circuit's observation that such complex patent suits often beget subsequent litigation demonstrates that it is not always clear where the metes and bounds of a patent right are to be drawn. Given this uncertainty and the potentially wasteful costs of a contempt proceeding, companies are often compelled to agree to an excessively high licensing fee.³

To be clear, the point is not that a patent injunction is always inappropriate; it is to emphasize that injunctions impose substantial costs on innovating companies. And the purpose of § 283 and its concomitant principles of equitable discretion is to spare a defendant these costs when it would be unfair to impose them. When however the traditional factors for equitable relief are satisfied, as is often the case in patent disputes, injunctive relief is properly granted. Thus, the discretion inherent in § 283 maintains the integrity of an

³ That uncertainty is often compounded by district courts that fail properly to instruct the jury as to the construction of the patent claims. Because such delegation of claim construction to a jury renders the basis for infringement essentially indeterminate, as was the case here, the problems created by the unbending use of injunctive power are exacerbated. The uncertainty ensures that further litigation about the scope of the patent is inevitable. An important hedge against these harms lies in the careful exercise of discretion whether to issue an injunction in such cases.

injunction as a device used to prevent future violation and not as a means for a plaintiff to enhance its negotiating stance. *Foster*, 492 F.2d at 1324.

These additional costs of patent litigation that result from the Federal Circuit's nearly automatic injunction rule are even more troubling given the proliferation of patent assertion firms or "non-practicing entities" ("NPEs"). Indeed, commentators in a recent report issued by the Federal Trade Commission ("FTC") identified the rise of patent suits by NPEs as a growing problem for the Nation's economy. Federal Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* ch. 3, 38-39 (2003) ("*FTC Report*"). Specifically, NPEs "obtain and enforce patents against other firms, but either have no product or do not create or sell a product that is vulnerable to infringement countersuit by the company against which the patent is being enforced." *Id.* at 38. NPEs, such as MercExchange, can "threaten [practicing entities] with patent infringement and an injunction, which, if granted, could inflict substantial losses." *Id.* These losses do not just affect the defendant company. Indeed, one commentator in the *FTC Report* observed that costlier licenses "may result in higher prices to consumers, inefficiently low use of the affected products, and deadweight loss." *Id.* at 40-41. Ultimately, innovation may suffer because some companies will "refrain from introducing certain products" or, as here, forgo using certain functionalities for fear of such hold-up strategies to extract higher royalties. *Id.* at 41.

This backdrop only brings into greater relief the consequences of subjecting defendants to additional liabilities not called for by § 283 or traditional equitable principles. In light of the adverse impact on the competitive economy, this Court should use this opportunity to protect the equitable discretion Congress has conferred on the district courts.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

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