SAN FRANCISCO BAY AREA INTELLECTUAL PROPERTY
AMERICAN INN OF COURT

Michael A. Molano	Neil A. Smith	Joshua M. Masur
President	*Vice President*	*Secretary/Treasurer*

September 2005 Meeting Announcement:

Are Patent Injunctions Mandatory?

In *MercExchange L.L.C v. eBay, Inc.*, 401 F.3d 1323, 1336-40 (Fed. Cir. 2005), the Federal Circuit held that when a patent is found valid and infringed, a permanent injunction is effectively mandatory except in cases involving the public interest in health. eBay has petitioned for certiorari, arguing that the Federal Circuit should permit district courts to apply traditional principles of equity in deciding whether to grant injunctive relief. We will have a mock argument of the case at the Supreme Court, assuming for the sake of argument that the Court has granted certiorari.

Panelists:	**April Abele**	*Townsend & Townsend & Crew*
	Ryan Casamiquela	*Kirkland & Ellis*
	Lex Brainerd	*Heller Ehrman*
	Jeffrey Fisher	*Farella Braun & Martel*
	Deanna Kwong	*Covington & Burling*
	Mark Lemley	*Stanford Law School and Keker & Van Nest*

Time and Location:
September 21, 2005 at 6:00pm
United States Federal Building
Note new location: Courtroom D, 15th Floor
450 Golden Gate Avenue
San Francisco, California

Dinner to Follow at:
California Culinary Academy
625 Polk Street (between Turk and Eddy)

c/o Joshua M. Masur, Mayer Brown Rowe & Maw LLP, Two Palo Alto Square, 3000 El Camino Real, Suite 300, Palo Alto, California 94306-2112
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MERCEXCHANGE, L.L.C., Plaintiff–Cross Appellant,

v.

eBAY, INC. and Half.Com, Inc., Defendants–Appellants.

Nos. 03–1600, 03–1616.

United States Court of Appeals, Federal Circuit.

March 16, 2005.

Rehearing and Rehearing En Banc Denied April 26, 2005.

Background: Owner of patents for method of conducting on-line sales sued auction website operators for infringement. The United States District Court for the Eastern District of Virginia, Jerome B. Friedman, J., 275 F.Supp.2d 695, found that one patent was invalid but that other two were infringed. Cross-appeals were taken.

Holdings: The Court of Appeals, Bryson, Circuit Judge, held that:

(1) evidence supported finding that first patent was infringed;

(2) evidence did not support finding that auction site operator induced product seller's infringement of first patent;

(3) second patent was invalid as anticipated;

(4) fact issue existed as to whether third patent was invalid; and

(5) denial of permanent injunction was abuse of discretion.

Affirmed in part, reversed in part, vacated in part, and remanded.

See also 271 F.Supp.2d 789.

1. Patents ⚷101(2)

"Transaction processor," claimed in patent for method of conducting on-line sales, did not require transference of ownership of purchased good by conveyance of title; unlike prior claim which clearly called for transfer of ownership, instant claim made no reference to transfer.

2. Patents ⚷101(2)

"Transfer of ownership" step, called for in patent for method of conducting on-line sales, required only modification of ownership entry in data record of good to reflect that purchasing participant was new owner of good; transfer of legal title pursuant to Uniform Commercial Code (UCC) was not required.

3. Patents ⚷314(6)

District court's *Markman* order is explanation to parties of reasoning behind its patent claim construction; court's analysis need not also be included in its jury instructions.

4. Patents ⚷312(5)

Evidence supported finding that on-line auction system infringed patent for method of conducting online sales; system transferred ownership of purchased goods through modification of data records to reflect fact that payment had been made, as called for in patent.

5. Patents ⚷312(6)

Evidence supported finding that on-line auction system was "trusted," within meaning of patent for method of conducting online sales; system provided escrow services, conflict resolution services, insurance, payment intermediaries, authentication services, feedback forum, and policing of system.

6. Patents ⚷324.1

Fact that defendant's patent invalidity arguments at trial were based solely on obviousness did not constitute waiver of right to make invalidity argument on appeal based on anticipation; anticipation was form of obviousness. 35 U.S.C.A. §§ 102, 103.

7. Patents ⚷66(1.24)

Patent for method of conducting on-line sales was not anticipated by prior art patent which did not call for receipt of electronic payments, for post-sale modification of data records, or for nondealer-specific identification codes. 35 U.S.C.A. § 102.

8. Patents ⚷16.14

Patent for method of conducting on-line sales was not invalid as obvious in light of prior art patent; prior patent called for different type of user identification codes, and evidence that person of skill in the art would not have been motivated to change code types. 35 U.S.C.A. § 103.

9. Patents ⚷259(1)

To prove intent element of claim for inducement of patent infringement, there must be evidence that alleged inducer had knowledge of infringing acts. 35 U.S.C.A. § 271(b).

10. Patents ⚷312(8)

Evidence did not support finding that operator of website for online auctions induced seller's infringement of patent for method of presenting data records of goods for sale; though operator had financial interest in seller and encouraged it to post goods for sale on website, there was no evidence that operator knew of or induced seller's use of patented method. 35 U.S.C.A. § 271(b).

11. Patents ⚷101(2)

"Electronic markets" to be searched, in patent for method of locating goods online, were trusted networks or systems where participants could buy, sell, search, or browse goods online; searched places did not have to be able to perform all four functions in order to constitute relevant "markets."

12. Patents ⚷70

Patent for method of searching multiple electronic markets in order to locate goods online was invalid as anticipated by prior art article for searching multiple on-line catalogs; article disclosed each claimed limitation and was enabling. 35 U.S.C.A. § 102.

13. Patents ⚷101(3)

Requirement in patent for method of locating goods online, that "electronic markets" and "market apparatus" be used, did not exclude person-to-person systems.

14. Patents ⚷323.2(3)

Issue of material fact as to whether "debiting seller's account" limitation in patent for method of conducting on-line auctions was adequately supported by written description precluded summary judgment of invalidity. 35 U.S.C.A. § 112, par. 1.

15. Federal Courts ⚷932.1, 943.1

Appellate court, when vacating judgment and remanding, has jurisdiction to address issues that might arise on remand. 28 U.S.C.A. § 2106.

16. Patents ⚷101(2)

"Auction," referred to in patent for method of conducting on-line auctions, was process over trusted network, or with trusted intermediary.

17. Patents ⚷101(2)

"Seller's account," called for in patent for method of conducting on-line auctions, had to be based at least on seller's identity and financial instrument associated with seller; claim's use of comma to separate call for account from list of its requirements did not make requirements merely optional.

18. Patents ⚷165(4)

Use of term "automated process" in preamble to patent claim for method of conducting on-line auctions did not mean that all steps in claim had to be performed automatically.

19. Patents ⚷317

Mere fact that patent was business-method patent did not justify denial of permanent injunction following determination of validity and infringement.

20. Patents ⚷317

Court's concern about likelihood of continuing disputes over whether patent infringer's subsequent design-around attempts also infringed patent did not justify denial of permanent injunction following determination of validity and infringement.

21. Patents ⚷317

Prevailing patent infringement plaintiff's statements regarding its willingness to license patents did not justify denial of permanent injunction.

22. Patents ⚷317

Patent infringement plaintiff's failure to move for preliminary injunction did not justify denial of permanent injunction following determination of validity and infringement.

Patents ⚷328(2)

5,664,111. Cited as Prior Art.

Patents ⚷328(2)

5,845,265. Valid and Infringed.

Patents ⚷328(2)

6,085,176. Invalid.

Patents ⚷328(2)

6,202,051. Cited.

Scott L. Robertson, Hunton & Williams LLP, of Washington, DC, argued for plaintiff-cross appellant. With him on the brief were Jennifer A. Albert and Brian M. Buroker. Also on the brief were Gregory N. Stillman, of Norfolk, Virginia, and David M. Young, of McLean, Virginia.

Jeffrey G. Randall, Skadden, Arps, Slate, Meagher & Flom LLP, of Palo Alto, California, and Donald R. Dunner, Finnegan, Henderson, Farabow, Garrett & Dunner, L.L.P., of Washington, DC, argued for defendants-appellants. On the brief were Timothy S. Teter and Lori Ploeger, Cooley Godward LLP, of Palo Alto, California. Also on the brief was Allan M. Soobert, Skadden, Arps, Slate, Meagher & Flom LLP, of Washington, DC.

Before MICHEL,* Chief Judge, CLEVENGER, and BRYSON, Circuit Judges.

BRYSON, Circuit Judge.

MercExchange, L.L.C., is the assignee of three patents, U.S. Patent Nos. 5,845,-265 ("the '265 patent"), 6,085,176 ("the '176 patent"), and 6,202,051 ("the '051 patent"). MercExchange filed suit against eBay, Inc.; Half.com, Inc.; and ReturnBuy, Inc., in the United States District Court for the Eastern District of Virginia, alleging willful infringement of the '265 patent by all three defendants, willful infringement of the '176 patent by eBay and Half.com, and willful infringement of the '051 patent by eBay.

eBay owns and operates a website on the Internet that allows buyers and sellers to search for goods and to purchase them by participating in live auctions or by buying them at a fixed price. At 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. Half.com, a wholly owned subsidiary of eBay, owns and operates an Internet website that allows users to search for goods posted on other Internet websites and to purchase those goods. At the time this action was brought, ReturnBuy owned and operated an Internet website that was hosted by the

* Paul R. Michel assumed the position of Chief Judge on December 25, 2004.

eBay website. Customers interested in purchasing goods from ReturnBuy would be directed from the ReturnBuy website to the eBay website, where items available for sale by ReturnBuy were displayed in an eBay listing.

Prior to trial, ReturnBuy filed for bankruptcy and entered into a settlement agreement with MercExchange. On motions for summary judgment by the other defendants, the district court granted in part and denied in part the motions for summary judgment that the claims of the '051 patent were invalid for an inadequate written description. The remainder of the case went to trial before a jury. At the conclusion of the trial, the jury found that eBay had willfully infringed claims 8, 10-11, 13-15, 17-18, 20-22, and 26 of the '265 patent and had induced ReturnBuy to infringe claims 1, 4, 7, and 23 of the '265 patent; that Half.com had willfully infringed claims 8, 10, 11, 13, 15, 17-18, 20, 22, and 26-29 of the '265 patent and claims 1, 5-6, 29, 31-32, and 34-39 of the '176 patent; and that neither the '265 patent nor the '176 patent was invalid. With respect to damages, the jury found eBay liable for $ 10.5 million for infringing the '265 patent and $ 5.5 million for inducing ReturnBuy to infringe the '265 patent. The jury also held Half.com liable for $ 19 million for infringing the '176 patent and the '265 patent.

Following the verdict, eBay and Half.com moved for judgment as a matter of law ("JMOL") that the asserted claims of the '265 patent were not infringed and were invalid. In the alternative, eBay and Half.com moved for a new trial on the '265 patent. Half.com moved for JMOL that the asserted claims of the '176 patent were not infringed and were invalid. In the alternative, Half.com moved for a new trial on the '176 patent. In addition, eBay moved to set aside the $5.5 million award for inducing ReturnBuy to infringe the '265 patent. The district court denied the defendants' motions regarding infringement and validity, but granted eBay's motion to set aside the damages award for inducement of infringement. The court also denied MercExchange's motion for a permanent injunction, for enhanced damages, and for attorney fees.

The defendants appeal the denial of their motions for JMOL and for a new trial on the '265 and '176 patents. Because substantial evidence supports the jury's verdict regarding infringement and validity of the '265 patent, we affirm those aspects of the judgment. Because there is no substantial evidence to support the jury's verdict that eBay induced ReturnBuy to infringe the '265 patent, we reverse that aspect of the judgment. We also hold that the claims of the '176 patent are invalid for anticipation, and we therefore reverse the judgment in that regard and direct entry of judgment for Half.com on the '176 patent.

MercExchange cross-appeals, seeking reversal of the summary judgment of invalidity of the '051 patent and reversal of the district court's denial of a permanent injunction, enhanced damages, and attorney fees. MercExchange also cross-appeals the district court's order vacating the award of damages for inducement of infringement. Because the district court resolved a dispute of material fact on summary judgment and improperly denied a permanent injunction, we reverse the denial of the permanent injunction, vacate the summary judgment order, and remand for further proceedings. However, we hold that the district court did not abuse its discretion in denying enhanced damages and attorney fees.

I

A

We turn first to the district court's denial of the defendants' motion for JMOL of noninfringement with respect to the '265 patent. The '265 patent pertains to a system for selling goods through an "electronic network of consignment stores." '265 patent, col. 1, line 8. To participate in the electronic network, a consignment store must obtain a "consignment node," which uses a computer to upload and save digital images and written information about goods to be sold over the network. A prospective buyer can electronically browse and search for goods stored in the databases of consignment nodes in the electronic network. After browsing and searching, the prospective buyer can purchase any good listed on the electronic network. Upon purchasing the good, the buyer can decide either to have the good shipped or to resell the good to another buyer over the electronic network. The patent refers to the decision to buy and resell as "speculating," because the system does not require the buyer to take possession of the good before reselling it and thereby allows the buyer to resell at a price that does not take into consideration the delays and costs associated with delivery.

The asserted claims each include a "transaction processor" that is used to complete the financial transaction accompanying the sale of a good. The transaction processor limitation of claim 8 reads as follows:

> a transaction processor operably connected to said wide area communication network and said storage device, said transaction processor adapted to receive a purchase request and payment means from said participant, clear said purchase request and payment means and if said payment means clears then transfer the ownership of said good for sale by modifying said data record of said good for sale to reflect the new ownership of said good for sale by said participant.

The defendants contend that the district court erred in denying their motion for a JMOL of noninfringement because there was no substantial evidence from which a reasonable jury could conclude that eBay's system "transfer[red] the ownership" of a good for sale, as required by the transaction processor limitation.

[1] As an initial matter, the defendants' arguments do not apply to claim 26 and dependent claims 27–29. The transaction processor limitation of claim 26 reads as follows:

> a transaction processor operably connected to said wide area communication network and said storage device, said transaction processor adapted to receive a purchase request and electronic payment from said participant, transfer said purchase request to said posting terminal, and verify electronic payment information from said participant and if said electronic payment verifies then notify owner of said good for sale by modifying said data record indexed to said data record for sale to reflect said purchase request of said good for sale by said participant.

This claim language differs from the language of claim 8 in a significant way. While the transaction processor portion of claim 8 culminates in a step requiring the transaction processor to "transfer the ownership of said good for sale," the transaction processor portion of claim 26 culminates in a step requiring the transaction processor to "notify [the] owner of said good for sale ...." Claim 26 nowhere requires transfer of ownership of a good and does not even contain the term "ownership" or the term "transfer." The defendants argue that the transaction processor of claim 26 must be construed as limited to a transaction processor that transfers ownership by conveyance of title, but nothing in claim 26 supports that argument, and we reject it. Accordingly, we hold that the district court did not err in denying defendants' motion for JMOL with regard to noninfringement of claims 26–29. The remainder of our analysis is focused on the construction of claim 8 and its related claims.

[2] In its instructions to the jury, the district court provided the following interpretation of the "transfer the ownership" limitation:

> If the payment made by a participant for a good for sale clears, then the legal ownership is transferred by modifying the ownership entry in the data record of the good to reflect that the purchasing participant is the new owner of the good.

The defendants do not challenge the accuracy of that instruction, but they assert that the district court erred by failing to give two additional instructions. First, they contend that because the transaction processor limitation transfers the ownership of a "good for sale," the transaction processor must be capable of transferring legal title, and that the district court should have instructed the jury on the requirements for title transfer under the Uniform Commercial Code ("UCC"). Second, they contend that the district court failed to include in its jury instructions a statement from the court's pretrial claim construction order (the "*Markman* order") that transfer of ownership is "not limited to merely modifying the record—legal ownership must be transferred." The defendants argue that without that statement the jury was not informed of the requirement that legal title to the good must pass to the purchaser.

In its post-trial order, the district court addressed and rejected both of those arguments. The court ruled that the defendants were not entitled to an instruction on title transfer under the UCC, because the transfer of ownership limitation did not require the transfer of legal title pursuant to the UCC. With respect to the statements from the court's *Markman* order, the court stated that it had already provided the jury with a sufficient claim construction and was under no obligation to include additional language that it used in its claim construction opinion.

We uphold the district court's interpretation of the transfer of ownership limitation and its decision not to provide the jury with additional instructions regarding that limitation. The district court's interpretation is consistent with the language of the claims and the specification of the '265 patent. Claim 8 states that a transaction processor accomplishes the "transfer [of] ownership of said good for sale by modifying said data record of said good for sale to reflect the new ownership of said good for sale by said participant." '265 patent, col. 21, II. 51–54. The specification contains similar language, stating that the consignment node "transfers legal ownership of the good by changing the ownership entry in the data record in the consignment node of the good." *Id.*, col. 12, II. 46–48.

The claim and specification do not suggest that the modification of a data record in isolation is sufficient to transfer ownership under the patent. Rather, the specification makes clear that the modification of the data record reflects that a buyer has paid for the good and that it is the payment for the good, accompanied by the data record modification, that accomplishes the transfer of legal ownership. '265 patent, col. 19, II. 11–13.

It is also important to understand that the patented system accomplishes a transfer of ownership in the context of a "trusted network," in which the owner of the patented system "may police the network to give quality control, detect fraud and revoke the users," *id.*, col. 4, II. 56–57, so that the network maintains a certain "quality and performance structure," *id.,* col. 4, line 60, to guarantee payment and delivery of the good. The specification indicates that the "trusted network" of the invention is part of what allows ownership to pass upon modification of the data record. In light of the specification, we agree with the district court that within the context of the patent, transferring legal ownership is accomplished once the data record is modified.

The defendants argue that the modification of the data record by itself is not sufficient to transfer ownership, but rather that a "legal predicate" such as the UCC must be satisfied in order for the modification of the data record to have the effect of transferring ownership. In so arguing, the defendants rely on the use of the term "legal title" in the specification. The use of that term, however, does not mean that transfer of ownership must be equated with a formal transfer of title. Rather, the specification treats the term "legal title" as synonymous with the general concept of "ownership" as used in the patent. *See, e.g.,* '265 patent, col. 19, II. 11–13 ("[W]hen a bona fide purchase price is tendered by a participant ... or another retailer ... the legal title to a good as represented by the record will transfer to the buyer with an immediate or nearly immediate finality to the transaction."). The use of the term "legal title" in the specification therefore does not add any legal requirements to the transfer of ownership referred to in the claims, and does not negate the statements in the specification and in the claim language that the transfer of ownership is accomplished upon the modification of the data and the clearing of payment in a trusted network.

[3] We also agree with the district court that it was not necessary for the court to include excerpts from its *Markman* order in the jury instructions. A district court's *Markman* order is an explanation to the parties of the reasoning behind its claim construction. The court's analysis need not be part of the jury instructions. The defendants focus on the district court's statement in its *Markman* order that transfer of ownership is "not limited to merely modifying the record—legal ownership must be transferred," and they assert that the court's failure to convey the substance of that statement prejudiced them because it left room for MercExchange to assert in its closing argument that "[t]here is no requirement that legal title in that formal sense be transferred." The claims, however, do not require that title be transferred pursuant to any particular steps or legal formalities, and the district court's statement in its *Markman* order does not say so. It was therefore not error for the court to omit the requested instruction.

[4, 5] In light of the district court's claim construction, we find that MercExchange introduced sufficient evidence to permit the jury to find that eBay's system infringed the '265 patent. MercExchange's expert, Dr. Alfred Weaver, testified that "eBay has to transfer ownership by modifying the data record." He also made clear that the modification of the data record reflected the fact that payment had been made, as he stated that "when [ ] payment comes through, [eBay and Half.com] are authorized to transfer ownership by modifying [the] data record." Moreover, while eBay asserts that its system is not "trusted," we agree with the district court's statement in its post-trial order that there was substantial evidence from which the jury could find that eBay's system was trusted, given the evidence in the record that the system provided "escrow services, conflict resolution services, insurance, payment intermediaries, authentication services, feedback forum, and the policing of the system." We therefore affirm the district court's denial of the defendants' motion for JMOL of noninfringement of the '265 patent.

B

In reviewing the defendants' motion to invalidate the '265 patent as a matter of law, the district court focused exclusively on obviousness and found that MercExchange "did indeed attack the merits of the defendants' prior art references and the failure of the defendants' witnesses to show how the prior art invalidated each of the claims of the '265 patent, despite the fact that the defendants argue otherwise." On appeal, the defendants argue that a reasonable jury would necessarily have found the asserted claims to be invalid because they are anticipated or rendered obvious by a prior art reference, U.S. Patent No. 5,664,111 ("the '111 patent"). The '111 patent pertains to a system for art dealers to sell artwork by using a network of computers. The system enables users to store and retrieve images and data pertaining to the artwork and to purchase artwork corresponding to the images.

[6] As an initial matter, MercExchange argues that because the defendants' invalidity arguments were based solely on obviousness, they have waived their right to make an invalidity argument on appeal based on anticipation. We disagree. Because "anticipation is the epitome of obviousness," *Connell v. Sears, Roebuck & Co.,* 722 F.2d 1542, 1548 (Fed.Cir.1983), the defendants' obviousness arguments preserved their right to argue invalidity based on anticipation, *Johns Hopkins Univ. v. CellPro, Inc.,* 152 F.3d 1342, 1357 n. 21 (Fed.Cir.1998).

[7] On the merits, the defendants argue that the '111 patent anticipates all of the asserted claims of the '265 patent and that MercExchange's expert, Dr. Weaver, failed to distinguish the system of the '111 patent from the system of the '265 patent. First, they assert that Dr. Weaver conceded on cross-examination that the '111 patent discloses the same transaction processor that is claimed in the '265 patent, because he admitted that the Patent and Trademark Office ("PTO") found that the '111 patent discloses a transaction processor and he did not contest the PTO's finding on that issue. However, while Dr. Weaver agreed that the PTO "would understand that [the '111 patent] discloses, among other things, transferring an ownership interest in an item," that testimony does not contradict his testimony that nothing in the '111 patent described a modification of the data record subsequent to payment verification. Thus, Dr. Weaver did not concede that the '111 patent disclosed the same transaction processor that is claimed in the '265 patent.

The defendants fail to address another distinction regarding the transaction processor limitation. In the '265 patent, a transaction processor is designed to receive payments by "entering a credit card number and expiration date or other forms of electronic payment." '265 patent, col. 5, II. 6–8. The system claimed by the '111 patent, however, does not receive payments electronically. Rather, the system "requests that the buying dealer wire transfer funds to pay for the purchased work." '111 patent, col. 14, II. 62–64. Instead of being able to complete a transaction on the electronic network, a buyer using the invention of the '111 patent must temporarily leave the system to make a payment before the transaction can be completed.

The defendants also contend that Dr. Weaver failed to distinguish the '265 patent from the '111 patent with regard to the posting terminal apparatus limitation and in particular the use of an identification code to prevent certain dealers from logging on to the system. The defendants argue that Dr. Weaver conceded that the '111 patent discloses the same identification code as the '265 patent. They cite Dr. Weaver's testimony on cross-examination, in which he stated that the system claimed by the '111 patent "used the terminal identification code to limit the access of certain dealers to certain pieces of art." Dr. Weaver stated on redirect examination, however, that the identification code used in the '111 system is not the same as the identification code used for terminal authorization in the posting terminal apparatus claimed in the '265 patent: "All that's happening in [the '111 patent] is that a person is identifying himself with a code. And in my mind that's not at all consistent with the way the Court defined the posting terminal apparatus code," i.e., as a code that "identifies the hardware and/or software of the posting terminal apparatus." From that testimony, a reasonable jury could infer that while the identification code in the '111 patent is directed to preventing access by a specific dealer, the identification code in the '265 patent is not dealer-specific, but serves instead to screen out terminal apparatuses that lack particular technical requirements. The evidence thus provided a sufficient basis for the jury to conclude that the '111 patent did not anticipate the asserted claims of the '265 patent.

[8] We also reject the defendants' argument that the '111 patent renders the asserted claims of the '265 patent obvious. Dr. Weaver testified that the patented invention differs from the '111 patent in both structure and method and that a person of ordinary skill in the art would not be motivated to modify the system covered by the '111 patent to create the system claimed in the '265 patent. For example, with regard to the posting terminal apparatus of the '265 patent, Dr. Weaver testified that one of ordinary skill in the art would not be motivated "to change or modify the dealer ID code in [the '111 patent system] to conform to the user ID protocols of the '265 patent's posting terminal apparatus," as the two are "dramatically different operations" that are used for different purposes. In light of Dr. Weaver's testimony, we agree with the district court that there was substantial evidence to support the jury's finding of nonobviousness.

C

The defendants contend that they are entitled to JMOL on the theory that eBay was not shown to have induced ReturnBuy to infringe four of the claims of the '265 patent. Claim 1 is representative of three of the asserted claims—claims 1, 4, and 7. It provides:

1. A system for presenting a data record of a good for sale to a market for goods, said market for goods having an interface to a wide area communication network for presenting and offering goods for sale to a purchaser, a payment clearing means for processing a purchase request from said purchaser, a database means for storing and tracking said data record of said good for sale, a communications means for communicating with said system to accept said data record of said good and a payment means for transferring funds to a user of said system, said system comprising:

   a digital image means for creating a digital image of a good for sale;

   a user interface for receiving textual information from a user;

   a bar code scanner;

   a bar code printer;

   a storage device;

   a communications means for communicating with the market; and

> a computer locally connected to said digital image means, said user interface, said bar code scanner, said bar code printer, said storage device digital image of said good for sale from said digital image means, generate a data record of said good for sale, incorporate said digital image of said good for sale into said data record, receive a textual description of said good for sale from said user interface, store said data record on said storage device, transfer said data record to the market for goods via said communications means and receive a tracking number for said good for sale from the market for goods via said communications means, store said tracking number from the market for goods in said data record on said storage device and printing a bar code from said tracking number on said bar code printer.

The only other asserted claim, claim 23, differs from claim 1 in that claim 23 recites a "digital camera for creating an image," instead of a "digital image means for creating a digital image," and it recites a "printer for printing said digital image of said good for sale."

[9] According to 35 U.S.C. § 271(b), "whoever actively induces infringement of a patent shall be liable as an infringer." We have construed that statute to require proof of intent, although there is a "lack of clarity concerning whether the required intent must be merely to induce the specific acts [of infringement] or additionally to cause an infringement." *Insituform Techs., Inc. v. CAT Contracting, Inc.,* 385 F.3d 1360, 1378 (Fed.Cir.2004), citing *Manville Sales Corp. v. Paramount Sys., Inc.,* 917 F.2d 544, 553 (Fed.Cir.1990), and *Hewlett–Packard Co. v. Bausch & Lomb, Inc.,* 909 F.2d 1464, 1469 (Fed.Cir.1990). Nevertheless, a patentee must be able to demonstrate at least that the alleged inducer had knowledge of the infringing acts in order to demonstrate either level of intent.

[10] MercExchange asserts that the evidence was sufficient for the jury to find that eBay had induced infringement based on the testimony of ReturnBuy's former CEO and its former CTO. MercExchange points to testimony that eBay had invested $2 million in ReturnBuy and had an "observer" on ReturnBuy's board of directors; that eBay granted ReturnBuy the right to post goods in volume on the eBay system; that eBay was the "primary venue" for ReturnBuy's sales; and that eBay supplied engineers to work with ReturnBuy to facilitate the posting of goods for sale through eBay. That evidence, however, does not establish that eBay induced ReturnBuy to infringe the asserted claims.

First, the testimony regarding eBay's investment in ReturnBuy's business and its presence on ReturnBuy's board of directors does not demonstrate an intent to induce infringement, or even show that eBay had knowledge of any acts of infringement by ReturnBuy. Rather, investment and board presence merely indicate that there was a business relationship between the two companies and that eBay had a financial interest in ReturnBuy's business.

Other testimony presented by ReturnBuy's CEO and its CTO demonstrates, at best, that eBay encouraged ReturnBuy to post goods for sale on eBay's website. Posting goods for sale, however, is relevant to only one limitation of the claims, i.e., "a communications means for communicating with the market." There is no testimony or other record evidence that eBay intended to induce ReturnBuy to incorporate the other limitations of the asserted claims. For example, claim 1 requires the use of a bar code scanner and a bar code printer. The specification explains and the record shows that the bar code scanner and printer are used for tracking goods. There is nothing in the record to show that eBay had any intention to induce ReturnBuy to use bar code scanners and printers to keep track of its inventory.

Likewise, claim 23 contains limitations requiring the use of a digital camera and printer, but there is nothing in the record to demonstrate that eBay intended to induce ReturnBuy to use those devices to create the digital image used for posting. While eBay required ReturnBuy to provide a digital image and an accompanying data record for the goods that ReturnBuy wanted to sell on its website, nothing in the record shows that eBay induced ReturnBuy to use a digital camera or a printer to create either the digital image or the accompanying data record, since digital images may be created by other means, such as by scanning developed photographs. Therefore, the evidence is insufficient to demonstrate that eBay intended to induce ReturnBuy to infringe claim 23.

Accordingly, we reverse the portion of the judgment holding eBay liable for inducing ReturnBuy to infringe the '265 patent. In light of our disposition of that issue, it is unnecessary for us to address MercExchange's argument that the district court erred when it vacated the jury's award of damages on the inducement claim as duplicative.

II

We turn next to issues pertaining to the '176 patent. Each of the asserted claims of the '176 patent recites a method for searching "a plurality of electronic markets" to locate an item. That method uses a network of computers to accomplish each search. One computer receives and processes a search request from a participant and transmits that request to other computers through a software search agent. After search results are obtained, they are sent back to the participant's computer.

Following trial, the district court denied Half.com's motion for JMOL that the '176 patent was not infringed and is invalid. We reverse that ruling. Because we base our reversal on invalidity, we need not reach the issue of infringement.

A

[11] Half.com's invalidity argument turns on the construction of the claim term "electronic market." At trial, the district court instructed the jury that the term electronic market means a "trusted network or system where participants can buy, sell, search or browse goods online." Half.com asserts that the district court's construction of electronic market requires that each of the searched websites be capable of performing four functions: buying, selling, searching, and browsing. As the basis for its interpretation of the district court's construction of that term, Half.com relies heavily on the use of the word "and" to connect the four functions in a statement from the district court's *Markman* order, in which the court said, "Based on the inventor's clear intent to allow users to buy, sell, search and browse for items in the electronic market, the court finds that the completion of a transaction between buyer and seller is not required."

In its post-trial order, the district court rejected Half.com's interpretation of the court's claim construction. The court stated that "[t]here was nothing in [the] claim construction that required the electronic market to do all four functions cited."

We agree with the district court that the patent does not require the electronic market to perform all four functions. The '176 patent is designed in part to provide a system that allows participants to speculate, i.e., to buy an item and then promptly sell it at a higher price. That is the purpose to which Half.com alludes in contending that the patent requires the electronic market to be able to handle not only buying but also selling. The specification makes clear, however, that speculation is not the only use for the system, and that there are other purposes for the system in the context of "the two-tiered market of dealer-to-dealer and retail markets." '176 patent, col. 16, II. 28–29. One of the main purposes of the patented system is to create a double-tiered market for goods, "where the first tier is a retail price and the second tier is a wholesale or dealer to dealer price[,] and an authorized dealer has pre-approved access to the dealer-to-dealer price and may charge and display the retail price to a local store customer." *Id.,* col. 1, II. 49–51. The specification provides that "[t]he price and reserve price fields may be used to structure the two-tiered market of dealer-to-dealer and retail markets." *Id.,* col. 16, II. 27–29. It further provides that "[a] dealer may be provided with special logon identifications and passwords to view the reserve price . . . and reserve price indicator" that is not accessible to retail purchasers. *Id.,* col. 16, II. 31–33. However, if a retail dealer purchases an item, he may choose to sell to other retail dealers or to retail customers. In that situation, the retail dealer may enter a retail price and a wholesale price into the system. *Id.,* col. 16, II. 40–41. The retail price may then be displayed to the retail customer. *Id.,* col. 16, II. 41–42.

Importantly, when a retail customer decides to participate in the system, the retail customer, after browsing and searching, has only the option of purchasing goods. The customer is not allowed to sell goods to the retail dealer. That is, while dealers are able to act as participants in the dealer-to-dealer market by buying from and selling to other dealers, customers in the retailer-to-customer market are not allowed the same freedom. The description of the retail-to-retail market discloses two types of electronic markets—those in which a participant can buy, browse, and search, and those in which a participant can sell, browse, and search. The description of the use of the invention for speculation discloses a third type of electronic market—one in which a participant can buy and sell as well as browse and search. Accordingly, we agree with the district court's definition of electronic markets as markets in which the participants, in addition to browsing and searching, may either buy or sell or do both.

B

[12] At trial, Half.com argued that the district court should enter a JMOL of invalidity because there was clear and convincing evidence that the asserted claims were rendered obvious in view of expert testimony and several publications, including an article by Arthur Keller. The district court rejected Half.com's argument, stating that "[w]hen the evidence on invalidity is viewed in the light most favorable to the plaintiff, the court cannot find that there was a complete absence of evidence supporting the verdict that the jury's findings could only be the result of sheer surmise and conjecture."

On appeal, Half.com again contends that the asserted claims of the '176 patent were anticipated or obvious in light of the prior art. In response, MercExchange first asserts that Half.com waived its right to make any argument on appeal based on anticipation because it failed to do so at trial. As we noted earlier, however, making an invalidity argument based on obviousness preserves the right to argue anticipation on appeal. Because Half.com argued invalidity based on obviousness at trial, it has preserved its right to make an argument regarding anticipation on appeal.

On the merits, we agree with Half.com that no reasonable jury could have found the asserted claims of the '176 patent to be valid. The Keller article discloses each of the limitations of the asserted claims, and the article is enabling. The article describes a system to conduct a "cross-search of multiple catalogs" by using a network of computers hosting online catalogs. The article recognizes the problem of an online buyer's having to search multiple online catalogs, and it solves that problem by presenting a system for searching multiple online catalogs using search agents.

In addition to disclosing each of the limitations of the asserted claims, the Keller article enables a person of ordinary skill to practice its system by disclosing the communication language of the search agents, i.e., KQML and KIF ontologies. It also provides a flow chart that describes how the system operates, including how the user interfaces with the system, i.e., by using HTML/HTTP protocols, and how a search agent retrieves product data, i.e., by using SQL. Contrary to MercExchange's assertion, the Keller article that describes how to make the system is not a mere laundry list of factors.

MercExchange argues that the Keller article fails to disclose all the limitations of the '176 patent because it fails to disclose a method for searching "electronic markets" but instead searches for "catalogs." MercExchange asserts that, unlike the electronic market claimed in the '176 patent, a catalog guarantees a participant the right to browse and search, but does not guarantee the ability either to buy or to sell a particular good. However, the Keller article clearly describes a system that searches catalogs that are serviced by what the article calls "vendors," who offer products for sale. Accordingly, the Keller article contemplates a system in which a participant is able to search, browse, and buy. Because a participant is able to buy goods in the market, that is sufficient to satisfy the "buy or sell" requirement of the asserted claims. In sum, we conclude that the Keller article discloses each limitation of the asserted claims of the '176 patent, and for that reason we hold that those claims are anticipated.

III

The defendants contend that they are entitled to a new trial because the district court erred in instructing the jury on the definition of several terms used in the '265 patent. With respect to the term "transaction processor," the defendants repeat the same argument they made in addressing the district court's denial of their motion for JMOL of noninfringement and invalidity, i.e., that they were prejudiced because the instruction on that term differed from the court's *Markman* order. As we have explained, we agree with the district court's jury instruction on that claim term, and the court was not required to instruct the jury in strict conformity with the language of its pretrial *Markman* order.

[13] With regard to the terms "electronic markets" and "market apparatus," the defendants assert that the district court erred by failing to give jury instructions that those terms do not encompass "person-to-person" systems, but instead include only trusted networks that could transfer ownership. The defendants contend that the district court should have instructed the jury that electronic markets do not include "person-to-person" contacts. If it had done so, they argue, no reasonable jury could have found that eBay infringes, because eBay uses a "person-to-person" system.

The defendants' contention that the '265 patent prohibits buyers and sellers from having direct contact finds no support in the '265 patent. The court was therefore correct not to include that interpretation in the jury instructions. Moreover, to the extent that the defendants contend that the district court's *Markman* order embraced their theory that the patent excluded person-to-person systems, they are incorrect. In its *Markman* order, the district court stated that "the patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary." However, the court never defined what a "person-to-person" system entails. Rather, it merely determined that an electronic market must be a "trusted network or system," which is the correct interpretation.

IV

In its cross-appeal, MercExchange contests the summary judgment of invalidity as to the asserted claims of the '051 patent, and it asserts that the district court erred in construing certain terms used in that patent. MercExchange also challenges the district court's post-trial order denying MercExchange's request for a permanent injunction, enhanced damages, and attorney fees, and reducing the amount of the damages award by eliminating the $5.5 million in damages for eBay's inducement to infringe.

A

[14] Prior to trial, the defendants asserted that the claims of the '051 patent were invalid because the written description is inadequate to support either "establish[ing] a seller's account" or "debiting [or charging] a seller's account" for a fee. Claim 12 contains both terms and is representative of the independent claims at issue with regard to the '051 patent:

> A computer-implemented method for facilitating Internet-based auctions, the method comprising:
>
> > Requiring a seller to establish a seller's account, the seller's account being based at least on the seller's identity and a financial instrument associated with the seller;
> >
> > Initiating an Internet-based auction for an item offered by the seller; and
> >
> > Debiting the seller's account for a fee amount corresponding to a result of the auction.

The district court concluded, on summary judgment, that the reference to "establish[ing] a seller's account" was adequately supported by the written description, but that the process of "debiting the seller's account for a fee" was not. The court therefore held the asserted claims of the '051 patent invalid.

The district court construed the term "debiting a seller's account" to mean "record[ing] a debt (or charge) against a person's name or account." The court held that the written description of the patent provided support for recording a credit to a seller's account, but not for recording a debit against the seller's account. In so ruling, the court relied heavily on a statement from the written description that "[a]fter the transaction clears the charge . . . , the consignment node credits the consignment node user's commission account . . . to extract the consignment node transaction fee." '051 patent, col. 12, II. 52–55. The court interpreted that statement as describing a process in which the consignment node takes the proceeds of a sale from the buyer, takes a commission or fee, credits the seller's account with the balance, and transfers that amount to the seller. Because the seller never owes money to the node, the court concluded that debiting never occurs in the disclosed process.

MercExchange argues that the joint declaration of its experts created a genuine issue of material fact as to the adequacy of the written description. The declaration explained that a person of ordinary skill in the art would understand the process of extracting a fee or commission, as described in the written description, to involve "debiting a seller's account." We agree. The written description refers to the seller's agreement to allow the consignment node user to extract a consignment fee or commission following the sale. *See* '051 patent, col. 4, II. 30–34; col. 5, II. 37–39. It also refers to the consignment node user's creating a credit or deposit account for the participant and crediting the consignment node user's commission account to extract the commission. *See id.,* col. 12, II. 44–46, 52–55. According to MercExchange's experts, a person of ordinary skill in the art would understand that creating a credit, as described in the specification, would require creating a corresponding debit against the proceeds due to the seller. Hence, MercExchange provided evidence that the specification would be understood by a person of skill in the art to describe a process that includes debiting the seller's account.

We thus conclude that MercExchange introduced sufficient evidence that the '051 patent was not invalid for lack of written description to create a genuine issue of material fact on that issue. Accordingly, we vacate that aspect of the judgment and remand for further proceedings.

B

[15] In connection with its challenge to the court's order invalidating the '051 patent, MercExchange argues that the district court made three errors in construing the claims of that patent. As an initial matter, the defendants assert that this court lacks jurisdiction to hear MercExchange's appeal regarding those errors because the construction of those terms was not relevant to the final judgment. Specifically, the defendants argue that this court should address only claim construction issues pertaining to the term "debiting," because that term was the sole basis for the district court's summary judgment determination. Because we are vacating and remanding with respect to the '051 patent, we have jurisdiction to address issues that may arise on remand, as part of our statutory authority to "require such further proceedings to be had as may be just under the circumstances." 28 U.S.C. § 2106. It is likely that the district court will be required to deal not only with the application of the term "debiting," but also with the application of other terms used in the '051 claims. Accordingly, we elect to address MercExchange's challenges to other claim construction issues at this juncture.

[16] First, MercExchange challenges the construction of the term "auction," asserting that the district court erred in construing the term as "a process over a trusted network, or with a trusted intermediary." MercExchange argues that the district court should not have required a "trusted" element. We disagree. The district court's construction is supported by the language of the specification, which states that the purpose of the patented system is "to provide a trusted network of consignment nodes that act as brokers to provide a means to electronically present a used good or collectable to an electronic market." '051 patent, col. 2, II. 12–14.

[17] Second, MercExchange challenges the district court's construction of the following claim limitation, which appears in claims 10 and 12:

> Requiring a seller to establish a seller's account, the seller's account being based at least on the seller's identity and a financial instrument associated with the seller.

In its *Markman* order, the district court ruled that "a seller's account must be established based at least on the seller's identity and a financial instrument associated with the seller." MercExchange disagrees with the district court's construction on the ground that the comma between the words "account" and "the" in the claim makes the "identity" and "financial instrument" features optional. If the patentee had intended the two to be mandatory, MercExchange argues, the limitation would not have used a comma and would have read: "requiring the seller to establish a seller's account based at least on the seller's identity and a financial instrument associated with the seller."

MercExchange's textual argument is unconvincing. The claim states that a seller must establish "a seller's account," and then, after the comma, the word "seller's account" is used a second time and is directly preceded by the article "the." The use of the definite article indicates that the second use of the term "seller's account" refers to the term directly preceding the comma. We uphold the district court's construction.

[18] Finally, MercExchange asserts that the district court erred in construing the preamble phrases "automated method, performed by a computer-based auction system," and "computer-implemented method of conducting Internet-based auctions" in various claims of the '051 patent. The district court held that those phrases do not require that all steps following the preamble be performed by an automated process, as argued by MercExchange. Rather, only the steps that are claimed to occur automatically are required to be performed in that manner. MercExchange contends that the court's interpretation is inconsistent with the portion of the specification entitled "Computer Implementation," which provides different operating systems and platforms for use in a preferred embodiment of the invention. '051 patent, col. 7, line 59 through col. 8, line 9. That portion of the specification does not support MercExchange's argument, however. Various limitations of the relevant claims require actions by participants and cannot be "automatically performed via an automated process." For example, as the district court stated in its *Markman* order, claim 1 contains a limitation requiring that the computer system "receiv[e] bids on the item from participants." That step requires that participants enter their bids manually and cannot occur automatically. Likewise, one step of claim 12 requires that a seller "establish a seller's account." That step also requires that a seller manually enter relevant information into the system. Accordingly, the district court was correct in holding that not all steps had to be performed by way of an automated process.

C

MercExchange challenges the district court's refusal to enter a permanent injunction. Because 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. *Richardson v. Suzuki Motor Co.,* 868 F.2d 1226, 1246–47 (Fed.Cir.1989). To be sure, "courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest." *Rite–Hite Corp. v. Kelley, Inc.,* 56 F.3d 1538, 1547 (Fed.Cir.1995); *see Roche Prods., Inc. v. Bolar Pharm. Co.,* 733 F.2d 858, 865–66 (Fed.Cir.1984) ("standards of the public interest, not the requirements of private litigation, measure the propriety and need for injunctive relief"). Thus, we have stated that a court may decline to enter an injunction when "a patentee's failure to practice the patented invention frustrates an important public need for the invention," such as the need to use an invention to protect public health. *Rite–Hite Corp.,* 56 F.3d at 1547.

[19] In this case, the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction. In 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, which forced the PTO to implement a second level review policy and cause legislation to be introduced in Congress to eliminate the presumption of validity for such patents." 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.

Another reason the court gave for denying a permanent injunction was that the litigation in this case had been contentious and that if a permanent injunction were granted, the defendants would attempt to design around it. That strategy, in turn, would result in "contempt hearing after contempt hearing requiring the court to essentially conduct separate infringement trials to determine if the changes to the defendants' systems violates the injunction" and in "extraordinary costs to the parties, as well as considerable judicial resources."

[20] The court's concern about the likelihood of continuing disputes over whether the defendants' subsequent actions would violate MercExchange's rights is not a sufficient basis for denying a permanent injunction. A continuing dispute of that sort is not unusual in a patent case, and even absent an injunction, such a dispute would be likely to continue in the form of successive infringement actions if the patentee believed the defendants' conduct continued to violate its rights.

[21] The trial court also noted that MercExchange had made public statements regarding its willingness to license its patents, and the court justified its denial of a permanent injunction based in part on those statements. 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. Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well. If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers.

[22] Finally, we do not agree with the court that MercExchange's failure to move for a preliminary injunction militates against its right to a permanent injunction. A preliminary injunction is extraordinary relief that is available only on a special showing of need for relief *pendente lite;* a preliminary injunction and a permanent injunction "are distinct forms of equitable relief that have different prerequisites and serve entirely different purposes." *Lermer Germany GmbH v. Lermer Corp.,* 94 F.3d 1575, 1577 (Fed.Cir.1996). We therefore see no reason to depart from the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances. Accordingly, we reverse the district court's denial of MercExchange's motion for a permanent injunction.

D

MercExchange argues that the district court abused its discretion by refusing to enhance damages and award attorney fees. MercExchange asserts that the district court erred in its analysis of the factors set forth in *Read Corp. v. Portec, Inc.,* 970 F.2d 816, 826–27 (Fed.Cir.1992). The defendants respond that the district court properly considered each of the *Read* factors. We agree with the defendants. In determining that MercExchange was not entitled to enhanced damages, the district court carefully analyzed each of the *Read* factors and based its conclusions on the jury's factual findings and evidence in the record. In analyzing those factors, the court did not abuse its discretion.

The court also addressed the relevant factors that bear on whether to award attorney fees, including "the degree of culpability of the infringer," "the closeness of the question," and "litigation behavior." *Superior Fireplace Co. v. Majestic Prods. Co.,* 270 F.3d 1358, 1378 (Fed.Cir.2001), quoting *Nat'l Presto Indus., Inc. v. W. Bend Co.,* 76 F.3d 1185, 1197 (Fed.Cir. 1996). Again, the court did not abuse its discretion in applying those factors in the factual context of this case. We therefore affirm the portion of the judgment denying an award of enhanced damages or attorney fees.

Each party shall bear its own costs for this appeal.

AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, and REMANDED.

ASM AMERICA, INC., Plaintiff/Counterclaim Defendant–Appellant,

and

Arthur Sherman, Plaintiff,

and

ASM International, N.V., Counterclaim Defendant,

v.

GENUS, INC., Defendant/Counterclaimant–Appellee.

No. 04–1211.

United States Court of Appeals, Federal Circuit.

March 16, 2005.

Background: Owner and licensee of patents related to atomic layer chemical vapor deposition (ALCVD) machines sued competitor for infringement. The United States District Court for the Northern District of California, Elizabeth D. Laporte, United States Magistrate Judge, 2003 WL 21033555, granted summary judgment of noninfringement, and appeal was taken.

Holding: The Court of Appeals, Bryson, Circuit Judge, held that patents were not infringed.

Affirmed.

1. Patents 🔑101(2)

"Reaction space," referred to in patent related to atomic layer chemical vapor deposition (ALCVD) machines, included both reaction chamber and gas inflow/outflow channels that communicated immediately with reaction chamber.

2. Patents 🔑101(2)

"Evacuation" of reaction space, called for in patent related to atomic layer chemi-

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 districts 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.

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[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

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[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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July 25, 2005

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